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**APPENDIX EDITORIAL AND OTHER MATTERS****A. SCOPE OF GUIDANCE****A1. Definition of “sustainability report”**

ED 3410.07 defines a sustainability report as: “a report in which a reporting organization provides information to relevant targeted groups of stakeholders and accounts for the economic, environmental and social aspects of the organization and the effects of its business activities on society. The sustainability report consequently offers a platform for dialogue between the organization and its stakeholders”.

- Is not clear from this definition, whether the sustainability report needs to be a stand alone report, or can be part of, e.g. an annual report.
- “The effects of (an organization’s) business activities on society”, appears to be the same as the “social aspects of the organization”.
- The definition does not refer to “performance”. Reference to economic, environmental and social performance is common in discussing sustainability reporting, e.g. see “What Is a GRI Sustainability Report?” in the 2002 GRI Guidelines.
- The statement “The sustainability report consequently offers a platform for dialogue between the organization and its stakeholders” does not belong in the definition. Also, it can be argued that the report should be the *product of* rather than, or in addition to, a *platform for* dialogue between the organization and its stakeholders. Any discussion of this matter is better suited to the introduction to ED 3410 rather than the definition.

- Explicit reference in the definition to “relevant targeted groups of stakeholders” is unnecessary.

We recommend a more succinct definition along the following lines:

A sustainability report means comprehensive information prepared by an entity about its economic, environmental and social performance. This information may be presented in a stand-alone report, or included as a separately identifiable part of a broader collection of information, e.g., in the entity's annual report, or in a suitable form<sup>1</sup> on its website.

**A2. All 3 components of the triple bottom line?**

ED 3410 is written in terms of entities that report on all 3 components of the triple bottom line, i.e. economic, environmental and social aspects. This approach improves the readability of the Standard, i.e. digressions to cover circumstances when only one or 2 aspects of sustainability are addressed in the sustainability report are obviated. However, it severely restricts the number of engagements to which ED 3410 applies. If it is not explicitly expanded to include reports such as those following an “incremental” approach as advocated by GRI (see Annex 3 to the 2002 GRI Guidelines), then ED 3410 should at least note that it applies “adapted as necessary”, whenever any aspect of sustainability, e.g., occupational health and safety, or environmental performance, is covered by a report. An appendix could also be added to address specific issues relevant to such reports. If, on the other hand, ED 3410 is explicitly expanded to include such reporting, the definition proposed in A1 above could be modified as follows: “A sustainability report means comprehensive information prepared by an entity about one or more elements of its economic, environmental and social performance ...”.

**A3. Internal control**

ED 3410 does not cover engagements in which the auditor is asked to provide a conclusion on the entity's internal control relating to sustainability reporting or sustainability performance. It may be helpful if the ED were to comment on the extent to which it can be adapted for such engagements.

**A4. Direct reporting**

ED 3410 assumes an assertion-based engagement. This is consistent with the fact that the vast majority of sustainability assurance engagements are assertion-based. It also improves the readability of the Standard. If the intention is to limit the Standard to assertion-based engagements, this should be stated. If, this is not the intention, however, it could be noted in ED 3410 that it should be applied, adapted as necessary, to direct reporting engagements. One of the adaptations necessary would be for the practitioner to give serious consideration to a potential self-review threat to independence.

**A5. Internal auditors**

ED 3410.02 notes circumstances in which an internal auditor issues an assurance report. We understand that reports of this kind are contemplated under the Dutch Code of Ethics. However given it is unlikely such a report would be made available to the public, we question the need to give this matter the prominence it receives in the ED. We suggest this guidance be re-considered. If it is to be retained, perhaps it may be better dealt with in a brief footnote.

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<sup>1</sup> Where information is presented on a website, it must be in a form that will not be changed, e.g. PDF, if an assurance report is to be provided under this Standard. This Standard does not address “continuous assurance” on frequently changing information on a website.

**B. SUITABLE CRITERIA****B1. Role of criteria**

ED 3410.11 says the aim of an assurance engagement includes: “whether the information in the sustainability report complies with the requirements that can reasonably be set by the targeted groups of stakeholders, partly on the basis of the generic and/or the specifically developed reporting criteria used”. It is not clear why reference is made to “requirements that can reasonably be set by the targeted groups of stakeholders” in addition to criteria. This clause implies that criteria are not ordinarily complete, i.e. there are other requirements beyond the criteria. It is presumed that this is intended to be a reference to matters that should be included in the report because they were identified through stakeholder dialog/engagement. However, in terms of the International Assurance Framework (IAF), all requirements with which the sustainability report is to comply (no matter what their source) form part of the criteria.

A similar issue exists in:

- the wording of the current definition of “review”, and in ED 3410.10 assuming “existing reporting guidelines” is intended to be a reference to the criteria used by the entity, and
- the wording of example 3.1, which mentions communication with stakeholders in addition to the criteria.

**B2. Determining the suitability of criteria**

ED 3410 allows for different criteria, rather than being linked only to one set of criteria, e.g. the GRI Guidelines. This is consistent with IAF.35: “Suitable criteria are context-sensitive, that is, relevant to the engagement circumstances. Even for the same subject matter there can be different criteria”. However, determining the suitability of criteria is a very important step in the assurance process, particularly in emerging areas such as sustainability reporting and in those cases where criteria are “specifically developed” rather than “established” (see IAF.37).

ED 3410.47 states in grey letter text: “The practitioner (the team) must decide whether the reporting criteria used are suitable for the purpose of the report and to perform the assurance engagement”. This sentence should be modified along the following lines and made a black lettered requirement: **“The practitioner should assess the suitability of the reporting criteria for the purpose of engagement”**.

A further black lettered requirement should be added that the criteria must be available to the intended users. This could be included in the discussion of criteria, in the section on engagement acceptance, or in the reporting section, e.g. a requirement that the practitioner’s report should include the criteria if they are not easily available elsewhere.

Also, further sustainability-specific guidance regarding the suitability of criteria would be particularly helpful, e.g. if an entity reports certain emissions only in periods when they are low, the practitioner should question the neutrality of the criteria. In drafting such guidance, it may be useful to consider ISA 200, “Objective and General Principles Governing an Audit of Financial Statements” paragraphs 37-48 (Determining the Acceptability of the Financial Reporting Framework), and the related guidance and requirements of ISA 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements,” [proposed revised] ISA 800, “The Independent Auditor’s Report on Other Historical Financial Information,” and [proposed revised] ISA 810, “The Independent Auditor’s Report on Summarized Audited Historical Financial Information”.

### **B3. Supplementary criteria**

ED 3410.09 states that “The primary responsibility of the management and the availability of reporting criteria do not detract from the fact that the practitioner (the team) should independently – where necessary supplementary to the reporting criteria applied – set certain minimum requirements for the content of the sustainability report”. ED 3410.09 then proceeds to set minimum criteria. ED 3410.39 also effectively sets criteria (see ED 3410.44 and ED 3410.16d also). This approach is not consistent with the respective roles of criteria, assurance standards, and assurance practitioners (suitable criteria should exist independently of assurance standards and assurance practitioners). Without comment on the merit of ED 3410.9 a-c and .39 at this point, we note that an alternative way to incorporate such content into the ED is to reword it as part of a discussion of the characteristics of suitable criteria, and move it to the section “Review of reporting criteria” at ED 3410.46-50.

### **B4. Determining the reporting entity**

The final element of the reporting policy mentioned in ED 3410.39 relates to the “supply chain effect”. The 4<sup>th</sup> element (“defining the scope of consolidation”) and its related guidance at ED 3410.42 does not, however, appear to envisage the possibility that sustainability reporting boundaries may extend beyond the normal scope of financial statement consolidation to include, e.g., business partners and entities in the supply chain. The GRI’s (draft) “Boundary Protocol” addresses this possibility. The 4<sup>th</sup> element of ED 3410.39 should be better linked with the final element. Also, further guidance on related assurance issues would be helpful, e.g., access to information, assessing the adequacy of how the boundaries used are described, and evaluating whether the boundaries used are appropriate.

## **C. THE PRACTITIONER’S RESPONSIBILITIES AND ENGAGEMENT ACCEPTANCE**

### **C1. Inherent limitations**

ED 3410.43-45 summarizes the responsibilities of the practitioner. As this is an emerging area of practice, it seems appropriate to elaborate further on this topic. In particular, to help avert an expectation gap developing, it would seem prudent to include comment on the inherent limitations of assurance with respect to sustainability, including matters such as:

- The use of selective testing.
- The inherent limitations of internal control.
- The fact that much of the evidence available to the practitioner is persuasive rather than conclusive.
- The use of judgment in gathering and evaluating evidence and forming conclusions based on that evidence.
- The characteristics of the subject matter.

### **C2. Restrictions**

ED 3410.14 notes that it is acceptable for an assurance engagement to comprise an “audit” of some elements of a sustainability report, and a “review” of others, as long as there is a rational distinction between the elements audited and the reviewed. This is consistent with the IAF (footnote 10) and ISAE 3000.39(j)). Further guidance is needed, however, as to what constitutes a “rational distinction” per ED 3410.14. The example report in Appendix 3.7 distinguishes between “the most important” information in the sustainability report (which is audited), and the rest of the information (which is reviewed). This distinction is extremely problematic, e.g. who decides what

information is “most important” and on what basis? References to factors such as those in ED 3410.18 would be more appropriate.

In ED 3410.17, we think the term “restrict/restriction” is more appropriate than “limit/limitation” because it is important that “scope limitation”, “limitation in the scope of the engagement” etc, only be used for situations that will result in a modified opinion (this comment applies to other paragraphs also, e.g. ED 3410.17a, ED 3410.18 and ED 3410.126).

It is difficult to see how the auditor can be satisfied that complete information is included in the report when the engagement is restricted. ED 3410.17b should be reworded taking into account our comments in C3 regarding other information and E2 regarding completeness. The wording of example reports in the Appendixes should also be reviewed in this regard.

ED 3410.17c (regarding the engagement serving an economically viable goal) applies to all assurance engagements and should therefore appear in ED 3410.16 (preferably reworded along the lines of IAF.17 (b)(v)).

The intent of ED 3410.17d is unclear. We suggest it be reworded along the following lines: “The assurance report can clearly distinguish between the elements upon which assurance has been obtained and those upon which no assurance has been obtained”.

An additional consideration for inclusion in ED 3410.17, is whether the work the practitioner will do regarding areas that are included in the engagement (including obtaining an understanding of the entity and its environment) will give the practitioner a reasonable expectation of identifying any matters related to areas not included in the engagement that may have a significant affect on the practitioner’s conclusion.

### **C3. Other information**

ED 3410.19 requires a “critical look” at included elements in a sustainability report that are entirely outside the scope of the assurance engagement. It is unclear whether this paragraph is seeking to impose procedures of a different nature and extent than required by ISA 720 “Other Information in Documents Containing Audited Financial Statements”. The nature and extent of procedures with respect to omitted elements should be analogous to that required by ISA 720. As such, ED 3410.19 should be:

- Amended so its terminology is consistent with the Dutch equivalent of ISA 720. It should also include the additional matters covered by ISA 720, such as the action the practitioner should take if a material inconsistency or misstatement of fact is discovered. How to deal with material omissions in the other information should also be considered in the context of sustainability reporting.
- Expanded to apply to all other information in documents containing assured sustainability information, rather than just the “unassured” elements of the sustainability report.<sup>2</sup>
- Expanded to note that the procedures required are not of themselves sufficient for a meaningful level of assurance to be obtained (refer IAF.48), and therefore negative assurance should not be expressed with respect to the other information. It may also be appropriate for the practitioner to include a specific disclaimer about other information in their report.

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<sup>2</sup> Appropriate limitations would have to be included for information published on the Internet.

#### **C4. Fraud and illegal acts**

Given the tendency for the auditor's responsibility with respect to fraud and illegal acts to be easily misunderstood, it may be prudent for ED 3410 to pay particular attention to these matters to ensure the practitioner's responsibilities are clearly described. For example:

- ED 3410.45 deals with fraud. In identifying the characteristics of fraud, ISA 240, "The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements" states: "Although fraud is a broad legal concept, for the purposes of this ISA, the auditor is concerned with fraud that causes a material misstatement in the financial statements." It is not clear from ED 3410, what type of fraud ED 3410.45 is intended to cover.
- ED 3410.81 states: "The practitioner forms his/her own opinion on compliance with the codes of conduct within the reporting organization. Possible loopholes in laws, regulations, business principles or codes of conduct may never be used as an excuse for conduct that essentially must be considered to contravene the objective of the sustainability report as formulated by the reporting organization". The first sentence seems to require the practitioner to form a stand-alone opinion on the entity's compliance with relevant codes. This "requirement" should be contextualized with respect to the role of the codes in the overall sustainability reporting process, and materiality considerations. The second sentence, although laudable, is loosely worded (e.g.: who judges what is a "loophole" and what is not) and therefore of dubious practical use.
- ED 3410.6 – the final sentence: "Although ... Standard." is very confusing (e.g.: is compliance "always" included, or only when "relevant for reporting purposes", and what does "relevant for reporting purposes" mean in this context?). Further, where ED 3410.6 states: "compliance with laws, rules and codes of conduct regarding the sustainability report", the term "sustainability report" should be replaced by something such as "sustainable development activities". If codes etc, apply directly to a sustainability report, they are likely to be part of the reporting criteria and therefore considered as part of the engagement.
- Other issues include: Is there any kind of fraud or illegal acts for which the practitioner has a proactive responsibility to identify, or is it always only a passive ("stumble over") responsibility? Does the practitioner have a responsibility to follow-up all and any "information ... that fraud (or an illegal act) may have been committed" (ED 3410.45)? What is the responsibility of the practitioner to communicate a fraud or illegal act with regulators, or with the financial statement auditor if that auditor is not a member of the same firm, and what are the confidentiality implications (see comment C7 also)?

#### **C5. Stakeholder dialog (engagement)**

ED 3410.78 imposes a very broad responsibility on the practitioner regarding "the intended groups of stakeholders and their justified information requirements," which may lead to an expectation gap. We recommend that the wording of ED 3410.78 (and similar wording in other places, e.g. ED 3410.80) be reviewed in light of the following comments and the comments in Sections D and E below.

ED 3410.41 notes that explicit stakeholder dialog is one of a number of tools/sources/procedures for identifying report content. We acknowledge that, as noted in ED 3410.79, formalized stakeholder dialog is not always necessary in compiling a sustainability report, and suggest:

- This point should be made more strongly in ED 3410.

- ED 3410 should note that the decision about whether or not to undertake stakeholder dialog is the entity's responsibility, not the practitioner's; and where stakeholder dialog is undertaken, its nature, timing and extent is also the entity's responsibility, not the practitioner's.
- The engagement acceptance procedures at ED 3410.16 should mention the expectation of adequate processes to identify, and if appropriate engage in dialog with, stakeholders as a consideration regarding:
  - the suitability of criteria, and
  - whether there is a rational purpose for the engagement (if stakeholder identification, and where appropriate stakeholder dialog, processes are clearly inadequate, the practitioner should consider not accepting the engagement because significant sustainability issues may not be identified, or adequately addressed in the sustainability report).
- ED 3410.79 should note that where well-developed criteria are available, explicit, formalized stakeholder dialog is less likely to be necessary. In such cases, it may well be that having determined that the criteria are suitable, the obligation sought to be imposed by ED 3410.78, or elements thereof, are unnecessary.

#### **C6. Change in engagement**

Further guidance may be needed regarding a request to change an assurance engagement (or part thereof) to a non-assurance engagement, or from reasonable assurance to limited assurance, i.e. guidance on the application of IAF.19 / ISAE 3000.11 in the context of a sustainability engagement, e.g. if management request the practitioner not to visit a particular site the auditor had planned to visit as part of an audit engagement, can the site be excluded and a review conclusion provided?

#### **C7. Other reporting responsibilities**

ED 3410.21 notes that “negative findings ... will always be reported to the Board of Directors of the reporting organization in writing and, preferably also to the Supervisory Board, where there is one.” ED 3410 should also have a black letter requirement that addresses the practitioner's other reporting responsibilities, similar to (but more specific than) ISAE 3000.54.

#### **C8. Engagement acceptance**

In light of a number of comments we have made we suggest you consider revising and enhancing the engagement acceptance section of ED 3410 to deal with, e.g.:

- a black lettered requirement that criteria be available (B2)
- the discussion of restrictions on the engagement (C2)
- the expectation of adequate processes to identify, and if appropriate engage in dialog with, stakeholders (C5)
- guidance regarding a change in the engagement (C6).

#### **D. TARGET GROUPS OF STAKEHOLDERS**

##### **D1. Broad definition**

We are uncomfortable with the position taken in ED 3410 for identifying the information needs to be addressed in the sustainability report. The “target groups of stakeholders” is defined very

broadly as “the groups of interested parties in the sustainability report of the reporting organization”. The explanatory notes to the definition attempt to limit the broadness of this definition. However, while *Note b* seems to be attempting to limit which information needs of target stakeholder groups are “justified”, *Note a* appears to not allow restricting the stakeholder groups to be targeted:

- *Note a* includes a list of stakeholders that are to be included in an entity’s “target group” in all events. This list, by virtue of its “catch all” wording, includes all possible stakeholders. This point is emphasized in *Note a* e.g.: “It should be pointed out that the term ‘target groups of stakeholders’ is so broad in scope that essentially it includes all groups of users of the sustainability report”. It is also reinforced in other paragraphs, e.g. ED 3410.9a. As such, ED 3410 would not allow an unmodified assurance report to be issued if the entity chose to concentrate, on reasonable grounds, on certain stakeholder groups (even if properly disclosed in the sustainability report). We think this is unreasonable. It also appears to conflict with the very notion of target groups of stakeholders, and with other parts of ED 3410, e.g., ED 3410.78 which states: “The practitioner (the team) should ascertain whether the most relevant stakeholders are actually classified as the target group”, and footnote 16 (ED 3410.124) which says: “it is assumed that the reporting organization specifies in the sustainability report the audience that it intends to address.”
  - ED 3410 equates stakeholders with the intended users of the sustainability report. Typically however, those with a stake in an entity far exceed those who can be expected to read the sustainability report. Further, wording similar to the following extract from IAF.28 should be included in ED 3410 to ensure unrealistic expectations are not created (the following is worded in terms of the practitioner and the assurance report, it should be adapted to be worded in terms of the entity and the sustainability report): “The practitioner may not be able to identify all those who will read the assurance report, particularly where there is a large number of people who have access to it. In such cases, particularly where possible readers are likely to have a broad range of interests in the subject matter, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and the responsible party or engaging party, or by law”.
- *Note b* says: “A sustainability report cannot, in principle, comply with *all* conceivable information requirements of members of a specified group of stakeholders”. Such a statement is necessary to limit, in a manageable way, the information needs of a group that are to be considered “justified”. However:
  - Using the notion of “average representatives” of each target stakeholder group to determine what information requirements are justified is fraught with difficulty. Is an average representative one who, e.g.; holds a middle ground view on an issue, holds a scientifically established view, or is in the majority? Further discussion and clarification of this point is essential.
  - The use of “absolute” wording in different parts of ED 3410 confuses the message that not all information needs will be met, e.g.: “The reporting organization should deal with all aspects that are of material importance to the targeted groups of stakeholders” (ED 3410.9b). We recommend that ED 3410 be reviewed for the use of such wording.
- In light of the above, it is difficult to know how to interpret *Note c*. While it talks about “balancing the interests of all possible individual stakeholders and the ‘target groups’ of



stakeholders” (which appears contrary to the interpretation of the current intent of *Note a* above):

- the local government example provided deals with limiting consideration of the information requirements of a particular stakeholder group, rather than restricting which groups are included; and
- the pressure groups example is ambiguous on this particular point, i.e. is the entity justified in not providing the information because it is not from an average representative of pressure groups, or because pressure groups are excluded?

## D2. Confidentiality

Note *b* of the explanatory notes to the definition of “target group of stakeholders” says that if information is not disclosed because it is considered confidential, “there is no question of incompleteness” if, in the practitioner’s view, the entity is justified in invoking its right to confidentiality. A further consideration that should be mentioned is whether sufficient disclosure has been provided in the sustainability report about what information has been withheld and why.

## E. COMPLETENESS OF THE SUSTAINABILITY REPORT

### E1. “always focus partly”

ED 3410.20 requires the engagement to “always focus partly” on the completeness aspects. We find this wording particularly confusing. It needs more elaboration than is provided in the remainder of the paragraph. Also, the remainder of the paragraph appears to be a consideration of the trade-off between various qualitative characteristics of information, in particular relevance and reliability. We suggest this discussion be refined and clarified – perhaps the concepts discussed in the accounting literature (e.g.: “Framework for the Preparation and Presentation of Financial Statements” issued by the IASB) and the “Reporting Principles” of the 2002 GRI Guidelines would be appropriate references in this regard (see E2 below also).

### E2. Conclusion regarding completeness

ED 3410.78 says: “The practitioner (the team) should ascertain whether the most relevant stakeholders are actually classified as the target group (of the report) by the reporting organization. He/she should then form an opinion on the question of whether the justified information requirements of the average representatives of each targeted group of stakeholders have been met ...”. Similar sentiments are also expressed elsewhere, e.g. ED 3410.20 “This includes the completeness of the targeted groups of stakeholders, the report content relevant to these groups and the performance indicators and disclosures provided.” Given factors such as:

- the vast range of potential sustainability issues and potential stakeholders that are likely to be relevant, at least to some degree, to many entities,
- the fact that some significant sustainability issues are barely capable of being identified prior to critical events (e.g. an entity may be largely unaware of long term health or environmental issues associated with a product), and
- the time and cost constraints that are, reasonably, imposed on most assurance engagements;

it is questionable whether, in many cases, it is possible to give a positive form of conclusion with respect to completeness. We recommend that ED 3410 discuss this critical issue in more detail, including its link to stakeholder dialog and the suitability of criteria.

### E3. Minimum procedures

ED 3410.80 sets minimum procedures regarding completeness. It would also be beneficial if particular procedures could be specified that would provide a generally accepted level of assurance for completeness in the same way that ISAs establish such procedures regarding related party transactions:

“... limitations may affect the persuasiveness of evidence available to draw conclusions on particular financial statement assertions (for example, transactions between related parties). In these cases certain ISAs identify specified procedures which will, because of the nature of the particular assertions, provide sufficient appropriate audit evidence in the absence of:

- (a) Unusual circumstances which increase the risk of material misstatement beyond that which would ordinarily be expected; or
- (b) Any indication that a material misstatement has occurred.”

(ISA 200.11 – Objective and General Principles Governing an Audit of Financial Statements)

In this context, we believe the procedures specified in ED 3410.80 require review. For example:

- The first dot point, regarding reporting criteria, is too broad and all encompassing to be a procedure. It is a complex process that, for this purpose, needs to be broken down into a series of simpler procedures.
- The second dot point is also very broad – it requires forming an opinion on the entity’s complaint handling procedures. This could be a separate engagement in itself.
- The thought behind the final dot point is a reasonable “catch-all” akin to the 2 factors noted above in (a) and (b) of the extract from ISA 200.11. It is necessary however to limit its application, otherwise the practitioner could be expected to be aware of, and examine, any and all “sources of information”.

### F. MATERIALITY

There appears to be some confusion (or at least a lack of distinction) in ED 3410 between “relevance” and “materiality”. The IASB “Framework for the Preparation and Presentation of Financial Statements”, with which most practitioners are already familiar, differentiates between these 2 characteristics.

ED 3410’s use of the term “materiality”, which is often related to size (quantitative considerations) rather than nature (qualitative considerations), is potentially confusing. Related to this is ED 3410.28, which says that it may be important to have a “lower materiality threshold” for information on, e.g., hazardous waste than employee training hours. As there is no common “base,” however, it is not clear how one could compare materiality thresholds for such diverse disclosures, except perhaps by comparing potential errors as a percentage of the figure disclosed. Figures and percentages are of very limited use when:

- Much of the information in a sustainability report is qualitative; and
- Those figures that are disclosed are often not comparable because they are:
  - expressed in different units,
  - at disparate (and perhaps incomparable) levels of desegregation,
  - subject to different measurement uncertainties,
  - used in different contexts, etc.

Similarly, ED 3410.34-36 seems overly reliant on quantification methods.

The intent of ED 3410.32 is unclear. It implies that a stand-alone review of the entity's materiality decisions should be undertaken. This seems unnecessary as materiality considerations permeate the entire assurance process. It may be, however, that ED 3410.32 is aimed at a "stand-back" evaluation of the overall presentation of the sustainability report as a whole (as ED 3410.33 and ED 3410.108 appear to be), a concept with which we agree.

Further guidance in light of the above comments on "materiality" and "relevance" (and related terms used in ED 3410, e.g. "accuracy" and "materially important") is required. For example:

- Consideration should be given to using a word such as "significance" instead of "materiality" as "significance" does not invoke the same quantitative notions often associated with materiality in financial reporting. Whichever term is used, it should be distinguished from "relevance".
- It may be helpful to distinguish between materiality decisions made when planning the engagement versus those made when evaluating potential misstatements, including omissions (see IAF.47, and Proposed International Standard on Auditing 320 (Revised), "Materiality in the Identification and Evaluation of Misstatements"). This could be either in addition to, or instead of, the current distinction made between "tolerance" and "reporting materiality".
- Elements of Proposed International Standard on Auditing 320 (Revised) could be adapted and expanded for use in ED 3410, e.g., paragraphs 37 and 40, which relate to qualitative aspects of materiality (albeit in a financial statement environment).
- The link between ED 3410 paragraphs 32, 33 and 108, and the requirement for a "stand-back" evaluation of the presentation of the sustainability report taken as a whole could be made clearer<sup>3</sup>. A matter that warrants particular attention in this regard is whether, and if so how, the effects of individual misstatements that are potentially material, could be "aggregated" with other, disparate, misstatements in the absence of a common measurement unit (such as money in the case of financial statements) when determining the effect on the practitioner's report (e.g. in deciding between an unmodified opinion and a qualified opinion, or between a qualified opinion and an adverse opinion).
- The reporting section of ED 3410 could include guidance on how the practitioner's report could inform readers about the role of materiality.

## **G. USE OF EXPERTS**

### **G1. Definitions**

In the definition of "Practitioner" (both ED 3010 and ED 3410), we suggest the term "accountancy discipline" be replaced by reference to "a member of Royal NIVRA". It is not the training in accountancy per se that is important here, but rather the fact that the practitioner has met the entry requirements of Royal NIVRA, and is subject to the membership rules (compliance with the Code of Ethics and technical standards, peer review, continuing professional education, investigatory and disciplinary procedures, etc).

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<sup>3</sup> Paragraphs 11-14 of ISA 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" might be helpful in this regard.

## **G2. Structure of guidance**

The majority of ED 3010 is concerned with explaining 3 models for determining responsibilities and allocating work between the practitioner and a subject matter expert from another discipline. ED 3410 also offers considerable guidance on this matter (e.g. ED 3410.51-70, and ED 3410 Appendix 2). It is not clear why this matter is covered in both documents. We understand that ED 3010 is intended to set out generic principles. However, we question whether it is appropriate to split the guidance into 2 documents when it appears the generic document will primarily be used by sustainability assurance practitioners.

## **G3. Undivided responsibility**

Model 1 deals with “undivided responsibility”. EDs 3010 and 3410 specifically allow for a practitioner’s unmodified report to refer to the contribution of an expert when the practitioner is accepting undivided responsibility. ED 3010.22 requires in such cases that the report:

- (a) Note the practitioner nevertheless takes undivided responsibility for the entire engagement including the contribution of the expert; and
- (b) Be signed by the practitioner only.

We note that ISA 620, “Using the Work of an Expert” prohibits reference to an expert in an auditor’s unmodified report on financial statements. However:

- we are aware that a case can be made that, when subject matter information is broader than financial statements, as is the case with a sustainability report, it is in the public interest to allow a practitioner’s report to refer to the contribution of an expert, and
- the position adopted in the EDs is not inconsistent with the IAF or ISAE 3000.

Where the contribution of an expert is referred to in the assurance report, the required disclosures noted in (a) and (b) above appear to be appropriate.

## **G4. Joint responsibility**

Model 2 allows for “multidisciplinary cooperation under joint responsibility” with the aim of issuing one assurance report for which both the practitioner and the expert take full responsibility.

Although the IAASB does not have a stated position on “joint responsibility”, it did touch on this matter when developing the IAF and ISAE 3000, and recognizes the complexity of the issues involved. Further, while the position adopted in the EDs does not appear to be inconsistent with the IAF or ISAE 3000, jurisdictions will likely differ with respect to the legal implications of this model. We do not have a position on the desirability or otherwise of allowing joint responsibility, but recognize a case can be made that it is in the public interest to allow “multidisciplinary cooperation under joint responsibility” when the subject matter information is broader than financial statements, as is the case with a sustainability report. Also, we agree that if joint responsibility is to be allowed, the principles behind ED 3410.64-69 are important, e.g., both the practitioner and the expert should be involved in all important aspects of the engagement, and the wording of the report should be clear with respect to responsibility.

## **G5. Where neither the practitioner nor the expert takes full responsibility**

The EDs do not contemplate a model of a single engagement with a single report in which neither the practitioner nor the expert takes full responsibility, i.e. the practitioner and a subject matter expert(s) is each responsible for only (separately identifiable) elements of the engagement. Such a report could conceivably be issued by the practitioner alone (in which the practitioner asserts that

responsibility for part of the engagement belongs with a subject matter expert), or as a joint report in which the practitioner and the subject matter expert each accept responsibility for different elements of the engagement. As this model is not discussed explicitly, it is not clear whether it is allowed under the EDs. We believe that such a report would be unnecessarily confusing to readers and should not be allowed. Consistent with Model 3, where neither the practitioner nor the expert takes full responsibility, they should each issue a separate report.

#### **G6. Other matters**

- The EDs do not address in detail, issues that would arise if the practitioner is: (a) not the entity's financial statement auditor (e.g., reliance on work performed by the auditor with respect to the control environment), or (b) from a quite separate engagement team within the auditor's firm (e.g., what expectation should there be that the sustainability engagement team will have access to information obtained by the audit team?). Further guidance may be required on each of these matters.
- ED 3010.13: It seems unnecessary, and perhaps incorrect, under Model 1 to require the agreement between the practitioner and the subject matter expert to be accepted by the engaging party. This conflicts with the practitioner's right, and responsibility, to determine the nature, timing and extent of procedures.

#### **H. REASONABLE ASSURANCE V. LIMITED ASSURANCE – WORK EFFORT**

##### **H1. Terminology**

Footnote 4 regarding the EDs' use of the terms 'audit' and 'review' says: "This does not correspond entirely with the International Framework for Assurance Engagements (version December 2003), which uses the terms 'reasonable assurance engagements' and 'limited assurance engagements' and reserves the terms 'audit' and 'review' exclusively for engagements that address historical financial information." However, the IAF says merely: "For assurance engagements regarding historical financial information in particular, reasonable assurance engagements are called audits, and limited assurance engagements are called reviews". We do not see any conflict between the EDs' use of 'audit' and 'review' and the IAF, and recommend that footnote 4 be deleted.

##### **H2. Negative assurance in an audit engagement**

ED 3410.135, footnotes 5 and 18, and paragraph b of the conclusion in Appendix 3.3 all relate to when the practitioner issues a modified reasonable assurance level conclusion on certain aspects of the sustainability report, but "can consider adding a statement to his qualification that the engagement did not reveal, however, any evidence that significant shortcomings have actually occurred (negative assurance)". We found the guidance in relation to this point very difficult to follow, especially footnote 18, and suggest it be reconsidered. In doing so, the following points appear relevant:

- A statement of negative assurance should be made only if the practitioner has performed procedures of a sufficient nature, timing and extent to obtain a meaningful level of assurance (IAF.48/ISAE 3000.24).
- If the practitioner issues a disclaimer with respect to a particular aspect, it would seem inappropriate to add a statement of negative assurance with respect to that same aspect.

### H3. The difference between an audit and a review

There are significant difficulties with the way the document currently distinguishes between an audit and a review. For example:

- It is questionable whether “the extent to which the reporting organization considers itself to be sufficiently organized” (ED 3410.12) is an appropriate factor for the engaging party to consider when deciding between an audit and a review. .
- It is also questionable whether “the extent to which the reporting organization wishes to accommodate (the information requirements of the targeted groups of stakeholders)” (ED 3410.12) is an appropriate factor for the engaging party to consider when deciding between an audit and a review. Perhaps this point should be re-phrased along the lines of “the degree of assurance desired by the intended users (targeted groups of stakeholders), and the engaging party’s willingness to accommodate it”.
- The statement that a review engagement does not focus on a systematic gathering of evidence is incorrect. As noted at IAF.53 “Both reasonable assurance and limited assurance engagements require the application of assurance skills and techniques and the gathering of sufficient appropriate evidence as part of an iterative, systematic engagement process that includes obtaining an understanding of the subject matter and other engagement circumstances”.
- It is not correct to say: “In a review engagement, the application of ‘professional skepticism’ is considerably less dominant than in an audit engagement.” As noted in IAF.40, “An attitude of professional skepticism means the practitioner makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by the responsible party”. This attitude is equally as relevant for a review as it is for an audit.
- ED 3410.106 says the “risk analysis conducted as part of the audit of the financial statements is, in principle, not relevant to a review engagement of the sustainability report”. However, it should be made clear that relevant knowledge gained as part of a financial statements audit should be considered if the same firm is performing an assurance engagement on the sustainability report (either audit or review).
- The primary distinction drawn in ED 3410 between an audit and a review is: “what is important in a review engagement of all or part of the sustainability report is that the practitioner (the team) does not have to test the effectiveness of internal controls”. The IAF contemplates the possibility of an ISAE (the equivalent of ED 3410) identifying particular procedures that, to an extent, “fix” the nature, timing and extent of work for an engagement, in the same way ISRE 2400, “Engagements to Review Financial Statements” establishes that sufficient appropriate evidence for reviews of financial statements is obtained primarily through analytical procedures and inquiries. It is doubtful, however, that attempting to “fix” the nature, timing and extent of procedures for sustainability assurance engagements is appropriate at this early stage of their evolution. In particular, we do not believe it is correct to generalize that testing the effectiveness of internal controls is not appropriate for a review of a sustainability report. Similarly, the statement in ED 3410.106 with respect to review engagements that: “substantive procedures are ... less comprehensive and less detailed” is not necessarily correct. We question whether ED 3410 should attempt to identify generic differences in procedures between audits and reviews. Rather, to the extent it identifies specific procedures, ED 3410 should concentrate on procedures appropriate for an audit (perhaps organized in a structure similar to that identified in IAF.51/ISAE 3000.35). It

should also note that, apart from certain procedures that must be performed for both types of engagement (e.g. obtaining “an understanding of the subject matter and other engagement circumstances, sufficient to identify and assess the risks of the subject matter information being materially misstated, and sufficient to design and perform further evidence-gathering procedures” – ISAE 3000.15), the procedures performed for a review will be less in nature, timing and/or extent as determined by the engagement circumstances (in particular, the aspect of the sustainability report about which evidence is being gathered, and the needs of the intended users and the engaging party, including relevant time and cost constraints). See also comment I3 regarding the description of work performed.

## **I. REPORTING**

### **I1. Addressee**

The current guidance “to address the assurance report to ‘the stakeholders of the reporting organization’” is potentially misleading for readers who consider themselves stakeholders but whose needs are not contemplated by the practitioner. As noted in footnote 16, the sustainability report should identify those stakeholders whose information needs are intended to be addressed. ED 3410 should discuss the circumstances in which the addressee is different from those stakeholders, and should include wording similar to the following, which is adapted from IAF.28: “The practitioner may not be able to identify all those who will read the assurance report, particularly where there is a large number of people who have access to it. In such cases, particularly where possible readers are likely to have a broad range of interests in the subject matter, the addressee may be limited, e.g., to major stakeholders with significant and common interests. Those to be included as addressees may be identified in different ways, e.g., by agreement between the practitioner and the responsible party or engaging party, or by law”.

### **I2. Short-form and limited assurance**

While ED 3410.120 notes a preference for long-form reports, it does allow either a short-form or long-form report to be issued. Because the procedures performed for a limited assurance engagement can (and in practice will) vary widely, at least until this form of engagement matures considerably, it is important to clearly explain to the reader the basis upon which any particular negative assurance conclusion has been expressed (see ISAE 3000.49 (i) (i)). This is difficult to do in a short-form report and therefore consideration should be given to disallowing the short form for any portion of a report that relates to limited assurance. (This is not necessary for an audit conclusion because the practitioner has done all that is reasonable in the circumstances and has gathered sufficient appropriate evidence to be in a position to form and express an opinion.) See also comment I3 below regarding the description of work performed.

### **I3. Summary of work performed**

Apart from reference to the work of experts, there is no guidance in the text about how to describe the work the practitioner has performed. Although Appendix 3 offers guidance by way of example reports, there is an opportunity for further guidance in the text of the ED itself. In particular, it is suggested that ED 3410 note that care should be taken in describing procedures performed in a limited assurance engagement, not to give the impression that a higher degree of assurance has been obtained than in a reasonable assurance engagement – this erroneous perception can be given if the description of procedures is more detailed than the description of reasonable assurance procedures but does not include a clear statement along the lines that the procedures performed would not be sufficient to enable the practitioner to express an opinion. ED 3410 could also note that it may be appropriate to describe the procedures performed in a limited assurance engagement

by way of comparison with the procedures the practitioner would consider necessary for a reasonable assurance engagement, i.e., by describing what has not been done.

#### **I4. Management's intention**

The purpose of including in the practitioner's report a statement about management's intention to expand the scope of the assurance engagement in future is unclear (Appendix 3.5). Such a statement may be better placed in the sustainability report. Repeating it in the assurance report can give the impression of trying to put a positive spin on current shortcomings.

#### **I5. Particular characteristics of the subject matter**

ISAE 3000.49(j) requires that: "Where appropriate, the conclusion should inform the intended users of the context in which the practitioner's conclusion is to be read", for example "when the report includes an explanation of particular characteristics of the subject matter of which the intended users should be aware." The limitations and other characteristics noted in ED 3410.125<sup>4</sup> and alluded to in ED 3410.134 are of this nature. It is therefore recommended that wording such as: "This conclusion has been formed on the basis of, and is subject to, the inherent limitations outlined elsewhere in this independent assurance report" be required in all cases as part of the practitioner's conclusion. Such wording is preferred to "In our opinion, this work provides a reasonable basis for our conclusions," particularly for limited assurance engagements (such as Appendix 3.6) as this latter wording is likely to confuse the reader regarding the level of assurance obtained (i.e. it has connotations of a "reasonable assurance" conclusion).

#### **I6. Conclusions**

ED 3410.132 notes that an overall conclusion will not always be given. It would be helpful if it clarified that when the engagement is a hybrid of audit and review, one overall conclusion should not be given.

The black lettered sentence of ED 3410.132 does not relate to the grey lettered text that precedes it. Also, there is no equivalent to this black lettered sentence for audit engagements and the positive form of expression.

It is not clear why ED 3410.135 refers to modified opinions only in the context of inadequate internal control, which is only one form of limitation of scope. We suggest that a black lettered sentence be included in this section of ED 3410 that requires a modified opinion whenever there is a scope limitation, a material misstatement (including unbalanced or biased narrative, erroneous data etc – see I8 also), unsuitable criteria, or inappropriate aspects of the subject matter.

#### **I7. Reference to the criteria in the wording of conclusion**

IAF.57 states that: "In an assertion-based engagement, the practitioner's conclusion can be worded either:

- (a) In terms of the responsible party's assertion (for example: "In our opinion the responsible party's assertion that internal control is effective, in all material respects, based on XYZ criteria, is fairly stated"); or

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<sup>4</sup> ED 3410.125 states that reference would be made to the part of the report in which the reporting policy and the inherent limitations on the reliability of the information are contained, but then provides a very narrow example on a specific element, which gives the impression that there would be numerous references made to various statements throughout the document. Therefore, a general reference to a section of the report would be preferred to references to specific sentences.



- (b) Directly in terms of the subject matter and the criteria (for example: “In our opinion internal control is effective, in all material respects, based on XYZ criteria”).

Both of these options include reference to the criteria in the wording of the practitioner’s conclusion. Also, in the case of sustainability engagements, option (a) is not common and in general terms is less clear. Therefore we suggest that ED 3410.133 require the practitioner’s conclusion to be expressed directly in terms of the subject matter and the criteria (e.g.: “... in our opinion the sustainability report fairly presents XYZ’s sustainability performance in accordance with the GRI Guidelines”). In this context, we also note that in our view the term: “reliable and sufficient” used in ED 3410.132 and in conclusions in the example reports, is too open to misinterpretation (particularly if it is not coupled with criteria, as in Appendix 3.4) and is not supported.

#### **18. Material misstatements**

It would be helpful if ED 3410 included some concrete examples of possible misstatements relevant to common sustainability report components. This approach was used in the AICPA’s Statement of Position 03-2 “Attest Engagements on Greenhouse Gas Emissions Information.”

#### **19. Reference to criteria**

ED 3410.129 requires that the assurance report state which reporting criteria have been used by the reporting organization; however, the phrase “we have used [criteria]” in the example report at Appendix 3.1 makes it appear the practitioner is the one selecting and using the criteria.

ED 3410.129 also requires that the report state: “whether the practitioner believes the reporting criteria to be acceptable given the purpose of the engagement,” and the example report at Appendix 3.1 says: “We consider these reporting criteria to be relevant and sufficient to audit the report.” We recommend that ED 3410.129 and the example reports be made consistent and that both use the term “suitable” rather than “acceptable” or “relevant and sufficient.”

#### **J. DRAFTING STYLE AND STRUCTURE, AND TERMINOLOGY**

We believe the drafting style of the EDs should be tightened significantly to make the documents more concise, and more precise (and therefore more likely to be applied consistently by practitioners). We acknowledge, however, that some of the difficulties we have had with respect to drafting may result from the translation process, which we appreciate is particularly difficult for highly technical material such as the EDs. Clear drafting is particularly pertinent given the current focus on “plain language” and major efforts being undertaken to improve the clarity of documents. We have noted some suggested improvements in our comments and in the attached Appendix. Also, as noted in our covering letter, would be pleased to work with the Assurance Standards Board on further modifications.

The structure of ED 3410 is at times a little confusing, and is prone to repetition. We suggest that a structure similar to ISAE 3000 be considered.

Certain terminology is at odds with that used in IAASB documents (e.g., “subject matter” versus “subject matter information”; “provide” versus “obtain” assurance, and linking a review engagement with the “plausibility” of information). Some other terminology is different from IAASB terminology, which raises unnecessary questions about whether a difference was intended or not, e.g. “irreplaceable internal controls”, “high level review of the design of the system”, “explore the control environment” (these terms are not consistent with the recent revision of the audit risk Standards). If no difference is intended, it is important to ensure terminology is

consistent so practitioners know the same concepts apply. If a difference is intended, it is important that it is clearly explained so practitioners can understand the implications. Further examples of differences in terminology are included in the attached Appendix.

K      **COMPLETENESS OF THE STANDARD**

Whether or not the structure of ED 3410 is revised along the lines of ISAE 3000 (as suggested in Section J above), we suggest the Assurance Standards Board undertake a review of the completeness of ED 3410 against ISAE 3000 to ensure it is able to function as a stand alone Standard. Areas we have noted for consideration include, for example, ISAE 3000.15: **“The practitioner should plan and perform an engagement with an attitude of professional skepticism recognizing that circumstances may exist that cause the subject matter information to be materially misstated”**.

It would also be helpful if ED 3410 included further detail about the extent to which individual Standards that are aimed at financial statement audits and reviews are applicable to sustainability engagements, beyond the statement in ED 3410.1 that: “The general principles formulated in other Standards also apply to this Standard”.