

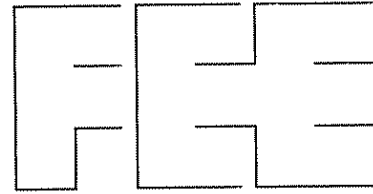
Date  
23 May 2006

Le Président

Fédération  
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cc. Mr. Michael Nugent

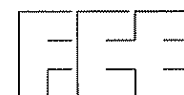
Dear Mr. Kellas and Mr. Simnett,

Re: IAASB Consultation Paper on Assurance Aspects of G3 – The Global Reporting Initiative's 2006 Draft Sustainability Reporting Guidelines

1. FEE (Fédération des Experts Comptables Européens – The European Federation of Accountants) is pleased to react to the IAASB Consultation Paper on Assurance Aspects of G3 – The Global Reporting Initiative's 2006 Draft Sustainability Reporting Guidelines given our long and in-depth experience on sustainability reporting and sustainability assurance aspects. FEE has commented directly to GRI on the draft G3 Sustainability Reporting Guidelines on 31 March and submitted the same day a copy of our comment letter to SEAP as requested.

#### General

2. FEE recognises that the IAASB has to allocate its resources in the overall public interest. FEE strongly supports a current major project to clarify the IAASB Engagement Standards that is both highly important and requires considerable resources. This project may render it inappropriate, therefore, for the IAASB to allocate resources so as to be able to issue a standard for assurance on sustainability reports as early as 2007. FEE is pleased to offer its expertise and resources in the area of assurance on sustainability information to assist the IAASB in progressing towards a standard.
3. We have noted the email of SEAP of 30 March informing us that IFAC finally will not put in a SEAP/IFAC response to GRI. In the same email, IAASB's intention for a potential project to issue a short practice statement on "Assurance Reports on Sustainability Information" is indicated. However, we are concerned that such a statement may be less far reaching than the sustainability assurance standard as referred to in the IAASB 2005 annual report (page 15). The annual report indicates that the final Dutch standards may provide a basis for an IAASB international standard on sustainability assurance. We call on the IAASB, like we did in earlier letters and pronouncements to develop a specific standard on sustainability assurance.



4. FEE has requested IFAC and IAASB at regular intervals to be more active in the sustainability assurance area. As recently as July 2005 we wrote to Mr. John Kellas on the need for an international sustainability assurance standard since ISAE 3000 is too general and high level for practical use (recognising the lack of resources within the IAASB and the need to dedicate all efforts to the clarity project). An international assurance standard on sustainability reporting would be in the public interest as most major companies now issue sustainability reports. The issue of a standard would not only assist our profession in its work but also be important for the credibility of the accountancy profession as a whole.
5. FEE expects to issue shortly its Discussion Paper on "Key Issues in Sustainability Assurance – An Overview". This paper may be a useful contribution to the work of SEAP. The paper analyses standards for assurance on sustainability reports issued in Sweden, France, the Netherlands and Germany, with reference to the IAASB Framework and ISAE 3000. The purpose of this Analysis is to highlight national similarities and differences and, by commenting constructively on them through providing FEE positions, assist in the development of a future international standard for assurance on sustainability reports.
6. We have considered the IAASB consultation paper in its revised context, i.e. the project on assurance reports rather than an input to a comment letter to GRI on G3, and selected the relevant questions to be responded to. They cover the areas of user confidence in assurance; assurance levels and processes; suitable criteria; stakeholder engagement; and principles. Accordingly, we decided not to address issues in this letter that have already been considered in our response to GRI on G3. We refer you to our detailed comment letter to GRI on G3, as submitted to SEAP on 31 March.

#### User Confidence in Assurance

7. Users rely on assurance reports, therefore it is necessary that there is no misunderstanding about the level and quality of the sustainability assurance obtained. This may imply the creation of specific mechanisms to protect the interests of the users. Users and other readers of the reports need to be informed about different types of assurance provision offered by different assurance providers. We note that in practice assurance can be provided by a range of sustainability experts without an audit or assurance background. However, users need to be able to distinguish between the different experts and the assurance they provide, including the quality control obligations and the ethical and independence requirements applicable to different assurance providers and the related monitoring and control systems.
8. Addressing the point raised on page 6 about an assurance report not being attached to the sustainability report, we recommend the sustainability assurance report be issued with the sustainability report in order to enable the user to understand the scope of the engagement and the credibility of the expert that provided the sustainability assurance.
9. Users and stakeholders may not realise or understand the potential differences between the qualities of assurance services provided. These services can range from those in compliance with the assurance standards as issued by the IAASB (ISAE 3000) to highly judgmental reporting by individuals based on their reputations, resulting in individual assessments such as "in my opinion, the sustainability report is a balanced and reasonable representation of the entity's sustainability performance". The sustainability assurance "profession" does not yet have a coherent system of quality controls based on professional engagement standards, quality controls standards, a code of ethics (including specific independence requirements, being subject to peer review and other profession-wide quality control procedures), participation in continuing professional development and being subject to investigation and disciplinary procedures. These are crucial for the credibility of assurance providers as it is the case for the accountancy profession.



### Assurance Levels and Processes

10. There is a need to address the question of whether the same level of assurance pertains to the sustainability report as a whole or whether different classes of information can be distinguished with different assurance levels. FEE is aware of a divergence of views between practitioners as to whether ISAE 3000 permits separate limited and reasonable assurance conclusions to be included in one report. Consequently, FEE considers that clarification of ISAE 3000 is necessary in this regard. FEE agrees that different levels of assurance for different parts of the sustainability report may be difficult for users to comprehend. Standards, to the extent considered practicable, should not deter the provision of assurance where it serves user needs. FEE believes that standards should not only take a stance on whether 'mixed reports' can be issued, but, in circumstances where that is deemed appropriate, include measures designed to promote an appropriately high degree of reporting clarity.
11. FEE believes that standard setters should also include measures for circumstances that may arise where, instead of a 'mixed report', user needs can be met within a limited assurance engagement. In such an engagement, certain aspects of the report might be subject to evidence gathering procedures that would normally be associated with a reasonable assurance engagement. This can be made clear in the assurance report so that the nature of the limited assurance can be appreciated. For example, a practitioner's report may refer to inquiries and analytical procedures applicable to the whole sustainability report with the addition verification of specific disclosures. FEE does not believe that this approach can be extended to a reasonable assurance engagement. Instead, any material aspects for which only limited assurance is obtained should be included in a separate limited assurance engagement.
12. There is a public interest argument for high quality assurance services being available to increase the credibility and quality of sustainability reporting even though that activity remains voluntary. This would add to the business case for sustainability assurance. In February 2003, FEE published a brochure on the benefits of sustainability assurance: "Independent assurance:
  - *Enables users to place more credibility on the information reported by the organization*
  - *Produces indirect benefits for the organisation because of improved public perception of its activities*
  - *Allows the organisation to benefit from external expertise and experience through formal advice or through working together*
  - *Often results in improvements in data measurement, recording and internal reporting systems, learning and knowledge transfer within the organisation, enhancing the organisation's internal decision-making and ability to achieve its business objectives*
  - *Is worthwhile to demonstrate compliance with particular aspects of the regulatory framework governing a particular industry."*
13. Sustainability is a fast moving area and other bodies, such as AccountAbility, are taking the lead in this area. Companies are asking assurers to use their standards (e.g. AA 1000AS), in the absence of a specific internationally accepted assurance standard in the sustainability domain. While recognising the priority of the Clarity project at present, FEE calls on IAASB to allocate resources as soon as they become available to fulfil its professional leadership role in this area by promulgating quality practices and sharing knowledge in developing a specific assurance standard in relation to sustainability. FEE is particularly keen for the IAASB to develop an international standard on sustainability assurance since ISAE 3000 is not specific enough and competing standards are finding their way in the market.

### Suitable Criteria

14. Different sets of criteria would be appropriate for different types of engagements. Although the subject matter is summarised as "sustainability" or "corporate social responsibility", there are different aspects on which assurance reports can be given, for instance supply chain management, internal control or quantitative information on the entity's environmental impact. Different companies (for instance, a chemical company versus a consumer goods retailer) and users (for



instance the management of the business versus local residents) are also interested in different type of assurance engagements. It would not be constructive to think that there would be one-size-fits-all reporting criteria. The International Framework for Assurance Engagements explains, in paragraph 34, that criteria can be either formally established by appropriate organisations, or specifically designed for the engagement. The important factor is that criteria withstand reasonably consistent evaluation or measurement of a subject matter, so that the accountants' conclusion is not open to individual interpretation and misunderstanding.

15. FEE believes that it is the responsibility of the reporting entity, not of the assurance provider, to produce a sustainability report using suitable reporting criteria. ISAE 3000 does not provide specific guidance for assurance providers on evaluating the adequacy of reporting criteria. Instead, the standard requires that the assurance provider assesses the suitability of the criteria for a particular engagement to determine whether they reflect the required characteristics and considers the consequences of unsuitable criteria on the engagement.
16. FEE believes that guidance on appropriate criteria is necessary in relation to sustainability reports. This should include consideration of both generally established and specifically developed criteria. Because the development of criteria is a process that involves stakeholder dialogue and is integral to the creation of a sustainability report, the suitability of criteria may not be fully capable of assessment by the practitioner until an assurance engagement is underway. Thus, there exists a need for standards to provide guidance on interpreting the engagement acceptance decision under ISAE 3000 and to introduce appropriate requirements and guidance in relation to deficiencies in criteria identified during the engagement.
17. We understand that GRI is in the process of finalising G3. Whilst we are not commenting on G3 and its applicability as suitable criteria but on how sustainability assurance should be developed in this letter, we welcome SEAP's and IAASB's involvement in GRI and trust IAASB to cooperate with GRI to ensure that G3 meet the conditions of suitable criteria.

#### Stakeholder Engagement

18. Stakeholder engagement is essential to determine the completeness and relevance of the sustainability information provided.
19. We believe that the engagement of the stakeholders is the responsibility of management and those charged with governance. The assurance provider participating in the stakeholder's engagement could easily cause unreasonable stakeholders' expectations that should be avoided. For this reason we believe that it would be inappropriate for the assurance provider, for example, engage directly with the entity's stakeholders, or participate in stakeholder engagement undertaken by the entity or others on the entity's behalf. This does not preclude, for instance, observing stakeholder engagement without participating as a way of obtaining evidence. We believe that the assurance provider's understanding of the entity and its environment, particularly the stakeholders, is critical to assess the risks of material misstatement.
20. Where appropriate, the assurance provider should obtain evidence from other sources, e.g., documentation and inquiry on the entity's stakeholder engagement.

#### Principles

21. Materiality is the threshold for relevance. The relevance of information is affected by its nature and materiality. A decision not to disclose certain information may be made because stakeholders have no interest in a particular type of information (i.e., it is not relevant to their needs) or because the data involved is not of sufficient size or substance to influence their decisions (that is, it is not material). In addition, relevance is not only an issue to take into account for the contents of the report but also one that influences the quality of reporting. To be able to provide relevant information, it is necessary to gain an insight in the legitimate information needs of users for whom



the sustainability report is intended. The dialogue with stakeholders fulfils an important role in this respect.

We would be pleased to discuss further with you any aspect of this letter you may wish to raise with us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Devlin', with a long, sweeping flourish extending to the right.

David Devlin  
President