



**FEE Discussion Paper  
“Providing Assurance  
on Environmental Reports”**

**October 1999**

*This paper is published for comment on 31 October 1999 – with a consultation period of four months (29 February, 2000). Unless otherwise requested, all responses will be considered to be on the public record*

Comments should be submitted to

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The Fédération des Experts Comptables Européens (FEE) is the representative organisation for the accountancy profession in Europe, currently grouping together the 38 leading institutes in 26 countries, including the 15 Member States, Cyprus, Czech Republic, Hungary, Iceland, Israel, Malta, Monaco, Norway, Romania, Slovenia and Switzerland. Between them these bodies have a combined membership of approximately 400.000 individuals of whom about 45% work in the public practice, providing a wide range of services to clients, whilst the other 55% work in various capacities in industry, commerce, government and education.

### **Purpose of the Discussion Paper**

Pending the publication of an international standard on assurance engagements on environmental reports, on which IAPC is currently engaged, FEE has prepared this discussion paper with a view to stimulating the international debate on such engagements and to provide input to the international standard setting process through discussions and through the responses received to the questions. Also the Global Reporting Initiative (GRI) has started work on providing assurance on sustainability reports. The FEE discussion paper also hopes to make a useful contribution to this work. The discussion paper is concerned with providing assurance on all environmental information published by an entity, whatever format is adopted. FEE is not a standard-setting body and the discussion paper should not be regarded as a standard or a guideline for conducting assurance engagements on environmental reports.

The discussion paper raises issues that are particularly relevant to engagements aimed at providing assurance in respect of environmental reports<sup>1</sup>. It is primarily addressed to professional accountants, but views of other groups, such as stakeholders, companies publishing, or proposing to publish, environmental reports, environmental consultants and other experts, will be appreciated.

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<sup>1</sup> FEE is aware that experts other than professional accountants provide assurance on environmental reports.  
FEE Discussion Paper "Providing Assurance on Environmental Reports"  
October 1999

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## SUMMARY

### Objective

A continual increase in the demand for environmental information and in the production of environmental reports, has resulted in the need for generally accepted guidelines for environmental reporting and for the provision of independent assurance on such reports. There is already a great number of guidelines, checklists and recommendations in this field and a single approach – accepted and used by everyone – has been strongly encouraged by issuers, assurance providers and users alike. This discussion paper is intended to increase the interest in a fast developing global debate, to stimulate thoughts and ideas and to contribute to the development of an internationally accepted assurance framework in the environmental area.

### Environmental reporting is part of overall communication

An environmental report is part of an organisation's external communication and aims to deliver a message (information) from a sender (company/organisation) to a receiver (reader/user). That message should be useful to the user, Therefore, the prime consideration of the sender is to make the information *understandable, useful, and reliable*.

### Environmental communication needs credibility

It is the issuer's task to design, produce and distribute the information in a relevant manner. Responsibility for the content of the environmental report rests with management of the issuer and it is up to the issuer to ensure that the information is reliable.

The task of the professional accountant is to provide an opinion on the information provided in the environmental report.

### Credibility calls for guidelines on content and assurance procedures

Guidelines are needed to ensure that the content of an environmental report is *relevant, material and comprehensive* as well as based on *objectively verifiable and quantifiable* data. Only then will the practices for environmental reporting facilitate the provision of independent assurance.

### Providing assurance must not lead to an expectation gap

The professional accountant has a responsibility to explain to the issuer and the user of the environmental report the scope of the accountant's work and the relevance and meaning of the assurance statement. Research carried out by FEE shows that there is often a wide discrepancy between what the professional accountant intended an assurance statement to say and how it is understood by the client and the user. Experts other than professional accountants provide assurance on environmental reports and present their assurance statement in many ways. This adds to the gap in understanding between the parties involved in providing assurance and users of the assurance statement.

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**Standard definitions and clarity are needed**

One of the important issues that needs to be considered is to define the words, expressions and procedures used. The professional accountant has to make it clear what the assurance work includes and what the assurance statement means, in particular any limitations.

**Environmental reporting calls for enhanced knowledge**

The complexity of environmental reporting calls for enhanced knowledge, both general and specific, to be gained by the assurance provider. In most cases, it is likely that individuals with specific environmental expertise will be involved. Consequently, the assurance engagement is likely to be undertaken by a team with expertise in different fields

**Reporting should be designed to meet the needs of identified target groups**

An environmental report may be of interest to a larger number of user groups than a financial report. The issuer of environmental information has to identify the needs of the main user groups and, where necessary, expand the information to take account of those needs. This may also be of concern to the professional accountant in assessing the materiality of specific environmental information.

**Good environmental reporting tomorrow requires wide involvement today**

This discussion paper sets out to raise a number of issues and to ask a number of questions. We hope that a wide spectrum of interested parties will take part in this discussion so as to provide an appropriate range of views and ensure a representative degree of support for the resulting submission to IAPC. Consequently, the experiences and ideas of all readers will be most welcome.

## **PREFACE - QUESTIONS FOR DISCUSSION**

FEE welcomes comments on any aspect of the discussion paper and appendix 1. Respondents' views on the matters set out below would be particularly helpful.

### **Use of the term 'assurance'(section 1.2 and appendix 2)**

- Q1. What matters would have to be addressed to enable the professional accountant to provide a high level of assurance in respect of an environmental report?
- Q2. Do you agree with the use of the term 'assurance engagement' in connection with environmental work? If not, what term do you prefer?

### **Responsibility for assurance (sections 2.1 to 2.4)**

- Q3. Do you agree with the reference to competence and experience required for the engagement? Is the flexible approach proposed regarding the use of multidisciplinary teams appropriate?
- Q4. Where two or more parties are involved in providing assurance, which party should have the ultimate responsibility for reporting on the assurance engagement?
- Q5. If the assurance engagement is performed by a multi-disciplinary team, to what extent is it necessary, or acceptable, that:
- (a) if *one* report is issued, it is signed by the professional accountant only, with the responsibilities of the environmental expert specified in that report?
  - (b) if *one* report is issued, it is signed by the environmental expert only, with the responsibilities of the professional accountant specified in that report?
  - (c) the professional accountant and the environmental expert each sign and publish their own reports, including a reference to the report of the other professional?
  - (d) the environmental assurance report is signed jointly by the professional accountant and the environmental expert?

### **Acceptance of the engagement (sections 3.2 and 3.3)**

- Q6. Are scope limitations acceptable, for instance the exclusion of qualitative information, or indirect impacts, or a restriction to information provided on certain environmental impacts, for example only waste and emissions to water?
- Q7. Can the professional accountant provide assurance on qualitative environmental information, such as a statement about environmental policy or environmental



performance, or the effectiveness of an EMS, (Environmental Management System)?

- Q8. How do the 'suitable criteria' need to be enhanced to provide an effective benchmark in providing assurance on environmental reports?

**Risk assessment and internal control (section 4.3)**

- Q9. Should the professional accountant continue with an engagement to provide a high level of assurance if it appears that the client's EIS, (Environmental Information System) is inadequate to ensure that the environmental information is reasonably reliable? What approach do you consider appropriate in this situation: to rely on substantive testing, setting a high level of control risk; to deny a conclusion or to express a reservation of conclusion; or to withdraw from the engagement?
- Q10. Where an EIS is inadequate as a basis to meet the engagement objectives, does the professional accountant have to report on the inadequacy in the assurance report?
- Q11. Should the work performed in an assurance engagement include an assessment of whether the systems in operation are likely to ensure compliance with the entity's environmental policies?

**Compliance with laws and regulations (section 4.7)**

- Q12. What action should be taken by the professional accountant in relation to environmental laws and regulations that appear to have been breached but are not included in the environmental report?

**Materiality (Section 5.2)**

- Q13. Do you agree that there are particular issues that affect the consideration of materiality in the context of providing assurance on environmental reports? If so, does section 5.2 cover the special considerations adequately, or would you suggest other points of greater importance? Should the assurance report refer to such issues? If so, how?

**Reporting (Section 6.1)**

- Q14. What additional measures could be taken by the professional accountant to ensure that users understand the limitations of an assurance report as well as the benefits provided?

Comments are welcome and should be submitted so as to be received by 29 February 2000 and should be addressed to:

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Unless respondents specifically request confidentiality, all comments will be treated as being on the public record.

## 1. Introduction

### 1.1 Background

Environmental reporting ranges from a description of selected environmental matters to a comprehensive report on all material environmental aspects of an entity's activities. In practice, environmental reports are published in different ways, such as:

- Stand alone environmental reports, dealing with operations at site level or entity level;
- Environmental reports that are integrated with health and safety reports;
- Environmental information issued as part of a report on sustainability; or
- Environmental information issued as part of the annual report containing the financial statements<sup>2</sup>.

Responsibility for the content of environmental reports, in whatever form the information is issued, rests with management. Management is also responsible for the entity's compliance with laws and regulations, including those relating to the protection of the environment.

Entities have an interest in obtaining independent assurance on their environmental reports. FEE believes that independent assurance enhances the quality and the credibility of such reports. Assurance engagements on environmental reports are currently performed by experts from different disciplines although accountants undertake a significant number of these engagements.

It is not currently a legal requirement in any European country to obtain independent assurance on an environmental report. All assurance engagements relating to environmental reports are therefore commissioned on a voluntary basis. Although different guidelines on environmental reporting exist, there is no generally accepted reporting framework within which such assurance engagements are performed. In addition, most of the available guidelines only address what to report, not how to report, i.e. lists are provided of items to be included in the report, but not the qualitative characteristics of the information. For this reason, FEE issued a discussion paper in January 1999 'Towards a generally accepted framework for environmental reporting'. The paper proposed certain underlying assumptions and qualitative characteristics for environmental reporting.

There are wide variations in reporting on the credibility of environmental reports. A research paper on 'Expert statements in environmental reports' published by FEE in 1996 showed that engagements differ as regards the subject matter involved, the objectives of the engagement, the criteria used to assess whether these objectives are met and the content of the expert opinion. It also appeared that, in the absence of standards on environmental assurance engagements, there were significant differences between the procedures performed in carrying out the engagements. FEE believes that the room for differences in

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<sup>2</sup> Information on environmental issues reported in the financial statements and the audit thereof is governed by financial accounting and auditing standards and consequently does not form part of the subject matter of this discussion paper.

the scope of engagements and in subsequent reporting is undesirable to both the entities and the users of the environmental reports and increases the expectation gap.

In March 1999, the International Auditing Practices Committee (IAPC) of the International Federation of Accountants (IFAC) published an exposure draft 'Proposed international standard on assurance engagements' (the proposed IAPC standard). The proposed IAPC standard distinguishes different kinds of assurance engagements and mentions the provision of assurance on environmental reports. It also refers to the ethical considerations for the professional accountant which need to be addressed. Further guidance on assurance engagements on environmental reports is currently under development by IAPC.

In Germany, the professional organisation of auditors, the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW) has issued an auditing standard *IDW AuS 820: 'Generally Accepted Standards for Audits of Environmental Reports'*. The standard represents the position of the German profession on the provision of independent assurance on environmental reports. As an illustration, the German auditing standard is included in this discussion paper as Appendix 3. FEE believes that its Discussion Paper addresses all the main issues for providing assurance on environmental reports although there will be aspects on which additional emphasis is considered important in individual countries.

## 1.2 Use of the term 'assurance'<sup>3</sup>

The objective of an assurance engagement is for a 'professional accountant to evaluate a subject matter that is the responsibility of another party using identified suitable criteria, and to express a conclusion that provides the intended user with a level of assurance about that subject matter'<sup>4</sup>. The proposed IAPC standard on assurance engagements limits assurance to two distinct levels: a high level ('audit engagement') and a moderate level ('review engagement').

Some commentators would argue that most readers of reports are conversant with the term 'audit' and believe that this best describes the assurance process. However, in the field of accountancy, the term 'audit' is very narrowly defined. Another issue is that the term 'audit' is already used within different domains without linking it to a high level of assurance. Examples are:

- Electronic data processing (EDP)-audits performed by members of the accountancy profession and other IT-specialists; and
- Audits of environmental management systems under standards issued by the International Organization for Standardization (ISO) on environmental management systems (ISO 14 000 series).

In the case of assurance engagements on environmental reports, in practice a variety of terms is currently used, such as 'verification', 'review' (although not necessarily intended

<sup>3</sup> For a more detailed discussion of "assurance" please see Appendix 2.

<sup>4</sup> IFAC Exposure Draft: Assurance Engagements - Proposed International Standard on Assurance Engagements

to limit the assurance to a moderate level) and ‘audit’. To avoid confusion, this discussion paper uses the term ‘assurance’ but views on the term are invited.

Assurance of the nature described in this Discussion Paper should be distinguished from supportive statements made by individuals of standing that may be published with environmental reports.

### **1.3 Providing assurance**

In providing assurance on environmental reports, there remain certain issues to be resolved, in particular:

- a. The lack of generally accepted criteria for environmental reporting. As explained in paragraph 1.1, no generally accepted criteria for environmental reporting exist. Guidance on environmental reporting is still in development. Guidelines, such as those issued by the United Nations Environmental Programme (UNEP) and the proposed GRI<sup>5</sup> guidelines, may gain credibility and become more detailed. FEE has also published a discussion paper ‘Towards a generally accepted framework for environmental reporting’, which addresses the underlying assumptions and qualitative characteristics of environmental reporting. Also the European Environmental Reporting Award Scheme is using a list of criteria to assess the environmental reports which might be helpful in preparing environmental reports;
- b. Information given in the environmental report is both quantitative and qualitative. The subjective and qualitative aspects of the matters subject to report, together with the absence of suitable criteria, may limit the quality and quantity of evidence that can be obtained for assurance purposes;
- c. Tolerances need to be considered in relation to the reliability of quantitative environmental source data. Although, in principle, it is subject to the same uncertainties and imprecision, most environmental data cannot be provided with the same degree of accuracy as financial data. This may be due to the limitations of the different techniques used to obtain the data (measurements, calculations or estimates) and the frequency with which these techniques are applied.

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<sup>5</sup> Information on the environment is one of three areas reported upon in sustainability reports as discussed by GRI. The others are the economic and social aspects of activities.

## **2. Responsibility for assurance**

### **2.1 Competence and the use of multi-disciplinary teams**

In order to carry out an assurance engagement in respect of an environmental report, an experienced professional accountant obtains sufficient knowledge of the entity and other relevant matters. Depending on the nature of the engagement, the following areas would be relevant:

- the entity's business; the entity's environmental impact; relevant requirements of environmental laws and regulations; and environmental risk assessment in general;
- environmental information systems (EISs);
- environmental management systems (EMSs); including existing criteria for the evaluation of EMSs, such as the standards in ISO 14 001;
- environmental reporting practices, including existing criteria and benchmarks, for example, requirements under national laws, the UNEP criteria ('the 50 reporting ingredients') or the proposed GRI Guidelines on Sustainability Reporting.

To perform an assurance engagement on an environmental report, the professional accountants may supplement their own competence and experience with the advice and assistance that may be obtained from others with appropriate expertise.

Depending on the subject matter and the information presented in an environmental report, the engagement team may include one or more experts with an environment-related education or background (for example, environmental science, chemistry, chemical engineering, etc.) and with appropriate experience in and knowledge of:

- technical processes and environmental impacts of the entity's operations and products;
- technical aspects of requirements embodied in environmental laws, regulations and licences; and
- design and operation of EMSs and the relevant standards against which they can be evaluated (e.g. ISO 14 001).

According to the nature of the engagement, the input of an environmental expert may be important in order to:

- ensure a sufficient understanding of the technical aspects of business processes, environmental risk and environmental impacts;
- identify any specific environment-related aspects of weaknesses in the EIS; and
- perform the more technical elements of the engagement, such as the evaluation of the company's measurement of its emissions to air, surface water, groundwater etc.

### **2.2 Co-operation between different disciplines**

The input of a professional accountant is considered important in order to:

- ensure that relevant objectives and assertions are adequately addressed in planning of the engagement;
- ensure a proper understanding of the business conditions and related environmental aspects, on a strategic and operational level, where appropriate;
- consider any weaknesses in the EMS and EIS on an overall level, using the environmental expert's knowledge and understanding of the EMS and EIS, including data measurement, data collection and the process of aggregation and disclosure of information to intended users;
- manage the assurance process as a whole and ensure that the engagement is conducted properly; and
- communicate the conclusion properly to the intended users.

Co-operation with environmental experts in an assurance engagement on environmental reports may be organised in different ways. For example, the expert can be:

- employed by the professional accountant's firm, including the firm's management consultants specialised in environmental consulting;
- a third party expert (such as an independent environmental consultant); or
- a person employed by the client, an environmental expert or an internal or operational auditor with expertise in environmental auditing. In this case, the professional accountant considers safeguards to ensure the independence of the engagement.

Whether third party environmental experts are included in the team or not is a matter of professional judgment, taking into account the circumstances of the individual case.

### **2.3 Evaluation of work performed by environmental experts**

When the work of an environmental expert is used, the professional accountant is expected to review the work performed by the expert. This is in conformity with the existing International Standards on Auditing issued by IFAC for the audit of financial statements. Amongst other things, the professional accountant:

- considers making a legally binding agreement with the environmental expert that stipulates each professional's responsibilities.
- considers whether the environmental expert is suitably qualified, independent and objective; and
- evaluates the assumptions made by the expert, the approach used in the expert's examination and the evidence for conclusions by:
  - making inquiries regarding any procedures undertaken by the expert as to whether the source data are sufficient, relevant and reliable; and
  - reviewing the expert's working papers.

### **2.4 Ultimate responsibility**

The decision as to which professional should assume the ultimate responsibility for the engagement process as a whole, including publicly reporting thereon, is dependent upon the circumstances. This will depend upon the degree to which each of the contributions of

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different disciplines involved in the engagement is predominant for the overall evaluation of the environmental report. In practice this could be:

- the professional accountant. In this case, only the professional accountant will sign the report;
- the environmental expert (excluding environmental experts employed by the client). In this case, only the environmental expert will sign the report; or
- joint responsibility. In this case, both professionals will sign the report jointly - or two reports will be issued, each one clearly referring to the other.

In each case the report could be signed in their own name by the individuals involved or in the name of the audit firm. In the latter case, the audit firm bears the ultimate responsibility.



### **3. Acceptance of the engagement**

#### **3.1 Terms**

In order to avoid misunderstandings, it is important that the professional accountant agrees the terms of the engagement with the party who appoints the professional accountant. Usually this will be the issuer's management, but it is sometimes argued that different stakeholders should participate in this process. In particular, agreement should be sought in relation to:

- the subject matter and scope of the engagement;
- the objectives;
- the suitable criteria; and
- the required level of assurance and the format of the assurance report.

#### **3.2 Subject matter and scope of the engagement**

Environmental reports differ considerably in content but generally include some combination of the following information:

- a. a description of the entity and its relationship to any parent organisation, and a summary of its activities;
- b. the entity's environmental policy;
- c. the entity's EMS
- d. a summary of the entity's environmental impacts, with any necessary explanation of their nature;
- e. the environmental objectives and targets in relation to significant environmental impacts;
- f. a summary of performance against environmental objectives and targets for all significant environmental impacts and, where available, comparison of performance against regulatory limits and industry-sector standards; and
- g. other factors regarding environmental performance, such as fines and penalties.

Qualitative information such as a statement about environmental policy, is invariably more subjective than quantitative information. Because of this, it may be more difficult to challenge, whereas quantitative information, such as environmental impact data, will usually be supported by related records, even if these require appropriate expertise to interpret.

As there are no mandatory reporting requirements, the client is free to choose the subject matter of the engagement. The client may require assurance on only part of the environmental report, possibly those aspects where the company's environmental performance is best. In providing assurance, the professional accountant will consider whether there is adequate evidence to support an opinion that the overall presentation of the environmental report is not misleading and that both positive and negative matters are adequately reflected in the report.

Whilst much of the emphasis will be placed on providing assurance on environmental information, an examination of the EMS and/or the EIS will often be required, as the procedures operated within these systems are normally relevant to the objectives of the engagement.

The professional accountant will assess compliance with applicable environmental laws and regulations that are of significance to the environmental impacts described in the environmental report. It is only to this limited extent that an assurance engagement will address the entity's compliance with environmental laws and regulations.

It is often suggested that environmental reporting should not be restricted to the *direct* environmental impacts of an entity but should also include the *indirect* impacts of activities elsewhere in the supply chain. Direct impacts are such impacts that result directly from the entity's activities and include:

- consumption of resources;
- emissions to air, (hazardous) waste, soil contamination; and
- output (products).

Not included are those impacts that result from:

- extraction, production and transport of resources on the procurement side; and
- use of products, including disposals, on the sales side.

Even if information on both direct and indirect environmental impacts is desirable, information about indirect impacts may prove difficult to obtain. As a result, most environmental reports only deal with the direct effects.

### 3.3 Objectives

The objectives of an assurance engagement are largely determined by the subject matter in the environmental report:

- if the report comprises specific environmental information, the main objective will be to assess the accuracy of the information presented; whereas
- if the report claims to present adequately, in all material respects, the direct environmental impact of the entity's activities (a comprehensive environmental report), the objective will include obtaining evidence as to its completeness.

In both cases, it is important to evaluate whether the overall presentation of the environmental report (including comparatives) is not misleading in the context in which it is presented.

In the FEE discussion paper 'Towards a generally accepted framework for environmental reporting', a number of qualitative characteristics of information were identified such as: relevance, reliability, understandability, neutrality, completeness, prudence, comparability, timeliness, and verifiability.

The term *completeness* has two different dimensions. First, that information is given on all environmental issues which may be considered to be relevant within the terms of the

engagement. Second, that, on each issue, all the information is given which may be considered to be material. The issue of completeness is thus connected to materiality (see section 5.1), in that a report is complete if it addresses all the material environmental issues relating to the reporting entity.

Completeness is also concerned with the defined boundaries of the reporting entity. In reporting on the life-cycle impact of a product, from resource extraction to disposal, the reporting entity may go beyond the legal scope of the entity. It is therefore important that the terms of the engagement clearly identify the legal boundaries of the reporting entity and the extent to which the entity will disclose its environmental information. Information about indirect environmental impacts may be of considerable importance to the reader. However, it will not normally be possible to assess confidently the activities of suppliers and the use of products by buyers of the company's products or the resulting environmental impacts. FEE believes that this limitation on the scope of the engagement should be emphasised in the assurance report. In the following paragraphs, completeness of an environmental report implies that the environmental report adequately presents, in all material respects, the direct environmental impact of the entity's activities. Nevertheless, the restriction to direct impacts may be questionable, particularly in relation to service companies, such as mail order companies, banks or insurance companies.

### **3.4 Suitable criteria**

Given the objectives of the assurance engagement, 'suitable criteria' are agreed against which the professional accountant will assess the environmental report. Although the minimum content of an adequate environmental report is discussed in literature and by various organisations that have also developed guidelines on the subject, there are at present no generally accepted standards, in particular for completeness.

Suitable criteria can be either established or specifically developed. Established criteria are those embodied in laws or regulations, or issued by recognised bodies of experts that follow due process. Specifically developed criteria are those identified for the purpose of the engagement and which are consistent with the engagement objective.

To assess whether information is given on all environmental issues that may be considered to be material, guidelines such as those proposed by the GRI, or published by UNEP may be helpful, especially if the environmental report is drawn up in accordance with such guidelines. However, there will be a need to adapt them to the entity's individual situation. Individual criteria to assess completeness for such an analysis need to be specifically developed. These criteria should also be designed to enable the professional accountant to evaluate errors or omissions. The professional accountant may agree with the client that the objectives of the engagement include assurance that the requirements of a specified guideline have been met.

Given the lack of generally accepted criteria to assess the assertions in the environmental report, particularly their completeness and accuracy, it may be necessary to include in the assurance report a description of the suitable criteria used.

### **3.5 Level of assurance and format of the assurance report**

The client and the professional accountant have to consider what level of assurance is to be provided, in particular whether this will be a high or a moderate level of assurance. The professional accountant has to assess whether it is possible to provide a high, or a moderate level of assurance, based on the nature of the matters subject to the report, the criteria and the evidence reasonably likely to be available.

Environmental assurance engagements currently vary in the scope of work performed. This leads to a variety of forms of published assurance. Consequently, at the commencement of an engagement the client and the professional accountant normally identify and discuss the anticipated format and general content of the assurance report, based on the scope of work, and the main elements to be included in the report. See also section 6.1 below.

### **3.6 Conditions for acceptance**

The acceptance of an assurance engagement requires that the subject matter of the engagement is identifiable and in a form that will be conducive to evidence gathering procedures, and that there is a reasonable basis for believing that a conclusion about the subject matter based on suitable criteria, could be expressed. Conditions for the acceptance of the engagement, would normally include the following aspects as regards the client's duties:

- acknowledgement of the responsibilities of the entity and of the professional accountant;
- availability of evidence supporting all information contained in the environmental report;
- availability of suitable criteria;
- permission for the professional accountant to retain experts at the professional accountant's discretion, where the information on which assurance is required cannot be sufficiently assessed by the professional accountant; and
- reference to the work performed only in the form approved by the professional accountant.

### **3.7 Engagement letter**

It is advisable for the agreed terms between the professional accountant and the party appointing the professional accountant to be recorded in writing. The form and content of an appropriate engagement letter may vary for each client but, for the purpose of assurance engagements relating to environmental reports, they would generally include reference to topics such as:

- subject matter, including the scope of the reporting entity and the reference to applicable environmental laws or regulations;
- objective of the assurance assignment;
- level of assurance required;
- suitable criteria to be used;
- management's responsibilities;

- form of any reports or other communication on the results of the engagement;
- the fact that, because of testing and other inherent limitations, and the inherent limitations of any EMS, there is an unavoidable risk that some material misstatement may remain undiscovered;
- unrestricted access to any records, documentation and other information, as requested, in connection with the assignment; and
- the basis for calculation of fees for the professional accountant's work.

Further items may need to be included relating to the individual assignment.

In general, it may be advisable to agree on a new engagement letter for each assurance engagement, rather than relying on a previous letter.

### **3.8 Changes in the engagement**

Before the completion of the engagement, the professional accountant may be asked to change the nature of the engagement to one that provides a lower level of assurance. The professional accountant considers the appropriateness of the change. A change should not be agreed where there is no reasonable justification for the change. For example, a change is not appropriate if it is to avoid a qualification of the opinion.

Another form of change that may be requested would be a change in the subject matter and/or objective. For example, the scope of assurance to be provided may be changed from a comprehensive environmental report, in which accuracy and completeness are asserted, to the accuracy of certain environmental information contained in the environmental report. Such a change in engagement may result from:

- a change in circumstances affecting the need for the services;
- a misunderstanding as to the nature and scope of the assurance assignment; or
- information being found not to be fairly presented.

In some circumstances it may be appropriate for the professional accountant to consider withdrawal from the engagement.

## 4. Main issues to address in providing assurance

### 4.1 Understanding the business

In providing assurance on an environmental report, the professional accountant has, or obtains, knowledge of the entity's activities and organisation and their environmental impact, as well as sector-specific knowledge, such as information about products and production processes. This knowledge needs to be sufficient to enable the professional accountant to identify and understand the entity's operations and their environmental impact to the extent that, in the professional accountant's judgement, these matters may have a significant effect on the environmental report, on the procedures or the assurance to be provided.

The professional accountant needs such knowledge in planning the engagement, including risk assessment in considering the validity of evidence and the presentation of the environmental report. To make effective use of this knowledge, the professional accountant considers how it affects the environmental report as a whole and whether the assertions in the environmental report are consistent with the professional accountant's knowledge. Staff involved in the engagement should also obtain sufficient sector-specific knowledge and knowledge of the entity's activities and organisation to enable them to carry out the work delegated to them.

The professional accountant may obtain knowledge of the industry and the entity from a number of sources, including:

- previous experience with the entity and its industry;
- discussion with individuals employed by the entity who are responsible for environmental matters, including directors, management and senior operating personnel;
- discussion with those responsible for internal control, planning or checking of matters relating to environmental protection;
- discussion with knowledgeable people outside the entity (industry regulators, residents, customers and suppliers);
- publications relating to the industry (for example, government statistics, surveys and trade journals);
- legislation and regulations that significantly affect the entity;
- visits to the entity's premises and plant; and/or
- documents produced by the entity (for example, minutes of meetings, material sent to shareholders or filed with regulatory authorities, promotional literature, prior years' environmental reports, budgets, internal management reports, job descriptions, marketing and sales plans).

Obtaining the required knowledge is a continuous and cumulative process, which includes gathering and assessing the information and relating the resulting knowledge to evidence used and work performed at all stages of the assignment. For example, although knowledge of the business is gathered at the planning stage, it is often referred to or enhanced in later stages of the assignment as the professional accountant learns more about the entity.

For continuing engagements, the professional accountant updates and re-evaluates information gathered previously, including information recorded in the prior year's working papers. The professional accountant also performs procedures designed to identify significant changes that have taken place since the last assurance assignment which could affect the environmental report.

#### **4.2 Knowledge of environmental laws and regulations**

The professional accountant needs a general understanding of the legal and regulatory framework applicable to the entity and the industry concerned and how the entity complies with that framework. A general understanding of this nature can be obtained from the following sources:

- existing knowledge of the entity's industry and business;
- discussion with management concerning the entity's policies and procedures regarding compliance with law and regulations; and
- discussion with management as to the environmental laws or regulations that may have a fundamental effect on the operations of the entity.

#### **4.3 Risk assessment and internal control**

The professional accountant plans and performs the engagement so as to reduce, to an acceptable level, the risk of expressing an inappropriate conclusion. In general, the risks involved in providing assurance comprise:

- (a) *inherent risk*: the risk associated with the nature of the subject matter that is beyond the influence of the parties to the engagement;
- (b) *control risk*: the risk that controls over environmental matters do not exist or operate ineffectively; and
- (c) *detection risk*: the risk that the procedures adopted by the professional accountant do not detect material matters that could affect the environmental report.

It is management's responsibility to design and operate internal controls to assist in achieving, as far as practicable, the orderly and efficient conduct of the business, including any environmental aspects. Entities that operate in industries with a high exposure to environmental impacts often operate an EMS. The design of such a system may meet existing standards (for example ISO 14 001). Entities with less exposure and smaller entities may not operate a formal EMS, but monitor and control their environmental impacts in other ways, for example through the accounting and internal control system. The reporting entity will normally have implemented some form of EIS.

In the following paragraphs, no distinction is made between entities that operate a formal EMS and entities that do not operate such a system. Both are expected to monitor and control the environmental impact of their business appropriately and both need some form of information system which produces the environmental data as a basis for the environmental report. Consequently, the lack of a formal EMS does not in itself mean that the professional accountant has to conclude that there is inadequate control over the environmental impact of an entity's operations.

In providing assurance on environmental reports, the professional accountant is only concerned with those procedures within the EMS and the EIS that are relevant to the objectives of the engagement. In planning the assignment, the professional accountant obtains knowledge of the design of these systems, and evaluates their existence, appropriateness and effectiveness as a basis for deciding the nature and extent of the other work to be performed.

The following procedures are suggested as examples to show how the professional accountant can obtain a knowledge of the EIS that is sufficient to identify and understand:

- *the data generation process*  
The professional accountant obtains sufficient understanding of the techniques used in measurement, analysing, calculation or estimation of environmental impacts that are significant to the entity's environmental performance. The professional accountant considers whether the use of these techniques is acceptable and assesses the quality control over the use of these techniques.
  
- *the data collation process*  
The professional accountant obtains an understanding of data collation processes operated by the entity and the methods used to classify, record and summarise the data.
  
- *the reporting process*  
The professional accountant obtains an understanding of the reporting process, from the environmental records to the inclusion of relevant information in the environmental report.

This approach will enable the professional accountant to assess the control risk using professional judgement and to design procedures to ensure that the detection risk is reduced to an acceptably low level.

A higher assessment of control and inherent risk increases the need for obtaining evidence from the performance of substantive procedures. Where the original assessment of control risk is other than high, before the opinion based on the results of substantive procedures and other evidence obtained by the professional accountant is issued, the professional accountant considers whether the initial assessment of control risk is confirmed.

#### **4.4 Engagement procedures**

The professional accountant plans and performs the work in compliance with the agreed scope of the engagement on the basis of an assessment of the risks and controls in order to determine the nature and extent of substantive testing. The subsequent assurance report sets out the scope of the engagement, the criteria used, the nature and extent of the procedures performed, the inherent, and, any specific, limitations on the work and includes an opinion regarding the result of the work. In this way, a clear connection is established between the scope of the engagement, the work performed and the assurance provided.



When developing the approach to be used, the professional accountant considers the preliminary assessment of control risk (in conjunction with the assessment of inherent risk) to determine the risk that substantive procedures will not detect a misstatement in the environmental report, whether material individually or when aggregated with other misstatements. Depending on the risk involved, the professional accountant determines the nature, timing and extent of substantive procedures. Substantive procedures include tests performed to obtain evidence to detect material misstatements or omissions in the environmental report.

The professional accountant has to obtain sufficient appropriate evidence to be able to draw reasonable conclusions on which to base the opinion. Such evidence is obtained from an appropriate mix of tests of control and substantive procedures. In some circumstances, evidence may be obtained entirely from substantive procedures.

In the following paragraphs, the characteristics of tests of control and substantive testing are described and some examples relating to environmental reports are given.

#### **4.5 Tests of control**

Tests of control are those tests performed in order to obtain evidence about the effectiveness of:

- the design of control systems under an EMS or an EIS, that is, whether they are suitably designed to prevent and correct material misstatements; and
- the operation of the controls throughout the period.

The professional accountant considers whether controls provided by the EMS and EIS were in operation throughout the period. If substantially different controls were used at different times during the period, the professional accountant would consider each control separately. A breakdown in controls for a specific portion of the period requires separate consideration of the nature, timing and extent of the assurance procedures carried out in relation to the transactions and other events of that period.

The professional accountant may decide to perform some tests of control during an interim visit in advance of the period-end. However, the professional accountant cannot normally rely on the results of such tests without considering the need to obtain further evidence relating to the remainder of the period. Factors to consider include:

- the results of the tests;
- length of the remaining period;
- whether any changes have occurred in the EMS and EIS included and their controls during the remaining period;
- the nature and amount/quantities/hazard of the transactions and other events and the balances involved;
- the control environment, especially supervisory controls; and
- substantive procedures which the professional accountant plans to carry out.

If the professional accountant becomes aware of any material weaknesses in the design or operation of the EMS and the EIS, or the controls provided, these should be drawn to the attention of management at an appropriate level of responsibility, as soon as practicable.

#### **4.6 Substantive testing**

Substantive testing comprises procedures performed to obtain evidence to detect material misstatements or omissions in the environmental report. Such tests comprise two types:

- analytical procedures; and
- substantive tests of detail.

In an engagement to provide assurance on an environmental report, the professional accountant usually applies analytical procedures in order to identify any obvious deviations, using an analysis of ratios and benchmark figures. The analysis is carried out by the professional accountant on the basis of inter-company and inter-period comparisons, with particular regard to the quantitative data relating to existing licenses and the restrictions imposed by public environmental authorities.

Examples of analytical procedures are:

- evaluation of input-output relationships;
- evaluation of data on emissions or waste against corresponding data for previous periods, industry benchmarks or targets; and
- the quantity of waste in relation to the quantities of products or the quantities of raw materials used.

Using analytical procedures will normally help in assessing the requirement for more detailed tests and to identify areas of priority for the assurance engagement. However, they are not sufficient audit evidence as a basis for a final conclusion on critical areas.

Examples of substantive tests of detail:

- examining the consumption of water, energy and materials: comparison with test certificates, delivery notes, invoices received and expense accounts;
- examining the quantity of hazardous substances held: these procedures are based on public register information and inventory records;
- examining waste and hazardous waste: comparison with records, invoices received and other documentation related to waste disposal, checks on the correct categorisation of waste, examining adjustments to waste records;
- examining soil and groundwater contamination and sewage system: assessment of expert reports and investigations undertaken either by the entity or third parties;
- examining emission figures: comparison with test certificates and, if applicable, investigations undertaken either by the entity or third parties in order to determine air and water pollution, the release of heat, noise and other emissions and examining adjustments to emission records;

- examining products/services sold: comparison with accounting data (financial accounting, cost accounting);
- examining investments and expenditures having a material effect on the environment: comparison with financial accounting data and inspection of investment and expense budgets;
- examining the entity's presentation of its compliance with the quantitative provisions as set out in environmental laws and regulations: comparison of the information presented with existing operating licences and any restrictions imposed by competent public authorities and environmental laws and regulations;
- examining estimates on the environmental impact of incidents;
- examining the accuracy of graphics;
- comparison with publicly available information.

The nature and scope of substantive testing procedures depend on the circumstances of the engagement (for example nature and scope of the business activities, organisation, presentation of the environmental impact of the entity's business activities).

#### **4.7 Compliance with laws and regulations**

The professional accountant's responsibilities include assessing non-compliance with the requirements of environmental laws and regulations that are of significance in relation to the environmental impacts described in the environmental report. The professional accountant therefore performs procedures to help identify possible or actual instances of non-compliance with applicable environmental laws and regulations which could materially affect the environmental report.

Such procedures may include:

- enquiries of management concerning the entity's policies and procedures regarding compliance with relevant environmental laws and regulations;
- discussions with management concerning the policies and procedures adopted for identifying, evaluating and recording litigation, claims and assessments;
- examination of correspondence with regulatory and enforcement agencies;
- communication with the entity's lawyers; and
- examination of how the entity controls compliance with law and regulation.

In some countries, it is considered good practice to contact regulators. Other local practices, according to the countries involved, should be taken into account.

It may be helpful if the professional accountant obtains written representations that management has disclosed to the professional accountant all known possible non-compliance with environmental laws and regulations whose effects should be considered in preparing the environmental report.

When the professional accountant becomes aware of information concerning a possible instance of non-compliance, the professional accountant obtains an understanding of the nature of the act, the circumstances in which it has occurred and sufficient other

information to evaluate the possible effect on the environmental report. When adequate information about the suspected non-compliance cannot be obtained, the professional accountant considers the implications for the assurance report.

#### **4.8 Environmental threats to continuing operations**

In some cases, the professional accountant may become aware of issues that could affect ability of the entity to continue its operations. In the environmental area, such issues could include:

- serious weaknesses in the EMS that could jeopardise the existence of the entity, such as the risk of a plant shutdown because of non-compliance with regulations;
- new environmental legislation, with which the entity may not be capable of complying, that could lead to its future closure; or
- other severe violations of environmental regulations.

The professional accountant should consider the impact of such matters on the assurance report. The professional accountant also needs to ensure that such findings are reported to those charged with governance including management, or if required, to a supervisory body of the entity. If there are doubts as to who is to be informed, or if the recipients take no action, it may be appropriate for the professional accountant to seek legal advice and to consider the impact of this advice on the assurance report.

## **5. Other important considerations**

### **5.1 Completeness and accuracy**

The most effective means for management to ensure that all the relevant direct impacts of the entity's activities on the environment are adequately dealt with in the environmental report is a properly-functioning EIS. Consequently, the work performed by professional accountants will include an assessment of such a system if they intend to place reliance on it as the basis for forming an opinion.

However, if the circumstances are not complex, an EIS may not be in place or its assessment may not be absolutely necessary. In such circumstances, the professional accountant performs his work on the basis of other, sufficiently detailed, procedures and having regard to the professional accountant's knowledge of the processes operated by the entity.

In order to assess the completeness and accuracy of environmental information, the work carried out is likely to comprise the following stages:

- **Assessment of the entity's processes**  
Based on the information obtained in the planning stage, the professional accountant obtains further knowledge of the entity's activities. Procedures to be performed include the gathering of general technical information available in the industry and the production process, a plant inspection, including inspection of the main risk areas (such as facilities whose operation requires a license, stocks of dangerous goods, waste dumps) and interviews with employees responsible for environmental matters.

The professional accountant may need to refer to the requirements of the competent environmental authorities and should consider administrative decisions and correspondence with the authorities relating to environmental matters.

- **Determining the appropriate individual objectives for the EIS**  
Using the information about the entity's processes, the professional accountant determines the appropriate objectives for the entity's EIS, taking account of legal requirements and constraints imposed by the competent environmental authorities.
- **Assessment of the existing EIS**  
Based on the documentation of the system, the results of any interviews and observations, the professional accountant obtains, in addition to the evidence obtained during the planning stage, a detailed understanding of the procedures operated by the entity for the collection, processing and transfer of information relating to the environment.
- **Comparison of the existing EIS with the appropriate individual objectives of the EIS**  
The professional accountant compares the EIS in operation with the individual objectives previously determined. If the EIS meets these objectives, the effectiveness of the system could be confirmed by performing both tests of control and substantive tests. The results of these tests then determine the nature and extent of any further

procedures. The identification of weaknesses leads to the plan being changed and other methods being used if necessary.

- Assessment of the aggregation of information in the environmental report  
If, based on the professional accountant's assessment of the systems in place, the EIS and documentation of the environmental impacts generated by that system are found to be appropriate, the assessment forms a basis for the information to be included in the environmental report. Hence, the professional accountant compares the data in the environmental report with that recorded in the documentation generated by the EIS and examines whether the environmental report accurately presents the aggregate information.

It should be borne in mind that the EIS may only be designed to provide information on current environmental impacts and compliance with existing laws and regulations. Where an entity's own property has been the subject of previous environmental damage, including damage by a previous occupant, or there is no legal requirement to clean up the site, the EIS may not identify the problem. Furthermore, in the absence of an obligation for clean up, the entity may not wish the matter to be mentioned in the environmental report. In such circumstances, the professional accountant may need to consider the effect of non-disclosure on the assurance report.

Where the professional accountant's engagement comprises providing assurance on the accuracy of the information in the environmental report, the work involves an assessment of the EIS in operation as a basis for the extent and nature of substantive testing. Examples of procedures for an assessment of the EIS are:

- testing the trail from measurement to entry in the records that form the basis of the environmental report;
- testing the trail from the existence of waste to its disposal and the related record keeping; and
- checking the calculation of variances of actual emissions compared with targets.

## 5.2 Materiality

Consideration of materiality is important in planning and conducting an assurance engagement. The assessment of materiality during planning assists in the determination of an efficient and effective approach to the assignment. Furthermore, materiality is taken into consideration by the professional accountant in relation to the question of whether the environmental report as a whole is to be considered as materially misstated or not within the scope of the assurance assignment performed.

The FEE discussion paper "Towards a generally accepted framework for environmental reporting" concludes that application of the materiality concept in environmental reporting is more complex than it is in financial reporting. In considering materiality in relation to environmental reports, the professional accountant needs to understand and assess factors that might influence the decisions of the intended users. Materiality can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and impact of the subject matter and the expressed interests of the intended users. In addition, the materiality of a transaction or event is heavily dependent on the nature and

circumstances of that item as well as its scale. For example, the carrying capacity of the receiving environment will be a factor in considering the materiality of the release or discharge of substances resulting from the reporting entity's activities.

In assessing the risk for the individual areas examined, the professional accountant determines the circumstances under which inaccurate or incomplete information in the environmental report should be considered material. The assessment of materiality related to specific areas of work helps the professional accountant to determine the scope of the procedures to be performed (for example, whether to use sampling and/or analytical procedures). Furthermore, materiality is taken into consideration by the professional accountant in relation to the question of whether the environmental report as a whole is to be considered as materially misstated or not within the scope of the assurance assignment performed.

The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular engagement are matters for the professional accountant's judgement. The following issues are relevant in assessing materiality in the context of an engagement to provide assurance on an environmental report:

- The reporting entity should have a view as to which of the entity's inputs or outputs are the most significant and how these affect the environment. In the absence of a recognised reporting framework, this may be a starting point for assessing materiality in relation to a particular entity. What is 'material' may also vary according to the scope of the environmental information provided in the environmental report.
- The relevance of users' views, which may differ between different stakeholders. Environmental reports are used by a broad variety of stakeholders, e.g. shareholders, others with an economic interest in the reporting entity, environment agencies and environmental pressure groups, all of whom may have a legitimate interest in the information provided.
- In some cases, there are legal threshold values (e.g. for emissions) which can be used as indicators of materiality. Where legal threshold values are exceeded, this must be considered material.
- It may be impossible to use a purely quantitative basis to decide whether an item is material, because the emission of a small amount of a toxic substance (for e.g. dioxin or mercury) can be material to the receiving environment.
- Materiality needs to be considered in relation to the reporting entity. The inputs and outputs of a comparatively small reporting entity may be insignificant in their impact on the environment, but large in relation to the activities of the entity.
- The possibility exists that expectations of both users and professional accountants will change over time as environmental reporting develops.

Materiality thresholds may be agreed between the reporting entity and the professional accountant. Where the thresholds agreed are contrary to the interests of the user, it might be necessary for the professional accountant to consider whether this acts as a form of scope limitation and should be reflected in the assurance report.

### 5.3 Comparatives

Companies generally are striving to improve their environmental performance and their environmental reporting aims to reflect this improving trend. Consequently, environmental performance data often covers a number of years. This can give rise to the following issues for the professional accountant:

- earlier years' data may not have been subject to any form of independent assurance or verification;
- the methods used to collect data may have changed; or
- there may have been changes in the nature of business undertaken, so that the comparatives are not meaningful.

As a consequence, providing assurance on comparative environmental data may prove not to be possible.

Most users of environmental reports are likely to assume, where the information relates to more than one year, that the professional accountant's opinion covers all the data provided, unless the opinion clearly states that no assurance is given in respect of the comparatives. Therefore, the professional accountant, at the planning stage, has to identify the necessary work to cover the whole of the reporting period and discuss any potential limitations with the reporting entity.

The extent of assurance procedures performed on the corresponding figures may be less than the testing of the current period figures. However, the professional accountant will need to consider whether:

- policies and practices used for the corresponding figures are consistent with those of the current period and whether appropriate adjustments and/or disclosures have been made;
- any changes in business activity or group structure make the corresponding figures misleading as to environmental performance of the reporting entity;
- The disclosure in the environmental report on material inconsistencies in comparatives is adequate.

### 5.4 Documentation

It is of importance that the professional accountant prepares working papers which are sufficiently detailed and complete to provide an overall understanding of the assurance work performed.

In the working papers, information on planning the work, the nature, timing and extent of the procedures performed, the results thereof, and the conclusions drawn from the evidence obtained are reported. Content, form and arrangement of the working papers depend on the circumstances of the individual case. The working papers supporting the report are kept in such a way that an outside expert who is not party to the assurance assignment would be able to understand the work performed and the basis of the principal decisions taken.



## 5.5 Quality control

It is important that the professional accountant aims at high quality work and implements quality control procedures designed to ensure that all assurance assignments, including those relating to environmental reports, are conducted in accordance with the applicable standards issued under the professional accountancy bodies' Codes of Ethics.

The objectives of quality control procedures incorporate the following:

- professional requirements regarding independence, integrity, objectivity, professional competence and due care as well as confidentiality,
- skills and competence of personnel,
- engagement of work,
- delegation and resulting direction, supervision and checking of work,
- internal and external consultation,
- acceptance and retention of clients; and
- monitoring of the adequacy and operational effectiveness of quality control policies and procedures.

As explained in section 2.3 above, the professional accountant leading a multi-disciplinary team, or otherwise using the work of experts, is expected to review the work performed by the experts in accordance with International Standards on Auditing issued by IFAC.

## 6. Reporting

### 6.1 The assurance report

The professional accountant's conclusion is reported in such a way that no other expectations are created than can be justified by the work performed and the expertise of those involved. There are many differences in the format of environmental assurance reports and the conclusions expressed. It is important to be clear about the scope of the engagement and the level of assurance provided on different assertions. However, assurance reports do not always describe these elements explicitly. Certain differences exist in the expectations of entities issuing an environmental report. Unless the scope of the engagement is clearly explained, even greater differences in interpretation are likely to arise between users of environmental reports and professional accountants.

Reporting on assurance engagements will require a certain flexibility but, for the purposes of clarity, the resulting report should have a structured approach and should include the following elements:

- the title of the assurance report;
- addressee (typically management);
- description of the engagement and identification of the subject matter, including a description of the entity/sites of the entity, the title of the environmental report, the period covered by the environmental report and the pages of the environmental report to which the assurance relates;
- the objectives, including the level of assurance being provided;
- the respective responsibilities of the entity's management and the professional accountant;
- criteria used during the assurance engagement;
- description of the work performed or reference to the standards under which the engagement was conducted;
- a description of any inherent or specific limitations on the assurance engagement;
- a clear conclusion and, where the engagement has more than one objective, a conclusion on each objective. The conclusion should create no more expectations than can be justified on the basis of the work performed and the expertise of the professional accountant.
- the name and address of the professional accountant; and
- the date on which the assurance report is signed.

FEE believes that assurance reports have improved since 1996 but that the clarity of these reports could be enhanced if they were to incorporate the elements described above. Research carried out by FEE shows that the elements above, such as objectives, level of assurance and suitable criteria adopted are not always included or described clearly.

If only part of the environmental report is the subject matter of assurance, it is important that the environmental report segregates the information which is subject to assurance. The professional accountant clearly identifies in the assurance report the information covered by the report and any limitation in scope.

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## 6.2 Management letter

It is good practice to communicate additional information, for example on any shortcomings identified by the assurance provider that are not material<sup>6</sup> to the statement being examined, in a separate letter addressed to management and/or others charged with corporate governance. It would be appropriate to extend this practice to environmental assurance engagements in cases where, for example, more effective procedures could have been adopted for providing the necessary information incorporated in environmental reports. A management letter may also include recommendations for improvements concerning the organisation of the entity in the area of environmental protection.

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<sup>6</sup> Shortcomings which are material to the environmental report would normally be identified in the assurance report (Section 3.5 above).

## Appendix 1

### DEFINITIONS

In this discussion paper, the following definitions are used:

**Assurance:** The professional accountant's satisfaction as to the reliability of an assertion being made by one party for use by another party. To provide such assurance, the professional accountant assesses the evidence collected as a result of procedures conducted and expresses an opinion. The degree of satisfaction achieved and, therefore the level of assurance which may be provided, is determined by the procedures performed and their results. (ISA)

**Engagement risk:** The risk that the professional accountant will express an inappropriate conclusion that the subject matter does not conform, in all material respects, to suitable criteria. In general, engagement risk can be represented by the following components:

*Inherent risk:* the risks associated with the nature of the subject matter and that are beyond the control of the responsible party and the professional accountant

*Control risk* – The risk that controls over the subject matter do not exist or operate ineffectively;

*Detection risk* – The risk that the professional accountant's procedures do not detect material matters that could affect the subject matter.

**Evidence:** The information obtained by the professional accountant in arriving at the conclusions on which the assurance is based. Evidence will comprise source documents and records underlying the environmental report and collaborating information from other sources.

**Environmental assurance report:** A written communication in which the professional accountant describes the scope of the engagement, its objective or objectives, the work performed, the inherent and, if any, the specific limitations of the assurance provided and the level of assurance.

**Environmental assurance:** the result of a systematic, documented process by which a competent and objective professional or team of professionals accumulates and evaluates evidence on a verifiable assertion on environmental policy, environmental management systems, environmental information systems, specified environmental operations, performance, or information about these matters for the purpose to express a conclusion that provides the intended user with a level of assurance about the degree of correspondence between the assertion and identified suitable criteria..

**Environmental information system (EIS):** The series of tasks, records and instruments of an entity by which environmental data, including data on environmental impact, are systematically generated, documented and processed for the purpose of providing environmental information as requested, i.e. for decision-making or accountability

purposes. Such systems identify, analyse, calculate, classify, record, summarise and report environmental data, including data on environmental impacts of processes, products and services sold.

**Environmental impact:** Any change to the environment, whether adverse or beneficial, wholly or partially resulting from an organisation's activities, products or services. (ISO FDIS 14 031)

**Environmental management system (EMS):** That part of the overall management system which includes the organisational structure, responsibilities, practices, procedures, processes and resources for determining and implementing the environmental policy. (ISO 14 001)

**Environmental report:** The information provided by an entity in respect of the environmental issues associated with its operations.

**Opinion:** A statement by a recognised expert or a professional expressing the degree of correlation between the verifiable assertion and the established criteria.

The conclusion for an assurance engagement providing a *high level of assurance* will generally be expressed in the form of the professional accountant's opinion as to whether the subject matter conforms, in all material respects, to suitable criteria.

The conclusion for an assurance engagement providing a *moderate level of assurance* will generally be expressed in the form of a statement on whether anything has come to the professional accountants attention to believe that the subject matter does not conform, in all material respects, with the identified suitable criteria.

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**NOT PART OF DISCUSSION PAPER – NOT FOR COMMENT****Appendix 2****Assurance engagements and level of assurance provided**

*This appendix provides extracts from the Exposure Draft on Assurance Engagements (IFAC, 1999).*

With regard to assurance, IFAC distinguishes between a high level of assurance (audit engagements) and a moderate level of assurance (review engagements):

The term ‘audit’ is used to describe any assurance engagement designed to provide a high, but not absolute, level of assurance. The professional accountant designs the engagement process so that the risk of an inappropriate conclusion that the subject matter does not conform, in all material respects, with suitable criteria, is reduced to a low level. The professional accountant obtains sufficient, appropriate evidence through procedures such as inspection, observation, enquiry, confirmation, computation and analysis. (IFAC, 1999, para. 30)

A high level of assurance can be provided when the professional accountant is able to perform extensive procedures on a subject matter that is capable of reliable measurement using objective criteria and obtains sufficient appropriate evidence to reduce the risk of an inappropriate conclusion to a low level. (IFAC, 1999, para.31)

Absolute assurance is generally not attainable as a result of such factors as the use of selective testing, the inherent limitations of control systems, the fact that much of the evidence available to the professional accountant is persuasive rather than conclusive, and the use of judgement in the gathering of evidence and drawing conclusions based on that evidence. The expression ‘high level of assurance’ therefore refers to the highest reasonable level of assurance a professional accountant can provide about a specific subject matter. In rare circumstances, the professional accountant may be able to provide absolute assurance, for example, where the evidence available to the professional accountant is conclusive and reliable because the subject matter is determinate, the criteria definitive and the process applied comprehensive. (IFAC, 1999, para. 32)

The term review is used to describe any assurance engagement designed to provide a moderate level of assurance. The professional accountant designs the engagement process so that the risk of an inappropriate conclusion that the subject matter does not conform, in all material respects, with suitable criteria, is reduced to a moderate level. The professional accountant obtains sufficient appropriate evidence to conclude that the subject matter is plausible in the circumstances, primarily through enquiry and observation or other procedures appropriate to the engagement circumstances (IFAC, 1999, para. 34).

The level of assurance is determined by the nature of the subject matter, criteria and by both the quantity and quality of evidence obtained. The following two situations illustrate the inter-relationship of these variables that result in a moderate level of assurance:

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- a. The subject matter capable of reliable measurement using objective criteria.  
The professional accountant applies procedures of a different nature or less extensive procedures than in an audit. The resulting evidence, while lower in quantity or quality than would be required for audit, may be sufficient to support a moderate level of assurance.
- b. The subject matter measurement less reliable because suitable criteria are less objective.  
In some situations the subjectivity of the criteria may cause the measurement of the subject matter to be less reliable. This may, regardless of the procedures performed, result in an inability to obtain sufficient and appropriate evidence to support a high level of assurance. However, the professional accountant may be able to plan and perform appropriate procedures to obtain the evidence to support a moderate level of assurance. (IFAC, 1999, para. 35)

Further, IFAC distinguishes an agreed-upon-procedures engagement. In such an engagement, the appointing party or the intended user determine the procedures to be performed and the professional accountant provides a report of factual findings as a result of undertaking those procedures. While some assurance may be derived by the intended users of the report, the engagement is not designed to, nor does the professional accountant express a conclusion that provides a level of assurance. The intended users assess for themselves the procedures and findings and draw their own conclusions.

Finally, IFAC distinguishes the compilation engagement and although, the users of compiled information may derive some benefit of the professional accountant's involvement, no assurance is expressed in the report on this engagement.

The level of assurance provided in an assurance engagement will be either a high or a moderate level based on the nature of the subject matter, criteria, the nature and extent of the process used to collect and evaluate evidence, and the sufficiency and appropriateness of the evidence likely to be available in relation to the subject matter. A prerequisite for the planning and conduct of an assurance engagement, and determining that the professional accountant's report will meet the needs of the intended user of the report, is that the terms of the engagement are agreed and are reasonable in the context of the above variables. (IFAC, 1999, para. 44)

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## Appendix 3

**IDW Auditing Standard: Generally Accepted Standards for Audits of Environmental Reports (IDW AuS 820)**(Status: 30.09.1999)<sup>7</sup>

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<sup>7</sup> Issued as *IDW Auditing Standard* by the Hauptfachausschuß („HFA“ – Auditing and Accounting Board) on 30/09/1999.



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**NOT PART OF DISCUSSION PAPER – NOT FOR COMMENT****1. Introduction**

1. There is a growing interest of companies in having their environmental reports audited by independent experts in order to enhance the credibility of such reporting. Environmental reports range from a description of a limited number of environmental matters to comprehensive environmental reports on all material impacts of the company's activities relating to the environment.

This environmental reports are not to be confused with the preparation of an environmental statement as set out in the EU Regulation: Eco-Management and Audit Scheme (EMAS-Regulation; Council Regulation no. 1836/93 dated June 29, 1993 allowing voluntary participation by companies in the industrial sector in a Community eco-management and audit scheme (Official Journal EC L168, p. 1)). The validation of an environmental statement as set out in the EMAS-Regulation is the conditional task of accredited environmental verifiers as defined in § 2 para. 2 and 3 of the Umweltauditgesetz ("UAG" – German Environmental Audit Law) and is not part of this *IDW Auditing Standard*.

2. The Wirtschaftsprüfer (German licensed auditor) profession is increasingly faced with the task of auditing environmental reports and issuing attestation reports on the results of such audits.
3. This *IDW Auditing Standard* clarifies the subject of an audit of environmental reports which depends on the terms of the engagement and sets out professional standards for auditors when carrying out such audits, without limiting the auditor's personal responsibility.
4. The responsibility for the contents of environmental reports rests with the legal representatives. They are also responsible for the company's compliance with laws and regulations designed to protect the environment. This *IDW Auditing Standard* details how the professional responsibilities of the auditor in connection with the audit of environmental reports are to be applied with respect to acceptance of the engagement, conducting the audit, reporting and writing an attestation report.
5. Generally accepted standards for the audit of financial statements and reporting thereon as set out in *Statement 1/1988: Generally accepted standards for the audit of financial statements*<sup>8</sup> of the Institut der Wirtschaftsprüfer (IDW) should be applied to the audit of environmental reports. This *IDW Auditing Standard* makes clear how to apply these standards when auditing environmental reports and also explains to the public the scope and limitations of such an audit.

**2. Definition of environmental reporting**

6. For the purposes of this *IDW Auditing Standard*, environmental reports are written statements by a company which deal with environmental matters other than the statutory statements used for financial reporting purposes (annual financial statements, management report, consolidated financial statements, group management report) or the environmental

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<sup>8</sup> WPg (Periodical „Die Wirtschaftsprüfung“) 1989, p. 9 et seq.

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statement made as set out in the EMAS-Regulation. Such reporting may not only be set out in separate reports but may also be included in those parts of an annual report that are regularly not subject to audit (for example, in the form of a separate section dealing with the environmental protection measures taken by the company), which are subject to check by the auditor of the financial statements.

7. Environmental reports may relate – as a collection of a limited number of environmental matters - to specific circumstances, locations or operations, but may also take the form of a description of all material impacts of the activities of a company or group of companies on the environment (comprehensive environmental report).

### **3. Acceptance of the engagement**

#### **3.1. Scope of the engagement**

8. As part of the acceptance process, it should be agreed whether the audit of the environmental report consists of auditing the accuracy of individual environmental data or whether the scope of the audit should be extended to determine whether the comprehensive environmental report adequately presents, in all material respects, the environmental impacts of the company's activities. Consideration should also be given to matching the scope of the engagement with the wording of the resulting attestation report and agreeing this with the client.
9. The minimum contents of a proper comprehensive environmental report is still subject to debate in literature and by various organisations. It may be agreed with the client that reference is made to a catalogue specifying the required contents of the comprehensive environmental report (e.g. elements of the environmental report set out in the United Nations Environment Programme (UNEP); Deutsches Institut für Normung e.V., ("DIN" – German Institute for Standardisation, Registered Society): Environmental Reports for the Public (DIN 33922)). Such catalogue may need to be supplemented in order to fit the individual circumstances of the company.

#### **3.1. Conditions for acceptance of the engagement**

10. An engagement to audit the environmental reports should only be accepted if the Wirtschaftsprüfer possesses the specific knowledge and experience required to properly carry out the engagement (cf. *Standard VO 1/1995: On the Quality Assurance in the Wirtschaftsprüfer Firm*<sup>9</sup> section B.II.).

The Wirtschaftsprüfer should make it a condition of accepting the engagement that the client undertakes to:

- recognise the requirements for the audit resulting from this *IDW Auditing Standard*,
- provide evidence supporting all information contained in the environmental report and agree to the appropriate application of §320 HGB ("Handelsgesetzbuch" - German Commercial Code) (duty of presentation, right to information),

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<sup>9</sup> WPg 1995, p. 824 et seq.

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- allow that the Wirtschaftsprüfer retains experts at own discretion, where the circumstances to be examined cannot be sufficiently assessed by the Wirtschaftsprüfer, and
  - refer to the audit only in a form approved by the Wirtschaftsprüfer.
11. The audit of an environmental report is not a statutory audit. Therefore, it is particularly important to reach an agreement on the Wirtschaftsprüfer's responsibility. The profession's General Terms of Engagement may be used for this purpose.

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**NOT PART OF DISCUSSION PAPER – NOT FOR COMMENT****4. Standards for the conduct of the audit****4.1. Planning**

12. In order to be properly performed, an audit requires that a systematic approach be used for the audit of the environmental report. The planning is to be amended, on an on-going basis, to reflect findings obtained during the engagement.
13. In order to plan the audit and to make the related risk assessments, the Wirtschaftsprüfer needs information about the company's activities and their impacts on the environment, about the environmental management system (organisational structure and processes as well as documentation of environmental matters), about the company's environmental policy, its environmental programme and other planned projects affecting the environment. Of particular importance is the part of the environmental management system that is designed to systematically collect, store and process environmental information, including the related departments and instruments (environmental information system). The environmental information system also assists in determining the data to be included in the environmental report.
14. Based on the information mentioned above, a preliminary assessment of the environmental management system, an initial analytical review of the environmental report and, depending on the individual circumstances of the engagement, an initial plant inspection, the Wirtschaftsprüfer should identify the critical audit areas, develop an audit strategy and prepare an audit programme.

**4.2 Nature and scope of audit procedures****4.2.1 Auditing the accuracy of the information contained in the environmental report**

15. The Wirtschaftsprüfer should determine whether all information contained in the environmental report, including statements of an advertising nature, is accurate, individually and taken as a whole.

Auditing the accuracy of the information involves:

- as far as facts (e.g. emission figures) are concerned, examining whether such facts are properly determined and correctly stated;
- as far as assumptions, conclusions and intentions (e.g. information on environmental policy, environmental projects, organisation of the company's systems for environmental protection) are concerned, examining whether the information provided is reasonable and consistent and in particular not inconsistent with the company's actions.

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**NOT PART OF DISCUSSION PAPER – NOT FOR COMMENT****4.2.1.1. Auditing the presentation of facts****Analytical procedures**

16. In performing the audit of the environmental report, the Wirtschaftsprüfer applies analytical procedures in order to identify any striking deviations based on an analysis of ratios and benchmark figures. The analysis of ratios and benchmark figures is carried out by the Wirtschaftsprüfer on the basis of inter-company and time comparisons and, in particular, the quantitative data contained in authorisations issued and restrictions imposed by public authorities.
17. Analytical procedures are used to limit the extent of substantive testing and to identify areas of priority for the audit in the interests of carrying out an efficient audit. They are not sufficient as a basis for a final conclusion on critical audit areas.

**Substantive testing procedures**

18. The nature and extent of substantive testing procedures depend on the circumstances of the engagement (nature and scope of the business activities, organisation, presentation of the environmental impacts of the company's business activities, etc.). In the case of a production company, typical audit procedures include:
  - Examining the consumption of water, energy and materials:  
Comparison with test certificates, delivery notes, invoices received and cost accounts;
  - Examining the quantity of hazardous substances held as set out in the Gefahrstoffverordnung (German Hazardous Substances Ordinance) (Bundesgesetzblatt -BGBl. (Federal Law Gazette) I 1993, p. 1782) and the Chemikaliengesetz (German Chemicals Law) (BGBl. I 1994, p. 1963):  
These procedures are based on register information and inventory records (continuous inventory records, lists of physical inventory counts, etc.);
  - Examining waste and hazardous waste:  
Comparison with records, invoices received and other documentation related to waste disposal (e.g. waste disposal balance sheets as set out in the Kreislaufwirtschafts- und Abfallgesetz (German Business Recycling and Waste Law) (BGBl. I 1986, p. 1410));
  - Examining soil and groundwater contamination, sewage system:  
Assessment of expert's reports and investigations undertaken either by the company or by third parties and making site visits;
  - Examining emission figures:  
Comparison with emission measurement records and, if applicable, investigations undertaken either by the company or third parties in order to determine air and water pollution, the release of noise, heat and other emissions;
  - Examining products/services sold:  
Comparison with accounting data (financial accounting, cost accounting);
  - Examining period costs and capital expenditures having a material effect on the environment:  
Comparison with data from financial accounting, inspection of expense and capital expenditure budgets;

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- Examining the company’s presentation of its compliance with the quantitative provisions as set out in environmental regulations:  
Comparison of the information presented with authorisations and any restrictions imposed by the appropriate public authorities and by environmental regulations.
19. The audit of an environmental report does not require a complete examination of all the information available; rather, the Wirtschaftsprüfer performs the audit procedures on a sample basis, considering materiality and the risk of misstatement (cf. *Statement 1/1988*, section D.II.1., note 1, and on sampling *Technical Opinion HFA 1/1988: Audit sampling and other selective testing procedures in an audit of financial statements*<sup>10</sup>).

**4.2.1.2. Auditing the presentation of assumptions, conclusions and intentions**

20. In order to audit the presentation of assumptions, conclusions and intentions, the Wirtschaftsprüfer performs, in particular, the following audit procedures:
- review the minutes of board meetings dealing with environmental matters;
  - review the minutes of environmental committee meetings;
  - interview management and other persons able to provide information (environmental protection officers, production management, engineering department, legal department, etc.);
  - evaluate the reports of environmental protection officers (e.g. staff responsible for air pollution control, prevention of accidents, water protection and waste disposal);
  - evaluate the reports on findings issued by the internal auditors and reports on verifications and validations issued by accredited environmental verifiers as set out in the EMAS-Regulation;
  - review capital expenditure plans for future years for consistency with the environmental protection projects described;
  - review the documentation of complaints made by third parties.
21. In addition, the Wirtschaftsprüfer should consider the results of the other audit procedures which he/she has performed.

**4.2.2. Auditing the presentation of all material environmental impacts**

22. If the engagement accepted is to audit a comprehensive environmental report, the Wirtschaftsprüfer may be asked to determine whether the comprehensive environmental report contains all disclosures required in order to present properly, in all material respects, the environmental impacts of the company’s business activities. In this respect, the audit can only extend to the direct effects of the company’s activities on the environment. For production companies, these mainly consist of the use of resources, emissions (including emissions from internal transport within the company’s operations), waste water, waste, including hazardous waste, soil or groundwater contamination by the company and the products which it produces. Indirect effects on the environment, for example due to the extraction, production and transport of raw materials by suppliers and due to use of the company’s products (including their disposal) by customers, are not to be included.

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<sup>10</sup> WPg 1988, p. 240 et seq.

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**NOT PART OF DISCUSSION PAPER – NOT FOR COMMENT****4.2.2.1. Assessment of environmental information systems in place**

23. The best means of ensuring that all material direct effects of the company's activities on the environment are adequately dealt with in the comprehensive environmental report is the implementation of a well-functioning environmental information system. Hence, the audit should also include an assessment of the systems in place.
24. If the circumstances are not too complex, an assessment of the environmental information system in place may not be absolutely necessary. In such circumstances, the Wirtschaftsprüfer performs the audit on the basis of other, appropriately extended, audit procedures based on the Wirtschaftsprüfer's knowledge of the company's processes.
25. If the Wirtschaftsprüfer intends to use an assessment of the systems in place for the audit, the following procedures shall be carried out:
- Determination of the company's processes  
Based on the information obtained at the planning stage, the Wirtschaftsprüfer shall obtain further knowledge of the company's business environment and activities. Significant audit procedures to be performed include the gathering of general technical information available in the industry about the production process, a plant inspection including inspection of the significant risk areas (such as facilities whose operation requires an authorisation, inventories of dangerous goods, waste dumps, etc.) and interviews with the people responsible for environmental matters within the company.
  - Determination of the appropriate individual objectives for the environmental information system  
Based on the information about the company's processes, the Wirtschaftsprüfer shall then identify appropriate individual objectives for the environmental information system. For this purpose, it may be referred mainly to the requirements of the relevant environmental authorities as set out in authorisations, restrictions imposed, etc. In addition, the Wirtschaftsprüfer shall review and evaluate approval certificates, environmental requirements and other correspondence with public authorities.
  - Assessment of the actual environmental information system  
Based on the documentation of the system, the results of any interviews and own observations made, the Wirtschaftsprüfer should obtain a detailed understanding of the procedures put in place by the company's management for the collection, processing and transfer of information on facts and figures relating to the environment.
  - Comparison of the actual environmental information system with the appropriate individual objectives previously determined  
The Wirtschaftsprüfer shall then compare the company's actual environmental information system (object to be evaluated) with the appropriate individual objectives previously determined and satisfy himself/herself of the effectiveness of that system by performing both compliance tests and substantive tests (especially analytical procedures). It should be also considered whether the environmental information system satisfies all the relevant environmental requirements.

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**NOT PART OF DISCUSSION PAPER – NOT FOR COMMENT****4.2.2.2. Assessment of the aggregation of the information in the comprehensive environmental report**

26. If, based on the Wirtschaftsprüfer's assessment of the system in place, the environmental information system including the documentation of the environmental impacts generated by that system is found to be appropriate, the Wirtschaftsprüfer can base the audit of the comprehensive environmental report on the preparation of this report from the environmental information system. Hence, the Wirtschaftsprüfer compares the data in the comprehensive environmental report to be audited with the documentation generated by the environmental information system and examines whether the comprehensive environmental report accurately presents the information in an aggregate form.

**4.2.2.3. Consideration of a catalogue of minimum reporting requirements**

27. If, when agreeing the scope of the engagement, the Wirtschaftsprüfer and the client agree on a frame of reference in the form of a catalogue of minimum environmental reporting requirements (cf. para. 9), further audit procedures should be carried out to determine whether, depending on the specific situation, it is necessary to add to the comprehensive environmental report.

**4.2.3. Assessment of compliance with environmental laws and regulations**

28. An audit of the environmental report also includes assessing compliance with the applicable laws and regulations or environmental requirements that are of significance in relation to the environmental impacts described in the report. To examine compliance with the legal and regulatory framework, the Wirtschaftsprüfer shall perform sufficient and appropriate audit procedures to enable him to obtain reasonable assurance that the environmental laws and regulations that may materially affect the environmental report are complied with. In this respect, the following audit procedures could in particular be carried out:

- interview management,
- evaluate the company's procedures for ensuring that the environmental rules and regulations of significance for the environmental report are adhered to and for ensuring that any non-compliance with environmental rules and regulations is registered,
- inspect approval certificates and other correspondence with environmental authorities,
- own findings of the Wirtschaftsprüfer that environmental regulations are complied with.

To the extent the matters to be reported upon are not in compliance with valid legal norms, it should be determined whether this should be included in the environmental report.

29. In order to support the assessment of the company's compliance with environmental laws and regulations, the Wirtschaftsprüfer shall obtain written representations from the company, for example as part of its representation letter, that management has disclosed to the Wirtschaftsprüfer all known actual or suspected violations of environmental laws and regulations that are significant for the environmental report.



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30. When there are indications of non-compliance with environmental laws and regulations that could have a material effect on the environmental report, the Wirtschaftsprüfer has to assess such an effect. If the Wirtschaftsprüfer suspects that there may be an effect on the environmental report, the Wirtschaftsprüfer shall obtain additional evidence by performing further audit procedures or inquiring of management. Reference is also made to *Technical Opinion HFA 7/1997: Detection of irregularities during the audit of financial statements*<sup>11</sup>.

**4.2.4. Evaluating the overall presentation of the environmental report**

31. Based on his/her findings, the Wirtschaftsprüfer should assess the overall presentation of the comprehensive environmental report. The Wirtschaftsprüfer should determine whether all material information about the direct effects of the company's activities on the environment is presented in such a way that the view provided is not misleading. This means that the Wirtschaftsprüfer should consider whether negative matters are sufficiently reflected in the comprehensive environmental report. This also applies when the presentation in the reporting is limited to a number of specific environmental matters.
32. The Wirtschaftsprüfer should obtain from the company's management a representation letter confirming the accuracy and completeness of the representations made and the evidence provided to him, the accuracy of the environmental report and compliance with environmental laws and regulations (cf. *Statement 1/1988*, section D.II.4.c3)).
33. Due to the inherent limitations to the extent of knowledge which can be gained by any audit, there remains an unavoidable risk that missing or incorrect information set out in the environmental report is not discovered, even though the audit of the environmental report is properly performed; this risk shall not be borne by the Wirtschaftsprüfer.

**4.3. Using the work of third parties**

34. If the Wirtschaftsprüfer is unable to assess significant matters (such as technical data, e.g. emissions, soil contamination or site analyses), experts should be consulted. Existing written opinions of experts and audit results of third parties may also be used.

It is not sufficient to simply rely on the results of third parties. The Wirtschaftsprüfer should at least critically assess the investigations and findings of third parties.

35. Whether the investigations and findings of third parties can be used by the Wirtschaftsprüfer for the purpose of the audit depends on those parties' competence and professional qualification, to be judged in terms of their independence, conscientiousness, impartiality and professional autonomy (cf. *Statement 1/1988*, section D.II.7.).

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<sup>11</sup> WPg 1998, p. 29 et seq.

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**NOT PART OF DISCUSSION PAPER – NOT FOR COMMENT**

36. With regard to using the results of internal auditors and/or units of the company having a similar function regarding environmental protection and their consideration in determining the scope of the audit, the standards outlined in *Statement 1/1988* section D.II.7. and *Technical Opinion HFA 2/1966: Comments on the standards for the co-operation of the Wirtschaftsprüfer with internal auditors*<sup>12</sup> should be applied.
37. There will be many cases where the environmental management system has already been assessed as part of other audits (e.g. certification according to DIN ISO 14.001 or validation of individual sites under the EMAS-Regulation). The Wirtschaftsprüfer may use the results of such prior assessments in the audit of the environmental report. However, the results of such assessments are also subject to check and they should at least be critically assessed by the Wirtschaftsprüfer.

**4.4. Knowledge obtained during the audit of the annual financial statements**

38. Being also the independent auditor of the company's annual financial statements, the Wirtschaftsprüfer may obtain additional evidence from the accounting system which can be used in assessing environmental impacts. In particular, if the Wirtschaftsprüfer has been the company's independent auditor for many years he/she will have detailed knowledge of the various processes and other circumstances relevant to the environment (e.g. manufacturing processes that have been discontinued in the meantime, cost factors, fines, legal disputes, approval procedures for facilities requiring authorisation, constraints imposed by the environmental authorities). The Wirtschaftsprüfer uses such knowledge both at the planning stage and during the course of the audit.

**4.5. Supervision of the engagement and documentation**

39. Sections D.III. and IV. of *Statement 1/1988* as well as *Technical Opinion HFA 2/1981: Working papers of the independent auditor*<sup>13</sup> are applicable.

**5. Long-form Audit report****5.1. General principles for the preparation of a long-form audit report**

40. The Wirtschaftsprüfer should prepare a long-form audit report on the audit of the environmental reporting, which should include an attestation summarising the results of the audit. Depending on the terms of the engagement, a long-form audit report may not be required if the attestation is extended accordingly.
41. The Wirtschaftsprüfer should render the long-form audit report impartially and with due professional care (§ 17 para. 1 Wirtschaftsprüferordnung ("WPO" – German Licensed Auditors Law) and therein inform the addressees of the long-form report of the nature and scope as well as the results of the audit with the requisite clarity.

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<sup>12</sup> WPg 1966, p. 646 et seq.

<sup>13</sup> WPg 1982, p. 44 et seq.

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42. Reporting with due professional care should be faithful to the truth. The contents of the long-form audit report should correspond to actual circumstances based on the auditor's conviction.

Reporting with due professional care encompasses a complete long-form audit report. Hence, all conclusions set out in the contractual agreements should be reached and the material findings and results of the audit reported. The long-form report should include all findings and facts that are significant to the provision of sufficient information to the addressee of the long-form report and to the fair presentation of the audit results.

43. Reporting is impartial if the facts are appropriately evaluated, considering all available information, and reference is made to differing opinions of the company's legal representatives.
44. Clear reporting encompasses an understandable, unequivocal presentation of the contents of the long-form audit report, addressing the problems concerned, as well as a clearly structured long-form audit report. It may be advisable to set out the long-form audit report using the following sections and descriptions:
- Audit engagement
  - Scope, nature and extent of the audit
  - Audit findings
  - Attestation report.
45. The exposition in the long-form audit report should allow the identification of those disclosures that are based upon audited and those based on unaudited information as well as whether and to what extent the assessments of the auditor are not based on the auditor's procedures, but on audits by third parties (e.g. internal audit), or on expert opinions (see para. 34 et seq.).

**5.2. Details of the audit engagement**

46. The long-form audit report is to be addressed to the addressees of the report.
47. Introductory details of the audit engagement are to be set out in the long-form audit report. These should include the following:
- name of the client
  - title of the environmental report
  - a statement that the audit is an audit of the environmental report.

It is recommended that reference be made to the terms of engagement, that they be attached as an exhibit to the long-form audit report and that reference be made to the fact that it has been agreed that these terms are also valid with respect to third parties.

**5.3. Details of the subject , nature and scope of the audit**

48. The Wirtschaftsprüfer should set out the subject, nature and scope of the audit of the environmental report in the long-form audit report, so that the addressees of the long-form audit report can better evaluate the work. The description does not serve as evidence of the audit procedures conducted. Evidence is generally to be provided through working papers (see *Statement 1/1988*, Section D.IV.).

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**NOT PART OF DISCUSSION PAPER – NOT FOR COMMENT**

49. In describing the nature and scope of the audit, the Wirtschaftsprüfer should state that the audit of the environmental report has been carried out in accordance with the contents of this *IDW Auditing Standard*. If, in specific, objectively justified cases, the Wirtschaftsprüfer has departed from the contents of this standard, this should be justified in the long-form audit report. Furthermore, the Wirtschaftsprüfer should set out the essential features of the audit procedures, the agreed extent of the audit work, the location and period of time during which the on-site audit was carried out. An explanation of the detailed audit procedures carried out is not required.
50. If reference to a catalogue of minimum contents of an environmental report has been agreed for the audit of a comprehensive environmental report (see para. 9), this catalogue should be named.
51. To the extent the audit is not supported by an analysis of the environmental information system, this should be stated.
52. The Wirtschaftsprüfer should determine whether all explanations and evidence required for the audit have been obtained. Reference should be made to any representation letter received.
53. It may be necessary to provide additional information in order to describe the audit work carried out if, for unusual reasons, the Wirtschaftsprüfer was unable to carry out audit procedures which had been planned and hence had to obtain sufficient evidence to satisfy himself/herself by means of alternative audit procedures.  
If, possibly despite performing alternative audit procedures, it is not possible, or not sufficiently possible, to come to a conclusion regarding significant matters, this should be stated in the long-form audit report.
54. The Wirtschaftsprüfer should also refer to the fact that the contents of the environmental report and the company's compliance with the laws and regulations for the protection of the environment are the responsibility of the company's legal representatives.

**5.4. Audit findings**

55. Depending on the scope of the engagement, the Wirtschaftsprüfer should determine whether all information contained in the environmental report is accurate and not inconsistent with other information and evidence and, if applicable, whether the environmental report adequately presents, in all material respects, the direct impacts of the company's activities on the environment. The Wirtschaftsprüfer should also determine whether an audited comprehensive environmental report complies with the requirements set out in any agreed catalogue of contents (see para. 9) and whether any additional information would have been required.
56. The extent of reporting should mainly be oriented toward the information value the long-form audit report has for its addressees. The significant facts contained in the report may thus need to be supplemented by additional data, explanations, breakdowns and tables.

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**NOT PART OF DISCUSSION PAPER – NOT FOR COMMENT**

Repetition of extracts from the environmental report is unnecessary. Reference may be made to detailed comments set out in the environmental report.

57. Deficiencies of the environmental report should be explained in detail. The extent of such explanations should depend on how important the incorrect information is and how great the risk and/or loss potential.
58. Where significant facts are set out, the long-form audit report should comment on whether these are overall accurately stated. The long-form audit report should include details of the date on which the facts were determined, the methods by which the facts were determined, and the persons or department which gathered the facts. With respect to assumptions, conclusions and intentions contained in the environmental report, the long-form audit report should state whether the information is reasonable and conclusive and not contradictory to the way the company actually handles environmental matters.
59. Incorrect, misleading and missing information in the environmental report should be identified as such in the long-form audit report, having due regard to materiality. If significant information set out in the environmental report could not be verified within the scope of the engagement, this should be stated in the long-form audit report. Qualifications should be adequately reflected in the Wirtschaftsprüfer's attestation report.
60. Consistency in presentation should clearly show all significant changes that have occurred since the audit of the previous environmental report.
61. If, during the audit, the Wirtschaftsprüfer becomes aware of facts which
  - indicate serious weaknesses in the environmental management system,
  - jeopardise the existence of the company (e.g. risk of plant closure because of non-compliance with regulations),
  - severely impair the company's development (such as new environmental legislation, compliance with which at that time is not yet ensured), or
  - indicate severe violations of environmental regulations,such findings should be reported immediately to the legal representatives or, if necessary, to a supervisory body of the company (so-called duty to inform). Such findings should be included in a separate section of the long-form audit report. If there are doubts as to who is to be informed, it may be advisable for the Wirtschaftsprüfer to seek legal advice.

## **6. Attestation Report**

62. The Wirtschaftsprüfer should issue an attestation report on the audit of the environmental report. The content of the attestation report depends on the terms of the engagement and on whether or not a long-form audit report is issued (see para. 40 et seq.).
63. The Wirtschaftsprüfer is not allowed to simply sign the environmental report and/or attach his seal to it, or reproduce it on paper with his/her letterhead, without issuing an attestation report, because it would then not be clear what the terms and the results of the engagement were.

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**NOT PART OF DISCUSSION PAPER – NOT FOR COMMENT**

64. The attestation report should clearly indicate the nature and the scope of the Wirtschaftsprüfer's work. Reference may be made to the respective comments in the long-form audit report.
65. If the Wirtschaftsprüfer, despite carrying out alternative audit procedures, is unable to evaluate specific, identifiable parts of the environmental report with a sufficient degree of certainty, the attestation report is to be restricted to the accuracy of those matters contained in the environmental report which can be evaluated. If it has been agreed that the scope of the audit should include to determine whether a comprehensive environmental report adequately presents, in all material respects, the direct impacts of the company's activities on the environment, the attestation report has to be qualified respectively. However, qualifying the attestation report is not necessary, if the attestation report only refers to the accuracy of the individual environmental data which the auditor was able to evaluate, provided that this information is accurate and not inconsistent with other representations made and evidence provided.
66. The attestation report is to be signed soon after the completion of audit procedures.
67. If a long-form audit report is issued, one of the following attestation reports may be issued, depending on the engagement:
- **Audit of the accuracy of environmental information:**  
*By letter of ..... I/we have been engaged by the legal representatives of the .....company (or other client, if applicable) to audit the information (if necessary, refer to specific items) attached on pages ..... This information is the responsibility of the company's legal representatives. My/our responsibility is to express an opinion on the accuracy of the information provided, based on my/our audit. It was not part of the scope of my/our audit to express an opinion as to whether the environmental report adequately presents, in all material respects, the direct impacts of the company's activities on the environment.*  
*Based on my/our audit, I/we am/are of the opinion that the information presented in the environmental report of ..... as at ..... is accurate and is not inconsistent with other representations made and evidence provided.*
  - **When the audit also includes assessing whether the comprehensive environmental report adequately presents, in all material respects, the direct impacts of the company's activities on the environment:**  
*By letter of ..... I/we have been engaged by the legal representatives of the .....company (or other client, if applicable) to audit the environmental report attached on pages ..... The preparation and contents of the comprehensive environmental report are the responsibility of the company's legal representatives. My/our responsibility is to express an opinion on the comprehensive environmental report based on my/our audit.*  
*Based on my/our audit, I/we am/are of the opinion that the information contained in the comprehensive environmental report of ..... as at ....., both as a whole and in detail, is accurate and not inconsistent with other representations made and evidence provided. In my/our opinion, the comprehensive environmental report adequately presents, in all material respects, the direct impacts of the company's activities on the environment in the period from ..... to ..... (if it has been agreed that reference be made to the catalogue issued by the United Nations Environment Programme (UNEP) on the minimum contents of an environmental report: and meets the requirements of the United Nations*

**NOT PART OF DISCUSSION PAPER – NOT FOR COMMENT**

*Environment Programme (UNEP) for the contents of an environmental report (or other catalogue, if applicable)).*

68. If no long-form audit report is prepared, the Wirtschaftsprüfer's attestation report should first indicate the nature and scope of the engagement, the information being audited and the scope and extent of the audit. Furthermore, the attestation report should indicate any particular features of the environmental report audited and should include a statement that the contents of the environmental report and the company's compliance with laws and regulations for the protection of the environment are the responsibility of the company's legal representatives. The Wirtschaftsprüfer's attestation report should include a summary of the results of the audit. If an assessment as to whether a comprehensive environmental report adequately presents, in all material respects, the direct impacts of the company's activities on the environment is included in the scope of the engagement, the attestation report may be worded as follows:

*To the legal representatives (or other client, if applicable):*

*By letter of ..... I/we have been engaged by the legal representatives of the ..... company (or other client, if applicable) to audit the comprehensive environmental report attached on pages ..... The preparation and contents of the comprehensive environmental report and to the company's compliance with laws and regulations for the protection of the environment are the responsibility of the company's legal representatives. My/our responsibility is to express an opinion on the comprehensive environmental report based on my/our audit.*

*I/we have conducted the audit in accordance with the IDW Auditing Standard "Generally Accepted Standards for Audits of Environmental Reports (IDW AuS 820)" issued by the Institut der Wirtschaftsprüfer. Those standards require that I/we plan and perform the audit of the comprehensive environmental report in order to obtain reasonable assurance about whether the information presented in the comprehensive environmental report is accurate and whether the comprehensive environmental report adequately presents, in all material respects, the direct impacts of the company's activities on the environment, whether the comprehensive environmental report contains the information required and whether the report is free of material misstatement. The audit of a comprehensive environmental report includes assessing the environmental information system, which is part of the environmental management system, regarding the environmental impacts of the company's activities. The audit of the comprehensive environmental report also includes assessing the design and the effectiveness of the environmental information system and examining, on a sample basis, the evidence supporting the information presented in the comprehensive environmental report. It further includes the identification of the methods used for the collection and evaluation of data and of significant estimates made by the legal representatives, as well as any other procedures I/we deemed necessary. My/our audit also comprises an evaluation of the overall presentation in the comprehensive environmental report of the direct impacts of the company's activities on the environment. I/we believe that my/our audit provides a reasonable basis for my/our opinion.*

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**NOT PART OF DISCUSSION PAPER – NOT FOR COMMENT**

*Based on my/our audit, I am/we are of the opinion that the information presented in the comprehensive environmental report of ..... as at ....., both as a whole and in detail, is accurate and not inconsistent with other representations made and supporting evidence provided. In my/our opinion, the comprehensive environmental report adequately presents, in all material respects, the direct environmental impacts of the company's activities in the period from ..... to ..... (if it has been agreed that reference be made to the catalogue issued by the United Nations Environment Programme (UNEP) on the minimum contents of an environmental report: and meets the requirements of the United Nations Environment Programme (UNEP) for the contents of an environmental report (or other catalogue, if applicable)).*