

Date  
22 September 2008

Le Président

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Mr Alan Knight  
Head of Standards and Related Services  
AccountAbility  
Unit A, 137 Shepherdess Walk  
London N1 7RQ  
UNITED KINGDOM

Dear Mr Knight,

**Re: Consultation on AA1000 Assurance Standard Revision Draft issued on 17 July 2008**

1. FEE (Fédération des Experts Comptables Européens - Federation of European Accountants) welcomes the possibility to comment on the Draft AA1000 AS Revision. We have based ourselves on the version of the third phase issued on 17 July 2008 and on the latest version of the AA1000 AccountAbility Principles (2008), since our due process is not suitable for the continuous update generated as part of the Wiki process.
2. We appreciate the efforts undertaken by AccountAbility to consider and to accommodate our main comments as submitted to you in a letter dated 4 April 2008, notably in relation to the principle of materiality and the levels of assurance.
3. We welcome the intent of AccountAbility to provide with AA1000AS (2008) "a frame that does not exclude but complements and accommodates other assurance practices such as those of ISAE 3000 and national standards" as set out in section A.1.5. of the proposed Guidance for Assurance providers on the use of the AA1000 Assurance Standard(2008).
4. We appreciate the attempts to clarify the relation between the proposals and ISAE 3000 and the financial reporting principles. However, we are of the opinion that the current proposals will create or increase the expectation gap on providing assurance on sustainability information:
  - i) By referring to the terminology of "high" and "moderate" assurance that in the mean time has become outdated; and
  - ii) By suggesting that the quality of the information in form of accuracy can be assessed by a small number of tests whilst providing conclusions on the quality and credibility of information as set out in C.2.10. In this way the misleading impression is given that a higher level of assurance can be provided on sustainability engagements than in financial audit.
5. The details of our concerns with the proposed principles, standard and guidance are set out below.

### **Suitable criteria**

6. The assurance provider should ascertain whether the generally acceptable and specifically developed reporting criteria selected by the reporting organisation's management are suitable.
7. Although we agree that the criteria need to be "fit for purpose", we have difficulties with the implied suggestion that reporting organisations in Type 2 assurance can determine their own performance criteria rather than basing it on generally accepted reporting principles and criteria. External assurance cannot be provided in the absence of well defined and generally acceptable suitable reporting criteria. Therefore, the reporting principles need to be differentiated from IAASB characteristics for assessing the suitability of the criteria used as defined in the International Framework for Assurance Engagements and ISAE 3000.
8. Assurance on CSR information can be provided where suitable criteria exist for reasonably consistent evaluation or measurement of a subject matter while using professional judgement. It is important to have a converging assurance procedure to enhance the consistency of assurance across models.

### **Materiality**

9. The principles indicate that determining what is material is a two-step approach:
  - i) Identifying issues that are relevant to performance; and
  - ii) Evaluating how important or significant the issues are.

In this way relevance has become a subset of materiality. In financial reporting, however, materiality provides a threshold or a cut-off point, rather than being primary a qualitative characteristic which information must have to be useful. So relevance is the main principle and materiality is a subset or threshold in determining whether information is relevant. In the recent IASB Exposure Draft "An improved Conceptual Framework for Financial Reporting" materiality together with cost are the two pervasive constraints that limit information because it pertains to all the qualitative characteristics of decision-useful reporting information.

10. We find it confusing for the user of the reports that the proposed principles address materiality from a different angle and call on AccountAbility to put relevance as the main principle: The relevance of information is affected by its nature and materiality. In some cases the nature of the information alone is sufficient to determine its relevance. In other cases both the nature and materiality are important. The same comments apply to section 6.2.1.2 of the proposed standard. In the IASB Exposure Draft it is stated that materiality depends on the nature and the amount of the item judged in the particular circumstances of its omission or misstatement.
11. We acknowledge that the proposed guidance makes the linkage with materiality from financial reporting perspective and even states that materiality is a threshold or cut-off point. However, it still places materiality as the overall principle rather than relevance (usefulness).
12. We wish the reference to the FEE guidance to be removed since our Discussion Paper "Key Issues in Sustainability Assurance, An Overview" discusses in its conclusions materiality within the assurance engagement rather than as a reporting principle, so that the "FEE paragraph" in the proposed guidance is taken out of context. Furthermore the text is paraphrased. In general our Discussion Papers are not considered guidance.
13. The assurance provider should consider materiality and its relationship with assurance engagement risk when conducting an assurance engagement. Although the draft standard refers to a linkage to current risk practices and the effective use of risk management

practices, further elaboration of the text would be helpful. The IAASB Framework states that “assurance engagement risk is the risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.” The assurance provider’s understanding of the entity and its environment establishes a frame of reference within which the assurance provider plans the assurance engagement and exercises professional judgement about assessing the risks of a material misstatement and responding to those risks. The principles described in ISA 320 “Audit Materiality” as amended by Exposure Draft ISA 320 “Materiality in Planning and Performing an Audit” and by Exposure Draft ISA 450 “Evaluation of Misstatements Identified during the Audit” could equally apply to sustainability assurance.

14. We note the development of a five-part materiality test, with related “tests” that can be used to help the organisation assess whether it has successfully applied the principle. We remain of the opinion that the term “tests” is unfortunate as it appears to represent a checklist with a connotation of comprehensiveness which does not fit within a principles-based approach. Would “examples” or illustrations be a better term?

### **Completeness**

15. The principle of completeness as presented in the AccountAbility principles goes beyond the current understanding of completeness. Completeness is a subset of the reliability principle. Information needs to be complete within boundaries of what is relevant allowing for the cost of collecting this information. The omission of relevant information may result in it being misleading and, therefore, unreliable.

### **Levels of assurance**

16. The proposed standard indicates that the level of assurance shall be agreed with the reporting organisation before the engagements begins and that there should be two levels of assurance: high and moderate assurance instead of the previous proposed sliding scale on which the assurance level would be determined as a result of the engagement.
17. Although we welcome the proposed changes, we are concerned that the expectation gap is widened by using the terms “high” and “moderate” assurance instead of the IAASB terminology of “reasonable” and “limited” assurance. The note added in 5.5 *“that for those required to use ISAE 3000 a high level of assurance relates to reasonable assurance and a moderate level of assurance relates to limited assurance. The ISAE 3000 terms may be used where required as long as the basic requirements of AA1000AS(2008) are met and the reference to use of the ISAE 3000 is explicit.”* does not, in our view, resolve this matter.
18. By using the terms “high” and “moderate” the user may get the impression that a higher level of assurance is provided than in financial audits or assurance engagements under ISAE 3000, whereas substantially less work is performed than under a full audit. Moreover, using different terms and stating that they are the same is very confusing for the reader. Therefore, we suggest that AccountAbility should use the same terminology as in ISAE 3000 i.e. “reasonable” and “limited assurance”.
19. We have also concerns about the way in which reliability of information is addressed as part of the quality of information in a particular section A.2.5 on accuracy. The impression is given that it is sufficient to carry out a limited number of tests in order to assess the reliability of the information without mentioning the need of assessing also the process and specifying the assurance work that needs to be undertaken to assess the reliability of information.

**Quality control**

20. The proposed standard does not refer to a quality control system on the assurance provided, except in section 5.7.2.2 which states that the organisational assurance provider shall have an assurance oversight mechanism. We consider that all assurance providers should be subject to a system of quality control and the minimum requirements of such a quality control system need to be addressed by the proposed standard.

We wish to reiterate that submission of comments on the Draft AA 1000 AS Revision by our Federation should not be considered to constitute endorsement or any other form of support for the eventual Assurance Standard.

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

Yours sincerely,



Jacques Potdevin  
President