

March 31, 2017

Attention: IAASB

RE: “Exploring the Demand for Agreed-Upon Procedures, Engagements and Other Services, and the Implications for the IAASB’s International Standards”

14000registry and the EnviroReady Report

Thank you for this opportunity to respond to your questions related to the Discussion Paper, “Exploring the Demand for Agreed-Upon Procedures, Engagements and Other Services, and the Implications for the IAASB’s International Standards”. 14000registry (hereafter referenced as “we”) concurs with the importance of providing feedback, and hopefully, some additional insight on the value of ISRS 4400, *and its importance in non-financial applications*, particularly as it relates to the needs and resources of small businesses globally.

We also see the application of ISRS 4400 in non-financial applications as an opportunity for SMPs to diversify their portfolio, bringing confidence to the market in the sustainability arena. For the purposes of this submission, we refer to small businesses as those legally constituted entities with fewer than 100 employees. 14000registry recognizes that the majority of those businesses in this category have fewer than 50 employees, and represent 95% or more of almost all national economies^{1 2}. A database hosted by the International Finance Corporation (IFC), an entity operating under the World Bank, contains about 162.8 million formal MSMEs (micro, small, and medium enterprises) employing approximately 508 million people. Of this total, about 96.3 million MSMEs and 231.4 million employees operate in emerging markets³. The opportunity for valuing agreed-upon procedures, in our non-financial application is not restricted to small business, but their needs and limited resources were the drivers for our work.

The 14000registry fulfills three primary functions.

¹ http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en

² [https://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE_June-Juin_2016_eng-V2.pdf/\\$file/KSBS-PSRPE_June-Juin_2016_eng-V2.pdf](https://www.ic.gc.ca/eic/site/061.nsf/vwapj/KSBS-PSRPE_June-Juin_2016_eng-V2.pdf/$file/KSBS-PSRPE_June-Juin_2016_eng-V2.pdf)

³ MSME Country Indicators 2014: [Towards a Better Understanding of Micro, Small, and Medium Enterprises](https://smefinanceforum.org/data-sites/msme-country-indicators) <https://smefinanceforum.org/data-sites/msme-country-indicators>

1. The first is to be the source of the learning process for practitioners that wish to earn the designation and be recognized as EnviroReady Report Accountants.
2. The second is to serve as a market exchange for SMPs that earn the designation, connecting them with those entities that need or wish to have an EnviroReady Report to demonstrate external oversight of a robust, credible and reliable environmental management system.
3. The third function is to enable collaboration with other entities that have a parallel purpose and commit to optimize the diffusion of better environmental management as a core business value.

Explanation of the EnviroReady Report and ISRS 4400

The EnviroReady Report provides readers with the results of applying agreed-upon procedures to an environmental management system. This is technically called an EMS AUP. It enables specially trained professional accountants to apply ISRS 4400 to ISO 14001.

The EnviroReady Report was originally developed as an EMS ROSAP, based on a section of the Canadian Handbook. In 2013, the decision was made to re-design the EnviroReady Report, in light of the ISO revising its standard. It was a logical time for this report to evolve from its Canadian roots to an international position. The accounting professionals involved with advising the developers of the Report recommended that ISRS 4400 would be an appropriate standard.

Genesis of the EnviroReady Report

When ISO first initiated the development of the environmental management systems standard (ISO 14001) in 1993, it became clear that there would be conformance challenges for small business. As those involved in developing the standard primarily represented the interests of large firms directly or indirectly, or governments, little attention was given the needs and resource limitations of small business. The standard was first published in 1996.

There were a number of perceptual and real barriers for small business. Two of these are outlined below:

1. Perception: An earlier survey of small business undertaken by the Canadian Federation of Independent Business (CFIB) indicated that 70% of their members had never heard of ISO⁴. We believe this to be true today for many, if not most, other jurisdictions. For those that had heard of the standard, they had the perception that conformity assessment, expressed as third party certification, was a requirement of the standard. *ISO standards can only be voluntary* to avoid being in contravention with WTO non-tariff trade barriers.
2. Cost: The average price point of third-party certification is estimated to be \$10,000⁵ per annum per facility; at this price point third-party certification is a de facto barrier to the adoption for the plethora of small business. Some large companies pay in the order of \$250,000 or more for third-party certification annually. Using Canadian statistics⁶, as 76.1% % of small businesses have revenues between \$30,000 and \$499,999, expecting them to pay \$10,000 for an annual report is not a viable business decision for them; it's also an unrealistic expectation for their stakeholders.

It became clear that in order for small business to be open to learn about the potential value of the international standard, another approach had to be taken to align with the resources and the culture of small business. A representative from Deloitte & Touche LLP suggested that as small businesses had a close relationship with their accountants, a process to provide some form of external review performed by an accountant might be more acceptable. The developers accepted the challenge, and work began to create a rational approach to help small business.

The core value of a systems-approach to conformance with a standardized environmental management system is its potential to help formalize better environmental management controls into the core business, resulting in higher productivity, increased profitability and enhanced prosperity. In terms of sustainability, greening the productivity of an organization is becoming essential for success in moving towards a low-carbon economy.

Q1. Results from the Working Group's outreach indicate that many stakeholders are of the view that professional judgment has a role in an AUP engagement, particularly in the context of performing the AUP engagement with professional competence and due care. However, the procedures in an AUP engagement should result in objectively verifiable factual findings and not subjective opinions or conclusions. Is this consistent with your views on the role of

⁴ CFIB, 2000 Environment Survey, Table 17

⁵ Quoted in Canadian dollars.

⁶ Small Business Profile, rr3093, CFIB, October 2009

professional judgment in an AUP engagement? If not, what are your views on the role of professional judgment in an AUP engagement?

ANSWER: Professional judgement and verifiable factual findings go hand in hand. Facts by themselves can be manipulated to present misleading results. Judgement by itself can be quite divorced from factual findings. The benefit of having a practitioner's involvement is that they bring judgement and experience to ensure the results are not false or misleading.

Q2. Should revised ISRS 4400 include requirements relating to professional judgment? If yes, are there any unintended consequences of doing so?

ANSWER: We believe that professional judgement will be increasingly required to appropriately conclude on a given set of facts. For example, when a practitioner is asked to evaluate whether an entity's internal controls are properly designed to mitigate a particular risk, professional judgement is required to form an opinion. However, minimal professional judgement would be required to simply form an opinion on the factual results of testing relevant controls. The danger here is that without an assessment that determined that the controls were designed properly, the value of a positive report on testing poorly designed controls would be very misleading.

Conceivably, the test for the use of professional judgement would be whether sufficient evidence is available to enable another AUP practitioner having no previous connection with the engagement, to understand the nature and results of work performed, and provide an objective evaluation, on the significant judgments made and conclusions reached.

Q3. What are your views regarding practitioner independence for AUP engagements? Would your views change if the AUP report is restricted to specific users?

ANSWER: The prime purpose of an AUP engagement is to add confidence to the information being reported upon. Objectivity therefore is non-negotiable in any AUP engagement. Practitioners are, by definition, independent of the organization, and seen to be independent, for which the AUP is conducted.

In our non-financial application, where agreed upon procedures are applied to the requirements for an environmental management system (ISO 14001:2015), the phrase "seeking confirmation of its self-declaration by a party external to the organization" is used to clearly distinguish the EnviroReady Report Accountant from the organization for which the report is provided and from the fourth option, third-party certification.

Q4. What are your views regarding a prohibition on unclear or misleading terminology with related guidance about what unclear or misleading terminology means? Would your views change if the AUP report is restricted to specific users?

ANSWER: One of the overriding requirements for a practitioner performing an AUP engagement should be that they will not be associated with false or misleading information. This would include unclear terminology or presentation of information or results that is designed to conceal or obscure certain facts or weaknesses.

One of the attributes of a standard is to be able to provide clear and precise information on a set of requirements. In theory, optimal clarity for a broad range of readers is attained when common terms and definitions are used. However, every profession tends to develop terms with specific meaning, as they have contextual value. If specific terms and definitions are required, they should be clearly stated and included in the standard. Description should not be used to add to prescription.

We recognize the important of avoiding misleading terminology and the lack of clarity in concepts. There are certain words that are of fundamental importance to the EMS AUP. For example, the term 'certify' carries special meaning in ISO standards and it is a term we **vigorously avoid** in connection with the EnviroReady Report (the marketing term for EMS AUP).

The EnviroReady Report in the ISO sphere is a conformity assessment option categorized as a recognition scheme. It is not support an 'EMS-lite' approach, nor staged implementation of the standard; users have to meet all the requirements of ISO 14001.

An articulation of the four conformity assessment options was led by Mexico in 2002, with unanimous support of the ISO committee responsible for the standard. The EnviroReady Report was the basis for the description of the third option (shown below in italics).

ISO 14001 articulates four options for conformity assessment:

"An organization that wishes to demonstrate conformity with this International Standard can do so by:

- making a self-determination and self-declaration, or
- seeking confirmation of its conformance by parties having an interest in the organization, such as customers, or

- seeking confirmation of its self-declaration by a party external to the organization, or
- seeking certification/registration of its environmental management system by an external organization.”

Of note, some literature refers to ‘self-certify’ in relation to the first option, but that term is **not** acceptable to the stakeholders in ISO.

As another example of the importance of terms can be shown in the fact that an organization implementing the EMS **conforms** to ISO 14001. As a requirement of its environmental policy, an organization must meet a commitment to fulfill its *compliance obligations*. Compliance obligations include legal requirements and other requirements to which the organization subscribes.

As indicated in the most recent survey conducted by Edelman⁷, there has been an implosion of trust. When transparency is the currency of trust, restricting disclosure seems counter-productive. However, disclosure should be managed with sensitivity and caution for several reasons. Information should be managed carefully so as not to increase the risk of the client in an era of growing information insecurity. Cybercrime is unfortunately big business, and small businesses are often not technologically able to deal with the consequences.

It is also important to remember the culture of a small business, which is the primary target market for our application. Small business owners are prone to treat their business as their ‘child’, and they can be fiercely protective of information relating to it. Small business is not required to release financial data to anyone other than the appropriate tax department. While this application may be viewed from a marketing perspective; these sensitivities must be respected.

Q5. What are your views regarding clarifying that the scope of ISRS 4400 includes non-financial information, and developing pre-conditions relating to competence to undertake an AUP engagement on non-financial information?

ANSWER: We support the idea of expanding the scope of ISO 4400 to include non-financial information and developing pre-conditions relating to competence to undertake an AUP engagement.

14000registry uses ISRS 4400 *now* for non-financial information. While ISRS 4400 in its current form can be used for non-financial information, we have been advised that many PAOs and

⁷ <http://www.edelman.com/trust2017/>

SMPs may not realize this fact. We expect interest in its application to nonfinancial information to grow. The revised standard and supporting collateral and communications need to make this clear and indeed promote such use.

We believe that there is a critical need to help small businesses that will face increasing pressure from supply chains to demonstrate better environmental management. As well, as governments are pressured to enhance governance on related matters, while reducing the red tape associated with regulations, there will be an increase in the dependency on standards. Given that the IFC estimates over 162.8 million legally constituted businesses in the world, with the majority of these in the hands of small business, we see this as an important opportunity for them and for SMPs.

We also acknowledge that as more companies recognize natural capital as the basis for other capitals, an EnviroReady Report would provide potential for enhancing the understanding and use of natural capital in financial terms.

Q6. Are there any other matters that should be considered if the scope is clarified to include non-financial information?

Given our expectation that interest in its application to nonfinancial information will grow, we recommend that the revised standard and supporting collateral and communications need to make this opportunity clear and indeed promote such use.

Q7. Do you agree with the Working Group's views that ISRS 4400 should be enhanced, as explained above, for the use of experts in AUP engagements? Why or why not?

ANSWER: We recognize that non-financial information and use of experts would be useful as an option, but we would not want to make it a requirement. The need for practitioner knowledge and skills has already been taken into consideration in the development of the application and the learning process that is unique to our situation.

Q8. What are your views regarding the Working Group's suggestions for improvements to the illustrative AUP report?

We would be particularly interested in receiving Illustrative reports that you believe communicate factual findings well.

No comment.

Q9. Do you agree that the AUP report can be provided to a party that is not a signatory to the engagement letter as long as the party has a clear understanding of the AUP and the conditions of the engagement? If not, what are your views?

ANSWER: Yes. We think that the report on the existence of an environmental management system could certainly be used by small businesses in selling their entity or demonstrating good stewardship to their stakeholders, including governments, and customers.

At this time, as part of the reporting process by an EnviroReady Report Accountant, 14000registry requires disclosure of related statistics. The disclosure of the content of the report on factual findings is not a requirement. We recognize that one of the drivers for small business owners (and others) to have a robust, credible and reliable EMS is to be able to provide clients, bankers, insurers, governments and other stakeholders with confidence. The presence of the Report by a professional accountant supports the client's confidence and his or her stakeholders. The option to share the existence of the Report should not be restricted. We recognize that in some circumstances, the content of the Report will be of interest. Third party recipients of the Report should be made aware of the scope and limitations of the Report to understand its value. That responsibility we see as a collaborative effort of the client, the EnviroReady Report Accountant and 14000registry, as well as other entities that we are working with to help small business. We recognize that it may be inadvisable to make this a requirement as there may be unintended consequences associated with various jurisdictions, be at the national, state, provincial or regional level.

Q10. In your view, which of the three approaches described in paragraph 44 is the most appropriate (and which ones are not appropriate)? Please explain.

ANSWER: Disclosure should be related to the context and jurisdiction related to the AUP report. It would be preferable for both the client and the EnviroReady Report agree to release the content of the Report to a third party, and where the third party has a clear understanding of what the Report is AND what it is not. If either the client or the EnviroReady Report Accountant is required by law to disclose the content of the Report, every effort to advise the other person should be undertaken.

Q11. Are there any other approaches that the Working Group should consider?

No comment.

Q12. Do you agree with the Working Group's view that recommendations should be clearly distinguished from the procedures and factual findings? Why or why not?

ANSWER: Recommendations suggest that the EnviroReady Report Accountant may be exercising professional judgement. If recommendations are provided, either to align with the spirit of continual improvement that is a requirement of the standard, we agree they should be:

- reported separately, clearly distinguishing them as separate from the actual report on the agreed upon procedures,
- framed in a positive light or context
- contained to what the opportunity is, or rationale for improvement, not prescribe how

Q13. Are there any other areas in ISRS 4400 that need to be improved to clarify the value and limitations of an AUP engagement? If so, please specify the area(s) and your views as to how it can be improved.

ANSWER: In our view it is best to keep a standard concise and avoid non-essential information so that users do not confuse prescription with additional description. Perhaps an FAQ document, *if it were needed*, could be an option.

Q14. What are your views as to whether the IAASB needs to address multi-scope engagements, and how should this be done? For example, would non-authoritative guidance be useful in light of the emerging use of these types of engagements?

ANSWER: We can only offer a comment as a warning. One of the challenges with multi-scope approaches based on experience with other standards is that the needs driven by a specific subject matter can be undermined, in the pursuit of integration. From a systems perspective, the standard should excel at being 'fit for purpose', and this fundamental value can be lost if not carefully designed for and well tested before release to a market.

Q15. Do you agree with the Working Group's view that it should address issues within AUP engagements before it addresses multi-scope engagements?

ANSWER: We concur.

Suggestions regarding the nature of guidance on multi-scope engagements you think would be helpful and any examples of multi-scope engagements of which you are aware will be welcome and will help to inform further deliberations.

We hope that the IAASB finds our experience and perspective of value. Should you have any comments or questions related to this submission, please do not hesitate to contact me.

Sincerely



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