

Report on CSR Information Assurance Research

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CSR Information Assurance Study Group

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Many entities in Japan voluntarily disclose information relating to their social responsibility in an advanced manner exceeding international standards. In 2004, the Law Concerning the Promotion of Business Activities with Environmental Consideration by Specified Corporations, etc., by Facilitating Access to Environmental Information, and Other Measures (Law No. 77 of 2004), (hereinafter, the “Environmental Consideration Promotion Law”) was enacted, and specified entities are now obliged to prepare and publish environmental reports. The Environmental Consideration Promotion Law requires specified entities to maintain the reliability of environmental reports, to perform self-assessment and have third-party assurance, etc., (Article 9, Paragraph 2); further, that the entities performing such assurance maintain independence, have an established assurance system and raise the quality of their assurance staff (Article 10).

Recent years have seen firms disclose more information and this now includes information pertaining to the environment and CSR, called CSR reports, environmental and social reports, etc.

The third Basic Environment Plan announced in April 2006 proposed integrating improvements in environmental, financial and social aspects as the direction of future environmental policy, and clarified social aspects in the environmental policy.

Under these circumstances, further argument is required to establish ideal assurance including social aspects in order to maintain the reliability of environmental reports, CSR reports, etc. Research on the assurance of CSR information, including environmental information, covers the Environmental Report Assurance Standard (draft) of the Ministry of the Environment (March 2004) and research reports of The Japanese Institute of Certified Public Accountants.

The Business Accounting Council issued Opinions concerning the Conceptual Framework of Assurance Engagements for Financial Information, etc. in November 2004. The Japanese Institute of Certified Public Accountants published Guidelines for Business Practice for Assurance Engagements, etc., other than Financial Statements Audits as an exposure draft in July 2005.

The Ministry of the Environment and The Japanese Institute of Certified Public Accountants in their studies of how to assure the reliability of information disclosed by companies have set up a CSR Information Assurance Study Group to establish the basis for the assurance of CSR information including environmental information, such as universal assurance requirements, in Japan. The findings of this body are announced in this Report on CSR Information Assurance Research.

Contents

- 1. Requirements of CSR information assurance..... 1**
- 2. Meaning of CSR information assurance 2**
- 3. Prerequisites of CSR information assurance 6**
- 4. CSR information assurance elements..... 6**
- 5. Parties involved in assuring CSR information 7**
- 6. CSR information trait and assurance..... 9**
- 7. Criteria 13**
- 8. Assurance contracts..... 15**
- 9. Assurance planning 16**
- 10. Evidence 18**
- 11. Representation letter from the accountable party 23**
- 12. Use of the work of experts other than assurance providers..... 24**
- 13. Subsequent events..... 25**
- 14. Assurance reports 25**

1. Requirements of CSR information assurance

(1) Corresponding to non-financial information disclosure by entities

Information disclosed by entities to key intended users is expanding and now includes diverse information relating to their financial, environmental and social results. In Japan, entities voluntarily disclose information concerning their social responsibility in an advanced manner exceeding international standards. In 2004, the Law Concerning the Promotion of Business Activities with Environmental Consideration by Specified Corporations, etc., by Facilitating Access to Environmental Information, and Other Measures (Law No. 77 of 2004) was enacted, and specified entities are now obliged to prepare and publish environmental reports. In April 2006, the third Basic Environment Plan was determined by the Cabinet. The plan clarifies the course of future environmental policy, which is integrating improvements in environmental, financial and social matters. Recent years have seen an increase in the number of entities publishing information related to social issues in their environmental reports, including CSR reports, environmental and social reports. The study of assurance, including assurance regarding social issues, is required in order to implement measures, because environmental issues are linked with social issues.

Overseas, particularly in Europe, demand is becoming stronger for disclosure in annual reports of non-financial information concerning environmental and social issues required in order to understand entities. DIRECTIVE (2003/51/EC) was adopted by the European Council in 2003, and most member countries have revised their domestic laws accordingly. Regulations, guidelines, etc., which stipulate procedures for disclosure of such information are being prepared.

(2) Corresponding to investigation and research of CSR information assurance

The International Federation of Accountants (IFAC) issued International Standard on Assurance Engagements 3000 (revised) and Assurance engagements other than audits or reviews of historical financial information (referred to as the “ISAE3000” below) in December 2003 with regard to assurance engagements other than assurance engagements for financial information of historical financial results. In Japan, the Business Accounting Council issued Opinions concerning the Conceptual Framework of Assurance Engagements for Financial Information, etc., in November 2004. The Japanese Institute of Certified Public Accountants published Guidelines for Business Practice for Assurance Engagements, etc., other than Financial Statements Audits (hereinafter, the “Guidelines for Assurance Engagements”) as an exposure draft in July 2005.

(3) Overseas trends

Major overseas trends for CSR Information assurance are as following.

The International Federation of Accountants (IFAC) announced the ISAE3000 in December 2003, as stated above. The International Auditing and Assurance Standards Board (IAASB) and Professional Accountants in Business (PAIB), etc., set up a Sustainability Experts Advisory Panel (SEAP) in 2004 to investigate CSR information assurance. Assurance of G3 - draft of 2006 sustainability report guidelines of the Global Reporting Initiative (GRI) — a discussion document which sums up points of argument and solicits opinions — was published in 2006.

The Fédération Des Experts Comptables Européens (FEE) has been announcing results of various investigations and studies concerning CSR information assurance. The Financial Auditors Association of Germany announced audit standard PS820, Principles for Environmental Report Audits in 1999 and audit standard PS821, Sustainability Report Audit and Review Standard in 2006.

In the Netherlands, the Exposure Draft of Assurance Engagement Standard for Sustainability Reports and the Exposure Draft of Assurance Engagement Standard for Non-Financial Information in Collaboration with Experts in Various Fields were announced in January 2005. In the UK, the International Standard on Auditing (UK and Ireland) 720 (revised) — an audit standard for non-financial information in annual reports, etc., — was announced in April 2006.

2. Meaning of CSR information assurance

(1) Definition of CSR information assurance

CSR information is comprised of evaluation and measurement results of the fulfillment of social responsibility of entities obtained by accountable parties based on suitable criteria. CSR information assurance is a report of assurance providers' conclusion on CSR information, based on evidence they themselves acquire and on relevant criteria, to raise trust in CSR information for key intended users.¹

(2) Classification of CSR information assurance

Assurance of CSR information has two levels: “reasonable assurance” and “limited assurance”.

¹ Not meeting the definition of CSR information assurance are (1) CSR information evaluation recommendations, (2) CSR information preparation support, and (3) CSR information advice and consultations.

This is a theoretical classification based on the views of the Business Accounting Council and an internationally accepted conceptual framework to be referred to for assurance of CSR information. To assure CSR information, it should be thoroughly examined to determine which level of assurance to set, as described in the following pages.

. Reasonable assurance and limited assurance

a. Reasonable assurance

Assurance providers assign reasonable assurance to CSR information if they judge assurance risk to be low. In this case, they use a positive expression in their assurance of CSR information.

If assurance providers lack sufficient appropriate evidence to assign reasonable assurance, they must either attach conditions or not assign reasonable assurance. Assurance providers are not allowed to change the assurance level from reasonable to limited depending on results they gain through their assignment.

If a CSR information assurance contract between an assurance provider and an assigner does not require conclusion of reasonable assurance, the parties may agree to acquire limited evidence and the assurance provider may assign limited assurance to the CSR information.

b. Limited assurance

Assurance providers assign limited assurance to CSR information even if they judge assurance risk to be higher than that for reasonable assurance, provided that the risk is acceptable if they use a negative expression in their assurance of CSR information. Assurance providers use a negative form of expression in concluding CSR information assurance.

If assurance providers believe at the outset that they will not be able to obtain sufficient evidence to assign reasonable assurance to CSR information, they can only assign limited assurance.

. Types of CSR information and subjects of assurance

a. Types of CSR information

The subject matter of CSR information assurance is the fulfillment of social responsibility by entities. The information of results regarding the subject matter, evaluated or measured by

accountable parties, is called subject matter information. There are many opinions concerning the definition and scope of CSR information. In this report, CSR information is assumed to comprise key performance indicators (KPIs) and six kinds of qualitative information relating to KPIs: (1) corporate governance information, (2) information concerning consideration to employees, (3) information concerning consideration to customers, (4) information concerning consideration to society generally, (5) information concerning consideration to the global environment, and (6) fulfillment of other social responsibilities of the entities.

b. Assuring CSR information for the entire subject matter information and by type

(a) Assuring CSR information for the entire subject matter information, which contains general CSR information

When assuring CSR information for the entire subject matter information, which contains general CSR information, the purpose is for assurance providers to announce judgment on whether all of the important CSR information prepared and disclosed by the accountable party is appropriately stated and meets suitable criteria, based on evidence the assurance providers have acquired. [CSR information: information concerning the corporate governance of the entity, consideration to employees, customers, society generally and to the global environment, and fulfillment of other social responsibilities of the entity]

(b) Assuring CSR information by type

Assuring CSR information by type is for assurance providers to announce judgment on whether every important subject matter of CSR information prepared and disclosed by the accountable party is appropriately stated and meets suitable criteria for each type of CSR information, based on evidence the assurance providers have acquired.

In other words, the purpose of assuring CSR information is for assurance providers to announce judgment on whether all of the important matters relating to the social responsibilities of entities are appropriately stated in CSR information, based on evidence the assurance providers have acquired. [CSR information: (1) corporate governance information, (2) information concerning consideration to employees, (3) information concerning consideration to customers, (4) information concerning consideration to society generally, (5) information concerning consideration to the global environment, and (6) fulfillment of other social responsibilities of the entity]

(3) Application of CSR information assurance

To assure CSR information, sufficient investigation is required to determine the level of assurance, that is reasonable assurance or limited assurance, to assign.

There are cases of CSR information assurance, in Japan and abroad, where the level of assurance offered is not clear. Of CSR information assurance for which the level of assurance is clear, most is limited assurance; little is reasonable assurance. The reasons for this are believed to be due to the following present features of CSR information assurance:

- a. CSR information aims to disclose a broad range of social responsibility of entities based on the relationship between the entities and subjects external to the entities. In present practice, only CSR information acknowledged and dealt by the accountable party is disclosed. Therefore, it is difficult to prove the completeness of subject matter for CSR information assurance.
- b. CSR information, which is information related to the fulfillment of social responsibility by entities covering diverse subject matter, is prepared in compliance with established criteria and with criteria set by the entity. Assurance providers are required to examine the appropriateness of the latter criteria. The use of entities' own criteria for judgment of CSR information assurance is more restricted than for established criteria. Since it is generally difficult to acknowledge the appropriateness of criteria, reasonable assurance is not assigned.
- c. Considering the two items above, assigning reasonable assurance to CSR information using a positive expression "appropriate statement is assured" may cause misunderstanding that the entire social responsibility of the entity is covered or that complete compliance with standards has been proven.
- d. Concerning the link between assurance procedures and evidence, assurance procedures to check whether CSR information covers the entire social responsibility of the entity are not sufficiently developed or applied. Theoretical and practical support is not clear to decide whether sufficient appropriate evidence will be acquired for assurance providers to make an expert judgment by following the evidence-gathering procedures (inquiring, analyzing, validating calculations, recalculating, inspecting, etc.) allowed to assure CSR information.

Sufficient investigation should be made to assure CSR information, for which assigning of reasonable assurance is investigated. In cases of CSR information assurance for which the assigning of limited assurance is investigated, assurance providers must be careful not to mislead intended users into believing that they are assigning reasonable assurance. It is hoped that this report will be effectively used to avoid such misleading.

CSR information is assured voluntarily: it is not a legal obligation. It is expected that the requirement to assure CSR information will be acknowledged more widely. Under these circumstances, more theoretical and practical studies are required to eliminate the problems in assurance engagements described above, so that it becomes commonplace to assign reasonable assurance to CSR information investigated.

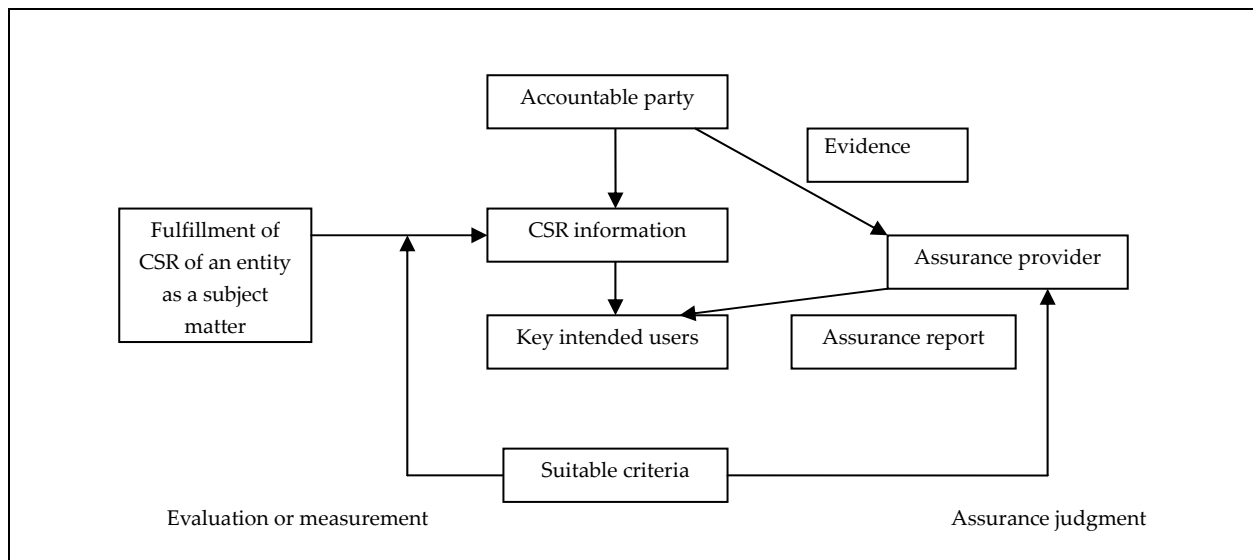
3. Prerequisites of CSR information assurance

Assurance providers must set their own ethical regulations as professional experts and comply with them. These must cover independence, examinations of engagement circumstances and responsibilities of assurance providers. It is desirable for assurance providers to maintain the quality of their assurances by improving, maintaining and applying quality control system for CSR information assurance. Global standards such as Conformity assessment -- Requirements for bodies providing audit and certification of management systems of International Organization for Standardization (ISO), and ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements of the IFAC-- may be referred to when establishing the above-mentioned quality control system.

4. CSR information assurance elements

CSR information assurance consists of the following elements, each of which must meet requirements.

- i. Existence of an assurance provider, an accountable party and key intended users.
- ii. Fulfillment of the social responsibility of an entity as an appropriate subject matter.
- iii. Suitable criteria.
- iv. Sufficient appropriate evidence
- v. Assurance report with appropriate format for reasonable assurance or limited assurance.



5. Parties involved in assuring CSR information

(1) Three parties involved

Three parties, an assurance provider, an accountable party and key intended users, are involved in CSR information assurance.

(2) Assurance provider

The assurance provider for CSR information assurance is the party that assures the CSR information. Neither the accountable party nor the key intended users can be an assurance provider because it is vital that assurance providers maintain fairness and impartiality from an independent standpoint. Assurance providers must fulfill prerequisites to assure CSR information: ethical compliance as professional experts and self-determination of procedures, timing and scope of engagements, including expert consultation, etc.

(3) Accountable party

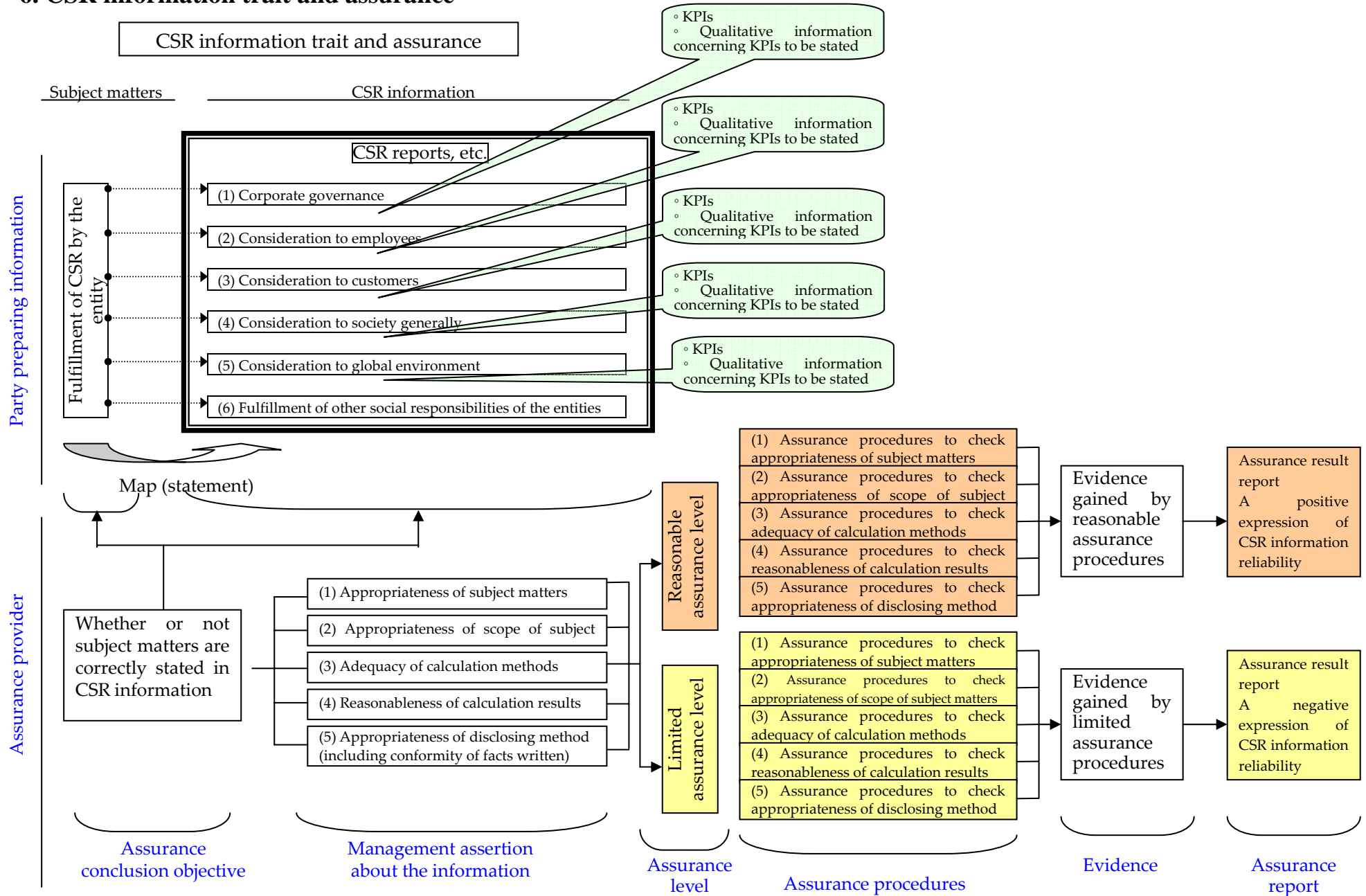
The accountable party is responsible for disclosing CSR information to the key intended users and for fulfilling the social responsibility of the entity.

(4) Key intended users

Key intended users are users of assurance providers' assurance reports. Assurance reports are for all key intended users. Because there are so many unspecific intended users of CSR information assurance, key intended users are assumed to be parties significantly affected by the fulfillment of the entity's CSR or parties who significantly affect the fulfillment of the entity's CSR. For CSR information assurance, key intended users include investors, clients, consumers and employees.

In the case that assurance providers wish to limit the users or the purpose of use of their assurance reports, they must note this in the assurance reports. The accountable party can be one of the intended users but cannot be a sole intended user.

6. CSR information trait and assurance



(1) Subject matters in CSR information

Subject matters in CSR information are fulfillment of the entity's CSR, and information regarding this fulfillment is contained in CSR information. Concerning appropriate subject matters in CSR information, it should be possible to distinguish them, to perform consistent evaluation or measurement based on suitable criteria, and to obtain sufficient appropriate evidence to make assurance providers consider CSR information appropriate. It is possible to perform CSR information assurance for appropriate subject matters.

(2) Trait of CSR information

There are six types of CSR information, as described above. Each piece of information belonging to one of the six types has different features: quantitative or qualitative, objective or subjective, historic or forecast, momentarily effective information or information effective for a certain period of time, etc. These characteristics affect the judgment of assurance providers concerning the accuracy of CSR information, and the persuasive power of evidence possible to obtain.

(3) Assurance

Details of CSR information assurance depend on the assurance conclusion objective (the matter to be assured) and the assurance level (the degree of assurance).

i. Assurance conclusion objective

The assurance conclusion objective is trustworthiness of the CSR information, that is the reason for assuring the CSR information, and means what is to be assured.

The CSR report does not include multiple information for any particular information, but includes diverse CSR information. CSR information is usually included in the CSR report² or in other reports of entities. Considering that such reports contain diverse CSR information with different traits together, the assurance conclusion objective of CSR information assurance should not have a fixed definition and should have various definitions in accordance with the traits of the CSR information.

There are three kinds of understanding of assurance conclusion objectives of CSR information assurance based on the assumption that the assurance conclusion objective differs according to the traits of the CSR information:

- a. All important CSR information is collated and reported in accordance with suitable criteria and information preparation procedures determined by the entity.

² In this report, CSR reports, etc., are reports of matters concerning fulfillment of entities' CSR, and are also known as environmental reports, environmental and social reports, and sustainability reports.

- b. All important CSR information is prepared in accordance with suitable criteria, it does not conflict with evidence obtained by the assurance provider, and it is based on the fact of the subject matters indicated by the CSR information.
- c. All important CSR information is prepared in accordance with suitable criteria and it appropriately states the subject matters indicated by the CSR information.

The three kinds of understanding of assurance conclusion objective do not conflict with each other: they are related concepts. In usual cases, (b) is the prerequisite of (c); (a) is the prerequisite of (b).

It is possible that common social consent has not been reached for some CSR information because of its diverse characteristics. It should be noted that in this case, the assurance conclusion objective of CSR information assurance is determined by the suitability of the criteria applied to the assurance by the assurance provider.

Therefore, in this report, if (a) and (b) above are met, it is regarded as (c), a fair statement. This means, in the same way as financial accounting standards and audit standards developed, as suitable criteria develop, so will CSR information assurance.

ii. Assurance levels of CSR information assurance

The assurance level indicates the degree of certainty of the assurance conclusion objective which assurance providers obtain as a result of CSR information assurance. For this reason, assurance level differs if the meaning, procedures, scope and timing of the assurance conclusion objective differ. The higher the assurance level, the lower the assurance risk should be.

(4) Assurance details

Assurance details are determined by two factors, namely, the assurance conclusion objective and the assurance level. Assurance details vary because of the diversity of CSR information and because the assurance level is determined by the meaning of the assurance conclusion objective of the CSR information assurance. Details of the assurance which assign trustworthiness in CSR information are as follows, taking into consideration that assurance has two levels — reasonable and limited, social significance, and should be understood by key intended users.

Assurance level	Assurance details
When assigning reasonable assurance	Whether or not all important CSR information complies with suitable criteria, is collated and reported in accordance with information preparation procedures determined by the entity, does not conflict with evidence obtained by the assurance provider, and is based on the fact of fulfillment of the entity's CSR as set out in its CSR information.
When assigning limited assurance	Whether or not any important CSR information is acknowledged as not being in compliance with suitable criteria, is not collated or reported in accordance with information preparation procedures determined by the entity, conflicts with evidence obtained by the assurance provider, or is not based on the fact of fulfillment of the entity's CSR as set out in its CSR information, due to performance of limited procedures by the assurance provider.

(5) Management assertion about the information

Assurance details are the entire assurance conclusion objective to be clarified by CSR information assurance, and management assertion about the information is a proposition for which application of assurance procedures is possible by fractionating the entire assurance conclusion objective.

There are at least five kinds of management assertion about the information for CSR information assurance. Management assertion about the information should be set for each type of CSR information, and assurance procedures suitable for each management assertion about the information should be selected and applied.

The following are management assertions about the information related to quantitative information.

i. Appropriateness of subject matters

Subject matters are the matters subject to assurance. Subject matters are appropriate when major information in CSR reports, etc., is based on the fact of fulfillment of entities' CSR (substantiality) and is prepared in accordance with preparation criteria (compliance with criteria), without any omission (inclusiveness) and continuously (continuance).

ii. Appropriateness of scope of subject matters

Scope of subject matters means group companies, divisions, types and details of quantitative information, etc. Scope of subject matters is appropriate when the scope of major CSR information collated and reported is based on the fact of fulfillment of entities' CSR (substantiality) and in accordance with preparation criteria (compliance with criteria), without any omission (inclusiveness) and continuously (continuance).

iii. Adequacy of calculation methods

Calculation methods include formulas, conversion methods and measurement methods. Calculation methods are adequate when calculation methods used for important quantitative CSR information are applied reasonably (reasonableness) and continuously (continuance) in accordance with preparation criteria (compliance with criteria).

iv. Reasonableness of calculation results

Calculation results are the results of important quantitative CSR information obtained using predetermined calculation methods. Calculation results are reasonable when accurate information (accuracy) of activities which are in existence (substantiality) is calculated with appropriate calculation processes without any omission (inclusiveness), and the results of such calculations are for the appropriate period (period relevance).

v. Appropriateness of disclosing method (including conformity of facts written)

The disclosing method is appropriate when CSR information (including important quantitative information and relating qualitative information) is based on the fact of fulfillment of entities' CSR (substantiality) and in accordance with preparation criteria (compliance with criteria), without any omission (inclusiveness) and continuously (continuance), and the statement is appropriate and without bias (fair and neutral)

With regard to qualitative information, (i), (ii) and (v) above apply as is, but (iii) and (iv) require changes. In (iii) adequacy of calculation methods, appropriateness is required in the collating of qualitative CSR information, and in (iv) reasonableness of calculation results, reasonableness is required in qualitative CSR information.

7. Criteria

(1) Criteria requirements

Suitable criteria to assure CSR information are criteria used to evaluate or measure entities' fulfillment of CSR by accountable parties to prepare CSR information and by assurance

providers to announce their conclusions. Suitable criteria to assure CSR information should be rigorously sought; it is inappropriate for assurance providers to use their own expectations, judgment and experience. They must meet all of the following general requirements of relevance, completeness, reliability, neutrality and understandability.

i. Relevance

The criteria should assist key intended users (investors, clients, consumers, employees, etc.) to make decisions and reach conclusions.

ii. Completeness

The criteria should cover all factors related to the economy, the environment and society which affect the conclusion reached for each engagement circumstance. In case of relevance, criteria should include criteria for statements and disclosure.

iii. Reliability

The criteria should be reliable and facilitate rational and consistent evaluation or measurement of subject matters when assurance providers use the criteria under the same conditions.

iv. Neutrality

The criteria should be neutral and facilitate reaching unbiased conclusions.

v. Understandability

The criteria should facilitate reaching clear and comprehensive conclusions, should not lead to complete misunderstanding, and should be understandable for the three parties involved in CSR information assurance.

(2) Application of criteria

Some criteria are set individually in accordance with entities' fulfillment of CSR, in addition to established standards. Established standards include laws, regulations and standards, such as the Environment Reporting Guidelines of the Ministry of the Environment, the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI), which were prepared following fair and transparent procedures by a broad range of relevant people and which were announced by authoritative or recognized organizations.

i. Assessment of relevance of criteria

Assurance providers assess the relevance of the criteria for each CSR information

assurance. If entities' fulfillment of CSR is evaluated or measured in compliance with an established criterion, that criterion is the relevant evaluation or measurement criterion for assurance providers. Concerning individually set criteria, such as the Ministry of the Environment's Guidelines for calculation methods for greenhouse gas emissions by entities, assurance providers assess the relevance of the criteria for the specific engagement based on the above requirements.

ii. Individually set criteria

If any of an entity's CSR is not covered by an established criterion, individually set criteria may be used. Assurance providers ensure that the use of individually set criteria does not cause misunderstanding of assurance reports by key intended users.

Assurance providers should endeavor to have the understanding of key intended users and the counter party of the contract that the specially developed criteria meet the purposes of the key intended users. If such understanding cannot be obtained, assurance providers should investigate the effect on procedures for relevance assessment of identified criteria and information of criteria to be provided in assurance reports.

Suitable criteria are important and a prerequisite for assurance of CSR information. The relevance of the criteria should be rigorously investigated.

(3) Availability for key intended users

Criteria should allow key intended users to understand how entities' fulfillment of CSR was evaluated or measured. The following criteria may be used by key intended users and are understandable by key intended users.

- i. Published criteria.
- ii. Criteria clarified by accountable parties together with CSR information.
- iii. Criteria stated in assurance reports.
- iv. Criteria that are generally recognized.

8. Assurance contracts

(1) Restrictions in conclusion of contracts

Assurance providers must not conclude any assurance contract that may damage social trust in CSR information assurance; for example, contracts requiring specialized knowledge exceeding that of the assurance providers. Assurance providers must not conclude contracts in a manner which damages their reputation or in a manner which damages trust between assurance providers.

(2) Preparation of contracts

Whether or not to conclude CSR information assurance contracts must be rigorously examined by considering the following points. The conclusion should be written to clarify the process.

i. Responsibilities of parties involved

CSR information assurance contracts may be concluded only when CSR reports are prepared by a concerned party other than the key intended users or assurance providers. The accountable party may be one of the users, but not the sole user.

ii. Engagement conditions

CSR information assurance contracts cannot be concluded if any of the following conditions is not met:

- a. There are appropriate subject matters of CSR information.
- b. There are suitable criteria.
- c. There is sufficient appropriate evidence.
- d. Reasonable assurance or limited assurance is granted as a conclusion of CSR information assurance and can be included in written reports in an appropriate format.
- e. No restrictions on assuring CSR information.
- f. A party to the contract is not allowed to inappropriately link an assurance provider with a CSR report.

iii. Professional competence of assurance providers

Assurance providers are allowed to conclude CSR information assurance contracts on condition that the performers of assurance engagements fulfill the ethical requirements for the engagements and that a team of such people collectively possesses the required professional competence. A CSR report usually consists of diverse information stated in this report. Assurance providers are assigned to perform assurance engagements on a wide range of entities' CSR and must assign people with the specialized knowledge required for assurance engagements to assure CSR information.

9. Assurance planning

(1) Planning

Assurance providers must assure CSR information in accordance with an appropriate plan.

i. Appropriate planning

a. Planning

Assurance providers must develop overall strategies and plans to assure CSR

information effectively and efficiently. Details and the extent of such plans differ according to the engagement circumstances.

b. Revision of plans

As CSR information assurance engagements progress, plans should be continuously monitored and revised at appropriate points in time.

ii. Items to be considered when planning

- a. terms of engagements
- b. suitable criteria
- c. understanding of entities and systems
- d. assurance risks (inherent risk, control risk, detection risk).
- e. knowledge required by assurance providers, expertise of team members
- f. materiality (quantitative and qualitative materiality)
- g. use of conclusions of other assurance providers
- h. use of work of other experts
- i. use of internal auditing and certification of international standards such as ISO14001
- j. timing of procedures
- k. entity's size, complexity, past engagements

(2) Professional skepticism

Assurance providers should prepare and execute CSR information assurance plans with professional skepticism based on the understanding of the possible existence of a material misrepresentation in CSR information. Professional skepticism means critically assessing the adequacy of the information that assurance providers obtained as evidence, with a professional spirit of detached inquiry.

(3) Consideration of risk

Assurance providers must prepare assurance plans taking into consideration assurance risks and materiality in order to assure CSR information effectively and efficiently.

(4) Professional judgment

Assurance providers must understand the degree of fulfillment of CSR of entities and the engagement circumstances in order to prepare and execute CSR information assurance plans. Assurance providers should exercise professional judgment on the degree of understanding required. Assurance providers must examine whether or not such understanding is sufficient for the assessment of a risk of material misrepresentation in CSR information. Usually, the understanding required of assurance providers is less than

that required of accountable parties.

Assurance providers exercise professional judgment for the following:

- i. Investigation into the features of CSR information.
- ii. Assessment of appropriateness of criteria.
- iii. Identification of fields requiring special investigations with special competencies and other experts.
- iv. Determination of level of materiality in the context of quantitative factors (the level of other entities in the same business and the level in society) and examination of materiality in the context of qualitative factors taking into consideration the interests of key intended users, as required.
- v. Setting expected values when performing analytical procedures.
- vi. Procedures, planning and execution to gather additional evidence to reduce assurance risks to an appropriate level.
- vii. Assessment of evidence including assessment of the rationality of the statements of accountable parties.

10. Evidence

(1) Obtaining evidence

Assurance providers investigate materiality, assurance risks and the sufficiency and appropriateness of both the quantity and the quality of effective evidence in order to determine evidence-gathering procedures, the timing and the scope. Concerning the reliability of information to be used as evidence, internal control for the preparation and maintenance of such information should be also examined.

(2) Sufficiency and appropriateness of evidence

- i. Assurance providers are required to obtain evidence considering the quantitative sufficiency and qualitative appropriateness of evidence, such as relevance and reliability. Qualitative requirements cannot be fulfilled by increasing the quantity of evidence obtained. Assurance providers should obtain evidence efficiently, but failing to gather sufficient appropriate evidence in order to cut costs is unacceptable.
- ii. The reliability of evidence is affected by the source, characteristics and the circumstances in which the evidence is obtained. In the case that evidence obtained is not consistent with evidence from another source or evidence of different characteristics, assurance providers should make a judgment as to obtain additional evidence to solve the inconsistency.

iii. When assessing the sufficiency and appropriateness of evidence to support assurance reports, assurance providers are required to exercise professional skepticism.

(3) Materiality

When determining evidence-gathering procedures, the timing and the scope, and the existence of misrepresentations in CSR information, assurance providers must consider materiality.

Assurance providers judge the materiality of specific engagements and assess the relative materiality of qualitative and quantitative factors.

Assurance providers must investigate matters both quantitatively and qualitatively, when examining materiality, including understanding and judging the factors which affect the decision making of key intended users, the relative importance, degree of influence of diverse factors concerning the evaluation or measurement of subject matters, and the interests of key intended users.

Units of quantitative CSR information are diverse and include units of currencies, weights, volumes, numbers of items, numbers of people, densities and rates. Even if values are in the same units, the materiality in the context of quantitative factors of those values may differ depending on the types of CSR information. Some factors with small values may be important as quantitative factors, and vice versa, depending on the types of CSR information. Judgment should be based on an assessment of materiality in the context of qualitative factors by type of CSR information.

(4) Assurance risks

i. Assurance risk factors

Assurance risk is the possibility that assurance providers reach inappropriate conclusions because of material misrepresentations in the CSR information. There are the following general factors of assurance risk.

a. Inherent risk

The possibility of material misrepresentations with an assumption of non-existence of relevant internal control.

b. Control risk

The possibility that material misrepresentations are not prevented or detected in a timely

manner by relevant internal control.

c. Detection risk

The possibility that material misrepresentations are not detected by assurance providers' CSR information assurance procedures.

The degree of investigation into the above risk factors by assurance providers is determined by the engagement circumstances, particularly the characteristics of subject matters and whether engagements are performed for reasonable assurance or limited assurance.

ii. Risk approach

Assurance providers determine the level of detection risk by assessing the inherent risk, and control risk individually or together in order to reduce assurance risk to an acceptably low level for reasonable assurance or limited assurance. Assurance providers decide the evidence-gathering procedures, the timing and the scope based on the determined level.

iii. Assurance risk level

For reasonable assurance, assurance providers reduce assurance risk to an acceptably low level in the circumstances of engagements to obtain reasonable assurance as the basis for a positive expression of assurance providers' conclusion. The level of assurance risk may be set higher for limited assurance than for reasonable assurance. However, in limited assurance, the combination of the nature, timing and the scope of evidence-gathering procedures should be at least sufficient for assurance providers to obtain a meaningful level of assurance as the basis for a negative form of expression, in order to secure the trust of key intended users. To be meaningful, the level of assurance obtained is likely to enhance the key intended users' confidence about CSR information to a degree that is clearly greater than inconsequential.

(5) Evidence-gathering procedures, timing and extent

i. Reasonable assurance

For reasonable assurance as the basis for a positive expression of assurance providers' conclusion, assurance providers should obtain sufficient appropriate evidence with the following interactive and systematic engagement process.

a. Understanding the engagement circumstances including the fulfillment of CSR and

the internal control of entities.

- b. Assessing the risk of possible material misrepresentation in CSR information based on an understanding of the engagement circumstances.
- c. Planning and deciding the nature, the timing and the scope of the procedures for the entire engagements in accordance with risk assessment.
- d. Using procedures clearly linked with identified risks.
- e. Assessing the sufficiency and appropriateness of evidence.

ii. Limited assurance

Interactive and systematic engagement process including understanding of entities' fulfillment of CSR and of the engagement circumstances is also required for limited assurance, and sufficient appropriate evidence should be obtained following predetermined procedures. The nature, the timing and the scope of the procedures for gathering sufficient appropriate evidence for a limited assurance are limited relative to a reasonable assurance. It is generally considered that sufficient appropriate evidence required by limited assurance is gained through analytical procedures and inquiries.

(6) Quantity and quality of evidence possible to use

i. Quantity and quality of evidence

The quantity and quality of evidence which assurance providers can use is examined taking into consideration the effect of CSR information characteristics including predicted information, and the effect of restrictions by accountable parties and physical restrictions.

ii. Formation of bases

In the case that assurance providers cannot obtain sufficient appropriate evidence because of the engagement circumstances or restrictions by accountable parties, they cannot gain the basis required to report their conclusion.

(7) Evidence-gathering procedures

Assurance providers must complete the evidence-gathering procedures required to gather sufficient appropriate evidence in accordance with management assertions about the information. Briefly, the evidence-gathering procedures in accordance with management assertions about the information are as follows.

i. Evidence-gathering procedures to examine the appropriateness of subject matters

- a. Important CSR information is acknowledged by gaining an understanding of the business outline and engagement circumstances. In order to acknowledge important

CSR information, statutory requirements and voluntary agreements, etc., are examined and risks for potential subject matters are assessed.

- b. The possibility of application of criteria of potential subject matters is assessed. Candidate subject matters are obtained, compared with, and examined against, the requirements of suitable criteria, subject matters of the previous fiscal year and subject matters of companies in the same business.
- c. Criteria to judge the materiality of CSR information not to be stated is inquired of. Relevant reference materials are obtained to compare with, and examine against, subject matters of the previous fiscal year and of companies in the same business.

ii. Evidence-gathering procedures to examine the appropriateness of the scope of subject matters

- a. The possible scope of subject matters is obtained, compared with, and examined against, the requirements of suitable criteria and the scope of the previous fiscal year and, if possible, the scope of companies in the same business.
- b. If there are processing, divisions and group companies, etc., which are not included in the scope, then the criteria to judge the materiality of these is inquired of and relevant reference materials are obtained to compare with, and examine against, the scope of the previous fiscal year and of companies in the same business.

iii. Evidence-gathering procedures to examine the adequacy of calculation methods

- a. Calculation methods are inquired of and are checked to determine whether they meet the requirements of suitable criteria and calculation methods used in the previous fiscal year, to be also used for the current fiscal year.
- b. The source of coefficients used in calculations is checked. If they are actually measured values or are not published, the adequacy of using the coefficients is assessed.

iv. Evidence-gathering procedures to examine the reasonableness of calculation results

- a. The calculation process is assessed by walking through it.
- b. Calculations are made again by referring to the evidence to check the results of the calculations. In the case that variables used in calculations are actually measured values, the results of the calculations should be checked against the results obtained by other experts as much as possible.
- c. Analytical procedures are performed for calculation results using values already

gained from basic data, the calculation results of the previous fiscal year and of companies in the same business.

d. Verification procedures are performed to examine accuracy.

v. Evidence-gathering procedures to examine the appropriateness of the disclosing method

a. The information to be disclosed is checked against the requirements of the suitable criteria and information disclosed in the previous fiscal year.

b. The information to be disclosed is checked against statements.

c. The adequacy of the notes concerning the calculation methods is assessed. Notes should include qualitative information required to understand quantitative information.

11. Representation letter from the accountable party

(1) Obtaining representation letter and report on conclusion

Assurance providers are required to obtain a representation letter stating that the entity has fulfilled the CSR, responsibility for CSR information disclosed and items required for checking from the accountable parties. Written confirmation of oral representations reduces the possibility of misunderstanding between assurance providers and accountable parties. In cases where representation letters are not obtained, it is understood that the scope of the CSR information assurance is restricted and either a report of limited conclusion or no report should be made.

(2) Assessment of representation

During CSR information assurance engagements, accountable parties may make statements to assurance providers using representation letters or in other forms of writing or orally. In the case that such statements concern CSR information or important matters for the assessment of an entity's fulfillment of CSR, the following procedures should be followed.

i. Assessment of rationality of such statements (including consistency between statements and obtained evidence).

ii. Examination as to whether or not the people who made such statements have sufficient relevant information.

iii. Assessment as to whether or not other supplementary evidence should be obtained.

(3) Limits of evidence and representation letters to be obtained

Although representation letters are important to learn the facts believed by the accountable

parties, concerning the entire CSR information assurance, representation letters cannot replace other evidence obtained by assurance providers. In the case that sufficient appropriate evidence is not obtained for a matter which does or may significantly affect the assessment of CSR information or an entity's fulfillment of CSR, the scope of the CSR information assurance is limited, even if a representation letter is obtained from an accountable party.

12. Use of the work of experts other than assurance providers

(1) Use of the work of other experts

When the work of experts other than assurance providers is used in the collection and assessment of evidence, assurance providers must judge whether or not sufficient appropriate evidence has been obtained. Assurance providers and other experts used must have appropriate knowledge and skills required for their own services for CSR information and criteria to prepare CSR information.

(2) Improvements in quality control system

Assurance providers must request other experts they assign to implement the quality control system stated in this report and ensure that they follow quality control procedures.

(3) Scope of use of assigned experts

Assurance providers are required to understand the work done by other experts so that they can bear responsibility for their own conclusions. Assurance providers must determine a reasonable scope of work to be done by other experts to announce their own conclusion.

(4) Knowledge and skills required by assurance providers

Assurance providers are not required to have the same knowledge and skills of other experts they assign, but must have knowledge and skills sufficient to perform the following.

- i. Define the objectives of the work assigned to other experts and how these objectives relate to the objectives of the CSR information assurance.
- ii. Judge the reasonableness of the assumptions, methods and source data used by assigned experts.
- iii. Judge the reasonableness of assigned experts' findings in relation to the CSR information assurance objectives and conclusions.

(5) Assessment of work done by other experts

Sufficient appropriate evidence should be obtained to prove that the work done by other experts is appropriate for the objectives of CSR information assurance. Judgment of the sufficiency and appropriateness of evidence obtained through the work of other experts shall be based on assessment of the following.

- i. The competence, experience and objectivity of the other experts.
- ii. The reasonableness of the assumptions, methods and source data used by other experts.
- iii. The reasonableness of findings of other experts in relation to the objectives and the conclusion of the CSR information assurance.

13. Subsequent events

Events which occur subsequent to the issue date of a CSR report or the period covered by the report until the date of the assurance report may affect the CSR information and assurance report. Assurance providers judge whether or not to take such events into consideration based on the possibility and degree of influence of such events on CSR information and assurance reports. In the case that such events significantly affect entities' fulfillment of CSR or the conclusions of assurance providers, assurance providers must examine whether or not such events are appropriately reflected in CSR information or appropriately treated in assurance reports.

14. Assurance reports

(1) Statements in assurance reports

In assurance reports, assurance providers state the criteria applied in assessments of CSR information (judgment criteria), criteria applied in CSR information assurance engagements (CSR information assurance engagement criteria), whether or not sufficient appropriate evidence has been obtained to support the conclusions, and their conclusions gained through assurance engagements. The assurance report must clearly state whether CSR information has reasonable assurance or limited assurance.

(2) Report on conclusion

i. Assurance reports for reasonable assurance

In case of reasonable assurance, assurance providers state in assurance reports that they have followed the procedures to reduce the assurance risks of CSR information subject to CSR information assurance to an appropriate level for reasonable assurance and to report their conclusion with a positive expression. In this case, it is reported that all

material CSR information meets the suitable criteria, has been collated and reported in accordance with information preparation procedures determined by the entity, does not conflict with evidence obtained by the assurance provider, and is based on the fact of the entity's fulfillment of CSR.

ii. Assurance reports for limited assurance

In case of limited assurance, assurance providers state in assurance reports that they have followed the procedures to reduce the assurance risks of CSR information to an appropriate level for limited assurance and report their conclusion with a negative expression. In this case, it is reported, based on the conclusion of the relevant assurance provider gained through limited procedures, whether there is any evidence to believe that any material CSR information does not meet the suitable criteria, has not been collated or reported in accordance with information preparation procedures determined by the entity, conflicts with evidence obtained by the assurance provider, or is not based on the fact of the entity's fulfillment of CSR.

iii. Report on the conclusion on CSR information generally and report on the conclusion by type of CSR information.

Reasonable assurance or limited assurance is given for both cases of report on the conclusion on CSR information generally and of report on the conclusion by type of CSR information.

(3) Exclusion, etc., of reports of conclusion

If there is limitation in the scope of CSR information assurance engagements performed by assurance providers, disclaimers of conclusion and qualified conclusions must be investigated based on the extent of the effect of such limitation.

In the case that a conclusion is not reached that CSR information meets the suitable criteria, is collated and reported in accordance with information preparation procedures determined by the entity, does not conflict with evidence obtained by the assurance provider, and is based on the fact of the entity's fulfillment of CSR, qualified conclusions and adverse conclusions must be investigated based on the degree of the materiality.

(4) Matters to be stated in assurance reports

It is desirable that the following are stated in assurance reports.

i. Title

- ii. Date
- iii. Addressee
- iv. Name of the entity or person who assured the CSR information
- v. CSR information preparation criteria
- vi. Usage limitation of the assurance report
- vii. CSR information subject to assurance and its characteristics
- viii. Identification of the accountable party; the responsibilities of the accountable party and the assurance provider
- ix. Assurance engagements were performed in compliance with CSR information assurance engagement criteria
- x. Outline of engagements performed
- xi. Conclusion of the assurance provider
- xii. Material inherent limitations for CSR information assessment based on criteria (if necessary)
- xiii. Existence of significant interest.