



**INTERNATIONAL AUDITING AND ASSURANCE
STANDARDS BOARD (IAASB)**

**DISCUSSION PAPER – SUPPORTING CREDIBILITY AND TRUST
IN EMERGING FORMS OF EXTERNAL REPORTING: TEN KEY
CHALLENGES FOR ASSURANCE ENGAGEMENTS**

RESPONSE FROM ICAS TO THE IAASB

3 February 2017

Background

ICAS welcomes the opportunity to comment on the International Auditing and Assurance Standards Board discussion paper: Supporting Credibility and Trust in Emerging Forms of External Reporting (EER): Ten Key Challenges for Assurance Engagements.

Our CA qualification is internationally recognised and respected. We are a professional body for over 21,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's and the world's great companies.

Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

General comments

We welcome the IAASB's decision to initiate a discussion around developments in EER and how assurance might also need to develop. We believe that assurance could play an essential role in enhancing credibility and trust in EER reports.

We agree with the working group's assessment of the ten key challenges and believe that they have been well-presented within the discussion paper.

We are aware that there is currently divergence in the type and nature of EER reports thereby making it difficult to achieve some level of consistency. The fact that the reporting environment is also still evolving poses a challenge for assurance providers.

For that reason, it is important for the IAASB to adopt a principles-based approach to the development and issue of any guidance so that it is sufficiently flexible, and remains relevant, as best practice in EER emerges and evolves.

Our responses to the individual questions in the discussion paper are detailed below:

Specific questions

Question 1 - Credibility and Trust

Section III describes factors that enhance the credibility of EER reports and engender user trust.

- a. Are there any other factors that need to be considered by the IAASB?
- b. If so, what are they

Response to Question 1

We are supportive of the factors which have been identified. In relation to the first of these "sound reporting framework" it is important that attempts are made to establish global norms to allow users to seek to improve distillation of best practice. There is also a need to ensure that appropriate experts with the right credentials and experience are involved in the particular reporting and related assurance thereon.

One important issue that could be considered by the IAASB is the extent to which assurance on EER reports might prevent the information in these reports being used as a promotional communication to enhance an organisation's reputation.

The need for the external assurance provider to be objective and independent of the organisation are further factors that should be considered. The related quality control requirements must also be considered. Consideration should be given to see how the identified factors relate to those in the IAASB' audit quality framework.

Question 2 - Credibility and Trust

Sections II and IV describe different types of professional services that are either currently performed or could be useful in enhancing credibility and trust.

- a. Are there other types of professional services the IAASB needs to consider, that are, or may in future be, relevant in enhancing credibility and trust?
- b. If so, what are they?

Response to Question 2

- a. Whilst we believe that the various types of professional services described in sections II and IV are wide ranging given the current speed of developments in society, we would encourage the IAASB to monitor any activities and professional services being undertaken both at a local level within jurisdictions but also those which are being undertaken across jurisdictions. This should be done to obtain feedback on their respective effectiveness/relevance in enhancing credibility and trust.
- b. Those we would highlight are:
 - Hybrid engagements which can comprise an agreed upon procedures type engagement being supplemented with additional assurance procedures. Whilst these will vary from scenario to scenario the common thread is the need for the practitioner to exercise professional judgement both in determining the work to be undertaken as well as in interpreting the results.
 - Expert Opinions.

Question 3 – Credibility and Trust

Paragraphs 23–26 of Section II describe the responsibilities of the auditor of the financial statements under ISA 720 (Revised) with respect to the other information included in the annual report.

- a. Is this sufficient when EER information is included in the annual report; or
- b. Is there a need for assurance or other professional services, or for further enhancement of the responsibilities of the financial statement auditor, to enhance credibility and trust when EER information is in the annual report?

Response to Question 3

- a. We are aware and acknowledge that ISA 720 has been recently revised, and note that during the audit of the financial statements, the auditor has some responsibilities in relation to 'Other information' included in the annual report, although stress that this does not constitute assurance.

We believe that there is still an expectation gap surrounding 'other information' on the part of some stakeholders and a misunderstanding as to the extent of the auditor's responsibility in relation to this 'other information'. There is a risk that this expectation gap risk might increase as more forms of EER are included in the annual report and users increasingly place reliance on the information reported.

Enhancing the responsibilities of the financial statements auditor could go some way to addressing this expectation gap but there needs to be some evidence of a demand for this additional level of assurance and perhaps clarification of the extent to which assurance, is, or is not, currently being provided.

- b. In the shorter term, we believe that determination of the appropriate level of assurance over EER information should be left to those charged with governance. However, over time we would expect that pressure will build from users and regulators will need to respond to whether the existing responsibilities of auditors are still adequate for modern day society. We would highlight that it is likely that the subject of auditor liability in many jurisdictions would also need to be revisited.

Question 4 – Scope of the IAASB’s International Standards and Related Guidance

Section IV describes the different types of engagements covered by the IAASB’s International Standards and Section V suggests that the most effective way to begin to address these challenges would be to explore guidance to support practitioners in applying the existing International Standards for EER assurance engagements.

- a. Do you agree?
- b. If so, should the IAASB also explore whether such guidance should be extended to assist practitioners in applying the requirements of any other International Standards (agreed-upon procedures or compilation engagements) and, if so, in what areas? (For assurance engagements, see Q6-7)
- c. If you disagree, please provide the reasons why and describe what other action(s) you believe the IAASB should take.

Response to Question 4

- a. We agree that the IAASB could assist practitioners through the provision of some guidance to help them overcome the key challenges identified in the application of the existing International Standards to EER assurance engagements and that this is preferable to creating a new standalone standard.
- b. We are aware that the main source of guidance for the provision of assurance on EER reports is currently ISAE 3000. We do have some concern as to whether this standard is the most appropriate for EER engagements given their subjective nature and the ability to only provide either limited or reasonable assurance under ISAE 3000. Therefore, we would be supportive of the IAASB considering the possibility of applying some of the other International Standards such as agreed-upon-procedures to assist practitioners in these engagements. However, given that many EER type engagements are of a private nature it would be worthwhile considering whether guidance could be produced to assist practitioners in undertaking engagements of this nature. The question of course is who would be best placed to issue such guidance.
- c. Not applicable.

Question 5 – Scope of the IAASB’s International Standards and Related Guidance

The IAASB would like to understand the usefulness of subject-matter specific assurance standards. ISAE 3410, a subject matter specific standard for assurance engagements relating to Greenhouse Gas Statements, was issued in 2013.

- a. Please indicate the extent to which assurance reports under ISAE 3410 engagements are being obtained, issued or used in practice by your organization.
- b. If not to any great extent, why not and what other form of pronouncement from the IAASB might be useful?

Response to Question 5

ISAE 3410 is not widely used in the UK largely because carbon emissions disclosures are required in the Strategic Report and the auditor’s responsibility in relation to this information is established under local requirements.

However, we are led to believe that these requirements are not consistently applied due to a lack of clarity over the nature of and content of the required disclosures and how they should be presented.

Therefore, any actions taken by the IAASB to assist in this matter might be limited until a more consistent approach to disclosures can be agreed. Perhaps the work being done by the Financial Stability Board Task Force on Climate-Related Disclosures (FSB TCFD) in developing its recommendations for the standardised disclosure of risks and opportunities relating to climate change in financial filings, might help to deliver a consistent framework.

Question 6 – Scope of the IAASB’s International Standards and Related Guidance

Section V suggests it may be too early to develop a subject-matter specific assurance engagement standard on EER or particular EER frameworks due to the current stage of development of EER frameworks and related standards.

- a. Do you agree or disagree and why?

Response to Question 6

We agree that it may be too early to develop a subject matter specific assurance engagement standard on EER or particular EER frameworks due to the evolving nature of the reporting environment.

We also believe that it is important for the IAASB to adopt a principles-based approach to the development and issue of any guidance so that it is sufficiently flexible, and remains relevant, as best practice in EER emerges and evolves.

Question 7 – Ten Key Challenges in Relation to EER Assurance Engagements

Section V describes assurance engagements and the Ten Key Challenges we have identified in addressing EER in such engagements (see box below) and suggests that the most effective way to begin to address these challenges would be to explore guidance to support practitioners in applying the IAASB’s existing International Standards to EER assurance engagements.

- a. Do you agree with our analysis of the key challenges?
- b. For each key challenge, do you agree that guidance may be helpful in addressing the challenge?
- c. If so, what priority should the IAASB give to addressing each key challenge and why?
- d. If not, why and describe any other actions that you believe the IAASB should take.
- e. Are there any other key challenges that need to be addressed by the IAASB’s International Standards or new guidance and, if so, what are they, and why?

The Ten Key Challenges

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|---|---|
| Scoping EER assurance engagements | Narrative information |
| Suitability of criteria | Future-oriented information |
| Materiality | Professional skepticism and professional judgment |
| Building assertions in planning and performing the engagement | Competence of practitioners performing the engagement |
| Maturity of governance and internal control processes | Form of the assurance report |

Response to Question 7

Whilst we agree with the working group’s assessment of the ten key challenges as areas which would benefit from some guidance, we believe that greater priority be given to the following challenges:

- Suitability of criteria – It is important for the assurance provider to understand how management determines the criteria for reporting and how the suitability of these criteria should be evaluated. When developing an EER report the criteria used by management will need to address how they have identified the appropriate content of the report. One essential element is the completeness criterion. Completeness of information is a fundamental principle and is also linked to the concepts of internal control and materiality.

- Materiality - Materiality is a challenging aspect and would benefit from being explored further, particularly in relation to narrative reporting and the need to consider both qualitative and quantitative materiality.
- Form of the assurance report – The form and content of the assurance report, and the way in which any opinion or conclusion should be expressed, will most likely need greater consideration.

Question 8 – Potential Demand for Assurance Engagements and Other Professional Services

The IAASB wishes to understand the impact on potential demand for assurance engagements, if the Ten Key Challenges we have identified can be addressed appropriately, and, in particular, whether:

- Doing so would enhance the usefulness of EER assurance engagements for users
 - Such demand would come from internal or external users or both
 - There are barriers to such demand and alternative approaches should be considered.
- a. Do you believe that there is likely to be substantial user demand for EER assurance engagements if the key challenges can be appropriately addressed?
 - b. If so, do you believe such demand:
 - (i) Will come from internal or external users or both?
 - (ii) Will lead to more EER assurance engagements being obtained voluntarily or that this outcome would require legal or regulatory requirements?
 - c. If not, is your reasoning that:
 - (i) EER frameworks and governance will first need to mature further?
 - (ii) Users would prefer other type(s) of professional services or external inputs (if so, what type(s))?
 - (iii) There are cost-benefit or other reasons (please explain)?

Response to Question 8

The extent of the demand for assurance EER reports is hard to gauge as the nature of these types of reporting engagements is still evolving as the information needs of the capital markets change. This evolution may lead to increased user demand depending upon the level of importance investors place on such information reported by companies, but also upon the level of assurance that can be provided, the nature of the opinion/conclusion and how this is expressed in the assurance provider's report.

Question 9 - Potential Demand for Assurance Engagements and Other Professional Services

The IAASB would like to understand stakeholder views on areas where the IAASB should be collaborating with other organizations in relation to EER reporting.

- a. For which actions would collaboration with, or actions by, other organizations also be needed?

Response to Question 9

The International Integrated Reporting Council, IIRC, has established the Corporate Reporting Dialogue to bring together all the individual bodies that are actively engaged in this area. We would suggest that the IAASB considers collaboration with the IIRC to help achieve greater convergence on disclosures and explore ways in which the provision of assurance on those disclosures might be made possible.

The IAASB should also monitor the previously-mentioned work of the FSB TCFD in developing its recommendations for the standardised disclosure of risks and opportunities relating to climate change in financial filings and the potential demand for assurance over these disclosures.