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Submitted via website

Brussels, 3 February 2017

**Subject: IAASB Discussion paper: Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements**

Dear Sir,

Accountancy Europe (formerly the Federation of European Accountants (FEE)) is pleased to provide you with its comments on the Discussion Paper *Supporting Credibility and Trust in Emerging Forms of External Reporting (EER): Ten Key Challenges for Assurance Engagements*.

- (1) We agree that assurance and possibly other forms of involvement by a professional practitioner can play an essential role in enhancing credibility and trust in EER reports. This might also prevent unreliable information from being used as a marketing communication to enhance the organisation's reputation.
- (2) EER is a broad subject. There is currently a broad range of different EER reports, addressing different subject matters, for the attention of different users; this makes it difficult to achieve consistency. The immature and evolving environment, leading to inconsistent reports, poses a challenge for assurance providers. We welcome the support from the IAASB on how to address this challenge.
- (3) Indeed, there is a need to address this matter as highlighted in the comments received to our Cogito Paper on the Future of Corporate Reporting<sup>1</sup>. Many respondents wonder how to add credibility to other forms of reporting, such as non-financial reporting. Respondents are also interested in new ways of reporting such as electronic reporting. We will further consider these aspects in our next publication that will be issued shortly.
- (4) The discussion paper sets out the key challenges well and, although it could be possible to address these challenges, the IAASB cannot solve these alone. The various stakeholders will need to accept that they have also a role to play in this. If we were to single out areas to address as a priority, these would be: the scope of EER engagements, the suitability of criteria, materiality and the form of an assurance report or report on any other type of service in this context. For instance, one essential area of investigation is regarding for which elements of an integrated report the completeness criterion is applicable; this will require cooperation between all relevant standard setters and cannot be achieved by the IAASB itself.

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<sup>1</sup> <https://www.accountancyeurope.eu/publications/list-of-responses-for-the-cogito-paper-the-future-of-corporate-reporting/> and [https://www.accountancyeurope.eu/wp-content/uploads/FEECogitoPaper\\_-\\_FutureofCorporateReporting.pdf](https://www.accountancyeurope.eu/wp-content/uploads/FEECogitoPaper_-_FutureofCorporateReporting.pdf)

- (5) The EER strategy is critical for the IAASB. We do not believe that it would be the right approach for the IAASB to develop a lot of detailed standards at present; as noted above, this is an area where all stakeholders are in a learning mode. Developing detailed standards would risk introducing a certain rigidity and inflexibility that might constrain innovations that the profession might make. Space needs to be given for assurance and non-assurance services and reporting formats to be developed that meet the stakeholders' needs in various jurisdictional environments. If the assurance provider is not able to provide external reports that meet users' needs, this leaves space for other parties other than the assurance profession to do so.
- (6) The discussions held at the IAASB, CSOEC and CNCC Small and Medium-sized Practice (SMP) Working Conference which took place in Paris on 26 and 27 January 2017 (especially day 1) may also be used to further shape the profession's role on providing assurance and other related services on other forms and ways of reporting. This is an area that should be on the radar of the SMP and Small and Medium- sized Enterprise (SME) community.
- (7) With this in mind, any guidance should remain at a high level and focus on consistency of principles already present in the IAASB's assurance framework and ISAE 3000. Creative development in the application of those principles where assurance is possible will then allow best practice to emerge as EER reporting develops further. In order to reach a swift maturity, the way forward is to achieve a certain level of consistency on an international level. The IAASB has the predominant role to play in achieving this long-term objective.
- (8) Where EER is relatively immature as explained in the Discussion Paper, meaningful assurance may simply not be achievable, other related services will therefore deserve consideration (e.g. agreed-upon procedures (AuPs) or expert opinions by the practitioner). We stress the importance that our profession be seen as the profession able to provide services of high quality in the context of EER.
- (9) Given this lack of maturity in EER, the IAASB should also encourage others– including national standard setters (NSS) – to develop guidance or standards and could take a role in promoting their work. Any material produced by the IAASB should take into consideration what is being done in some jurisdictions. There are indeed a number of bylaws or local regulations that come into play regarding the type of work assurance providers perform. For example, the European Directive on disclosure of non-financial and diversity information<sup>2</sup> leaves room for flexibility and this may lead to variances across Europe.
- (10) In addition, while the IAASB does not have a direct role to play in internal reporting, it should recognise that external assurance is not developing in a vacuum. The characteristics of objectivity and independence will certainly offer confidence to markets. Looking at the profession in the future - when external assurance for EER really does develop significantly - it is likely to evolve after internal assurance. The IAASB should aim to promote a clear understanding of how and why the different kinds of external assurance or other related services offered by a professional accountant in regard to EER can add the most value to users of EER reporting.
- (11) Furthermore, the extent of the demand for assurance over external (rather than internal) reporting is hard to gauge without knowing where the line between internal and external reporting will be drawn. At this time, the greatest demand is from management and some other investors. Building the reputation of the profession and giving confidence to the user will certainly contribute to further increasing the demand of such reports from external users.

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<sup>2</sup> FEE Position Paper 'EU Directive on disclosure of non-financial and diversity information The role of practitioners in providing assurance'- [http://www.fee.be/images/publications/1512\\_EU\\_Directive\\_on\\_NFI.pdf](http://www.fee.be/images/publications/1512_EU_Directive_on_NFI.pdf)

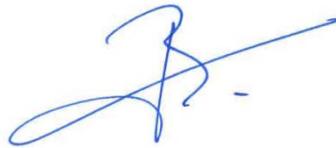
(12) For further information on this letter, please contact Eleni Ashioti on +32(0)28933387 or via email at elenia@accountancyeurope.eu or Noémi Robert on +32(0)28933380 or via email at noemi@accountancyeurope.eu.

Kind regards,

On behalf of Accountancy Europe,



Edelfried Schneider  
President



Olivier Boutellis-Taft  
Chief Executive

### About Accountancy Europe

Accountancy Europe unites 50 professional organisations from 37 countries that represent close to **1 million** professional accountants, auditors, and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

## ANNEX 1 – RESPONSES

### QUESTIONS RELATING TO THE DISCUSSION IN SECTION III - CREDIBILITY AND TRUST IN RELATION TO EER REPORTS

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#### 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?*

- (1) The factors outlined in Section III are largely adequate, provided that they are fully explained and some matters subject to clarification referred to below. The model on page 19 provides a useful overview on how credibility and trust are established.
- (2) In relation to the fourth factor ‘external professional services and other reports’ we highlight the importance of quality control – this in part ensures objectivity and independence of the practitioner providing assurance in EER reports as referred to in paragraph 55. It is worth considering the merit in emphasising the need for these individual characteristics and the fact that this will vary: objectivity is important in relation to all external professional services, but independence is more discerning and should be applied for assurance engagements and further where appropriate.
- (3) Without overlooking the efforts of the IAASB to cater for more flexibility in the revised ISAE 3000, a significant factor underpinning the credibility of any report is its content and format, and more specifically its ability to meet stakeholders’ needs. If the assurance provider is not given the flexibility to provide more comprehensive and bespoke external reports, stakeholders’ expectations will not be able to be met by the profession, yet players other than the profession would be able to do so.
- (4) At the same time however, the immature and rapidly evolving environment poses a challenge for the profession and we would welcome the support from the IAASB on how to address this challenge. Given the current lack of maturity in EER, the IAASB should also encourage others – including NSS – to develop guidance or standards and could take a role in promoting their work. Ideally some form of targeted guidance such as sharing best practice examples might be a good way to help practitioners learn from one another’s experience. For example, discussions at the IAASB’s NSS meetings can be valuable in this regard. Where EER reporting is relatively immature, the lack of criteria and evidence supporting EER reporting may mean that meaningful assurance is not achievable and so other related services may be worth considering (e.g. AuP or expert opinions by the practitioner).
- (5) To help EER mature in a globally consistent manner, we would encourage collaboration. Any guidance or standards produced by the IAASB developed should take into consideration what is being done in some jurisdictions. In particular, it would be useful acknowledging that there are a number of bylaws or local regulations come into play regarding the type of work assurance providers perform. For example, the European Directive on disclosure of non-financial and diversity information<sup>3</sup> leaves room for flexibility and this may lead to variances across the various jurisdictions across Europe.

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<sup>3</sup> FEE Position Paper ‘EU Directive on disclosure of non-financial and diversity information The role of practitioners in providing assurance’- [http://www.fee.be/images/publications/1512\\_EU\\_Directive\\_on\\_NFI.pdf](http://www.fee.be/images/publications/1512_EU_Directive_on_NFI.pdf)

- (6) To reach maturity we could encourage an initiative of a commonly accepted reporting framework or a standard developed by other bodies, where appropriate. The IAASB has the predominant role to play in achieving this long-term objective.

## **QUESTIONS RELATING TO THE DISCUSSION IN SECTION IV - RELEVANT PROFESSIONAL SERVICES COVERED BY THE IAASB'S INTERNATIONAL STANDARDS (ISAS)**

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### **Question 2**

*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?*

### **Question 2a**

- (7) The various types of professional services described in sections II and IV cover a wide range of possibilities, although benchmarking would deserve a specific mention.

### **Question 2b**

- (8) Examples of other types of professional services are as follows:
- Attestations or 'check' exercise (attesting on the completeness of a report) and 'assertions-based' attestations (both are used to describe engagements where the assurance provider forms an opinion on specific assertions made by management)
  - Advisory services are relevant for practice but perhaps out of scope for IAASB
  - Hybrid engagements such as AuP including audit-type procedures (the nature of the procedures would be agreed, but the practitioner would use professional judgement both in determining the extent of testing and in interpreting the results)
  - Expert opinions
  - 'Presentation' type engagement: where the practitioner prepares the information and provides some assurance on it (assurance lower than a review)
- (9) While we agree that the IAASB should concentrate on the areas which have been highlighted in the discussion paper, it would be useful acknowledging that there may be bylaws or local regulations that impact upon some of the work that assurance providers do. This sometimes creates confusion as it is not always clear which professional standards (local or international) should be used by the assurance provider, i.e. when performing an 'existence check' exercise. International standards are critical for the development of such types of work but they should be sufficiently flexible to allow these services to evolve in local jurisdictions, especially in instances where no local standards are established. Assuming the emerging practice in EER reports continues at a national level, we would encourage the IAASB to monitor, to the extent possible, the local laws and/or request feedback from the local jurisdictions on their effectiveness.

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### Question 3

*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?*

### Question 3a

- (10) We recognise that ISA 720 has been recently revised, and note that the auditor of the financial statements has some responsibilities in relation to ‘Other information’ included in the annual report but that this does not constitute assurance. Notwithstanding the recent revision however, there remains both an expectation gap around ‘other information’ with regards to some stakeholders and a misunderstanding as to the auditors’ role with some other stakeholders. This expectation gap risk increases considerably as more EER are included in the annual report and users place reliance on it.
- (11) There would certainly be value in emphasising that if assurance is required, a separate assurance engagement needs to be undertaken. Looking into combined integrated engagements as a response to integrated reports could be therefore useful.

### Question 3b

- (12) In theory, further enhancing the responsibilities of the financial statement auditor in an appropriate way could increase credibility and trust where EER information is included in the annual report. Given the lack of maturity in EER in many jurisdictions, requiring the auditor to obtain assurance at this point in time would be counterproductive, and, in practice it is more likely to add to the confusion over audit responsibilities, rather than solving the issue.
- (13) Furthermore, any attempt to increase the role of the auditor will take many years to develop and clash with jurisdictional legislation at every juncture.
- (14) We recommend that it is probably best left to the supervisory body and management to determine what sort of assurance they require over EER information to meet users’ needs. In time, it is our belief that legislators and regulators in each jurisdiction will, in due course, turn their attention to these reports. The profession should be ready to address these issues.
- (15) Nonetheless, the present expectation gap around the responsibilities of the auditor of the financial statements might well be concealing a demand for further services, whether assurance or non-assurance services. The IAASB could investigate this and provide clarity to manage the expectations at the same time. Raising awareness of the exact nature of the gap in those responsibilities could reveal a demand.

## QUESTIONS RELATING TO THE DISCUSSION IN SECTION V – TEN KEY CHALLENGES IN RELATION TO EER ASSURANCE ENGAGEMENTS

### 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.*

#### Question 4a

- (16) We agree that there is a role for the IAASB to provide some guidance to help practitioners overcome the key challenges identified and that is preferable to creating a new standalone standard. NSS should also play a role at this time, e.g. in assisting their members to apply ISAE 3000 in their jurisdictional context (i.e., transposing ISAE 3000 for application in EER assurance engagements) or in developing guidance to support related services.

#### Question 4b

- (17) Where assurance engagements are concerned, the primary focus for guidance should be on the application and use of ISAE 3000 in the context of publicly available information. Such guidance could also be useful for practitioners applying other international standards, but that usefulness would best be determined on a case-by-case basis.
- (18) We recognise that private engagements play a very important role in relation to EER and should not be ignored. These, which are aimed at providing some degree of comfort to the management, often take the form of AuPs, AuPs with audit-type procedures, compilation engagements or expert opinions. Guidance could be extended to assist practitioners in applying the requirements of these assignments. Each time a new piece of guidance is developed to support practitioners carrying out assurance engagements, it would be worth considering whether the same challenge exists for AuPs and/or compilation engagements, and providing additional guidance if there is a need. Whatever the scope of the assurance provided, the robust examination and verification procedures are key features of assurance methodology which are likely to be of great value to users.
- (19) In addition, guidance would be welcomed for multi-scope assignments and for rationalising and scoping acceptance considerations.

#### Question 4c

- (20) Not applicable.

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## Question 5

*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?*

## Question 5a & 5b

- (21) In jurisdictions such as in Netherlands, the ISAE 3410 is being used as a sub-standard in combination with ISAE 3000 and 3810N (used standard in Dutch practice for sustainability reports), when greenhouse gas emissions (GHG) as a subject matter is part of a more extended report.
- (22) In many cases, some other jurisdictions such as in France, when providing assurance on GHGs, they do not only provide assurance on the specific subject matter covered by the ISAE 3410 but rather give a wider assurance on many other key aspects of sustainability. Also, the assurance report refers to ISAE 3000 and not specifically to ISAE 3410.
- (23) Conversely, in the UK, ISAE 3410 has proven not to be widely used. This is because the professionals follow local requirements that were brought in for the carbon emissions disclosures in the reports.
- (24) Assurance standards on specific subject matters can be useful in theory but we need to ensure that the right matter is taken on board. We therefore encourage the IAASB to promote guidance, case studies, examples which help illustrate how the standards such as ISAE 3000 can be applied in specific ways. The IAASB should encourage others to develop such guidance and could take role in promoting their work.
- (25) Moreover, the IAASB should raise awareness on the assurance and related services standards and guidance available on the market. Without the appropriate recognition and reciprocity, it is unlikely that any of these is going to be properly applied and used.

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## Question 6

*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.*

*Do you agree or disagree and why?*

- (26) We agree that it is too early to develop a subject-matter specific assurance engagement standard on EER or particular EER frameworks. We do not believe that it would be the right approach for the IAASB to develop detailed standards at present; as noted above, this is an area where all stakeholders are in a learning mode. Developing detailed standards would risk introducing a certain rigidity and inflexibility that might constrain innovations that the profession might make. Space needs to be given for reporting formats to be developed that meet the stakeholders' needs.
- (27) EER is a broad term that covers a range of different approaches. Specific frameworks are not yet applied consistently, due to the developing maturity of reporting within different organisations. There is insufficient experience currently amongst contributing firms to provide proper evidence upon which to base a standard.

- (28) Furthermore, ISAE 3000 is still very useful and can be used to cover EER information. The IAASB could provide some guidance or benchmark on how it is applied in different forms of assurance engagement on EER to assist e.g. NSS in developing standards and guidance for application in their respective jurisdictions. We encourage the use of EER assurance engagements, where appropriate, and ensuring that the procedures indicated in an ISAE 3000 report follow a principles-based route.

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### 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 in Section V, 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**

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

#### **Question 7a- 7c**

- (29) We agree with the IAASB’s analysis of the key challenges. These represent a reasonable list of the major areas that would benefit from some guidance. Challenges #1, 2, 3 and 10 should be given more priority.
- (30) For each of the ten key challenges we have set out our thoughts on the guidance that may be helpful. As a general comment, we suggest that the IAASB makes clear which of these challenges are more relevant to the perspective of the preparers as opposed to the perspective of assurance providers.
- (31) Although it is possible to address each of these challenges, the IAASB cannot do this alone; the various stakeholders have also a role to play.
- (32) Any support or guidance provided at an international level by the IAASB needs to be flexible enough to allow development of services based on the stakeholders’ needs and for the practitioners to be able to exercise their professional judgement. At the same time, we should also be looking at sharing ideas that have actually worked in practice; this will give the most confidence for the market to thrive.

- (33) Where appropriate, details and transparency are valuable: The IAASB should aim to enhance the confidence of the practitioners and encourage the practitioners to disclose more of their findings and recommendations – whatever the type of service offered – if they believe it will help the stakeholders.

## **SPECIFIC COMMENTS ON THE TEN KEY CHALLENGES**

### **SCOPING EER ASSURANCE ENGAGEMENTS**

- (34) We agree that in some cases it may be neither necessary nor possible to have a full scope audit in relation to an EER report. However, in order to provide valuable and meaningful services, the profession will need to ensure that the scope covers key issues to guard against undue reliance by stakeholders and to prevent providers producing inconsistent reports. It is also important to have guidance relating to the scope - e.g. legal scope, organisational scope and geographical scope. These often differ in EER reporting.
- (35) In addition, it is important to encourage an improvement in the quality of evidence from the side of the preparers of the EER report, for example: inappropriate information, inappropriate internal control procedures or low the level of appropriate evidence make it difficult for the practitioners to scope the assurance engagement. We recognise that the preparers face a number of challenges; many of which are often compatible to those of the assurance providers.

### **SUITABILITY OF CRITERIA**

- (36) ISAE 3000 has established requirements to evaluate the suitability of criteria which could be adapted to an EER assurance engagement. We should also seek best practice from assurance providers who are familiar with applying ISAE 3000 in this context. When collecting best practice, we need to understand how management determines the criteria for reporting and how the practitioner evaluates the suitability of these criteria. When developing an EER report the criteria used by management will need to address how they have identified the appropriate content of the report.
- (37) One essential area of investigation is regarding to which elements of an integrated report the completeness criterion is relevant; this will require cooperation between all relevant standard setters and cannot be achieved by the IAASB itself. This is a key consideration and we would expect to see it as a challenge itself, or at least be given more prominence. Furthermore, completeness is one of the overarching principles linked to internal controls and materiality. For example, how one can provide assurance on the completeness of the integrated report if the level at which an omission would be considered material has not been established.

### **MATERIALITY**

- (38) Materiality is a challenging aspect and would benefit from being explored further, particularly in relation to narrative reporting. It should be in the preparer's responsibility to explain the materiality applied in the preparation of the integrated report. Nevertheless, it is also the assurance provider's responsibility to make its own independent assessment of the materiality applied to support their assurance opinion.
- (39) Furthermore, we suggest that the interrelationship of how the concept of materiality is applied in different contexts is further explored and better articulated in cooperation with the other standard setters (including <IR>, the International Accounting Standards Board (IASB) and others, i.e. with the Corporate Reporting Dialogue<sup>4</sup>). In addition, as there is no unified definition of materiality, the need for guidance is significant.

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<sup>4</sup> <http://corporatereportingdialogue.com/>

(40) We reiterate our view included in the **Accountancy Europe**'s position paper 'EU Directive on disclosure of non-financial and diversity information', where we propose the following steps that could potentially help management identify material matters:

1. Identify the non-financial matters that had material impact on the undertaking's financial position in the past year.
2. Consider which non-financial matters could have material impact on the undertaking's financial position in the future. Identify the extent to which these matters represent risks or opportunities for the undertaking's future development.
3. Identify those areas where the undertaking has significant dialogue with stakeholders. When identified, consider the importance of this dialogue to the undertakings corporate governance statement.
4. Consider whether non-financial matters are reflected in the entity's Research and Development programme. If they are reflected, then consider how.
5. Identify whether non-financial matters are reflected in the entity's senior management remuneration policy. If this is the case, then consider how.
6. Consider whether there are any codes of conduct with regards to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. If any are identified in respect of the undertaking, determine whether those should be part of the undertaking's corporate governance statement.

(41) The steps mentioned above could ultimately help the practitioner's assessment of the entity's materiality process. The practitioner's role on EER should be clear, i.e. how the practitioner has carried out the work and the level of detailed work that has been undertaken.

#### **BUILDING ASSERTIONS IN PLANNING AND PERFORMING THE ENGAGEMENT**

(42) There is existing guidance which can be drawn upon within the existing assurance standards.

(43) However, the principle of connectivity - which is not used in relation to financial statements as indicated in paragraph 51 of the *Supplemental Information to the Discussion Paper* - will need to be addressed by developing different assertions.

#### **MATURITY OF GOVERNANCE AND INTERNAL CONTROL PROCESSES**

(44) The IAASB should underline the fact that although this is primarily a challenge for preparers, it has also significant impact on the assurance providers. Having mature governance and robust control processes that ensure appropriate and sufficient evidence supporting reported information is a prerequisite for engagement acceptance and subsequently essential in obtaining sufficient appropriate evidence. The greatest challenge is how to deal with situations where there is lack of such strong internal control processes and governance.

#### **NARRATIVE INFORMATION**

(45) Narrative reporting is gaining momentum; stakeholders are currently exchanging views on the broader issue of assurance on narrative information. It brings technical challenges: much of this information is often generated outside of the financial reporting systems, and as a result, may be derived from other systems or even no real system. As such, the information provided may have been subject to less strict internal controls than would be the case for financial reporting.

(46) Standards for assurance providers still need to be developed to ensure that practitioners acquire the necessary toolkit to provide assurance over narrative reporting. Standards and guidance would need to address how to identify relevant assertions and the associated planning aspects as well as how to address materiality in relation to non-financial assertions.

## **FUTURE-ORIENTED INFORMATION**

- (47) Future-oriented information, although challenging, is not inherently a problem limited to EER. The assurance practitioner is already dealing with future-oriented information within the remit of audits of historical financial information; for instance, in relation to valuations, impairments and going concern.
- (48) However, guidance is required in this area, particularly where a distinction may need to be made between assurance on the reported information and assurance on the process for the preparation of reported information. It is also highly desirable that the IAASB revises ISAE 3400 *The examination of Prospective Financial Information* as this is an old standard; it needs to keep up with the new clarity conventions.

## **PROFESSIONAL SCEPTICISM AND PROFESSIONAL JUDGMENT**

- (49) Professional scepticism and professional judgement in relation to EER engagements are significant issues, mainly due to the more subjective nature of the information and lack of existing guidance. The application of these will need to be explored further.
- (50) Nonetheless, we agree with the IAASB's deferral of exploring this challenge in the specific context of EER assurance engagements until this is deliberated further in light of the outcome of exploring how the ISAs may be improved. The concept of professional scepticism should be considered pervasively across the spectrum of ISAs. We welcome the co-operation between standard setters (IAASB, IESBA, and IAESB), to establish a joint definition and a common understanding of their expectations as to how the concept of professional scepticism should be applied in practice.

## **COMPETENCE OF PRACTITIONERS PERFORMING THE ENGAGEMENT**

- (51) There is existing guidance which can be drawn upon within the current assurance standards.
- (52) The profession is well equipped with relevant skill sets and experience connected (and much is transferable from other contexts such as financial statement audit) to providing these sorts of engagements.
- (53) However, it would be wrong to be complacent; the practitioners are less familiar with some of the skills needed to develop assurance engagements, and in some cases specialist expertise may be needed on certain subject matters. We also reiterate from our discussion paper "Pursuing a strategic debate: The future of audit and assurance" where we mention the need to involve individuals with specific knowledge in order to develop multi-disciplinary teams. Also, a way forward in enhancing further the competence of practitioners performing the engagement could be strategically addressed with training, education, and mentoring. The business environment is changing and assurance providers working in this area need to adapt and be equipped with the necessary skills to perform this type of work.

## **FORM OF THE ASSURANCE REPORT**

- (54) Guidance may be helpful in addressing how the opinion or conclusion should be expressed.
- (55) The role of assurance practitioners in EER should be to express an opinion publicly either on an EER in its entirety or on specific parts of an EER. Such reports - with or without assurance - are currently limited by the definitions in our professional standards. In addition, a lot of the detailed findings are only shared with the preparers through the management letter and not through the external report. Yet, these findings may also be relevant and interesting for other stakeholders. In reporting on engagements over EER, the accountancy profession should reflect on the level of information to be included in public reporting and respond primarily to valid user needs.

## **Question 7d**

- (56) Accountancy Europe is urging the IAASB not to forge ahead in setting standards for EER but to foster knowledge sharing and development of standards and guidance by NSS as to how to apply ISAE 3000 and other related services.

**Question 7e**

- (57) We have not identified any other key challenges.

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**Question 8**

*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:*
  - c) *Will come from internal or external users or both?*
  - d) *Will lead to more EER assurance engagements being obtained voluntarily or that this outcome would require legal or regulatory requirements?*
  - e) *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) – **see box below for examples of possible types**)?*
    - (iii) *There are cost-benefit or other reasons (please explain)?*

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>• Further enhanced responsibilities for financial statement auditors under ISA 720?</li><li>• Agreed-upon procedures reports?</li><li>• Compilation reports?</li></ul> | <ul style="list-style-type: none"><li>• Other types of professional services or other external inputs (please indicate what type of service or input and whether you believe the IAASB should consider developing related standards or guidance)?</li></ul> |
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### **Question 8a**

- (59) EER are evolving while the information-reported needs of capital markets are changing. This evolution may lead to substantial user demand.
- (60) More specifically, user demand may depend upon the level of importance given to the information reported by companies, but also upon the level of assurance, the nature of the opinion and how this is expressed in the assurance provider's report.
- (61) Currently the greatest demand is from management and some other investors. The growing interest from external users arises due to concerns regarding their own duties and responsibilities for ensuring the accuracy of reporting.

### **Question 8b i)**

- (62) The extent of the demand for assurance over external (rather than internal) reporting is hard to gauge without knowing where the line between internal and external reporting will be drawn.
- (63) Non-financial issues can have a great financial impact over the entity, and therefore the internal users would possibly welcome such an engagement because of the value added to external users. The set-up of tangible value creation goals might be helpful, like Sustainable Development Goals (SDGs)<sup>5</sup> and the Paris Climate Agreement<sup>6</sup>.
- (64) Building the reputation of the profession and giving confidence to the users will certainly contribute to further increasing the demand of such reports from external users.

### **Question 8b ii)**

- (65) An EER assurance engagement could provide an opportunity to offer better information to markets. The risk of requiring such an engagement for regulatory or legislative purposes could potentially be viewed as a compliance exercise with pre-defined formats. This would deliver little value and be seen as an additional burden.
- (66) In the current environment, the profession should plan for growth in demand from users, and in particular from investors. This growth in demand is based on global perspectives taking into account new jurisdictional legislation and regulation, as well as the active debate on the future of corporate reporting. Encouraging the entity to embrace an approach that enhances market transparency could potentially lead to more EER assurance engagements being obtained voluntarily.

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<sup>5</sup> <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>

<sup>6</sup> [http://ec.europa.eu/clima/policies/international/negotiations/paris\\_en](http://ec.europa.eu/clima/policies/international/negotiations/paris_en)

### Question 8c

- (67) While AuP, compilation and expert opinion reports will suffice for many management teams, the demand for publicly available assurance reports under ISAE 3000 will also grow in the future.

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### Question 9

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

*For which actions would collaboration with, or actions by, other organizations also be needed?*

- (68) 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. Collaboration with organisations like the IIRC is certainly recommendable for the purpose of both convergence and assurability. This is even more important now given the fact that IFAC has endorsed the IIRC<sup>7</sup>.
- (69) The IAASB could also collaborate with the Global Reporting Initiative (GRI) in addressing the challenge of materiality. In 2015, the GRI together with RobecoSAM20<sup>8</sup> issued a paper on the definition of materiality for NFI reporting, focusing primarily on the technology, hardware & equipment and banks & diverse financial services sectors.
- (70) Additionally, apart from co-operating with organisations; engaging with preparers, users and investors is highly recommendable for the purpose of assurability. The development of the concept of assurance on EER reports should not be driven only by the profession, but equally by market demand. Approaching this concept inappropriately could result in the focus and content of an EER report shifting away from a report that conveys the company's story to a report which is driven by its ability to be assured.
- (71) There would also be considerable benefit for the IAASB and National Institutes if the IAASB were to collaborate in the development of further guidance with professional bodies and other organisations that have similar perspectives on assurance. Bringing this issue to the IAASB's NSS group would facilitate the sharing of best practice from as many sources as possible, and pooling resources would speed up the development of guidance addressing the ten key challenges. However, there would need to be a clear agreed agenda for this work and central coordination to ensure that the guidance is consistent.

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<sup>7</sup> <https://www.ifac.org/system/files/publications/files/PPP8-Enhancing-Organizational-Reporting-Jan-2017.pdf>

<sup>8</sup> <https://www.globalreporting.org/resourcelibrary/Defining-Materiality-What-Matters-to-Reporters-and-Investors.pdf>