

13 April 2017

Matt Waldron — Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

Dear Mr. Waldron,

Deloitte Touche Tohmatsu Limited (DTTL) appreciates the opportunity to provide observations and perspectives on the Discussion Paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements* (the DP) as developed by the Integrated Reporting Working Group of the International Auditing and Assurance Standards Board (IAASB).

Executive summary

Dramatic and significant changes are taking place in terms of how and what information companies report externally. DTTL supports the efforts of the IAASB's Integrated Reporting Working Group and its exploration of how auditors may assist in enhancing the value of emerging forms of external reporting (EER) by providing professional services that add credibility and trust to such reporting. The accounting profession, to remain relevant, needs to be open to adapting and changing to meet the needs of stakeholders who are interested in some involvement by the auditors (either in an assurance or advisory capacity) with EER.

Looking to the future, in evaluating the professional services that auditors may be able to provide with respect to EER, consideration should be given to the following:

- EER is an evolving area, with many different frameworks and forms of reporting developing to meet the needs of various stakeholders. As a result, allowing for innovation and additional experimentation and maturity with respect to EER may be necessary prior to developing additional standards.
- Once the timing is appropriate, any additional standards should be focused on how auditors (with their skill, expertise, objectivity, and independence) can add value to the users of EER building upon the foundation that exists in ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.
- Providing clarity and distinguishing between the work performed as part of an audit (including with respect to other information under ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*) and work that may be performed outside the audit in connection with EER.

In addition, currently, significant information useful to making investment decisions may be contained in "other information" that accompanies the financial statements (i.e., in the annual report). For example, International Integrated Reporting Council (IIRC) statistics indicate that a significant portion of the value of a modern company is in the intangibles that are mostly unrecognized in balance sheets, and thus information in the annual report pertinent to

understanding of that company's business will likely be in the "other information" where information relative to such intangibles might be provided. The auditor's responsibilities for such "other information" are addressed by ISA 720 (Revised). These responsibilities are not the equivalent of those that would be applicable to a separate assurance engagement; however, this distinction is not likely well understood by stakeholders/recipients of a company's annual report. As this "other information" feeds capital markets, this misperception or expectation gap needs to be taken into account by the IAASB as future actions are considered relative to EER. From a public interest perspective, it is important that the IAASB's actions with respect to EER are designed to reduce or best manage this misperception or expectation gap.

Moving forward and next steps

DTTL appreciates and supports the thoughtful approach that the IAASB is taking in determining the next steps with respect to EER, including considering actions that may be taken in response to the ten challenges identified in the DP. DTTL's views regarding the priorities of how to address these challenges are provided in the [Appendix](#). While at this time, DTTL does not believe standard setting is warranted, some guidance in certain areas may be useful.

DTTL encourages the IAASB to continue to monitor EER and, where appropriate and to the extent possible, continuing to collaborate with other bodies and standard setters working on issues related to EER (e.g., the IIRC, the Sustainability Accounting Standards Board (SASB), and the Global Reporting Initiative (GRI)). Collaboration is critical to ensuring that any actions taken by the IAASB continue to support the evolving role of auditors in providing credibility and trust in EER.

Please refer to our responses to the specific questions in the attached [Appendix](#).

DTTL would be pleased to discuss this letter with you or your staff at your convenience. If you have any questions, please contact me via email (cbuss@deloitte.ca) or at +1 604 640 3313.

Very truly yours,



Calvin H. Buss, FCPA, FCA
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Q1. 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?**

- a. DTTL believes that the factors identified are appropriate and that external assurance plays an important role in enhancing credibility and trust. The awareness that an external assurance engagement will be performed also drives improved internal reporting as management processes and controls and the information reported internally will be scrutinized more than when such processes, controls or information are not subject to an external assurance engagement. DTTL recommends that the IAASB turn the section on credibility and trust into an accessible paper on the IAASB's website to promote that topic given its evergreen nature. In that light, it might also be worthwhile for the IAASB to elaborate further and educate the public on how to read an assurance report in order to be able to clearly understand what was subjected to the assurance engagement and the level of assurance obtained. If the IAASB chooses to further this topic, DTTL recommends correcting paragraph 56 to state that competence needs to include matters such as knowledge of the relevant EER framework, the underlying subject matter and applicable engagement standards rather than stating that competence "likely needs" to include such matters.
- b. DTTL has not identified any other factors to be considered.

Q2. 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?**

Practitioners have begun to use consulting services as a means of increasing credibility and trust with respect to a variety of reporting matters. DTTL believes that it would be appropriate for the IAASB to provide guidance as to whether this is an acceptable practice for general use and to identify any parameters as to acceptability/nonacceptability. While it may be appropriate to provide consulting services in this area, DTTL believes clear parameters should exist to avoid misuse or misinterpretation of the resulting work product, particularly with respect to the assurance obtained by the practitioner with respect to the subject matter. DTTL is concerned that a move to the use of consulting services for general use will undermine the assurance framework.

Q3. 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?**

DTTL believes that the financial statement audit is less likely to touch upon relevant topics with respect to EER information included in the annual report, particularly when such matters are further removed from financial information that is currently subject to audit. While the auditor's knowledge of the entity's business model obtained in conjunction with the financial statement audit may provide the auditor with certain useful information, it likely will not be at the in-depth level of such EER disclosures. Accordingly, DTTL is concerned that many users of such EER information in the annual report may inappropriately assume credibility and trust in such information by believing that the financial statement auditor will have considered such information in the financial statement audit in a fashion beyond that required by ISA 720 (Revised).

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Further some users of the auditor's report may inappropriately assume that reasonable assurance is being obtained by the auditor because the other information has been subject to the requirements of ISA 720 (Revised). DTTL is also concerned that such misunderstandings will result in users not understanding the difference between an external assurance engagement that has the objective of reporting separately on EER information and an audit engagement where EER information that is contained in an annual report has been addressed by the auditor in accordance with ISA 720 (Revised).

As a result, the IAASB may need to consider how the auditor can provide greater clarity with respect to the procedures performed in connection with the audit, including the limitations to the auditor's involvement with EER in the annual report and the procedures, if any, performed in connection with EER.

- Q4. Section IV describes the different types of engagements covered by the IAASB 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.**

Given the emerging nature of many EER frameworks and the fact that many organizations are in the early stages of setting up adequate systems (including systems of internal control) for measuring, capturing and reporting certain information under such frameworks, it makes sense to concentrate on developing guidance that can assist practitioners in developing services with respect to different forms of EER. Agreed-upon procedures might be used in the early stages of providing services with respect to EER and given the current project that the IAASB has underway to expand the IAASB standards for agreed-upon procedures to subject matter information other than financial statements, DTTL believes that the AUP project should also consider EER. DTTL does not believe that organizations would request that CPAs or CAs compile any form of EER reports but rather that they might engage CPAs or CAs to provide advisory services on the organizations' development of EER reports (for example, assisting an organization with a materiality analysis of what information to include in a particular EER report) and assurance readiness assignments.

- Q5. 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**

DTTL has used ISAE 3410 extensively for our methodology to perform assurance engagements on greenhouse gas emissions statements, and DTTL is aware that non-CPAs/non-CAs also have used such standard. Further, DTTL believes that many of the concepts detailed in ISAE 3410 are very useful for assurance engagements relating to sustainability information given their closeness to the nature of subject matter covered by ISAE 3410 to sustainability reporting, and, accordingly, DTTL has used ISAE 3410 in

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developing our assurance methodologies for sustainability assurance engagements in accordance with ISAE 3000.

- Q6. Section V suggests it may be too early to develop a subject-matter specific assurance 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?**

As per our response to Q4, DTTL believes that it likely is too early to develop a subject-matter specific standard on EER or particular EER frameworks. As EER reporting and the related frameworks evolve, DTTL does believe there will be a time when a subject-matter specific standard would be useful. In certain parts of the world, sustainability reporting appears more developed, and assurance engagements on sustainability reports are more frequent. DTTL believes that guidance regarding applying ISAE 3000 to assurance engagements on sustainability reports would be very helpful; the IAASB might start with reviewing the AICPA Attestation Guide, *Attestation Engagements on Sustainability Information (Including Greenhouse Gas Emissions Information)*, when it is published.

- Q7. 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:

1. Scoping EER assurance engagements
2. Suitability of criteria
3. Materiality
4. Building assertions in planning and performing the engagement
5. Maturity of governance and internal control processes
6. Narrative information
7. Future-oriented information
8. Professional skepticism and professional judgment
9. Competence of practitioners performing the engagement
10. Form of the assurance report

- a. For the most part, DTTL agrees with the analysis of the ten key challenges. DTTL believes that the scoping challenge and suitability of criteria (challenges 1 and 2) are more a function of the inexperience of practitioners with the international assurance standards and, accordingly, is more a matter of educating practitioners than a need for additional guidance. DTTL does not believe that building assertions in planning and performing the engagement (challenge 4) are as much of a concern given that ISAE 3000 uses a risk-based approach for planning and performing the assurance engagement. That being said, practitioners are always

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in need of further guidance on how to apply the concepts of ISAE 3000 to different subject matters.

- b. DTTL believes that guidance on the ten key challenges would be useful, some more than others as discussed below in our response to Q7c.
- c. DTTL believes that guidance regarding the following would be most useful and should be assigned a priority in the order listed: (1) narrative information, (2) future-oriented information, (3) materiality, (4) using the work of others, particularly, nonCPA/nonCA practitioners, and (5) the form of the assurance report.

While financial statements include many estimates, which are a form of future-oriented information, the term 'future-oriented information' causes significant concerns to practitioners; accordingly, guidance to overcome such reaction would be very helpful given the future-oriented focus of many types of EER reports.

Further, while ISAE 3000 requires reference to the quality control standards and ethical requirements, DTTL believes that most readers will not understand what that encompasses, and, accordingly, the IAASB might consider expanding the language in the assurance report to capture some of the key matters capsuled in such standards and requirements. In expanding reporting guidance, guidance on the informative summary of work performed for not only limited assurance engagements but reasonable assurance engagements might be considered.

- d. DTTL does not believe that matters such as professional skepticism and professional judgment or competence of practitioners performing the engagement other than the use of nonCPA/nonCA practitioners discussed in Q7c. above is much different than for other subject matter information and, accordingly, needs no special guidance in relation to EER (for example, financial statement auditors should be familiar with obtaining an understanding of the entity's business model during a financial statement audit in order to perform an appropriate risk assessment and often work with specialists in a multi-disciplinary team; such skills should be transferrable to other subject matters). Rather, DTTL believes that any IAASB projects addressing such matters should be expanded to also state that they are applicable to EER.
- e. Given the varied nature of EER information, guidance regarding practitioner consideration of measurement uncertainty and comparability might be useful. Other issues the working group may consider include the use of experts, situations of providing combined levels of assurance, and how work performed in connection with EER related to the work performed in connection with the audit.

Q8. 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?

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- 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-benefits or other reasons (please explain)?**

- a. DTTL believes that user demand is a function of (1) the need for credibility and trust and (2) the extent of implementation of EER, rather than a function of whether the key challenges listed are overcome. Overcoming the key challenges will assist practitioners in being able to provide assurance services to meet any such demand.
- b. DTTL believes that demand is likely to come from both internal and external users and for a variety of reasons. While some demand will occur through regulatory requirements in some countries (for example, regulatory requirements in France for assurance on certain sustainability information), DTTL expects that the majority of requests will be voluntary requests.
- c. While EER frameworks and governance may require further development, they do not drive demand. Most of the lack of demand is really a function of cost/benefit concerns in an environment in which external user demand is lacking or limited.

Q9. 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?

DTTL recommends that the IAASB continue to interact with the Corporate Reporting Dialogue established by the IIRC to monitor activities relevant to assurance and consider how the IAASB might participate. Further, separate interaction by the IAASB with organizations such as the IIRC, the GRI, and SASB would be useful to ensure that any assurance guidance developed by the IAASB is appropriate for assurance engagements relating to their framework or standards and to ascertain whether they are developing, or are intending to develop, any policies, recommendations or requirements with respect to assurance. In addition, given the stance that the World Business Council for Sustainable Development (WBCSD) has taken with respect to moving towards requiring assurance engagements regarding sustainability reports, and moving from limited assurance to reasonable assurance, it would be beneficial for the IAASB to collaborate further with the WBCSD. Finally, IAASB should consider the development of initiatives on sustainable finance calling for some forms of external assurance such as Green Bonds Principles (GBP) or Climate Bonds Initiative (CBI) and analyze the opportunity to develop common projects with these organizations.