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Supporting Credibility and Trust in Emerging Forms of External Reporting

IAASB Integrated Reporting Working Group Draft Discussion Paper

This publication has been developed by the Integrated Reporting Working Group (IRWG) established by the International Auditing and Assurance Standards Board® (IAASB). References to “we” and “our” are to the IRWG. The IRWG was established to inform the IAASB as to how and when to respond to developments in external reporting most effectively in the public interest.

This publication does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards on Assurance Engagements (ISAEs).

I. Introduction

1. **What expectations do stakeholders have of professional services in supporting the credibility of emerging forms of external reports from organisations; and how can the IAASB support this so that those expectations are met?** These questions are at the core of our consideration of how and when the IAASB should respond to emerging forms of external reporting.

What Trends are There in External Reporting and What is Driving Them?

2. Increasingly, entities are reporting more holistically and cohesively about:
 - Their goals;
 - Their business model, strategy and governance processes;
 - The risks and opportunities they face and how they manage and respond to them; and
 - Their performance, position and future prospects.
3. When entities give such an account of their goals, and how they are striving to meet them, they are responding to calls from investors and other stakeholders to tell their ‘story’ in a manner that communicates more effectively about the value the organisation creates in the short, medium, and long term, and that links the elements of that story together to create a cohesive whole.
4. At the same time, organisations are increasingly responding to calls, both from their financial and other stakeholders, for more information about the wider impact they have on society and its resources (driven by changing societal expectations of such entities).
5. As a result, the traditional focus of external reporting by entities – their financial position and performance and the impact of this on the financial resources provided by their stakeholders – is increasingly being supplemented by non-financial information – information about the organization’s impact on the non-financial resources that it employs or affects. This trend has been emerging for some time and a number of reporting standards have begun to emerge in this area.

6. There is a debate about whether these broader information needs of stakeholders should be met through a single channel, the annual report, or whether different channels should be used for different stakeholders. However, even considering financial stakeholders alone, it is evident that they have growing expectations for non-financial information to be disclosed, at least insofar as it is relevant to their assessment of the impact of those matters on the sustainability of the financial performance of the organization in the longer term.
7. The trend towards reporting of broader non-financial information has been developing with the growth of the sustainability/Environmental Social and Governance (ESG) reporting movement over the last three decades, now led globally with the support of a number of global organizations, including the Global Reporting Initiative (GRI), the UN Global Compact, the World Business Council for Sustainable Development (WBCSD), the UN-supported Principles for Responsible Investment (PRI) and the UN Global Sustainable Stock Exchange Initiative (SSE) on ESG disclosures.¹ The responses to these trends can be seen most comprehensively in combination in the International Integrated Reporting framework promulgated by the International Integrated Reporting Council (IIRC). The Small and Medium Practices Committee of the International Federation of Accountants is currently developing an implementation guidance on integrated reporting for small and medium sized entities.
8. In addition, the digital revolution is transforming stakeholder access to information about entities – broadening and deepening the sources of external information about them and the context in which they operate. It is also reducing the cost and increasing the speed with which information can be accessed and assimilated by markets. With more, and timelier, access to independent sources of information, stakeholders' expectations of the depth and quality of the story that entities tell are increasing and stakeholders are better able to assess and challenge the organization's own story.
9. These trends in external reporting are seen not only at a global level but also at national and regional levels in a wide variety of initiatives to enhance management commentary and annual reports, including, for example:
- The requirements on the disclosure of non-financial information by large companies in the European Directive affecting around 6,000 companies in the European Union²;

How Can the IAASB as the Leading Standard Setter in Assurance Engagements make a Difference in EER?

- Standard setting and other guidance to enhance the quality of engagements at the assurance practitioner level, the engagement level, the firm level
- International scope with over 100 jurisdictions using or committed to using the International Standards on Auditing
- Platform for dialogue and interaction with organizations, and parties involved in the external reporting supply chain

¹ GRI: www.globalreporting.org, UN Global Compact: www.unglobalcompact.org, WBCSD: www.wbcsd.org, PRI: www.unpri.org, SSE: www.sseinitiative.org

² See for example also the paper of the Federation of European Accountants [The Future of Corporate Reporting-Creating the Dynamics for Change](#) outlining the main developments in Europe

- The requirement (on a comply or explain basis) in the JSE Stock Exchange Listings Requirements for listed entities to issue an integrated report as recommended by the King III Code in South Africa;
 - The requirement for a Strategic Report as part of a 'fair balanced and understandable' annual report in the UK; and
 - Standards for ESG reporting being developed by the Sustainability Accounting Standards Board in the USA.
10. Irrespective of how such emerging forms of external reporting by entities are incorporated into the traditional annual report or published as supplemental reports, we refer to them in this Discussion Paper as Emerging trends of External Reporting (EER).

What Professional Services are being Provided or Called for to Support the Credibility of EER?

11. In parallel with the emergence of EER, questions have been asked about the need to enhance the credibility of EER. Professionals have started to respond to demand for professional services in this regard (which demand is variable at this stage), from both internal and external stakeholders of the reporting entity,
12. Examples of responses already seen include the provision of various professional services including:
- Advisory services;
 - A range of assurance and other engagements of varied scope under the IAASB's International Standards or under other standards;³ and
 - Other less standardized forms of evaluation or assessment; with a view to reporting internally, to management or those charged with governance, on the organization's published reports or underlying reporting processes or controls, or to report externally to stakeholders.
13. A number of bodies developing or promoting EER have also been promoting the benefits of assurance engagements over EER, or monitoring developments and the views of stakeholders, in relation to stakeholder expectations in this respect. These include the IIRC, the GRI and most recently the WBCSD.

How and When should the IAASB Respond in the Public interest?

14. The IAASB's mission is to serve the public interest by setting independently, and under its own authority, high-quality standards on quality control, auditing, review and other assurance and related services. The objective is to contribute to the enhanced quality and consistency of practice throughout the world, and to strengthen public confidence in the global audit and assurance profession.

³ For example, the standards of the [International Organization for Standardization](#) (ISO) or the standards of [AccountAbility](#)

15. In order to inform the IAASB on how and when to respond to EER most effectively in the public interest, the IAASB established the IRWG to engage with stakeholders and to monitor EER and related assurance developments. In July 2015, we published the IRWG paper, [Exploring Assurance on Integrated Reporting and Other Emerging Developments in External Reporting](#), to inform stakeholders about our ongoing work in this area.
16. This Discussion Paper follows from the work of the IRWG since then. It explores the need to enhance the credibility of EER and the potential role of the IAASB's International Standards – and asks, in this context, if they are already “fit for purpose” or if there is a need, in the public interest, for further innovation or implementation support, recognizing that this is an evolving area.
17. Although the Discussion Paper is aimed in particular at users and preparers of external reporting, responses on the topics below would be most welcome from all stakeholders in the external reporting supply chain.
18. The purpose of this Discussion Paper is therefore to explore:
- The factors that influence credibility and trust internally and externally (Section III).
 - The demand for professional services by practitioners, internally and externally, in the broader context of credibility and trust, in particular the nature of assurance or other engagements that would be most relevant in meeting the expectations of users of EER, recognizing the need for innovation due to new EER Frameworks and new features of governance processes (Section III).
 - The implications for standard-setting, including with respect to types of engagements, the flexibility of IAASB International Standards in accommodating such engagements and the need for further guidance in performing assurance engagements with respect to EER (Section III and IV).
 - The best way to continue the dialogue with stakeholders and international organizations on supporting credibility and trust in EER.

In the public interest, IAASB aims to

1. Keep the International Standards fit for purpose in a changing EER landscape
2. Support practitioners who respond to the demand to enhance credibility of information, including via emerging engagements currently outside the scope of the current IAASB standards
3. Support the quality of assurance engagements while acknowledging the flexibility needed in this emerging reporting landscape
4. Prevent inconsistencies or incorrect interpretation in applying the International Standards
5. Continue stakeholder engagement in the external reporting supply chain to monitor needs and challenges

We would like to have an open discussion about the potential role of the IAASB and where others can or need to play a role in a holistic and interactive process.

19. In line with the IAASB International Standards this discussion paper takes a framework neutral approach. We recognize that entities use different approaches compiling external reports and

therefore the Discussion Paper includes different examples of EER frameworks, such as those promoted by from the IIRC and the GRI or established in national legislative or stock exchange requirements.

II. Principal Findings from Research and Outreach to Date

20. In the course of its work to date, the IRWG has held discussions with a wide range of stakeholders and considered a wide range of publicly available information, including surveys, reports and academic research.

Key Messages

21. The key messages from the information-gathering to date are:
- *The evolving nature of EER:* EER is still evolving to meet the emerging needs of a variety of stakeholders for wider information about the entity. There are a number of new, and still evolving, forms of external reporting and respective reporting frameworks that support entities in compiling the information for such type of report. The forms of external reporting and their respective reporting frameworks share some common features but also reflect some differences in the intended users, use and scope of such reports. Understanding the concepts that underpin EER, and the similarities and differences between them, is important in framing the questions that need to be asked to determine the role that professional services might play in addressing the credibility of such reports. Whereas the conceptual framework for financial statements is relatively well-established, there is a need for further insight into those underpinning EER and their implications.

- ❖ EER frameworks address the wide variety of investors and other stakeholders, as potential users of such reports, with often different information needs and focusing on different time horizons. Yet, still more information is needed into:
 - The type of decisions that these different users make on the basis of the external report.⁴
 - The relevance of non-financial information to user decision-making and how this connects with the scope and qualitative characteristics of information that should be included in external reports, for example in relation to future oriented information and other information that enables users to anticipate the organization's future impacts or the ability to compare information.
 - The relevance of other information that users have access to in addition to the external reports, both from the organization itself (such as press releases, investor roadshows and interviews with management) and from other sources (such as rating agencies, analysts, news and other media, and industry or sector surveys).
 - The principles of communication that users wish to see applied, and the necessary play-offs between them, such as stakeholders' desire to have easy to access, concise, entity-specific disclosures that include all relevant matters and all relevant information about those matters.
- *Demand for action to support credibility and trust:* There is demand for action to support credibility and trust, but this is not limited to calls for 'external assurance'. It also includes demand for action to enhance credibility and trust through effective governance and control – looking to the roles of the different 'lines of defense'⁵, and the oversight of those charged with governance, within the entity.

⁴ See for example the [ESG Survey](#) of the CFA Institute that provides insight in how the information is used in investment analysis and provides insight in the role of independent verification.

⁵ See for example the [Position Paper](#) of the Institute for Internal Auditors that discusses the three lines of defense in effective risk management and internal control.

- ❖ Stakeholders do not generally use the terms ‘assurance’ or ‘external assurance’⁶ to mean an “assurance engagement” using the definition in the IAASB International Standards but rather as overarching terms to cover a wide range of approaches to internal or external assessment of external reporting processes and external reports.
 - ❖ The current and expected demand for ‘external assurance’ is variable both by entity and geography and comes not only from external users, such as investors, but also from within the entity – from parties such as the entity’s management and governance bodies, including audit committees.
 - ❖ There is a recognition that the benefit of ‘external assurance’ is that it brings rigor that can increase the robustness, accuracy and trustworthiness of the information reported that not only adds credibility to the reports, but that can also act as a catalyst to improve internal reporting systems.
- *Flexibility in ‘external assurance’ as reporting frameworks evolve:* There is a need for flexibility in the nature of ‘external assurance’ to enable it to be delivered appropriately wherever companies are along their path of development in terms of assimilating the wider impacts of the organization into their business processes and information systems, whilst encouraging and nurturing such development. This includes a need to consider innovation in ‘external assurance’ engagements beyond those covered by the IAASB’s International Standards, such as reporting on the evaluation or assessment of the maturity of the organization’s systems and processes.

Consultation by the IIRC and Others

22. The IRWG has also monitored the initial exploration of assurance issues by the IIRC during the development of the International Integrated Reporting Framework and its subsequent more detailed consultation in 2014, feedback to which was published in July 2015⁷.

The responses to the IIRC consultation, which specifically explored assurance in the context of integrated reporting, indicated:

- Strong support for the IAASB to take the lead in developing any standards and guidance that may be needed for ‘external assurance’, liaising with national standard setters and international organizations developing relevant reporting frameworks.
- For the time being, the IAASB’s existing International Standards would be sufficient, with a preference for guidance to be developed to assist in their application in the context of integrated reports. Some noted that, in due course, there was potential need for a specific assurance engagement standard when integrated reporting is more mature.

⁶ When in this Discussion Paper we use ‘assurance’ or ‘external assurance’ between brackets we refer to the way stakeholders are using the terms, which is in a much broader sense than defined in the IAASB International Standards

⁷ IIRC [Assurance on <IR>: Overview of feedback and call to action](#), July 2015

- Guidance would be needed on providing a more informative assurance report – one that did not simply provide a binary opinion.
- Mixed responses to the priority for developing standards and guidance. This may reflect different stages of development of integrated reporting in particular jurisdictions.
- Demand for ‘external assurance’ is likely to focus mainly on ‘assurance’ over the integrated report itself, with only a few respondents expressing the view that ‘assurance’ over the integrated reporting process may also be desirable.
- To the extent that innovation was proposed by respondents to the IIRC consultation, this mainly reflected a perceived need to develop alternatives to reasonable assurance engagements on the full integrated report at a stage where companies are still developing their reporting systems and reporting criteria are still in development.

In its feedback statement, the IIRC called on the IAASB to:

- Ensure that it sought input from practitioners and other stakeholders in addition to those in the accounting profession; and
- Continue to evaluate the principles and characteristics of assurance and the responses on the technical challenges raised in the IIRC consultation papers, and to encourage research and innovation regarding assurance on integrated reporting, including the possibility of innovative approaches to resolving the identified assurance issues.⁸

23. In addition to the IIRC, the GRI⁹ and the WBCSD have held discussions on assurance engagements with preparers, intended users and practitioners. These discussions emphasized the increasing need for enhancing the credibility of information.
24. Based on the discussions GRI held on credibility and trust the Global Sustainability Standards Board (GSSB) is reviewing different means by which the credibility and trust of sustainability reporting can be enhanced.¹⁰
25. The WBCSD recommends that the IAASB develops a standard for assurance engagements on sustainability information leveraging International Standard on Assurance Engagements (ISAE) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ISAE 3410 *Assurance Engagements on Green House Gas Statements*. The WBCSD also recommends the IAASB to consider broadening the scope of such a standard to include assurance on integrated reporting as defined by the IIRC.¹¹

⁸ Ibid.IIRC Feedback Statement, page. 7

⁹ GRI paper- *Enhancing Credibility and Trust of Sustainability Reporting*, May 2015, paper intended for attendees of GRI events on enhancing credibility and trust of sustainability reporting

¹⁰ See also the [GRI January 2016 Newsletter](#)

¹¹ See [WBCSD Publication Assurance: Generating Value from External Assurance of Sustainability Reporting](#), February 2016

III. Professional services in the broader context of credibility and trust¹²

26. This section explores the concept of credibility and trust in relation to EER, why the need for it may arise, the factors that may damage or support it, and the potential interactions between those factors. It recognizes that an assurance engagement can be an effective way to enhance credibility and trust, but is only one factor that influences it. It also addresses the type of innovation that may be needed in professional services, including recognizing that the maturity of the reporting process and various new forms of external reporting are in the early stages of development, and explores the implications for international standard setting activities.

What are Credibility and Trust in the Context of External Reporting and What Factors Affect Them?

27. Credibility and trust have been considered by a number of other commentators in relation to EER¹³. We are exploring them here primarily from the perspective of the internal and external stakeholders of an organization. Credibility is an attribute of information which engenders an attitude of trust in the mind of the user of that information. Credibility is affected by a stakeholder's direct reading of the report and by other sources of information about the report, the organization and the environment in which it operates.¹⁴
28. For example, credibility is likely to be enhanced if the information in the report appears to be complete, unambiguous, internally consistent and consistent with the user's wider knowledge. It is also likely to be enhanced if:
- The user has confidence in the reporting framework being used;
 - There is evidence of effective governance of the reporting process, including robust processes and controls;
 - The user has evidence of independent external 'assurance'; and
 - The user is satisfied that the people involved in any of these processes are competent and not influenced by conflicts of interest.

Conversely, credibility can be damaged if there is evidence that would challenge any of these contentions, for example if there were evidence that such reports are often subject to restatements.

Who Needs Credibility and Trust and for What Purpose?

29. Enhancing the credibility of external reports can reduce the risks (or costs) to public stakeholders of making decisions, based on those reports, in an environment of information asymmetry¹⁵ and serves

¹² Public sector perspective and SMP perspective not separately addressed but included in the paper of the relevant sections itself where applicable. Further work will be done by the IRWG in this regard.

¹³ See also other publications from IIRC, GRI and WBCSD as referenced in footnote 7, 8 and 9 respectively. Also the Institute of Internal Auditors is exploring this further, for example in [Integrated Reporting and the Emerging Role of Internal Auditing](#)

¹⁴ In the remainder of the paper where we address credibility this is seen in the wider context of enhancing the credibility of information to engender trust.

¹⁵ In a situation of information asymmetry at least one party to a transaction has more relevant information.

the public interest where these benefits outweigh the costs of sustaining that credibility. Information asymmetry is typical of a principal-agent (user-preparer) relationship but internal stakeholders, such as those charged with governance and senior management, can also experience information asymmetry. Enhancing credibility can therefore be important for both internal and external stakeholders.

30. Users exploit information in external reports as part of the broader mix of information available to them in making a variety of decisions, including whether to increase, reduce or maintain their stakes in the entity or to take other action to hold management to account for their use of the entity's resources and for the impact the organization has on other resources.
31. Those charged with governance, such as non-executive directors or members of the audit committee or of a supervisory board or committee, commonly represent shareholders or, in some jurisdictions, may represent stakeholders more broadly. In that role, they are typically responsible for oversight of the financial reporting process and often for oversight of the broader EER. As a result, they have a clear interest in considering how the credibility of EER has been achieved.
32. For management, providing a robust and credible account to their stakeholders of their past management and of their proposed future strategy for the entity can help legitimize the actions they have taken and propose to take. Their position could be seriously undermined if that credibility were to be contested. Therefore management too has an interest in seeking assurance to enhance the credibility of their external reports. This may be a matter of particular concern for them in relation to EER, given the relative immaturity and novelty of the underlying reporting processes.

What Factors Influence Credibility and Trust for Internal and External Stakeholders?

33. Factors that may influence the credibility of external reports are illustrated in the following graphic. A sound reporting framework is essential first and foremost. Strong governance includes the internal control process which in itself includes the report preparation process. Different internal activities are initiated to enhance the credibility of reporting, including the decision whether internal activities should be supplemented by some form of 'external assurance'. These steps together result in trust in the credibility of the reporting process. Together with transparency on the process regarding how the credibility of the report has been achieved, including transparency on all judgmental areas allowed under the reporting framework a high quality external report is prepared. This reports form the basis of 'external assurance', if applicable. Users will compare the report with different sources available to them. At an earlier stage preparers, in preparing the external report, will already have compared the consistency of the external report with wider information, and similarly, if applicable, this will be

considered in some types of 'external assurance'. Together this will enhance the credibility of information and making the user trust this information.

34. Each of these factors is further discussed below in the following order:
- a) Sound reporting framework;
 - b) Strong Governance;
 - c) Consistency with wider information; and
 - d) 'External assurance.'

Sound Reporting Framework

35. Management is responsible for ensuring that the external report complies with an applicable reporting framework. The user's perception of the credibility of EER can be influenced by the qualities and transparency of the reporting framework used for its preparation.

36. A sound reporting framework guides preparers in ensuring that the report is an effective communication and gives users confidence that the report will meet their needs. It therefore typically addresses:

- **Objectives** of the report: intended users, scope and use (the who; the high level what, when and where; and the why of the report);
- **Scope elements** to be included (the more detailed what, when, and where of the report);
- **Depiction Methods** for the scope elements (measurements, quantitative and/or qualitative evaluation or assessment techniques, and descriptions) (the 'harder' technical aspects of the 'how');



- **Principles for judgments** in determining relevant scope elements and relevant and reliable depiction methods, when these matters are not definitively specified (the ‘softer’ technical aspects of the ‘how’)
 - **Principles for communicating** effectively in the report (the communication aspects of the ‘how’).
37. Table 1 in Appendix A illustrates some of these features, taking examples from a number of reporting frameworks, including IFRS as a financial reporting framework for comparison. The text below provides some further explanations to the elements above and how they interrelate.
38. *Type of Reporting Framework:* A reporting framework may comprise standards or a conceptual framework or both. When it comprises both, the framework may be used solely to guide standard setting (as in the case of US GAAP), or the framework may have absolute primacy (as in the case of the International Integrated Reporting Framework), or it may have a degree of authority somewhere between these extremes.
39. For financial reporting frameworks the International Standards on Auditing (ISAs) of the IAASB distinguish between compliance frameworks and ‘fair presentation’ reporting frameworks.¹⁶
40. *Objectives:* As can be seen from Table 1 in Appendix A, the objectives of reporting frameworks for different forms of EER can vary significantly. For example, the International Integrated Reporting framework defines users relatively narrowly as the providers of financial capital, while the GRI G4 framework defines a broad category of stakeholders. The closeness of fit between the objectives of the reporting framework and the user’s needs is an important credibility factor. Transparency about these matters is therefore important.
41. *Scope elements and depiction methods:* Reporting frameworks can include both definitive requirements and more judgmental or principle-based requirements. Definitive requirements can drive consistency in reporting but may also limit the ability of the preparer to tailor the report to the entity’s specific circumstances.
42. *Judgmental areas in the reporting framework and the relationship with the principles:* In those circumstances, frameworks generally recognize that, at least in some respects, the entity itself needs to make judgments to determine the boundaries of the elements to be reported, or the boundaries of the information required to depict and to communicate effectively about those elements. Principle-based requirements included in reporting frameworks can support the entity in making such judgments by providing the criteria for making them. However, the need for such judgments and the

¹⁶ See Glossary of Terms in the *IAASB Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*. In a ‘fair presentation framework’ compliance with the requirements of the framework is required and the framework (a) acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework or (b) acknowledge explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial framework. Such departures are expected to be necessary only in extremely rare circumstances. A ‘compliance framework’ is used for financial reporting frameworks that require compliance with the framework, but that does not contain the acknowledgements in (a) or (b) above.

potential for ambiguity in those criteria may make the framework inherently more susceptible to the risk of preparer bias. For example:

- The identification of the scope elements and depiction methods under a reporting framework can involve significant judgments about what should or should not be within scope for the report and about the most appropriate depiction methods to use. Clear requirements or principles for determining these matters (such as a strong materiality principle and a requirement for stakeholder engagement to enable it to be applied effectively), and transparency about these matters and transparency about the processes used to implement them, can be important to enhance the credibility of the external report.
- Determining the quantitative and qualitative information reported to depict scope elements of the report can involve addressing significant uncertainties in making measurement estimates and qualitative evaluations or assessments and therefore can require significant judgments by preparers. Frameworks may address such uncertainties and judgments by requiring related disclosures and by establishing a neutrality principle to be applied in making such judgments to counter the inherently greater susceptibility to preparer bias risk.

43. In summary, a reporting framework that engenders credible reporting for a user is likely to be one that:

- Has a scope that reflects the user's expectations as to the scope, intended user and intended use of the report;
- Consistently includes and reliably depicts relevant scope elements that are material to the intended users in the context of the intended purpose of the report;
- Recognizes areas of uncertainty, ambiguity and judgment that give rise to inherently greater susceptibility to preparer bias risk and establishes adequate disclosure and neutrality principles to counter this; and
- Promotes transparent (open), clear (unambiguous) and concise (readily understandable) reporting of these matters, and enables effective comparability both with other pertinent entities and over time.

44. The credibility of reporting under a framework can also be enhanced through general confidence in the quality of the reporting framework. For example, because there is confidence that:

- The due process for developing the framework involves interaction with stakeholders in the reporting supply chain to ensure that the interests of the intended users, as well as the views of other stakeholders, have been taken into account sufficiently;
- There is effective governance of the development of the framework that addresses potential conflicts of interest; and
- The framework is well-known, commonly understood, and has broad stakeholder acceptance.

45. The reporting framework also provides a relevant basis to the different types of engagements practitioners perform. For example, the more robust such reporting frameworks are, the more likely they will be suitable for an assurance engagement (see also Section IV).

Strong Governance

46. Management is responsible for internal control necessary to ensure that the information in the external report is reliable and available on a timely basis. Management may be required to, or may voluntarily make an explicit assertion in the external report on this responsibility. Strong governance includes high quality reporting processes surrounded by sound governance structures and internal controls. There is a variety of ways in designing strong governance to enhance the credibility of the EER.¹⁷ These include:

- A strong internal control process: Such a process is founded on:
 - A control environment in which management visibly supports high quality external reporting, and related internal controls,
 - Identification and assessment of risks that may threaten the quality of external reporting and, following from this, the development of a proper risk response,
 - Adequate information and communication, including more broadly on the business processes; and
 - Regular overall monitoring of controls in the current environment to determine that such controls are still sufficient.
- Interaction within the external reporting supply chain: Management may interact with intended users, particularly investors, in a number of ways, for example through issuing press releases announcing significant strategic issues or holding roadshows for investors and other intended users. Active engagement with intended users may provide an added motivation for management to achieve high-quality external reporting. Also, where users, such as institutional investors, are visibly engaged by taking an active interest in the measures taken, this will enhance credibility assuming that entities will respond to such interests.
- Stakeholder dialogue: Stakeholder dialogue is an important part of the process of defining an entity's strategy, identifying the most material issues, and disclosing them in external reports. This is reflected in the different EER reporting frameworks. Entities also may include further stakeholder representatives in their governance structures such as in their non-executive board or have a separate expert group advising the non-executive board.
- Internal Audit: Some entities use internal audit for their operational audits or to assist in the audit of the external reporting process or the external report itself. Internal auditors are also

¹⁷ See for example also, International Federation of Accountants [Integrating Governance for Sustainable Success](#)

exploring how their role may evolve along with the maturity of the reporting processes within the entity.¹⁸

- Oversight by those charged with governance.¹⁹ Those charged with governance (TCWG) are responsible for overseeing the strategic direction of the entity and its obligations related to accountability. This includes overseeing the entity's external reporting process, historically mostly financially related. As EER is evolving TCWG may also extend their responsibilities to this wider area. In listed companies and other large entities, much of the work related to overseeing the entity's external reporting process is often undertaken by an audit committee. A transparent and constructive relationship between management and TCWG will enhance credibility of the external report. In executing their responsibilities those charged with governance, including audit committees where they exist, may engage with intended users to obtain their perceptions of the usefulness and quality of external reporting.
- Some entities also have as part of their governance process a separate disclosure committee that assists the Board of Directors and the audit committee in preparing the disclosures required and help ensure that an entity's disclosure controls and procedures are properly implemented. These activities help to support the quality of external reporting.

47. For external users, the credibility of external reports may increase if transparency is provided on different elements of governance and internal control surrounding the reporting process as described above. In addition, the credibility may be enhanced by confidence in those involved in the reporting process within an entity and those that govern these processes, for example in their integrity and competence.

Consistency with Wider Information

48. In preparing the external report the entity has different sources of information available. By comparing such sources and ensuring their consistency in preparing the external report may enhance the credibility of information.
49. Also users of external reports often have different internal and external sources of information available about the entity and its environment, for example press releases, surveys, benchmarking studies, rating agencies or regulators. Inconsistencies between the different types of information available may impact the credibility of external reports.
50. Features such as the perceived objectivity of the other information, the credibility of the origin of the information, and the medium that is used for communicating this other information will influence which source is being seen as most credible by users when inconsistencies arise. This includes comparison with information obtained in the past that was already perceived as credible.

¹⁸ Institute of Internal Auditors in [Integrated Reporting and the Emerging Role of Internal Auditing](#)

¹⁹ See Glossary of the Handbook: The person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, TCWG may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

'External Assurance'

51. Entities are enhancing the credibility of their external reports not only through strong governance but also through engaging professional services. The different publications referenced earlier show that such 'external assurance' is broader than just the assurance engagements as defined in the IAASB International Standards and can come from different types of professional services performed by different types of practitioners not just professional accountants. The results of such professional services may result in reports that are either publicly available or restricted to those parties involved in the engagement.
52. In exploring this further we like to draw first attention to the different types of engagements that are covered by the IAASB International Standards.
53. The table below provides insight into the engagements most relevant in the area of EER.

Table 1: Relevant engagements, covered by IAASB International Standards, in the area of EER

	Compilation	Agreed-upon Procedures	Limited Assurance Engagement	Reasonable Assurance Engagement
Scope	Reporting Process and Report	Reporting Process and/or Report	Defined in assurance engagement	Defined in assurance engagement
User	Entity and intended users of the EER	Party that defines the procedures	Intended user of the EER	Intended user of EER
Use/Value added	Support entity with compilation through knowledge	Findings on performing particular procedures	Limited assurance on compliance with criteria or fair presentation	Reasonable assurance on compliance with criteria or fair presentation
Independence required of practitioners	No unless required by law	No unless required by law or by engagement	Yes	Yes
Performance of the engagement	Compilation against criteria	Specified procedures	Evidence-gathering against criteria	Evidence-gathering against criteria
Reporting on the engagement	Compilation Report	Fact of Findings	Assurance Report	<u>Assurance Report</u>
Availability	Publicly available	Restricted to party engaging the auditor	Publicly available	<u>Publicly available</u>

How common is current use in EER	Not often	Not often, mainly public sector or compliance	Often	Few Engagements
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Existing Professional Services

54. *Assurance Engagements*: Various surveys show that increasingly assurance engagements are being performed on the information in the external report as part of the annual report as well as for stand-alone external reports.²⁰ In an assurance engagement following the IAASB’s International Standards on Assurance Engagements,²¹ evidence is obtained about whether the external report, or that part of the external report, subject to assurance complies with the criteria. It therefore reduces information uncertainty²². There is a wide range of assurance engagements that can be performed and the next section provides some insight in how the IAASB International Standards allow for flexibility in the nature and scope of the assurance engagement. The nature and scope of assurance engagements may evolve over time.
55. Although less often performed, the following types of engagements currently covered by the IAASB’s International Standards, may also become increasingly of relevance:
- *Compilation engagements*²³ assist management with the preparation and compilation of the external report. Management retains responsibility for the information and the basis on which the external report is prepared and presented. The practitioner is not required to verify the accuracy or completeness of the information provided by management for the compilation. The trust of the user may be enhanced by the practitioner’s professional expertise in EER and compliance with professional standards, including relevant ethical requirements,²⁴ and the clear communication of the nature and extent of the practitioner’s involvement with the compiled information in the EER.
 - *Agreed-upon procedures engagements*.²⁵ In these types of engagements, the practitioner may be asked to perform certain procedures concerning individual items in the external report or the full external report. Such engagements are often focused on compliance with particular requirements. In these engagements no assurance is expressed. Instead, users assess for

²⁰ See for example, KPMG: [Currents of Change, the KPMG Survey of Corporate Responsibility Reporting 2015](#)

²¹ ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. This International Standard covers both reasonable and limited assurance engagements.
 See also AICPA Assurance Services: [A White Paper for Providers and Users of Business Information](#)

²³ ISRS 4410 (Revised) 4410 *Compilation Engagements (Revised)* Although applicable to historical financial information, it may also be applied, adapted as necessary, to assist management in the preparation and presentation of external reporting.

²⁴ integrity, objectivity, professional competence and due care, confidentiality and professional behavior

²⁵ Engagements to perform Agreed-Upon Procedures. Although International Standard on Related Services (ISRS) 4400 Engagements to Perform Agreed-Upon Procedures regarding Financial Information is currently focused on financial information and potential revisions are being explored, including the wider scope to non-financial information.

themselves the procedures and findings reported by the practitioner, and draw their own conclusions from the practitioner's work. The report of findings is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results. The report of findings therefore cannot be included in the external report.

56. *External Report as part of Annual Report: Critical read in accordance with ISA 720 when doing a Financial Statement Audit:* Where the external report is part of the annual report, an auditor of the entity's financial statements performing an audit under the IAASB's International Standards on Auditing²⁶ is required to read and consider, based on their knowledge obtained in the audit (the 'critical read'), the information in the annual report other than the financial statements and auditor's report ('other information'). The auditor is required to respond appropriately if the other information appears to be materially inconsistent with the financial statements or with the auditor's knowledge obtained in the audit or if it otherwise appears to be materially misstated. If that were to be the case, this may indicate that there is a material misstatement of the financial statements or of the other information. Either condition could undermine the credibility of the financial statements and the auditor's report thereon. In responding appropriately in those circumstances, the auditor is therefore required to determine if the other information is materially misstated and, if so, to seek to have the matter resolved or to have the matter brought to the attention of the intended users.
57. When the auditor has obtained the other information before the date of the auditor's report (and in some other circumstances), the auditor includes a statement in the auditor's report describing their (limited) responsibilities and either states that they have nothing to report or that there is an uncorrected material misstatement of the other information. Such a 'critical read' does not constitute an assurance engagement on the other information and the ISA does not impose an obligation on the auditor to obtain assurance about the whether the other information is materially misstated in all circumstances. For example, the other information may be materially misstated but may not, during the critical read, appear to be materially inconsistent with the auditor's knowledge obtained in the audit or otherwise materially misstated, because the other information that is misstated is not related to the financial statements and the auditor did not address it (or the underlying subject matter) in the course of their audit. Such a critical read may, however, add some credibility to the other information for the intended user.
58. *Certifications:* the International Organization for Standardization (ISO) is covering a specific type of assurance, namely certification. In such engagements a third party that is accredited by an

²⁶ See ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*. This standard identifies an annual report as document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters.

accreditation body evaluates whether a subject matter complies with the applicable criteria. These type of engagements result in a certificate.²⁷

New Emerging Professional Services

59. In EER such as integrated reporting, where entities are just starting to report, there may be a need to develop other types of engagements. In practice some new and innovative types of engagements are already being performed. These engagements are not explicitly referred to in the IAASB's International Standards, nor always performed by practitioners that are professional accountants. Examples include:

- *Consultancy engagements* for example to enhance the quality of the reporting process or to support in the materiality process to define the report content.
- *Assurance Readiness Reviews*: These types of engagements are performed to explore whether the reporting processes are adequate and whether suitable documentation is maintained to obtain sufficient appropriate evidence for an assurance engagement to be performed.
- *Maturity assessments*: Practitioners provide insights into the maturity of the reporting process or performance measures to provide users with a better understanding to support their decision-making.²⁸
- *Stakeholder panels*: Here, subject matter experts, often individuals with much public exposure, are asked to express views as individuals or as a whole panel. They aim to bring an independent, often critical, perspective on the strategy, actions or performance on particular topics in the external report. Such stakeholder panels do not aim to provide assurance as their activities do not seek evidence for such a purpose, but may add credibility to the external report due to their expertise in a particular area and being independent from the reporting entity. Stakeholder panels can be used throughout the governance process and do not always result in a publicly available report.
- *Expert views*: Here, the subject matter expert's view on a particular topic, for example the strategy of the entity, the innovation in products or services of the entity or the performance on climate change through a certain period. The results of such assessments can be included in the external report and may exist in addition to the assurance report.

²⁷ Examples are the certifications against ISO 14001 for an environmental management system or ISO 14065 for bodies that undertake validation or verification of Green House Gas assertions. Some professional accountants are also accredited under ISO.

²⁸ See for example [PwC Insight Report](#) for the Crown Estate's Total Contribution for the year ended 31 March 2015.. In the PwC insight report the maturity of each indicator is assessed against six core dimensions: the measurement certainty, whether an established framework/standard was used preparing the information, whether the information is prepared and reported on a consistent basis, the extent to which the entity's external reporting is aligned with its internal performance reporting and the extent to which there has been external validation. Another example is the [Credence Model](#) developed in South Africa that uses three different levels of maturity for over 50 ESG elements.

60. The type of professional service most relevant to users may be dependent on the user needs, the maturity of the reporting processes, and the purpose of the interaction.
61. The way such engagements may enhance the credibility of the report is dependent on particular characteristics of such professional services and traits of those performing such professional services, for example:²⁹
- Competence that is demonstrated or generally well known;
 - Independence, when applicable;
 - Quality of the performance of the engagement;
 - Quality control of the engagement and the firm to which the practitioner who performs the engagement belongs; and
 - Clear way of reporting, including on summary of the work performed.
62. Although the competence may be different for different forms of external reports and the complexity of the entity, in general the competence may include:
- Knowledge of the reporting framework;
 - Knowledge of the underlying subject matter; and
 - Knowledge of the particular engagements for which the service is requested (e.g. assurance).
- Transparency on the competence of those performing the professional service may add to the credibility of the outcomes of the engagement. Particular types of engagements (e.g. assurance engagements) require independence.
63. The way and means of reporting on the professional service and its outcomes influences the effectiveness of the reporting. Key characteristics of a communication that may add credibility to the external report include that it is understandable and clearly structured, well balanced and not biased, and, when applicable, comparable over the years and, if publicly available, between other entities.
64. An explicit reference to national or international standards for quality control of the firm and for the performance of the engagement, as well as to a code of ethics may enhance the credibility of the communication.

Engagements Currently Covered by the IAASB's International Standards

65. With new and emerging engagements arising in EER the question arises whether, in the public interest, there is a need to cover a broader range of engagements than currently covered by the IAASB International Standards. For those engagements already covered by the IAASB International

²⁹ See also AICPA Assurance Services: A White Paper for Providers and Users of Business Information. To provide a service that increases confidence in the information the independent professional providing it has to engender trust not only as a provider of the service but also in the process the professional uses to deliver it. This trust comes from a combination of: (1) the expertise in the assurance process and knowledge of the subject matter in question (2) the quality and consistency of service performance and (3) the service provider's reputation.

Standards, the question arises whether the existing standards provide sufficient guidance for use in engagements on EER, including for agreed-upon procedures engagements and compilation engagements. Since in practice mainly assurance engagements are performed, the next section explores in more detail the challenges that arise in assurance engagements with regard to EER.

IV Key Challenges in Assurance Engagements in this Emerging Area

Although the full draft Discussion Paper is in development, this part in particular is still under construction. We have included it to provide the IAASB CAG with the full overview of the potential discussion paper as well as to obtain views on the issues included.

66. This section explores whether international standard setting or other guidance, such as implementation guidance may be necessary to support these assurance engagements.
67. Since ISAE 3000 (Revised) was developed as umbrella standard to support assurance engagements in a wide range of areas and already anticipated to new emerging areas such as EER. Therefore, this standard in particular will be used as a basis for this discussion. The current assurance concepts in ISAE 3000 (Revised) allow for flexibility and current experience is that when external assurance is obtained on EER, ISAE 3000 (Revised) is typically the starting point.³⁰ Examples include flexibility in:
- Nature and scope of the assurance engagement;
 - Criteria that are used in the assurance engagement, can be both formal and less formal; and
 - Contents of the assurance report itself.
68. Through earlier consultations on assurance by other organizations (IIRC, GRI and WBCSD), engaging with national auditing standard setters, and engaging with different practitioners during the IRWG’s outreach activities, we identified different challenges for assurance engagements in the EER environment that we want to explore further.
69. The table below summarizes how the differences of EER frameworks compared to financial reporting frameworks poses new challenges to assurance engagements.

Table 2: Challenges for Assurance Engagements in the EER environment

Current developments in EER	Difference of EER from Financial Statement Audit	Challenges for Assurance Engagement in the EER environment
Regulatory: In general few mandatory requirements in different jurisdictions for nature and scope of assurance engagements for EER	Nature and scope often defined by cost/benefit considerations	Risk of restricted scope of the assurance engagement and whether it has a rational purpose, a precondition for engagement acceptance (See A below)

³⁰ ADD Reference to background document March 2016 and December 2014 meeting

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<p>EER Reporting Framework: Variety of international, regional and national frameworks</p>	<p>EER Frameworks have different purposes, user groups and use</p> <p>EER Frameworks have different reporting principles</p>	<p>Application of materiality judgements in different contexts (See D)</p> <p>Methodology to derive relevant assertions in the different types of reporting frameworks to classify potential types of misstatements (See C).</p>
<p>EER Reporting Framework: Maturity and Role of Reporting Principles</p>	<p>EER Reporting frameworks are in development and as a result may lack suitable criteria for particular content elements and/or indicators.</p> <p>EER Reporting frameworks allow for more entity-specific information compared to financial reporting frameworks and as a result entities may apply more judgment in selecting the reporting content.</p> <p>EER Reporting frameworks are supplemented by other guidelines/standards or methodologies developed by the entity itself such as for indicators.</p>	<p>Lack of suitable criteria may have consequences for the engagement acceptance (See B).</p> <p>Practitioners have to make professional judgements more frequently on the suitability of the combination of formal and less formal criteria that are being used by entities to compile the EER (See B).</p>
<p>EER Reporting Framework: Content</p> <ul style="list-style-type: none"> - Content Elements - Depiction of Content Elements 	<p>Information may include information from entities outside the financial reporting entity (for example supply chain information)</p> <p>More narrative information</p> <p>More future oriented information</p> <p>Variety of units in which performance is expressed</p>	<p>Determining whether an appropriate Subject Matter exists and ability to obtain sufficient appropriate evidence regarding matters measured by parties outside the financial reporting boundary (See A)</p> <p>Suitability of reporting frameworks for narrative and future oriented information and what type of evidence gathering is possible for this type of information (See B and D)</p> <p>Impact on materiality given the variety of units in which performance is expressed (See E)</p>
<p>Governance/Reporting Process: Maturity</p>	<p>Reporting processes, including internal controls are less developed, also less embedded in governance processes</p>	<p>Potential constraint on ability to obtain sufficient appropriate evidence has consequences for engagement acceptance (See A)</p>
<p>Practitioner: Competence</p>	<p>Subject matter expertise needed in a large variety of topics</p>	<p>Composition of multidisciplinary teams, quality control, ethics, and communication within the team (See F)</p>

Communication: Assurance Report	Larger variety in contents due to different scopes of assurance engagements and different ways of expressing conclusions	Enabling comparability for users while allowing for flexibility (See G) Prevent unrealistic expectations with regard to performance (See G)
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70. The following sections will provide some details on the assurance challenges identified in the table above. This will be done in the following order:

- (a) Flexibility in the nature and scope of the assurance engagement;
- (b) EER reporting frameworks and the suitability of criteria;
- (c) EER reporting frameworks and building assertions in planning and performing the assurance engagement;
- (d) EER reporting frameworks and materiality;
- (e) Narrative information and future oriented information;
- (f) Competence of practitioners performing the engagement; and
- (g) Assurance report.

A. Flexibility in the Nature and Scope of the Assurance Engagement

What are the Key Challenges?

71. Our information-gathering activities identified different needs for the nature and scope of assurance engagements.³¹ These differences in practice are not only caused by different requests of internal or external users, but also due to:

- A lack of suitable criteria for particular elements or measurements;
- The inability to obtain sufficient appropriate evidence for the practitioner to perform an assurance engagement for certain [types/elements of] subject matter information; or
- The appropriateness of the underlying subject matter.

72. For example, the lack of obtaining sufficient appropriate evidence may be caused by the immaturity of particular reporting processes when an entity is starting to report. We understand that entities are gradually widening the scope of topics on which they report. It may also be caused by insufficient access to assurance evidence, for example if information from suppliers is included in the external

³¹ For example the WBCSD Publication [Assurance: Generating Value from External Assurance of Sustainability Reporting](#) distinguishes three stages in their WBCSD Assurance Maturity Model with stage 1 being Data (limited assurance engagement on a few Key Performance Indicators), stage 2 being Materiality (limited or reasonable assurance engagement on material disclosures and possibly process) and stage 3 being Balance & Integration (limited or reasonable assurance engagement on the compliance of the full report with the generally accepted principles, including balance and materiality).

report. An appropriate underlying subject matter is identifiable and capable of consistent measurement or evaluation against the applicable criteria. When restrictions in the nature and scope of the engagement occur the question arises as to whether the nature and scope still provides sufficient value added to the intended users and thus whether there is a rational purpose for the assurance engagement.

73. To facilitate the discussion on the nature and scope of the assurance engagement Appendix B includes an overview with examples, namely with respect to enhancing the full report, particular elements from the report (green) or the reporting process (blue).

How is Flexibility in Nature and Scope Addressed in the International Standards?

74. ISAE 3000 (Revised) allows for flexibility, and all examples in Appendix B can be applied if all requirements for accepting the assurance engagements as per ISAE3000 (Revised) are fulfilled. These requirements cover:

- Suitability of roles and responsibilities of the parties involved in the circumstances;
- Appropriate underlying subject matter;
- Suitability of criteria to be used and availability to the intended user;
- Ability to obtain sufficient appropriate evidence to support the conclusion;
- Those persons to be performing the engagement collectively have the appropriate competence and capabilities;
- Written report for the conclusion; and
- Rational purpose, including for limited assurance engagements the ability to be able to obtain a meaningful level of assurance.

What Will We Explore Further?

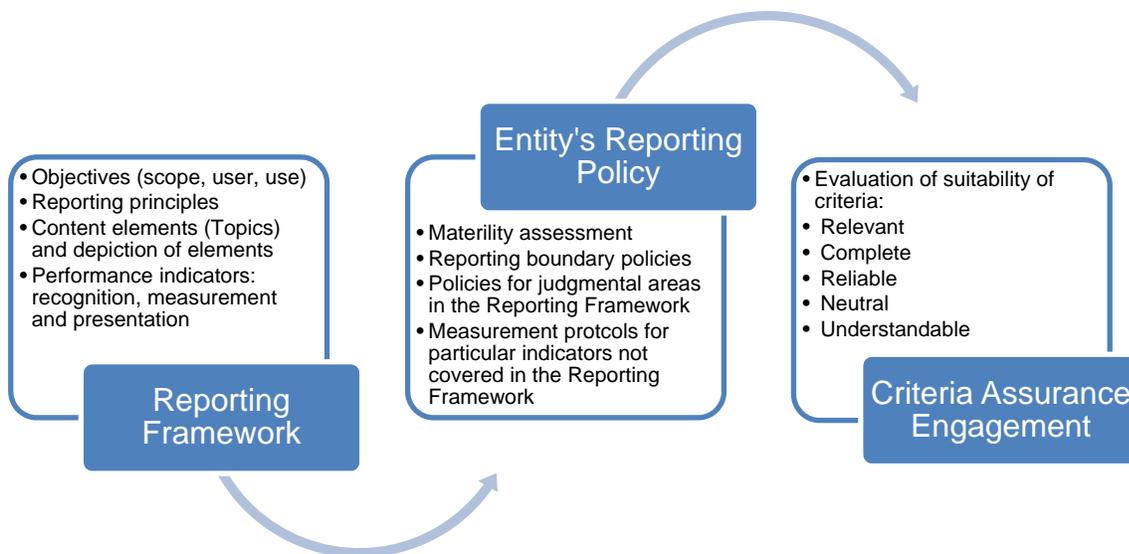
75. ISAE 3000 (Revised) addresses each of the above considerations. We will explore further whether in an emerging EER landscape the considerations around accepting the assurance engagement and any consequences for the nature and scope of the assurance engagement may need further guidance, in particular considering the rational purpose of the assurance engagement. The challenges with the various requirements are also explore in more detail in the next sections.
76. Through further outreach we will explore further how flexibility can be facilitated while at the same time maintaining comparability and understandability to the users and preparers. Using the examples in Appendix B we will also explore further whether users and preparers perceive a risk of divergence in practice, in particular within similar types of assurance engagements. We will also explore how users and preparers perceive carve outs in the scope of the assurance engagement and how further explanation by management on how credibility and trust is derived is helpful in this.

B. EER Reporting Frameworks and the Suitability of Criteria

What are the key challenges?

77. Before accepting the assurance engagement the practitioner evaluates whether the criteria that have been used by the entity in preparing and presenting its external report are suitable for an assurance engagement. Criteria can be formal (for example via national laws or requirements from stock exchanges), or less formal and specifically designed for the purpose of preparing the external report and performing the assurance engagement.³² Our information-gathering activities identified that because EER frameworks are still in development, as well as have more judgmental areas to facilitate entity-specific and relevant reporting, the combination of formal and less formal criteria is more often used in EER compared to financial reporting frameworks. When the combination of formal and less formal criteria are suitable they can be used by the assurance practitioner. With various new forms of EER Frameworks the question arises whether evaluations of the suitability of criteria are being performed in a consistent way.
78. The figure below shows how the formal criteria in a reporting framework, in particular for the more judgmental areas, are complimented by less formal criteria and how they are used as criteria in the assurance engagement, after the evaluation the practitioner has assessed the suitability.

Figure 2: From reporting framework to criteria suitable for the assurance engagement



How is the Suitability of Criteria Addressed in the International Standards?

79. The International Standards have a framework neutral approach. They describe that suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter

³² See also paragraph 12 (c) and paragraph A10 of ISAE 3000 (Revised)

within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding.

80. ISAE 3000 (Revised) describes how to evaluate the suitability of criteria. This would require an evaluation of whether the criteria are relevant, complete, reliable, neutral, and understandable. The suitability is context specific. How criteria are developed may affect the work that the practitioner carries out to assess their suitability. Criteria need to be available to the intended users to allow them to understand how the underlying subject matter has been measured or evaluated.
81. ISAE 3000 (Revised) also addresses that the suitability of criteria does not influence whether a reasonable or limited level of assurance engagement will be performed, but that the lack of suitable criteria for particular information or for measuring performance indicators will impact the scope of the assurance engagement and may even lead to the conclusion that another type of engagement may be more suitable.

What Will we Explore Further?

82. Through this discussion paper we like to explore further whether due to the framework neutral approach of the International Standards additional guidance may be needed on assessing the suitability of criteria given the various new features in these EER Reporting Frameworks.

C. EER Reporting Frameworks and Building Assertions in Planning and Performing the Assurance Engagement

What are the Key Challenges?

83. Management may make an explicit or implicit assertions about the external report. Such assertions are based on the reporting framework used. Underlying such an overall assertion, are more detailed assertions that can be made to assist practitioners in identifying material misstatements in assurance engagements. These assertions are most often based on the reporting principles in the reporting framework and can be made at different levels, for example for the report as a whole or for depicting the elements in the report.

How are Assertions Addressed in the International Standards?

84. Since ISAE 3000 (Revised) is an umbrella standard meant to cover a broad range of underlying subject matters and subject matter information, it cannot explicitly refer to particular assertions made by management on the underlying subject matter or subject matter information nor used by the practitioner in considering the different types of potential misstatements.
85. In contrast, the more subject matter specific standard ISAE 3410 does include assertions that are used in the specific context of assurance on Greenhouse Gas statements and defines them for the quantifications of emissions and for presentation and disclosure.

What Will We Explore Further?

86. Through this discussion paper we would like to explore whether more specific guidance is needed on classifying and building assertions and related types of misstatement. For example, whether there is a need for a model that describes a consistent process that can be followed.

D. EER Reporting Frameworks and Materiality

What are the Key Challenges?

87. A reporting framework in general is built around the relevance of information to the user decision-making processes³³. As a result materiality is used as a threshold to identify the relevant information to be included.³⁴ In an assurance engagement, the practitioner's conclusion addresses whether the subject matter information is free from material misstatement. The way materiality is addressed in the applicable reporting framework provides the practitioner with a frame of reference. The extent to which misstatements, including omissions, are material is dependent on whether they can reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information. Materiality is considered in the context of qualitative factors and quantitative factors. The practitioner's consideration of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the common information needs of intended users as a group. For different forms of external reporting the group of users may be a broad group of stakeholders with different use of the information. A key challenge is how to assess whether a misstatement influences the decisions of stakeholders if the use of information can be very diverse.
88. Another challenge is that compared to financial statements there is no single unit in which performance or value creation is expressed. The lack of a single unit makes it challenging for identifying quantitative materiality levels, where appropriate, or considering qualitative materiality, factors for the report as a whole and its relationship with individual content elements, as well as in evaluating misstatements and considering the aggregation of uncorrected misstatements. Also applying materiality to narrative information in the context of EER is further explored³⁵

How is Materiality Addressed in the International Standards?

89. ISAE 3000 (Revised) addresses materiality in a report framework neutral way. If the practitioner uses a reporting framework that does not include a reference to materiality the application material of ISAE 3000 (Revised)³⁶ provides a frame of reference for determining materiality with examples for considering both quantitative and qualitative factors. ISAE 3000 (Revised) also addresses that materiality is based on the information needs of intended users and therefore materiality is not affected by the level of assurance.

³³ In some cases accountability may be the key purpose of the framework

³⁴ See also Materiality in Integrated Reporting <http://www.ifac.org/publications-resources/materiality-integrated-reporting> of IIRC and IFAC that addresses materiality under different reporting frameworks

³⁵ See for example ICAEW [The Journey Milestone 4: Materiality in Assuring Narrative Reporting](#), 2016

³⁶ See also ISAE 3000 (Revised) paragraph A92-A100

What Will We Explore Further?

90. Through this discussion paper we like to explore whether further guidance is needed how to address materiality in the context of EER and whether the definition of materiality needs to be modified in this respect.

E. Narrative Information and Future Oriented Information

What are the Key Challenges?

91. External reports include much narrative information, such as on the strategy of the entity, its governance and risk and opportunity management as well as future oriented information, for example the information on prospects within an integrated report.
92. From our information gathering activities it appears that practitioners experience more challenges given that this type of information is inherently more subjective in nature. In addition the reporting frameworks allow more judgment with regard to this type of information to tailor the external report to the entity. As discussed in Section III in paragraph 45-46 *Strong Governance*, for this type of information the entity needs sufficient processes to govern the quality of information. There is a challenge how to evidence that sufficient professional skepticism is applied in the professional judgments made and in deciding when sufficient appropriate evidence has been obtained, including with respect to compliance with reporting principles such as the neutrality of such information.
93. Practitioners also experience potential unrealistic expectations of intended users that the conclusion by the practitioner not only addresses the reliability of the information via compliance with the reporting framework, but also the achievement on prospects or the sufficiency of strategies compared to identified risks and opportunities. Although the practitioner is not in a position to express such conclusions users may perceive that the practitioner is providing a conclusion or assurance in some manner.

How is this Addressed in the International Standards?

94. There is no separate standard on narrative information in an assurance engagement. For financial statement audits, the IAASB Disclosures project addressed narrative information within the financial statement audit. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference.³⁷ It includes the cross-reference from the financial statements to information in a management report or a risk report.
95. For future oriented information ISAE 3400 *The Examination of Prospective Financial Information*³⁸ is the closest available support for practitioners when obtaining evidence on this type of information. ISAE 3400 describes evidence-gathering as to:

³⁷ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 13(f)

³⁸ ISAE 3400 *The Examination of Prospective Financial Information (Old ISA 810)* (IAASB, 2015 Volume II). ISAE 3400 is a standard that needs to be updated to the new clarity conventions.

- The reasonableness of management assumptions;
 - Proper preparation, on the basis of the assumptions;
 - Proper presentation and disclosure of all material assumptions and whether best estimate or hypothetical; and
 - Whether prospective information is consistent with historical financial statements, using appropriate accounting principles.
96. The description of the scope, however, explicitly excludes the application to the examination of prospective financial information expressed in general or narrative terms, such as that found in management's discussion and analysis in an entity's annual report, although many of the procedures outlined therein may be suitable for such an examination.

What will we explore further?

97. We will explore further whether there is a need for further guidance on how to address narrative information and future oriented information in an assurance engagement.

F. Competence of Practitioners Performing the Engagement

What are the Key Challenges?

98. The complexity of the underlying subject matter on which information is presented (e.g. entity and its value creation processes) will impact the competence needed for assurance engagements. In addition, the practitioner needs to exercise more judgment, which requires sufficient expertise. Performing an assurance engagement may therefore require specialized skills and knowledge in addition to assurance skills. The competence needed can be obtained from within the firm, as well as from outside the firm by engaging particular experts.

How is Competence Addressed in the International Standards?

99. Competence for assurance engagements is addressed in ISAE 3000 (Revised). Under ISAE 3000 (Revised) the engagement partner may decide to consult a practitioner's expert to provide advice on an individual matter. The greater the significance of the practitioner's expert's work in the context of the engagement, the more likely it is that the expert will work as part of a multi-disciplinary team comprising subject matter experts and other assurance personnel. Given the complexity of the underlying subject matter information, multi-disciplinary skills may not only be needed for particular elements of the subject matter information, but be needed during the full assurance engagement, from planning the engagement to reporting the assurance conclusion.
100. ISAE 3000 (Revised) also provides guidance for those engagements where practitioners use the work of internal audit. ISAE 3000 (Revised) also describes that the standard can be used by practitioners who are not professional accountants, if they are both (1) subject to professional requirements with regard to ethics, including independence that are at least as demanding as Parts

A and B of the Code of Ethics for Professional Accountants as issued by IESBA, and (2) a member of a firm that is subject to a system of quality control that is at least as demanding as ISQC1.³⁹

What will we explore further?

101. Through this discussion paper we will explore further whether more guidance is needed on the competence needed for professional accountants performing EER assurance engagements. Through further outreach and information-gathering we will explore further whether and how the competence of the engagements team is communicated more explicitly and whether this is helpful in enhancing trust.

G. Assurance Report

What are the challenges?

102. The contents of the assurance reports on EER vary. From our information-gathering activities to date we understand that such differences often occur in:

- The scope of the subject matter information subject to assurance;
- The level of assurance and describing in more detail the procedures performed. Following ISAE 3000 (Revised) an assurance report includes an informative summary of the work performed as the basis for the practitioner's conclusion.⁴⁰ However, because the scope of limited assurance engagements can vary along a range of a level of assurance to obtain by the practitioner⁴¹, the description of procedures performed in the summary of the procedures performed also varies; and
- Structure of the assurance report:
 - Short form versus long form: The practitioner may choose a "short form" or "long form" style of reporting to facilitate effective communication to the intended users. "Short-form" reports ordinarily include only the basic elements. "Long-form" reports include other information and explanations that are not intended to affect the practitioner's conclusion. In addition to the basic elements, long-form reports may describe in detail the terms of the engagement, the criteria being used, findings relating to particular aspects of the engagement, details of the qualifications and experience of the practitioner and others involved with the engagement, disclosure of materiality levels, and, in some cases, recommendations. Whether to include any such information depends on the practitioner's consideration of the significance to the information needs of the intended users.
 - One conclusion or different conclusions for each aspect.

³⁹ See also paragraph 3 of ISAE 3000 (Revised)

⁴⁰ See also paragraph 69 (k) of ISAE 3000 (Revised)

⁴¹ See also paragraph A5 of ISAE 3000 (Revised)

103. During our information-gathering activities, users indicated that they found it difficult to properly interpret the assurance report. Also, they often assumed that all the information in an annual report is already subject to assurance. Some respondents in the IIRC consultation also called for further guidance on the assurance report.

How do the International Standards address the assurance report?

104. ISAE 3000 (Revised) describes the content elements but allows for much flexibility in describing and structuring them.⁴² If the subject matter information is made up of a number of aspects, such as in EER, ISAE 3000 (Revised) allows the practitioner to provide separate conclusions on each aspect. Such separate conclusions do not need to relate to the same level of assurance. Rather, each conclusion is expressed in the form that is appropriate to either a reasonable or a limited assurance engagement. ISAE 3000 (Revised) also provides examples on how the type of reporting framework influences the assurance conclusion. Examples of these are as follows:

- For compliance engagements—“in compliance with” or “in accordance with.”
- For engagements when the applicable criteria describe a process or methodology for the preparation or presentation of the subject matter information—“properly prepared.”
- For engagements when the principles of fair presentation are embodied in the applicable criteria—“fairly stated.”

105. In addition, the IAASB has recently published its revised and new standards on auditor reporting that require the auditor to report on key audit matters (KAMs)⁴³. KAMs are those matters that, in the auditor’s judgment, were of most significance in the audit of the current-period financial statements. During our information-gathering activities some practitioners mentioned that in a similar way reporting on key assurance matters may also become relevant in the context of EER.

What will we explore further?

106. Through this discussion paper we would like to explore further whether any guidance would be needed with regard to the assurance report.

⁴² See also paragraphs 67-78 of ISAE 3000 (Revised).

⁴³ See also the different [IAASB resources on the website](#)

Questions

The IRWG would like to obtain views on the following topics. In replying to these questions please provide practical examples.

Credibility and Trust

1. Section III describes factors that affect credibility and trust. Is it helpful that the IAASB looks at this broader context? Would other factors need to be considered?

Reporting Frameworks and Assurance Engagements

2. Do the EER reporting frameworks available to date include sufficient guidance to constitute suitable criteria to enable a conclusion on future oriented information?

Gap in Scope of IAASB International Standards

3. Section III describes different types of engagements that are either currently performed or could be useful in enhancing credibility and trust. Are there any other types of engagements to date that are relevant in enhancing credibility and trust and if so what are they? Do you believe the relevance of such engagements is likely to develop with the maturity of the reporting process or the report?
4. The IAASB International Standards cover different types of engagements. Are these sufficient for the various forms of EER or is there a need for innovation and addressing other types of engagements? If so what type of engagements?

Assurance Model

5. Section IV describes assurance engagements and technical challenges in addressing EER in such engagements. Are there any other technical challenges that need to be addressed by the IAASB International Standards or other forms of international assurance guidance and if so, what technical challenges?
6. Is ISAE 3000 (Revised) sufficient in the context of EER?
 - If not, would it be sufficient to develop additional guidance or application material in an EER context, in general or with regard to particular technical challenges as for example described in Section IV? For example, for narrative information or future oriented information, or for the competencies that professional accountants need to have to perform assurance engagements in EER.
 - If not, is there a need for a subject specific standard to accommodate assurance engagements in this area?
7. Is the current form of assurance report, sufficient in enhancing credibility and trust?
 - If so why?

- If not, what changes in guidance would be needed? For example, is there a need for guidance on including key assurance matters or to consider more innovative ways of communicating existing content elements in an assurance report?

Other

8. What actions need to be taken by the IAASB, and in what timeframe, to address the issues that you have identified in your responses to the above questions?
9. For which actions would collaboration or actions from other organizations also be needed?

To be added: Information how and when to provide responses

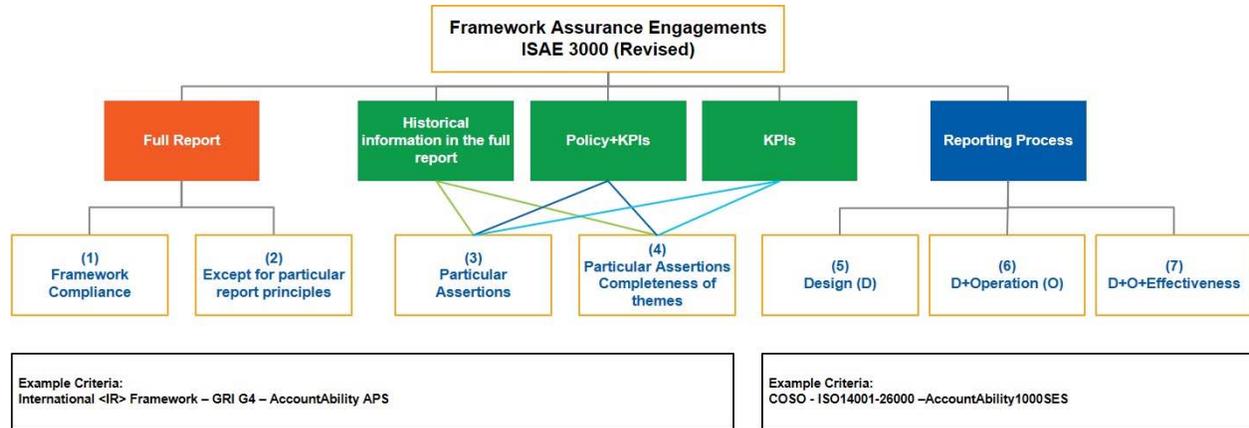
Features of Reporting Frameworks

This table is under development and therefore only the structure is included

Reporting Framework	Objectives		Scope Elements	Depiction methods	Judgment principles	Communication principles
X	Scope				-	-
	User					
	Use					
Y	Scope					-
	User					
	Use					

Figure 2: Overview examples of nature and scope of the assurance engagement

Color code: the full report (orange), particular elements from the report (green) or the reporting process (blue)



To make it more practical example conclusions that might be included in the assurance report are provided below for the respective examples:

1. Example 1 addresses assurance on the full external report against all the principles and content elements of the reporting framework. This is the most extended scope. An example conclusion for such scope is: *The information in the report is properly prepared, in all material respects, based on XYZ criteria.*
2. Example 2 addresses assurance on the full external report but excludes particular principles for the criteria, for example the completeness principle. Although this adds value to the intended user, this user does not have any insight whether all material topics and issues are included in the external report. An example conclusion for such a scope is: *The information in the report properly reflects, in all material respects, the topics addressed in the report, based on XYZ criteria. (Completeness of topics is excluded).*
3. Example 3 addresses situations where the scope of subject matter information of the assurance engagement is only either on:
 - a. The historical information;
 - b. The policy and key performance indicators (KPIs) around particular topics; or
 - c. The KPIs and related disclosures only.

As it does not include the full external report particular principles such as the completeness principle or for integrated reporting the connectivity principle will also be excluded from the scope of the assurance engagement. The other types of information will be read for any inconsistencies, but not subject to the assurance engagement. The added value to the intended users is that assurance is

obtained for example on the accuracy and consistency of the subject matter information against the reporting framework used.

The choice for the policy and KPIs, or only the KPIs and related disclosures, in practice is made as often the criteria for measurement and presentation are more robust, as are the underlying reporting processes. Some companies for example choose to include a KPI overview similar to the financial statements. The added value is that the information that is used for quantitative analysis on companies is subject to assurance.

An example conclusion is: *The historical information/information on policy and performance as described on pages xx to yy/information on key performance as described on pages xx to yy in the report is properly prepared, in all material respects, based on XYZ criteria.*

4. Example 4 addresses the same subject matter information as in option 3, but also addresses whether all relevant themes (for example climate change, diversity) are included in the external report.

An example conclusion is: *All relevant topics to depict ZZ are included in the report and the historical information/information on policy and performance as described on pages xx to yy/information on key performance as described on pages xx to yy in the report is properly prepared, in all material respects, based on XYZ criteria.*

5. Example 5 addresses the design of the reporting process. In practice such engagements could be useful when new reporting systems, including internal controls, or revisions in the reporting process are being implemented. The added value is that the user obtains assurance that the reporting process in design meets the criteria.

An example conclusion is: *The design of the applicable reporting process and related internal controls included is adequate, in all material respects, based on XYZ criteria.*

6. Example 6 addresses the design and operation of the reporting system. The added value is that in addition to example 5 also evidence is obtained how the reporting systems actually operates in practice and whether this meets the criteria.

An example conclusion is: *The applicable reporting process and related internal controls are adequately designed and have been placed in operation, in all material respects, based on XYZ criteria.*

7. Example 7 addresses the design, operation and effectiveness of the reporting system. The added value is that the users also obtains assurance as to whether the intended outcome of the reporting system against the criteria is achieved.

An example conclusion is: *The applicable reporting process and related internal controls are adequately designed, have been placed in operation and operated effectively [as of specified date/for a specific period], in all material respects, based on XYZ criteria.*