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Paris, 6 March 2017

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

Dear Sir,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the Discussion Paper *Supporting Credibility and Trust in Emerging Forms of External Reporting* (referred to in the Discussion Paper as "EER"): *Ten Key Challenges for Assurance Engagements*.

Integrated reporting involves promoting a new international reporting framework that concisely combines financial and non-financial information. EER is a way for companies to illustrate and promote not only their financial performance, but also their performance in relation to social, environmental and governance issues.

France has been a pioneer in social and environmental reporting. With the introduction of the laws on new economic regulations ("lois de nouvelles régulations économiques" – NRE) as well as the "Grenelle" environmental laws ten years ago, large but also more recently smaller entities have to include human resources, environmental and social information in their management report (hereinafter named "CSR Information"). CSR information has also to be verified by an independent third-party organization, accredited by an appropriate accreditation body. This independent third-party can be the entity's statutory auditor. The verification of CSR information leads to a report that is sent to the annual shareholders' meeting at the same time as the report of the board of Directors. This report includes an attestation on the completeness of CSR Information presented in the management report in compliance with the list of required information provided in article R.225-102-1 of the French Commercial Code and a conclusion of the fairness of this CSR Information.

The CNCC issued a professional guidance, comprising case studies, examples of reports in French and English, to assist the practitioners in performing such engagements. This guidance is attached to the present letter and is available at the following web address: <https://doc.cncc.fr/docs/avis-technique-verification-des?q=avis%20technique%20RSE>.

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Envoyé en obligation de confidentialité, en correspondance aux seuls adresses ci-dessous.

However, integrated reporting is about more than simply meeting the requirements of the "Grenelle laws". It ensures consistency between historical and projected financial, social, environmental information, information concerning strategy, risk management, the business model, governance, resource allocation, and more. The performance presented is therefore no longer exclusively financial or non-financial. Integrated reporting provides an intelligible, comprehensive vision of the company's business model, strategy, organizational structure and governance using a limited number of indicators that are relevant to its ecosystem. It represents a mean for companies to drive and communicate their value creation.

In a document entitled "*<IR> Driving and Communicating Value Creation*", the CNCC and the IFACI¹ have joined forces to promote integrated reporting among French companies as a means of driving and communicating value creation. The two organisations wish to emphasise the need for companies to innovate their external reporting practices and demonstrate how integrated reporting can help them to do so. They present a detailed review of the situation in France before addressing the issues that could discourage companies from embarking on the integrated reporting process. Lastly, they highlight the main criteria for a successful integrated reporting process. This document is attached to the present letter and is available at the following web address: <http://communication.cncc.fr/fluidbook-reporting-integre/>

EER is a broad subject matter. There are currently a broad range of different reports, addressing different subject matters, for the attention of different users; this makes it difficult to achieve consistency. As the discussion paper points out, this is an evolving area, and there are many issues and challenges to overcome in the coming years. In this regard, the discussion paper provides helpful background to EER and the issues to provide assurance over EER.

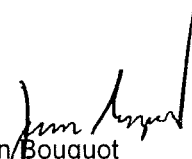
We are convinced that the practitioners have an essential role to play in enhancing credibility and trust in EER. But we do not believe that it would be the right approach for the IAASB to develop a lot of detailed standards at this stage. As noted previously, this is an area where all stakeholders are in a learning mode. Developing detailed standards would risk introducing certain rigidity and inflexibility that might constrain innovations by the profession. Room must be left for assurance and non-assurance services and reporting formats to be developed in order to meet the stakeholders' needs in various jurisdictional environments. If the assurance providers from the profession are not able to provide external reports that meet users' needs, other parties will do so.

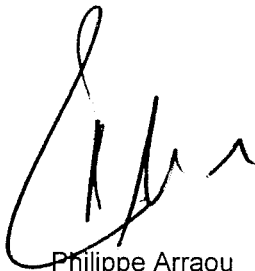
We also recommend that the discussions on EER be conducted in parallel with the discussions on the agreed-upon procedures and the multi-scope assignments.

Finally, responses to the specific questions raised in the Discussion Paper are set out below.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,


Jean Bouquot
President of CNCC


Philippe Arraou
President of CSOEC

¹ Institut français de l'audit et du contrôle internes

Respondent Information

Questions Relating to the Discussion in Section III - Credibility and Trust in Relation to EER Reports

Question 1: Credibility and Trust

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

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

The factors outlined in Section III are adequate.

However, we have the following comments:

1) Completeness of the factors

We consider that the list of factors that enhance the credibility of information and engender trust should be completed. We believe that the following factors should be mentioned:

- Appropriate and bespoke information system

Traditionally, financial communication IT systems are designed to compile historical accounting data expressed in monetary units in accordance with set of accounting standards. Integrated reporting data are, by nature, heterogeneous, as they are designed and collected in accordance with external standards or with internal instructions. Given the different aspects that must be covered, IT systems must be adapted to capture information that, although it may have already existed, was not necessarily gathered, stored, compiled or connected with other key indicators. It is also important to note that such a factor concerns all entities, since EER reports are not limited to large companies.

- Relevant information

Given their operations, locations, products, regulatory and competitive environment, companies are complex structures. One of the greatest challenges of integrated reporting is to simplify and reflect this complexity in a format and language that are accessible to a wide variety of readers. Too much information can be as harmful as too little. Therefore, if the scope of communication is to be widened, relevant indicators must be selected. Communication must be concise and effective.

The integrated report must be tailored to each company using simple words and graphics (infographics, analytical charts, hyperlinks, etc.). Under the supervision of their governance body, companies must therefore make a balanced judgement in selecting information with a significant impact on their business model and capitals. Those responsible for preparing the report must organize this information by order of importance and put it into perspective, which includes using technology to facilitate access to more detailed information for relevant stakeholders.

2) Comments on the four factors identified in paragraph 40 of the Discussion Paper

- Factor 2 "Strong governance"

In relation to the second factor, i.e. "strong governance", we highlight the importance for the governance to coordinate and manage the production of information included in the EER report.

As a matter of fact, the integrated report covers the creation – or, indeed, the destruction – of all of the financial and non-financial resources used by the company. However, the report is not a compilation of the company's existing reports (for example, combining the annual report together with the sustainability report is not sufficient). Driven by governing and managing bodies, integrated reporting is supported by a necessary review of the company's business model and capitals as well as the most relevant indicators for reporting in these areas. This review forms a natural part of the multi-year strategic planning process. It involves mapping out expectations of key stakeholders as well as conducting an analysis of the major risks and opportunities, not limited to short-term eventualities.

Integrated reporting therefore requires a real managerial transformation across all functions, not just accounting, finance and CSR. In other words, EER report involves a shift from compartmentalized management to a multi-dimensional analysis of the company's value.

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– Factor 3 “Consistent wider information”

We consider that the third factor should be entitled “transparency on the way information has been prepared”. “Consistent wider information” is more a consequence than a factor that could enhance the credibility of EER reports and engender user trust. Based on the practice in France, such a transparency can be reached with a methodological note prepared by the entity and directly included in the EER report.

Questions Relating to the Discussion in Section IV - Relevant Professional Services Covered by the IAASB’s International Standards (ISAs)

Question 2:

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

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

The various types of professional services described in sections II and IV cover a wide range of possibilities. However, we believe that other types of professional services should be considered. They are listed here below:

– Presentation engagement

Presentation engagement was discussed during the IAASB, CSOEC and CNCC Small and Medium-sized Practice (SMP) Working Conference which took place in Paris end of January. Specific to France, the presentation engagement is mainly used to help SMEs prepare their financial statements while providing a certain form of assurance on the latter. In such assignment, the professional accountant can help the entity to prepare its financial statements but also add credibility by expressing a conclusion on the consistency and plausibility of the entity’s financial statements taken as a whole.

We believe that this type of engagement could be useful particularly to assist small entities, often without internal adequate resources, to prepare such EER while providing a certain form of assurance from an external practitioner. SMEs must be considered in the area of integrated reporting as well as professional services adapted to their organization.

– Agreed-upon procedures engagement

Agreed-upon procedures engagements could also be useful in enhancing credibility and trust in the EER. However we consider that the restriction of the use of the report to parties who have agreed to the procedures to be performed should be further discussed at the IAASB level, since such a restriction might limit the usefulness of such engagements.

In this regard, the IAASB’s public consultation on AUP is very timely.

– Advisory services

Advisory services are relevant for practice but perhaps out of scope for IAASB.

– Guidance on forward-looking information

Since EER reports may contain forward-looking information (e.g. business plans and embedded data such as business data, research and development data, ..), providing specific guidance that would extend existing International Standards (ISAE 3400 – *Prospective information*) would be useful. We therefore recommend the IAASB to conduct a survey to understand the nature of professional services that have been developed in local jurisdictions. Based on this survey, the IAASB would be able to develop a bespoke guidance.

In any event, proposed professional services need to be valuable services to the users and meet their needs.

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Question 3:

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

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

Given how broad is the definition of EER, we have concerns about applying ISA 720 (revised) as a mean to enhance credibility and trust of EER information in an annual report.

In accordance with ISA 720, the auditor of the financial statements has some responsibilities in relation to "Other information" included in the annual report but this does not constitute assurance.

When EER reports meet the definition of an annual report and an audit of the financial statements is conducted in accordance with ISAs, the auditor is required to read the EER report and consider whether there is a material inconsistency between that information and either the financial statements or his knowledge of the entity obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit. While reading the EER report, the auditor is also required to remain alert for indications that information in the EER report not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated.

If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), he is required to perform procedures and conclude whether a material misstatement of the EER report exists. If so, the auditor is required to seek to have the matter resolved or brought to the attention of the intended users. Uncorrected material inconsistencies are required to be communicated in the auditor's report. The auditor's report explicitly highlights that this work does not constitute a separate engagement to provide a conclusion, or to express assurance on the other information.

However, it is important to recognize that, despite the auditor diligently meeting these responsibilities in performing the audit, the EER information could still be materially misstated. As a matter of fact, the misstated information may not be related to the financial statements and, therefore, the auditor will not have obtained any relevant knowledge of the matter when performing the audit. If this reality is not well understood by users, it could give rise to an expectation gap, i.e. considering that the auditor has expressed an "implied assurance" on the EER information.

We therefore consider that ISA 720 is not sufficient since there would remain both an expectation gap around "other information" with regards to some stakeholders and a misunderstanding as to the auditors' role with some other stakeholders. This expectation gap risk increases considerably as more EER are included in the annual report and users place reliance on it.

There would certainly be value in emphasising that if assurance is required, a separate assurance engagement needs to be undertaken.

Further enhancing the responsibilities of the auditor of the financial statements could increase credibility and trust when EER information is included in the annual report. But due to the lack of maturity in EER in many jurisdictions, requiring the auditor to obtain assurance at this point in time would be counterproductive, and, in practice it is more likely to add to the confusion over audit responsibilities, rather than solving the issue.

It is probably best left to the supervisory body and management to determine what sort of assurance they require over EER information to meet users' needs. In time, it is our belief that legislators and regulators in each jurisdiction will, in due course, turn their attention to these reports. The profession should be ready to address these issues.

Nonetheless, the present expectation gap around the responsibilities of the auditor of the financial statements on EER reports included in the annual report might well be concealing by a demand for further services, whether assurance or non-assurance services. The IAASB could investigate this and provide clarity to manage the expectations at the same time.

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Questions Relating to the Discussion in Section V – Ten Key Challenges in Relation to EER Assurance Engagements

Question 4: Scope of the IAASB's International Standards and Related Guidance

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

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

We agree that the IAASB should explore guidance to support practitioners in applying the existing International Standards for EER assurance engagements. We are not in favour of a new standalone standard.

Where assurance engagements are concerned, guidance focused on clarifying IASE 3000 (Revised) to support practitioners and national standard setters would be helpful.

With respect to part b) of the question, other types of engagements should not be ignored. Guidance could be extended to assist practitioners in applying the requirements of these assignments. Whatever the scope of the assurance provided, the robust examination and verification procedures are key features of assurance methodology which are likely to be of great value to users.

Question 5:

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

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

In France, when providing assurance on GHGs, the auditors do not only provide assurance on the specific subject matter covered by the ISAE 3410 but rather give a wider assurance on many other key aspects of sustainability. Also, the assurance report refers to ISAE 3000 and not specifically to ISAE 3410.

We are not in favour of developing assurance standards on specific subject matters. We therefore encourage the IAASB to promote guidance, case studies, examples which illustrate how the standards such as ISAE 3000 can be applied in specific ways.

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Question 6:

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

Do you agree or disagree and why?

We agree that it is too early to develop a subject-matter specific assurance engagement standard on EER or particular EER frameworks due to the current stage of development of EER frameworks and related standards. We consider that the area of integrated reporting and other external reporting is still an area where stakeholders are in a learning mode. Developing detailed standards would risk introducing a certain rigidity, inflexibility and therefore would entail limitation for new initiatives. We consider that space needs to be given for reporting formats to be developed that meet the stakeholders' needs.

EER reports address a wider range of subject matters and are used by a broader and more diverse group of intended users for a more diverse range of purposes than traditional financial statements or annual reports. The scope and content elements of EER frameworks address a range of matters (such as the entity's environmental and social impact), many of which currently less formally embedded in the entity's strategic and operational processes, for example, less integrated in the entity's strategic planning, risk management and internal control processes. Management and TCWG may be less experienced in such matters. Moreover, whereas financial statements are primarily historical in orientation, many content elements of EER reports are future oriented. Therefore many of content elements to be depicted in an EER report are more difficult to measure or evaluate than the ones in the financial statements.

Specific frameworks are not yet applied consistently, due to the developing maturity of reporting within different organisations. There is insufficient experience currently amongst contributing firms to provide proper evidence upon which to base a standard.

Furthermore, ISAE 3000 is still very useful and can be used to cover EER information.

So as mentioned here above, we consider it is too early to develop specific standards on EER, but we believe that, as a starting point, guidance on how to apply existing standards to specific types of EER would be helpful.

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

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

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

The Ten Key Challenges	
<ul style="list-style-type: none"> • Scoping EER assurance engagements • Suitability of criteria • Materiality • Building assertions in planning and performing the engagement • Maturity of governance and internal control processes 	<ul style="list-style-type: none"> • Narrative information • Future-oriented information • Professional skepticism and professional judgment • Competence of practitioners performing the engagement • Form of the assurance report

Specific comments on the Ten Key Challenges

Question 7

We agree with the IAASB's analysis of the key challenges, but we have the following comments. We suggest that the IAASB clusters the key challenges around three thematic areas, since we consider that it would be easier to address each of the challenges. We suggest for example the following clustering:

- Acceptance, suitability and scoping
 - Scoping EER assurance engagements
 - Suitability of criteria
 - Materiality
 - Building assertions in planning and performing the engagement
 - Maturity of governance and internal control processes
- Category of subject matters
 - Narrative information
 - Future-oriented information
- Assurance reports
 - Professional skepticism and professional judgment
 - Competence of practitioners performing the engagement
 - Form of the assurance report

Moreover, we believe that an additional key challenge should be mentioned, i.e. identification of the various key stakeholders. Such identification is necessary to correctly address the needs of intended users of EER reports.

We also would like to highlight the fact that there should be some parallelism between the key challenges for practitioners and the ones of the EER preparers. We believe that the preparers have to overcome 5 key challenges:

- Use of the capitals
- Integrated thinking approach
- Response to key stakeholders' legitimate needs and interests
- Materiality
- Conciseness

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Question 8:

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

Doing so would enhance the usefulness of EER assurance engagements for users

Such demand would come from internal or external users or both

There are barriers to such demand and alternative approaches should be considered.

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

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

Question 8

EER are evolving while the information-reported needs of capital market are changing. This evolution may lead to substantial user demand. More specifically, user demand may depend upon the level of importance given to the information reported by companies, but also upon the level of assurance, the nature of the opinion and how this is expressed in the assurance provider's report.

In any event, we note an increased awareness among entities and regulators concerning the importance of EER. In particular, we refer to the position paper of Paris Europlace published in December 2016², regarding the market place working group on the notion of value creation by companies and associated forms of reporting.

The position paper mentions that we are seeing an evolution in both the demands of stakeholders, particularly investors, and the needs of companies regarding financial and extra-financial information. On one hand, investors wish to have concise, forward-looking information focused on the major issues and how companies create value. On other hand, companies are increasingly mindful of producing quality, readable, relevant reporting to increase their attractiveness on the markets but also to limit the costs of producing information and avoid undertaking overly burdensome actions.

This position paper has been reflected on the website of MEDEF, i.e. the largest entrepreneur network in France.

We therefore believe that the demand for EER assurance engagements will come from external users (i.e. regulators, investors) and internal users such as audit committees.

² http://www.paris-europlace.com/sites/default/files/public/position_paper_integratedthinking_eng.pdf

At a first step, we recommend that the use of report remains restricted to those parties that have agreed to the procedures to be performed until the matter becomes mature.

Question 9:

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

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

We believe that it is important for the IAASB to collaborate with other organizations in relation to EER reporting.

The International Integrated Reporting Council <IIRC> has established the Corporate Reporting Dialogue to bring together all the individual bodies that are actively engaged in this area. Collaboration with organisations like the IIRC is certainly recommendable. This is even more important now given the fact that IFAC has endorsed the IIRC³.

The IAASB could also collaborate with the Global Reporting Initiative (GRI).

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³ <https://www.ifac.org/system/files/publications/files/PPP8-Enhancing-Organizational-Reporting-Jan-2017.pdf>

Appendices

– **Appendix 1:**

CNCC - Avis technique – Vérification des informations RSE par l'OTI

– **Appendix 2:**

CNCC - Report by (one of) the Statutory Auditor(s), appointed as independent third party (parties), on the [when applicable consolidated] human resources, environmental and social information included in the management report

– **Appendix 3:**

CNCC – IFACI – <IR> – Driving and Communicating Value Creation

