

27 January 2017

Professor Arnold Schilder
Chairman
International Auditing & Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York
NY 10017
USA

Dear Professor Schilder

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

Crowe Horwath International is delighted to present a comment letter on *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*. Crowe Horwath International is a leading global network of audit and advisory firms, with members in some 130 countries.

The discussion about assurance for emerging forms of External Reporting (“EER”) is both important and much needed. New forms of reporting are gaining credibility and being used to report in areas such as the delivery of value added from the strategy of the business and performance against sustainability objectives. EER is gaining legal backing with the EU Directive on Non-Financial Reporting. There is an opportunity for the audit profession to take a lead in giving assurance on EER and in promoting the integration of financial and non-financial reporting. IAASB’s existing standards and guidance are not compatible with the new forms of EER, but IAASB can become the standard setter for assurance on EER.

Our responses to the questions in the Invitation to Comment are given in the Appendix to this letter. From our detailed responses, we particularly draw attention to the following:

- A “blank sheet of paper” approach should be taken to preparing standards and guidance for giving assurance on EER.
- There are different forms of EER, covering different areas. There is a strong case for the rationalisation of frameworks, but in the absence of rationalisation, IAASB has to identify in which areas it should develop standards and guidance. IAASB and its stakeholders also need to understand where the demand for assurance on EER is strongest.
- Concerns do arise as to the creation of new “expectations gaps” between financial

and non-financial information that is delivered and different levels of assurance that might be rendered. Giving assurance on EER may involve pressure to report on “forward looking statements”. This has to be explored early to avoid concerns about expectations later.

- We mention the skills required to give assurance on EER. In addition to skills, matters arising from IAASB’s discussion about data analytics are also relevant, as technology will significantly affect both the delivery of EER and how the content of EER is tested.

An additional consideration has to be the relationship between giving assurance on EER and reporting on a financial statement audit. Is giving assurance on EER a “related service” to the financial statement audit or a non-audit service? IAASB ought to explore this question with IESBA.

We trust that our comments assist the IAASB in its standard setting activities. We shall be pleased to discuss our comments further with you.

Kind regards

Yours sincerely

A handwritten signature in black ink, appearing to read "David Chitty". The signature is written in a cursive, flowing style.

David Chitty
International Accounting and Audit Director

**Appendix – Crowe Horwath International response to IAASB Discussion Paper
Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key
Challenges for Assurance Engagements**

We present below the questions contained in the Discussion Paper and our responses. We have responded to the questions from which responses were sought from “all respondents” and “practitioners” (Q1, Q4, Q5, Q6, Q7, and Q9).

Question	Response
Credibility and Trust	
Q1. Section III describes factors that enhance the credibility of EER reports and engender user trust.	
a. Are there any other factors that need to be considered by the IAASB?	The analysis in Section III is very comprehensive. The “four factors” are a good start for further discussion.
b. If so, what are they?	IAASB could give further consideration to the skills required to give assurance on EER. IAASB’s “traditional constituency” of financial statement auditors may not necessarily possess these skills. In addressing this, and to prepare relevant assurance standards, IAASB ought to be open to working with other standard setters and professions.
Q2. Sections II and IV describe different types of professional services that are either currently performed or could be useful in enhancing credibility and trust.	Not Applicable – no response given.
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?	
Q3. Paragraphs 23–26 of Section II describe the responsibilities of the auditor of the financial statements under ISA 720 (Revised) with respect to the other information included in the annual report.	Not Applicable – no response given.
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?	
Scope of the IAASB's International Standards & Related Guidance	
Q4. 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?	An easy solution is to use the existing Standards as a starting point. We disagree.
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)	Not applicable.
c. If you disagree, please provide the reasons why and describe what other action(s) you believe the IAASB should take.	EER is presenting new challenges. The recognition and credibility of Integrated Reporting is increasing, the EU is implementing Non-Financial Reporting and sustainability reporting is growing, supported by a number of frameworks. The forms of EER are therefore increasing and more attention is being given to EER. Existing Standards are not necessarily the basis for developing a credible reporting framework. It would be far better to make a "fresh start" and in doing so be open to the issues presented by the reporting frameworks, the relationship between financial and non-financial information, technology and the skills needed for reporting. In doing so, principles from existing Standards might be considered. The result might take longer to deliver, but will be more robust and aligned with the evolving EER environment.
Q5. The IAASB would like to understand the usefulness of subject-matter specific assurance standards. ISAE	

3410, a subject matter specific standard for assurance engagements relating to Greenhouse Gas Statements, was issued in 2013.	
a. Please indicate the extent to which assurance reports under ISAE 3410 engagements are being obtained, issued or used in practice by your organization.	We are not currently aware of any reports being issued under ISAE 3410 by member firms of our organisation.
b. If not to any great extent, why not and what other form of pronouncement from the IAASB might be useful?	<p>This remains an emerging issue for “middle market” businesses. However, we do see an increasing market, from businesses of all sizes, for reports concerned with sustainability, and supply chain compliance, increasing sustainable use of resources.</p> <p>As IAASB addresses the assurance Standards that might be required it should be open to assurance on sustainability frameworks and supply chain compliance (such as conflict minerals, employment law compliance, and modern slavery). Considerations for assurance on reports prepared by SMEs will be important.</p> <p>The implementation of the EU Directive on Non-Financial Reporting is an opportunity for IAASB to make proposals for obtaining assurance on reports presented under the Directive.</p>
Q6. Section V suggests it may be too early to develop a subject-matter specific assurance engagement standard on EER or particular EER frameworks due to the current stage of development of EER frameworks and related standards.	
a. Do you agree or disagree and why?	<p>We disagree. IAASB has to address this matter and in doing so be open to adapting standards as frameworks evolve. In particular, IAASB should note:</p> <ul style="list-style-type: none"> • Integrated Reporting is established and a growing number of organisations are presenting integrated reports; • The EU Directive on Non-Financial Reporting (NFR) is the process of being implemented; and • There are already legislative requirements for supply chain

	<p>compliance reporting and these will grow.</p> <ul style="list-style-type: none"> • More than 80% of the constituents of the S&P 500 are issuing non-financial reports, and the largest stock exchanges in Asia are requiring listed companies to issue sustainability reports. • Governments are adopting the SDGs for the national sustainability plans (and regional plans like the EU) as a robust framework for measurement of progress that will require assurance processes. • The commitments of sovereign states to the INDCs (Intended Nationally Determined Contributions) being transformed in NDCs with the ratification of the Paris Agreement will imply a number of regulations and initiatives that demand useful assurance and reporting frameworks. <p>We accept that there are currently several sustainability reporting frameworks, and in our view these need to be rationalised. However, sustainability reporting is being delivered, often as a part of an Integrated Report and in the near future as part of a EU NFR. Therefore IAASB has to address the assurance requirements for sustainability reporting, notwithstanding the multiple frameworks.</p> <p>For further reference, the works of the World Business Council for Sustainable Development on “Reporting Matters” is a solid research supported by many of the largest companies in the world.</p>
<p>Ten Key Challenges in Relation to EER Assurance Engagements</p>	
<p>Q7. Section V describes assurance engagements and the Ten Key Challenges we have identified in addressing EER in such engagements and suggests that the most effective way to begin to address these challenges would be to explore guidance to support</p>	

practitioners in applying the IAASB's existing International Standards to EER assurance engagements.	
Do you agree with our analysis of the key challenges?	The key challenges are well presented.
For each key challenge in Section V, do you agree that guidance may be helpful in addressing the challenge?	We agree that guidance should be prepared in respect of each key challenge.
If so, what priority should the IAASB give to addressing each key challenge and why?	<p>As we believe that new standards are required, IAASB's "what we propose to do further statements" provide for each key challenge a starting point for addressing the challenge within standards.</p> <p>In particular, IAASB should be giving priority to the form of report required and the assurance and skills required to deliver that report. IAASB has to be open to the concept of integrating financial and non-financial reports. Integrated Reporting is about "integrated thinking" and therefore an integrated approach to assurance reporting is required.</p>
If not, why and describe any other actions that you believe the IAASB should take.	Not applicable.
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 key challenges provide a good basis for beginning the development of EER standards.
Potential Demand for Assurance Engagements & Other Professional Services	
<p>Q8. The IAASB wishes to understand the impact on potential demand for assurance engagements, if the Ten Key Challenges we have identified can be addressed appropriately, and in particular whether:</p> <ul style="list-style-type: none"> • 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 	Not Applicable – no response given.

considered.	
<p>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?</p> <p>b. If so, do you believe such demand:</p> <p>i. Will come from internal or external users or both?</p> <p>ii. Will lead to more EER assurance engagements being obtained voluntarily or that this outcome would require legal or regulatory requirements?</p>	
<p>c. If not, is your reasoning that:</p> <p>i. EER frameworks and governance will first need to mature further?</p> <p>ii. Users would prefer other type(s) of professional services or external inputs?</p> <p>iii. There are cost-benefit or other reasons (please explain)?</p>	
Other	
Q9. The IAASB would like to understand stakeholder views on areas where the IAASB should be collaborating with other organizations in relation to EER reporting.	
a. For which actions would collaboration with, or actions by, other organizations also be needed?	<p>As noted above, EER requires skills that IAASB's traditional financial statement auditing constituency may not, or do not, possess. The development of EER, and related assurance standards, is an opportunity for financial statement auditors to adapt and learn new skills. However, the development of credible standards, and the delivery of credible reports, means that other standard setters and professions should be invited to collaborate with IAASB. For example, IAASB could work with the International Integrated Reporting Council, existing bodies with an interest in sustainability such as GRI, The Prince's A4S, SASB, WBCSD, and professional or standard setting bodies for areas such as</p>

engineering and human resources.