



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

2 February 2017

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

Dear Matt

**INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (“IAASB”)  
DISCUSSION PAPER, SUPPORTING CREDIBILITY AND TRUST IN EMERGING FORMS  
OF EXTERNAL REPORTING: TEN KEY CHALLENGES FOR ASSURANCE  
ENGAGEMENTS**

The Auditing and Assurance Standards Board (“AASB”) of the Malaysian Institute of Accountants (“MIA or the Institute”) welcomes the opportunity to provide its comments on the International Auditing and Assurance Standards Board (“IAASB”) discussion paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*.

Our comments to the questions in the discussion paper are as follows:

**Q1. Section III describes factors that enhance the credibility of EER reports and engender user trust.**

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

We have not identified any additional factors that need to be considered and agree that the factors identified all play a part in enhancing credibility and trust. We recommend that the IAASB considers embedding ethical leadership in Factor 2: Strong Governance.

## Comments (Continued.)

**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?
- 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.

4(a)	We agree with IAASB's view to explore guidance to support practitioners in applying the existing International Standards for EER assurance engagements.
4(b)	As noted in Table 2 of the discussion paper, agreed-upon procedures engagement and compilation engagements are not often performed in relation to EER reports. We are of the view that the IAASB can reconsider the need to provide guidance when these types of engagement become more relevant in the future.
4(c)	Not applicable.

**Q5. The IAASB would like to understand the usefulness of subject-matter specific assurance standards. ISAE 3410, a subject matter specific standard for assurance engagements relating to Greenhouse Gas Statements, was issued in 2013.**

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

5(a)	<p>In Malaysia, entities are not required by law or regulation to prepare Greenhouse Gas (GHG) statement.</p> <p>However, the Malaysian stock exchange requires the Malaysian public listed companies to disclose their Sustainability Statement in the annual report. The requirement will take effect on a staggered basis based on market capitalisation over three years, starting from the year ended 31 December 2016 to year ending 31 December 2018. However, there is no requirement to provide assurance in relation to the said statement.</p>
------	---

## Comments (Continued.)

5(b)	The ISAE 3000 (Revised) that applies to broader external reporting might be useful.
------	---

- 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.**

**Do you agree or disagree and why?**

Whilst we support IAASB's view that it may be too early to develop a subject-matter specific assurance engagement standard on EER or particular EER frameworks, we recommend that IAASB consider leveraging on guidance in jurisdictions where established EER frameworks and related standards are more developed to be adopted in the IAASB's international Standards and Related Guidance.

- Q7. Section V describes assurance engagements and the Ten Key Challenges we have identified in addressing EER in such engagements (see box below) and suggests that the most effective way to begin to address these challenges would be to explore guidance to support practitioners in applying the IAASB's existing International Standards to EER assurance engagements.**

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

<b>The Ten Key Challenges</b>	
• Scoping EER assurance engagements	• Narrative information
• Suitability of criteria	• Future-oriented information
• Materiality	• Professional scepticism and professional judgement
• Building assertion in planning and performing the engagement	• Competence of practitioners performing the engagement
• Maturity of governance and internal control processes	• Form of the assurance report

## Comments (Continued.)

7(a)	We agree that the identified challenges are key challenges.
7(b)	<p><u>Challenge 1: Determining the Scope of an EER Assurance Engagement Can Be Complex</u></p> <p>We agree that the additional guidance addressing the acceptance considerations and the implications for the scope of the assurance engagement would be helpful. We recommend the IAASB also consider providing guidance on other appropriate engagement standards to apply when there are barriers to performing an assurance engagement.</p> <p><u>Challenge 2: Evaluating the Suitability of Criteria in a Consistent Manner</u></p> <p>We agree that additional guidance to assist practitioners in assessing the suitability of criteria for EER engagement is needed given that there is potential for considerable management bias in making these determinations. Also, additional guidance whether the criteria have been made appropriately transparent to the intended users would be helpful.</p> <p>Materiality is an entity-specific aspect of relevance. We recommend that IAASB also consider providing guidance on how the practitioner considers the entity's EER materiality determination process in evaluating the criteria used by the entity.</p> <p><u>Challenge 3: Addressing Materiality for Diverse Information with Little Guidance in EER Frameworks</u></p> <p><u>Challenge 4: Building Assertions for Subject Matter Information of a Diverse Nature</u></p> <p><u>Challenge 5: Lack of Maturity in Governance and Internal Control over EER Reporting Processes</u></p> <p>We agree that the additional guidance proposed would be helpful.</p> <p><u>Challenge 6: Obtaining Assurance with Respect to Narrative Information</u></p> <p>We agree the additional guidance proposed would be helpful. The discussion paper highlights that the key challenge in relation to narrative information is how to address the inherent subjectivity and increased risk of management bias and to manage potentially unrealistic expectations about the extent to which the practitioner can reduce the inherent subjectivity. We recommend that the IAASB also consider providing guidance on suggested reporting to manage the expectations gaps.</p> <p><u>Challenge 7: Obtaining Assurance with Respect to Future-Oriented Information</u></p> <p>We agree that the additional guidance proposed would be helpful.</p>

## Comments (Continued.)

	<p><u>Challenge 8: Exercising Professional Scepticism and Professional Judgement</u></p> <p>We agree that priority should be given to exploring professional scepticism and professional judgement in the context of ISAs with a broader consideration in the context of EER assurance engagements later.</p> <p><u>Challenge 9: Obtaining the Competence Necessary to Perform the Engagement</u></p> <p><u>Challenge 10: Communicating Effectively in the Assurance Report</u></p> <p>We agree the additional guidance proposed would be helpful.</p>
7(c)	Of the ten challenges identified, we rank Challenges 2, 6, 9 and 10 as high priority as we consider the proposed ways how the IAASB's International Standards will address the challenges especially helpful.
7(d)	Not applicable.
7(e)	<p>We have identified the following additional key challenges for IAASB's consideration:</p> <ul style="list-style-type: none"> <li>(a) The cost of assurance could be initially high due to companies' lack of readiness, the lack of infrastructure and system, and the lack of familiarity of companies and practitioners with assurance issues over the relevant topics.</li> <li>(b) Judging from what the content of the annual report should be, the information presented in the annual report varies between different companies and sectors. The assurance provider will need to have some way of judging what should be included and excluded. This particularly relates to striking a balance between fair, balanced and understandable reporting.</li> <li>(c) There is a degree of uncertainty (particularly the potential legal liability) facing the assurance providers in the course of providing assurance. In this context, it would be useful to clarify to the users the nature of any inherent limitations (similar to the financial statements audit) or uncertainties in the assurance they are receiving. This would be a serious concern if the assurance providers were to assure the entire report.</li> <li>(d) Users may be potentially confused by different types of assurance. The unintended consequence is the further widening of expectation gap which may not be caused by the assurance providers but due to the lack of understanding by readers/users of the nature and extent of the assurance provided.</li> </ul>

## Comments (Continued.)

**Q8.** The IAASB wishes to understand the impact on potential demand for assurance engagements, if the Ten Key Challenges we have identified can be addressed appropriately, and in particular whether:

- Doing so would enhance the usefulness of EER assurance engagements for users
- Such demand would come from internal or external users or both
- There are barriers to such demand and alternative approaches should be considered.

a. Do you believe that there is likely to be substantial user demand for EER assurance engagements if the key challenges can be appropriately addressed?

b. If so, do you believe such demand:

- i. Will come from internal or external users or both?
- ii. Will lead to more EER assurance engagements being obtained voluntarily or that this outcome would require legal or regulatory requirements?

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

We are unclear whether there will be substantial demand for EER assurance engagements as such assurance is mainly driven by legal and regulatory requirements and demand from investors.

## **Comments (Continued.)**

We believe the user demand for EER assurance engagements will likely increase when the EER frameworks and governance mature further and users are able to justify the cost-benefit considerations for such an assurance.

**Q9. The IAASB would like to understand stakeholder views on areas where the IAASB should be collaborating with other organizations in relation to EER reporting.**

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

We believe that collaboration with jurisdictions where EER reporting is mature will be needed.

Yours sincerely,

**MALAYSIAN INSTITUTE OF ACCOUNTANTS**



**DATO' MOHAMMAD FAIZ AZMI**  
President