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Dear Sir/Madam

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

We appreciate the opportunity to comment on the International Auditing and Assurance Standards Board's ("IAASB" or "Board") Discussion Paper: Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements (the "DP") dated August 2016. We have consulted with, and this letter represents the views of, the KPMG network.

Our comments and recommendations are set out below. We have decided not to provide detailed responses to the individual questions within the DP since many areas are interrelated. Therefore, we have instead provided our overall responses and recommendations as to how the IAASB may move forward with this initiative. To facilitate your categorisation of responses, we have cross-referenced our comments to the relevant questions in the DP.

We acknowledge the role of non-financial performance reporting in complementing the financial statements to provide a more complete picture of business performance, and recognise the growing interest in assurance over this information, whether it relates to voluntary reporting frameworks, such as Integrated Reporting, or statutory and other regulatory disclosures such as MD&A and Strategic Reports. For this reason we welcome the DP as a basis for determining the areas where guidance is most needed to support the development of assurance over emerging forms of external reporting ("EER").

ISAE 3000 has already shown that the key features of financial assurance standards are readily transferable to EER engagements. The step now needed is for targeted guidance that demonstrates the assurance profession is able to address the unique challenges in providing EER engagements (which may vary from agreed-upon-procedures to reasonable assurance) that currently already are, or may in future be,

demanded by users and regulators. In addition, we believe that whilst the DP is focussed on EER reporting the suggested targeted guidance would also be relevant to assurance engagements on many other subject matters that fall within the scope of the ISAE 3000 suite of standards (e.g. assurance engagements on internal controls or compliance engagements).

We believe that the success of emerging forms of external reporting and the assurance thereon is directly dependent on the strength and maturity of governance structures, controls and processes supporting these forms of reporting.

We expect the demand for EER assurance to increase with the strengthening of internal governance over different types of information covered by EER frameworks. Such demand may well in the first instance come from internal users. For example, in South Africa, the most observable current demand is coming from audit committees and boards, as well as management, who are seeking to ensure that they get to grips with their responsibilities, level of maturity, and quality aspirations under the requirements of new frameworks. The most common form of professional services provided in South Africa is maturity and gap assessments (assessing the reporting quality and process against a framework). We believe that as frameworks mature so will the demand and level of sophistication of assurance (more comprehensive and subject matter-specific).

Higher priority issues which we support in the need to be addressed by the IAASB (Q4, Q5, Q6, Q7, Q8)

We agree with the key challenges identified in the DP, but recognise the practical difficulty for the IAASB in providing guidance on all ten areas. We therefore suggest that the IAASB focuses its effort on the four critical areas where guidance is most needed, and which could have the greatest impact on the value and availability of EER assurance for end-users. In an Appendix to this letter we have included our assessment of the priority of each of the ten challenges.

1) Suitability of criteria

A key innovation in some EER frameworks is the emphasis on determining disclosures by reference to the unique features of the organisation's business model / strategy (sometimes referred to as 'linkage'). Frameworks such as the UK's strategic report guidance and Integrated Reporting represent a significant departure from traditional prescriptive frameworks by asking for disclosures to be determined by reference to the company's business model.

We consider that a rigorous approach to assurance engagements on linkage-based disclosures is possible, but we recognise the additional level of judgement required by assurance practitioners, particularly in relation to the completeness of

disclosures for frameworks where there is no prescriptive list of disclosures to fall back on. For EER frameworks that define disclosure criteria by reference to the organisation's business model, assurance practitioners' understanding of the business model as a whole will take on an even greater importance than is already the case for financial assurance. At the same time, the broader range of information being reported is likely to entail greater use of subject matter experts on assurance engagements. Assurance practitioners will need to address both challenges.

In our view, it is important that challenges around the suitability of criteria for business model-based reports should be recognised and addressed as a priority so that the path to providing assurance is clearly understood by practitioners, preparers and end-users.

2) Materiality judgements

Practitioners have traditionally used a largely arithmetic approach to materiality for financial disclosures. A more sophisticated approach (that still remains objective) is likely to be required to accommodate both other quantitative information, and qualitative information.

Where frameworks define disclosure requirements by reference to the relevance or expected impact of a disclosure on shareholder / investor decision-making, the assurance provider will need to use judgement in assessing whether a particular disclosure is material. We would expect that an objective assessment of materiality would be made by reference to the impact of a matter on expected future returns to the business¹. And this guidance would be able to be consistently applied by practitioners in different EER engagements. This approach to materiality would be relevant under many national reporting frameworks (e.g. in the UK), and also for Integrated Reporting. Guidance would help to ensure a consistency of approach and application in an area where many reporting frameworks provide only limited explicit guidance.

It is important for the credibility of EER assurance that practitioners can show that assurance judgements made for a particular audience take materiality into account on a consistent and clearly communicated basis. We believe guidance on determining materiality (in the first instance in relation to investor decision-making) should be a priority because the consistent application of the concept of materiality earns credibility to the EER assurance engagement on the market place.

¹ Such an approach would, in essence, ask the auditor to consider whether a piece of information (whether qualitative or quantitative, financial, or operational) would be reasonably expected to move an investor's model of enterprise value.

3) Building guidance for different information sources (e.g. market share data)

We note the DP suggestion of a subject matter approach to building guidance. In our view, such an approach is undesirable as (i) it would require an extensive range of technical subject matter-based assurance standards; and (ii) it would not be consistent with the move away from silo-based reporting that many EER frameworks seek to address.

Instead, we believe that guidance would be better approached based on the different sources of information subject to an assurance engagement. In addition to the system-generated transaction information that forms the basis of financial reporting, an EER assurance engagement is likely to need to address:

- System-based data analysis (for example a company may report on customer churn)
- Non-system generated data (such as revenue per square foot)
- Market-based analysis (such as market share data)
- Survey-based data (such as net promoter score)
- Estimates (such as the potential impact of commodity price changes)

Guidance addressing the different information sources above would be relevant to a wide range of subject matter-specific areas and would help to set expectations over the range and scope of assurance possible for each broad information source. We anticipate that this approach would enable assurance providers to respond to market demand for a wide range of assurance engagements, whether subject matter-specific or otherwise².

We believe the IAASB should defer issuing standards until the market is more developed and focus on issuing guidance in the form of practice notes instead on these different information sources.

² An example for a very limited use of a standard due to its narrow scope is the use of ISAE 3410, which is used for assurance opinions over clients' CDP (Carbon Disclosure Project) submissions. However, generally when sustainability data assurance is performed for clients, the carbon footprint is one of several key performance indicators that is included in the assurance scope. In these cases the assurance of the carbon footprint is done as part of the broader assurance engagement in terms of ISAE 3000.

4) Enhanced assurance reports to address the wider range of judgement and subjectivity in an EER engagement

Enhanced assurance reports are an important enabler for EER assurance engagements as the range and subjectivity of assurance judgements may be significantly greater than in a traditional assurance engagement – for example, there may be more than one way to meet the requirements of a non-prescriptive disclosure framework. In our view it is particularly important that these judgements are clearly communicated in the assurance report if the full value of an EER assurance engagement is to be realised. We anticipate that guidance on communicating these judgements in a long-form report would help to establish market confidence in the value of EER assurance opinions.

Other comments - Interaction between EER and ISA 720 (Q3)

We anticipate that the main demand for EER assurance will relate to annual report disclosures made outside the financial statements, in particular, in management commentary sections (e.g. MD&A, Strategic Report in the UK, etc.). In our experience, the proximity of this unaudited information to the financial statements can give rise to a misconception from users that it is in fact subject to some form of assurance by the independent auditor. Misunderstandings over the extent of auditors' responsibilities in respect of ISA 720 can contribute to this.

We agree with paragraphs 23 to 26 of the DP, which state that there is an expectation gap in this area and we expect that an important benefit of the IAASB addressing EER assurance, and the subsequent development of EER assurance practice, will be better market understanding of the range of assurance options available in respect of management commentary disclosures, and the differences between these options and the work that auditors currently undertake in respect of ISA 720.

Please contact Mark Vaessen at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter

Yours sincerely

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cc: Len Jui, KPMG

Appendix - Prioritising the ten key challenges

| Challenge | Suggested Priority | Comment |
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| Scoping EER assurance engagements | Lower | We agree that IASE 3000 already provides a broad basis for determining the scope of an EER assurance engagement. Further, we believe it is desirable to allow market practice to develop within the broad scope of ISAE 3000 in order to support innovation in meeting market needs. Furthermore, we acknowledge there are various services (other than assurance engagements) existing which address EER reporting and we believe that an important part of the scoping process for EER assurance is evaluating whether assurance is the most appropriate service to be provided in the specific circumstances. We therefore suggest that the focus in this area should be in monitoring developments in practice. |
| Suitability of criteria | High | A key reporting innovation has been the shift from defining disclosures by reference to a subject matter checklist to an approach based on relevance to the company's business model / strategy. We expect that there will be demand for assurance over the completeness of disclosure, and believe that assurance could significantly enhance the value of reporting in this area. Guidance is needed to address the new judgements required in determining disclosures on this basis. |
| Materiality | High | EER frameworks typically place greater emphasis on assessing materiality by reference to end-user needs, whilst also introducing a broader range of end-users. These frameworks do not always provide an explicit basis for assessing materiality. An objective basis for determining materiality can generally be inferred from these frameworks based on their intended audience (for example, assurance provided to capital markets participants can assess materiality by reference to the expected impact of the matter on future returns). It is important for market confidence in assurance that the basis for determining materiality is clearly understood by end-users. Therefore we see a significant benefit in having clear guidance from the IAASB in this area. |
| Building guidance for Subject Matter Information of a diverse nature | High (in relation to information from diverse sources) Low (in relation to subject matter areas) | EER assurance must deal with a much broader range of information types. In addition to the system-generated information found in financial reporting, an EER report may include big data analysis, market data, estimates, surveys, etc. Guidance from the IAASB on assurance engagements over each of these broad information categories will be important in establishing market confidence in assurance over |

| Challenge | Suggested Priority | Comment |
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| | | these different information types, and should therefore be a priority. We do not think it should be a priority for the IAASB to develop assurance guidance over specific subject matter areas (such as carbon disclosures). Such an approach might lead to a fragmentation of assurance that is not consistent with the more holistic approaches to reporting pioneered in key EER frameworks. |
| Maturity of governance and internal control processes | Lower | Whilst this is fundamental as the necessary base to build an assurance engagement, we believe that ISAE 3000 provides sufficient guidance to support the development of a range of assurance services that are adapted to a company's reporting governance maturity. |
| Narrative information | Higher (but should follow from the foundations provided in other areas) | We would expect that guidance on materiality, suitability of criteria, and assuring different information types would provide the foundations for addressing narrative information assurance. Therefore, whilst we consider narrative assurance to be an important area, we do not think it should be an immediate priority. |
| Future-oriented information | Lower | Prospective financial information is already addressed by ISAE 3400. Other future-oriented information envisaged by EERs typically relates to historical information that is relevant to assessing future prospects. The principal challenges in assurance engagements over this type of information should be addressed through the other areas for guidance noted above, therefore we do not think that assurance engagements over future-oriented information needs to be an explicit priority for the IAASB at this stage. |
| Professional scepticism and professional judgement | Lower | We agree that consideration of specific application to EER should be deferred at this time. |
| Competence of practitioners performing the engagement | Lower | We believe ISAE 3000 provides sufficient guidance at this stage. |
| Form of the assurance report | High | We anticipate that the wider range of assurance judgements that would be necessary on an EER engagement will need to be communicated through an enhanced assurance report. |