

3 February 2017

Matt Waldron  
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International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
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USA

Dear Matt,

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

Thank you for the opportunity to comment on this Discussion Paper. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) to the specific questions raised in the discussion paper in the attachment.

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards.

The NZAuASB is supportive of the IAASB's initiative to explore an appropriate response to emerging external reporting developments. The XRB has recently revised its strategic plan to include a specific strategy to actively promote the awareness, understanding and development of extended external reporting (EER) among New Zealand constituents. The XRB recently commissioned research in New Zealand titled "[Are financial reports meeting user needs?](#)". One key finding of this research was that providing more non-financial and sustainability reporting was identified as a way to improve reporting for a wide range of stakeholders.

The XRB and the NZAuASB see EER as a significant emerging area in both reporting and assurance and potentially crucial to future stakeholder communication. The XRB wants to ensure New Zealand keeps up with emerging international trends and developments in reporting non-financial information to complement the disclosure of financial information. Hence, the NZAuASB considers it is appropriate for the IAASB to prioritise this project, specifically in the light of the IAASB's strategic vision and what it is intending to achieve through its three strategic objectives, i.e. the maintenance and development of high quality assurance standards, the future proofing of the assurance standards by considering their continued relevance to stakeholders needs, and the importance of collaboration and cooperation with contributors to the financial reporting supply chain. It is vitally important for the IAASB to act now to avoid losing a position of influence in respect of the emerging developments in reporting and assurance of non-financial information.

*The New Zealand perspective*

Integrated reporting is gaining momentum in New Zealand and a growing number of entities have issued integrated reports, recent examples include Sanford and New Zealand Post. Sanford won a Gold Award for its 2015 Annual Report and three special awards for sustainability and integrated reporting at the 2016

Australasian Reporting Awards. The Office of the Auditor-General also recently introduced aspects of integrated reporting into its annual report for the first time in New Zealand. While relatively few entities have reached the stage of publishing an integrated report, the NZAuASB is aware of a number of entities that are applying integrated thinking, which may be indicative of activity towards preparing to issue or investigating preparing integrated reports. The NZAuASB considers that integrated reporting should be the last step in a journey of integrated thinking as poor reporting occurs where an entity tries to report in an integrated way and then backfills as integrated thinking develops. The NZAuASB therefore considers that while limited numbers of reports have been published in New Zealand, those entities that have started their journey of integrated thinking will be well positioned to meet user demands for more holistic reporting as EER becomes more established. When the user demand is sufficiently strong, we consider the EER landscape is likely to change rapidly. As user demand for EER increases, demand for EER assurance will increase. The NZAuASB is supportive of a voluntary uptake of EER assurance engagements, rather than a strict regulatory approach. A light-handed regulatory overlay is appropriate to encourage innovation. Understanding the drivers being used by entities around the world to report EER, including in jurisdictions that are early adopters and others where EER is starting to develop, together with the drivers for EER assurance would be useful.

Moreover, reporting of service performance information (SPI), a more limited form of emerging external reporting, has been common in the public sector of New Zealand for many years. This information has historically been audited in conjunction with the audit of the financial statements. Whilst service performance is not as broad as integrated reporting, it is a form of more holistic external reporting, whereby the entity is required to tell its performance story. This includes information not only about the goods and services provided but more contextual information regarding the entity's purpose, why it exists and what it has achieved. The financial reporting framework in New Zealand is currently being revised to require not only public sector entities but all public benefit entities, including relatively small entities, to report more holistically by reporting service performance information. Hence, New Zealand is likely to be an interesting holistic reporting case study with likely application to the more widespread development of EER.

The NZAuASB is considering many of the key challenges raised in the discussion paper, in the context of developing an assurance standard on service performance information for use outside the public sector. As part of this project to develop a standard, the NZAuASB also developed guidance [EG Au 9 Guidance on the Audit or Review of the Performance Report of Tier 3 Not- For-Profit Public Benefit Entities](#), which was issued in December 2015. The emphasis throughout the SPI project has been on the need for a more holistic assurance engagement, one that does not compartmentalize financial reporting from the entity's story about its performance and impact on society. The objective of the engagement should be to provide as much assurance as is possible, despite the challenges identified. This project is also seeking to develop an assurance standard that is scalable and that will be applied across a range of entities, including relatively small entities. The SPI project provides context for the points raised in this submission.

As further described in the responses to the specific questions posed, the NZAuASB encourages the IAASB to:

- continue to explore the emerging assurance needs of users of EER reports as a priority in progressing work to address the challenges identified; but
- avoid force-fitting the existing assurance framework lens onto EER, and rather to think outside the box and work with users to develop an engagement that best serves the user.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk ([sylvia.vandyk@xrb.govt.nz](mailto:sylvia.vandyk@xrb.govt.nz)).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Robert Buchanan', written in a cursive style.

**Robert Buchanan**

**Chairman**

Email: [robert@buchananlaw.co.nz](mailto:robert@buchananlaw.co.nz)

## Submission of the New Zealand Auditing and Assurance Standards Board

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

#### I Schedule of Responses to the IAASB's Specific Questions

##### *Credibility and Trust*

**1. 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?**

**Response:**

The NZAuASB agrees that the identified factors all play a part in enhancing credibility and has not identified other factors.

The NZAuASB's project to develop an auditing standard on service performance information has highlighted the overlap between the development of the reporting framework, the entity's governance processes and the assurance challenges identified, indicating that these are inter-related and are therefore all key factors in enhancing credibility.

The roles that different parties play in enhancing audit quality are also described in the IAASB's Framework for Audit Quality (the IAASB's framework) that sets out the key elements that create an environment for audit quality. Whilst many forms of EER are not regulated, the elements and interactions that create an environment for audit quality, as set out in the IAASB's framework, are equally applicable to enhancing the credibility of EER.

The NZAuASB highlights the following considerations and points of emphasis in the identified factors:

*1) The need for balanced reporting*

The NZAuASB considers that there is a strong demand for reliable information. There is evidence of demand for credible, balanced information, honest reporting about the good and the not so good.

- Examples of the demand for credible information are prolific, e.g., the fact checking that occurred ahead of the 2016 American election.
- Corporate social responsibility and sustainability featured prominently over the last decade on global corporate reporting agendas. There have been criticisms that corporate social responsibility reporting is only communicating positives rather than providing a balanced view. This reinforces the need for assurance engagements to ensure that the reporting is balanced, addresses the risk of preparers' bias, and increases the level of confidence in the information.
- There is an increasing number of entities engaging in and reporting about responsible, sustainable business practices to create social and business value.
- There is also a growing number of high profile scandals that are damaging trust in corporations and their social accountability. Examples of such scandals that have impacted the public's trust in an entity on a global scale include BP's Deepwater Horizon oil spill and the VW emissions scandal. High profile scandals damage the public's trust in an entity and have profound and long lasting impacts, harming the

organisation's licence to operate and its relationships with customers, governments, and the public at large, even tarnishing the reputations of competitors or whole industries. Social media driven targeted campaigns against companies can similarly damage the public's trust in an entity.

When EER is done well, entities benefit from a more favourable corporate image, greater customer loyalty, higher employee morale, and enhanced organisational learning and core competence. In turn, societies benefit from harnessing the power and resources of corporations and other reporting entities to address pressing social and environmental challenges. However, to be credible, the information provided must provide a balanced view.

## 2) *Stakeholder involvement*

The information reported must be about the "matters that matter". The NZAuASB notes that a requirement for stakeholder engagement raises the cost of preparation, and that there is no common "best practice" method for stakeholder engagement. Stakeholder engagement is practically challenging when one extends the stakeholder net more widely beyond traditional stakeholders to those, such as shareholders, that may be interested in an entity's performance.

The outcome of stakeholder engagement is also likely to result in a broad range of views, and incorporating a broad range of sometimes opposing views makes the process challenging in practice. Users' views may range from well informed to poorly informed, adding to the challenge. Transparency and disclosure by the entity about these matters are therefore key considerations.

## 3) *A governance function that is ready*

While all of the factors identified play a part in enhancing the credibility of the information, the following diagram illustrates the ideal sequence:



A governance function that has embraced the "integrated thinking" required for effective EER must also precede any integrated or comprehensive assurance engagement. A governance function that has a strong risk and opportunity framework together with processes that factor in risks the entity has identified, as well as scanning the environment for risks that have not been identified as significant, is important.

Our experience in New Zealand shows that where internal processes are weak, overlaying an assurance engagement risks blurring the role of the assurance practitioner with the role of the entity in preparing the information. This may also increase the risk that assurance practitioners could stifle the development of, and innovation of, reporting.

A significant consideration is therefore the importance of allowing entities sufficient time to implement robust governance processes that are ready for an assurance engagement, prior to imposing any integrated or comprehensive assurance requirement on the reported information.

Understanding the drivers being used by entities around the world to adopt EER, including in jurisdictions that are early adopters and others where EER is starting to develop, would be useful.

4) *The need for transparency*

EER is likely to continuously evolve by its nature. A matter that has been raised in our SPI project is the need for transparency about what stage of the journey of such reporting an entity has reached.

5) *Consistency with wider information*

The paper describes external users' own evaluation of the EER with wider information they have access to, as one of the factors building credibility for them. That wider information will include information about aspects of the organisation's economic, social and environmental impact. It will influence the views, assessments and decisions users make, including their requirements for the content of an EER.

Wider information will come from many different sources and be variable in nature and quality. Preparers and assurers will be challenged with the nature and scale of wider information and the awareness and variation in significance that different stakeholders will place on it.

Broad subject matter expertise will be needed in both preparing and assuring EER reports. It is important to understand the broader needs of stakeholders, noting that stakeholders' access to information is broader and deeper than ever before and that stakeholders are better able to assess and challenge such information themselves.

6) *External Professional Services and Other External Inputs*

The NZAuASB agrees that transparency about the competence of those performing any professional services is a significant factor in enhancing the credibility of the EER report.

The degree to which the credibility of the information is enhanced will be related to the user's belief in the competence of the practitioner performing the professional service. The need for transparency about the competence of those performing any professional services is therefore especially important in order to enhance the credibility of the information, as competence that is not generally well known must be demonstrated.

In addition, clarity and transparency around what work has been performed will be important as many of the professional services provided, including assurance services, may not be well known or understood. The challenges identified highlight the need for education to build a better understanding of the different levels of assurance and other professional services.

*Relevant Professional Services Covered by the IAASB's Standards*

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?**

**Response:**

The NZAuASB has not identified additional services provided by practitioners who are professional accountants, but considers that the IAASB should be looking at non-financial information through a different lens to best meet the needs of users.

We also believe that there is a need for innovation in assurance engagements. Financial statements are a mature, highly regulated and more focussed form of reporting. EER is still developing, and by nature may continue to evolve over time. Integrated thinking may also need to be applied to assurance engagements. A “binary opinion” model may not be most suitable for enhancing credibility, and users may benefit more from a different combination of services or a different type of reporting (for example, possibly mini opinions, certifications or something else).

The NZAuASB therefore encourages the IAASB to “think outside the box” and not try to force fit the financial statement assurance framework, as it is now, to enhance the credibility of EER. Guidance is needed to enable practitioners to prepare a more informative assurance report and there may be a need for alternatives to reasonable assurance on the full integrated report. Flexibility may be needed to enable the practitioner to provide as much assurance as possible in the circumstances. Research indicates that most assurance engagements currently being undertaken in the EER space are limited assurance engagements. Limited assurance, in the form of a “negative” opinion, may not best meet user needs. There is a perceived need for alternatives to reasonable assurance on the full integrated report. Integrated reporting may require the assurance practitioner to provide different levels of assurance on different items.

We encourage the IAASB to keep an open mind, including whether there is a need for a different level of assurance rather than limiting itself to a reasonable or limited assurance lens. The assurance model should be based on user needs and an assurance framework should be developed based on those needs, instead of starting with the premise of force fitting EER assurance into the current IAASB’s assurance framework.

There is demand for actions to enhance the credibility of EER information, but this is not limited to calls for professional services. Rather, it extends beyond assurance engagements as defined in the international assurance framework issued by the IAASB. Assurance practitioners, in the broader sense, perform a number of engagements on various subject matters that are based on frameworks different to that of the IAASB, for example the standards issued by the International Organization for Standardization e.g. ISO 9001, and other verification or certification programmes that provide different levels of credibility to users. The NZAuASB encourages the IAASB to conduct further research into what would best meet user needs.

The IAASB may also wish to continue to explore how other existing assurance services and systems fit together to enhance the credibility of EER, including, but not limited to:

- CASCO, the ISO committee that works on issues relating to conformity assessment and assurance <http://www.iso.org/iso/casco>
- The International Accreditation Forum (IAF), the world association of Conformity Assessment Accreditation Bodies <http://www.iaf.nu/>
- New Zealand’s GHG certification programme <http://www.landcareresearch.co.nz/resources/business/the-carbonzero-programme>
- The global network of ecolabelling programmes (NZ Government owned labelling programme Environmental Choice New Zealand, is a member) <http://globalecolabelling.net/>
- The alliance that has formed to enhance credibility around mainly NGO-initiated certification programmes, for example the Forestry Stewardship Council or the Marine Stewardship Council, <http://www.isealalliance.org/>; and
- Tools such as the Dow Jones rating tool for sustainability.

Guidance on how the practitioner works within the IAASB’s assurance framework and these other frameworks or engagement products and the level of credibility they provide may also be helpful.

- 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?**

**Response:**

The NZAuASB does not consider the requirements of ISA (NZ) 720 (Revised) are sufficient. Users will demand more than having the auditor “read” and “consider” the EER looking for inconsistencies with the financial statements. The NZAuASB considers that the expectation gap remains, and that preparers and users have a lack of understanding of what assurance is obtained in an audit, presuming that the audit opinion covers other information.

As outlined in response to question 1, the NZAuASB considers that there is a high demand for credible information, re-enforcing the need for assurance.

The integration between assurance of EER and audit of financial statements is a key consideration for the IAASB to consider, i.e., the overlap between ISAE 3000 and the International Standards on Auditing (ISAs). If the move is to more holistic reporting by the entity, the need for one holistic assurance engagement over all the information, rather than separate assurance over the financial and non-financial information, may be appropriate. The focus of the New Zealand SPI project is the need for a concurrent audit over a more holistic report, to maximize effectiveness and efficiency and best meet user needs. This may indicate the need for even further flexibility in the international assurance standards and the need to apply “integrated thinking” to the assurance engagement.

The NZAuASB considers that there may be a demand for an overall assurance opinion over the extended external report. The EER would be distinguished from other information included in an annual report.

In the NZAuASB’s experience on its SPI project, a limiting factor created by the existing assurance framework is that the application of the ISAs is limited to historical financial information. This creates a compartmentalisation of financial and non-financial information, and acts as a barrier to an integrated assurance engagement. Prior to adopting the ISAs in New Zealand, the New Zealand “auditing” standards applied more broadly across all subject matters. This broader application of the “auditing” standards provided a good framework for providing assurance across a broad range of subject matter. While the NZAuASB agrees that the differences between EER compared to financial reporting leads to challenges in assurance engagements, we consider that the principles are similar and the challenges are not insurmountable.

Ten Key Challenges in Relation to EER Assurance Engagements

- 4. Sections 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.**

**Response:**

- (a) Yes, the NZAuASB agrees that EER is still in its infancy and that issuing requirements at this stage is not yet appropriate. The NZAuASB is strongly supportive of developing guidance, as a high priority, at this time to support practitioners until such time as it would be appropriate to issue requirements. It is important for the IAASB to act now so as to avoid losing its position of influence.

The NZAuASB encourages the IAASB to continue to conduct user needs research as a priority. While EER is still in its infancy, the reporting landscape could change rapidly. Users themselves may not yet be clear on their needs but these will continue to evolve.

The IIRC consultation response identified the need for wider engagement with stakeholders and other non-accountant practitioners. As discussed in response to question 2, the NZAuASB encourages the IAASB to keep an open mind, including whether there is a need for a different level of assurance, and not be limited to force fitting the existing assurance framework to EER where users may be demanding something else.

- (b) The NZAuASB would be supportive of extending relevant guidance to other standards such as agreed upon procedures or compilation engagements where appropriate to do so, but emphasises that innovation is needed and cautions the IAASB to avoid forcing a model developed in respect of financial statements onto EER, where a more innovative approach may be better suited.

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 organisation.**
  - b. **If not to any great extent, why not and what other form of pronouncement from the IAASB might be useful?**

**Response:**

ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements* has been issued in New Zealand but the NZAuASB believes it is very rarely used in practice. Entities are not required to prepare a Greenhouse Gas (GHG) statement by a regulatory disclosure regime or emissions trading scheme, and very few entities voluntarily report a GHG statement in New Zealand.

The NZAuASB believes that more entities issue sustainability reports, although this is also not common practice for all entities. Some, but not all, entities that issue sustainability reports attach an assurance report to the sustainability report.

While the NZAuASB does not see the drivers for reporting using ISAE 3410 as very strong, as mentioned in response to question 2, it is aware of practitioners in New Zealand who supply additional services. Drivers for and reporting using ISO standards and certification have been strong. This includes a New Zealand-developed world first internationally accredited greenhouse gas certification scheme, [carboNZero](#), which is used by many entities in New Zealand and internationally, and which may be providing a level of credibility to information about carbon emissions.

The NZAuASB considers that a more generic standard, but more specific than ISAE 3000 (Revised), that applies to broader external reporting will be useful in the long term. But it agrees that it may be too early to develop requirements until the reporting of and practice has developed further. However, the NZAuASB encourages the IAASB to continue its work on EER, to maintain its position of influence. As pressure to report EER information increases, and user demand for EER assurance changes, it is likely to become immediate.

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.**
- a. **Do you agree or disagree and why?**

**Response:**

The NZAuASB is of the view that it may still be too early to develop a standard on EER, but considers that it would be appropriate at this stage to leverage off what practitioners in jurisdictions where EER is well established are doing, and to issue guidance and promote a consistent approach as practice emerges. The NZAuASB encourages the IAASB to maintain the lead in this area.

The NZAuASB considers that ISAE 3000 is useful but does not go far enough, and that more guidance (rather than a new standard) is needed at this stage to expand on many of the challenges identified.

7. **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 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?**

**Response:**

7(a) The NZAuASB agrees with the analysis of the key challenges and has not identified any additional key challenges.

7(b) The NZAuASB notes the following points for each key challenge in Section V:

*Challenge 1: Scoping EER assurance engagements*

The NZAuASB agrees that there is a need for flexibility in scoping EER assurance engagements. In the spirit of providing as much assurance as possible, and in recognition of users' needs, providing assurance on the preparers' materiality process and selection of what to report on may, in some circumstances, be the most suitable scope for an assurance engagement, especially for preparers just beginning the EER reporting journey.

Additional guidance addressing the following matters would be especially helpful:

- Guidance on the acceptance considerations and the implications for the scope of the assurance engagement. The NZAuASB considers that there is a link between scoping the engagement and the suitability of the criteria and that addressing these together may be most efficient. The NZAuASB considers that the evaluation of the suitability of the criteria is not limited to an engagement acceptance decision in the context of EER.
- Guidance to assist users and practitioners as to when the different types of engagements are appropriate, for example reporting over the EER reporting process or only certain information in the EER report or a combination of both. Such guidance would assist practitioners to provide as much assurance as is possible in the circumstances.
- Guidance to address the risk that performing an assurance engagement over the EER report as a whole, before the entity has developed appropriate governance and controls around the reporting, may blur the role of the assurance practitioner. Another possible risk to consider is the potential for the assurance process to stifle innovation and flexibility in reporting.

*Challenge 2: Evaluating the suitability of criteria in a consistent manner*

The NZAuASB considers that guidance is needed on how to consistently evaluate the suitability of the criteria, as this is regarded as one of the greatest challenges.

The NZAuASB's experience from the SPI project indicates that an evaluation of the suitability of the criteria is not limited to an engagement acceptance decision. The nature of EER information is such that the selection of what information to report and how to measure or present that information is more complex than for financial information, and is a key part of preparing an "integrated report". In turn this will be a key part of an assurance engagement to provide as much assurance as is possible in the circumstances.

This is another area where the IAASB will need to be flexible in its thinking, and not try to force fit the existing assurance framework to EER. Financial reporting frameworks are mature, regulated and well established, with less judgement for the entity in selecting which financial information to report and how to measure and present that information. For EER, the suitability of the criteria is not as clear, and some criteria may be more suitable than others. Some criteria may also be more developed than others, as an entity explores the best way to measure or evaluate its impact. The criteria are also highly likely to change, possibly even from year to year, as the entity's strategies and users' information focus change.

In its SPI project, the NZAuASB has discussed a "two-step" assurance process:

- (i) Evaluation of the suitability of the criteria, and
- (ii) Verification of the information reported.

The NZAuASB has debated whether as part of the assurance report, the practitioner's opinion should explicitly opine on the suitability of the criteria. An entity will be required to work through which matters are of key importance to users, and the assurance practitioner will need to understand the process that the entity went through to identify which matters to report and how to present those matters. This process is likely to be an ongoing task, as the question of which matters are of most significance to users will continuously evolve. Of key consideration to users is whether the entity is reporting on all key matters. Therefore the selection of suitable criteria is fundamental to any assurance conclusion.

In relation to EER, the NZAuASB considers that guidance to address the following matters is a priority:

- The role of the assurance practitioner to evaluate or challenge the entity's selection of how the entity has chosen to "tell its own story" without being an impediment to development and innovation. Issues identified by the NZAuASB would indicate that entities themselves may go through a discovery and refining process to improve the criteria they select over time.
- How the practitioner should evaluate whether the criteria have been made appropriately transparent to the user (i.e. when is the entity's reporting by itself sufficient).
- The application of professional judgement and professional scepticism informed by appropriate expertise. Guidance emphasising the importance of competence is important, given the potential breadth of subject matter to be covered. Appropriate expertise will be needed to understand the uncertainty and ambiguity on subject matter.
- Why the suitability of criteria from an assurance perspective, although closely aligned, may differ from the qualitative characteristics described in some reporting frameworks (i.e. whether the assurance criteria have a specific focus).
- The trade-off or balance between the qualitative characteristics of suitable criteria. In practice, all of the characteristics of suitable criteria may not be fully achieved, and a balance or trade-off between certain of them may be necessary. For example, the importance of selecting relevant information to report and balancing the need to present a complete story without providing too much detail, so as to reduce its understandability. Such a trade-off may be necessary but should not detract from achieving balanced reporting. ISAE 3000 acknowledges this and requires the practitioner to apply professional judgement. Additional guidance to indicate how the practitioner applies judgement in determining whether the trade-off is appropriate, and how this is communicated to the user, would be helpful.
- Relevance as a factor in determining the suitability of the criteria. When selecting what information to report in an EER, an entity will exercise significant judgement as to what to report. There is overlap between the entity's "materiality process" in selecting what to report and the practitioner's judgement as to the suitability of the criteria. Materiality in the EER space covers both the relevance of what is reported (given the amount of judgement applied in selecting what to report) and the level of reported information that would influence user's decisions. This overlap between relevant criteria and the "materiality process" applied in selecting what to report needs to be expanded with additional guidance to indicate the overlap, how materiality includes this additional element and how the assurance practitioner considers this element in the evaluation of the criteria used by the entity.

### *Challenge 3: Addressing materiality for diverse information with little guidance*

The NZAuASB agrees that addressing materiality is a key challenge.

As noted in the response on challenge 2, the NZAuASB has discussed a two-step assurance process in its SPI project. Step one is an evaluation of the suitability of the selection of information reported (the criteria applied in preparing the report). The NZAuASB considers that the entity's "materiality process" is the process that the entity uses to identify what information to report and refine its "applicable criteria". Such a process is intended to ensure that the entity is reporting on those issues that matter.

The entity's "materiality process" addresses the suitability of the applicable criteria applied by the preparer. The auditor must evaluate these criteria in accepting the engagement, and then re-evaluate that assessment throughout the engagement as the auditor's understanding develops and audit evidence is obtained.

The NZAuASB sees this as a key area where the current assurance framework may need additional flexibility to be applicable to EER. There is an interplay between the "suitability of the criteria" at the acceptance stage, the performance stage (including the assessment of materiality), and the reporting stage of the assurance engagement. The selection of what information to report is part of, but is also distinct from, an assurance practitioner's evaluation of whether the reported information includes a material misstatement.

The NZAuASB considers that guidance on the following is needed:

- As mentioned above in response to challenge 2, the assurance practitioner's role when evaluating the entity's materiality process, and whether the assurance practitioner has a role to challenge what the entity selects to report when telling its own story. Concern has been raised that an entity has never been required to prove to the assurance practitioner whether something is material or not. Guidance to explain what the assurance practitioner is evaluating, and the implications when concerns are raised by the assurance practitioner would therefore be helpful.
- How to evaluate the entity's materiality process, including the extent of stakeholder engagement.
- How stakeholders have been defined, and then how to factor in the extent of stakeholder engagement as well as how the practitioner factors in the results of that engagement to reflect a broad range of divergent or possibly opposing views. Existing guidance notes (importantly) that materiality judgements need to be made in the light of the surrounding circumstances. But it includes little or no guidance to expand on how the practitioner's perception of the common information needs of intended users should be informed, including where there is not one single view. Guidance would be especially helpful to assist the practitioner's consideration of the results of stakeholder engagement where feedback indicated some demand for information that has not been included in the EER.
- Emphasising that the entity's materiality process is a continuous process, and will change as an entity's strategies and users' focus changes.
- Clarification to clearly distinguish between the entity's materiality process and the assurance practitioner's consideration of materiality. The need to clearly distinguish between the entity's materiality process and the assurance practitioner's consideration of materiality and a materiality "threshold" is important. The NZAuASB is aware of a number of sources of guidance<sup>1</sup> available with respect to the entity's materiality process to assist the preparer of EER information identify what information to report, but very little guidance for the assurance practitioner to consider whether the reported information is materially misstated on this topic. Such guidance should address how the auditor evaluates whether reported narrative and future oriented information is materially misstated.

The NZAuASB notes that it may not be possible, even in the long term, to provide guidance on the overall materiality of misstatements in the aggregate, in the context of different types of measurement units, in a world full of unknowns.

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<sup>1</sup> Examples include: Materiality in <IR> Guidance for the preparation of integrated reports, Accountability: Redefining Materiality II Why it matters, who's involved and what it means, KPMG's The essentials of Materiality, EMC: Sustainability Materiality overview, G4 Sustainability Reporting Guidelines, Statement of Common Principles of Materiality.

The NZAuASB considers that there is an overlap in the work effort identified in this key challenge (for example, the IAASB has proposed to further explore considering materiality for qualitative depictions including narrative descriptions and future oriented information) and those identified as challenges 6 and 7, with respect to obtaining assurance on narrative information and future-oriented information. The NZAuASB considers that focussing the work effort on guidance in respect of materiality, capturing the implications for narrative and future oriented information, will address an area where additional guidance is needed.

*Challenge 4: Building assertions in planning and performing the engagement*

The NZAuASB agrees that guidance to develop a methodology that could be used to build and classify relevant assertions for different types of information would be helpful. The NZAuASB suggests that guidance may be most effective if it is focussed on a high level sorting or classification of types of “assertions” currently being made or identified as important from a user perspective, informed by user research.

The term “assertion” may not be well understood by users of non-financial information, who may be more familiar with the concept of claims and when a claim can be made. For example, ISO standard ISO 14021 standardises how and when some very specific and common environmental claims can be made. For some claims it would be relatively straightforward to provide some ability to identify potential for misstatement. Most common would be completely unsubstantiated claims, use of bogus labels or misrepresentation about the meaning of a label or claim.

Guidance on both developing assertions to support potential types of misstatements in the information reported and at the level of presentation of content elements would be useful.

*Challenge 5: Maturity of governance and internal control processes*

The maturity and “readiness” of the governance and control processes is a significant challenge. Strong governance is a key factor in enhancing credibility and must come before any integrated or comprehensive assurance engagement. The entity needs to have embraced active risk management and enhanced processes, i.e. must have embraced the “integrated thinking” behind the extended form of emerging reporting as a first step, before embarking on extended reporting or seeking assurance over that reporting. Where processes are weak, overlaying an assurance engagement creates the risk of blurring the role of the assurance practitioner with the role of the entity in preparing the information, and may impact on the assurance practitioner’s independence.

The IAASB’s Audit Quality Framework highlights the key elements that create an environment for audit quality, including key interactions with the reporting supply chain. These same elements apply in enhancing the credibility of EER. The quality of the reporting of information by an entity is underpinned by those charged with governance being motivated to disclose accurate and reliable information.

Guidance on the following would be helpful.

- How to evaluate the maturity of processes and the implications for the practitioner, with a focus on providing as much assurance as is possible. This should be linked to guidance that is needed to assist the practitioner in scoping any EER assurance engagement in a flexible way.
- Addressing the consequences of weaknesses in the reporting processes and systems and the “assurance readiness”, as well as the implications for the assurance engagement. The guidance could cover alternatives where controls are immature.

- Recognising that the nature of the information to be reported in EER may continuously evolve, and therefore the entity's control processes over what is reported may continuously be evolving and therefore always be at various stages of maturity.
- Factors to consider when determining which controls are relevant to the assurance engagement, and whether more formal or extensive processes are needed to provide a reasonable basis for the preparation of the report.
- Factors to consider, and the implications for, the engagement and reporting. This should include reporting on the reporting process, or on particular elements within the report, or on specific assertions only. Over time, it may be appropriate for the scope of the engagement to expand. Additional guidance that explores when it is appropriate to do so, and how to explain the difference in the scope clearly to the user, would be helpful.

Reference to the GRI principles and tests for report content and quality may be useful input to preparing guidance for assurers.

#### *Challenge 6: Narrative information*

The NZAuASB notes that while the information may be narrative, there is still a factual basis to the information, it is not all subjective, and it is therefore verifiable.

From a user perspective, addressing challenges with respect to narrative information is important especially because effective EER depends on the entity providing information in context and telling the entity's own story to provide meaning. The amount and importance of narrative information may be greater than the non-narrative information. While the entity determines what it reports, this may create assurance challenges in that users need to determine what information they need assurance over, what type of assurance they need, and how this can be delivered to provide the most assurance possible.

The NZAuASB considers that all of the areas identified in the discussion paper would add useful guidance.

Guidance would also be useful as to what caveats to report and what other ways to manage expectation gaps, but we note this may overlap with the work effort looking at the form and wording of the assurance report.

Reference to the GRI principles on report content may be useful in developing guidance. The principles explain what narrative material should be provided in the way of context, and the process or judgements preparers are making about materiality and reporting boundaries.

#### *Challenge 7: Future-oriented information*

From a user perspective, it is important to address challenges with respect to future-oriented information, especially because EER includes forward looking information.

The NZAuASB believes that these areas would be best addressed by exploring the underlying work effort in the challenges identified above (i.e. suitability of criteria, building assertions, etc.) rather than as a separate work stream on future-oriented information.

The NZAuASB notes that ISAE 3400 *The Examination of Prospective Financial Information* is an old standard, and has previously expressed a view that the IAASB should revise it. It may be useful to explore the matters identified and other matters related to prospective financial information broadly but simultaneously with that work.

#### *Challenge 8: Professional scepticism and professional judgement*

The NZAuASB agrees that the need for professional scepticism and professional judgement will be important, and that the context in which these need to be exercised will be far more challenging given the volatile, uncertain, complex and ambiguous nature of the subject matter covered by EER. Importantly, these will need to be exercised using and relying on input and advice from a wide range of experts. Guidance on how to apply or exercise professional scepticism and professional judgement competently, given the need for an interdisciplinary team environment, will be very important.

#### *Challenge 9: Competence of practitioners performing the engagement*

From a user perspective, confidence in the competence of the practitioner performing the engagement is critical to enhancing the credibility of the information. The NZAuASB considers this challenge will overlap with the matters raised in the IAASB's ITC on *Enhancing Audit Quality in the Public Interest*. That ITC also explored the need for the engagement partner to be satisfied that the engagement team collectively has the necessary competence and capabilities to properly perform the engagement. The NZAuASB considers that the principles and guidance developed as an outcome from the ITC will be very relevant to EER engagements, where the information may include information beyond the practitioner's area of expertise.

The NZAuASB considers that guidance on the following matters would be especially useful:

- The competencies that are needed to establish, lead and work in interdisciplinary teams to ensure that a competent team does quality work. The need for the right team is a fundamental challenge and is likely to include an interdisciplinary team, as well as experts.
- The overlap with the work effort to develop guidance on the form of the assurance report and how to communicate explicitly about the competence of the engagement team in the assurance report, without misleading the user about the practitioner taking sole responsibility for the assurance conclusion expressed.

#### *Challenge 10: Form of the assurance report*

The NZAuASB considers that additional guidance in the following areas, with a focus on user needs, would be most useful:

- What is best practice in making the criteria available to users.
- Drafting a report combining the audit report on the financial statements and the EER report, so as to capture the "integrated" nature of the engagement.
- The impact of a modification of one part of the EER report but a clean opinion on the rest.
- Separate conclusions on aspects of the information.
- How the report should describe the assurance practitioner's evaluation of what is selected to be reported. For example, should the opinion explicitly cover the suitability of the criteria used (and the trade-off between the qualitative characteristics), or is this better covered in a description of the assurance practitioner's responsibilities?
- When reporting of recommendations is appropriate, and factors to consider when reporting recommendations.
- Being clear about work completed and improving consistency between assurance reports.



- Communication of the assurance that can be delivered, and providing some context to enhance users' understanding of how the practitioner has provided the most assurance possible in the circumstances including any uncertainties or inherent limitations.
- How to communicate explicitly about the competence of the engagement team in the assurance report, by including information on the assurance team's expertise and competence but without misleading the user about the practitioner taking sole responsibility for the assurance conclusion expressed.

7(c) The NZAuASB considers that the identified challenges are key challenges, but considers that focussing on all ten challenges is too much to deal with immediately. The NZAuASB discussed how the priority of each identified challenge is likely to differ according to which stakeholder group is represented. For example, practitioner competence may be a key priority from a user perspective but less of a priority for a practitioner seeking guidance on when to accept and how to scope and perform the engagement.

After careful discussion the NZAuASB has decided not to prioritise the challenges in this submission. Rather, it hopes that the comments provided on each challenge will be helpful to the IAASB and suggests that the first priority for progressing any guidance will be to continue to research user needs and demands. User needs are still developing, and may still be somewhat undefined. However, when the EER demand drivers change, they are likely to be immediate, and it is important for the IAASB to maintain its understanding of user demands in order to respond appropriately. We consider that users may demand something different than what is currently envisaged by the existing assurance framework, and therefore encourage the IAASB to be innovative to best meet users' needs.

The NZAuASB also recommends that the work streams across the identified challenges could be consolidated. It may be less overwhelming to prioritise the actions rather than the challenges, where these overlap. For example, as discussed earlier in this submission:

- One of the key challenges in addressing materiality for diverse information is to understand whether that information is narrative information or future-oriented information.
- Guidance about forming a competent interdisciplinary team that may also rely on the work of experts could be informed by the IAASB's ITC on Enhancing Audit Quality. Any such guidance may also overlap with guidance on communicating the competence of the engagement team in the assurance report in a manner that enhances credibility without misleading users about the practitioner's responsibility for the conclusion expressed.
- The audit quality project includes a focus by both the IAASB and the IESBA on the exercise of professional scepticism. The NZAuASB suggests that links should be drawn between that project and any EER assurance guidance developed. There will need to be additional focus on reliance on experts and interdisciplinary teams that include an even broader range of practitioners and supporting experts in the EER context.

7(d) Not applicable.

7(e) The NZAuASB has not identified other challenges to highlight at this stage.

**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.**

- 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) –
  - iii. There are cost-benefit or other reasons (please explain)

**Response:**

As noted at the outset of these comments, integrated reporting is still in its infancy in New Zealand. However, the importance of a more holistic form of reporting has been long recognised in New Zealand, as evidenced by the reporting of service performance information in the public sector. This thinking is now expanding beyond the public sector, as evidenced by the small but growing number of integrated reports and our SPI project.

But integrated thinking is a precursor to good reporting. Many entities are still developing their integrated thinking and may be considering reporting more extensively when it is appropriate to do so. The NZAuASB considers it is imperative for the entity to embrace the integrated thinking and be ready to report (and then seek assurance over) EER information.

The <IR> framework is restricted in terms of targeting one group of users, investors in particular, but the NZAuASB considers that users of integrated reports are far broader. For example, research says that employees are known to be key users of integrated reports. Other examples include customers and suppliers. EER is not limited to companies, with other entities in New Zealand also exploring more holistic forms of reporting. The reporting of SPI in New Zealand is an example of a limited form of EER in the public sector and now also in the not-for-profit sector. This year the Office of the Auditor-General introduced aspects of integrated reporting into its annual report for the first time in New Zealand.

As user demand for EER increases, so the demand for EER assurance will increase as users search for credible information. When reporting pressures increase the level of EER reporting, the demand for EER assurance is expected to be immediate.

One risk identified is that applying a robust assurance process to a developing field of reporting may have the unintended consequence of stifling innovation in the reporting. For this reason, the NZAuASB considers that a light-handed regulatory overlay is appropriate.

**9. For which actions would collaboration with, or actions by, other organisations also be needed?**

**Response:**

The NZAuASB encourages the IAASB to continue, as a priority, to collaborate with users, exploring user demands for assurance. This will also educate users and preparers of EER. EER presents an opportunity for the IAASB to collaborate with a wide range of stakeholders and to positively influence the development of EER frameworks. As described in the response to Q8, the NZAuASB considers that users of EER include a very wide group of stakeholders, and it therefore encourages the IAASB to think broadly in terms of interested stakeholders.

Collaboration with the organisations that establish EER frameworks will be needed, including:

- The International Integrated Reporting Council
- Global Reporting Initiative
- World Business Council for Sustainable Development
- International Accounting Standards Board (IASB/FASB/IPSASB)
- International Accounting Education Standards Board (IAESB).

Collaboration with other standard setters and practitioners, including practitioners that may not be professional accountants, that currently perform accreditation and certification services, will be needed to consider what guidance and practice is emerging from professional accountants working together with other assurance practitioners, to explore how all of this activity works together to enhance the credibility of EER, including:

- the International Accreditation Forum;
- International Organisation for Standardization (ISO) Technical Committee;
- Global network of ecolabeling programmes;
- ISEAL Alliance;
- International Corporate Governance Network (ICGN);
- National Standard Setters.

While collaboration with regulators may be necessary, the NZAuASB considers that a light-handed regulatory overlay is appropriate to both the reporting of, and assurance over, EER information. EER is unlikely to be beneficial unless the entity has embraced the required integrated thinking before embarking on external reporting.