

February 3, 2017

Mr. Arnold Schilder,
Chairman
International Audit and Assurance Standards Board
529 Fifth Avenue
New York 10017

Re: IAASB Discussion Paper, [Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements](#)

Dear Arnold,

The International Federation of Accountants (IFAC) Professional Accountants in Business (PAIB) Committee values the opportunity to comment on the International Audit and Assurance Standards Board (IAASB)'s Discussion Paper on emerging forms of reporting. This response reflects the views of the PAIB Committee and those professional accountants who provide business information for internal and external purposes.

This response is largely set in the context of IFAC's strategic focus on integrated reporting, as set out in its Memorandum of Understanding with the International Integrated Reporting Council (IIRC) and Policy Position Paper #8, [Enhanced Organizational Reporting: Integrated Reporting Key](#), which declares IFAC "supports reporting that produces information on which assurance conclusions can be expressed, in accordance with high-quality international assurance standards."

Although the focus of the IAASB has shifted to enhanced external reporting (EER) and is framework neutral, IFAC's focus is primarily on integrated reporting. To remain relevant in the future, we believe that the accountancy profession in all its forms has to embrace integrated reporting by reporting on the business in its entirety, and building trust and confidence in this reporting.

Overall Comments

- EER reporting is a developing field and the IAASB should continue to monitor developments. It is important not to become too entrenched in establishing new auditing and assurance standards at an early stage. The actions of the IAASB in the short term should be made in the context that an approach to auditing an integrated report in its entirety, and expressing a professional opinion on the extent to which it complies with the International Integrated Reporting ("*IR*") Framework, is highly ambitious. During 2017, the IIRC is preparing its next strategic phase to encourage global wide-scale adoption. The current period remains a time for innovation and experimentation in EER and integrated reporting, which developments in technology also support. The ability of the IAASB to develop a standard within this context will also be made more difficult by the length of time it takes to develop new standards.



The key question is what additional benefits can be reasonably achieved given demand from users and organizations as well as the capacity of audit firms to provide assurance versus what can already be achieved under existing international standards on auditing and assurance engagements.

- In terms of demand, PAIB Committee members believe that in some parts of the world many organizations are unlikely to pay an additional cost for assurance unless the form of EER is mandatory. However, the committee recognized that there is increasing demand for assurance from those charged with governance who have a particular interest in being confident in the credibility of an EER report, or EER related information, as part of their business reporting process oversight responsibilities. Currently, demand for assurance is typically for specific elements of reports, such as where the board of directors might seek greater confidence in particular disclosures.
- The “market” appears to be responding to existing and emerging demand using current standards. The addition of new standards may not particularly assist practitioners to engage with organizations on EER. PAIB Committee members suggested that there is an expectation gap among investors and other users in terms of the scope of an assurance engagement undertaken in accordance with current standards. Many organizations now include EER information in their annual reports, and many more users are using non-financial information in their analysis of the performance of an organization. They may assume that some of this information is more reliable and mature than it actually is. Therefore, it is important that the expectation gap, particularly in terms of what existing International Auditing Standards provide, is understood and managed.
- In this context, it might be useful at this stage to provide explanatory materials on what current standards do and do not cover, particularly in the case of International Standard on Auditing (ISA) 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information* and International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. Although ISAE 3000 was not developed with EER/integrated reporting in mind, it provides a basis for assurance procedures for non-financial reporting, and can help organizations focus on their current reporting’s limitations and weaknesses. The challenge is that the scope of ISAE 3000 is limited to historical information. Integrated reporting contains much information about the present and future.
- As the Discussion Paper recognizes, the demand for actions that support credibility and trust in narrative reporting forms are not necessarily limited to calls for professional services and assurance. As the importance of EER rapidly increases, assurance or other professional services will develop to enhance EER’s credibility and trust. Therefore, there will be increasing demand for action to enhance credibility and trust through effective governance and control from directors and managers, who will evaluate the respective roles and responsibilities of board, management, operational staff, and internal audit. In the context of integrated reporting, organizations should consider their governance and control environments to ensure that they facilitate value creation and preservation rather than compliance as an end objective in itself.



- An important outcome for the global profession is to encourage auditors to engage organizations on a full range of matters, for example, those set out in the International <IR> Framework. Actions to achieve this outcome may extend beyond adding standards or modifying existing ones. Therefore, over time, the IAASB should consider a broad range of actions that enable auditors to engage with organizations about the substance of their business.

Below we have answered most of the questions in the Discussion Paper, and I hope this response is of use to the IAASB in making decisions about its activities to support audit and assurance related to EER. If you require additional clarification, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink that reads "Charles Tilley". The signature is written in a cursive, flowing style.

Charles Tilley
Chair
IFAC Professional Accountants in Business Committee



Responses to specific questions

Section III: Credibility and trust - Four key factors

Q1: Are there any other factors that need to be considered by the IAASB?

- We agree with the four factors identified in the Discussion Paper. Given that extant EER frameworks are evolving, and are not necessarily globally accepted, credibility and trust will flow first and foremost from strong governance incorporating effective reporting processes, controls, and oversight. Strong governance is underpinned by an overriding corporate purpose and culture that fosters transparency and accountability, overseen by those charged with governance and executed by management. Trust in broader forms of reporting arise from an organization's reputation in the market for high-quality reporting and checks and balances within the organization, as well as from professional services such as assurance or consultancy/advisory engagements.

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. 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?

- The Discussion Paper comprehensively refers to all of the various types of professional services. However, the IAASB might also wish to take into account the combined assurance model that is the basis of the King IV Corporate Governance Code, which incorporates all assurance services and functions that as a whole enables an effective control environment. Senior management and audit committees seek a holistic view of the effectiveness of their organization's governance, risks, and controls to enable them to set priorities and take any necessary actions. King IV specifically recommends that the audit committee consider the assurance requirements of future-orientated non-financial information, which might be delivered in various ways.
- Given that many companies are evolving in terms of the development of their understanding and measurement around non-financial capitals, maturity assessments can be particularly helpful to both the entity and to external users. Such assessments may cover the maturity of the EER process as a whole, or some aspect of it, such as whether the measures of performance the entity is developing are sufficiently well-established to provide users with a better understanding to support their decision making.

A good example is the [PwC Insight Report for The Crown Estate's](#) Total Contribution statement. It informs users about the Crown Estate's progress and direction of reporting beyond the financials. It also provides professional insight into the maturity of certain indicators and how "hard" or "soft" the information is. This helps users both understand the Crown Estate's broader performance and make informed decisions on how they use and trust the information.

The Crown Estate might be one of few organizations to provide this type of transparency into its reporting maturity. Other organizations might benefit from such an approach to help build trust in their EER reporting.



- As mentioned in the Discussion Paper, if maturity assessments prove to be valuable, they could be designed to meet an assurance engagement's key features. Generally accepted criteria for "maturity" might be usefully developed, thereby helping the IAASB provide support to practitioners related to the maturity of reporting systems, controls, and oversight.
- We also note that since the preparers' or users' perspective might be different, other services might need to be considered by the IAASB. An example of other services could be benchmarking, i.e., comparing an EER report to one that is considered as best practice.
- Ultimately, in addition to having confidence in narrative disclosures, external stakeholders interested in EER judge the extent to which reporting is based on integrated thinking. Management needs to be responsible for communicating how it utilized internal governance and oversight, and services from internal and external auditors and others to ensure that the information provided to users is high quality, and based on integrated thinking.

The responsibilities of the auditor of the financial statements under ISA 720 (Revised) with respect to the other information included in the annual report.

Q3: ISA 720 The Auditor's Responsibilities Relating to Other Information sufficient?

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?

- In terms of the existing ISAs, a new definitive standard is not necessarily needed. The consistency check required by ISA 720 is limited and poorly understood outside of the profession, but serves a purpose. ISAE 3000 is becoming established and usefully distinguishes between how a limited assurance engagement differs from a reasonable assurance engagement in practice and provides guidance for assurance engagements covering risk and response. It also requires practitioners to provide more detail in the assurance report on the actual work performed, and provides for a third-party validation and testing of the design and operating effectiveness of the company's processes and procedures.
- Rather than develop new standards at this time, the scope, benefits, and limitations of the relevant ISAs and ISAEs could be more widely promoted to the professional accountants in business and business constituencies, as well as to users. This would also help manage the expectation gap that the PAIB Committee believe exists among users. Although ISA 720 may describe the narrow auditor's responsibilities with respect to other information included in annual report, current communications around ISAs may not be sufficient to educate users in this regard.
- Furthermore, when EER information is included in an annual report and references that this information follows a specific reporting framework(s), such as the International <IR> Framework or the Global Reporting Initiative (GRI) Sustainability Reporting Standards, the user could expect some assurance



that this information actually follows the stated framework. Where limited assurance procedures are undertaken on this information as part of an assurance engagement, some users may be under the impression these procedures are more extensive, including determining whether the reporting framework was applied in accordance with criteria set by that framework. This may be causing an expectation gap.

Section IV: Relevant Professional Services Covered by the IAASB's International Standards and

Section V: Ten Key Challenges in Relation to EER Assurance Engagements

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.

Do you agree? 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).

If you disagree, please provide the reasons why and describe what other action(s) you believe the IAASB should take.

- Further investigating the challenges in relation to EER Assurance Engagements, and whether additional guidance is needed for auditors, would be a useful preliminary step before developing new standards. ISAE 3000 could benefit from enhanced communication to stakeholders outside of the profession. As the Discussion Paper recognizes, agreed-upon procedures engagements could involve performing certain procedures on particular items in the EER report or on aspects of the EER process, and additional support in this area could be useful to practitioners and preparers. Evaluating Discussion Paper responses from practitioners in the case of agreed-upon procedures or compilation engagements and how they might better support EER could prove instructive.

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. Please indicate the extent to which assurance reports under ISAE 3410 engagements are being obtained, issued or used in practice by your organization.

- No comment.

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/disagree?

- We agree that it is too early to develop a subject-matter specific assurance engagement standard on particular EER frameworks. In the case of integrated reporting, it is too early as integrated reporting is still evolving and, although some organizations are following the International <IR> Framework to some



degree, most do not follow the Framework in full. Furthermore, in some jurisdictions where there is a regulated form of management commentary, such as the MD&A in the US and Canada, Strategic Report in the UK, and the Operating and Financial Review in Australia, the management commentary can be the main form of EER.

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 practitioners in applying the IAASB's existing International Standards to EER assurance engagements. Do you agree with our analysis of the key challenges? For each key challenge in Section V, do you agree that guidance may be helpful in addressing the challenge?

- The top ten challenges analyzed by IAASB seem to cover all the main areas. For accountants in business and their organizations, maturity of governance and internal systems and processes for managing and measuring non-financial information can be a significant area of attention, and a barrier to external disclosure. Applying broader definitions of materiality can also present challenges, particularly in terms of reconciling materiality in financial reporting with the definitions, or lack of, in various EER frameworks.
- Another area highlighted by the PAIB Committee, also in relation to enhancing audit quality more generally, is the lack of coordination between auditor, audit committee, and internal auditor leading to duplicated effort, increased cost, and limited effectiveness. Effective coordination and alignment of a range of assurance and oversight providers is needed to solve this and increase effectiveness and efficiency.
- Priority “challenge” areas for the IAASB are:
 - communicating effectively in the assurance report;
 - scoping EER assurance engagements;
 - the form of the assurance report;
 - evaluating suitability of criteria;
 - obtaining assurance with respect to narrative information and future-oriented information;
 - maturity of governance and internal control processes;
 - building assertions in planning and performing the engagement; and
 - addressing materiality.
- Communicating effectively in the assurance report (Challenge 10) might require special attention given it is the most visible aspect of an assurance engagement and one where users expect a level of consistency. It is also one where the profession's credibility as a whole can be called into question if assurance reports are unclear and/or inconsistent. Further, if the experience of sustainability assurance is repeated, it is likely that users will be presented with unnecessarily confusing and inconsistent language and formats in EER assurance reports. Furthermore, assurance reports related to corporate



responsibility/sustainability reporting do not typically include, or refer to, recommendations for improving reporting, either from a content, accuracy, or internal systems/processes perspective.

- Guidance could usefully address the form of words to be used to describe different engagement scopes, and reinforce the need to apply aspects of existing standards where unsatisfactory application has been noticed. This could include sustainability reporting, providing a positive form of conclusion on a limited assurance engagement, and dealing with a lack of clarity about the engagement's scope or the criteria used. Practitioners might find it helpful to have suggested report wording in various areas including how materiality was determined and applied, and describing what procedures were performed in a limited assurance engagement.

Potential Demand for Assurance Engagements and Other Professional Services

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.

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?**

- Generally, governing boards and management can take comfort from assurance to the extent that they perceive the benefit exceeds costs, which is not always the case.
- The 2015 KPMG Survey of Corporate Responsibility Reporting provides evidence of assurance of corporate responsibility information in large companies. Limited assurance on a specific set of indicators, such as emissions or gender pay gaps, seems to be the most provided, or demanded, form of assurance. Such an approach provides management and external stakeholders comfort in disclosure of specific data and is more easily and inexpensively undertaken than a broader assurance engagement.
- Demand and need varies across regions and jurisdictions and is affected by perceptions of EER assurance engagements in terms of value-add. Many organizations developing sufficiently robust EER reporting systems, controls, and oversight may currently feel that they have a weak control environment with higher levels of control risk. As a result, organizations may feel that their report may not be readily capable of being assured. Consequently, the demand from management can be more for advisory services, readiness reviews, and maturity assessments.
- EER assurance engagements are more likely to be demanded by large organizations and, more specifically, public interest businesses rather than small- and medium-sized ones. If EER becomes a legal or regulatory requirement, the demand would be much higher.



- The demand will depend on the user's perception of the value added by an EER assurance engagement. Whether shareholders see value in assurance of information outside the financial statements might also depend on the company's track record producing reliable and credible information. Users might also value agreed-upon procedures reports.
- Demand for assurance is not necessarily going to be on an annual basis. Organizations will demand different services and the help of professional service firms to manage specific aspects of EER reporting when needed, and respond to matters arising from their risk assessment.
- Where there is an internal audit function, it can be key in both ensuring the credibility of metrics and evaluating potential risk to the organization given its more intimate knowledge of the business model and value creation.

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.

- With those setting Frameworks and standards in the EER space, including the IIRC.
 - Business and finance leaders.
 - Professional associations including the Institute of Internal Auditors.
 - Users, in particular long-term providers of financial capital, like pension funds and insurers, and their representative bodies.
 - Policy makers/legislators/regulators.
 - Other?
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- The IAASB should consider how it collaborates with organizations, such as the IIRC and GRI, whose frameworks and guidance could provide useful information as a starting point in the developing an EER assurance framework. Furthermore, collaboration with professional accountancy organizations, regulators, and national standard setters across the globe could provide valuable input into the standard-setting process.