



Emerging Forms of External Reporting

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Integrated Reporting Working Group

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Agenda Item 3

June 2017

IAASB

International Auditing
and Assurance
Standards Board

Discussion Paper

Discussion Paper
August 2016
Comments due: December 15, 2016

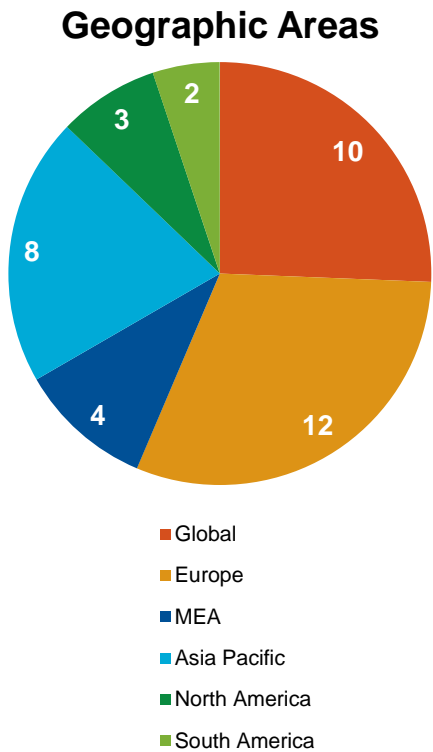
Integrated Reporting Working Group

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

- The DP requested responses to nine questions covering
 - Credibility and Trust (Q1-Q3)
 - Scope of the IAASB's International Standards and Related Guidance (Q4-Q6)
 - Ten Key Challenges in Relation to EER Assurance Engagements (Q7)
 - Potential Demand for Assurance Engagements and Other Professional Services (Q8)
 - Other (Q9)

Responses

Total	39
Investors and Analysts	1
Regulators and Oversight Authorities	2
National Auditing Standard Setters	8
Accounting Firms	6
Member Bodies and Other Professional Organizations	14
Other Organizations	1
Preparers of Financial Statements	1
Those Charged with Governance	1
Academics	1
Individuals and Others	4



Headlines

- Support for guidance to support practitioners in applying existing international assurance standards rather than developing new standards at the present time
- Little demand for further subject-matter specific assurance standards such as ISAE 3410
- Respondents broadly agreed with the Ten Key Challenges
 - Guidance would be seen as helpful to address all of the challenges
 - Suitability of criteria (2), materiality (3) and the form of the assurance report (10) were identified as those the IAASB should address with the most priority
- Demand for assurance likely to increase as EER continues to evolve
- IAASB should continue to provide thought leadership on assurance issues and co-ordinate its work with that of a wide range of other relevant organizations

Question 1

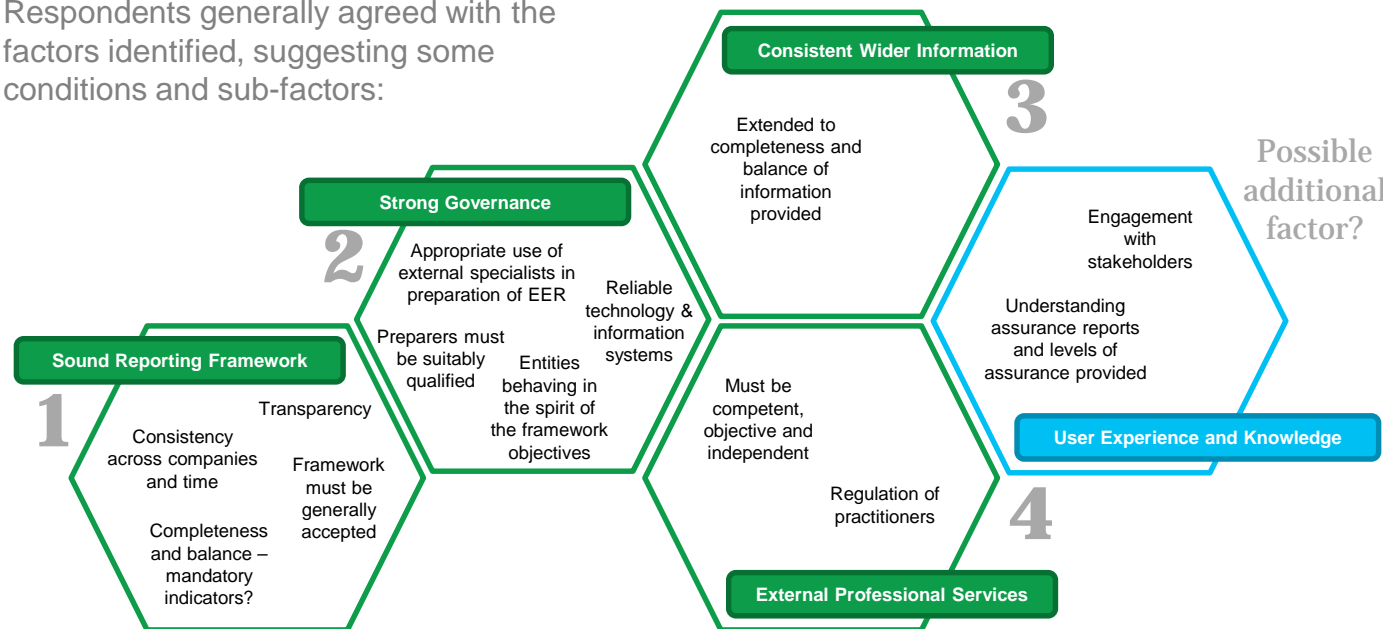
Q1

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

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



- Respondents generally agreed with the factors identified, suggesting some conditions and sub-factors:



Question 2

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.

- 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?

Services in the discussion paper	Other services suggested by respondents
Reasonable assurance engagement	Benchmarking
Limited assurance engagement	Expert opinions
Agreed-upon procedures engagement	Hybrid engagements
Compilation engagement	'Presentation' type engagement
Certifications	
Consultancy (advisory) engagements	
Assurance readiness engagements	
Maturity assessments	
Expert insight reports	

Question 3

Q3

Paragraphs 23–26 of Section II describe the responsibilities of the auditor of the financial statements under ISA 720 (Revised) with respect to the other information included in the annual report.

- 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?

- Several respondents said that ISA 720 was not sufficient because there are limitations in the assurance that can be provided over EER information in the annual report, using that approach; some users may not understand those limitations and there is a potential expectations gap in this respect.
- Most respondents in agreement that the responsibilities of the auditor should not be enhanced because
 - EER is not mature enough
 - Auditor does not necessarily have in-depth knowledge of all topics covered by EER, or the necessary skills
 - Changing auditor responsibilities globally would require involvement of regulators around the world
- There is potentially demand for assurance beyond ISA 720 to enhance credibility and trust in EER information in the annual report, and this may increase in future.
- The extent of assurance given should be led by the demands of the market (investors, those charged with governance, regulators).
- Efforts could be made to improve awareness of the limitations of the auditor's responsibilities under ISA 720.

Question 4

Q4

Section IV describes the different types of engagements covered by the IAASB's International Standards and Section V suggests that the most effective way to begin to address these challenges would be to explore guidance to support practitioners in applying the existing International Standards for EER assurance engagements.

- a. Do you agree?
- b. If so, should the IAASB also explore whether such guidance should be extended to assist practitioners in applying the requirements of any other International Standards (agreed-upon procedures or compilation engagements) and, if so, in what areas? (For assurance engagements, see Q6-7)
- c. If you disagree, please provide the reasons why and describe what other action(s) you believe the IAASB should take.

- 28 respondents explicitly supported the idea to introduce guidance for applying existing international assurance standards, principally ISAE 3000.
 - On the whole, this was a preferred option to introducing a new standard.
 - Only 1 respondent disagreed, suggesting guidance alone would be insufficient and a new standard should be developed now.
 - Some respondents expressed that guidance was urgently needed.
- A smaller majority supported extending guidance to cover AUP and compilation engagements (15 in favour, 5 against). The general consensus was that ISAE 3000 should be the priority.
- It was suggested the IAASB might commission others to develop the guidance given limited resources.

Question 5

Q5

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

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

- ISAE 3410 seems not to be in widespread usage globally, but is in some specific countries and jurisdictions.
- Where it is used, this is often in conjunction with ISAE 3000.
- Reasons for this included:
 - No demand for GHG reporting where there are no regulatory requirements
 - ISAE 3410 is seen as too narrow and prescriptive, not flexible enough
 - Often the demand is for broader sustainability reporting, not just on GHG emissions
- The majority of respondents said no further subject matter specific standards were needed at this time but some called instead for guidance on how ISAE 3000 can be applied in specific circumstances.

Variations in ISAE 3410 usage globally

Examples from the DP responses:

USA

Member body concluded that developing guidance instead of a new sustainability assurance standard was the best approach because reporting frameworks are still emerging and there were no requirements which were not satisfied by the existing attestation standard (similar to ISAE 3000).

Use of ISAE 3410

(based on DP responses)

- Some use
- Use in conjunction with ISAE 3000
- Not widely used
- No use
- No clear view from DP responses
- No specific DP responses

Germany

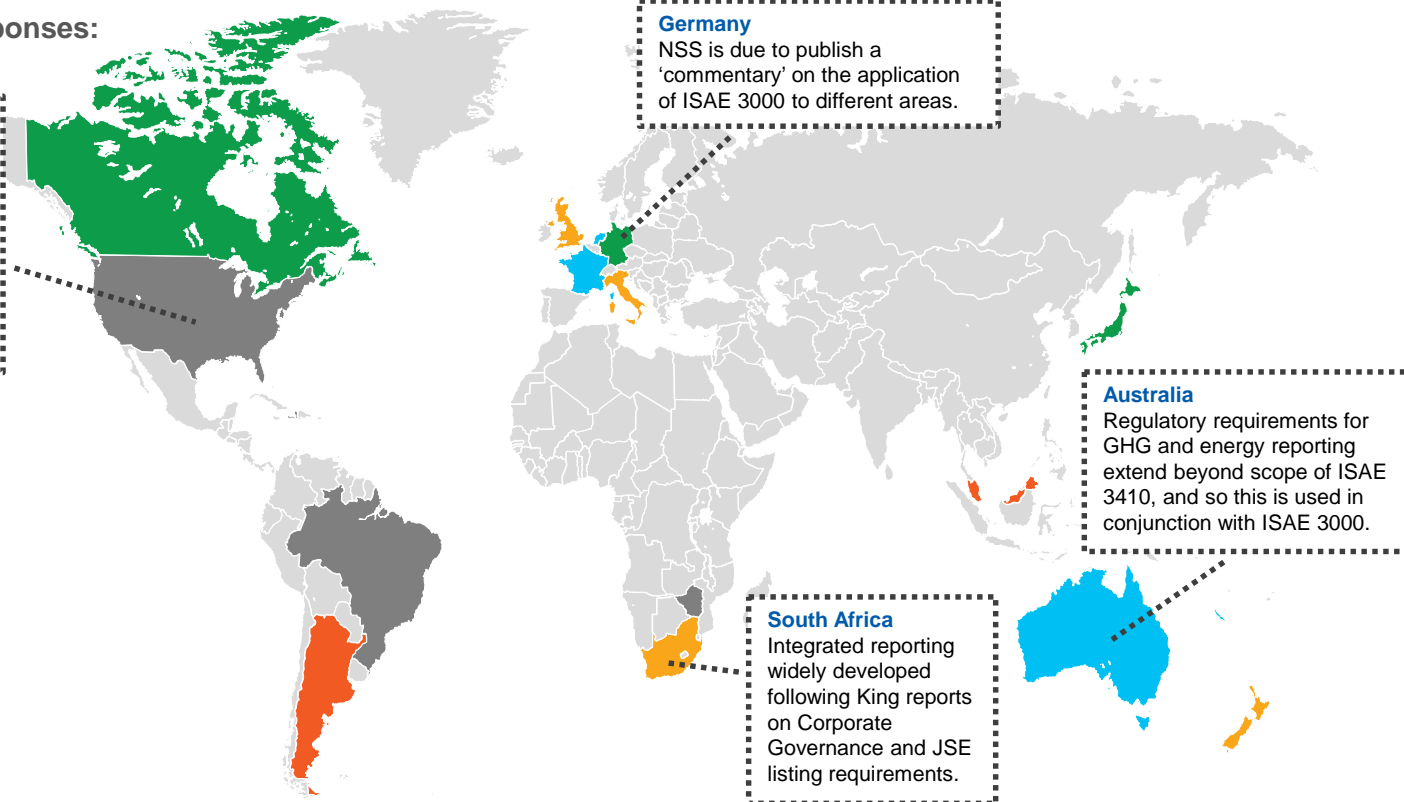
NSS is due to publish a 'commentary' on the application of ISAE 3000 to different areas.

Australia

Regulatory requirements for GHG and energy reporting extend beyond scope of ISAE 3410, and so this is used in conjunction with ISAE 3000.

South Africa

Integrated reporting widely developed following King reports on Corporate Governance and JSE listing requirements.



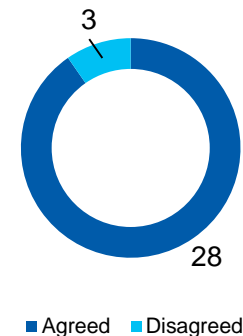
Question 6

Q6

Section V suggests it may be too early to develop a subject-matter specific assurance engagement standard on EER or particular EER frameworks due to the current stage of development of EER frameworks and related standards.

Do you agree or disagree and why?

- The majority of the respondents agreed it was too early to develop a subject-matter specific assurance engagement standard.
- Reasons why included:
 - EER frameworks still evolving (11 respondents)
 - Entities do not have mature reporting systems, controls & oversight (7 respondents)
 - It would impose unwanted rigidity & inflexibility (6 respondents)
 - Entities are not following existing frameworks uniformly (5 respondents)
 - ISAE 3000 is considered sufficient for now (5 respondents)
 - Lack of demand for a standard (1 respondent)



Question 7

Q7

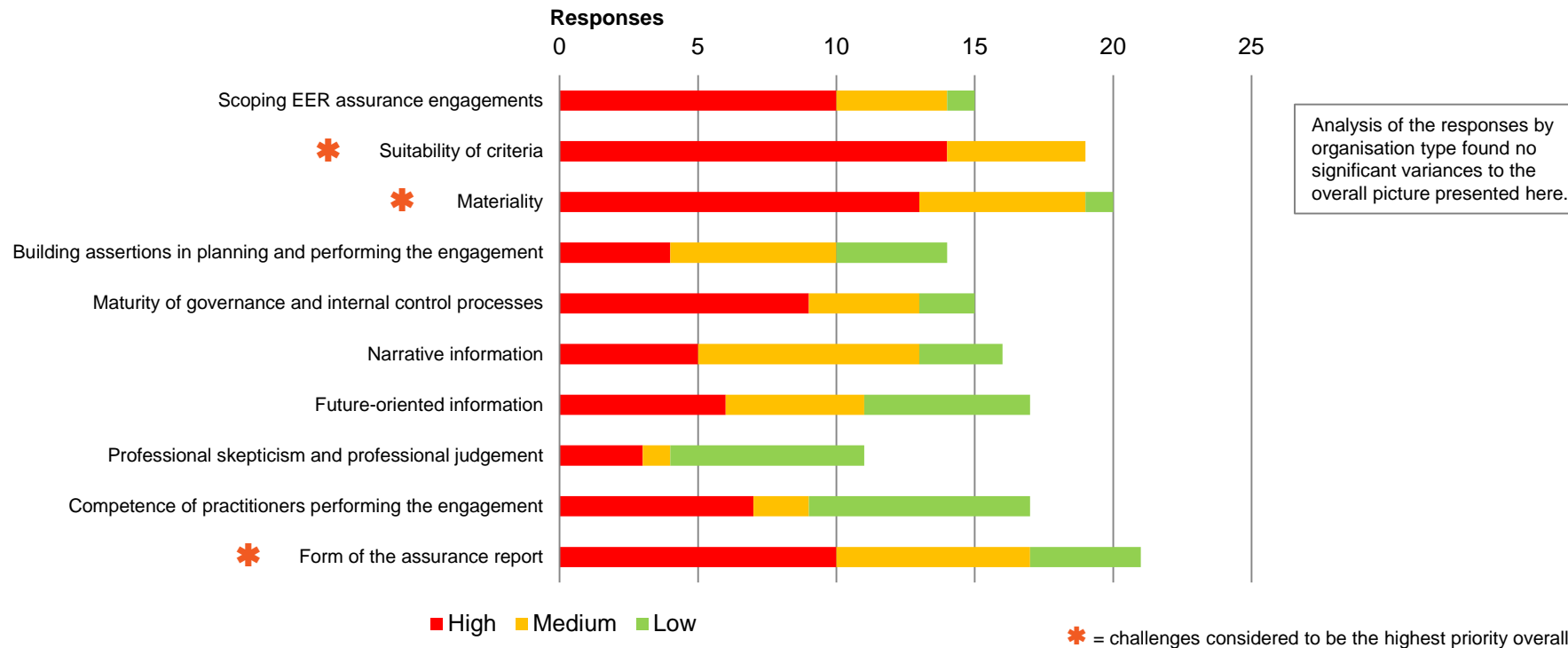
Section V describes assurance engagements and the Ten Key Challenges we have identified in addressing EER in such engagements (see box below) and suggests that the most effective way to begin to address these challenges would be to explore guidance to support practitioners in applying the IAASB's existing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

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

- All 28 respondents directly answering this question agreed with the analysis of the key challenges.
- All respondents directly responding to this question agreed that guidance would be helpful.
- 25 respondents expressed some form of suggested priority, with a wide range of responses.
- Some suggestions to refine or expand the challenges were made, along with some additional distinct challenges.

Question 7

Priority the IAASB should give to addressing each challenge:



Question 7

Suggested refinements, extensions and additions to the key challenges

Challenge	Related to originally proposed challenges	Number of respondents
Establishing how to deal with completeness, balance and neutrality of EER information disclosed	2, 3, 4, 6, 8	6
Articulating the level of assurance provided and minimising the expectations gap	10	5
Identifying the users	3, 4, 10	5
Obtaining sufficient appropriate evidence	4, 6, 7	3
Measurement uncertainty	6, 8	2
Use of experts	1, 9	2
Cost of providing assurance	1	2

The Ten Key Challenges

1. Scoping EER assurance engagements
2. Suitability of criteria
3. Materiality
4. Building assertions in planning and performing the engagement
5. Maturity of governance and internal control processes
6. Narrative information
7. Future-oriented information
8. Professional skepticism and professional judgment
9. Competence of practitioners performing the engagement
10. Form of the assurance report

Question 8

Q8

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

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

- a. Do you believe that there is likely to be substantial user demand for EER assurance engagements if the key challenges can be appropriately addressed?
- b. If so, do you believe such demand:
 - i. Will come from internal or external users or both?
 - ii. Will lead to more EER assurance engagements being obtained voluntarily or that this outcome would require legal or regulatory requirements?
- c. If not, is your reasoning that:
 - i. EER frameworks and governance will first need to mature further?
 - ii. Users would prefer other type(s) of professional services or external inputs (if so, what type(s) – see box below for examples of possible types)?
 - iii. There are cost-benefit or other reasons (please explain)?

- General consensus was that demand will increase as EER becomes more widespread. Many suggested current low demand was more related to the immaturity of reporting frameworks and regulatory requirements of EER itself rather than the key challenges of assurance engagements being the principle barrier. Cost is another key barrier for some.
- Demand is likely to come from both internal and external users, with some respondents considering external demand would accelerate development of EER.
- Demand from investors would drive growth in voluntarily obtained engagements. Some suggested that EER and related assurance would only be extensively adopted in jurisdictions with specific regulatory requirements.

Question 9

Q9

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

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

Organizations frequently suggested by respondents:

Organization	Respondents
International Integrated Reporting Council (IIRC)	14
Global Reporting Initiative (GRI)	12
World Business Council for Sustainable Development (WBCSD)	7
International Corporate Governance Network (ICGN)	5
International Organisation for Standardization (ISO)	4
Sustainability Accounting Standards Board (SASB)	4
International Accounting Standards Board (IASB) & Financial Accounting Standards Board (FASB)	3
International Organisation of Securities Commissions (IOSCO)	3
International Accounting Education Standards Board (IAESB)	3
Carbon Disclosure Project	2

Possible next steps

Now to September:

- Complete Analysis of Response Letters
- Deliberation by Working Group
- Draft Feedback Statement

September board meeting – further discussion of:

- Analysis of Responses
- Draft Feedback Statement including Next Steps
- Project Resourcing Options and Implications for Timing



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