



## **Supporting credibility and trust in emerging forms of external reporting: ten key challenges for assurance engagements**

ICAEW welcomes the opportunity to comment on the *Supporting credibility and trust in emerging forms of external reporting: ten key challenges for assurance engagements* published by IAASB on 18 August 2016, a copy of which is available from this [link](#).

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## MAJOR POINTS

1. Over the past decade a number of factors have contributed to significant changes in the nature of corporate reporting, and the situation is still developing. It is extremely helpful for the IAASB to have issued this discussion paper at this time to help focus the minds of businesses and assurers alike on the key aspects of credibility and trust.

### ‘Emerging forms of external reporting’

2. We welcome the IAASB’s use of the broad term ‘emerging forms of external reporting’, which reflects the wide variation in corporate reporting. Projects such as the International Integrated Reporting Council’s (IIRC’s) Integrated Reporting initiative address the whole range of corporate reporting and ask how an organisation can bring all of these elements together into a coherent whole.
3. A fully integrated report would emerge from a system of internal reporting and review which integrated all of the important elements of an organisation, starting from the business plan and working outward. However, few if any organisations have so far developed fully integrated reporting in this sense.
4. Corporate reporting in general is still in a transitional state and it is not clear when, or if, a more consistent pattern of reporting will be seen. Additionally, regulatory requirements (such as, for example, mandatory carbon emission reporting) will vary by jurisdiction when they are developed. Any assurance guidance should therefore be designed to be flexible and to support external assurance that can address all kinds of emerging reporting.
5. There is a tendency for the language in the IAASB Discussion Paper to fall back on using ‘EER’ as if it meant something similar to the integrated reporting use of ‘IR’; a single report roughly equivalent to existing annual reports. This unfortunately conceals the diverse nature of emerging forms of external reporting, and the fact that any organisation may choose to assemble a unique combination of significant elements of their external reporting together.
6. Throughout this consultation response, unless otherwise specified, we treat ‘emerging forms of external reporting’ as a category broad enough to contain all forms of external reporting that might be subject to assurance.

### Demand for assurance over emerging forms of external reporting

7. As emerging forms of external reporting are often highly significant to an organisation and its stakeholders, and not addressed by the traditional audit, there is an assurance gap. ICAEW members have found a demand for non-audit assurance engagements in these areas. The majority of the demand for external assurance to date, however, relates to reporting that may not be shared externally, or is shared only with a select group of stakeholders. An even more useful concept for the developing services in this area could therefore be ‘emerging forms of corporate reporting’.
8. In 2013, ICAEW reviewed the developing assurance market in our paper [\*The journey: assuring all of the annual report?\*](#) We concluded that it is possible for a professional accountant to provide assurance over the whole of an organisation’s annual report, whether that is an integrated report or takes some other form, but that this will not happen overnight. Assurance engagements will only take place where there is demand. If that demand is not driven by a statutory requirement, then the nature of the assurance will be shaped entirely by market needs. Ultimately, the experience of providing assurance over each separate element of an annual

report will equip professional accountants to provide a single opinion over the whole report, if the demand is there.

9. In *The journey* we identified several technical challenges that will need to be addressed in order for assurance over emerging forms of external reporting to be developed. Since 2013 we have published a number of short papers looking in more detail at the challenges and the ways in which assurance providers are already seeking to address them. These papers are cited and discussed more fully against the relevant topics later in this representation.

#### **A single high level standard: ISAE 3000**

10. We believe that a single assurance standard supplemented with a range of non-binding pieces of best practice guidance would provide the most effective support for IFAC members seeking to develop high quality assurance engagements at this stage.
11. Assurance over emerging forms of external reporting is not and cannot be similar to the specific case of assurance over historical financial information. Without the many decades of development that have led to the current relative consistency in financial statements and financial statement audit around the world, it is futile to try to develop global assurance standards that deal with specific kinds of reporting.
12. Even if such standards are developed over time, we would still expect many if not most assurance engagements to refer back to the umbrella standard. The variation in the nature of the engagement from one situation to the next is too great for any other outcome, and it is this very flexibility that is a strength of ISAE 3000 and allows assurance providers to add value.

#### **Supplementary guidance would be helpful, as long as it does not stifle innovation**

13. Since exact consistency of practice is not only improbable but undesirable, we believe that the IAASB should seek to promote consistency in the principles of assurance and the ways that they are applied. The widespread use of ISAE 3000 demonstrates how effective high-level, principles-based guidance can be in a developing market. However, we recognise that there are several areas where good and best practice may be unclear in the context of the wide range of emerging forms of external reporting.
14. Guidance on addressing the key challenges would undoubtedly be helpful, but there is a risk that it could end up being treated as too authoritative and reducing the flexibility that practitioners currently have to develop best practice. Any guidance developed by a standard-setter such as the IAASB does tend to be treated as being binding, particularly by practitioners who are unfamiliar with the subject matter and have (potentially exaggerated) liability concerns. For this reason, and because best practice is still developing in assurance around the world, we would prefer that any guidance developed directly by the IAASB at this stage was high level and clearly indicated its non-binding nature.
15. In order to support the development of consistently high quality assurance engagements, we suggest additionally that the IAASB work with other bodies around the world to promote best practice. Guidance collected, shared, and perhaps commissioned by the IAASB could be coordinated to some extent without denying practitioners the flexibility to experiment as necessary.

#### **Improving existing standards: ISAE 3000, ISAE 3410, and ISAE 3402**

16. We have not been able to identify any ICAEW member making use of ISAE 3410. Where assurance is provided over carbon emissions, the reference is generally made to ISAE 3000.

17. ISAE 3402 is the only sub-standard of ISAE 3000 that is currently seeing really widespread use. The specific subject matter of ISAE 3402 is controls at outsourced service providers, but it in effect contains the only high level guidance on how to provide assurance over systems and controls. If ISAE 3000 were more complete in this area, there would be far less need for ISAE 3402.
18. We suggest that the IAASB, over time, could eliminate sub-standards in favour of making sure that ISAE 3000 supports the application of the principles of assurance in any given situation. This would have the added benefit of preventing situations where a standard is developed to address a specific form of reporting, and then not applied, as happened with ISAE 3410.

### The ten key challenges

19. We broadly agree with the analysis of the ten challenges presented in the Discussion Paper, though we would group some of these issues together. For example, challenges we raised in [\*The journey: assuring all of the annual report?\*](#) around completeness and materiality are reflected in four of the ten challenges: scoping EER assurance engagements, the form of the report, suitability of criteria, and materiality. In our detailed response we discuss how the challenges are interlinked, so that addressing one is likely to provide answers needed to address another.
20. It would also be useful to consider which are primarily challenges to be addressed by the assurance provider and which, such as maturity of governance, are the responsibility of the preparer of the report. The former can be more readily addressed with guidance for practitioners, whereas the latter may need to be addressed by engaging with those who have more direct responsibility.
21. As there are practitioners around the world who are developing assurance engagements over different emerging forms of external reporting, it is likely that there is experience of addressing each of these challenges already available within the accountancy profession. Bringing together that experience to support the development of best practice would be valuable both to support high quality engagements now, and to lay the groundwork for greater consistency in the future. As discussed earlier, this could be done without the IAASB developing its own assurance guidance at this stage.

## RESPONSES TO SPECIFIC QUESTIONS

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

**a) Are there any other factors that need to be considered by the IAASB?**

22. We believe that the factors explained in Section III are largely adequate provided that they are fully explained, subject to clarification of some matters referred to below.

**b) If so, what are they?**

23. In completing an explanation of the four factors affecting credibility and trust we would expect greater emphasis to be placed on:

- the completeness and transparency of information being reported. Any limitations or restrictions risk creating imbalance and bias in the view portrayed in the management report;
- The ability of those using the assurance to judge the quality of the engagement, and the competence of the assurance provider; and
- The actual quality of the engagement and competence of the assurance provider, in the absence of the kind of registration and qualification requirements that are widespread for those providing audits of statutory financial statements.

24. The paper already discusses the impact of 'competence that is demonstrated or generally well known'. As an auditor must both be independent and be seen to be independent, an external professional service provider must both be competent and be seen to be competent. However, as emerging forms of extended reporting are by definition new and unfamiliar, the information imbalance between the professional service provider and the stakeholder inferring credibility for the report is increased. This imbalance means that those who need assurance may struggle to identify competence in a professional service provider, making it difficult or impossible for the competence to be effectively 'demonstrated or generally well known'.

**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?**

25. The ICAEW's [\*Assurance Sourcebook\*](#), our best practice guidance on assurance engagements, sets out five types of professional services that are relevant to enhancing credibility and trust:

- Assurance;
- Agreed-upon procedures;
- Compilation;
- Consultancy; and
- Other services.

In this instance, 'other services' is used to denote investigative services such as due diligence or forensic reports which clearly state that they do not provide assurance.

The category 'assurance' is further broken down in two different ways. The subject matter of assurance can be data, processes, or (a) report(s). The scope of the assurance can be either limited or reasonable. We further note that the terms 'attestation' or 'assertion-based' are used to describe engagements where the assurance provider forms an opinion on a specific assertion made by management.

26. We believe that the various types of professional services described in sections II and IV adequately cover the range of possibilities. Although benchmarking is not mentioned separately,

it can be assumed to be covered in the brief paragraph on certifications. However, no mention is made of the use of facilitated transparency to reassure stakeholders.

**b) If so, what are they?**

27. One approach to developing credibility is simply to provide more information, so that disclosure or reporting in itself is used to reassure stakeholders. This can be mediated by a professional service provider with a reputation for integrity. An example of this kind of facilitated transparency is the '[Responsible 100 website](#)', which encourages organisations to make frank disclosures in response to challenges about their ethical behaviour.

It is not yet clear how successful this approach can be in building credibility. However, there is no reason why a similar approach could not be applied to some or all elements of an external report.

28. The range of professional services that can be applied also needs to be considered in the context of a mixed set of services applied to a single document made up of various elements, for example a whole annual report. There is increasing evidence that management can adopt a different focus for each individual element. This may result in a combination of services being commissioned including private and public assurance as well as limited or reasonable assurance over various aspects of each element, eg description, evaluation of the design of controls, methodology, data and narrative. Bringing together different kinds of engagement and assurance opinion could provide both more flexibility in terms of the subject matter addressed, and more value for the client in the level of detail available in the report.

**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**

29. ISA 720 requires that the auditor checks for inconsistencies between information in the annual report and the financial statements. This is sufficient in terms of what is necessary for an auditor to do as part of the financial statement audit, but it does not constitute assurance over the annual report.

30. Unfortunately, there is a widespread misconception that the whole of the annual report is already assured by the auditor of the financial statements. The requirements as set out in ISA 720 contribute to this confusion.

31. We do not see any reason to require the auditor of the financial statements to provide assurance over the contents of the annual report. Much of the information in the annual report is not reflected in the financial statements and any requirement for an assurance opinion that covered this would significantly increase the workload for the auditor.

32. The perception that the contents of the annual report are already covered by the audit of the financial statements makes it difficult to gauge the level of demand for this kind of assurance. It can also lead to confusion on the part of regulators. For example, when the UK's Department for the Environment, Food, and Rural Affairs (DEFRA) introduced a requirement for businesses to disclose information on greenhouse gas emissions in their annual reports, they explicitly stated that no additional assurance would be required because those numbers would already be checked by the auditor of the financial statements.

33. As more emerging forms of external reporting are included in the annual report the risk to the investor and other users increases as and when they place reliance on such information that has not been audited.

34. From this perspective, therefore, the description of the responsibilities of the auditor in ISA 720 is not sufficient because it does not do enough to prevent confusion leading to false assurance. It would be valuable to include further discussion in ISA 720 of the limitations of the responsibilities of the auditor in terms of providing assurance over the annual report.
35. Confusion about the scope of a statutory financial audit is part of a broader problem. Many users of audit reports have unrealistic expectations of what those reports actually mean in terms of assurance. ISA 720 is not the ultimate source of this confusion, which presents a challenge for anybody writing any kind of assurance report. Further thought on how a report can effectively communicate both its scope, and its limitations, could be useful both for financial statement audits and other assurance reports.
- 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?**
36. Further enhancing the responsibilities of the financial statement auditor could increase credibility and trust when emerging forms of external reporting are in the annual report. However, it is not currently clear that there is sufficient demand for further assurance over the annual report to make this approach worthwhile. Organisations that do wish to obtain assurance can do so with an additional assurance report.
37. Furthermore, making assurance mandatory is not a decision that can be taken by the IAASB alone. Legislators and regulators in jurisdictions around the world will need to support the concept of mandatory assurance over similar reports before this becomes a viable option.
38. The question of increasing the role of the auditor and other professional services will take many years to develop. At this time it is probably best left to the management to determine what sort of assurance they might require over emerging forms of external reporting. In future investors and investment managers may be more explicit about their preferences, and we fully expect that legislators and regulators in each jurisdiction will, in due course, turn their attention to what should be made mandatory in assurance over these reports.

**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?**

39. We agree with the view that guidance would be a more appropriate than new standards as a way to respond to the emerging forms of external reporting assurance needs at this time. There is insufficient practical experience available to support the creation of a standard.
40. Many professional accountants around the world are developing assurance engagements over emerging forms of external reporting under ISAE 3000 and the other existing international standards. Others may not be comfortable moving into this new area without further support. Regulators and other specifiers are increasingly looking for assurance from professional accountants over reports they rely on, and further guidance could help them effectively implement an assurance requirement into their regulatory regimes.
41. That does not mean, however, that we think further guidance from the IAASB is the only or necessarily the best option. Assurance over emerging forms of external reporting is an important area, but we recognise that the IAASB faces resource constraints in its work programme and that providing new guidance in a developing area could require a significant investment of those resources.

42. The term 'emerging forms of external reporting' is useful because it is broad enough to cover the whole range of new kinds of corporate reporting. It is necessary to be broad in this definition because corporate reporting is in development, both internally and externally, and we cannot yet say with any confidence what it will look like in the future.
43. This lack of consistency in corporate reporting creates two significant risks if the IAASB chooses to try to develop a standard format for assurance over emerging forms of external reporting.
44. The first risk is that the IAASB will invest significant time and effort in developing a standard or piece of guidance which focuses on a certain kind of report which is then rapidly rendered irrelevant by changing reporting practice.
45. ISAE 3410 relating to Greenhouse Gas Statements is a good example: reporting on carbon emissions varies significantly from one jurisdiction to the next, and in some cases from one organisation to the next. Greenhouse Gas Statements are not in use in many countries. Where carbon emission reporting does not fit into the format expected by ISAE 3410, assurance providers will generally choose to apply ISAE 3000 instead as a high level standard gives them the freedom to fit the assurance to the reporting.
46. The second risk is that a standard drawn up too early and out of sync with actual best practice could restrict what professional accountants are able to do when seeking to provide assurance, making them less competitive in the emerging market. Even non-mandatory guidance could have this effect, as practitioners may be uncomfortable about the liability implications of disregarding it.
47. In order to avoid these risks we suggest that the IAASB does not produce any further standard itself. Guidance to address the assurance challenges would be extremely useful, whether it comes from the IAASB (with wording to discourage a tick-box approach to its application) or whether the IAASB instead coordinates, commissions, and shares guidance developed by others around the world. This would help the accountancy profession develop a consistent understanding of best practice in assurance, and would bring together the various elements that will need to be considered if and when new assurance standards are required.
48. We also suggest that the IAASB reviews and updates ISAE 3000 regularly to ensure that it covers all the high level guidance necessary on assurance. At the moment it does not fully cover assurance over processes, activities, and controls. These principles are instead set out in ISAE 3402, but only in relation to assurance over internal controls at service organisations. Practitioners who wish to develop assurance over processes other than internal controls at service organisations currently must work around this gap.
49. Additionally, ISAE 3400 needs to be fully reviewed and updated to bring it into line with ISAE 3000 and thereby more effectively and consistently support assurance over forward-looking information.
  - 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)**
50. We believe that the primary focus for guidance should be on the application and use of ISAE 3000 in the context of publicly available information. Such guidance could also be useful for practitioners applying other International Standards, but that usefulness would best be determined on a case-by-case basis. We would expect the need for guidance in these areas to be far rarer than the need for guidance on assurance.
51. Any guidance relating to non-assurance services should be attached to the relevant International Standards on Related Services and not to ISAE 3000.

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

52. We are concerned in general to avoid guidance being produced at all unless there is a clear need for it.

53. Guidance should draw on existing best practice, and it should not be prescriptive. It should remain as high level as possible which still being of practical use. This can be challenging for a standard-setter such as the IAASB, whose guidance can take on the authority of a standard in effect even if it is not mandatory in theory.

54. The IAASB could address this issue by commissioning guidance from others, or sharing existing good quality guidance developed by IFAC member bodies around the world.

**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.**

55. We have not been able to identify any ICAEW members who have made use of ISAE 3410.

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

56. ISAE 3410 applies the principles of ISAE 3000 to a specific kind of statement. However, greenhouse gas emissions reporting is often part of a larger sustainability report or disclosure in the annual report, rather than in a separate Greenhouse Gas Statement.

57. If a member of an IFAC body is providing a broader piece of sustainability assurance using ISAE 3000, they have no reason to refer to ISAE 3410 just to address the elements relating to greenhouse gas.

58. Moreover, legislators and regulators in different jurisdictions have increased the variation in greenhouse gas reporting styles by requiring different approaches. The more variation, the more the flexibility of a high level standard such as ISAE 3000 is valued.

59. We do not see a need for any other form of pronouncement from the IAASB at this stage. In general, emerging forms of external reporting are not yet settled enough for standards on specific subject matters to be useful.

**Q6: Section V suggests it may be too early to develop a subject-matter specific assurance engagement standard on EER or particular EER frameworks due to the current stage of development of EER frameworks and related standards.**

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

60. We agree that it is too early to develop a subject matter specific standard for emerging forms of external reporting. As discussed in our response to Q5, we think that the ideal form of guidance for all forms of assurance is a single high level standards accompanied by non-prescriptive application guidance.

61. The role of the IAASB at this stage in the development of the assurance market should be to make sure that professional accountants are equipped to develop best practice in response to the changes in emerging forms of external reporting. Once there is more consistency in

corporate reporting, the IAASB can bring together that best practice to create more definitive guidance which will have a much better chance of remaining relevant over time.

62. In order to develop assurance reports over new subject matters and new kinds of reporting, professional accountants need a thorough understanding of the principles behind the work that they are doing. ISAE 3000 could meet that need alone, if it were expanded to include the principles-level guidance on assurance over processes, activities, and controls that is currently found in ISAE 3402.
63. Even if the IAASB does continue to produce sub-standards to sit beneath ISAE 3000, it is far too early to develop any standard on any particular framework for an emerging form of external reporting, such as the Integrated Reporting Framework.
64. Should it become common practice for businesses around the world to produce a fully developed integrated report as their annual report, there would still be a need for far more flexibility in assurance over that report than there is in the audit of historical financial statements.
65. The nature of integrated reporting is that every business report could be different depending upon the factors driving what is material. Content should vary depending upon the business model, strategy and technology base. While there may be some common elements with another business the material items could be unique to the business. We believe this lies at the heart of integrated reporting.
66. Any standard for assurance relating to these reports would necessarily be high level with a great deal of flexibility in terms of the subject matter assured. As ISAE 3000 is already in place to meet this need, an additional standard on the integrated reporting framework would be superfluous. However, guidance on the issues and complexities around assuring integrated reports, including the sharing of best practice, would be welcomed.

#### Q7: Ten Key Challenges in Relation to EER Assurance Engagements

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.

<b>The Ten Key Challenges</b>	
<ul style="list-style-type: none"> <li>• Scoping EER assurance engagements</li> <li>• Suitability of criteria</li> <li>• Materiality</li> <li>• Building assertions in planning and performing the engagement</li> <li>• Maturity of governance and internal control processes</li> </ul>	<ul style="list-style-type: none"> <li>• Narrative information</li> <li>• Future-oriented information</li> <li>• Professional skepticism and professional judgment</li> <li>• Competence of practitioners performing the engagement</li> <li>• Form of the assurance report</li> </ul>

#### a) Do you agree with our analysis of the key challenges?

67. We broadly agree with this analysis of the ten challenges, though we would group some of these issues together and see them as different aspects of the same challenge. It would also be useful to consider which are primarily challenges to be addressed by the assurance provider and which, such as maturity of governance, are the responsibility of the preparer of the report.

68. **Scoping EER assurance engagements and the form of the assurance report** are naturally linked. The nature of the report, and particularly the nature of the opinion, to a large extent dictates the scope of the work that must be performed before that opinion can be signed or that report issued.
69. **Suitability of criteria and materiality** both pose two challenges, one for those preparing emerging forms of external reporting and one for those providing assurance over them. In the context of this paper and of any future guidance provided by the IAASB, we assume that the focus is on the challenge a practitioner faces in evaluating the criteria and materiality judgements of the preparer..
70. Assessing the suitability of criteria is not an issue during a statutory audit of the financial statements. In assurance over emerging forms of external reporting, the assurance provider's judgement on the suitability of criteria is essential to the quality of the engagement and the level of comfort that it can provide. Section 4.3.2 of ICAEW's [Assurance Sourcebook](#) draws on the experience of ICAEW members to provide examples for different sources of criteria applicable to different subject matters, and illustrates the wide range of options that are available.
71. Materiality, in relation to non-financial and narrative information, is another area which will be unfamiliar to many professional accountants. The underlying principles of materiality – the need to determine what matters to stakeholders – are the same whatever form the subject matter takes. However, new assurance providers will need to develop their judgement and skills in order to be able to make an informed assessment on the specifics in each case.
72. **Building assertions in planning and performing the engagement** is another area which new assurance providers may find challenging at first, particularly in relation to the unfamiliar areas of non-financial and narrative information.
73. A lack of **maturity of governance and internal control processes** does pose a challenge to an assurance provider, particularly in determining whether or not an assurance engagement can usefully go ahead. However, the main challenge here is a corporate governance one which is the responsibility of regulators, legislators, and organisations themselves to address directly.
74. **Narrative information** poses a challenge largely in connection to the suitability of criteria, to materiality and to building assertions in planning and performing the engagement. Once assurance providers are comfortable exercising their judgement on narrative information on those three fronts, narrative information can be addressed with confidence.
75. **Future-oriented information** is not an entirely new subject for assurance. Depending upon the jurisdiction assurance over future-oriented information can pose significant challenges. While ISAE 3400 is used in many jurisdictions, a significant number do not use the standard based on a range of reasons including the risk that a reader/user of their report will not understand the difference between the focus of the assurance report and a prediction of the future.
76. An additional issue is that ISAE 3400 in its current form is not consistent with the International Framework for Assurance Engagements, and a revision is needed.
77. **Professional scepticism and professional judgement and the competence of practitioners performing the engagement** are aspects of the same challenge. The nature of assurance over emerging forms of external reporting is variable, and practitioners must therefore be able to exercise their professional judgement at every stage of the engagement. Developing a sound professional judgement is the key to overcoming several of the ten challenges listed here, and it depends on cultivating appropriate professional scepticism. Without these aptitudes, no practitioner can be fully competent to carry out these kinds of assurance engagements.

78. An auditor of the financial statements can rely on accumulated decades of experience, as expressed in auditing standards, to inform their judgement. An assurance provider approaching a new subject matter must rely far more on their own experience and skills to interpret the same principles. For this reason, the competence of practitioners is particularly important to the overall success of the accountancy profession in the assurance market.

**b) For each key challenge in Section V, do you agree that guidance may be helpful in addressing the challenge?**

79. Many professional accountants are already addressing each of these issues and carrying out successful assurance engagements over different kinds of emerging forms of external reporting. No new standards or guidance are necessary for this market to continue to develop.

80. There could certainly be some benefits from additional non-mandatory guidance. The quality of those assurance engagements could be improved by sharing best practice, and other practitioners could be encouraged to expand their range of services offered to include assurance over emerging forms of external reporting.

81. Those benefits should be considered, however, against the dual risks of the IAASB wasting resources on premature standard-setting that only grows less relevant with time, and of practitioners losing ground in the assurance market because their flexibility is limited by premature guidance from the IAASB.

82. Given these risks, it is not clear that the guidance should come directly from the IAASB. Instead, the IAASB could consider sharing case studies or best practice developed by other organisations, instead of developing its own guidance. This would have the additional benefit of supporting professional accountants to learn from one another around the world.

83. **Scoping EER assurance engagements and the form of the assurance report** are areas in which ICAEW has started to develop some best practice guidance for members:

- Sections 3.2 and 3.3 of ICAEW's [Assurance Sourcebook](#) provide guidance and case studies on scoping assurance engagements using ISAE 3000 and other existing international standards. Assurance providers must also consider the responsibilities of management in relation to the subject matter, and what the nature of the subject matter is (ie, a report, an activity, a process, etc). In Sections 4.5.2 and 4.5.3, the Sourcebook discusses the contents of an assurance report and the importance of consistency between the scope described in the engagement letter at the start of the engagement and in the report at the final stage.
- Professional accountants who are familiar with audit but not with non-audit assurance can find the versatility of an assurance engagement in itself poses a challenge. The skills needed to design a new bespoke engagement are not the same as those required to carry out an audit of historical financial statements according to the ISAs. ICAEW's AuditFutures programme has recently been exploring how to apply design thinking and develop design skills in assurance engagements.

84. While many auditors may be familiar with the general form of an assurance report it is more difficult to ensure that the language maintains consistency between: what was intended to be assured, what is being described, the work performed and the conclusion or opinion provide. Further guidance along these lines could prove useful in helping practitioners move into the assurance market.

85. **Suitability of criteria, materiality, and building assertions in planning and performing the engagement** are all areas where practitioners moving in to the assurance market need to develop professional judgement in unfamiliar contexts. Guidance that draws on best practice to support a consistent approach to these challenges around the world would be extremely helpful.

Guidance should address the different approaches needed in relation to different kinds of subject matter (eg, reports, processes, etc). In particular, guidance on each of these challenges needs to address them from the perspective of **narrative information**. If this is done effectively, no additional guidance on narrative information would be needed.

86. ICAEW's *Milestone 4: materiality in assuring narrative reporting* suggests an approach to this challenge based on our members' experience with assurance. *Milestone 3: assuring the appropriateness of business information*, addresses questions in relation to the suitability of criteria and completeness in assurance over non-financial information.
87. Any new guidance relating to **future-oriented information** should be deferred until ISAE 3400 has been revised to be consistent with ISAE 3000, or else subsumed into ISAE 3000. The challenge relating to future-oriented information mostly concerns the confidence of practitioners that their work will not be misunderstood or give rise to unreasonable liabilities. Any guidance in this area should address this concern directly.
88. **Professional scepticism and professional judgement** and the **competence of practitioners performing the engagement** are areas that would benefit from further consideration. If practitioners had access to suitable best practice guidance to develop their judgement against the other challenges, these issues would naturally be addressed as well. Many assurance engagements over emerging forms of external reporting necessarily involve specialists who are not professional accountants, such as experts on carbon emissions. In some cases an engagement may entirely be provided by people who are not professional accountants and therefore not automatically held to the same ethical and professional standards. Guidance on how to assess the competence of a practitioner could therefore be useful, as well as guidance on how to assess the quality of an engagement and the quality of an assurance report.

c) If so, what priority should the IAASB give to addressing each key challenge and why?

89. As discussed earlier, the IAASB may not be best placed to develop guidance itself to meet these challenges. Instead, the IAASB could set the agenda for developing assurance guidance by collecting and sharing, and perhaps commissioning, best practice examples from around the world. Having a coordinated agenda would make it easier for the profession around the world to converge on agreed best practice as corporate reporting continues to mature.
90. The first priority in addressing the challenges should be the areas in which assurance providers are exercising the most judgement in situations that are least familiar from any experience of financial statement audit. In other words, **suitability of criteria, materiality, and building assertions in planning and performing the engagement**. Guidance in these areas would support consistency in applying the principles and would support professional accountants offering assurance engagements for the first time. If **narrative information** is addressed in each case, that key challenge could be dealt with as well.
91. **Scoping the EER assurance engagement** and the **form of the assurance report** should be easier for professional accountants to adapt to than, for example, materiality over narrative information. For this reason we would regard them as a secondary priority. Again, we would prefer to see the IAASB sharing best practice examples and guidance developed by others rather than developing guidance itself.
92. The next priority should be **future-oriented information**. The appropriate response in this case is not to develop new guidance but to address misconceptions and to revise and improve ISAE 3400.

93. Finally, **professional scepticism and professional judgement** as well as the **competence of practitioners performing the engagement**. These are vital concerns for a high quality assurance engagement, whether audit of historical financial information or assurance over emerging forms of external reporting. However, we do not think that they would be best addressed by any development of standards or additional guidance from the IAASB.
94. The lack of clear definitions around assurance means that it is easy and often possible for organisations to rely on assurances that do not provide adequate support in the circumstances.
95. There could be value in further clarification for the market regarding signs of the quality of an assurance. Elements that users could refer to as indicators of quality would include:
- The standards of professional ethics and behaviour under which engagements may be conducted;
  - The technical standards applied, such as ISAE 3000 and its subject matter related standards;
  - The expertise of the individuals involved in conducting the engagements and providing assurance;
  - The quality and extent of the evidence supporting the assurance opinion; and
  - The quality, clarity and focus of the assurance report itself.
96. This clarification should not be in the form of guidance for practitioners, however, as it is chiefly necessary for management and the users of assurance reports. It would be more useful for the IAASB to engage with global business networks on the issue.

**d) If not, why and describe any other actions that you believe the IAASB should take.**

97. We don't regard **Maturity of governance and internal control** processes as a challenge that should be considered the responsibility of assurance providers or the IAASB. The development of corporate governance is a challenge for regulators and legislators in different jurisdictions, as well as for organisations themselves. However, the IAASB could raise awareness of the necessity of suitable governance and internal control processes as a prerequisite of a good quality external assurance engagement.
98. Practitioners could benefit from guidance on how to assess the maturity of governance and internal controls, and how to respond to support organisations that need to improve without compromising their independence as external assurance providers. It is not clear that the IAASB is best placed to provide this guidance, due to the risk of it being taken as mandatory if it comes from a standard setter.

**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?**

99. While we strongly support the IAASB in an approach that seeks to ensure consistency in the application of assurance principles with one high level standard, by maintaining and improving ISAE 3000, we recognise that this raises an additional challenge for practitioners.
100. Professional accountants used to providing service such as the audit of the financial statements are used to being supported by many detailed standards. Developing services that may be bespoke for an individual client by applying high level principles is a different matter. Assurance providers need faith in their own professional judgement, and the confidence to approach new problems.
101. This is not a challenge to be addressed by any new piece of guidance from the IAASB, but it should be borne in mind as existing standards and guidance are revised. It is also relevant to several of the ten challenges, particularly as a new dimension to consider when thinking about the competence of practitioners.

**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.

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

**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?**

102. There is already user demand for assurance engagements over emerging forms of external reporting, and there is every reason to think that this will continue. Assurance and related services represent the most effective known way of building trust in business information. However, the extent of the future demand for assurance over external (rather than internal) reporting is hard to gauge without knowing where the line between internal and external reporting will be drawn for most organisations.

103. It is not yet clear, for example, what the role of the annual report will be in future. In our 2013 paper, [\*The journey: assuring all of the annual report?\*](#), we found a lack of demand from investors for assurance over the whole of the annual report. At the same time, we identified a number of elements of external reporting (some included in the annual report) where there was already a demand for external assurance.

104. We concluded: “In practical terms, much depends on the developing market for these engagements, and the level of demand from investors. It is possible, of course, that regulators in any given jurisdiction could decide to short circuit this debate by requiring an assurance report over the whole of the annual report. Currently, as the developing market is in the process of resolving issues by practical experience, ICAEW would strongly advise against imposing a theoretical solution.”

105. Leaving aside the annual report and looking at the broader question of all emerging forms of external reporting, we did find demand in 2013 and ICAEW practitioner members report increased demand since then. However, the conclusion about how best to respond to that demand remains the same. Any standard provided prematurely by the IAASB could pose a real risk to the role of professional accountants as providers of assurance over emerging forms of external reporting.

106. A good example of a need for assurance on a recently emerging form of reporting in the UK, together with a local approach to providing support and guidance for practitioners applying the IAASB assurance standards, can be found in the area of banking regulatory ratios.

107. ICAEW’s financial services faculty has been looking specifically at external reporting by banking institutions which is not currently subject to any assurance requirement in the UK,

banks regulatory reporting and capital ratios, in our consultation document [Banking regulatory ratios: ICAEW assurance framework](#).

108. This information is as significant, if not more significant for banks and their stakeholders than the audited financial information published in the annual report. There is no coherent demand for assurance of this information, but it is subject to increasing regulatory scrutiny, more intense internal scrutiny due to enhanced individual accountability in financial services firms due to the Senior Managers' Regime, and is of key interest to stakeholders, often being the first metrics referred to in reports and presentations.
109. This led ICAEW to create a framework for assurance which can be used flexibly, and assurance provided by either internal or external auditors. This is in recognition that boards and audit committees will be seeking increased confidence, but want more flexibility in how to achieve that than a traditional audit opinion would provide.
110. As the need for assurance was identified at a local level and at an early stage, ICAEW has been able to engage with stakeholders as well as practitioners in the development of this framework.
- b) If so, do you believe such demand:**
- i) Will come from internal or external users or both?**
111. Currently the greatest demand is from management. Their requests often arise due to concerns regarding their own duties and responsibilities for ensuring the accuracy of reporting. However, there is a consequence in that information subsequently reported to investors and other users benefits from a secondary and independent challenge; even if the engagement is internal and there is no publicly available assurance report for them to read.
112. Demand will also be met by both external and internal assurance providers, and in other ways. Professional accountants are not alone in providing assurance over emerging forms of external (and internal) reporting. Internal auditors have a long tradition of providing a range of different kinds of assurance within an organisation, which may in time and with increased transparency begin to take on an external role as well.
113. One of the clearest signs of the current demand for assurance is the number of non-accountants who are talking and thinking about building credibility in different aspects of business reporting. Additionally, real-time reporting and computer-facilitated transparency may meet some of the demand without the need for any human intervention.
114. It is likely that professional accountants will face competition to meet the demand for assurance. The more that can be done to share best practice and help financial statement auditors transfer their skills to providing other forms of external assurance, the better for the profession as a whole.
115. The IAASB can also support practitioners by developing a clear understanding of how and why the kinds of external assurance offered by a professional accountant can add the most value. The goal should be an informed market where those using assurance have some way of reliably assessing the quality of that assurance. Many organisations have no way of telling the difference between a broad and shallow review and an in-depth assurance engagement. In paragraph 96 we discuss several signs of high quality assurance, and anything that helps non-accountants understand and identify these signs would be useful to practitioners.

**ii) Will lead to more EER assurance engagements being obtained voluntarily or that this outcome would require legal or regulatory requirements?**

116. Legal or regulatory requirements played a significant role in the initial development of the financial statement audit, over a hundred years ago. We have already seen assurance reports, and AUP reports, required by regulators to address concerns over specific issues.
117. For example, the Education Funding Agency in the UK requires Academy Trusts to obtain annual limited assurance reports over the regularity and propriety of their use of public money. In a slightly less direct example, The Pensions Regulator in the UK recommends (but does not require) that pensions master trusts obtain external assurance reports over their internal controls. The attraction for regulators is the assurance they obtain over the information published by the organisations they regulate, and there are many other similar requirements for either assurance or for specific AUPs in different industries in the UK.
118. We have also seen increased pressure from other stakeholders leading to, for example, sustainability reports being subject to voluntary external assurance reporting. External assurance providers are also being asked to provide private reports to management within organisations, entirely on a voluntary basis.
119. Given the developing nature of the market it is difficult to say at the moment which direction the greatest demand is coming from or will come from in the future. Assurance providers from larger firms say that the majority of their work is done for internal stakeholders and gives rise to private assurance reports. Small and medium-sized firms are more likely to come across a demand for assurance engagements shaped by regulators, but also encounter (for example) requests for review engagements on a voluntary basis as an alternative to audit.
120. It seems likely that all these different sources of demand will continue, and that the market for assurance over emerging forms of external reporting will remain diverse.

**c) If not, is your reasoning that:**

**i) EER frameworks and governance will first need to mature further?**

121. If we are right that the demand for assurance is going to increase, this will happen whether or not frameworks for emerging forms of external reporting are in place. However, it will not be easy to achieve consistency in assurance reporting until there is far greater consistency in corporate reporting.
122. Poor corporate governance will also continue to pose a challenge for assurance providers, but this is largely a limit on how far practitioners can meet the demand for assurance rather than a limit on the demand itself.

**ii) Users would prefer other type(s) of professional services or external inputs (if so, what type(s) – see box above for examples of possible types)?**

123. External assurance over external reporting is one of a number of ways of meeting management, stakeholder, and/or regulator demand for assurance over emerging forms of external reporting. We agree that in many cases agreed-upon procedures or compilation reports will suffice. In other cases internal assurance may provide a level of comfort that is sufficient for the needs of key stakeholders.
124. These alternatives are already available, and are more familiar to many practitioners and users than assurance under ISAE 3000, and yet we still see a demand for external assurance engagements. While different organisations will have different needs, we anticipate that the demand for external assurance over emerging forms of external reporting will grow. Only time will tell what balance of different services is reflected in a mature market.

**iii) There are cost-benefit or other reasons (please explain)?**

125. There is no reason to think that cost-benefit considerations will prevent organisations obtaining assurance reports. The number of assurance engagements already taking place is

evidence that the benefit exceeds the cost in a range of different circumstances. What we will not know for some years is where organisations will ultimately find their optimal cost-benefit approach with regards to assurance.

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

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

126. The IAASB should continue to engage with the development of emerging forms of external reporting, seeking to ensure good quality reporting and to raise the question of whether and how different kinds of external reporting should be assured. Relevant organisations include the IIRC, the WBCSD, and FEE.
127. The IAASB should engage with regulators and others who are in a position to specify the nature of emerging forms of external reporting and to make assurance a requirement. A greater understanding of how to get the most value out of an assurance engagement would be beneficial for regulators and the IAASB would be able to encourage a consistent approach to reporting and assurance across different jurisdictions.
128. The IAASB could engage with other assurance providers, particularly internal audit providers, and with businesses in order to understand better how practitioners can add value. Without this kind of collaboration, there is a risk that external assurance providers will be out of touch with those who make the key decisions about what assurance to obtain where and will be unable to effectively explain how and why their offering adds value. There is also a risk that the IAASB will end up unnecessarily repeating, rather than learning from, the work of others.
129. One way of mitigating the risks associated with new guidance emerging from the IAASB, and therefore being treated as mandatory by professional accountants, would be for the IAASB to collaborate in the development of guidance by member bodies..
130. This would facilitate the sharing of best practice from as many sources as possible, and pooling resources would speed up the development of guidance addressing the ten key challenges. However, there would need to be a clear agreed agenda for this work and central coordination to ensure that the guidance was consistent and met global needs.