

AT A GLANCE
August 2016

Supporting Credibility and Trust in Emerging Forms of Reporting

An overview of the International Auditing and Assurance Standards Board's Discussion Paper: Supporting Credibility and Trust in Emerging Forms of External Reporting—Ten Key Challenges for Assurance Engagements

IAASB

International Auditing
and Assurance
Standards Board

Supporting Credibility and Trust in Emerging Forms of Reporting

Background:

Emerging forms of external reporting (referred to as “EER”), whether incorporated into the traditional annual report or published as supplemental reports, are still evolving. There is demand for action to support credibility and trust in EER reports. Various professional services under the IAASB’s International Standards (including assurance engagements), and other standards, are already performed – but demand is variable.

In order to inform the IAASB as to when and how to respond to EER in the public interest, the IAASB established the Integrated Reporting Working Group (IRWG) to engage with stakeholders and to monitor EER and related assurance developments.

Objectives:

In August 2016, the IRWG published a DP, [Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements](#).

This DP is the outcome of the IRWG’s work to date, including its consideration of feedback from the IIRC’s assurance consultation and calls for action to the IAASB. It explores how the IAASB’s current International Standards may be applied, in particular International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits and Reviews of Historical Financial Information*.

The DP is intended to facilitate an open discussion about the IAASB’s potential role and that of others in a holistic process to support credibility and trust in EER reports. The IAASB will continue its dialogue with stakeholders on the basis of its findings to date set out in the DP.

Comment Date:

Responses to the DP are requested by **December 15, 2016**. Responses must be submitted on the IAASB’s [website](#).

For More Information:

See <http://www.iaasb.org/projects/integrated-reporting>, which also includes supplemental information to support the DP, including a Frequently Asked Questions publication.

Being Involved in the Discussion on Supporting Credibility and Trust in EER

The discussion on supporting credibility and trust in EER will be of most value when all stakeholders in the EER reporting supply chain participate, including:

- Investors and other users
- Preparers
- Those in governance roles
- Standard setters
- Regulators
- Practitioners
- Internal auditors
- Academics
- Other stakeholders

We hope the DP provides a holistic understanding of the issues as basis for this discussion.

Who should be engaged and what do we want to hear?

The DP explores:

- The principal findings from the IRWG's research and outreach to date (Section II).
- The factors that enhance credibility and trust in EER reports for stakeholders (Section III).
- Types of professional services most relevant in relation to EER reports and how the characteristics of such services can support enhancing credibility and trust (Sections III and IV).
- Ten Key Challenges in relation to EER assurance engagements and how they could be addressed (Section V).

The DP sets out 9 questions in various sections. Respondents are welcome to answer all or some of the questions in any amount of detail they view as appropriate. We particularly want to understand:

- From all respondents – views on the IRWG's analysis of the factors that enhance credibility and trust in EER reports (Q1), and with whom the IAASB should continue to liaise and collaborate (Q9).
- From preparers and those in governance roles – actions that they take to enhance credibility and trust in their EER reporting, both for internal and external use (Q2–Q3).
- From investors and regulators – the types of professional services they believe would be useful or necessary in relation to EER reports (Q2–Q3), in particular their views on the need for different types of external assurance engagements (Q8).
- From standard setters and practitioners – How the IAASB's current International Standards are being applied and what more might be needed (Q4-Q6), how the Ten Key Challenges related to assurance engagements could be addressed (Q7), and how they are satisfying demand from users by providing particular services (Q8).

EER Developments and Demand for Assurance – What We Have Heard

The DP describes the key findings from the IRWG’s research and outreach to date relating to developments in EER, as well as assurance developments.

In preparing the DP, the IRWG reviewed academic literature and held some preliminary discussions with various stakeholders, for the purposes of exploring recent developments in EER and the demand for professional services. In particular, the IRWG liaised with the International Integrated Reporting Council, the Global Reporting Initiative and the World Business Council for Sustainable Development on the outcome of their discussions on assurance on EER. Together, these preliminary discussions and information gathering led to the following conclusions:

EER is still evolving to meet the emerging needs of a variety of stakeholders for wider information about the entity.

There is demand for actions to support credibility and trust, but this is not limited to calls for professional services.

Various types of professional services engagements are performed in relation to EER reports, but ***primarily advisory and assurance engagements***.

There is a need for flexibility in the nature of professional services as reporting frameworks evolve, to enable the delivery of credibility and trust in an appropriate manner.

Key Messages Highlighted in the DP

The DP describes the key messages on which further input and dialogue is needed for the IAASB to identify how and when to respond to EER most effectively in the public interest.

What are the key messages from our consideration of the issues?

User credibility and trust are enhanced by four key factors: a sound reporting framework; strong governance; consistent wider information; and external professional services reports.

The concepts underlying a sound reporting framework and strong governance are closely related to the concepts underlying an assurance engagement. These concepts are all strongly focused on communicating information that is relevant to user decision-making.

There is a range of professional services that may enhance credibility and trust in EER reports. This extends beyond assurance engagements as defined in the IAASB's International Standards.

An EER assurance engagement is a close analogue of an audit of financial statements, but there are many important differences of detail. EER reports generally address a wider range of subject matters than financial reporting frameworks and are used by a broader, more diverse group of intended users for a more diverse range of purposes.

We identified "Ten Key Challenges" in relation to EER assurance engagements. In exploring these challenges, we concluded that their root causes lie in the key differences between EER frameworks and financial reporting frameworks and the challenges that these differences give rise to in establishing sound governance over EER reporting.

The Ten Key Challenges are currently barriers to more widespread use of assurance engagements in relation to EER reports. However, we did not find that they are fundamentally insurmountable. Rather, we found that the IAASB's assurance model already envisages considerable flexibility in applying the underlying concepts.

Our proposal for the most effective way to begin to address these challenges is to explore whether additional guidance is needed to enable practitioners to apply the requirements of the IAASB's International Standards for assurance engagements in relation to EER reporting.

Credibility and Trust: Four Key Factors

Four factors influence credibility and trust:

1. Sound reporting framework – Essential first and foremost is the framework – the objectives of which are closely aligned with the user’s information needs.
2. Strong governance – Reporting processes, controls and potentially external professional services engagements are initiated under strong governance oversight.
3. Consistent wider information – Users perform their own evaluation of the consistency of the EER report with wider available sources of information to which they have access.
4. External professional services and other reports – Users also have access to any published reports issued under external assurance or other professional services engagements that relate to the EER report.

Outcomes and Output

Together, transparency about these Four Key Factors enhances and engenders external user credibility and trust in the EER report (outcome).

Transparency for internal users about how the credibility of the EER report has been established – through strong governance to establish that the EER report has been produced in accordance with a sound reporting framework (including in key judgment areas) – enhances and engenders internal user credibility and trust (outcome) that a high-quality external report (output) has been produced and is fit for publication.

External transparency about these matters and publication of the EER report and of any external professional services report(s) enables external users to confirm the consistency of the EER report with wider available information.



Key:
The four factors are shown in **yellow**.
The output is shown in **red**.
The outcomes are shown in **green**.

Professional Services

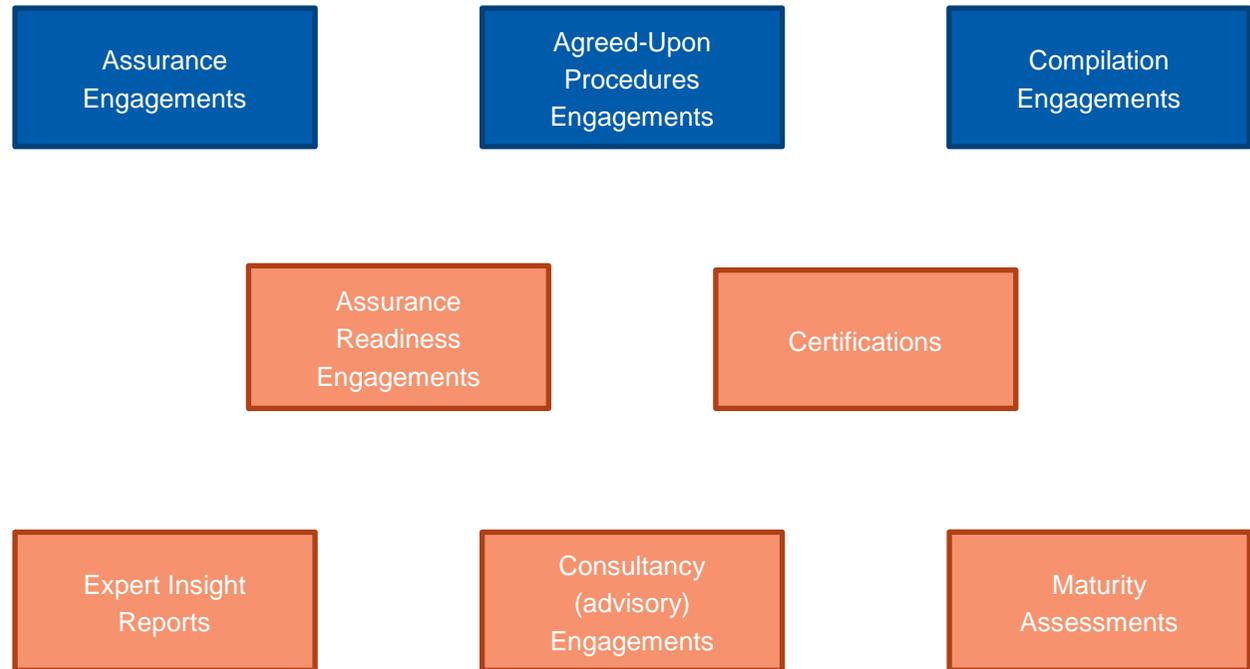
To What Extent is EER Information Covered in a Financial Statement Audit?

When EER reports meet the definition of an annual report, the auditor is required to read the EER report and consider whether there is a material inconsistency between that information and the financial statements, as well as the auditor's knowledge obtained in the audit.

This work is required by ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, for purposes of the audit of the financial statements. It does **not** constitute a separate assurance engagement on the EER.

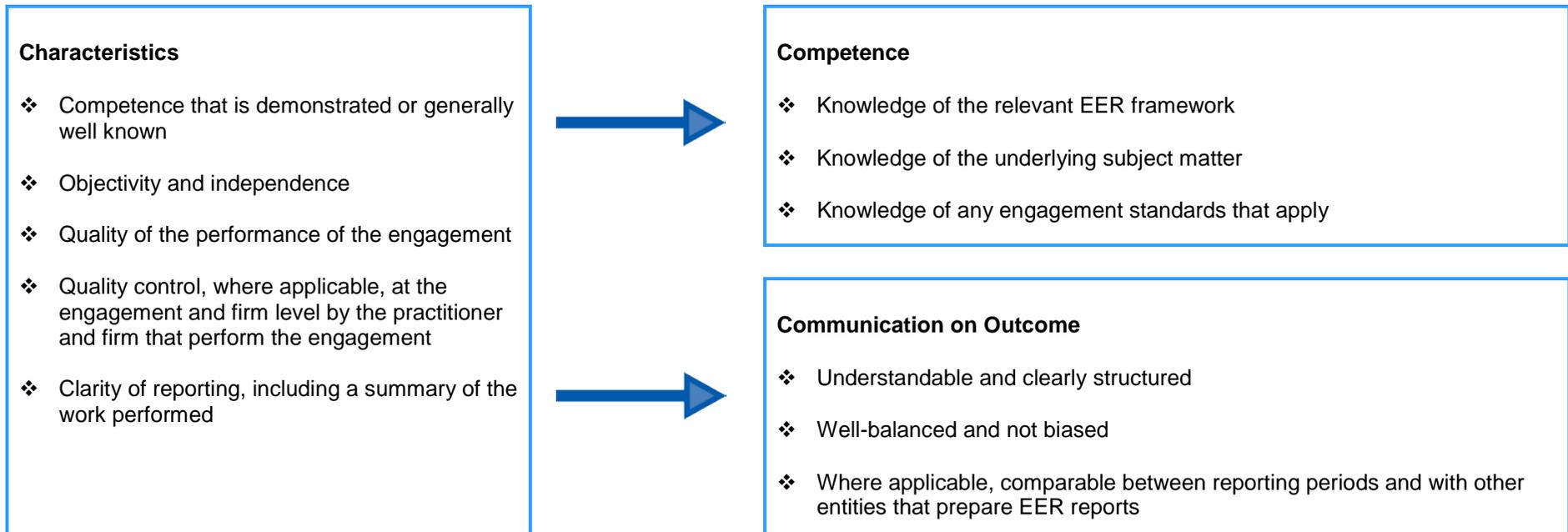
Other Professional Services that May Enhance Credibility and Trust

The range of professional services that may enhance credibility and trust in EER reports extends beyond assurance engagements as defined in the IAASB's International Standards. The type of professional service that is most appropriate in the circumstances and most relevant to users will depend on users' needs (which may be quite different between internal and external users), the nature of the external input and the maturity of the entity's EER processes.



Blue: Covered by IAASB's International Standards
Orange: Other types of professional services

Characteristics of Professional Services that May Enhance Credibility and Trust



Transparency about the competence of those performing the professional service or other external input may add to the credibility of the EER report. An explicit reference to national or international standards for quality control of the practitioner's firm and for the performance of the engagement, as well as to relevant ethical requirements, may also enhance the degree to which the external input adds credibility to the EER report.

Key Aspects of the IAASB's Assurance Model

Three Party Relationship

All assurance engagements have at least three parties: the responsible party, the practitioner and the intended users. The responsible party may also be the measurer or evaluator, and the engaging party. The measurer or evaluator is responsible for having a reasonable basis for the subject matter information. The fact that the practitioner will report on the subject matter information is not a substitute for the measurer or evaluator's own processes to have a reasonable basis for the subject matter information.

Underlying Subject Matter/Subject Matter Information

An appropriate underlying subject matter (e.g., value creation) is identifiable and capable of consistent measurement or evaluation against the applicable criteria such that the resulting subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence to support the assurance conclusion. In some cases the assurance engagement may relate to only a part of a broader underlying subject matter or subject matter information. In such cases the practitioner may consider whether this meets the information needs of the intended users as a group.

Suitable Criteria

The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances and will be available to the intended users. Suitable criteria have the following characteristics:

- Relevance
- Completeness
- Reliability
- Neutrality
- Understandability

Criteria can be established, such as embodied in laws or regulation or issued by authorized or recognized bodies of experts that follow a transparent due process if they are relevant to the users' information needs, or specifically designed for the purpose of preparing the subject matter information.

Evidence

The practitioner performs assurance procedures to obtain sufficient appropriate evidence to support the practitioner's conclusion. The nature, timing and depth of these procedures may vary according to the type of assurance engagement (reasonable or limited assurance engagement).

Reasonable or Limited Assurance Engagement

In a reasonable assurance engagement, the practitioner reduces the engagement risk to an acceptably low level in the circumstances of the engagement. In a limited assurance engagement, the engagement risk is greater than for a reasonable assurance engagement since the nature, timing and extent of procedures performed is more limited. The level of assurance that is obtained may vary based on the procedures performed and evidence obtained but needs to be meaningful to the intended users.

Assurance Report

The assurance report is in writing and contains a clear expression of the practitioner's conclusion about the subject matter information.

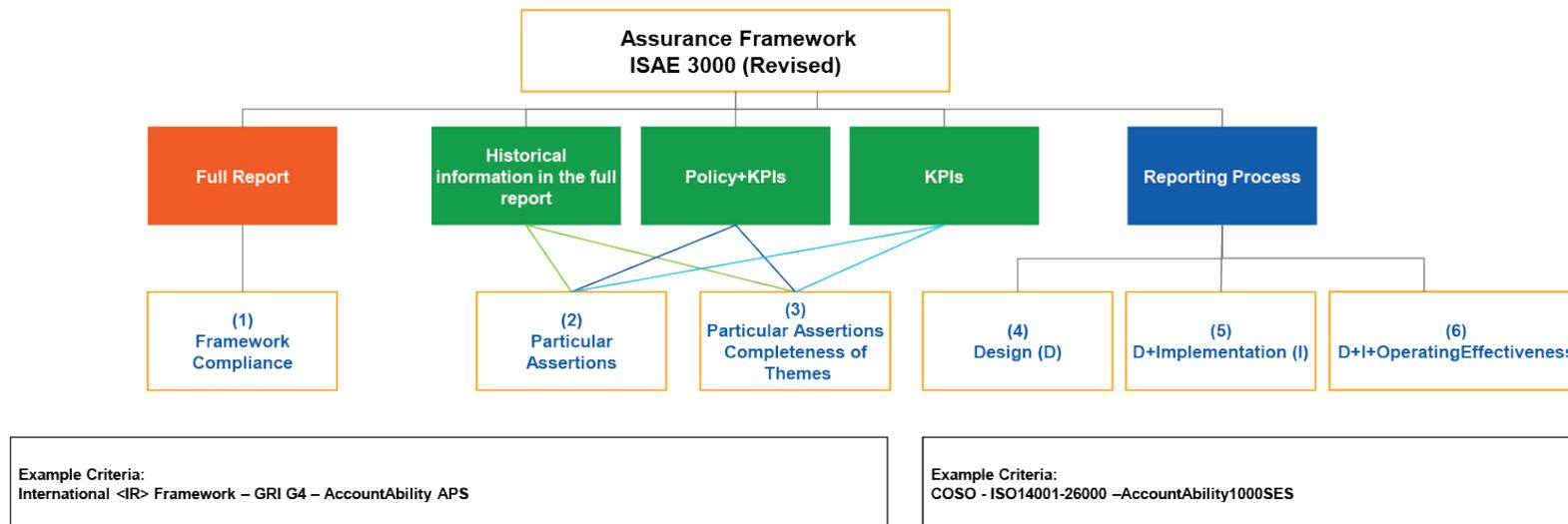
Ethics and Quality Control

The engagement team complies with relevant ethical requirements, including independence requirements, and the practitioner that performs the engagement is a member of a firm that is subject to quality control.

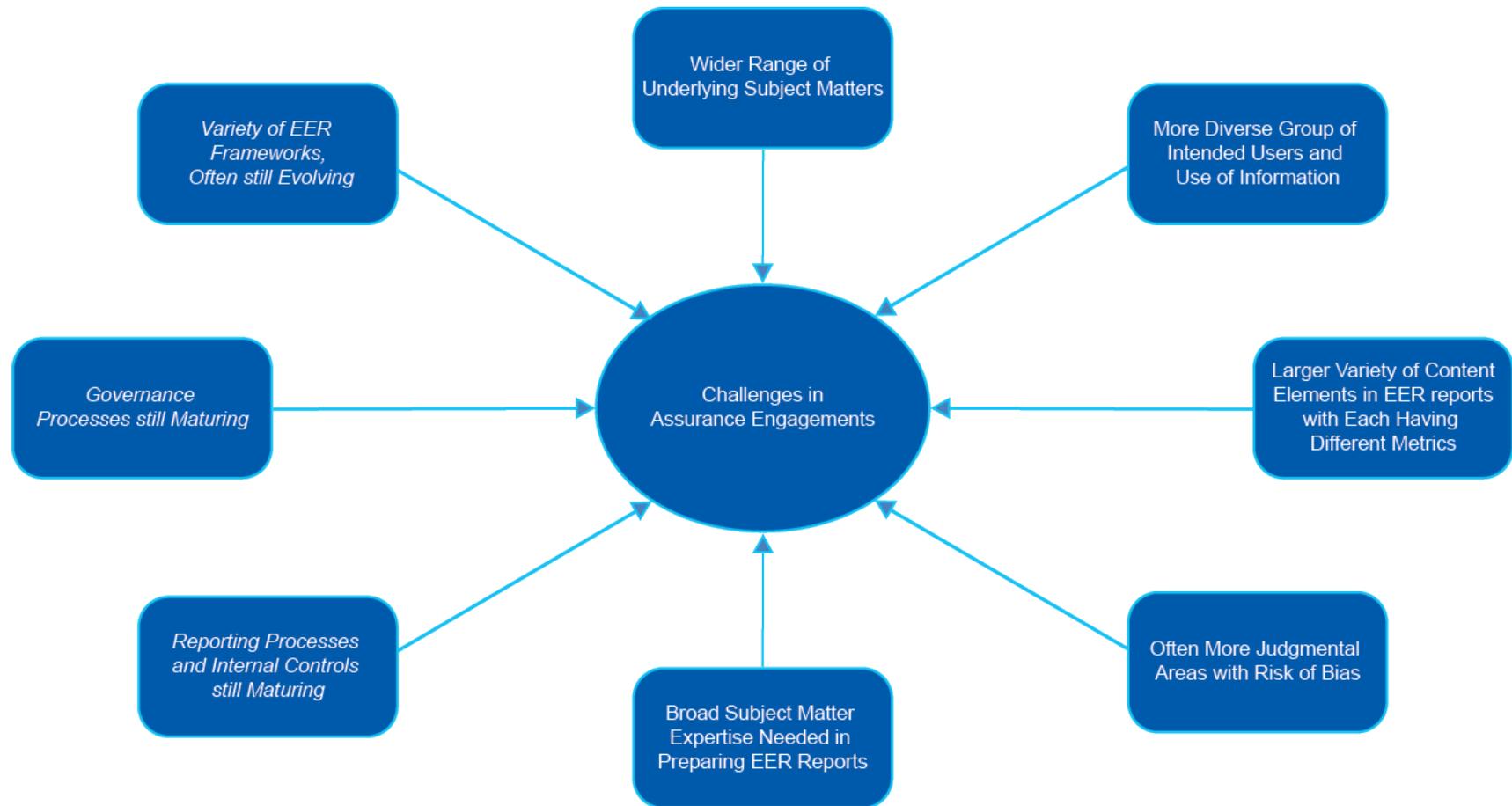
Need for Flexibility: Scoping EER Assurance Engagements

In the context of EER reporting, different types of assurance engagement are possible. For example, an assurance engagement could address the EER report as a whole using the EER framework as the criteria, if it provides a basis for suitable criteria. The assurance conclusion would be expressed in terms that the EER report was properly prepared on the basis of the EER framework. However, even if the EER framework does not provide a basis for suitable criteria, an assurance engagement may be possible in the context of, for example, one that addresses:

- (a) Only certain of the information in the EER report applying the criteria relevant to that information; or
- (b) The EER reporting process applying, criteria based on the EER framework and others established in the context of more general objectives for such a reporting process.



EER Compared To Financial Reporting



The differences between EER compared to Financial Reporting lead to challenges in assurance engagements.

The Ten Key Assurance Challenges We Identified and What We Will Explore Further

ISAE 3000 (Revised) provides an important basis for performing assurance engagements in relation to EER reports.

Some of the challenges identified require further actions by others. Therefore, we believe it is too early to develop a subject-specific assurance engagement standard.

With respect to the assurance challenges we identified, the DP is seeking views as to whether ISAE 3000 (Revised) is sufficient and, if not, where additional guidance might be needed to enable practitioners to apply ISAE 3000 (Revised) more effectively. Paragraphs 102–133 of the DP explain in more detail what specific guidance might be useful.

Ten Key Assurance Challenges

1.	Determining the scope of an EER assurance engagement can be complex
2.	Evaluating the suitability of criteria in a consistent manner
3.	Addressing materiality for diverse information with little guidance in EER frameworks
4.	Building assertions for subject matter information of a diverse nature
5.	Lack of maturity in governance and internal control over EER reporting processes
6.	Obtaining assurance with respect to narrative information
7.	Obtaining assurance with respect to future-oriented information
8.	Exercising professional skepticism and professional judgment
9.	Obtaining the competence necessary to perform the engagement
10.	Communicating effectively in the assurance report

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