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

On behalf of more than 185,000 global members of The Institute of Internal Auditors (IIA), I am pleased to provide our response to The International Auditing and Assurance Standards Board's (IAASB's) Discussion Paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements.*

A Memorandum of Understanding (MoU) between The International Federation of Accountants (IFAC) and The Institute of Internal Auditors (IIA) recognizes our shared interest in restoring confidence to the general public in business reporting and in enhancing governance processes in both the private and public sectors. The IIA agrees with the Integrated Reporting Working Group of the IAASB that the demand for Emerging Forms of External Reporting (EER) is growing, that the form and nature of EER are not settled, and that many organizations' processes and controls to generate EER are immature. The effort of the working group continues to advance the discussion around the best approaches to meeting the needs of users of EER. Internal auditors across many countries, industries, and regions have increased their focus on EER as part of their risk-based assurance obligations.

As part of an organization's overall internal assurance program, a sound, robust, and effective internal audit function is a critical requirement for any organization contemplating the use or expansion of EER. Therefore, a general recommendation for strengthening the discussion paper is to recognize this critical role of internal audit and internal assurance more fully.

Our response was guided by a team of leaders in the internal audit profession representing The IIA's global reach. Answers to selected questions and detailed comments on the discussion paper and supplemental information follow.

Answers to Selected Questions

Q1. Section III describes factors that enhance the credibility of the EER report and engender user trust. Are there any other factors that need to be considered by the IAASB? If so, what are they?

No, The IIA does not identify any additional factors that need to be considered. However, Paragraph 50 does not sufficiently describe how Factor 2: Strong Governance enhances EER credibility. Paragraph 50 specifically mentions "effective risk management and high quality reporting processes" as sound governance structures. The description of sound governance should be expanded to include the critical role the second and third line of defense functions play, and to include reference to internal audit in enhancing EER credibility. See our detailed comments on Section III.

Q2. Sections II and IV describe different types of professional services that are either currently performed or could be useful in enhancing credibility and trust. Are there other types of professional services the IAASB needs to consider, that are, or may in the future be, relevant in enhancing credibility and trust? If so, what are they?

Yes. There is neither a current mandate for adopting any particular form of EER on a global basis nor a fully defined way for EER to be implemented. As a result, there is no single way to provide assurance on EER and no single provider of assurance on EER. While supporting public or chartered accountants as an important provider of external assurance on EER, The IIA suggests that, at a minimum, the following should be considered for inclusion in the discussion paper:

- Each of the three lines of defense (operational mangers who own and manage risks, functions that oversee risks, and internal audit) has a significant role in assuring EER is complete, accurate, and responsive to stakeholder needs.
- Other qualified individuals and/or other qualified firms may provide external assurance.

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 IIA agrees. To reiterate, there is no current mandate for adoption of any particular form of EER on a global basis, nor is there a fully defined way for EER to be implemented. As a result, there is no single way at this point to provide assurance on EER and no single provider of assurance on EER. The IIA expects EER assurance engagement standards to evolve based on the needs of EER users.

Q8. The IAASB wishes to understand the impact of potential demand for assurance engagements, if the Ten Key Challenges we have identified can be addressed appropriately.

Section V describes well the challenges of external parties performing assurance engagements. The IIA believes there will not be substantial user demand for external assurance engagements in the foreseeable future. Resolving the Ten Key Challenges will take time and issuers will need to be convinced that the benefits of external assurance exceed its cost. A better focus for organizations in the near term is the engagement of internal audit to provide advice, support, and assurance to internal stakeholders of EER. It is useful for the IAASB to continue to explore and define how to solve the Ten Key Challenges, in anticipation of a potential expansion of external EER assurance in the future.

Detailed Comments on the Discussion Paper

I. Introduction

1. Paragraph 3. The second bullet articulates that a key purpose of the paper is to "Identify factors that we believe enhance credibility and trust **internally** (emphasis added) and externally in relation to EER reports, and explore how they do so (Section III)." Yet, Section III is largely focused on external credibility and trust. We suggest that the discussion could be enriched by including additional information on internal credibility and trust.

II. Principle Findings from Research and Outreach to Date

1. Paragraph 30 lists four examples of emerging professional services. Missing is advisory and assurance services provided by internal audit. An additional paragraph under the "Emerging Professional Services" subtitle could address internal audit as well as any relevant second-line-of-defense functions as emerging professional services with regard to EER.

2. Paragraph 33. In addition to the bullets listed, we would like to reemphasize the following points that The IIA raised in our December 2014 response to the International Integrated Reporting Council (IRRC) paper *Assurance on <IR>: An Introduction to the Discussion.* Key features of assurance to best meet the needs of users include:
   a. Assurance must be based on sufficient, reliable, relevant, and useful information.
   b. Assurance must be performed independently of the underlying processes by competent and objective individuals, and based on a set of widely recognized standards.
   c. Assurance may be evidenced by a report or written conclusion, but it is the underlying process that will actually create the value to best address the needs of users of integrated reports over time. In addition to assurance on the accuracy of the integrated report itself, internal audit will further serve the needs of those charged with governance and other users of integrated reports by providing assurance on the report's underlying processes.

3. Paragraph 34. As stated in our general comments, The IIA believes that external assurance on EER may extend beyond professional public/chartered accountants, and that internal assurance also can support credibility and trust in EER. Specifically, The IIA strongly believes that internal audit will play at least three roles in supporting credibility and trust in EER reports:
   a. For a company implementing EER, internal audit should be actively involved in the project team from its inception, to lend advice and insight to the implementation activity and to be in a position to provide assurance to those charged with governance that the implementation is being done effectively. However, for obvious reasons of potential impairments to both independence and objectivity, internal audit should not own, or be responsible for, the implementation of EER processes, policies, or procedures.
   b. Furthermore, internal audit should provide assurance on the accuracy and reliability of the data being reported — internally and, as appropriate, externally.
   c. And, for a company that has some aspect of EER receiving external assurance, internal audit should partner with the external assurance provider(s) to ensure that the assurance engagement is conducted in the most cost-effective, efficient, and reliable manner.

III. Credibility and Trust in Relation to EER Reports

1. Paragraph 39. The second sentence of Paragraph 39 indicates that this discussion paper is exploring credibility and trust "primarily from the perspective of the internal and external stakeholders of an entity." However, the discussion paper presents very little discussion on the internal perspective. As we suggested at Section I, Paragraph 3, the discussion could be enriched by including additional information on internal credibility and trust.

2. Paragraph 40 suggests how credibility in the context of EER may be enhanced, outlining four factors illustrated in Figure 1. The IIA agrees that a sound reporting framework, strong governance, and external professional services all enhance credibility, and we have two suggestions for improving this model:

    a. Third bullet, the concept of "consistent wider information," is not clear. How can consistent wider information satisfy the user that the report is internally consistent (What does this mean? Consistent with what?) and consistent with the user's wider knowledge (What does this mean?)? This seems to be a circular reference. In Figure 1, the first sentence under **Outcomes and Output,** what does it mean to have transparency about consistent wider information? The last paragraph states that transparency about these matters (the four factors?) enable external users to confirm consistency of the EER report with wider available information. How can transparency enable users to confirm consistency? And if the EER is inconsistent with "wider available information," how does the user determine if the EER or the "wider available information" is incorrect? Clarifications that address these questions would improve the model.

    b. The description of strong governance should include explicit reference to internal assurance. Internal assurance can enhance credibility and trust by providing users of the report with confidence in internal reporting processes and confidence in management responsible for such processes. This change should be expounded upon in Paragraph 40 and Figure 1.

3. Paragraph 43 indicates that those charged with governance (TCWG) have a clear interest in considering the credibility of an EER. However, this paragraph is silent on the reliance that TCWG needs to place on internal audit and other lines of defense to gain confidence in the credibility of EER.

4. Paragraph 50. This paragraph could be enhanced by providing more information on the Three Lines of Defense Model and the role that each line plays in strong governance.

5. Paragraphs 51-52. This discussion paper could be enhanced by revisiting the concept of "consistent wider information" and more fully developing the explanation for the reader. See related comment at 2.a. above.

6. Paragraph 56 addresses the "knowledge" someone would need to demonstrate competence in doing assurance work on EER. The IIA agrees with the three bullets as articulated, and suggests adding:

    a. Knowledge of the applicable industry.

    b. Knowledge of the particular organization.

    c. Knowledge of applicable laws and regulations.

    d. Knowledge of integrated thinking. The concept of integrated thinking should be expounded upon, either here or elsewhere in the discussion paper.

IV. Relevant Professional Services Covered by the IAASB's International Standards

1. Paragraphs 83-89 address inherent risk and control risk. We do not clearly understand the points being conveyed in this section as they relate to the paper as a whole.

Detailed Comment on the Supplemental Information

1. Paragraph 8. We appreciate the reference to The IIA's report *Integrated Reporting and the Emerging Role of Internal Auditing.* We suggest clarifying that internal audit's work and the internal audit plan are **_risk-based_** and dependent upon the direction and oversight of TCWG. We reiterate here that The IIA strongly believes that internal audit plays at least three roles in supporting credibility and trust in EER reports:

    a. For a company implementing EER, internal audit should be actively involved in the project team from its inception, to lend advice and insight to the implementation activity and to be in a position to provide assurance to those charged with governance that the implementation is

being done effectively. However, for obvious reasons of potential impairments to both independence and objectivity, internal audit should not own, or be responsible for, the implementation of EER processes, policies, or procedures.

b. Furthermore, internal audit should provide assurance on the accuracy and reliability of the data being reported — internally and, as appropriate, externally.

c. And, for a company that has some aspect of EER receiving external assurance, internal audit should partner with the external assurance provider(s) to ensure that the assurance engagement is conducted in the most cost-effective, efficient, and reliable manner.

2. Paragraph 87. Our comments on Paragraph 8 also apply to Paragraph 87.

Thank you for the opportunity to provide comments on *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements.* Please do not hesitate to contact Jim Pelletier, The IIA's Vice President, Professional and Stakeholder Relations, if you have any questions about this response or would like to schedule time for discussion. Mr. Pelletier can be reached at jim.pelletier@theiia.org or +1-407-937-1377.
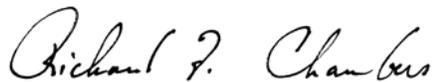
Best regards,

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