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

Comments from ACCA to IAASB
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The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas, including: taxation (business and personal); audit; small business; pensions; education; and corporate governance and corporate social responsibility.
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ACCA welcomes the opportunity to comment on the proposals issued by IAASB. The ACCA Global Forum for Audit & Assurance has considered the matters raised and their views are represented in the following.

AREAS FOR SPECIFIC COMMENT:

Question 1

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?
b. If so, what are they?

Response

ACCA agrees that the factors identified by the IAASB's Integrated Reporting Working Group are important in enhancing the credibility of EER reports and for engendering user trust in those reports. ACCA believes that all of the identified factors are necessary for enhancing credibility.

In addition to these factors, there is another necessary condition: the need for companies to behave in a way that is consistent with the objectives of the framework. Reporting is a means to an end, not the end itself. The requirement to report is intended to incentivise companies to change their behaviour prior to reporting faithfully. It is this change in behaviour – not assurance or other types of professional service – that should be the biggest driver in closing the expectation gap. Indeed, to the extent that companies believe they can rely upon professional services as a way to address the credibility gap between their words and actions, assurance may even be counter-productive.

There is a role for regulation and legislation too. For example, in 2010 South Africa became the first country in the world to mandate the issuance of Integrated Reports by listed companies. This has been an important step in encouraging the development of <IR> in South Africa and related assurance services.

Question 2

Sections II and IV describe different types of professional services that are either currently performed or could be useful in enhancing credibility and trust.

a. Are there other types of professional services the IAASB needs to consider, that are, or may in future be, relevant in enhancing credibility and trust?
b. If so, what are they?

Response

Sections II and IV provide a fairly comprehensive analysis of the types of professional services that could be provided from a practitioner's perspective. One service that might be added could be benchmarking: for example, where a professional benchmarks one

EER report against another report that is considered to be best practice for that particular business sector.

The perspectives of other stakeholders might be different, so it would be worthwhile for the working group to determine whether there are unmet needs which other types of service could meet. This exercise would also provide insights to the working group as to what is the perception of value added from services that are currently performed and to identify their actual needs.

Question 3

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

a. Is this sufficient when EER information is included in the annual report; or
b. Is there a need for assurance or other professional services, or for further enhancement of the responsibilities of the financial statement auditor, to enhance credibility and trust when EER information is in the annual report?

Response

Paragraphs 23-26 describe fairly the responsibilities of the auditor under ISA 720. When EER information is included in an annual report and specifically references that this information follows a specific framework's principles i.e. the International <IR> Framework on integrated reporting, the reader might expect there to be some kind of assurance that this information does indeed follow this framework. The requirement to report by exception under ISA 720 may widen the expectation gap between what users believe auditors do in respect of other information and what they actually do. As such, it may be difficult to establish whether ISA 720 actually enhances credibility and trust to a sufficient level for users.

There is a clear demand for assurance beyond ISA 720, but assurance products are still developing. The future direction of this assurance will be driven by market forces and by regulation.

Question 4

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

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

Response

ACCA agrees that developing guidance to assist practitioners in applying existing International Standards is a valuable first step. The most important of the International Standards is ISAE 3000, which is currently being used for assuring EER in some countries, for example Australia, New Zealand and South Africa. Additionally ACCA's research in the South African market, where integrated reporting for listed companies is mandatory, found that practitioners support ISAE 3000 being applied to different 'parts' of the integrated report, similar to a financial statement audit.[1]

ACCA supports the IAASB developing guidance to support practitioners in applying other International Standards, such as for agreed-upon procedures or compilation engagements.

Question 5

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

Response

ISAE 3410 assurance reports are used very infrequently in the UK. ACCA sees more value in investing in addressing the conceptual challenges of EER assurance in the general standards, rather than the very specific ISAE 3410.

Question 6

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?

Response

ACCA agrees that it is too early to develop a subject-matter specific assurance engagement standard on EER or particular EER frameworks. In particular, in the case of integrated reporting it is still too early to develop a subject-matter specific assurance engagement standard, as integrated reporting is still evolving. Although some

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[1] http://www.accaglobal.com/content/dam/ACCA_Global/Technical/integrate/ea-south-africa-IR-assurance.pdf

organisations have chosen to follow the IIRC's framework principles and GRI guidelines, these are still far away from being followed uniformly by the majority of organisations.

ACCA does however encourage the IAASB to consider the views of its various stakeholders in regards to the current state of play and to provide additional support how to overcome the identified challenges as a first step.

As identified in the Discussion Paper, there are a number of Key Challenges in relation to EER assurance engagements. Until responses to these Key Challenges have developed, these may affect the IAASB's ability to develop subject-matter specific assurance standards and users may find such standards difficult to apply consistently. ACCA suggests that the IAASB should articulate a response to the Key Challenges with reference to a general standard such as ISAE 3000 before developing more specific assurance standards.

Question 7

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

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

Response

ACCA agrees with the analysis of the ten key challenges. Further guidance would be helpful in addressing each key challenge.

A suggested prioritisation is as follows:

1. Scoping EER assurance engagements

2. Form of the assurance report

3. Suitability of criteria

4. Maturity of governance and internal control processes

5. Materiality

6. Professional skepticism and professional judgment

7. Building assertions in planning and performing the engagement

8. Narrative information

9. Future-oriented information

10. Competence of practitioners performing the engagement

This prioritisation is mainly based upon the sequence in which each challenge needs to be addressed when performing an assurance engagement.

In addition to the challenges identified above, the IAASB should consider the challenge of establishing principles of completeness of EER by defining the boundaries around what actually constitutes EER. Articulating how an assurance opinion relates to extracts of EER, which could be individual words, phrases and sentences, as well as EER as a whole will be important in helping firms understand how to scope their engagement and manage their risk. This will also involve identifying the intended users of EER, and this is an important foundation in addressing some of the other challenges.

Furthermore, the IAASB should consider what changes might be necessary in client acceptance and continuance procedures currently undertaken by firms. An assurance engagement over EER might involve a much broader range of users than a traditional assurance engagement. This consideration should be incorporated into the risk assessment procedures of firms providing these services.

Finally ACCA notes that EER tends to be understood in a much wider context than merely the narrative disclosures provided within EER itself. As such, EER may have meanings that are influenced by the reader's context or which are changed by information outside EER. For example, an environmental scandal might make readers more sensitive to environmental disclosures within EER for several years. It may be difficult for assurance to enhance the credibility and trust in this context.

Question 8

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

- Doing so would enhance the usefulness of EER assurance engagements for users

- Such demand would come from internal or external users or both

- There are barriers to such demand and alternative approaches should be considered.

a. Do you believe that there is likely to be substantial user demand for EER assurance engagements if the key challenges can be appropriately addressed?

b. If so, do you believe such demand:

   i. Will come from internal or external users or both?

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

c. If not, is your reasoning that:

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

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

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

Response

ACCA believes that demand for EER assurance engagements is most likely to come from larger, public interest organisations. However, demand may vary considerably across regions and, as noted above, will depend upon users' perceptions of the value of assurance in supporting trust. Regulation may also play a role in stimulating demand.

For smaller organisations, ACCA anticipates that other types of professional service, such as agreed-upon procedures, might be preferred to assurance. Some users may find the non-assurance comfort provided by ISA 720 sufficient. ACCA believes that the demand will depend on the user's perception of the value added by an EER assurance engagement, which may depend on the specific context of the organisation.

Question 9

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?

Response

ACCA believes that the IAASB should be collaborating with organisations such as the International Integrated Reporting Council (IIRC) and the Global Reporting Initiative (GRI). Both could provide useful information on their framework's principles and could help with developing guidelines to be used as a starting point for an EER assurance framework. Furthermore, collaboration with professional accountancy bodies, regulators, national standard setters across the globe and investor associations, could provide valuable insights.