For the attention of Mr Matt Waldron
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York, 10017
USA

[Submitted via IAASB website]

3 February 2017

Dear Matt

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

We[1] appreciate the opportunity to comment on the IAASB's discussion paper and support the IAASB in seeking to address key questions over how 'assurance' might need to evolve to help support building credibility and trust in a rapidly evolving corporate reporting environment.

In doing so, we strongly believe the Board needs to think broadly about how the expertise, skills and professional attributes of assurance providers can be applied to meet the needs of investors and other stakeholders in building trust in rapidly emerging forms of external reporting (EER). We also believe that it is important to avoid rushing into standard setting for new types of engagements prematurely.

Corporate reporting and the concept of trust are evolving

By definition, EER is an incredibly broad topic addressing a wide variety of subject-matters and possible forms of reporting. The types of information that informs decision-making and, how it is provided, accessed and used (particularly in light of advances in technology) are all evolving rapidly. As it evolves, it is inevitable that different types of information will be in varying degrees of maturity.

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[1] This response is being filed on behalf of the network of member firms of PricewaterhouseCoopers International Limited and references to "PwC", "we" and "our" refer to the PwC network of member firms.

Clearly, information needs to be trusted to be valuable. But trust is not absolute; it is relative to the purpose for which one wishes to trust. There are also many ways that users gain comfort with the information they are provided. All of which is relevant when looking to the role that assurance providers might play in helping to build trust in the information.

In our view, we are in a period in which keeping an open mind to innovation is critical to future relevance.

Building on today's assurance model

Much of the analysis in the discussion paper appears to be premised on developing further guidance to apply ISAE 3000 (Revised) to EER engagements.

Today's 'assurance' model, delivered through the financial statement audit, review and other ISAE 3000 assurance engagements, is relevant, valued and helping to build confidence in a wide variety of financial and non-financial information. Many companies are reporting information, including a wide variety of key performance indicators, that may already be sufficiently mature to benefit from this form of assurance. Such engagements can have a positive influence on the quality of the reported information and the systems, processes and controls for preparing it.

For such engagements, ISAE 3000 (Revised) is, in our view, sufficiently principles-based to allow practitioners to adapt the requirements to the circumstances in a robust way. There may be a point in time when a particular type of reporting by entities, and related reporting framework, have matured to a level that a subject-matter specific ISAE assurance standard becomes warranted. An example of this would be ISAE 3410 on greenhouse gasses, which is used quite extensively by some member firms in our network in either stand-alone engagements or as an integral part of a broader assurance engagement on environmental or sustainability information. We support the development of subject matter specific ISAEs when there is sufficient maturity in the corporate reporting and demand for a related ISAE assurance engagement exists. We caution, however, that setting standards too early can prematurely codify practices that are still evolving and inadvertently constrain innovation in solutions that might better meets users' needs.

No need for a specific ISAE on EER

We agree with the assertion in the consultation paper that a subject-matter specific assurance engagement standard is premature at this stage. In fact, we question whether a standard addressing EER in general would add much beyond what is already addressed in ISAE 3000 (Revised). Given the breadth of information that may be reported in EER and potential variation between individual engagements, it may not be possible to define a single standard that adequately or appropriately addresses relevant considerations without becoming unwieldy and impracticable. Equally, with the

evolution in reporting taking place and the very rapid technological and other changes being seen in practice, there will likely be future implications that have not yet been contemplated by preparers and assurance providers. The IAASB may invest significant time in developing a new standard that is quickly overtaken.

Thinking outside the box

We are also not convinced that assurance engagements as envisaged in ISAE 3000 (Revised) are the only means through which assurance providers can help build trust in the broad array of information with varying levels of maturity that exists today and is likely to emerge in the future. Depending on the maturity of the information, different ways of building trust in that information might be appropriate: for example, today's assurance model may be appropriate for the more mature information, but might be inappropriate in terms of the insight it can provide on less mature information, if it can even be applied. For less mature information, different ways of building trust might be more appropriate.

As a profession, we have a choice: we can either restrict our focus to today's model – at the risk of losing relevance over time – or we can put ourselves at the forefront and be part of shaping our own future. In our view, now is the time for fresh and bold thinking.

We believe that it is important to listen to what investors and other users are saying about how they use different types of broader information and what type of 'assurance' would be valuable to them. With that context, we can then reflect on how the professional judgement, objectivity and professional scepticism that assurance professionals offer can be applied in a way that provides valued insight and builds trust – supporting and encouraging innovation and change, rather than constraining it.

Building consensus

In seeking that bold vision of the future, what is increasingly apparent is the interconnectivity of the issues involved. More than ever, what's necessary to make the changes needed is recognition of the shared agenda and collaboration – among regulators, standard setters, companies, users of information and assurance providers.

The real key is to encourage and facilitate debate on issues of trust and reporting among multiple stakeholder groups, and understand what more is needed in order for trust to flourish.

IAASB can play a key role in facilitating the interaction necessary to make that happen. It can also have a role to play in thinking about impediments that may be preventing change and innovation from happening, and how we can overcome them. For example, will the type of 'assurance' that users

are looking for in the future need safe harbours to be viable and, if so, how we can facilitate that conversation.

By understanding more fully the dynamic of trust, we can lay down the foundations for successful efforts to reshape and improve reporting and assurance – continuing to play a vital role in delivering the information needed to support growing economies.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Diana Hillier, at diana.hillier@pwc.com or me, at richard.g.sexton@pwc.com.

Yours sincerely,

Richard G. Sexton
Vice Chairman, Global Assurance

Responses to specific questions

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?*

Companies today operate in a world that is more challenging than ever. Companies of all sizes in all industries are facing fast-changing global issues, sustained economic uncertainty, unrelenting scrutiny, disruptive new technologies, and increasingly interdependent stakeholder relationships encompassing their owners and investors, customers, suppliers, business partners and governments. This has implications for both corporate reporting and assurance.

As companies broaden their internal and external reporting to reflect and integrate information on their strategy, risks and broader value drivers, information will be at different stages of maturity in terms of measurement, systems and processes and reporting frameworks. The evolution in corporate reporting is gathering momentum, but is still maturing. Once businesses are equipped to measure and manage the broader value drivers integral to sustainable strategies and business models (i.e., more holistic and integrated thinking), the aim should be to build the public trust in the corporate reporting information system that reflects that more holistic approach .

We agree with the identified factors – there are various influences on the credibility of reported information, including confidence in the corporate governance and management of the entity, the expertise brought to bear in preparing the information, the systems and controls companies put in place to measure the information, the degree to which users perceive that the information reported actually reflects the way the business is managed and is relevant to its strategy and business model, and the involvement of internal audit or other management review and testing. Many of these are not readily transparent to external users and, for that reason, some sort of 'assurance' from a credible 3rd party can accelerate users' confidence in the reliability of the information provided.

Additional factors that we also believe are relevant are:

- Information integrity
- Consistency
- Transparency in performance measures (alignment between internal measures and externally reported measures)

Further, as it relates to how information, or a report, as a whole is presented:

- Overall balance
- Effective integration

We also agree that assurance can play an important role in building confidence in reported information. However, assurance is not as important to the success of EER as the credibility of the information itself. The information reported must be seen as relevant to the information needs of users and the decisions they make. This is primarily the responsibility of preparers.

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?*

Section II is comprehensive and in our view identifies the broad range of services that can be provided.

In designing services that can enhance credibility and trust in information for investors and users, it is important to listen to what the investors and other users are saying about how they use broader information and what type of 'assurance' would be valuable to them. With that context, we can then reflect on how the professional judgement, objectivity and professional scepticism that assurance professionals offer can be applied in a way that provides valued insight and builds trust – supporting and encouraging innovation and change, rather than constraining it. That may mean being bold enough to reframe how those attributes are applied.

It is vital to the profession's continued relevance to markets and society that we anticipate major macro-economic, environmental and social trends. In light of those trends, we need to be asking questions about what companies need to do to continue to create value and invest for future growth in the 21st century. That context enable us to challenge how the corporate reporting and assurance models may need to change to support the decisions that investors and other stakeholders will need to make to support healthy, successful and growing economies.

Some of the key features of 'assurance' that are likely to be valued by users, regardless of the specific service provided, include: the involvement of an independent professional with expertise in the subject matter, objective challenge to the company's judgements regarding what to report and how to report it (i.e., relevance and reliability), and evidence obtained regarding the integrity of the

information. For some broader information being reported, today's assurance model can already be applied to deliver some of these features. For other information, a different approach may be needed.

Other services, such as assurance readiness engagements, maturity assessments and insight reports are being developed by practitioners, as described in Section II of the discussion paper. Until such time as the maturity of specific subject-matter information warrants a specific assurance standard, the IAASB may want to explore how auditor association, or similar, standards are being applied today in those territories that have developed them, including how they have worked in practice and their respective advantages and disadvantages.

It is also crucial to consider the needs over the cycle of development of information from embryonic to mature. What is needed to build 'trust' in the information may need to match the different stages of maturity of information and reporting.

What is clear to us is that to help speed the evolution of the assurance and its integration into a broader and richer information flow that sustains and builds trust, the profession needs to support a wide range of initiatives. As corporate reporting extends into reporting on different capitals and becomes forward-looking, we need to be thinking broadly about what it is that builds trust in the information needed for decision making.

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?*

The new requirements in ISA 720 (Revised) raise the bar on the expectations of auditors in reading other information included in an Annual Report, which would include the types of other information contemplated in the discussion of EER.

Reading that other information in light of the auditor's knowledge of the entity obtained in the audit, to consider whether there is a material inconsistency between that other information and the audited financial statements, can be viewed as contributing to enhancing its credibility. However, the section of the auditor's report addressing the auditor's responsibilities with respect to the other information is explicit that the auditor does not express any form of assurance conclusion on that information. As such, this falls short when users are specifically seeking assurance.

Furthermore, given the range of information that may be disclosed in EER, the work effort required of the auditor in accordance with ISA 720 (Revised) will vary. Much of the information that may be included in EER is likely to fall into the category of that which is "not related to the financial statements or the auditor's knowledge obtained in the audit" and, as such, the auditor may have limited knowledge about the subject-matter and is only required to "remain alert" for indications that such information may appear to be materially misstated.

There may, however, be scope for the IAASB to consider whether additional guidance could be developed in ISA 720 (Revised) as consensus builds around, for example, certain KPIs, about what work effort might be appropriate for items of a specific nature.

So, the bar has been raised, but there will come a time when the demand from investors and other users for even more assurance on the reliability of that other information (than can be obtained through leveraging the auditor's work on the financial statements) needs an alternative response. That in itself raises questions over the boundaries of the financial statement audit and how that demand is best addressed. There are real challenges in trying to seek a "consistent" level of assurance that would be needed through extending the audit responsibility, with some information likely to be of a nature and maturity that is not conducive to obtaining the desired assurance. Therefore, simply extending the audit to cover all the information in an annual/integrated report or equivalent is not, in our view, the answer.

We also note that legal and regulatory bodies will likely be the primary decision makers in a jurisdiction over what types of information an entity is required to have assured (once viable) over and above the financial statements, rather than the IAASB seeking to expand the auditor's responsibilities to such potentially diverse information. See also our response to question 9 in this regard.

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.*

In addition to below see also our response to question 2.

Today's assurance model, delivered through the financial statement audit and other assurance engagements (e.g. ISAE 3000) is relevant, valued and is helping to build confidence in reported financial and non-financial information. Many companies have key performance indicators that are already sufficiently mature to benefit from this form of assurance. The involvement of external assurance professionals can have a positive influence on the quality of the reported information and the systems, processes and controls for preparing it. Therefore it would be ill-advised to disregard the existing standards entirely.

Those assurance standards provide an adequate framework for designing assurance engagements that are tailored to the facts and circumstances of individual engagements. In offering both limited and reasonable assurance engagements, the existing standards also provide sufficient flexibility in the level of assurance that can be provided depending on needs of the users.

Similarly, the IAASB's assurance framework and standards provide a robust framework for applying the concepts underlying the audit model to a broader range of subject matters. It's already been widely used on assurance engagements for non-financial performance measures in sustainability, environmental and corporate social responsibility reporting. That has helped to improve the quality of companies' systems, processes and controls around their non-financial reporting, and to build credibility in companies' external reports.

But that assurance model may not always be an easy fit with corporate reporting that is broader, more forward-looking and more integrated. Furthermore, restricting our vision of what builds trust to the existing assurance model, as reflected in today's standards/framework, could, perversely, have the effect of constraining the pace and scope of experimentation and innovation that we believe is needed to shape the future of corporate reporting. Depending on the maturity of the information, different ways of building trust in that information might be appropriate: today's assurance model may be appropriate for mature information, but might be inappropriate in terms of the insight it can provide on less mature information, if it can even be applied.

There are points in time where significant change is needed. It can be done – for example, the fundamental revision of the audit risk standards in the early 2000's when the old model no longer fit with highly automated financial reporting systems and processes – but it takes a lot of time, effort and courage.

Judging when the time is right to embark on such a change is also not easy. It is important to avoid standards codifying practice that is still evolving or developing standards that inadvertently constrain innovation. Surveys have also shown that investors worry about the assurance model, in and of itself, inhibiting corporate reporting by restricting companies to report within defined constructs (criteria). There is a delicate balance between having consistency and comparability in information reported by different entities, and having them report what is most relevant to their circumstances and letting management and directors tell their own story.

We believe the IAASB needs to think more holistically as it considers guidance to address the key challenges, including giving further consideration to the role of emerging professional services described in Section II of the paper.

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

We are aware that ISAE 3410 is applied fairly extensively in many parts of the PwC network. We do note, however, that it is frequently in combination with reporting under ISAE 3000 (Revised) on other subject-matter information rather than engagements to solely assure greenhouse gas information. For example, such information is usually part of a Corporate Sustainability Report that includes other metrics.

In conducting those broader engagements, we also note that there is useful material in ISAE 3410 that can be applied more broadly to other assurance engagements, to the extent relevant.

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?**

We agree that a subject-matter specific assurance engagement standard on EER is premature at this stage and also question whether a standard addressing EER in general would add much beyond what is already addressed in ISAE 3000 (Revised) today. See responses to questions 2 and 4. We believe that there is a very real risk that a more defined assurance standard – with its need for defined criteria – may inadvertently stifle the very experimentation and innovation needed in both

companies' reporting and the 'assurance' that might best meet companies' and users' needs in the evolution of it. Furthermore, given the breadth of information that may be reported in EER and potential variation between individual engagements, it may not be possible to define a single standard that adequately or appropriately addressed relevant considerations without becoming unwieldy and impracticable. Equally, with the evolution in reporting taking place and the very rapid technological and other changes being seen in practice, there will likely be future implications that have not yet been contemplated by preparers and assurance providers, in particular for engagements where an assurance conclusion is provided on systems and controls. Thus, the IAASB may invest significant time in developing a new standard that is subsequently overtaken by events due to changes in consensus over the form and content of reporting and how it is compiled.

That being said, we do acknowledge there may be a potential need for one or more subject-matter specific standards in the future. We support the development of subject matter specific ISAEs when there is sufficient maturity in the corporate reporting and demand for a related ISAE assurance engagement exists. Therefore, further consultation would be needed with relevant stakeholders to determine if any particular subject-matter specific reporting has evolved to a level of maturity that warrants such a response. We also caution that setting standards too early can prematurely codify practices that are still evolving and inadvertently constrain innovation in solutions that might better meets users' needs.

We also acknowledge that there is increasing demand in the market for entities to be applying, or reporting, more forward looking information (challenge 7 in the discussion paper). As the paper notes, this issue is, in part, being discussed as part of the ISA 540 revision. The Board may want to give some thought as to how the Assurance Framework might apply more holistically to that type of information and what assurance might look like in that context.

Therefore, it is important to consciously consider the point at which standards should be introduced and what is needed is:

- An active watching brief in areas of emerging reporting or practice to allow the market to innovate (which, for example, we believe is the right approach at this point for assurance for EER).

- A higher level framework that establishes the principles and thus the parameters to apply judgment to determine an appropriate approach in particular circumstances (e.g., ISAE 3000 for assurance engagements, the integrated reporting framework).

- When there is sufficient maturity in the corporate reporting and demand for a related ISAE assurance engagement exists, development of more comprehensive standards setting out

requirements for what is expected (e.g., appropriate for mature services and products – with an emphasis on principles-based standards to accommodate the wide variety of circumstances to which they need to be applied).

7) *Section V describes assurance engagements and the Ten Key Challenges we have identified in addressing EER in such engagements 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?*

We broadly agree with the analysis of the challenges identified. In principle, guidance on addressing challenges will of course be useful, with those that relate, directly or indirectly, to evaluating the suitability, appropriateness and relevance of any assurance engagement being of greatest importance – consistent with the themes expressed in our cover letter about the type of assurance users are seeking.

Usefulness of guidance will be maximised when addressed holistically: guidance on individual challenges needs to be considered collectively to ensure a coherent outcome. It is also useful to consider which challenges are primarily to be addressed by the assurance provider and which are the responsibility of preparers.

Also, consistent with our responses above and in our covering letter, we are not convinced that limiting guidance solely to how to apply the IAASB's existing International Standards on Assurance Engagements is necessarily the right answer.

Another "challenge" that the IAASB will need to bear in mind as it develops its thinking is to avoid the risk of inadvertently increasing the expectations gap related to information reported by entities, by implying that assurance can always be given on the types of information that may be included in EER. Considering what disclosures might be needed to explain the inherent limitations associated with assurance over certain information and the need for safe harbours will also be important.

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)?

Investors and other stakeholders (such as a company's vendors) are looking for corporate reporting to provide a more holistic picture of how organisations create value and of the external drivers that impact their business model now and in the medium to long term. They increasingly want more and different information – including wider, non-financial data on culture, values and behaviours – to help them decide whether an organisation is worthy of their trust. In addition to historical financial information, they would also value more forward looking, prospective information. They want all of the information to be comprehensive as well as focused, connected and coherent. That will, inevitably, lead to demand for assurance over such information.

Being able to address the key challenges is not the primary driver of demand, but to the extent they can be addressed, that will remove obstacles to being able to provide that assurance. Like any successful service, if supply can (appropriately) meet demand and is seen as adding value that fuels demand for that service.

It is likely that in addition to external users, the directors and management of companies will equally demonstrate interest in assurance and in the other types of services described in Section II of the discussion paper. We also believe that it is equally as likely that such engagements may be

undertaken on a voluntary basis, more particularly for internal users in the first instance, with or without any legal or regulatory requirement.

However, as noted in our earlier responses, further maturity of reporting frameworks is likely needed before assurance engagements, under today's assurance model, become widespread and common. In the meantime, we believe those other types of services, described in Section II, can help contribute to the overall credibility and trust of information.

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?***

In addition to monitoring developments in reporting across territories, we suggest the IAASB conduct outreach with IOSCO and other regional/local regulators and stock exchanges to understand any views or plans to move towards global or local requirements for reporting specific information and to seek any type of assurance/verification/certification of that information. In addition, understanding how any national initiatives on disclosure effectiveness and how that might relate to EER would be relevant.