



Australian Government
Auditing and Assurance Standards Board

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2 February 2017

Marek Grabowski
Chair of the Integrated Reporting Working Group
c/o International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, New York 10017 USA

Dear Marek,

AUASB Submission on the IAASB's Discussion paper: *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*

The Australian Auditing and Assurance Standards Board (AUASB) are pleased to have the opportunity to comment on the IAASB's Discussion paper: *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*.

Overall, the AUASB is supportive of the IAASB's initiative to explore an appropriate response to emerging external reporting (EER) developments. The AUASB see EER as a significant emerging area in both reporting and assurance and that the information needs of the report users are at the forefront of this thinking. The AUASB would like to actively continue its involvement in this emerging area and as such considers it appropriate for the IAASB to prioritise this project, specifically in the light of the IAASB's strategic vision and what it is intending to achieve through its three strategic objectives, i.e. the maintenance and development of high quality assurance standards, the future proofing of the assurance standards by considering their continued relevance to stakeholders needs, and the importance of collaboration and cooperation with contributors to the financial reporting supply chain.

The AUASB's view is that there is strong interest by some segments of our stakeholders both here and internationally that do see EER as a priority. In addition to that, assurance engagements encompassing EER as well as financial reporting may well evolve into the norm in the Australian jurisdiction over time. Hence, it is important for the IAASB to be at the forefront of these developments, to maintain its relevance and those of the assurance practitioners. If the IAASB were to allocate time in the work plan for a guidance project in 2018 this would be well supported by the AUASB.

In formulating its response, the AUASB has sought input from its stakeholders in several ways. The first was by way of hosting two roundtable meetings in conjunction with the Business Leaders Reporting Forum (BLRF) with stakeholders that represented a broad range of backgrounds including directors, assurance providers, regulators, professional accounting bodies, education bodies, reporters, preparers and report users. The second was by more targeted discussions with the CPA Centre of Excellence and Deakin University's KPMG Research Fellow in Integrated Reporting.

The AUASB highlights a number of factors in its submission as additional to those that are explored in the EER Discussion paper or that may require further attention by the IAASB to underpin the credibility of EER. These include:

- establishing greater consistency in EER;
- the urgent need for guidance on EER assurance;
- the need for material information to be the focus of EER;

- the particular needs of not for profit entities (NFPs) on EER development;
- rolling-out education on EER; in particular the different levels of assurance or other services that may be provided throughout the EER journey;
- better understanding the drivers for change amongst Those Charged With Governance (TCWG) in parts of the world where EER has grown more quickly (such as South Africa and the Netherlands); and
- the need to establish a broader understanding of the definition of EER as more than sustainability reporting.

The AUASB's detailed responses to the specific questions asked in the discussion paper are included in this letter as Attachment 1.

Should you have any queries regarding this submission, please do not hesitate to contact the AUASB at enquiries@auasb.gov.au

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Merran Kelsall', with a stylized flourish at the end.

Merran Kelsall
AUASB Chairman

Discussion Paper
August 2016
Comments due: 3 February, 2017

Integrated Reporting Working Group

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

I. Introduction

What expectations do stakeholders have of professional services in supporting the credibility of emerging forms of external reporting by entities; and how can the IAASB support such services so that stakeholders' expectations are met?

Questions Relating to the Discussion in This Section of the DP

Credibility and Trust

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?
		b. If so, what are they?

Q 1(a) and Q1(b)

Through comprehensive outreach, feedback was received from a representative range of AUASB stakeholders, including reporters, assurance providers, report developers, regulators, standard setters, report users, those charged with governance (TCWG) including directors, professional accounting bodies and education bodies. Both this representative sample of stakeholders and the AUASB broadly support the factors identified by the IAASB to enhance the credibility of EER reports.

The AUASB highlights a number of factors as additional or for further attention by the IAASB to underpin the credibility of EER. These include establishing greater consistency in EER; the urgent need for guidance on EER assurance; the need for material information to be the focus of EER; the particular needs of not for profits (NFPs) on EER development; rolling-out education on EER, in particular the different levels of assurance; better understanding the drivers for change amongst TCWG in parts of the world where EER has grown more quickly (such as South Africa); and the need to establish a broader understanding of the definition of EER as more than sustainability reporting. We explore each of these suggestions in more detail below:

- *Consistency in EER:* Consistent and complete application of a sound reporting framework is essential to underpin credibility and trust in EER reports. Stakeholders need to be able to compare EERs from different organisations, an issue of particular concern to the superannuation and director communities.
- *Urgent need for guidance on EER assurance:* Need for urgency in progressing guidance on assurance first, with standards coming later. This approach will facilitate the innovation and flexibility needed as EER evolves from its current infancy, whilst also facilitating assurance provision by the early adopters in the interim.
- *Materiality focus:* EER must focus on material information. This is of particular importance to the investor community.
- *NFP sector needs:* Due to a lack of EER capability in this sector, assistance and guidance is needed. The IIRC <IR> Framework could play a role with a focus on intended outputs and value creation outcomes which interplay with the concepts of service performance reporting in the NFP sector.

- *Education in EER*: Distilling complex reporting and assurance issues and language through education in EER is important. In particular, building the understanding of users and reporters on the different levels of assurance. The <IR> Framework applies the fundamental concept of the six capitals, which can assist with building an understanding of financial versus non-financial information; and the business model (value creation process) can assist with our understanding of the competencies needed by future assurance practitioners.
- *Governance of EER*: Understanding the drivers of change to adoption of EER by entities around the world is a useful pillar for progress. For example, gaining an understanding of the United Kingdom and South African experiences and what enables these jurisdictions to be early adopters and more flexible in their approach to reporting, supported by a more principles based regulatory environment.
- *Non-financial reporting definition*: Sustainability reporting represents a large proportion of non-financial reporting to date. Other non-financial information on which assurance can be provided, including narrative information, such as strategy and business model, qualitative and quantitative metrics, are also central to encapsulating the broader nature of EER.

Questions Relating to the Discussion in This Section of the DP	
Credibility and Trust	
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? b. If so, what are they?

Q2(a) and 2(b)

The AUASB considers that the IAASB has captured the different types of professional services that are currently performed or could be useful in enhancing credibility and trust in EER.

Whilst, no additional services are suggested for attention, the AUASB highlights the ongoing challenge of limited versus reasonable assurance and the lack of understanding of the differences, as well as the wide ranging subject matter and criteria placing increased demands on both reporters and assurance providers, as worthy of greater attention. These points are explored in more detail below:

- *Limited versus reasonable assurance:* Concerns exist regarding the value of limited assurance over EER, with reasonable assurance favoured by the director community. There is also a lack of understanding by reporters and users of the difference between limited and reasonable assurance. Hence, the AUASB highlights an ongoing need for greater clarity regarding the difference between limited and reasonable assurance in terms of scope, output and value.
- *New assurance services:* It is challenging to predict the potential new assurance products yet to emerge in response to these new forms of reporting, in some cases with new stakeholders.
- *Subject matter and criteria:* The broad range of differing subject matter and criteria for these types of assurance engagements requires the assurance practitioner and engagement team to approach the engagement in an integrated way. Further, assurance practitioners need a strong understanding of the reporter's strategy, business model and value creation process, including how outcomes are measured and reported.
- *Reporter maturity:* The balance between reporter readiness and maturity with EER and 'what' if any, professional services would assist them at different points along the journey. To this end, not seeking limited or reasonable assurance too early is important, as this could inhibit innovation in reporting or may result in a 'qualified' conclusion/opinion.

Questions Relating to the Discussion in This Section of the DP		
Credibility and Trust		
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.	<p>a. Is this sufficient when EER information is included in the annual report; or</p> <p>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?</p>

Q 3(a)

The AUASB views the ISA 720 (Revised) requirements for auditors to ‘read’ and ‘consider’ the other information in the annual report as often too narrowly interpreted by the profession. As such, these requirements are considered to be insufficient and not adding significant value to the credibility and trust of EER information included in the annual report.

The AUASB highlights the importance of noting the lack of understanding by reporters and users of what assurance is obtained in an audit, highlighted in response to question 2. This may result in the risk of an expectation gap, whereby reporters and users assume assurance has been obtained on other information, whereas none is obtained under ISA 720 (Revised). The net result could be reduced credibility for the report.

The AUASB does see value and enhanced credibility, however, in one assurance provider covering both the financial and non-financial information in an integrated approach to assurance. This, however, also introduces the need for broader competency from the assurance team, including enhanced multi-disciplinary team skills, which, as yet, may not be adequate.

Q3(b)

The AUASB agrees that there is a need for assurance or other professional services to enhance the credibility and trust in EER information separate to those dealt with under ISA 720 (Revised). These professional services would be dependent on the reporter’s maturity in regard to EER.

Questions Relating to the Discussion in This Section of the DP

Scope of the IAASB's International Standards and Related Guidance		
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.	<p>a. Do you agree?</p> <p>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)</p> <p>c. If you disagree, please provide the reasons why and describe what other action(s) you believe the IAASB should take.</p>

Q4(a)

The AUASB supports the development of guidance by the IAASB to support practitioners in applying existing IAASB standards for EER assurance engagements. Guidance would provide flexibility at this point in the development of EER and the challenges it brings to the assurance practitioner. There are concerns, however, regarding the priority that the IAASB will place on the development of this guidance and the length of time that this will take to develop. The AUASB is of the view that such guidance is needed as soon as possible, not least as we see EER and related assurance engagements occurring in Australia. With this in mind, the AUASB may consider initiating work with the NZAuASB to meet the needs of stakeholders in these jurisdictions in the shorter term.

Guidance in the short to medium term that links to the broader International Assurance Framework, ISAE 3000 and AA1000AS principles would be useful in the following areas:

- Scoping of EER (non-financial information) engagements.
- Materiality across EER frameworks, including the definition of materiality and process employed.
- Minimum reporting requirements to promote consistency and therefore comparability by users.
- How to assure narrative and future-oriented information to add value.

These areas have been explored further in the AUASB's response to Question 7(c).

The AUASB also highlights the need for guidance to consider the reporter's maturity with respect to EER and therefore what might be the 'best fit' professional service to be provided at their stage in the EER journey. This can range from assurance readiness reviews, limited or reasonable assurance on the EER and other non-assurance engagements.

The AUASB also highlights for consideration by the IAASB, the broader question of the integration of EER and financial reporting, being the forming of an opinion/conclusion on the financial statements and assurance over the other non-financial information included in whole or part of the EER, i.e. the overlap between ISAE 3000 and the ISAs. If there is a move to integrated reporting by the entity, the need for an integrated assurance engagement and an integrated assurance report over the financial and non-financial information may be appropriate.

Q4(b)

The AUASB considers that guidance could be extended to engagements conducted under ISRS 4400 *Agreed-Upon Procedures Engagement* or ISRS 4410 (Revised) *Compilation Engagement* in so far as there are natural synergies between the engagements. However, scoping, performing and reporting under these engagements is very different, with no assurance given for either an Agreed-Upon Procedures or Compilation Engagement. The IAASB would need to make this clear to practitioners in the guidance developed. The IAASB may need to consider the demand for other types of engagements under EER in order to determine if guidance on these areas would assist in promoting consistency in the application of its standards.

Q4(c)

N/A

Questions Relating to the Discussion in This Section of the DP

Scope of the IAASB's International Standards and Related Guidance		
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.	<p>a. Please indicate the extent to which assurance reports under ISAE 3410 engagements are being obtained, issued or used in practice by your organization.</p> <p>b. If not to any great extent, why not and what other form of pronouncement from the IAASB might be useful?</p>

Q5(a)

In Australia, ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements* was issued in June 2014. The AUASB advises that this standard is not widely used in isolation in Australia, rather it used in conjunction with ASAE 3000.

Q5(b)

Whilst ISAE/ASAE 3410 provides a good base and was useful to assurance practitioners when it was first issued, it is seen as too prescriptive with its relatively narrow application solely to Greenhouse Gas Statements.

In Australia, there have been many changes relating to Australia's Clean Energy Regulator (CER) and related policy as a result of changes in the Federal government and policy in recent years. The standard now needs to be broadened to include flexibility for other forms of reporting or regulation, such as abatement under the Emission Reduction Fund (ERF), now relevant in this jurisdiction. In Australia, CER issues its own National Greenhouse and Energy Reporting Scheme (NGER) Handbook, referencing ASAE 3410 and including guidance on who can register to perform these engagements (linked to competency requirements), when and how these engagements must be performed and related reporting requirements.

The key benefits of ISAE/ASAE 3410 are consistency, comparability and best practice. Consistency is provided in terms of the assurance of material matters relating to greenhouse gas emissions, which is of particular relevance to those charged with governance. Comparability is facilitated between reports, whereby users can compare "like with like" if both have applied ISAE/ASAE 3410 to the greenhouse gas emission data, which may assist with investment decisions. ISAE/ASAE 3410 encompasses best practice assurance in this specific subject matter, which can facilitate benchmarking between organisations.

Questions Relating to the Discussion in This Section of the DP

Scope of the IAASB's International Standards and Related Guidance		
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?

Q6

The AUASB considers it to be too early to develop a subject matter specific assurance standard on EER or particular EER frameworks as this form of reporting remains dynamic and is still emerging. To set a standard now, may be to stifle innovation and evolution in EER.

The AUASB encourages the IAASB to adopt a two-stage process. The first stage would be, to develop guidance that builds on ISAE 3000 to address some of the key challenges identified in this DP and explored further in question 7. The second stage, as EER develops and becomes more mature, would be to develop a subject-matter specific standard for EER assurance in its more mature form.

The AUASB highlights the following priorities for consideration in the development of guidance and would be likely to focus on these in any development of guidance in the Australian and New Zealand jurisdictions:

- *Scoping and criteria:* of assurance engagements on other non-financial information, and the use of materiality in the critical planning phases.
- *Communicating the assurance scope effectively:* to users, in particular the use of long form reports which may incorporate materiality and findings, rather than short form reports. Clarity on what has not been included in the assurance scope and why, is as important to users as what has been included.
- *Improving consistency and clarity regarding limited assurance scope:* and the work performed. The AUASB understands that users in our jurisdiction need to be able to compare a number of reports and be confident that a consistent standard has been met, facilitating comparability, benchmarking and ultimately decision-making within an industry, such as registered superannuation entities.
- *Extension of the Key Audit Matters (KAMs) concept:* to other non-financial information, may add value.

The AUASB encourages the IAASB to leverage the work of other national standard setters and practitioners in jurisdictions where EER is well established, such as South Africa and The Netherlands.

Ten Key Challenges in Relation to EER Assurance Engagements													
<p>Q7 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.</p>	<p>a. Do you agree with our analysis of the key challenges?</p> <p>b. For each key challenge in Section V, do you agree that guidance may be helpful in addressing the challenge?</p> <p>c. If so, what priority should the IAASB give to addressing each key challenge and why?</p> <p>d. If not, why and describe any other actions that you believe the IAASB should take.</p> <p>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?</p>												
<table border="1"> <thead> <tr> <th colspan="2">The Ten Key Challenges</th></tr> </thead> <tbody> <tr> <td>• Scoping EER assurance engagements</td><td>• Narrative information</td></tr> <tr> <td>• Suitability of criteria</td><td>• Future-oriented information</td></tr> <tr> <td>• Materiality</td><td>• Professional skepticism and professional judgment</td></tr> <tr> <td>• Building assertions in planning and performing the engagement</td><td>• Competence of practitioners performing the engagement</td></tr> <tr> <td>• Maturity of governance and internal control processes</td><td>• Form of the assurance report</td></tr> </tbody> </table>		The Ten Key Challenges		• Scoping EER assurance engagements	• Narrative information	• Suitability of criteria	• Future-oriented information	• Materiality	• Professional skepticism and professional judgment	• Building assertions in planning and performing the engagement	• Competence of practitioners performing the engagement	• Maturity of governance and internal control processes	• Form of the assurance report
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• Building assertions in planning and performing the engagement	• Competence of practitioners performing the engagement												
• Maturity of governance and internal control processes	• Form of the assurance report												

Q 7(a)

The AUASB considers this question relates to the core of what needs to be done with respect to EER assurance. The AUASB encourages the IAASB to focus on a smaller number of key challenges to facilitate more timely and effective progress on EER assurance, in particular given the significant competing strategic priorities at the International level.

To this end, the AUASB considers the DP to articulate too many challenges, some of which could be consolidated where synergy exists, for example the following challenges could be combined:

- **Challenge - Scoping, criteria and assertions** could encompass **Challenge 1**– Scoping engagements, **Challenge 2** – Suitability of criteria and **Challenge 4** – Assertions in planning and performing the engagement; and
- **Challenge – Narrative and future-oriented information** could replace **Challenge 6** – Narrative information and **Challenge 7** – Future-oriented information.

Q 7(b)

Overall, the AUASB agrees, as already stated in this response, that guidance in the first instance would be useful in addressing the challenges in whole or in part. Please refer to Q 7(c) below for the AUASB view on the key priority challenges and related context.

Q7(c)

The AUASB highlights the following challenges as the key priorities in this order of priority, each of which is explored in greater depth below:

1. Challenge 3 – Addressing materiality.
2. Challenge 5 – Lack of maturity of governance and internal control processes.
3. Challenge 7 – Future-oriented information.
4. Challenge 1 – Scoping EER assurance engagements can be complex.
5. Challenge 9 – Competence of practitioners performing the engagement.
6. Challenge 10 – Form of the assurance report.

Challenge 3 – Addressing materiality for diverse information with little guidance in EER

EER content is generally less comprehensively specified and more judgemental than in the financial report context, making materiality a complex area for consideration by the EER reporter and assurance practitioner. EER has no universally accepted common unit of measurement or evaluation in which to express each of the content elements relating to underlying subject matter; therefore making overall materiality judgements more difficult to benchmark. In financial reporting, a materiality threshold can be set in monetary and percentage terms. However, in non-financial EER, materiality judgements are more qualitative.

The AUASB suggests that guidance on the following aspects of materiality would be valuable:

- How to evaluate the reporter’s materiality process as part of the assurance scope. Some EERs contain a description of the materiality process employed and the results. The AUASB notes from these public reports that materiality processes range from robust to relatively unformulated.
- Distinguishing between the reporter’s materiality process and the assurance practitioner’s application of materiality as part of the assurance scope.
- How to set the overall materiality of misstatements as part of the assurance engagement planning phase.
- Identifying EER stakeholders and setting the materiality boundary accordingly.
- Establishing the extent of stakeholder engagement. Congruence of stakeholder and reporter views is a significant value-add from a robust materiality process.
- How to assure materiality in relation to qualitative narrative and future-oriented information.
- Application of internationally recognised reporting frameworks, such as those issued by the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC), to enhance consistency and transparency in approach to the materiality process by reporters. Ultimately, this is useful to EER users.
- An iterative materiality process that is seen as part of the EER journey, acknowledging that “what is material today may not be tomorrow”.
- Understanding that an issue may not be material in quantitative financial terms, rather material in qualitative terms.

Challenge 5 – Lack of maturity in governance and internal control over EER reporting processes

It would appear to the AUASB, that some entities seeking to apply EER frameworks do not yet have sufficiently robust EER reporting systems, controls and oversight in place. There may be a weak control environment and limited capacity and involvement of those charged with governance (TCWG), resulting in higher levels of control risk, rendering the EER less capable of being assured.

Hence, the AUASB supports the development of guidance on the following aspects:

- Encouraging the involvement and support of TCWG to champion the adoption of EER and related assurance. TCWG are directly involved in setting strategy, determining the risk appetite, setting success measures and determining what is material to achieving them. TCWG also play a key role in what level of internal/external assurance is needed over related non-financial disclosures.
- Tackling “silo reporting”, which presents a challenge, as EER is most effective when it is the result of integrated thinking.
- Assurance of reporting and processes relating to future-oriented information, which could be particularly immature, coupled with continuous disclosure challenges in local jurisdictions.
- Evaluating the maturity of reporting processes, including governance, controls and oversight.
- Factors to consider when determining which controls and processes are relevant to the assurance engagement.
- Addressing the consequences of weaknesses in the reporting process and the resultant implications for the assurance engagement, that could cover alternatives when controls are immature.

Challenge 7 – Obtaining assurance with respect to future-oriented information

Future-oriented information is more common in EER reports than in financial reports. In the AUASB view, the discussion paper effectively emphasises the challenges of obtaining assertions on future-oriented information.

The AUASB is of the view that Directors and TCWG would be more comfortable with reporting and disclosing future-oriented information, if this information could be assured. Investors are looking for the longer term view on which to base their investment decisions, i.e. future-oriented information.

Hence, the AUASB suggests that guidance on the following aspects would add value:

- Whether or not future-oriented information can be included in the scope of an assurance engagement.
- How to address subjectivity and management bias.
- Consideration of the process used to prepare the future-oriented information.
- How to report on future-oriented information without creating unrealistic user expectations whilst also managing the level of risk for preparers and assurance practitioners.

Challenge 1 – Determining the scoping of an EER assurance engagement can be complex

The AUASB acknowledges that the potential scope of an EER assurance engagement may be broader and more diverse than that of a financial statement audit, as there is greater diversity of the information contained within EER reports. Scoping an EER engagement also has a direct link to Challenge 2 – Suitability of criteria and Challenge 4 – Building assertions, as these typically occur in the planning phase

of an assurance engagement.

As highlighted earlier, the AUASB is of the view that the scope of any assurance engagement on EER needs to reflect the reporter's maturity with regard to EER and governance and internal control processes (Challenge 5). Consideration also needs to be given to the cost of full or part scope assurance engagements outweighing the benefits at the earlier stages of the reporter's EER maturity. Therefore it is important that a range of assurance engagements are considered as reflected in the DP to meet the needs of the EER reporters and users, coupled with a robust and rational purpose for the scope of assurance engagement decided upon.

A balance between innovation in reporting and driving change through EER adoption needs to be considered. The AUASB remains keen to encourage the emergence and evolution of EER as a new and innovative form of reporting. As such, performing an assurance engagement over EER as a whole, before the reporter has developed appropriate governance and controls for the reporting processes, may stifle innovation and blur the role of the assurance practitioner. Therefore, the AUASB is of the view that professional services, such as those provided by internal auditors, consulting advisory or assurance readiness engagements may play a role.

Additional guidance to assist reporters, users and assurance practitioners as to when the different types of assurance and other engagements are appropriate may be helpful at the scoping stage of an EER assurance engagement.

Challenge 9 – Obtaining the competence necessary to perform the engagement

EER calls for broad subject matter competence, multi-skilled assurance teams and more extensive use of experts. Such competence is needed to address a greater number of areas where judgement is required and the ability to challenge management effectively. Whilst the AUASB has observed the existence of such capabilities in the Australian jurisdiction, they are often spread across multiple specialist providers. Hence, the formation of multi-disciplinary teams for integrated assurance engagements, covering both financial and non-financial EER information, is considered to be a priority, with guidance. Guidance on the skill sets required is fundamental to its progression.

In addition, the AUASB highlights the following related aspects:

- Multi-skilled assurance teams need to encompass broad competencies in strategy, industry, process, technology, change management, communications, risk management and performance measurement. In Australia, the need for extensive experience of different organisations' business models, and how they create both financial and non-financial value, is seen as core to such a multi-disciplinary team.
- Professional skepticism and professional judgement are key facets that the AUASB views as core to the approach of EER assurance practitioners. The AUASB acknowledges that professional skepticism, in particular, is the subject of important work at the international level, and suggests that strong links be drawn between this work and any EER assurance guidance developed..
- A competent engagement leader is critical, who can then source the relevant experts for the team.
- The ability of the engagement leader to hold discussions with TCWG and CEO/management about the reporter's business model and value creation process and challenge their assumptions and whether or not actual practice is reflected in the EER, is critical to the success of EER.

The IAASB is encouraged to consider any overlap between EER assurance and the matters raised in the IAASB ITC - *Enhancing Audit Quality in the Public Interest – A Focus on Professional Skepticism, Quality Control and Group Audits* (ITC). The ITC also explores how the engagement partner needs to be satisfied that the engagement team collectively has the necessary competence and capabilities to properly perform the engagement. The AUASB considers this to be equally applicable to EER engagements.

Challenge 10 – Form of the assurance report

Given the breadth and diversity of the subject matter information contained within EER reports, the AUASB considers it to be challenging to effectively communicate the assurance practitioner's conclusions about this information in a binary opinion.

Hence, guidance from the IAASB on the following aspects would add value:

- Consider users' needs on the form and content of the assurance practitioner report.
- Require a minimum reporting standard in practice to encourage consistency with form and structure and provide some best practice examples. Consideration of the application of KAM style long form reporting may be useful for EER in the longer term.
- Communicate what has been assured (scope) in the assurance report would benefit from greater clarity and standardisation, including making the criteria available.
- Draft a combined assurance report, including both the opinion on the financial statements and the conclusion on the EER.
- Consider the impact of a modification on one part of the EER, but a clean opinion on the remainder.
- Separate conclusions on aspects of the information (multi-scope engagements).
- Consider how the report captures the assurance practitioner's evaluation of the relevance of what is or isn't reported.
- When/whether reporting recommendations or factual findings is appropriate, and the factors to consider when reporting this type of information.

Q7(d)

N/A

Q7(e)

Consistency and completeness of reporting under EER frameworks by reporters is also raised by the AUASB as requiring guidance. These concepts are broad and sit across EER frameworks, interplaying with Challenge 1 – Scoping EER assurance engagements, Challenge 3 - Materiality and Challenge 4 – Building assertions in planning and performing the engagement.

Potential Demand for Assurance Engagements and Other Professional Services	
<p>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:</p> <ul style="list-style-type: none"> • 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. 	<p>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?</p> <p>b. If so, do you believe such demand:</p> <ol style="list-style-type: none"> Will come from internal or external users or both? Will lead to more EER assurance engagements being obtained voluntarily or that this outcome would require legal or regulatory requirements? <p>c. If not, is your reasoning that:</p> <ol style="list-style-type: none"> EER frameworks and governance will first need to mature further? 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)? There are cost-benefit or other reasons (please explain)?
<ul style="list-style-type: none"> • Further enhanced responsibilities for financial statement auditors under ISA 720? • Agreed-upon procedures reports? • Compilation reports? 	<ul style="list-style-type: none"> • 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)?

Q 8 (a), (b) and (c)

8(a)

There is demand from a broad range of users, such as investors, unions, employees and customers, for assurance of EER to enhance credibility and trust in the information reported.

In Australia, there is already growing demand for these types of assurance engagements, which range from assurance readiness, maturity assessments through to limited assurance on a range of subject matters, such as sustainability/Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines, International Integrated Reporting Council (IIRC) <IR> Framework (in part), governance policies and key performance indicators (KPIs).

The AUASB highlights the need for flexibility and innovation with respect to the nature of professional services offered in line with the evolution of EER. To this end, the application of established International Assurance Frameworks too early to an emerging area of reporting may have the unintended consequences of stifling innovation in reporting.

8(b)(i)

The AUASB is of the view that demand for EER assurance services will come from both internal and external users and will be driven by a number of factors, including:

- Level of perceived need for credibility and trust by Boards of directors and TCWG in the information that is released to the market in EER.
- Reliability and relevance of information which is available to users on a timely basis and the interplay with “consistent wider information”.
- Maturity of EER frameworks and the governance/regulatory mechanisms that drive the adoption of EER.
- The above factors will be influenced by how some of the 10 challenges are addressed.
- These factors will also be influenced by investors requiring longer term information/forward looking information (not forecast information) that is robust and reliable.
- Cost/benefit to the reporter and investors with consideration for greater transparency versus compliance cost represents a consideration, that is not to be underestimated.
- International Financial Reporting and International Assurance Frameworks will need to be strongly aligned and adaptive to EER.

8(b)(ii)

Once again, the AUASB highlights that EER is an evolutionary process and, as such, any EER assurance engagement would be best driven by voluntary uptake in the market, rather than regulatory regimes. As EER matures, there may be the need to consider adoption rates in local jurisdictions and corporate behaviours that drive these outcomes, alongside the regulatory pathway.

In Australia, some areas of EER and the assurance process are highly regulated, such as Greenhouse Gas Emissions by the Clean Energy Regulator (CER). The AUASB also highlights the South African experience, whereby listed entities on the Johannesburg Stock Exchange must apply, or explain their non-compliance, with the King Code of Governance Principles, which recommends the issuance of an integrated report, as a form of EER. The challenge will be to balance any move towards a regulatory environment too soon, if at all, with encouraging innovation in reporting, the interplay with any local jurisdictional regulation already in place and the cost/benefit analysis for reporters and investors.

8(c)

N/A. Answered above.

Other		
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?

Q 9

The AUASB suggests a two tier approach to collaboration with key stakeholders:

The first and most important tier of collaboration is for the IAASB to continue with the following organisations, in particular to address the key assurance challenges identified:

- International Integrated Reporting Council (IIRC).
- Global Reporting Initiative (GRI).
- World Business Council for Sustainable Development (WBCSD).
- Global Sustainability Standards Board (GSSB).
- Consultative Advisory Group of the IAASB (CAG).

The second tier of collaboration for the IAASB could include:

- International Accounting Standards Board (IASB/FASB).
- International Organisation of Securities Commissions (IOSCO).
- International Ethics Standards Board (IESBA).
- International Accounting Education Standards Board (IAESB).
- International Corporate Governance Network (ICGN) .
- International Directors Network.
- International Stock Exchange Network.
- International Organisation for Standardization (ISO).
- Chartered Financial Analysts (CFA).
- G20 / B20.
- National Standard Setters (NSS).

More specifically, as part of tier two collaboration, the AUASB encourages the IAASB to consider further outreach to address specific key challenges, as follows:

1. IASB/FASB on the broader area of International Financial Reporting Frameworks, to enhance alignment with the International Assurance Frameworks. This will support EER and the flexibility and innovation required under these new and emerging reporting frameworks particularly with regard to materiality.
2. International Directors Network – on the areas of narrative and future-oriented information (Challenges 6 and 7) and the constraints to resolution for wider EER adoption.
3. IESBA and IAESB – As highlighted in the Australian response to the ITC submitted in May 2016, the AUASB encourages the IAASB to continue to work closely with IESBA and IAESB on professional scepticism and professional judgement (Challenge 8) and the competence of practitioners performing the engagement (Challenge 9) to bring a consistency

of approach and thinking to these broad concepts and how best to address them for the broader audit and assurance profession.

National standard setters, such as the AUASB, could also actively engage in their local jurisdictions and consult on EER with accounting standard setters, regulators, investor groups, analyst bodies, the director community, accounting professional bodies, internal auditors, universities and education bodies, providing relevant feedback to the IAASB via the National Standard Setters Meeting to be held in June 2017.