



AUDIT &
ASSURANCE
FACULTY

re:Assurance

Assurance on non-financial information

EXISTING PRACTICES AND ISSUES



re:Assurance

An initiative from [the ICAEW Audit and Assurance Faculty](#)

All types of business, public and voluntary bodies, investors, governments, tax authorities, market regulators and their stakeholders need to be able to rely on credible information flows to make decisions. Confidence suffers when there is uncertainty about the integrity of information or its fitness for purpose.

The Institute of Chartered Accountants in England and Wales' (ICAEW) Audit and Assurance Faculty is a leading authority on external audit and other assurance services. It is recognised internationally by members, professional bodies and others as a source of expertise on issues related to audit and assurance.

Through the *re:Assurance* initiative, the ICAEW Audit and Assurance Faculty is promoting dialogue about external assurance: finding out where new assurance services could strengthen markets and enhance confidence by making information flows more credible; asking how the *International Framework for Assurance Engagements* can be applied and developed; and answering demands for practical guidance to meet emerging business needs.

Assurance on non-financial information: existing practices and issues is a paper aimed primarily at practitioners which examines the types of non-financial information on which external assurance reports are currently provided and considers further opportunities for practitioners in this area. It also discusses some of the practical challenges that practitioners might face when providing external assurance reports on non-financial information and identifies some areas for further consideration.

We welcome feedback from practitioners and others on their experiences of external assurance reports on non-financial information and areas where practitioners would value further guidance. Anyone interested in providing feedback or comments should send them to louise.sharp@icaew.com.

Further information on the *re:Assurance* initiative, the current work programme and how to get involved is available at www.icaew.com/assurance or telephone 020 7920 8493.

We would like to thank the volunteers from the assurance on non-financial information working group who helped to develop this publication.

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Executive summary

Background

Entities regularly report non-financial information, including:

- statements and information contained in the annual report, such as the enhanced business review, corporate governance statements and information on risk management policies, internal controls or wider operating data;
- corporate responsibility reporting on environmental, economic and social performance;
- reports to regulators on matters such as risk exposures, pricing policies or compliance with regulatory requirements; and
- reporting on public interest concerns, for example, quality of service provision, carbon emissions or the conduct of public competitions.

Demand for this kind of reporting appears to be growing, particularly in the areas of corporate responsibility and public interest concerns, but also as a result of legal and regulatory changes (eg, the enhanced business review) and demands from investors and investment analysts.

Relevant stakeholders want credible information and external assurance¹ can play a valuable role in helping to ensure that the non-financial information provided to them is reliable. This is a dynamic and changing area and this paper seeks to capture current practices. While this has global relevance, this paper draws on experience in the UK.

Existing practices

This paper, which is primarily aimed at practitioners,² identifies corporate responsibility as a particularly visible area where there is current demand for external assurance. More and more entities (particularly public interest entities) are publishing information on corporate responsibility and as a result the number and variety of external assurance reports is growing in this area. Practitioners performing these engagements appear to be using the International Auditing and Assurance Standards Board (IAASB) International Standard on Assurance Engagements 3000, *Assurance Engagements other than Audits or Reviews of Historical Financial Information* (ISAE 3000), alongside other guidance, to help them to structure and perform engagements and deliver external assurance reports in these areas.

Other than the need for auditors to meet their responsibilities in terms of checking the consistency of information in the accounts, there is currently no requirement or significant demand for publicly available external assurance on non-financial information in the enhanced business review or corporate governance statements.

Practitioners also provide external assurance reports on non-financial information provided to regulators. The type of work carried out and external assurance reports provided are often predetermined by the regulatory bodies, though other guidance, such as that issued by the Institute of Chartered Accountants in England and Wales (ICAEW), exists in specific areas to help practitioners. Appendix 2 includes a list of references to this guidance.

In other areas the demand for external assurance on publicly available non-financial information appears currently to be limited but again this is growing in response to recent market and regulatory changes, such as greater public scrutiny of public competitions and telephone voting and greater reporting on carbon emissions.

There is also demand for private external assurance reports over published information even where there is not currently a requirement.

¹ External assurance may be described as the provision of an independent opinion by an expert (such as a practitioner) on information prepared by one party for the benefit of another party or parties.

² For the purposes of this paper, practitioners means professional accountants in public practice, which include chartered accountants.

The use and value of external assurance reports might change if stakeholders were to lose confidence in the quality of information being presented by entities. This could potentially occur where information was later proved to be inaccurate. Future major errors involving publicly available non-financial information, which affect investor perceptions, could lead to an increase in demand for external assurance.

As a result, external assurance on non-financial information is a developing area. The scope for external assurance is likely to grow and practitioners are well placed to offer such services. Practitioners' background in auditing means that they might already have some of the skills needed to take advantage of such opportunities.

Practice-related considerations

By providing external assurance reports practitioners enhance credibility because:

- they follow rigorous ethical standards covering independence;
- they follow a defined framework and standards which cover the whole assurance engagement; and
- they have the relevant skills, having experience in carrying out assurance engagements (the statutory audit is an example), following professional standards, complying with CPD/training requirements and having in place internal quality control procedures.

There are frameworks and standards in existence for practitioners that can help them to carry out assurance engagements on non-financial information. Practitioners are encouraged to use the principles in ISAE 3000 to help them perform this work. On receiving a request for a public, external assurance report, practitioners:

- consider the motivations and purpose behind the request to ensure that they are able to meet this need;
- understand the needs of the users of the non-financial information;
- need to be clear about what the information is that they are reporting on and why it is needed;
- have agreed criteria by which they can measure it; and
- clearly communicate these considerations in their report to help to avoid the creation of different expectations.

The same principles equally apply to private forms of external assurance reports.

The ICAEW has issued other specific guidance in a number of areas as well as seeking to engage practitioners, business and policy makers on assurance through the *Perspectives on assurance* series. *Perspectives on assurance: Engaging practitioners* seeks to help practitioners understand the IAASB *International Framework for Assurance Engagements*.³

Because of the very nature of non-financial information, there are, however, a number of practical challenges that practitioners may face when performing assurance engagements. Such issues include wider independence considerations, identifying suitable criteria, obtaining evidence about qualitative or forward looking information and a wider understanding of users and their needs. While outside the scope of this paper, some of these issues may require further consideration and, going forward, ICAEW will be giving thought to what additional guidance or information may be needed in these areas.

It is also important for practitioners to consider their own competence and ability to provide external assurance reports in specific areas, alongside risk management issues. Practitioners need to consider the specialist knowledge that may be needed. The use of multi-disciplinary teams and frameworks might help practitioners to meet these needs. In terms of risk management, the ICAEW Audit and Assurance Faculty has also issued guidance on managing risk and liability on assurance engagements, Technical Release AAF 04/06, *Assurance Engagements: Management of Risk and Liability*. Practitioners performing assurance engagements are encouraged to refer to this guidance.

³ ISAE 3000 is supported by the *International Framework for Assurance Engagements*.

1. Introduction

1.1 Background

Stakeholders such as businesses, investors, employees, governments, the voluntary sector and market regulators use information, for example, to make economic and policy decisions. In order to meet these needs entities regularly produce information that is outside the scope of the numerical information provided in accounts. Examples of such information in the UK include environmental and social performance in corporate responsibility reports, management commentaries through the enhanced business review, reports on wider operating data such as reserves, regulatory reports, statements on corporate governance and reports on internal controls.

This information is broadly classified as non-financial information and the demand for this type of information appears to be growing, particularly as a result of demands from investors and investment analysts, legal and regulatory changes (eg, the enhanced business review requirements in the UK) and public interest concerns (eg, the conduct of public competitions, quality of service provision and carbon emissions).

External assurance⁴ can play a valuable role in helping to ensure that the non-financial information provided to stakeholders is reliable. This is a dynamic and changing area and this paper seeks to capture current practices. While this has global relevance, this paper draws on experience in the UK. Section 2 of this paper therefore provides some background on the existing practices in reporting and external assurance in the UK. The section starts with corporate responsibility as it is an area that some practitioners might be more familiar with. However, there are other opportunities, for example, within regulatory reporting, that practitioners⁵ might not be aware of.

While external assurance on non-financial information is a developing area, the scope for external assurance reports is likely to grow and there may be potential opportunities for practitioners. Practitioners' background in auditing means that they might already have some of the skills needed to take advantage of such opportunities. There are also frameworks and standards in existence for practitioners that can help them to perform these types of engagements.

There are, however, a number of challenges that practitioners face when providing external assurance reports on non-financial information. Section 3 sets out some practical considerations for practitioners when performing these engagements.

1.2 Key objectives

This paper, which is primarily aimed at practitioners, focuses on external assurance on historical and publicly available non-financial information. For the purposes of this paper 'non-financial information' includes both numerical (non-financial) and narrative information.

The key objectives of this paper are:

- to identify the types of non-financial information on which external assurance might be sought;
- to consider the external assurance reports currently provided;
- to identify and discuss the practical challenges practitioners might face when providing external assurance reports, including the application of the International Auditing and Assurance Standards Board (IAASB) International Standard on Assurance Engagements 3000, *Assurance Engagements other than Audits or Reviews of Historical Financial Information* (ISAE 3000); and

⁴ External assurance may be described as the provision of an independent opinion by an expert (such as a practitioner) on information prepared by one party for the benefit of another party or parties.

⁵ For the purposes of this paper, practitioners means professional accountants in public practice, which include chartered accountants.

- to provide references to practical guidance and standards to help practitioners perform assurance engagements in this area.

This paper considers non-financial information in published reports. There are other vehicles, such as press releases, for communicating such information. The obligations on entities regarding the quality of this information would be equally applicable to these communication mechanisms.

While this paper discusses the types of non-financial information that might be prepared by businesses, its scope does not extend to prescribing the information or disclosures that should be provided in such reports.

We welcome feedback from practitioners or others with an interest in this topic on their experiences of external assurance reports on non-financial information and areas where practitioners would value further guidance.

2. Existing practices: types of non-financial information and external assurance reports provided

2.1 Current practice

The table below summarises the key types of non-financial information and public reports currently in existence in the UK and whether external assurance reports (including audit) are provided in these areas. These are explained in further detail later in this section.

Types of reports	Types of non-financial information	External assurance reports
Corporate responsibility reports.	<p>Policy and performance covering the following issues:</p> <ul style="list-style-type: none"> • Environmental, for example, carbon emissions. • Social. • Economic. • Ethical. 	<p>Voluntary – disclosure may be encouraged by trade bodies.</p> <p>Growing demand for external assurance. Becoming increasingly common for listed and other public interest entities or entities with reputation concerns.</p>
<p>Information in the annual report and accounts, for example:</p> <ul style="list-style-type: none"> • The enhanced business review/operating and financial review. • Corporate governance statements. • Non-financial disclosures in the accounts. 	<ul style="list-style-type: none"> • Development and performance of business. • Fair review and description of principal risks and uncertainties facing the company. • Environmental, employment, social and community issues. • Contractual relationships. • Corporate governance. • Internal controls. • Reserve reporting. • Research and development pipelines. 	<p>In their audit report, auditors are required to state whether, in their opinion, the information given in the directors' report is consistent with the accounts.</p> <p>Auditors must also consider whether other information in the annual report is consistent with the audited accounts. External auditors are also required to review the corporate governance statement disclosures in relation to 9 out of 48 Combined Code provisions.</p> <p>Auditors are required to audit non-financial disclosures that are in the accounts.</p> <p>Other external assurance work is voluntary and currently there is no established practice of publicly available external assurance in this area.</p>

Types of reports	Types of non-financial information	External assurance reports
Regulatory reporting.	<ul style="list-style-type: none"> • Demonstration of compliance with regulations or Codes of Practice from regulators, for example, the Financial Services Authority (FSA), utility regulators, Non-Governmental Organisations (NGOs). • Submission of detailed data in support of regulatory investigations and consultations. 	Regulatory equipment Demand is based on the needs of individual regulators and the level of reliance the regulator wishes to place on the information being provided.
Other reports.	Other operational information, for example, customer satisfaction and quality assurance.	Demand is based on customers or suppliers and industry bodies.

There is a whole range of information on which some form of external assurance report might be privately prepared. In certain circumstances and in seeking to manage risk, reporting entities and practitioners might consider that a private report, as opposed to a public report, is more appropriate. While such private reports are not addressed in this paper, the principles and considerations that are relevant to public reports would apply.

2.2 ISAE 3000

In terms of standards for performing these assurance engagements, the IAASB has issued ISAE 3000, which is supported by a framework, the *International Framework for Assurance Engagements* (the IAASB Framework). An explanation of the IAASB Framework is set out in *Perspectives on assurance: Engaging practitioners*, one of three papers in a series which has been published by the ICAEW Audit and Assurance Faculty. ISAE 3000 addresses a number of important issues relating to the performance of assurance engagements that are of general relevance to external assurance on non-financial information.

ISAE 3000 covers all aspects of an assurance engagement, including engagement acceptance, agreeing the terms of engagement, planning and performing the engagement, using the work of experts, obtaining evidence, considering subsequent events, documentation and preparing the external assurance report. ISAE 3000 is based on the same framework that underpins the IAASB's International Standards on Auditing (ISAs). As the market for the statutory audit is long established and developed, there are benefits to using consistent standards for audit and external assurance. ISAE 3000 and the IAASB Framework explain that there are two types of external assurance engagement that practitioners can perform – these are reasonable assurance engagements and limited assurance engagements. The key elements of an external assurance report under ISAE 3000 are set out in appendix 1.

Furthermore, practitioners who carry out an assurance engagement under ISAE 3000 should comply with the requirements of the International Federation of Accountants (IFAC) *Code of Ethics for Professional Accountants* regarding independence.

2.3 ICAEW guidance

The Institute of Chartered Accountants in England and Wales (ICAEW) has already developed guidance for specific types of assurance engagement. The ICAEW Audit and Assurance Faculty has issued Technical Release AAF 02/07, *A Framework for Assurance Reports on Third Party Operations* which looks at assurance engagements that specifically deal with contractual relationships between business partners and Technical Release AAF 01/06,

Assurance Reports on Internal Controls of Service Organisations Made Available to Third Parties. The ICAEW IT Faculty has also issued ITF 01/07, *Assurance Reports on the Outsourced Provision of Information Services and Information Processing Services*. These types of engagement are not, therefore, dealt with in this publication.

The *Perspectives on assurance* series is aimed at promoting dialogue with practitioners, business and policy makers on assurance. The ICAEW Audit and Assurance Faculty has also issued guidance on managing risk and liability on assurance engagements, Technical Release AAF 04/06, *Assurance Engagements: Management of Risk and Liability*. This covers all assurance engagements and practitioners are encouraged to refer to AAF 04/06 when considering risk management issues.

Appendix 2 provides website links to these publications.

We would welcome feedback from practitioners on areas where they would value further guidance.

2.4 Corporate responsibility

2.4.1 Types of information

In recent years, there have been increasing levels of reporting on information on corporate responsibility, particularly for public interest entities, and this has been coupled with growing demands for external assurance thereon.

Corporate responsibility reports provide non-financial information on the social, economic and environmental performance of an organisation. Reporting on the social performance of an organisation also covers employee issues, such as diversity, recruitment and retention. This information may be reported in different ways, as there is no single standardised reporting framework. Businesses might struggle with the vast amount of information that falls under the area of corporate responsibility and a perceived need to report on all of it. There is a danger of producing too much information that is not material to the business and this could result in entities not adequately addressing the important issues that specifically concern them and their stakeholders.

While there is no generally accepted framework or standard for preparing a corporate responsibility report, the sustainability reporting guidelines issued by the Global Reporting Initiative (GRI) are the best-known global voluntary code for sustainability reporting. They incorporate a number of reporting principles and specify the content of a GRI report. The guidelines include environmental, economic and social indicators.

The Prince of Wales Accounting for Sustainability project has also developed a Connected Reporting Framework to help provide clearer, more consistent and comparable information for use both within an organisation and externally.⁶

2.4.2 External assurance

While there is no mandatory requirement for external assurance on corporate responsibility statements, it is becoming increasingly common and there are a number of providers of external assurance reports on corporate responsibility statements. *Directions 2007*, a report produced by Salterbaxter, indicates that 60% of corporate responsibility reports prepared by the FT UK and Euro 100 companies are subject to some form of independent assurance. This might be as a result of the perceived benefits to investors and other stakeholders and because the business itself derives benefits, for example, in helping to identify and manage their own business risks. It may well also derive from a need to build trust in the information provided and external assurance is the most attractive means of achieving this.

Some stakeholders may have concerns that the information provided in external assurance reports in this area can often contain rigid and standardised statements that are not that helpful to users. The KPMG International Survey of Corporate Responsibility Reporting 2005 found that although companies appear to value external assurance, few reports mention the reasons for seeking this external assurance. According to the Survey, the Global Fortune 250 companies' statements also showed considerable variation in the scope of the

⁶ See www.sustainabilityatwork.org.uk/strategy/report/0 for more information.

assurance engagement and the approach and methodologies used, leading to very divergent assurance statements.

In 2004, CPA Australia published *A Study of Sustainability Assurance Statements Worldwide*, which was based on assurance statements issued in Australia, the UK and other European countries and Japan. This study identified a number of issues, including the fact that there are a wide variety, and lack of clarity in the wording, of assurance statements.⁷

ISAE 3000 helps to address some of these issues.

2.4.3 Relevant assurance standards and frameworks

There is no internationally recognised standard for external assurance on corporate responsibility reports. However, as discussed in detail above, work has been undertaken by the IAASB.

AccountAbility, an international not for profit organisation launched in 1996, also issued AA 1000, *Assurance Standard (AA1000AS)* in 2003⁸ which provides practical guidance founded on three sustainability principles: completeness, materiality and responsiveness. The external assurance report prepared under AA1000AS will report findings based on these three principles, which relate essentially to whether stakeholders' requirements were met. It considers stakeholder engagement in more detail than ISAE 3000. While this is useful, unlike ISAE 3000, the standard is not supported by an external assurance framework and does not provide guidance on specific aspects of an assurance engagement, such as engagement acceptance, measurement criteria, the types of procedures to be performed or the type of conclusion to be provided. The concepts of materiality and completeness in AA1000AS are also not considered in the same way as in ISAE 3000 and there are no detailed independence requirements; providers of external assurance reports under this standard are not necessarily members of any professional body.

In practice, practitioners sometimes report under both ISAE 3000 and AA1000AS when carrying out assurance engagements on corporate responsibility reports for practical reasons. AA1000AS is widely known and recognised by clients in the area of corporate responsibility so some practitioners might find it helpful to refer to this, but because it does not provide an engagement standard (see above) practitioners also use ISAE 3000 to provide a framework by which the engagement can be carried out. Other providers of external assurance reports might, however, only use AA1000AS or may follow no particular framework or standard when performing an assurance engagement in this area. This goes some way to explaining why there are a number of different reports and conclusions being given on corporate responsibility statements. This lack of consistency in external assurance reporting might make it difficult for stakeholders to make comparisons.

Some reports that purport to be external assurance reports contain information that is more of an advisory nature. Under ISAE 3000, the purpose of external assurance reports is to give a conclusion based on the assessment of information. Management advice is normally given in a separate report, for example, a management letter.

2.5 Information in the annual reports and accounts

2.5.1 Types of information

Non-financial information is included in the annual report. It might be included in:

- (a) the enhanced business review;
- (b) corporate governance statements; and
- (c) non-financial disclosures in the audited accounts.

⁷ *A Study of Sustainability Assurance Statements Worldwide*, CPA Australia, 2004.

⁸ The standard is currently undergoing a revision process. A revised standard is expected in autumn 2008.

(a) The enhanced business review

In November 2005 the Government repealed the mandatory requirement on quoted companies to prepare an operating and financial review but closely related legislation requiring a new business review came into force for financial years starting on or after 1 April 2005.

The mandatory enhanced business review (EBR) is designed to provide information to shareholders to enable them to make an informed assessment about the performance and prospects of the company. Investors would expect to see information that is material to the company in the EBR. There are no statutory reporting standards for the EBR.

The majority of listed companies still choose to prepare an operating and financial review or similar narrative disclosure which covers much of the mandatory business review requirements as well as more extensive disclosure about the performance of the business, as recommended in the Accounting Standards Board (ASB) Reporting Statement: *The Operating and Financial Review* (RS). The principles outlined in the RS are being adopted by quoted companies as best practice in narrative reporting when preparing their annual report. The trend of increasing length of annual reports has continued as companies continue to expand the extent of their narrative disclosures. This is not purely as a result of regulation but to help to meet demands of investors and other stakeholders.

It is expected that investors will push for more forward looking non-financial information covering the strategic aims of the business to be disclosed in the EBR or operating and financial review. The reporting of non-financial information disclosed in these statements is, therefore, likely to be an area of continued evolution.

(b) Corporate governance statements

Annual reports include non-financial information on corporate governance. Different countries will have different corporate governance standards and requirements to follow.

In the UK, corporate governance disclosures are covered by the Combined Code of Corporate Governance (The Code), which was originally published in 1998 and subsequently revised in 2003, 2006 and then 2008. Listed companies are required to provide a narrative statement of how they have applied the Code principles in their annual reports and state that they have complied with the Code provisions or, if not, why not and for what period.

Examples of disclosures include the structure and operations of the board, directors' remuneration, accountability and audit, relations with institutional shareholders and the responsibilities of institutional shareholders.

(c) Non-financial disclosures in the audited accounts

Company accounts also contain considerable amounts of information that is qualitative. An example of this is the disclosures required by IFRS 7, *Financial Instruments: Disclosures* (or FRS 29 in the UK) relating to financial instruments. IFRS 7 requires qualitative disclosures about the nature and extent of risks arising from financial instruments to which the reporting entity is exposed, including credit, market and liquidity risks. It also requires extensive disclosures about how the fair values of financial instruments have been determined, particularly where not based on quoted market prices, and about the sensitivity to changes in market rates or other variables.

2.5.2 External assurance**(a) The enhanced business review**

There is no requirement for the information in the EBR to be audited. Auditors are, however, required to give an opinion in their report on whether the other information in the directors' report (the EBR) is consistent with the accounts.

There may be an expectation gap here, as stakeholders may perceive that the auditors' work and ultimately their opinion extend beyond the information in the accounts to non-financial information contained in other elements of the annual report, such as the EBR. Such information might include disclosures about oil and gas reserves, research and development pipeline (particularly for pharmaceutical companies), customers (telecommunications and cable companies) and audience size (entertainment and media companies). This information is not audited.

There is currently no significant demand for other forms of external assurance reports on the EBR.

(b) Corporate governance statements

External auditors are only required to review the corporate governance statement disclosures in relation to nine out of the forty-eight Code provisions. Nevertheless, because the directors' narrative statement comprises other information included in a document containing audited financial information there is a broader requirement under international standards on auditing for the auditor to read such 'other information' and if the auditor becomes aware of any material misstatements or identifies any material inconsistencies with the audited accounts, to seek to resolve them.

There are no further requirements nor is there any significant demand for external assurance on corporate governance statements in the UK.

(c) Non-financial disclosures in the audited accounts

In terms of qualitative information contained in the accounts, external assurance is provided through the auditor's opinion on the financial statements.

2.5.3 Relevant assurance standards and frameworks

(a) The enhanced business review

International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) 720, *Other Information in Documents Containing Audited Financial Statements*, covers auditors' responsibilities regarding other information contained in a company's published annual report.

There are no specific standards that cover external assurance on aspects of the EBR.

(b) Corporate governance statements

Bulletin 2006/5, *The Combined Code on Corporate Governance: Requirements of Auditors under the Listing Rules of the Financial Services Authority and the Irish Stock Exchange* provides guidance to auditors when reviewing a company's corporate governance statement.

(c) Non-financial disclosures in the audited accounts

In terms of the qualitative information in the accounts and the example given on IFRS 7, *Financial Instruments: Disclosures* (or FRS 29 in the UK) above, ISA (UK and Ireland) 545, *Auditing Fair Value Measurements and Disclosures* provides guidance on auditing such disclosures.

This example gives an indication of how experience gained from the audit could be helpful when providing external assurance reports on other forms of non-financial information, be it qualitative or quantitative.

2.6 Regulatory reporting

2.6.1 Types of information

Many regulatory bodies require information from the entities that they regulate in order to perform their duties. This is true both for regulated industries, utilities and financial services, and also for cross-industry regulation.

However, unlike the corporate responsibility reporting and the other aspects of annual reports discussed above, the nature and volume of the information required varies significantly from regulator to regulator. Some examples of the information and reporting requirements imposed by regulators in the UK include:

- annual narrative reporting on compliance with complex non-discrimination and fair trading regulations in the broadcasting and communications industries;
- detailed operational data relating to performance in the water industry including, for example, data on water quality, leakage and customer service;
- detailed returns required by the FSA from financial institutions including reporting on capital adequacy or liquidity and risk exposures; and
- obligations to operate a system in accordance with established rules, such as those imposed on lottery operators.

In addition to this type of regular reporting, most regulators have the power to request additional, and often very detailed, data from regulated entities when investigating individual issues, such as allegations of a breach of regulations.

2.6.2 External assurance

The practice by regulators of requiring external assurance over certain information provided to them has been established for some time.

However, these established requirements have focused mostly on traditional financial information, for example, segmental results or detailed extracts from underlying accounting records. More recently some regulators have begun to expand the scope of external assurance to cover other, non-financial information on which they rely and to utilise ISAE 3000. Others are looking at agreed-upon procedures engagements to satisfy their needs.⁹ Some examples of these different forms of reporting include:

- provision of reasonable assurance conclusions under ISAE 3000 on certain aspects of the annual report of the Equality of Access Board which is responsible for monitoring BT Group plc's compliance with the complex set of Undertakings relating to non-discrimination;
- provision of reasonable assurance conclusions to the trading parties in the UK Electricity Industry that the provisions of the relevant code in relation to settlement have been complied with;
- provision of reasonable assurance conclusions on current cost financial information reported by the water industry; and
- reasonable or limited assurance report requested by the Financial Services Authority (FSA) in connection with compliance with Section 166 of the Financial Services and Markets Act 2000 (a 'skilled person's report').

In all of these cases, the form of reporting by the regulated entity and the nature of external assurance requirements will generally be set out by the regulator. Compared to corporate responsibility reporting, there is therefore less scope for variation in the engagements carried out by providers of external assurance reports in relation to individual regulatory reporting requirements. However, there is a wide variation in the level of disclosure of the existence of regulatory reporting and external assurance requirements. These range from published external assurance reports on regulatory financial information, public disclosure of the existence of a requirement without publication of data or external assurance findings to fully private arrangements between regulator, regulated entity and practitioner.

Historically, and largely as a result of the financial nature of many regulatory reporting requirements, external assurance reports have tended to be provided by registered auditors or qualified accountants. This trend has continued with practitioners also providing much of the non-financial external assurance described above. Some regulators, including for example, Ofwat, also require reporting by suitably qualified engineers on certain operational reporting requirements, such as leakages and service outages.

2.6.3 Relevant assurance standards and frameworks

There are no assurance frameworks that deal specifically with regulatory reporting. Generic auditing and assurance standards have generally been used in conjunction with more detailed reporting guidance issued by regulators and instructions on the basis of preparation. ISAE 3000 can be used here to help practitioners perform assurance engagements on regulatory reports.

The Auditing Practices Board (APB) has published a series of Practice Notes which are designed to provide guidance to auditors on the audit. Some of them also touch on the regulatory returns required, for example, Practice Note 20, *The Audit of Insurers in the United Kingdom (Revised)*.

⁹ An agreed-upon procedures engagement involves performing certain specified procedures on information and reporting factual findings without giving any form of opinion on the implications of the work performed.

The ICAEW has also issued specific guidance to members on the structure of engagements where reporting to regulators, including:

- Technical Release Audit 1/01, *Reporting to Third Parties*;
- Technical Release Audit 02/03, *New Arrangements for Reporting to the Civil Aviation Authority (CAA) in Connection with the Civil Aviation (Air Travel Organisers' Licensing) Regulations 1995*;
- Technical Release Audit 03/03, *Public Sector Special Reporting Engagements – Grant Claims*; and
- Technical Release Audit 05/03, *Reporting to Regulators of Regulated Entities*.

2.7 Other reports

2.7.1 Types of information

In addition to regulatory reporting requirements established by a legal framework as part of a license to operate, many industries have reporting requirements which are an established norm, though they are not a formal legal requirement. Examples include the reporting and audit of circulation figures by media owners or the application of quality assurance standards regarding information security or customer service.

Another area where there has been an increasing amount of interest in external assurance is the administration of public competitions and telephone voting. There is no mandatory requirement to report on this at present but this might change as a result of the number of problems recently experienced in this area and greater public scrutiny.

2.7.2 External assurance

Where external assurance is required over such information, the providers may be the industry bodies themselves (as in the case of the Audit Bureau of Circulation), specialist certification agencies (as in the case of quality assurance standards), or others, including practitioners.

An entity's auditors may also sometimes be approached to perform certain supporting agreed-upon procedures, particularly where the information to be disclosed is closely related to financial activity, though they may not be asked to provide the external assurance report.

2.7.3 Relevant assurance standards and frameworks

There are no specific assurance frameworks or guidance in place that deal with these types of engagements but practitioners might find ISAE 3000 helpful when performing assurance engagements in these areas. As highlighted above, the ICAEW has also issued guidance to members on the structure of assurance engagements where reporting to certain regulators. Similar principles may be applied to these engagements.

The ISO 9000 standards may also provide some useful guidance on quality assurance.

3. Practice-related considerations for practitioners

Practitioners are well placed to offer external assurance reports on non-financial information. They must, however, compete with other providers of external assurance reports, who might not be bound by the same rigorous standards, training and ethical requirements.

When providing external assurance reports practitioners enhance credibility because:

- they follow rigorous ethical standards covering independence;
- they follow a defined framework and standards (The IAASB Framework and ISAE 3000) which cover the whole assurance engagement; and
- they have the relevant skills, having experience in carrying out assurance engagements (the statutory audit is an example), following professional standards and complying with CPD/training requirements.

On receiving a request for a public, external assurance report, practitioners firstly need to consider the motivations and purpose behind the request to ensure that they are able to meet this need. It is important for practitioners to understand the needs of the users of non-financial information. Practitioners need to be clear about what the information is that they are reporting on, why it is needed and they need to have agreed criteria by which they can measure it. These considerations also need to be clearly communicated in their report.

There is guidance, such as ISAE 3000, for practitioners to follow when performing assurance engagements on non-financial information but there are a number of challenges and issues for practitioners to consider.

3.1 Independence

Stakeholders want credible information they can trust. An expert providing an independent opinion on the reliability of information helps to reinforce trust. Independence is therefore an essential characteristic of assurance engagements.¹⁰

Practitioners have clear standards to follow in terms of independence. However, meeting independence requirements can be challenging.

In carrying out an assurance engagement, practitioners who are chartered accountants are subject to ethical guidance as laid down by the ICAEW in its ethical code. The requirements in the ethical code include, among other things, adherence to the Fundamental Principles in all of their professional and business activities as set out in the introduction. When conducting an assurance engagement, there are additional requirements in *Independence for Assurance Engagements* within the code (Section 290). This applies to all assurance engagements outside the scope of audit and is in compliance with the *Code of Ethics for Professional Accountants* established by the International Federation of Accountants (IFAC). The IAASB Framework explains that the *Code of Ethics for Professional Accountants* governs practitioners who perform assurance engagements. This is reiterated in ISAE 3000.

Practitioners' adherence to the independence requirements involves an assessment of likely threats to independence and, where necessary, the application of safeguards. For example, the provision of assistance to a client in preparing its report may result in a self-review threat if the impact of the assistance on the matter being reported on is material. The subjectivity of the report proposed to be issued will also be relevant. If other than insignificant threats are identified, safeguards need to be considered. These might include:

- the use of independent teams, where appropriate; or
- an independent review of the key judgements on the engagement.

¹⁰ See *Perspectives on Assurance: Engaging practitioners*, ICAEW, 2007, for more information.

The appendix to Section 290 of the ICAEW Code includes an example, which has been developed to demonstrate the application of this section.

3.2 Skills – experience and training and the need for specialist knowledge

Practitioners' auditing experience can be valuable when carrying out assurance engagements on non-financial information. They use professional judgement and are familiar with assessing materiality, understanding the business and obtaining sufficient appropriate audit evidence. These skills can be applied to assurance engagements too.

ISAE 3000 addresses certain quality aspects of external assurance, such as the need for appropriate specialist knowledge and skills to be available in the assurance team.

As information demands change, practitioners might be asked to carry out different types of assurance engagements that might be outside of their normal skill sets. For example, practitioners have expertise in performing quantitative assessment of information but are less likely to have experience of performing assurance engagements on qualitative information. Furthermore, it is unlikely that practitioners will have in depth expert technical knowledge, such as engineering or surveying knowledge, where such expertise is required. Practitioners will need to consider using the work of experts. They also need to be aware of the work of the internal audit function in entities.

These skills can, however, be developed and the use of multi-disciplinary teams and frameworks can help practitioners to meet these needs.

3.3 Quantitative versus qualitative information

Practitioners might have lots of experience in auditing quantitative information but providing external assurance reports on non-financial information brings different challenges. For instance, there is no system of double entry in the same way as for financial information, which can provide an overall control mechanism. Analysis and measurement tools can be immature compared to accounting software. There also tends to be a diverse number of systems being used in terms of data structures and technical platforms. There is often much more reliance on 'end user computing', for example ad hoc queries and spreadsheets, than is common for financial reporting.

3.4 Subjective information

In comparison with financial information, established measurement conventions for non-financial information, in particular for qualitative information, are not usually available. This has potential implications for practitioners, which include:

- the subject matter can be evaluated from different viewpoints and it might not be possible to establish consistent measurement criteria that is acceptable to all interested parties; and
- the subject matter is fundamentally of a subjective nature, for instance the company's vision for the future, and hence it is impossible to identify suitable criteria.

Where different viewpoints exist to evaluate the subject matter, interested parties may not be able to agree on the criteria. In such circumstances, practitioners consider whether the chosen criteria is relevant to the needs of the intended users. Practitioners include a reference to the criteria used in the external assurance report so as to communicate the basis of the assurance conclusion and they may also attempt to have the intended users or the engagement party acknowledge that the specified criteria are suitable for the intended users' purposes.

Where there are concerns that the subject matter may be fundamentally subjective, practitioners need to consider whether they can accept the engagement. For example, concerns may arise because there are no suitable criteria that allow consistent measurement. It should be noted that practitioners' own judgements or personal experience do not qualify as suitable criteria. There may, however, be other services that practitioners can offer that might be helpful for the company and the intended users, for example, an advisory service.

3.5 Information sourced from third parties

Reported information sometimes includes data produced by third parties (eg, retail statistics including footfall and market share, average market prices and costs), which may be combined with data produced by the reporting organisation (eg, revenue per customer). Practitioners consider whether there are suitable criteria for such externally-produced information, as well as addressing existing standards, control environments and other considerations included in this section, and whether sufficient access or visibility can be gained into the relevant aspects of the third party's operations. If practitioners have insufficient access or visibility, they may consider that the associated data should not form part of the scope of the assurance engagement and nor should any data in combination with it. Third parties may have an external assurance report on their operations in place which may address some of practitioners' information requirements.¹¹

3.6 Suitability of criteria and obtaining sufficient appropriate evidence

It might be difficult to find suitable criteria by which to measure the information provided in the report. According to ISAE 3000, without suitable criteria, practitioners are unable to perform the engagement. Quantitative data tends to have clear criteria to measure against. However, non-financial information might be qualitative in nature, and suitable criteria might therefore be difficult to identify. *Perspectives on assurance: Engaging practitioners* provides more information and guidance on criteria. It highlights the importance of clearly communicating the criteria of any evaluation to the users. By communicating why and how the conclusion is reached, practitioners are providing support for the basis of their conclusion. If such a basis is missing or unclear to users, there is a risk that the conclusion may be misunderstood or even considered to be misleading.

Obtaining sufficient appropriate evidence to give an opinion is also more difficult. There is less opportunity for third-party verification (eg, bank reconciliations and letters and debtors/creditors reconciliations) and generally much less availability of documentation to vouch against than with a statutory audit. There is also a general lack of comparability and external reference points to support analytical review.

Another practical consideration for practitioners is that of materiality. Materiality helps practitioners determine the nature, timing, and extent of work procedures needed to arrive at a conclusion but deciding materiality can be a challenge when performing an assurance engagement on non-financial information. How should materiality be defined for information that might be unfamiliar to practitioners? Materiality needs to be assessed based on the factors that might influence the decisions of users of the information. Where users have been defined and consulted by the responsible party (the preparer of information), practitioners are likely to find it easier to understand and assess the factors that might influence their decisions. If no consultation has taken place or there are too many users, then practitioners will need to use their professional judgement to determine what will affect the users' decision making and whether they have enough information to be able to reach a conclusion.¹²

Practitioners need to ensure that their external assurance report is consistent with the entity's report and that both reports are meaningful when read together. The clarity and structure of the report prepared by entities are practical considerations for practitioners.

3.7 Identifying and understanding the intended users

ISAE 3000 emphasises the importance of understanding who the intended users are and their needs but defining and managing users might be difficult, particularly in circumstances where the reporting information is going to be freely accessible on an entity's website.

Where an assurance report may be received by a range of persons who are not party to the engagement, and while the reporting accountants may not intend to assume responsibility to others who are not party to the engagement, legal actions from such other parties may

¹¹ For instance, a report issued under Technical Release AAF 01/06, *Assurance Reports on Internal Controls of Service Organisations Made Available to Third Parties*, Technical Release AAF 02/07, *A Framework for Assurance Reports on Third Party Operations* or SAS 70.

¹² See *Perspectives on assurance: Engaging practitioners*, ICAEW, 2007 and *Perspectives on assurance: Engaging policy makers*, ICAEW, 2007 for a more detailed discussion of this.

nonetheless occur. Practitioners therefore need to apply appropriate engagement acceptance procedures in order to assess the risks associated with taking on a particular engagement and accordingly whether to do so and, if so, on what terms. Where practitioners do accept such an engagement, suitably rigorous internal risk management policies are applied to manage any increased level of risk (see Technical Release AAF 04/06, *Assurance Engagements: Management of Risk and Liability*).

3.8 Standards

There is a lack of consistent standards or guidance, both at the level of technical definitions and disclosure, being used for external assurance on non-financial information. As we have already seen, this is particularly evident in the area of corporate responsibility. Industry consensus is beginning to develop in some sectors although standards may not be universally applied and can be high level.

While ISAE 3000 is a standard that can be applied to all assurance engagements and could therefore be used to help ensure consistency of reporting and comparability, the standard presumes that the provider of the external assurance report is a practitioner, a professional accountant in public practice. We know, however, that there are a number of other providers of 'external assurance' reports.

There are also different legal and regulatory considerations to take account of, for example, the UK Listing Authority rules. In applying ISAE 3000, practitioners must also be mindful of these specific requirements.

3.9 The control environment

While in financial reporting the management assessment of internal controls and its external examination as part of an audit has become part of standard practice, the procedures over the preparation of non-financial information are comparatively less formalised. Internal controls related to non-financial business activities and operations are not always well monitored or documented and may not be as robust as those related to financial reporting. Accordingly, at the planning stage of the engagement, practitioners consider how they will obtain evidence that the information on which they will be expressing an opinion is sufficiently reliable for that purpose. As with the audit of financial information, the extent of substantive testing required will normally be reduced if there are effective internal controls which can be tested and relied upon.

Furthermore, in some business activities, such as financial and accounting services and information technology in particular, there is a high level of interest as these services are often outsourced. In these areas, there may be specific assurance engagements to consider the design and operation of internal controls as covered in Technical Release AAF 01/06, *Assurance Reports on Internal Controls of Service Organisations Made Available to Third Parties*.

3.10 Reporting timetable

A further complication to providing external assurance reports on non-financial information can be the fact that there is often a real time or short timescale-reporting requirement. Compared with the work required for the statutory audit, the lead-time for assurance engagements on non-financial information might be much shorter. For example, practitioners might be asked to report on the results of a telephone vote for a public competition. Practitioners need to carefully consider what they are being asked to report on, the risks involved and the type of conclusion that they might be able to give in the circumstances.

These issues impact on the types of external assurance engagement that can be provided. While outside the remit of this paper, we believe that these issues require further consideration. Going forward, ICAEW will be giving thought to what additional guidance or information may be needed in these areas.

We are keen to receive feedback on the experiences of practitioners or others who have an interest in this topic and whether there are other issues not addressed here where practitioners think there is scope for more guidance.

4. Conclusions and future developments

Businesses increasingly wish to ensure that the information they are making publicly available is credible and fit for purpose. Stakeholders want to be confident about the quality of information presented to them. They use various means to gain the comfort they need over the information presented, including external assurance.

This paper identifies corporate responsibility as a particularly visible area where there is current demand for external assurance. More and more entities (particularly public interest entities) are publishing information on corporate responsibility and as a result the number of external assurance reports is growing in this area. Practitioners performing these engagements generally use ISAE 3000 (alongside other guidance, such as AA1000AS) to help them to structure and perform engagements and deliver external assurance reports in these areas. Other providers of external assurance reports may just use AA1000AS or no standards at all when carrying out these services. There are, therefore, a wide variety of reports in the market place in this area.

Other than the need for auditors to meet their responsibilities in terms of consistency of information in the accounts, there is currently no statutory requirement or significant demand for public external assurance reports on non-financial information in the business review or corporate governance statements.

Practitioners provide external assurance reports on non-financial regulatory information, which is provided to regulators. The type of work carried out and reports provided are often predetermined by the regulatory bodies, though other guidance (eg, guidance issued by the ICAEW and referred to in this paper) might exist in specific areas to help practitioners.

In other areas, the demand for external assurance on publicly available non-financial information appears to be limited currently but again this could grow in response to recent market and regulatory changes, such as greater public scrutiny of public competitions and telephone voting and greater reporting on carbon emissions.

There is also demand for private assurance reports to entities over published information even where there is not currently a requirement or expectation of external assurance.

The use and value of external assurance reports might change if stakeholders were to lose confidence in the quality of information being presented by entities. This could potentially occur where information was later proved to be inaccurate. Errors in publicly available non-financial information, which affect investor perceptions, could lead to an increase in demand for external assurance.

The value of external assurance is, therefore, likely to grow as more non-financial information is published. Practitioners' background in auditing means that they might already have some of the skills needed to take advantage of these opportunities and those that already exist in the areas of external assurance on corporate responsibility. Practitioners can use the principles in ISAE 3000 to help them perform this work. The same principles equally apply to private forms of external assurance reports.

Because of the very nature of non-financial information, practitioners need, however, to be aware of the practical challenges that they may face when performing assurance engagements, such as independence considerations, the potential need for specialist knowledge, identifying suitable criteria, obtaining evidence about qualitative or forward looking information and understanding users and their needs. While outside the scope of this paper, some of these issues may require further consideration and, going forward, ICAEW will be giving thought to what additional guidance or information may be needed in these areas.

We welcome feedback from practitioners or others with an interest in this topic on their experiences of external assurance reports on non-financial information and areas where practitioners would value further guidance.

Appendix 1 – Key elements of an assurance report under ISAE 3000

- A title indicating that the report is an independent assurance report
- An addressee
- Identification and description of the subject matter (information)
- Identification of the criteria used
- Where applicable, a description of any significant inherent limitation associated with the evaluation/measurement of the subject matter against the criteria:
- Where relevant, a statement restricting the use of the assurance report to specific users or a specific purpose
- A statement to identify the responsible party and explain the respective responsibilities of the responsible party and practitioners
- Reference to relevant International Standards on Assurance Engagements
- A summary of the work performed
- The practitioners' conclusion
- The assurance report date
- Details of the practitioners (the name of the firm/practitioner and the location of the office performing the engagement)

Appendix 2 – References

AccountAbility

AA 1000, *Assurance Standard*, 2003

www.accountability.org.uk

Accounting Standards Board

Reporting Statement, *The Operating and Financial Review*, 2006

www.frc.org.uk/asb

Auditing Practices Board

International Standard on Auditing (UK and Ireland) 545, *Auditing Fair Value Measurements and Disclosures*

www.frc.org.uk/apb

International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) 720, *Other Information in Documents Containing Audited Financial Statements*

www.frc.org.uk/apb

Practice Note 20, *The Audit of Insurers in the United Kingdom* (Revised)

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Institute of Chartered Accountants in England and Wales

ICAEW *Code of Ethics*, 2006

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Perspectives on assurance: Engaging business,
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www.icaew.com/aaf

Technical Release Audit 03/03, *Public Sector Special Reporting Engagements – Grant Claims*, 2003

www.icaew.com/aaf

Technical Release Audit 02/03, *New Arrangements for Reporting to the Civil Aviation Authority (CAA) in Connection with the Civil Aviation (Air Travel Organisers' Licensing) Regulations 1995*, 2003

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International Auditing and Assurance Standards Board

International Framework for Assurance Engagements, 2004

www.ifac.org/Guidance

International Standard for Assurance Engagements 3000, *Assurance Engagements other than Audit or Reviews of Historical Financial Information, 2004*

www.ifac.org/Guidance

International Federation of Accountants

Code of Ethics for Professional Accountants, 2005

www.ifac.org

KPMG

The KPMG International Survey of Corporate Responsibility Reporting 2005

www.kpmg.ca/en/industries/enr/energy/globalSustainabilityReports.html

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