

February 3, 2017

Matt Waldron
Technical Director
International Auditing and Assurance Standards
Board
529 Fifth Avenue, 6th Floor
New York
NY 10017, USA

submitted electronically through the IAASB website

**Re.: IAASB Integrated Reporting Working Group Discussion Paper
“Supporting Credibility and Trust in Emerging Forms of External
Reporting: Ten Key Challenges for Assurance Engagements”**

Dear Matt,

We would like to thank you for the opportunity to provide our comments on the IAASB Integrated Reporting Working Group Discussion Paper “Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements” (hereinafter referred to as the “paper”).

We believe that, on the whole, the Working Group has done an excellent job of identifying most of the important issues and has performed a reasonably thorough analysis of these. Of course, there are some matters where we believe improvement can be undertaken – we have identified these in our responses to the questions posed in the paper.

In line with the views we had expressed in our comment letters on the exposure drafts of ISA 720, we are rather concerned that users will overemphasize the comfort that they are getting from the application of ISA 720 in relation to other information as part of an audit of the financial statements when reading the auditor’s report. We therefore believe that consideration of assurance and other engagements on a contractual basis or, if applicable, required by law or regulation, would be appropriate. However, we would not support the IAASB seeking to impose, by means of international standards, assurance or other engagements on other information as part of the audit of the financial statements.

Institut der Wirtschaftsprüfer
in Deutschland e. V.

Wirtschaftsprüferhaus
Tersteegenstraße 14
40474 Düsseldorf
Postfach 32 05 80
40420 Düsseldorf

TELEFONZENTRALE:
+49 (0) 211 / 45 61 - 0

FAX GESCHÄFTSLEITUNG:
+49 (0) 211 / 4 54 10 97

INTERNET:
www.idw.de

E-MAIL:
info@idw.de

BANKVERBINDUNG:
Deutsche Bank AG Düsseldorf
IBAN: DE53 3007 0010 0748 0213 00
BIC: DEUTDE33XXX
USt-ID Nummer: DE119353203

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Klaus-Peter Feld, WP StB;
Dr. Daniela Kelm, RA LL.M.

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We would be pleased to provide you with further information if you have any questions about our response and would also be pleased to be able to discuss our response with you.

Yours truly,

Klaus-Peter Feld
Executive Director

Wolfgang Böhm
Director, Assurance Standards,
International Affairs

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Appendix: Response by Question

- 1. Section III describes factors that enhance the credibility of EER reports and engender user trust.**
 - (a) Are there any other factors that need to be considered by the IAASB?**
 - (b) If so, what are they?**

We believe that the factors described that enhance the credibility of EER reports in Section III include almost all of the main factors. In our view, two other factors are also important: accountability and evidence. While both of these might be subsumed under “Governance”, it seems to us that the treatment of governance in the paper does not adequately address either of these concepts. Appendix A of the Supplemental Information briefly touches upon accountability as part of governance, but does not address the issue of evidence at all.

Accountability obligations imply that those preparing, or overseeing the preparation of, EER must be in a position to justify to those to whom they are accountable that the information provided in the EER has a reasonable basis. Such a reasonable basis can only be founded upon the preparers having adequate evidence to support their assertions in the EER and upon TCWG having an evidential basis for their oversight over preparation. Ultimately, the strong internal controls mentioned in paragraph 7 of Appendix A of the Supplemental Information, and in particular the effective information system for obtaining and processing relevant information, involves gathering such information as evidence to support preparer assertions in the EER. We refer to the IDW Concept Paper “Additional Issues Related to a Conceptual Framework for Financial Reporting” from 2007, which further expands upon the issues we have addressed here. This Paper can be downloaded from the IDW English Website at https://www.idw.de/the-idw/concept_papers.

In relation to Section III of the paper, we would like to add the following technical comments. First, we do not share the view expressed in paragraph 39 that credibility is a user-perceived attribute of information that engenders in the mind of the user an attitude of trust in the information: using the terms “credibility and trust” as done in the paper is redundant. Credibility refers to the degree to which information appears to be worthy of belief due to the apparent trustworthiness and expertise of the source. Hence, trustworthiness is a factor that affects

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credibility – not the other way around. We suggest that the working group undertake further research on this topic.

Second, the second bullet point of paragraph 55 refers to objectivity and independence as enhancing the credibility of professional services. We believe that the other fundamental principles of the IESBA Code (integrity, professional competence and due care, confidentiality and professional behaviour) also enhance credibility because ostensible integrity, confidentiality, due care and professional behaviour increase trust, whereas ostensible professional competence increases perceived expertise.

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

(a) Are there other types of professional services the IAASB needs to consider, that are, or may in future be, relevant in enhancing credibility and trust?

(b) If so, what are they?

Yes, we believe that there are other types of professional services the IAASB needs to consider that are relevant in enhancing credibility (that is, credibility as we have described in our response to Question 1). In addition to assurance engagements, compilation engagements and agreed-upon procedures engagements that are currently in the canon of IAASB standards we believe other types of engagements need to be considered, including expert opinions and agreed-upon assurance-type procedures engagements. As a standards setter, the IDW has found that expert opinions, which involve the evaluation of a matter based upon the expertise and experience of a professional accountant in circumstances in which the prerequisites of an assurance engagement either cannot be met or are not cost-effective, provide considerable added value to users. However, caution needs to be exercised that users do not misunderstand such engagements as assurance engagements. The IDW has a number of standards that use this kind of engagement.

Another kind of engagement that was developed by the IDW is the agreed-upon assurance-type procedures engagement. Unlike an agreed-upon procedures engagement, in which once the nature and extent of procedures have been agreed, no professional judgment can be exercised in the performance of the procedures or the determination of factual findings, in an agreed-upon assurance-type procedures – even though the nature of the procedures is agreed – the professional accountant exercises professional judgment in

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relation to the extent of the procedures and how they are performed and in the determination of “findings” (as opposed to “factual findings”). It is therefore important that the long-form report provide the users with information about the extent of procedures and how they were performed so that users can seek to understand the judgments made by the practitioners in reaching their findings. This type of engagement, which is completely separate from an agreed-upon procedures engagement, has been found useful in certain regulatory environments, in which regulators would like practitioners to exercise some judgment in the extent of the procedures, how they are performed, and in the determination of findings.

We would like to address a number of issues contained in Sections II and IV of the paper and the related Appendix B of the Supplemental Information.

The first bullet point in paragraph 6 of the paper suggests that external transparency, as well as publication of the EER report and of any external professional services, enables external users to confirm the consistency of the EER report with wider available information. This does not appear to be quite right. The publication of the EER report alone allows external users to confirm the consistency of the EER report with wider available information. The other matters mentioned actually add to the credibility of the report beyond any such confirmation of consistency.

We are also concerned with the reference to certifications in paragraph 29 because we believe that these certifications relate to the consideration of formal compliance rather than actual compliance based upon obtaining sufficient appropriate evidence as required by IAASB assurance standards. We believe that these kinds of engagements mislead users as to the level of assurance obtained.

We agree with the assertion in the fourth bullet point of paragraph 33 that a more informative assurance report that goes beyond a binary opinion may be useful. In this context, providing other findings and recommendations in a longer firm report can be helpful to users. However, in doing so, care needs to be taken to distinguish assurance conclusions from findings and recommendations so that users do not confuse these. We also agree with the last bullet point, but we would like to point out that if reporting criteria are still in development, then clarification should be given that performing a limited assurance engagement is not a viable alternative.

We note that Figure 2 in the paper clarifies that if the criteria are not suitable for a reasonable assurance engagement, they are also not suitable for a limited assurance engagement, and that paragraph 77 clarifies that if the underlying

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subject matter is not appropriate for a reasonable assurance engagement, it is also not appropriate for a limited assurance engagement. We agree with these assertions, which are included in paragraphs A10 and A41 of ISAE 3000 (Revised). We would like to point at that paragraph A59 of ISAE 3000 (Revised) also clarifies that the inability to obtain sufficient appropriate evidence to form reasonable assurance conclusion is not an acceptable reason to change from a reasonable assurance engagement to a limited assurance engagement. It has been our experience that some practitioners perform limited assurance engagements in circumstances in which reasonable assurance engagements cannot be performed (especially with respect to corporate sustainability reporting). We believe that the IAASB needs to emphasize these issues in a more prominent manner than is currently the case. In relation to paragraph 77, we also note that the second sentence suggests that for a reasonable assurance engagement, the practitioner reduces engagement risk to an acceptable level: ISAE 3000 (Revised) actually states that for reasonable assurance engagements, this is an “acceptably **low** level”.

Paragraph 75 refers to providing additional information in assurance reports in relation to inherent imprecision in measurement or evaluation of underlying subject matter or the inherent ability to obtain evidence. We would like to point out that in relation to the former, ISAE 3000 paragraph 69 (e) provides for such disclosure in the assurance report. With respect to the latter, we note that practitioners often have difficulty distinguishing between the inherent limitations on obtaining evidence for a particular type of engagement and scope limitations for a particular engagement. We refer to Chapter 6.2.2. of the FEE Issues Paper from 2007 „Principles of Assurance: Fundamental Theoretical Issues with Respect to Assurance in Assurance Engagements“, which provides a treatment of the difference: the FEE Issues Paper is available on the Accountancy Europe (formerly FEE) website.

Table 2 in the paper suggests that for assurance engagements, the engagement report is usually publicly available. However, in many cases such a report may only be provided to TCWG or management rather than the general public to assist TCWG or management in meeting their accountability or oversight responsibilities: there are many such instances in Germany.

Figure 1 in connection with paragraph 16 in Appendix B of the Supplemental Information refers to ISAE 3000 reports on particular assertions, such as completeness of themes. If the assurance conclusion only relates to the completeness of themes (this is not really clear from the example), we would be very concerned with the example wording in the illustration in paragraph 16

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because it suggests that this information is properly prepared, which involves more than just an opinion on completeness of themes. Furthermore, the disclaimer would need to extend to not having obtained assurance on whether the information is prepared in accordance with the criteria. In any case, such an example would need to be much clearer.

Paragraph 18 refers to “design and operation”: given the opinion thereafter, “operation” needs to be changed to “implementation”.

3. **Paragraphs 23–26 of Section II describe the responsibilities of the auditor of the financial statements under ISA 720 (Revised) with respect to the other information included in the annual report.**
- (a) Is this sufficient when EER information is included in the annual report; or**
 - (b) Is there a need for assurance or other professional services, or for further enhancement of the responsibilities of the financial statement auditor, to enhance credibility and trust when EER information is in the annual report?**

We had considerable reservations with respect to ISA 720 when it was exposed (both times) and when it was issued because we believe that work effort beyond literally reading and considering whether the other information is materially inconsistent with the financial statements or is otherwise misleading is a work effort on other information that goes beyond what an international standard setter can require for a financial statement audit. In our view, such a work effort can only be either required by law or regulation or agreed by means of a contract between the auditor of the financial statements and the engaging party. In addition, although the term of art “material misstatement of the other information” used in ISA 720 is supposed to signify that such a material misstatement is different from a material misstatement in connection with an assurance conclusion (including an audit opinion on the financial statements), in which there are suitable criteria (such as an appropriate financial reporting framework) and the practitioner obtaining evidence to support the determination of the departure from those criteria, we continue not to be convinced that users will understand this important difference and assume that more comfort has been obtained in relation to the other information than is warranted by the work effort set forth in ISA 720.

For these reasons, we believe that the responsibilities of the auditor under ISA 720 for EER information included in the annual report exceed those that ought to apply (rather than being sufficient). Consequently, we do not believe that it would be appropriate for the ISAs to further enhance the responsibilities

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of the financial statement auditor to enhance the credibility of EER information when it is included in the annual report.

That being said, we do believe that there is a need for assurance or other professional services to enhance the credibility of EER information when it is included in the annual report. This is why we believe it to be important and right that German law currently requires assurance on the management report as part of the audit of the financial statements. However, to the extent that law or regulation do not require such assurance on other parts of the annual report, we believe that it is in the interests of users that those charged with governance consider whether assurance or other professional services be provided to increase the credibility of that information for users.

In line with our comments above, we are concerned with the reference to “material misstatement” in paragraphs 23 to 26 of the paper. Because no evidence is gathered for an assurance conclusion and there may not be suitable criteria for the other information in an annual report, ISA 720 uses the term “material misstatement of the other information” as a term of art to distinguish it from “material misstatement” generally as used for assurance engagements. The use of “material misstatement” in the paper without “of the other information” will add to the confusion that users already have about the meaning of the term “material misstatement” in connection with other information.

- 4. Section IV describes the different types of engagements covered by the IAASB’s International Standards and Section V suggests that the most effective way to begin to address these challenges would be to explore guidance to support practitioners in applying the existing International Standards for EER assurance engagements.**
- (a) Do you agree?**
 - (b) If so, should the IAASB also explore whether such guidance should be extended to assist practitioners in applying the requirements of any other International Standards (agreed-upon procedures or compilation engagements) and, if so, in what areas? (For assurance engagements, see Q6-7)**
 - (c) If you disagree, please provide the reasons why and describe what other action(s) you believe the IAASB should take.**

It has become apparent to us that practitioners are having difficulty in understanding how to apply existing IAASB standards – and in particular, ISAE 3000 (Revised), ISAE 3400, ISAs 800 and 805 and ISRS 4410 to EER. To this effect, the IDW will publish a short “commentary” on the application of ISAE 3000 (Revised) shortly and will also publish a Handbook on assurance and

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related services that covers all of these engagements this year. However, we recognize that not all jurisdictions have the ability to provide such guidance to practitioners. We therefore agree that guidance for practitioners at an international level may be needed for EER assurance and other engagements. However, as a first step, such guidance ought to be limited to staff guidance (such as a Q&A) that does not move beyond what the standards currently set forth before considering other forms of guidance, such as an IAPN.

- 5. The IAASB would like to understand the usefulness of subject-matter specific assurance standards. ISAE 3410, a subject matter specific standard for assurance engagements relating to Greenhouse Gas Statements, was issued in 2013.**
- (a) Please indicate the extent to which assurance reports under ISAE 3410 engagements are being obtained, issued or used in practice by your organization.**
 - (b) If not to any great extent, why not and what other form of pronouncement from the IAASB might be useful?**

Based upon from what we have heard from members of our profession, ISAE 3410 is used in assurance reports issued by our members.

- 6. Section V suggests it may be too early to develop a subject-matter specific assurance engagement standard on EER or particular EER frameworks due to the current stage of development of EER frameworks and related standards. Do you agree or disagree and why?**

We agree that it may be too early to develop a subject-matter specific assurance engagement standard at an international level on EER or particular EER frameworks due to the current stage of development of EER frameworks and related standards. Many of the challenges identified (see Section V) have not yet been surmounted – in particular in relation to the issues that represent prerequisites for assurance engagements – and therefore it may not be possible for a standard to be developed at an international level. However, in Germany assurance is provided on the management report as part of the audit of the financial statements. Unlike most other jurisdictions, Germany has the main prerequisite for this: a detailed accounting standard that represents the suitable criteria for preparing the management report. As a result, the IDW was able to issue a draft standard for assurance on the management report, which was issued last year. We expect to be able to finalize that standard by the end of this year.

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At an international level, we believe it may be more useful for the IAASB to explore the challenges for different kinds of information and to provide some guidance resulting from that exploration prior to seeking to develop standards.

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

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

(a) We agree with the analysis of the key challenges with the exception of the following:

- The second last sentence of paragraph 99 and the last sentence of paragraph 100 suggest that the content elements of an EER report are less precise (or have less precise depiction methods) than the measurement-based methods primarily used for depicting financial statement elements in common currency units. We believe that preparers, auditors, regulators (including standards setters) and users of financial information are subject to considerable numerical (and in particular, numerical currency) precision bias – that is, simply because estimated financial statement amounts are depicted in numerical form using a common currency and using commonly agreed methods of measurement, these parties presume that these amounts are much more precise than they actually are. In our view, estimated amounts in the financial statements are often subject to the same or similar measurement precision issues that affect non-financial information in EER. Unfortunately, the legitimate discussions on these limitations in relation to EER information are not adequately taken into account in financial reporting standard setting and auditing standard setting – and in particular, in relation to the needed description of such imprecision in

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the financial statements and the commensurate description in the auditor's report of the concomitant limitations that apply to auditors. While the introduction of KAM may help address the latter in some cases, we ask ourselves whether ISA 700 ought to include a provision similar to that in ISAE 3000 (Revised) paragraph 69 (e).

- We believe that more emphasis is required on paragraphs 112 to 114 on the building of assertions. Clarification should be given in guidance that subject matter information represents a bundle of assertions that results from the measurement of evaluation of the underlying subject matter using the criteria. In preparing our draft standard for assurance on the management report, we found that the concept of assertions applies to almost all kinds of information.
- We strongly disagree with the statements made in paragraphs 121 and 123 (and paragraphs 75 and 79 of the Supplemental Information) that the scope of an assurance engagement in relation to future-oriented information is limited to obtaining evidence about the *process* used in arriving at the future-oriented information. We believe that these statements confuse, on the one hand, obtaining evidence (and forming and expressing an opinion) on certain aspects of future-oriented information (1. the reasonableness of the assumptions, 2. whether the future-oriented information is properly prepared on the basis of those assumptions, and 3. whether that future oriented information is presented in accordance with the relevant financial reporting framework) in line with the second last bullet point of paragraph 131 with, on the other hand, obtaining evidence on whether the process to prepare the future-oriented financial information was operating effectively, which would be akin to assurance on internal control. We surmise that the confusion arises from the second aspect, which some might interpret as meaning that the process for preparation from the assumptions is being tested. However, we note that there is in substance no difference in wording between that opinion in relation to the second aspect and the audit opinion provided on financial information prepared in accordance with a compliance framework. Testing the second aspect results in a finding related to whether the future-oriented financial information is properly prepared using the noted assumptions – not whether that process was appropriately carried out. We suggest that the Working Group reconsider its treatment of this issue.

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- In relation to paragraph 132, and paragraphs 94 and 100 of the Supplemental Information, we note that ISAE 3000 paragraph 69 (e) already addresses the description of inherent limitations in the assurance that can be obtained (which is directly linked to the inherent limitations on measurement or evaluation). Furthermore, with respect to long-form vs. short-form reports, our experience has been that long-form reports tend to be more useful for private engagements, whereas short-form reports tend to be more useful when reports are made public, but this is not always the case.
- We believe that the treatment of subject matter information in Figure 2 of the Supplemental Information is not as helpful as it could have been because it does not draw upon the basis for ISAE 3000 in this respect, which was the FEE Paper from 2003 “Principles of Assurance” (which can be downloaded from the Accountancy Europe website). The analysis in this Paper was based on measurement theory, which would clarify that some of the statements made in Figure 2 are not necessarily appropriate. In particular, there are different quantitative scales (for example, ordinal and interval) that cannot necessarily be subject to the noted mathematical operations but yet qualify as quantitative. Furthermore, colors can be quantified into wavelengths of light. We also note that at the very end of the treatment the issue is not subjectivity vs. objectivity, but the degree to which matters can be verified with the needed degree of reliability and validity. Overall, we suggest that the Working Group reconsider its treatment in this Figure to take measurement theory into account.
- Paragraphs 56 to 57 in the Supplemental Information rightly point out the challenge of lack of maturity in governance and internal control over EER reporting, but do not explain the impact of this lack of maturity: the inability to appropriately measure or evaluate the underlying subject matter and obtain adequate evidence to support the depicted measurement or evaluation (with the concomitant effect in the ability of the practitioner to obtain sufficient appropriate evidence).
- In paragraphs 96 and 98 it is unclear why the criteria need to be mentioned because these are not “additional” elements of the assurance report: The assurance report under ISAE 3000 (Revised) is required to describe, or make reference to, the criteria now.

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- It is unclear to us why the second bullet point in paragraph 63 of the Supplemental Information is needed: paragraph 48R (b) of ISAE 3000 provides the conditions when testing of controls is required.
 - With respect to the last sentence in paragraph 101 in the Supplemental Information, we note that the IDW has already provided example reports in draft standards that combine the report under ISAE 3000 (Revised) with the reports required in ISAs 800 and 805. We have found that it is possible to cover both financial and non-financial information in one assurance report as long as the descriptions of the auditor's responsibilities for each kind of report are not inconsistent with one another.
- (b) We agree that guidance may be helpful in addressing each key challenge in Section V, but caution the IAASB that such guidance be entirely consistent with the standards as currently issued.
- (c) Based on our experience, the main barriers to the performance of assurance engagements (other than cost) are the lack of suitable criteria and the lack of maturity of governance and internal control processes, which result in the inability of preparers to appropriately measure or evaluate the underlying subject matter and obtain adequate evidence to support such measurement or evaluation (and thereby hinder auditors in accepting the engagement or obtaining sufficient appropriate evidence). For this reason, we believe these issues ought to be of primary priority.
- (d) Not applicable.
- (e) As we had pointed out, the issue of accountability and evidence needs some treatment within the governance challenge.
- 8. The IAASB wishes to understand the impact on potential demand for assurance engagements, if the Ten Key Challenges we have identified can be addressed appropriately, and in particular whether:**
- **Doing so would enhance the usefulness of EER assurance engagements for users**
 - **Such demand would come from internal or external users or both**
 - **There are barriers to such demand and alternative approaches should be considered.**
- (a) **Do you believe that there is likely to be substantial user demand for EER assurance engagements if the key challenges can be appropriately addressed?**
- (b) **If so, do you believe such demand:**
- i. **Will come from internal or external users or both?**

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- ii. **Will lead to more EER assurance engagements being obtained voluntarily or that this outcome would require legal or regulatory requirements?**
- (c) **If not, is your reasoning that:**
 - i. **EER frameworks and governance will first need to mature further?**
 - ii. **Users would prefer other type(s) of professional services or external inputs (if so, what type(s) – see box in discussion paper for examples of possible types)?**
 - iii. **There are cost-benefit or other reasons (please explain)?**

We believe that addressing the ten challenges appropriately would enhance the usefulness of EER assurance engagements to users, and that demand would come from both internal and external users. Demand from internal users would be primarily voluntary; there also be some voluntary demand for external users. The main barrier to such demand for external users would be cost: obtaining assurance is a costly exercise. Hence, in some cases, legislators might need to consider whether some form of market failure is occurring and then prescribe engagements when the public interest benefit of doing so exceeds the cost. We do believe that addressing the ten challenges (in particular EER frameworks and governance) will help these to mature more quickly. In some cases, users might prefer other options (we note the expert opinion engagements and agreed-upon-audit-type-procedures engagements for which we have standards in Germany) due to cost reasons or because suitable criteria or other prerequisites for an assurance engagement do not exist.

9. The IAASB would like to understand stakeholder views on areas where the IAASB should be collaborating with other organizations in relation to EER reporting.

For which actions would collaboration with, or actions by, other organizations also be needed?

We believe that the IAASB should remain framework neutral and therefore should only seek to provide advice and input to those drawing up reporting frameworks when asked or when the IAASB believes it is in the public interest to do so: Closer cooperation may endanger the IAASB's neutrality with respect to reporting frameworks. With respect to the need for effective governance and internal control, we believe that the IAASB needs to reach out to TCWG and preparers to make them aware of the issues.