Federation of European Accountants
Fédération des Experts comptables Européens

DG Internal Market and Services, Financial Reporting Unit
European Commission
SPA2 00/93
B - 1049 Brussels
E-mail: Markt-F3@ec.europa.eu

27 January 2011

Ref.: SG/PRJ/LFU/MBR

Dear Sir or Madam,

Re: FEE Comments on EC public consultation on disclosure of non-financial information by companies

FEE (the Federation of European Accountants) is pleased to provide you with its comments on the EC public consultation on disclosure of non-financial information by companies (the "consultation document").

We welcome this initiative by the EC to gather stakeholders' views on ways to improve the disclosure by enterprises of non-financial information, at a time when it is crucial to assess the effectiveness and efficiency of the current requirements to improve markets' efficiency, increase investors' confidence and protection and deliver on the EU's commitment to better regulation.

In our view, establishing requirements on corporate reporting at a national or European level would not give due consideration to the international dimension of this issue. Instead, the European Union should contribute to the development of global standards including on non-financial information at an international level. In this context, the European Union should play a prominent role.

The concept of "integrating" the company's key financial and non-financial information could be a means of achieving the objective of reducing the current information overload, while at the same time a way of improving the quality of the disclosures in the current regime and enhancing non-financial information. It would not appear beneficial to simply require additional disclosure. We agree that there would be a benefit from simplifying the existing raft of disclosure obligations and integrated reporting could help achieving this goal.

FEE cares particularly about proportionality based on nature, risk, complexity and size of a business and the obligations and needs of Small and Medium-sized Entities (SMEs). Many of the issues raised in the EC public consultation on disclosure of non-financial information by companies seem almost exclusively focused on the top end of the market relating to listed entities and other public interest entities including financial institutions. Consequently, many of the issues raised appear to be limited to such entities and should not be extrapolated to other entities without in-depth analysis and an appropriate impact assessment of the implications this would have on SMEs.

It would be beneficial to achieve more interaction between the various pieces of information required in the companies' reporting to present better information. Currently, the disclosure of non-financial information can be found spread across different parts of the companies' reporting; for instance in the financial statements within the notes to the accounts, but also in the Directors' report or Management Commentary or other similar type of reports incorporated within the annual reports or disclosed separately elsewhere. Duplication in regulatory requirements should be avoided and the information in the annual reports should be strictly limited to information which might affect decision making of users to avoid information overload.

It would be important to know what the feedback from users is on any new requirements. An appropriate impact assessment should include an in depth analysis of the stakeholder's reaction to any proposed measures.

The lack of trust amongst the stakeholders' community has been commonly highlighted as one of the biggest issues currently being faced, in particular as a result of the financial crisis. This issue of trust is linked to the question of credible disclosure of financial and non-financial reporting, and the reliability of such information. This naturally brings about the question of assurance on disclosed financial and non-financial information, the role auditors can and should have. This issue needs consideration parallel to the development of criteria/ standards or requirements for the disclosure of non-financial information, since the auditability or otherwise of proposed disclosures is an important factor to bear in mind when deciding on the merit of particular disclosures, since to be useful, information needs to be sufficiently reliable.

In this respect, it is also important to consider how the information provided can be made accessible to stakeholders and empower them, its usefulness maximised and its costs minimised. To this end, a growing number of jurisdictions around the world, in particular, the USA, Japan and China, have adopted a global and open standard: XBRL. Europe should not lag behind and consider the value of XBRL that has the potential to facilitate the access to, the exchange and the processing of business information, including non-financial information.

Current projects and initiatives relevant to this subject and running in parallel should be taken into account in this debate, e.g. the IASB debate around the conceptual framework, IFRS Practice Statement on Management Commentary.

It is also important to add that the balance between reporting to the public at large and to those charged with governance of the company is considered. Not all reporting should be public reporting and some reporting is more appropriate to be made just to the supervisory board and/or audit committee.

A fundamental problem relating to sustainability is that very significant costs for society (e.g. damage caused by carbon emissions) are not reflected in financial statements. In the context of looking at enhancing the reporting of companies in general there is a need for a debate, on the most appropriate approach toward reporting such generic risks. While we should avoid any risk of 'boiler-plate' text in reports to investors, we should ensure that financial statements reflect the most relevant information.

Our responses to the Questionnaire of the consultation document are included as an Appendix to this letter. We have indicated in bold (red) the applicable answer(s) selected in the box for each question and presented our detailed comments under each question. We have also submitted a response to the questionnaire electronically. FEE's ID number on the European Commission's Register of Interest Representatives is 4713568401-18[1]. FEE is responding to the Questionnaire on behalf of its Member Bodies and not any particular individual country.

For further information on this letter, please contact Leyre Fuertes, Project Manager, at +32 2 285 40 76 or via email at leyre.fuertes@fee.be from the FEE Secretariat.

Yours sincerely,

Philip Johnson
President

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[1] FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 45 professional institutes of accountants and auditors from 33 European countries, including all of the 27 EU Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 500.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.
FEE's objectives are:
To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
To represent the European accountancy profession at the international level.

We have indicated in bold (red) the applicable answer(s) selected in the box for each question and presented our detailed comments under each question.

Question 1

How would you consider the current regime of disclosure of non-financial information applicable in your country? (compulsory) [possible answers include (i) Very poor, (ii) Poor, **(iii) Sufficient**, (iv) Good and (v) Very Good]

FEE is responding to the Questionnaire on behalf of its Member Bodies and not any particular individual country. Our understanding is that, in general, the current regime of disclosure of non-financial information could be improved.

Currently, the disclosure of non-financial information can be found spread across different parts of the companies' reporting; for instance in the financial statements within the notes to the accounts, but also in the Directors' report or Management Commentary or other similar type of reports incorporated within the annual reports or disclosed separately elsewhere. In our opinion, a "better linkage" is required between these various pieces of information to offer a more "integrated" approach to disclosing non-financial information in order to enhance the understanding and relevance of the information that is provided. Duplication in regulatory requirements should be avoided.

Moreover, it is important to acknowledge that in practice, there appear to be a number of short-comings in the general corporate reporting impacting also on the appropriateness of non-financial information disclosure. Some of the short-comings in the general corporate reporting that we are aware of and that could adversely affect the regime of disclosure of non-financial information include:

- lack in strategic focus and linkage to reporting;
- increasing length and complexity in reports without due consideration to the relevance objective;
- external reporting increasingly separate from internal management information;
- governance reporting driven more by form than substance;
- sustainability reporting - often a stand alone "silo" not connected into business thinking; and
- uncertainty on what is audited.

The apparent lack of a proper regime of disclosure of non-financial information might also be partly due to the fact that there are no clear principles and/or standards defined yet for this type of disclosures.

Question 2

Have you evaluated the effects, and costs and benefits, of any current corporate disclosure of environmental and social information? (compulsory) [possible answers include (i) Yes, **(ii) No**, (iii) No opinion]

FEE has not performed any such assessments[2].

Question 3

If you think that the current regime of disclosure of non-financial information should be improved, how do you suggest that this should be done? Please explain (optional)

In our view, the disclosure of non-financial information should be closely linked to the company's plan and business strategy in order to provide relevant information to users.

With the current reporting information overload, possible lack of comparability and resulting lack of understandability, users of information cannot see “the wood for the trees”. It would be beneficial to achieve more interaction between the various pieces of information required in the companies’ reporting to present better and relevant information. A direct benefit of achieving this would be streamlining the current number of disclosures and achieving “better” quality of reporting as opposed to the current and less relevant “quantity” of reporting.

The concept of “integrating” the company’s key financial and non-financial information could be a means of achieving the objective of reducing the current information overload, while at the same time a way of improving the quality of the disclosures in the current regime and enhancing non-financial information. It would not appear beneficial to simply require additional disclosure without a proper review of the current requirements with a critical focus on relevance. We agree that there would be a benefit from simplifying the existing raft of disclosure obligations and integrated reporting could help achieving this goal by integration and replacement of less relevant information by a more relevant one.

Moreover, the current regime could be improved by enabling some degree of “standardisation” whereby clear principles are established to help better define the disclosure of non-financial information that is required. Requirements must be flexible enough to allow companies to tailor the disclosures to their circumstances in order to avoid ‘boiler-plate’.

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[2] We would bring to the attention of the EC the study by Tomorrow’s Company in partnership with CIMA and PwC ‘Tomorrow’s Corporate Reporting’ to explore the reporting system and to assess the barriers and enablers that can bring about change. We believe this work might offer an insight into the main factors to be considered in order to move towards more effective corporate reporting. We understand this report will be available at the end of February 2011.

The report issued by the Institute of Chartered Accountants in England and Wales, ‘Developments in New Reporting Models’, might also offer some insight into this topic.

Management and the board(s) of an entity need to assess the risks associated with the business model, report and disclose accordingly in their financial statements and annual report. The higher the degree of uncertainty is, the more reliance needs to be put on estimates, the more judgements are to be used and the more difficult it becomes for the entity, its management and board(s) to publicly report financial and non-financial information and disclose commercially sensitive information. Therefore, there are limits to the disclosure of financial and non-financial information.

Furthermore, the provision of additional non-financial information by management and/or the board(s) would be a significant change from current laws and regulations for financial and other reporting in most EU Member States. Therefore, further debate on these proposals with all relevant stakeholders is needed to balance the information needs of the investor community with the disclosure of business information without damaging the commercial interests of entities. The potential liability of all parties involved should also be considered.

The going concern assumption is a fundamental principle in the preparation of financial statements and, as such, should be properly assessed. This assessment involves making a judgement, at a particular point in time, about inherently uncertain future outcomes of events or conditions.

It may be necessary for some information to be reported internally and not to the public, since, in determining the exact extent of such disclosures that should be made public, as opposed to being provided internally, it is necessary to bear in mind the potential for disproportionate or irrational market reactions that could lead to risks becoming virulent, which were hitherto merely latent risks (i.e. not create self-fulfilling prophecies).

Disclosure of key business risks

Going forward, management and/or board(s) of an entity could also disclose key risks associated with the entity's business model (longer than 12 months) and its longer term sustainability addressed in financial and non-financial terms. This is also already considered within many entities as part of the normal strategic review but only reported internally. If stakeholders, particularly shareholders and other users, are interested in receiving such information, and entities are prepared to disclose such information, it could be described in the management or director's report as included in the annual report of the entity. When considering such disclosures they should be proportionate to the nature, size and complexity of the entity. As noted in the preceding paragraph, care would need to be given in determining the extent of such disclosures for the reasons explained therein. The information provided in annual reports should contribute to the decision making of its users, i.e. information not relevant for this purpose might be disclosed e.g. on company's websites or special reports to avoid information overload.

Corporate governance statement in listed entities

In 2010, an EC Green Paper on "Corporate Governance in Financial Institutions and Remuneration Policies" has been issued and in 2011, an EC Green Paper on corporate governance in listed entities and possibly also in other entities is expected. The results of these consultations should be carefully considered to determine whether any further disclosures of non-financial information in the form of corporate governance disclosures in the corporate governance statement are proposed. It should also be considered whether a corporate governance statement is also proposed for other types of entities like for instance for large entities.

As corporate governance matters are often not straightforward to enforce based on laws and regulations, FEE has, along with most other stakeholders, been a long standing supporter of the 'comply or explain' approach to corporate governance for all companies, and comprehensive disclosure in a corporate governance statement.

Some argue that, in light of the financial crisis, following a 'comply or explain' approach is no longer appropriate. However, the current approach to regulation, governance codes, guidance, etc., in relation to corporate governance differs significantly from one EU Member State to another. These differences between jurisdictions need to be understood and considered in detail before making any further proposals in respect of corporate governance.

Question 4

In your opinion, should companies be required to disclose the following (check all relevant boxes): (optional)

☒ **Whether or not they have a CSR policy, and if they do, how they implement that policy and what the results have been.**

☐ **The principal business risks and opportunities arising from social and environmental issues, and how they are taken into account in company strategy.**

☐ **Key information regarding issues such as employee engagement (e.g. employee training policy, equality and diversity, etc.); customer satisfaction (e.g.: customer loyalty); public perception of the company (e.g.: stakeholder dialogue); environmental policies (e.g. energy efficiency, waste reduction); and innovation (e.g.: R&D expenditure).**

☐ **Other**

In our view, the preferable disclosure of these three should be whether or not companies have a CSR policy, and if they do, how they implement this policy. However, a "comply or explain" approach could be applied, otherwise the statement risks being articulated in generic 'boiler-plate. In a phased approach that could be further investigated, mandatory reporting should primarily apply to listed companies in a first step and large companies as a second step. For our comments on the scope of the requirements see the response to Question 9.

Other disclosures such as the reporting company's principal business risks and opportunities arising from social and environmental issues or key information such as employee engagement could fall within the overarching disclosure described above.

Other relevant aspects that should be considered in the enhancement of disclosure of non-financial information are corporate governance and disclosure of key business risks, as referred to in further detail in our response to Question 3. Having said this, a key concern is that we need to be careful that the outcome is not solely resulting in more reporting, more rules and increased information overload.

We understand that the question of the present consultation might not be just about enhancing CSR policy but ensuring more effective reporting in general and of non-financial information in particular. In our view, the concept of integrated financial information with non-financial information could help achieving the objective of improving the current disclosures.

Question 5

In your opinion, for a EU measure on reporting of non-financial information to achieve materiality and comparability it should be based upon (check all relevant boxes): (optional) [possible answers include **(i) Principles**, **(ii) Key Performance Indicators (KPIs)**, (iii) Other]

For an EU measure on reporting of non-financial information, we would favour an approach that combines both principles and company specific KPIs.

As a matter of principle, FEE believes that information systems should embrace performance indicators. This information, whenever material, should be embedded as a core part of the business strategy and decision-making.

As a result, company specific KPIs could provide useful information about the way the company is managed and should be understood and connected to the company's performance by stakeholders to ensure maximum transparency and accountability.

Question 5a)

In case you consider that Key Performance Indicators (KPIs) would be useful, would you think that they should be (check all relevant boxes): (compulsory) [possible answers include **(i) General for all economic sectors**, **(ii) Sector specific**]

Developing a common set of KPIs that are relevant to the reporting businesses on a principles-based basis would enhance the comparability of the reporting. The company needs to explain why the chosen KPIs are relevant to the company. In addition, specific principles for the selection of KPIs should be developed.

Question 5b)

Please indicate which indicators you would consider to be the most relevant for all economic sectors: (optional)

There are different needs among investors and other stakeholders. Because of this, it might be preferable to set the underlying principles and develop guidance on this basis recognising that it will not be possible to respond to each individual need. In this respect, it might be useful providing a list of KPIs that could be used as a best practice example. This could be a non-exhaustive list that could also be adapted for developments in stakeholders needs.

We would support further integration of existing KPIs' frameworks to help facilitate a list of what the various stakeholders believe to be the most relevant indicators.

Question 6

In your opinion, what should be the process to identify relevant principles and/or indicators (whether general or sector-specific)? Please explain In replying to this question, please comment on whether the Commission should endorse or make reference to any existing international frameworks (or a part of them), such as Global Reporting Initiative (GRI), UN Global Compact, the OECD Guidelines, ISO 26000, or other frameworks; or whether companies should be required to select relevant indicators together with their investors and other stakeholders and to disclose information according to such indicators, depending on the use that different stakeholders would make of such information. (optional)

It is important for companies to have guidance on how to identify relevant KPIs. Integrated reporting could help to better link the existing KPIs frameworks within the reported information.

Question 7

In your opinion, should companies be required to disclose the steps they take to fulfill the corporate responsibility to respect human rights? (compulsory) [possible answers include (i) Yes, (ii) No, **(iii) No opinion**

It would be important to determine whether current national legislation provides a sufficient framework for this specific type of disclosure.

In principle, we believe that requiring companies to adopt a "comply or explain" approach in relation to their policy with respect to their corporate responsibility to respect human rights could be a step forward.

Having said this, this information where relevant could fall as a requirement under the overarching disclosure of whether companies have or not a CSR policy, and if they do, how they implement this policy (see in Question 4) and not be treated as a separate disclosure requirement.

Question 8

In your opinion, should companies be required to disclose the risks they face and the policies they have in the field of corruption and bribery? (compulsory) [possible answers include (i) Yes, (ii) No, **(iii) No opinion**]

Requiring companies to disclose their policies with regards to the ethical principles they have in place and their whistle blowing systems could improve the transparency of the reported information and understanding of the risks they face.

However, before including additional disclosure requirements, it would be important to determine whether current national legislation provides a sufficient framework for this specific type of disclosure.

In principle, in the same way as with the disclosure on the policy with respect to corporate responsibility to respect human rights (see Question 7) requiring companies to adopt a “comply or explain” approach could be a step forward. This information where relevant could fall as a requirement under the disclosure of whether companies have or not a CSR policy, and if they do, how they implement this policy (see in Question 4) and not be treated as a separate disclosure requirement since this creates a risk of “boiler-plate” non-informative disclosures.

Question 9

In your opinion, what companies should be required to disclose non-financial information (check only one box)? (compulsory) [possible answers include (i) Large listed companies, (ii) Large companies (listed and non-listed), (iii) Medium-sized & Large listed companies, (iv) Medium-sized & Large listed companies (listed and non-listed), (v) All listed companies (Small, Medium & Large), (vi) All listed & non-listed companies (Small, Medium & Large), (vii) None, **(viii) Other**]

On the question of scope, large companies (listed and non-listed) might be the most appropriate category.

However, in relation to the disclosure of key business risks, such information is commonly felt relevant for all businesses and not just for large and listed companies. When considering such disclosures they should be proportionate to the nature, size and complexity of the entity. Medium-sized and particularly small businesses should only be subject to simplified requirements.

A “comply or explain” approach could be applied. In a phased approach that could be further investigated, mandatory reporting should primarily apply to listed companies in a first step and large companies as a second step.

Question 10

In your opinion, should institutional investors be subject to specific or additional disclosure requirements, for example to disclose whether and how they take into account environmental and social issues in their investment decisions? (compulsory) [possible answers include (i) Yes, (ii) No, **(iii) No opinion**]

In our opinion, the question of whether institutional investors are subject to specific or additional disclosure requirements regarding environmental and social issues in their investment decisions is closely linked to the outcome of the more general debate around whether or not companies in general are required to provide such disclosures and to provide information on the future developments regarding integrated reporting.

Furthermore, when assessing whether specific or additional disclosure for institutional investors should be required, we believe that there are a number of additional questions that arise and that will need to be addressed:

- Firstly, the question of where any specific or additional disclosure should be included for institutional investors. This could be in the notes to the financial statements, or in the Management Commentary or similar report but could also be included in the non-financial information that is to be integrated with the financial-information or as part of separate regulatory reporting. We would like to note however, that requiring exceptions for certain entities within the general financial reporting framework means also heading towards a more rules based approach which FEE does not necessarily favour.
- The purpose of requiring institutional investors to provide specific or additional disclosure needs to be clearly determined as it will have an impact on the decision of where this particular information should be required (e.g. in the regulatory reporting (and hence not necessarily published) or rather information publicly available).
- The question regarding the frequency of reporting will be important and closely linked to the questions above. In our opinion, annual reporting would be appropriate.
- It might not be clear at this point in time which EU regulation or directive should require such disclosures. This question will also depend on the outcome of the above considerations.
- In addition, there might be “extraterritorial” consequences if the impact of specific or additional disclosures is that not only institutional investors located in the EU are required to provide such information but also non-EU investors in European companies. As the resulting European requirements would thus have effect outside the EU, it will be difficult to ensure that such disclosures are properly regulated.

In addition, the above considerations show that a reporting framework would be needed to ensure a consistent platform. The development of a framework to deal with integrated reporting not only for institutional investors but for a wider range of companies could be an answer.

Question 11

In your opinion, should European policy promote the concept of "integrated reporting"? Integrated reporting refers to a report that integrates the company's key financial and non-financial information to show the relationship between financial and non-financial performance (environmental, social, and governance).
(compulsory) [possible answers include **(i) Yes**, (ii) No, (iii) No opinion]

In answering this question, we believe that it is necessary to distinguish clearly between the increasing attention to integrated reporting on the one hand and the further development of separate sustainability reporting targeted at different stakeholders groups.

FEE is in support of integrated reporting as it represents a “holistic and integrated account of a company’s strategy and of its financial and non financial performance”. While FEE continues to be committed to supporting the further development of sustainability reporting, “integrated reporting” should not be confused with the necessary and separate evolution of sustainability reporting.

Integrated reporting is indeed referred to as a holistic approach to enable investors and other stakeholders to understand how an organisation is really performing. Addressing the longer-term consequences of decisions and actions, an integrated report makes the link between financial and non-financial value clear. The relationship between an organisation's strategy, governance and business model should be transparent through such reporting. It also gives an analysis of the impacts and interconnections of material opportunities, risks and performance across the value chain.

The growing trend towards ‘integrated reporting’, bringing financial, governance, environmental and social reporting as well as management reporting into a consistent framework should be noted as it carries considerable promise and is likely to result in significant change. Although it is still early days to assess the impact of integrated reporting, it emphasises the importance of some of the key factors which are critical in responding to the crisis[3]. FEE therefore calls on the European Commission to support the development of ‘integrated reporting’.

We encourage the European commission to consider the work of the recently established International Integrated Reporting Committee (IIRC) in this area. We understand that a paper by the IIRC will be issued in the first half of 2011 and this should be considered carefully.

[3] FEE has recently issued a Factsheet on Integrated Reporting (available for downloading at http://www.fee.be/fileupload/upload/Integrated%20Reporting%20January%2020112712011491010.pdf

Question 12

In your opinion, should disclosed non-financial information be audited by external auditors? (compulsory) [possible answers include **(i) Yes**, (ii) No, (iii) No opinion]

FEE position

The provision of assurance on disclosed non-financial information is likely to add value to stakeholders.

Greater transparency can play a role in helping to restore trust in business. Better information is critical in facilitating well informed decision-making that takes account of risk and other factors. Increasingly investors are demanding more developed and sophisticated reporting on non-financial issues.

FEE believes that with the current evolution of corporate reporting and of stakeholders' demands, auditors seem well placed to provide independent reliable assurance in the different fields of non-financial disclosures including key business risks, corporate governance reporting and statements, CSR and ESG reporting, etc., while taking into account the factors to determine the involvement of external auditors with disclosures of non-financial information as noted above.

As noted in our response to Question 11 regarding the growing trend towards 'integrated reporting', the likely resulting significant changes will also impact on the provision of audit and other assurance services in the future.

Audit or assurance?

The provision of services by external auditors can be in different forms and is definitely not limited to audit. In answering Question 12, we have assumed that it asked about the provision of assurance by external auditors on disclosures of non-financial information rather than audit of such information. The assurance services which an external auditor can provide include:

- An reasonable assurance engagement whereby the external auditor issues a positively worded auditor's opinion;
- A limited assurance engagement whereby the external auditor issues a negatively worded auditor's conclusion;
- A consistency check whereby the auditor expressed an opinion concerning the consistency or otherwise of the information in the annual report with the financial statements, etc.

In this respect, we refer to Chapter 5 in the FEE Discussion Paper for "The Auditor's Role Regarding Providing Assurance on Corporate Governance Statements"[4]. Apart from the different forms of auditor's involvement, certain factors should be considered in deciding whether to involve the auditor and on which disclosures to seek his involvement, as referred to in Section 5.5 of the FEE Discussion Paper.

The level of auditor's involvement with non-financial information should be further analysed as the range of this involvement could vary from no involvement at all to the external auditor providing reasonable assurance on all non-financial disclosures.

Responsibilities of management, boards and external auditors

The preparation, reporting and presentation of financial and non-financial information are a responsibility of management and the board(s) of the company. The auditor's responsibility consists of the provision of assurance services, including audit, in respect of financial and other information produced by management and board(s). It follows that the auditor's responsibility must be seen as 'secondary' to management's and board(s)', without consequently exceeding the responsibilities assumed by those who originate the information.

External auditor's involvement with non-financial information

If there would be a clear public interest for enhancement of the role of the external auditor coming from regulators, investors and other stakeholders, external auditors can be involved with non-financial disclosures as prepared by entities. Factors to keep in mind include:

- The decision should be preceded by a comprehensive cost-benefit analysis on such enhanced auditor's involvement, including consideration as to the cost of no involvement (potential lack of reliable information);
- Consideration should be given to the different needs of various categories of users, which could be the board of directors, the supervisors or the public;
- External auditors' involvement with non-financial disclosures cannot exceed the responsibilities assumed by management and the board of directors;
- There are inherent limitations to the external auditor's involvement in this respect, especially in case of forward looking information;
- External auditors can ordinarily not be involved with the risk appetite or risk strategy as determined by the board of directors of the entity;
- There is a need for frameworks, benchmarks, or standards for reporting for auditors to be involved and to base their opinion or conclusion on. Such frameworks are yet to be developed and agreed by the stakeholders involved and preferably should be robust, subject matter specific, consistent and harmonised on European or international level;

[4] http://www.fee.be/publications/default.asp?library_ref=4&content_ref=1167, November 2009

As explained above, the provision of services by external auditors can be in different forms;

- The assignment could be carried out either by the statutory auditor or another independent and suitably qualified assurance practitioner, depending on whether the work on disclosures of non-financial information is a statutory engagement or otherwise;
- Although external auditors must be held appropriately responsible for their work and opinions issued, this should be to no greater extent than is reasonable by bringing in the notion of limitation of auditors' liability or safe harbour limitations. At a minimum, it should be ensured that auditors are not responsible for differences between estimates on one hand and actual outcomes on the other unless clear professional negligence is proven.

There is a genuine need to consider all the different factors as indicated above and this demonstrates that it is very important to find the right balance before any final decisions are made on the way forward regarding the auditor's involvement with non-financial information. These considerations need to be taken into account throughout the process of developing reporting criteria/requirements etc,; not as an afterthought.

Target audience for external auditor's assurance on non-financial disclosures

A number of different target audiences can be identified for additional external auditor's involvement with and reporting on non-financial information as follows:

- Private reporting to executive management, board of directors, audit committee or other relevant committee;
- Reporting to supervisory authorities;
- Public reporting to the shareholders and the public at large.

The level of possible external auditor's involvement will depend on the type of non-financial information and the target audience.

As already discussed above, there is a clear merit in further detailed discussions about the level and form of auditor's involvement and the disclosures to which any such involvement would relate.

Question 13

If you have relevant documents you want to share with us, please attach them here. (optional)

To view FEE's comments on related public consultations and projects see FEE's website from where all publications and comment letters can be downloaded in www.fee.be.