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**Your Ref: Comment letter on Supporting Credibility and Trust in Emerging Forms of External Reporting
- Ten Key Challenges for Assurance Engagements**

Dear Sir.

Thank you for giving us the opportunity to comment on your Discussion Paper on Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements. I will comment on Challenge 3: Addressing Materiality for Diverse Information with Little Guidance in EER Frameworks.

What is the nature of materiality?

Materiality is related to relevance in the sense that material information is relevant to a fair presentation in Emerging Forms of External Reporting (EER). Materiality can be considered a subset of relevance, or rather, a threshold which determines whether information is relevant. It is both an entity-specific consideration, and a user-specific consideration, and therefore depends on the particular reporting entity's situation and the perceived (or stated) tolerances of users. This dual dependence does not easily permit a rules-based or uniform quantitative materiality threshold, rather a principles-based, entity- and user-specific materiality threshold.

Who should define the threshold of materiality?

Given the nature of materiality, which depends on the nature and magnitude of a particular item in relation to a particular reporting entity's situation, it demands a principles-based, entity- and user-specific consideration in order to determine its threshold. This should only

reasonably be determined by the particular individual reporting entity and its auditors before the event.¹ It can not be reasonably determined by accounting enforcers and standard setters uniformly or in isolation. Should a question of materiality arise after the event, its implications and consequences will certainly depend on the process and due consideration given to materiality by the reporting entity and its auditors before the event.

Is there a need for more guidance in this regard?

Paragraph 109 of the Discussion Paper states that:

“The content of EER reports is generally less comprehensively specified and more judgmental in EER frameworks than in financial reporting. A key challenge, therefore, in an EER assurance engagement is how to assess what would be material, when both the users and their information needs can be diverse or even unknown. EER frameworks do not always provide direction on materiality.”

Furthermore, paragraph 110 then states that:

“Given that ISAE 3000 (Revised) has to be framework-neutral, it provides only high-level guidance on materiality that would need to be taken into account if the concept is not well-defined in the EER framework.”

There will be differing views regarding the practical application of the concept of materiality in EER amongst preparers, auditors, users of the EER and, possibly, accounting enforcers and standard setters. The Discussion Paper has certainly highlighted the lack of clear direction and guidance on materiality in EER. I accept that this is the case, and would therefore strongly welcome further guidance here.

Yours faithfully

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¹ Individual users will have their own views after the event, which the reporting entity must pre-consider in its determination of the threshold.