Agenda Item
6–B.1

Extended External Reporting (EER) Assurance Consultation Paper– Question 1

Question 1 of the consultation paper for EER Assurance asked respondents:

Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1? If not, where and how should it be improved?

1. CRUF

References 1-2

(1) Confirmation process on the suitability of the criteria

The Corporate Reporting Users' Forum welcomes the opportunity to comment on this consultation. We appreciate that the IAASB Consultation Paper on Extended External Reporting (EER) Assurance (hereafter CP-EER) addresses, in Chapter 7, the determination of suitable criteria (as required by ISAE 3000 (Revised)), which includes judging if the criteria is relevant or not by considering if the subject matter information would assist decision-making by the intended users of the EER.

In our opinion, not all practitioners necessarily confirm the suitability of criteria adequately in their current assurance practice on non-financial information, assuming that the criteria adopted by preparers are relevant. We hope that the proposed guidance will establish the confirmation process on the suitability of the adopted criteria, ensuring that the practitioners confirm it during assurance engagements.

That said, we are concerned that the CP-EER does not clearly distinguish the guidance on the suitability confirmation procedure for the adopted criteria developed by a public standard setter, from that on the entity-developed criteria to complement the shortcomings of the adopted criteria. We think the guidance for these two should be more clearly distinguished.

(2) Types of misstatement

We strongly support that the types of misstatement in paragraph 184 of Chapter 9 includes a) an omission of information (failure of completeness assertion), and d) bias information, so that positive aspects of performance are focused and negative aspects are omitted (failure of a neutrality or presentation assertion). However, it is desirable to describe the types of misstatement at the beginning of Chapter 12 because discussions on the types of misstatement are important, not only from the view of the use of assurance services but also from the view of the appropriate presentation or disclosure of subject matter information.

Reference 3

（3）Assuring narrative information and future-oriented information

We are concerned that narrative information discussed in Chapter 10 and future-oriented information in Chapter 11, may result in too subjective, biased or unrealistic information. In this regard, we hope the assurance engagement will improve the quality of such information. Having said that, we would welcome an entity proactively providing us with relevant information, such as the message from the management and growth story in the integrated reports or annual reports. The guidance may rather undermine the relevance or completeness, if it includes too rigorous a requirement for the EER to be objective, neutral and understandable.

We believe the practitioners of assurance engagements should consider the balance between the benefit of the sufficient disclosure of relevant information to users, and the mitigation of the risk of undermining objectivity, neutrality and the understandability of information. We hope that the guidance will clearly state that the practitioners should consider this balance. On the other hand, an audit firm that undertakes assurance services needs to foster practitioners of assurance with skills to evaluate and determine whether there may be material misstatements in qualitative information or future-oriented information from the perspective of investors. In that sense, the content of "Chapter 4: Applying Appropriate Skills " will be very important.

The national or jurisdictional regulators will start to encourage the companies to disclose the risk and opportunities of climate change, and the impacts on their financial statements based on the Taskforce on Climate-related Financial Disclosure (TCFD) framework. We believe this topic should be addressed in Phase 2.

10. NBA

Reference 1

- Most of the related challenges are included in the guidance, We expect these EER assurance services to be more and more provided and that EER reporting will evolve rapidly.. It is therefore essential that the guidance is as fit-for-purpose as possible in terms of technology (IT-based internal controls, IT-based reporting: electronic base with hyperlinks, IT-based assurance practices) and integration and connectivity of information (integrated reporting, implying further integration of financial (external) reporting and extended external reporting). IAASB may consider more emphasis on these issues in the guidance

Reference 2

- EER reporting is for a large part voluntary and is frequently prepared beyond existing reporting frameworks. Features vary in terms of context, storytelling and company –specific indicators. The absence of a significant body of established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time. Management is responsible to determining that the applicable reporting criteria are acceptable in the circumstances.' Determining the scope of an EER assurance engagement for an entire report in this context is a practical challenge that might need more emphasis in the guidance.

References 3-7

- The guidance on the issue of materiality is very helpful, as it is a complicated matter. We recommend separating more clearly reporting materiality for preparers and the materiality concept relevant for the practitioners of an assurance engagement.

- Assessing materiality could be described more explicitly. Especially relating to the completeness of reporting materiality aspects as well as the performance challenges. What work needs to be performed to take qualitative aspects into account? How to quantify materiality per individual indicator and how to aggregate? How the materiality aspect is to be included in a sampling approach?

- In EER engagements reliance on the work of others is common practice. Limited or no guidance is included on how to use the work of financial auditors, internal auditors and subject matter experts. Is Following ISAE 3000 sufficiently adequate or is additional guidance envisaged on how to rely on the work of others?

- In our practice in the Netherlands assurance engagements show often a combination of reasonable and limited assurance in one single engagement. This is unsufficiently covered in the guidance. The IAASB may consider more guidance in this respect.

- There is a need for clarification on the guidance for future oriented information, the impact on the work and the report of the assurance provider in terms of limitations and disclaimer.

References 8-9

- More guidance is requested how to deal with financial information; especially regarding how to deal with financial indicators, which are quite common aspects in GRI-reports and in Integrated Reporting.

- Integrated or sustainability reports may contain the outcomes from an impact measurement performed by the client or an external expert. Given the characteristics in terms of assumptions, inherent uncertainties and the public availability of impact measurement models, an assurance provider will have to design an assurance approach that fits those characteristics. We recommend the IAASB to provide further guidance on these aspects.

Reference 10

- We recommend to separate the guidance for assurance engagements with limited assurance from those with reasonable assurance, perhaps in two separate columns.

Reference 11

- The guidance elaborates quite extensively on the preconditions for accepting an engagement to assist assurance practitioners. We encourage the IAASB to clarify this aspect of the guidance as the impression may arise that assessing the preconditions is quite burdensome and seems to be not proportionate, for example on the suitability of criteria. Paragraph 46 refers to preconditions in ISAE 3000; but the reference is not really clear.

11. NZAASB

Reference 1

- Clarify the delineation between the preconditions for an assurance engagement and performing the engagement by setting a clear expectation as to the work effort required at each stage, i.e. how much is enough when determining whether the preconditions have been met. This should also recognise that considerations related to internal control and suitable criteria are iterative and may in some circumstances be informed by procedures performed after accepting the engagement.

Reference 2

- A flowchart diagram may be useful to emphasise the more iterative nature of this evaluation. (An example of such a flowchart, developed for NZ AS 1, is attached as appendix 1, for illustrative purposes).

Reference 3

a.   Applying appropriate skills in an EER assurance engagement will be considered in phase 2. Under the 'obtaining evidence' heading in Chapter 2, the consultation paper states that use of experts and the work of another practitioner are outside the scope of this guidance. In practice, the need to use experts or the work of another practitioner is a particular challenge where additional guidance and examples would be welcomed.

References 4-5

b.   Other information has been identified as outside the scope of the guidance. Other information that is be scoped out of an EER assurance engagement may be a particular challenge for practitioners. Additional guidance and examples would be welcomed.

c.   Guidance on how to make the criteria available to intended users would be helpful. This may be addressed in the guidance to be developed on reporting. The requirement in ISAE 3000 (Revised) for the practitioner to evaluate whether the criteria are available to intended users proved to be a challenge when developing NZ AS 1. It is unclear from paragraph 37 of the draft guidance as to whether this will be covered in Phase 2. Adding additional guidance in Chapter 3 and/or when developing guidance on reporting would be useful.

The example of water intake in paragraph 114 of the draft guidance could be used to clarify this point. Is reporting xx litres of water, making the criteria available?

Paragraph 116 of the draft guidance clearly articulates a key issue discussed in developing NZ AS 1 i.e., the multiple layers within criteria. Additional guidance on how to refer to this multiple layering of criteria in the assurance report would be helpful to address in phase 2. In addition, more guidance on how to report will be helpful, not limited to just a binary yes or no opinion, rather reflecting the reporting recommendations, etc as contemplated by ISAE 3000 (Revised).

Reference 6

A key area where the NZAuASB considers the draft guidance would benefit from further clarification is the delineation between the preconditions for an assurance engagement and performing the engagement, especially in clarifying how much is enough when determining whether the preconditions have been met. This clarification is needed especially in the way in which the draft guidance links the preconditions, the suitability of the criteria and the system of internal control.

The inter-relationship between chapters 3, 6 and 7, and the actual performance of the assurance engagement once accepted is not clear. For example, the diagram in paragraph 46 of the draft guidance references chapter 7 but parts of chapter 7 appear too advanced for the acceptance phase of an engagement, which is completed based on a preliminary knowledge

References 7-8

A flowchart, similar to the illustrative flowchart attached in the appendix, may assist to emphasise the iterative nature of the evaluation.

The NZAuASB's comments on the evaluation of the system of internal control are covered in more detail in response to question 4 and 5 below.

The NZAuASB considers the draft guidance may imply there is a need for a significant amount of knowledge to determine whether the preconditions for an assurance engagement are met, due to:

- the lack of maturity in many of the EER frameworks;

- the range of frameworks available that are combined by preparers to prepare EER information; and

- the need for some level of maturity in thinking and processes to prepare the EER information.

These challenges almost "require" some kind of assurance readiness assessment as part of the determination as to whether the preconditions have been met. If such an assessment is not performed separately, in many instances it is unclear how, practically, a practitioner would be able to determine whether the preconditions have been met. This may imply that EER engagements are expected to be recurring engagements, which may not be a valid assumption, or that an assurance readiness assessment will lead to an assurance engagement which may not be the case. It may also imply that meeting the preconditions may get easier over time, which again may not be a valid assumption, given that each year the entity may be reporting on variable subject matter. The entity's internal controls may therefore always have some lack of maturity, and the developing draft may imply that an assurance engagement may therefore never be appropriate.

Reference 9

To evaluate whether the engagement has a rational purpose, paragraph 49 of the draft guidance notes it may be appropriate to consider who the intended users are and whether the EER report will be used or distributed more broadly than to identified users.   This may be an onerous requirement for the practitioner. The NZAuASB received feedback when developing NZ AS 1, that it is more appropriate for the practitioner to evaluate the entity's process for identifying intended users and whether this is reasonable, rather than expecting the practitioner to identify intended users. The intended users may also be defined by the EER framework that is used and may be narrowly or more broadly defined by these frameworks.

References 10-11

The NZAuASB is supportive of the guidance included on assurance readiness engagements and 'maturity assessments'. This is reflective of what is happening in practice in New Zealand. The NZAuASB cautions against implying such an assessment is always needed as a precursor to an assurance engagement.

The NZAuASB agrees the guidance should address the challenge of a lack of maturity in internal controls. However, the NZAuASB cautions that an undue focus on the maturity of the 'controls' at the preconditions phase of an engagement may be too high a bar for accepting the engagement. Given the lack of maturity of many EER reporting frameworks, the assurance practitioner is taken back to first principles. There is a need for the preparer to develop a maturity of thinking to identify what matters to report on (as a first priority rather than on first developing controls) and for the assurance practitioner to work to provide as much assurance as possible..

References 12-14

Practitioners from New Zealand have highlighted that in practice, preparers and users generally have a low understanding of the preconditions for assurance engagements and the need for internal controls. Practitioners are therefore playing an educative role. An undue focus on internal control may have the unintended consequence of focussing the preparer and the auditor on the internal control systems before a preparer has matured its thinking in preparation for EER. Such an approach may contribute to a siloed approach to preparing EER. The NZAuASB considers this need for the preparer to have developed its thinking should also be emphasised in the guidance, alongside the need for controls and processes to implement the entity's thinking. There is also a need to emphasise that the practitioner's evaluation of the entity's materiality process, suitability of the criteria and the appropriateness of the internal controls is an iterative process, not limited to the acceptance phase.

References 15-16

We have identified the following paragraphs of the draft guidance for clarification:

- Consideration of the preparer's thinking and readiness to report, as an overarching consideration prior to the detailed processes described in paragraph 67.

- The type of control activities listed in paragraph 70 could also highlight controls to address management bias in selecting elements to report on, not only the measurement bases selected.

- The governance and oversight process as described in paragraph 71 should not only focus on the process to prepare but include a higher level of governance over what and how best to report. The governance and oversight process listed in paragraphs 71 could also refer to the process around seeking assurance over the EER information. In many instances, assurance is voluntarily sought, and may be for internal purposes only or for a select group of users. Clarification by the preparer as to why assurance is sought may assist the assurance practitioner in evaluating whether the preconditions for assurance have been met. (I.e., the level of assurance sought, what measures have been selected for the scope of the engagement).

- Re-ordering paragraph 71 to bring Governance and Oversight before the paragraphs on reporting system could be another way to reinforce this. Also amending the diagram in paragraph 62 to have the governance and oversight as an overarching component may help to emphasize this point.

- When the assurance practitioner may refer to ISAE 3000 (Revised) in the assurance report, as described in paragraph 77. The distinction between referring to ISAE 3000 (Revised) in paragraph 123 and not doing so as described in paragraph 77 should be clarified. Rather than prohibiting reference to ISAE 3000 (Revised), it may be more useful to highlight that the practitioner may need to perform an assurance readiness type of engagement, instead of an assurance engagement, (i.e., redirect the assurance practitioner to where on the spectrum of services the preliminary knowledge is directing the assurance practitioner) rather than just prohibit a reference to ISAE 3000 (Revised).

Reference 17

The NZAuASB's experience in developing NZ AS 1, would indicate that auditors may be required to undertake some types of EER assurance engagements by law or regulation, even where an entity is in an early stage of developing its EER. In some instances, the preparer may be able to produce some information that is able to be assured and some that is not due to a lack of maturity in internal controls,

resulting in a situation where the auditor is unable to obtain sufficient evidence to support their conclusion. In this instance, the auditor would modify the conclusion appropriately. Further explanation as to why a reference to ISAE 3000 (Revised) is not appropriate would be useful or clarification as to when such a reference may be made. The example in paragraph 77 seems at odds with the approach taken in NZ AS 1, when there is a statutory requirement for the prepared EER information to be assured or limited ability to scope EER information out of the assurance engagement.

Reference 18

Paragraph 29 (suitability of criteria)

The NZAuASB is supportive of the guidance and examples developed to assist practitioners to evaluate the suitability of criteria. Given the wide range of criteria and engagements, even more specific examples would be well received.

In practice, this evaluation is a real challenge. For example, the evaluation of completeness balanced against conciseness for understandability when dealing with highly principles based, non-specific reporting frameworks. Additional practical guidance to illustrate how the practitioner evaluates this balance would be very useful.

The NZAuASB summarised this evaluation as "step 1" in the assurance process, i.e., understanding and evaluating what the entity has selected to report about and how to evaluate that performance.

The NZAuASB considers that the guidance could be clearer on the delineation between the precondition for accepting the assurance engagement and what to do when performing the engagement. Specific examples within the draft guidance include:

- Paragraph 107 implies that underlying data and source information will need to be sufficiently accurate and complete and for it to be collected and processed in a neutral manner may be beyond an evaluation of whether the criteria are reliable. This strays into testing how the preparer has applied the criteria to its circumstances. The NZAuASB considers this may fall into the evidence gathering procedures to be performed by the practitioner. It is important to delineate between an evaluation of the suitability of the criteria (as a precondition for accepting the engagement) based on a preliminary knowledge versus the testing of the application of the criteria by the preparer, which is part of conducting the assurance engagement.

- Paragraph 114 on water intake blurs this further. Concerns related to whether water meters have been expertly calibrated and on what days the readings are taken, appear to blur the line between an assessment of the suitability of the criteria and whether there is a material misstatement in the measures reported. Practically this evaluation would not be performed at the acceptance stage.

- Paragraph 117 could be extended to cover where changes are made to criteria as the entity develops systems and processes to support alternative criteria. This is reflective of the journey that entities may be on in developing the EER report. It may be that ongoing innovation occurs annually as entities refine their EER information, and as priorities and risks to be reported against change over time.

- As mentioned above, the NZAuASB considers the distinction between referring to ISAE 3000 (Revised) in paragraph 123 and not doing so as described in paragraph 77 should be clarified.

- Paragraph 128 references the requirement to consider the process used to prepare the subject matter information or to obtain an understanding of internal control over the preparation of the

subject matter information. Clarification around where in the process this consideration or understanding fits would be useful, rather than to start blurring this with the preconditions for an engagement.

Reference 19

The NZAuASB is especially supportive of including guidance as developed in paragraph 116, i.e., the need to evaluate both the overarching criteria AND the detailed entity selected measurement and evaluation criteria. This was a key challenge addressed by the NZAuASB in developing NZ AS 1 domestically. Examples that demonstrate highly principled frameworks that need to be supplemented by entity specific measurement or evaluation criteria would be well received. We encourage the IAASB to extend this guidance when developing addressing the reporting challenge in Phase 2, i.e. how to refer to this dual level of 'criteria' in the assurance report. It may be useful to develop examples that flow through the guidance, using different EER frameworks, to demonstrate the evaluation of this dual level of criteria at the acceptance phase, while performing the engagement and in reporting the criteria in the assurance report.

Reference 20

The NZAuASB have identified the following areas that may benefit from further clarification:

- The issue of who the intended users are is an important one as the users of EER may be broader than the traditional intended users of financial statements. On the other hand, there is a caution against extending the net too wide, i.e., it is not possible to cover every and all users, and neither the preparer nor the practitioner should be identifying all stakeholders as intended users. The differing information needs of various users is a key challenge. The guidance clarifies the different types of intended users to think about and we consider helpfully emphasises that the intended users may be defined by the preparer and the EER framework selected. Linking the idea of the intended user as identified by the preparer, to the purpose of the assurance engagement may need to be further emphasized.

- By separating this chapter from the chapter on suitable criteria, it may confuse practitioners as to how this step fits in with ISAE 3000 (Revised). For example, the examples in paragraph 149 of the draft guidance link closely to relevance under the suitability of the criteria. Clarifying where consideration of the materiality process fits in may help to emphasize the iterative nature of the evaluation.

- Where the EER framework has no materiality process requirements or reporting requirements, it may not be appropriate for the practitioner to encourage a preparer to disclose details of the materiality process. (refer to paragraph 164 of the draft guidance). The guidance should caution against the practitioner establishing reporting requirements.

Reference 21

Indicative feedback highlighted mixed views on whether identification of 'what to report on' is linked to materiality. Separating the terms and highlighting the difference is helpful, however there remains the matter that if a significant matter is omitted, it may result in a material misstatement. This cannot be limited to just a precondition for the engagement but may be a conclusion after performing the assurance procedures.

The guidance in Phase 2 on performance materiality will be challenging. NZ AS 1 identified that it is difficult to conclude on overall service performance information, as well as whether a material misstatement exists within one measure. Significant judgement will be required to determine the implications of this single misstatement (i.e., is the practitioner effectively providing assurance on each measure separately or collectively over the information as a whole). The NZAuASB addressed this with reference to "materiality factors" in developing NZ AS 1.

Reference 22

The NZAuASB has discussed the link between suitable criteria and assertions. When developing NZ AS 1, analogy was drawn between suitable criteria and the qualitative characteristics rather than the qualitative characteristics and the assertions. (Refer to paragraph 171 of the draft guidance). The link between the three could be made clearer (Refer to paragraph 174 of the draft guidance).

It is unclear what paragraph 172 of the draft guidance means when it states 'Assertions are used by the practitioner at the level of the categories into which they fall rather than at the level of detailed assertion about aspects of the subject matter information'. We suggest this sentence could be deleted or clarified.

Reference 23

Indicative feedback highlighted that practitioners may find the idea of assuring future oriented information difficult but were more comfortable to consider whether assumptions seem reasonable and whether the methodology used seems appropriate. This is work they currently perform in the audit of financial statements.

Reference 24

As highlighted above, the NZAuASB has discussed the link between suitable criteria and assertions. When developing NZ AS 1, analogy was drawn between suitable criteria and the qualitative characteristics rather than the qualitative characteristics and the assertions. (Refer to paragraph 171 of the draft guidance). The link between the three could be made clearer in paragraph 174 of the draft guidance.

Reference 25

While the chapters may be useful for locating guidance on specific topics, the NZAuASB considers that the chapters may inadvertently remove the integrated and iterative nature of many of the considerations. As highlighted above, we consider that the guidance would benefit from clarification as to when the practitioner is expected to do what. The current structure may be exacerbating the concern that the draft guidance blurs the line between the preconditions for an engagement and actually performing the engagement. This may be overcome by including a flowchart (an illustrative flowchart is included in the appendix) upfront to illustrative the iterative nature of these evaluations.

Reference 26

The need for robust systems that are capable of developing information that can be verified is a precondition for an assurance engagement, i.e. one must expect to be able to get the evidence needed to support the conclusion for there to be a valid purpose for the engagement. Therefore, the NZAuASB is supportive of inclusion of this aspect in the guidance and that this is not in conflict with ISAE 3000 (Revised).

However, the NZAuASB is concerned that a focus on the internal control system may not recognise that the practitioner may be able to adopt a purely substantive approach to obtain sufficient, appropriate evidence and that it is unclear how much is expected of the practitioner on acceptance. The evaluation of the suitability of the criteria is based on a preliminary understanding, as opposed to what can be determined based on assurance procedures typically performed as part of a system walk through. This is explored in response to question 5. We suggest clarifying how much is enough when determining whether the preconditions have been met, noting the iterative nature of this evaluation, will assist in addressing this concern.

Reference 27

Overall the NZAuASB is supportive of the inclusion of guidance on the use of assertions, even though ISAE 3000 (Revised) does not deal with assertions. This support is based on consideration that the guidance may give rise to some useful examples to assist practitioners apply professional scepticism.

ISAE 3000 (Revised) is too broad to cover assertions related to all sorts of subject matter information however ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements* addresses assertions. While the NZAuASB does not consider guidance on assertions is contrary to the assurance framework or requirements generally, it does acknowledge that EER still covers a very broad range of subject matter, which does raise challenges in whether the assertions described in the draft guidance are sufficiently broad to remain framework neutral.

Reference 28

Linking preconditions and system of internal controls

The NZAuASB agrees the guidance should draw a link between the preconditions and the system of internal controls. However, we consider the draft may imply an insurmountable hurdle to accepting an assurance engagement. Rather, a distinction should be drawn between the work effort based on a preliminary knowledge as opposed to performing detailed walk throughs or testing typically performed during the assurance engagement.

The guidance on the preconditions seems to set a very high barrier to accepting an assurance engagement. Practically, we consider the practitioner may be unlikely to be able to reach a final conclusion on the suitability of the criteria, understand the materiality process and identify whether the internal control system is robust enough to be able to provide the evidence needed to conclude, until the practitioner has actually started to gain the understanding and do a system walk through, traditionally performed as part of the assurance engagement.

We consider the guidance may need to recognize even further that preparers may be on a journey to evolve their reporting, and that the assurance practitioner needs to be able to evolve with them. On this journey some of the measures reported may be able to be assured and some may not. It may however not be as black and white as accepting and scoping the engagement accordingly, but rather may be more appropriate to report on this journey. This is something that the NZAuASB recognized in developing NZ AS 1, i.e., by encouraging the assurance practitioner to include recommendations in the assurance report.

References 29-30

In terms of structuring the guidance, this emphasis on the iterative nature of these evaluations and assessments on suitability of criteria, the appropriateness of the internal controls and the consideration of the materiality process could be further emphasized.

We have heard from stakeholder outreach that there is a lack of understanding by preparers around controls and the preconditions for assurance. Where an entity voluntarily seeks assurance, there may be surprise at the need for robust controls and processes to support the EER. In practice, we understand that currently many assurance practitioners are playing an educative role with more work at the "assurance readiness" phase, working with clients as they develop their EER, to assist them focus on developing systems that will be "assurable" in the longer term as well as provide better quality information.

The focus on the 'assurance readiness' work is therefore a useful addition to the guidance since the previous drafts discussed by the NZAuASB. However, it is not as clear cut where there is mandatory assurance required, or where no assurance readiness work is performed, as in the area of service performance information. We suggest this delineation could be clarified in the guidance, to cater for types of EER where this 'assurance readiness' type of work is not practicable.

This is a costly exercise and may actually be a barrier for preparers when faced with voluntary reporting of EER. There may not be a declining cost over time either as reporting continuously evolves.

A key message that the NZAuASB has previously stressed is that the assurance process should not be a barrier to innovation and should encourage preparers on the journey rather than stunt innovation in this space.

Reference 31

Assertions

On balance, the NZAuASB is supportive of referencing possible assertions. As mentioned in response to Q1, the link between the qualitative characteristics described in a reporting framework, the practitioner's evaluation of the suitability of criteria and the assertions could be clarified further.

12. BDO

Reference 1

We agree the draft guidance adequately addresses the challenges faced by practitioners across all significant matters (paragraphs 9-15, 25, 29, 33, 35, 40 and 41).

13. CG

Reference 1

Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1? If not, where and how should it be improved?	The draft guidance adequately addressees the challenges for practitioners that have been identified as within the scope of the draft guidance. EER embraces many forms of reporting and a structure that seeks to provide a consistent

	framework is evolving.

14. DTT

Reference 1

DTTL believes that additional clarity is needed regarding the applicability of the EER consultation paper and what subject matter information EER is intended to capture. Paragraph 1 of Chapter 1 states "EER encapsulates many different forms of reporting, including, but not limited to, integrated reporting, sustainability reporting and other reporting by entities about environmental, social, and governance (ESG) matters." This is a broad characterization; however, the examples in the proposed draft guidance focus primarily on ESG matters. DTTL appreciates the intent to use the examples on ESG matters as a reference point to illustrate EER reporting and disclosure practices applicable to subject matters outside of ESG matters. Since there are many different frameworks and forms of reporting within EER, DTTL believes that additional guidance and examples are needed around the applicability of the proposed draft guidance to types of EER reports or disclosures and EER subject matters outside of ESG matters where the criteria may be less defined (e.g., integrated reporting, other nonfinancial information). Furthermore, DTTL recommends adding language to recognize that given the varied nature of the EER subject matters, the practitioner may need to exercise judgment in ascertaining whether the proposed draft guidance is applicable to the engagement.

References 2-5

Written representations: Paragraph 34 of Chapter 2 states that while ISAE 3000 (Revised) includes requirements related to requesting written representations, those requirements are outside the scope of the proposed draft guidance. While written representations were not identified as a challenge for the practitioner in developing the guidance, DTTL believes that providing examples of written representations will be helpful, especially as it relates to representations that a practitioner may request concerning a preparer's materiality process and the appropriateness of the subject matter information when the scope of an engagement is limited to specific indicators, "narrative," and "future-oriented" information.

Other information: Paragraph 36 of Chapter 2 states that further guidance on a practitioner's responsibilities in respect to "other information" is outside the scope of the drafted guidance; however, the proposed draft guidance contains several discussions on other information in Chapters 3, 8, and 10. DTTL believes that further guidance on a practitioner's responsibilities over other information, discussed in paragraph 57 of Chapter 3, would be helpful. Specifically, when the scope is narrow, and the subject matter information is limited to a small set of specific indicators within an EER report, as opposed to the entire EER report. To avoid confusion and bring transparency to the content in the EER report that is subject to the assurance engagement, DTTL recommends providing guidance on how the presentation of other information could be disclosed in an EER report and the assurance report so that it is clear that other information is not subject to the assurance engagement, especially when other information is not in a discrete section of the EER report.

Assurance over narrative and future-oriented information: DTTL agrees that whether a practitioner can provide assurance on narrative or future-oriented information depends on the criteria and availability of appropriate evidence and understands that guidance on obtaining evidence in relation to narrative and future-oriented information is to be developed in phase 2. DTTL believes that the proposed draft guidance in Chapters 10 and 11 identifies challenges that practitioners face but does not address how practitioners may respond to those challenges. It will be important that the guidance over obtaining evidence in relation

to narrative and future-oriented information includes examples of suitable criteria, appropriate evidence, and procedures that practitioners may perform to obtain appropriate evidence.

References 6-11

Evaluating the suitability of criteria in a consistent manner

Overall Observation

EER frameworks and criteria are mentioned throughout the proposed draft guidance. DTTL believes that EER frameworks represent the criteria applied in preparing EER reports; however, this link is not clearly stated within the proposed draft guidance. DTTL recommends providing a clear link between these concepts within the proposed draft guidance and has included an example of this recommendation below:

> 2. EER reports may be required by law or regulation, or alternatively may be produced by entities voluntarily. They may be prepared using frameworks, standards and guidance established by law or regulation, by international or national standard setters, or by other bodies (referred to in this document as "EER frameworks"). **Alternatively, they may be prepared on a basis determined by the entity itself (entity-developed criteria), particularly in areas where frameworks, standards, and guidance have not been established. EER frameworks, entity-developed criteria, or both represent the criteria applied in preparing EER reports**.

Extent of procedures to evaluate suitability of criteria

Paragraph 85 of Chapter 7 describes that it is a precondition for an assurance engagement that the practitioner determines that the applicable criteria are suitable and, in addition, the practitioner has a further requirement to determine whether the criteria are suitable in planning and performing the engagement. DTTL believes that the proposed draft guidance should include additional clarity on the distinction between the requirement relating to establishing the preconditions are present and the requirement for practitioners to determine whether the criteria are suitable in planning and performing the engagement. This distinction could be illustrated by incorporating examples of how a practitioner may obtain the preliminary knowledge (e.g., inquiries with the preparer) to determine whether the applicable criteria are suitable as a precondition to the assurance engagement versus how a practitioner may determine whether the criteria are suitable in planning and performing the engagement (e.g., review of the criteria and the entity's draft EER report).

Paragraph 41 of ISAE 3000 (Revised) requires a practitioner to determine whether the criteria are suitable for the engagement circumstances regardless of whether the criteria are based on an established EER framework or if they have been internally developed. DTTL believes that Chapter 7 does not address this requirement sufficiently and recommends incorporating this requirement within Chapter 7 with clear references to ISAE 3000 (Revised) and developing examples of how a practitioner evaluates whether the criteria are suitable for the engagement circumstances.

Requirement of the criteria to disaggregate or aggregate information

DTTL agrees that the context for materiality considerations for misstatements may be affected by the requirements of the criteria to disaggregate or aggregate information as discussed in paragraph 99 of Chapter 7. This concept is relatively straightforward in the context of a financial statement audit; however, it is more difficult to understand in the context of an EER engagement particularly if the practitioner does not have a financial statement audit background. An example to illustrate this relationship would be

beneficial for preparers and practitioners as subject matter information under EER are varied and the determination of materiality may be more subjective than for a financial statement audit. The current explanation of level of aggregation or disaggregation as similar to a "unit of account" may lead to confusion as this term is primarily applicable to financial statement audits and may not be applicable to EER subject matter information or familiar to practitioners who do not have a financial statement audit background. DTTL recommends developing a new example to demonstrate this concept and suggests the following modifications:

> 99. EER frameworks do not always specify in detail the required level of aggregation or disaggregation (sometimes referred to as the unit of account). They may, however, include principles for determining an appropriate level **of aggregation or disaggregation** in particular circumstances.

Established criteria

DTTL believes that aspects of the drafted guidance on evaluating established criteria in paragraphs 83, 115, and 116 within Chapter 7 are inconsistent as follows:

Paragraph 115 states that established criteria "are presumed to be suitable in the absence of indications to the contrary"; however, paragraphs 83 and 116 describe that the limited level of maturity or high-level approach used in developing criteria based on commonly used EER frameworks may indicate that such criteria, on their own, may not be suitable even for criteria prescribed by law or regulation.

DTTL understands that the concept covered within paragraph 116 is appropriate; however, DTTL believes additional transition language is necessary between the guidance in paragraph 115 and paragraph 116 to clarify the progression from established criteria being presumed to be suitable to established criteria not being suitable despite being prescribed by law or regulation. This transition language should incorporate the further requirement that a practitioner is required to determine whether the criteria are suitable for the circumstances of the engagement.

In addition, paragraph 118 in Chapter 7 discusses when modifications or adjustments to established criteria that are not commonly used in the entity's sector may be an indicator of management bias. This discussion appears out of place within the proposed draft guidance under the heading "Established Criteria" and does not include the broader concept regarding criteria specifically developed by the entity. DTTL recommends including a new section to address criteria that is specifically developed by the entity and developing guidance to address how the criteria may be selected and developed as discussed in paragraph A48 of ISAE 3000 (Revised). This new section may also include guidance around potential indicators of management bias.

Addressing materiality for diverse information with little guidance in EER frameworks

Commentary relevant to considering the entity's materiality process

As discussed within the Overall Comments pertaining to examples and diagrams, DTTL recommends (1) enhancing existing examples around considering the entity's materiality process to illustrate the specific course of action preparers and practitioners may take and (2) developing comprehensive examples to illustrate what an entity's materiality process might look like and what a practitioner may do to evaluate the entity's materiality process. DTTL has included commentary and specific recommendations for existing examples in response to **Question 2**.

Commentary relevant to considering materiality when planning and performing the engagement and evaluating whether the subject matter is free from material misstatement

Chapter 9 of the proposed drafted guidance mentions that guidance on considering materiality in planning and performing the engagement will be developed as part of phase 2. DTTL agrees that considering the entity's materiality process and considering materiality in planning and performing the engagement are two distinct concepts. DTTL will provide commentary and recommendations on that guidance once it is available. DTTL also has a recommendation regarding Chapter 12 pertaining to the use of quantitative and qualitative factors in determining materiality thresholds contained in the response to **Question 2** as well as several clarifying comments in **Appendix II**.

Building assertions for subject matter information of a diverse nature

DTTL believes that there are several instances in the proposed draft guidance where the characterization and use of assertions is not clear or consistent with the use of assertions in International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* and International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*. These include instances characterizing that practitioners test assertions or that assertions may be misstated which appear throughout the proposed draft guidance. ISA 315 (Revised) and ISAE 3410 state that practitioners use assertions to (1) consider different types of potential misstatements that may occur and (2) perform procedures in response to assessed risks of material misstatement (these procedures may include tests of controls, tests of details and analytical procedures). In the proposed draft guidance, however, there are several instances where it states that practitioners test assertions or that assertions may be misstated. DTTL believes that, in the context of EER, the more appropriate characterizations are that practitioners perform procedures in response to assessed risks of material misstatement as opposed to testing assertions and that subject matter information may be misstated as opposed to assertions. DTTL has included specific examples of guidance and commentary on other instances where the use of assertions is unclear below.

Paragraph 166 of Chapter 9 mentions the use of assertions for both reasonable assurance engagements and limited assurance engagements; however, it does not appropriately characterize how practitioners use assertions. DTTL recommends the following edit.

> ISAE 3000 (Revised) does not specifically require the practitioner to use assertions, and it therefore does not prescribe or identify specific assertions to be used, as these may vary from one engagement to another depending on the underlying subject matter and the criteria. However, a practitioner may use assertions **to consider the different types of potential misstatements that may occur** in both reasonable assurance engagements and limited assurance engagements.

Paragraph 177 of Chapter 9 includes examples of categories of assertions that may be used in EER engagements. Similar to examples within ISA 315 (Revised), DTTL believes that each of these examples should have a description and that the description for each example would be in the context of an EER report. While it is noted that the examples of categories of assertions are not meant to be comprehensive, DTTL believes it would be helpful to include completeness and valuation as examples and recommends adding these categories of assertions. In addition, DTTL noted that connectivity is included as an example; however, this assertion is not included or defined elsewhere in the IAASB standards; accordingly, DTTL recommends clarifying this assertion within the requested description for each category.

Paragraph 181 of Chapter 9 describes that a practitioner may express their conclusion on the subject matter information as "whether the subject matter information is prepared, in all material respects, in accordance with the applicable criteria." This description only applies to a reasonable assurance engagement where the practitioner is expressing an unmodified conclusion. Per paragraph 72b of ISAE 3000 (Revised), in the case of a limited assurance engagement where the practitioner is expressing an unmodified conclusion, they may express their conclusion on the subject matter information as "based on the procedures performed and evidence obtained, no matter(s) has come to the attention of the practitioner that causes the practitioner to believe that the subject matter information is not prepared, in all material respects, in accordance with the applicable criteria." DTTL recommends revising paragraph 181 to (1) distinguish between reasonable assurance engagements and limited assurance engagements, (2) clarify that the examples in the proposed drafted guidance are only applicable to unmodified conclusions, and (3) include a reference to ISAE 3000 (Revised) paragraph 72.

> **When performing a reasonable assurance engagement,** ISAE 3000 (Revised) requires the practitioner to form a conclusion about whether the subject matter information is free ~~from~~ **of** material misstatement, which may be expressed as whether the subject matter information is prepared, in all material respects, in accordance with the applicable criteria. **When performing a limited assurance engagement, ISAE 3000 (Revised) requires the practitioner to form a conclusion stating that no matter has come to the attention of the practitioner that causes the practitioner to believe that the subject matter information is not prepared, in all material respects, in accordance with the applicable criteria, based on the procedures performed and evidence obtained.**

Several paragraphs in Chapter 9 inappropriately state that practitioners test assertions and that assertions may be misstated. DTTL recommends the following changes to the proposed draft guidance to be more consistent with paragraphs 48L and 48R of ISAE 3000 (Revised).

> 182. The practitioner may then design **and perform** procedures to **address the areas where a material misstatement** ~~test whether~~ **of** the subject matter **is likely to arise in a limited assurance engagement or respond to the assessed risks of material misstatement in a reasonable assurance engagement.** ~~information is misstated with respect to the identified assertions. If the assertions are not misstated, this provides evidence that the information is properly prepared in accordance with the applicable criteria.~~

> 183. As in a financial statement audit, a single procedure ~~or test~~ may be designed to test whether subject matter information exhibits more than one assertion. Decisions on the extent and nature of procedures that the practitioner plans to perform may be informed ~~both by the nature of the assertions being tested and~~ by the practitioner's assessment of the risks of material misstatement ~~of that assertion~~ (in a reasonable assurance engagement).

> 195. The practitioner can then ~~test~~ **perform procedures on** each one, and ultimately the assurance working papers can be referenced to the related parts of the text in the subject matter information.

> Below is an example of information that may be included in an EER report. The sentences have been numbered in ~~brackets~~ **parentheses**.

> 197. More judgement may be required by a practitioner **when performing procedures to identify and assess risks of material misstatement at the assertion level** ~~to test assertions for~~ **over** subjective narrative subject matter information.

208. Where future-oriented information is more subjective, assertions such as neutrality may become more of the focus **when designing procedures** ~~for testing~~ due to the risk of management bias. Presentation or understandability assertions may also be a focus where **detailed** ~~good~~ disclosure of assumptions and the context of subjective information is necessary.

209. Where criteria require a statement of intended future strategy, a target, or other intentions of an entity, ~~the explicit material assertion that~~ a practitioner can ~~test is~~ **design procedures to evaluate** whether management or those charged with governance have an intention to follow that strategy or that the target or intention exists ~~(existence assertion)~~. Appropriate evidence could be obtained in the form of documentation of board meetings or actions that management have already taken to work towards adopting the strategy or agreeing the target. There is likely to be a further implied ~~assertion~~ **position** that the entity has the capability to carry out its intent, or will develop the means to do so, or there may be separate explicit criteria addressing capability.

210. Similarly, where criteria require information about future risks and opportunities to be reported, the **risks of material misstatement at the assertion level (for a reasonable assurance engagement)** ~~assertions to be tested~~ will likely include that the risks and opportunities exist (existence assertion) and that the list of risks and opportunities is complete (completeness assertion) with respect to the risks and opportunities which would assist intended users' decision-making. **Appropriate evidence could be obtained in the form of** ~~The completeness assertion may be tested by~~ reference to the entity's risk register or records of discussions of those charged with governance.

222. However, the practitioner may still need to consider whether there are misstatements ~~of assertions~~ that relate to the EER report as a whole (such as criteria relating to presentation of the EER report), where such criteria apply in the context of the engagement.

Reference 12

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

As discussed in paragraph 58 of Chapter 6, DTTL agrees that whether the preconditions that (1) the roles and responsibilities of the preparer are suitable and (2) the practitioner determines that they expect to be able to obtain sufficient appropriate evidence, are present may depend on the extent to which the entity's system of internal control is adequate to support those preconditions. It is unclear, however, the level of knowledge a practitioner would need to have regarding an entity's internal control to conclude that it is adequate to support these preconditions. Practitioners determine if the preconditions are present based on preliminary knowledge prior to accepting the engagement. In order to gain an understanding of an entity's system of internal controls, however, practitioners perform procedures such as holding discussions with entity personnel and reviewing materials and data involved in the performance of controls. DTTL recommends clarifying that the practitioner's judgment on the entity's system of internal control, in the context of determining if preconditions are present, is based on their preliminary knowledge and including some examples of appropriate sources to consider. See below for proposed edits and a possible example.

58. Whether these preconditions are present may depend on the extent to which the entity's system of internal control is, in the practitioner's professional judgment, adequate to support those preconditions, taking into account the nature, extent and complexity of the underlying subject matter and criteria. **This determination is based on the practitioner's preliminary knowledge**

of the entity. A practitioner may consider a variety of sources of information to inform their judgment, including but not limited to, knowledge gained from performing other services (e.g., financial statement audits) for the entity and preliminary discussions with the preparer.

DTTL believes that the example of suggested considerations of aspects of each of the components of a system of internal control, included in paragraphs 67, 70, and 71 of the proposed draft guidance, are helpful to practitioners in considering an entity's system of internal control; however, DTTL believes that an additional consideration in paragraph 67 relating to processes to select suitable external source(s) for data and then to obtain and evaluate information from those sources should be added to incorporate the guidance in paragraph 69. For further comments and recommendations regarding examples and diagrams specific to Chapter 6 refer to the response to **Question 2**.

67. Policies, procedures and resources of the reporting (information) system and communication that the practitioner may consider are included below:

d) Processes to select, obtain, review, and monitor EER report subject matter information from external source(s);

~~d)~~ **e)** Records and source documentation to support the preparation of the subject matter information relating to those elements. These are ideally stored and accessible so that they can be used as evidence by the practitioner;

~~e)~~ **f)** Processes to prepare the EER report; and

~~f)~~ **g)** How the entity uses IT to support the above.

References 13-17

Chapter 3: Determining Preconditions and Agreeing the Scope

The diagram in paragraph 46 of the proposed draft guidance summarizes the preconditions for an assurance engagement and provides references or contains portions of the application material for certain preconditions. This diagram is difficult to follow as it does not (1) include the context to explain why the illustration focuses on application material for certain preconditions and (2) explain the relationship between the preconditions and guidance illustrated by the arrows. For example, the content related to the precondition "underlying subject matter is appropriate" highlights if the underlying subject matter is identifiable and reliable but does not capture the guidance in paragraph A44 of ISAE 3000 (Revised) that it may be appropriate for the practitioner to consider whether information about the aspect on which the practitioner is asked to report is likely to meet the information needs of intended users when the assurance engagement relates to only one part of a broader underlying subject matter. DTTL recommends either (1) simplifying this diagram to just focus on the preconditions and providing references to where the additional guidance for each precondition is covered in greater detail within the proposed draft guidance or (2) adding additional context to provide the reader with a greater understanding of the process to determine that the preconditions are present.

Paragraph 49 includes several considerations for practitioners when determining whether a proposed EER assurance engagement has a rational purpose. The fourth consideration in the list is difficult to understand and appears duplicative with the fifth consideration which addresses whether the level of assurance is meaningful to the intended users; accordingly, DTTL recommends removing the fourth consideration.

~~…Whether the level of assurance that the practitioner plans to obtain (and therefore what would constitute sufficient appropriate evidence) is expected to reduce engagement risk to a level which is at least meaningful in the circumstances of the engagement, having regard to the extent of the consequence to the intended users of an inappropriate conclusion by the practitioner.~~

Chapter 6: Considering the System of Internal Control

The proposed draft guidance includes a diagram in paragraph 62 that illustrates the components of an entity's system of internal control. DTTL believes that the diagram in paragraph 62 is not clear as to how governance and oversight of the reporting process interacts with the five inter-related components. The lines suggest that governance and oversight only apply to the control environment, risk assessment process, and process to monitor the system of internal control; further, paragraph 65 states that the three components shown in the top three boxes in paragraph 62 (the control environment, the risk assessment process, and the process to monitor the system of internal control) are considered together under the heading "governance and oversight of the reporting process." Governance and oversight of reporting process is also relevant to reporting (information) system and related business processes as well as communication and control activities. DTTL recommends extending the brackets around the components of an entity's system of internal control so that they encompass all the components of an entity's system of internal control and; accordingly, modifying paragraph 65.

Chapter 7: Determining the Suitability of Criteria

Paragraph 84 discusses that there may be considerable opportunity for management bias in determining the content of an EER report. DTTL agrees with the proposed draft guidance; however, an example to illustrate this point would be beneficial. A potential example could involve management disclosing metrics on the volume of complaints; however, the criteria only requires disclosing a certain class of complaints and omitting other classes of complaints.

The diagram in paragraph 89 is a clear illustration of the high-level steps in determining the suitability of criteria. DTTL believes that the diagram can be enhanced by:

- Including references to the related paragraphs in the drafted guidance for each high-level step to refer the reader to specific details for each step.

- Expanding the diagram to illustrate what the practitioner should do if they determine that the criteria will result in subject matter information or an assurance report which is misleading.

- Addressing in the diagram the requirements if the practitioner determines that the criteria does not exhibit the five required characteristics or will result in subject matter information or an assurance report that is misleading (i.e., discuss the matter with the preparer to resolve the matter and make changes to the criteria or do not to accept the engagement).

- Modifying the following language in the last box of the diagram to be consistent with the language used in ISAE 3000 (Revised):

    89. ~~Confirm~~ **Determine that the** criteria will not result in subject matter information or an assurance report which is misleading.

Paragraph 98 of the proposed draft guidance appears to focus on materiality in relation to quantitative factors; however, DTTL believes that paragraph 98 should be expanded to:

- Include a discussion on the consideration of qualitative factors, as materiality is considered in the context of qualitative factors and, when applicable, quantitative factors.

- Incorporate these additional concepts in the examples in paragraph 98 through an expanded rationale as to why the omission for the financial reporting example and the EER example are not material based on the quantitative materiality threshold as well as evaluation of relevant qualitative factors.

Paragraph 101 discusses the relevance and comparability of criteria across entities. The paragraph includes an example where an entity does not use criteria from an established EER framework and develops their own criteria. The example, however, appears inconsistent as the example mentions an entity developing their own criteria as opposed to using an EER framework and then includes 'where permitted by the EER framework adopted'. DTTL recommends the following modification to clarify the example.

> 101. However, there may be good reasons not to use such criteria, for example where the entity can develop more relevant criteria ~~(that are also reliable), where permitted by the EER framework adopted and where those criteria are made available~~ **that are also reliable and made available to the users by inclusion in the EER report**.

Paragraph 121 provides an example that is intended to illustrate that it is not necessary to disclose detailed explanations of the reporting policies and measurement or evaluation methods as they are available by general understanding to the intended users; however, DTTL believes that the example relating to measuring time in hours and minutes is not a comparable example to referring to the criteria which includes the measurement or evaluation methods. Accordingly, DTTL recommends removing the example relating to measuring time and making the following modifications:

> 121. ~~Measuring time in hours and minutes, or energy usage in kilowatt hours, is generally understood in a consistent way internationally due to scientific convention. Similarly, a~~ **A** preparer may assume that the intended users will understand greenhouse gas emissions measured in accordance with the Greenhouse Gas Protocol without **having to disclose how to measure the greenhouse gas emissions as the criteria appropriately includes the measurement methods and the Greenhouse Gas Protocol is publicly available** ~~providing full explanation due to its widespread acceptance and usage~~.

Chapter 8: Considering the Entity's Materiality Process

Paragraph 127 of Chapter 8 provides contrasting examples of EER frameworks where the criteria may or may not be suitable on their own. The last example in this paragraph intends to illustrate where criteria may be considered suitable on their own and refers to the Sustainability Accounting Standards Board (SASB) standards as an example of an EER framework that would not require an entity to undergo a materiality process. The SASB standards provide relevant topics and measures/disclosures that have a likelihood of being material; however, it is still the preparer's judgment to determine the SASB topics and measures that are material to the business and would provide useful disclosure to investors. Accordingly, DTTL believes that the reference to the SASB standards in this context may cause confusion and the reference should be replaced with another EER framework that defines the content to be included in the EER report (e.g., a specific regulation). See below for the recommended changes to clarify this example.

> 127. In this case the criteria may already be suitable, and the preparer may not need to undertake a 'materiality process' because the EER framework-setter has already made a judgment about what

the intended users want to know **and has specified in the EER framework the topics and related elements that should be disclosed in the EER report**. This is common in reporting to meet specific regulatory requirements~~, but some generally applicable EER frameworks assess what indicators are likely to be relevant criteria for specific industry sectors, for example as in the Sustainability Accounting Standards Board (SASB) standards~~.

DTTL agrees with the distinction between intended users and stakeholders discussed in Paragraph 139. Within the related example, however, the parties referenced may not be effective in demonstrating the relationship between the stakeholder (victim of child slavery) and the third-party agents (charity/politicians/lobbyists) as in this example this relationship may not be clearly defined. DTTL recommends revising the example to use a stakeholder and third-party agent who have a more clearly defined relationship. A possible suggestion is to use members of a workforce union working for a manufacturing company as the stakeholders as they may not take the time to read the company's report, however, the union officials would read the EER report and they could represent the third-party agents in a revised example.

The table in paragraph 144 is a good overview of broad groups of intended users and how their possible context(s) within an entity's materiality process. DTTL has several recommendations, however, regarding the terminology used within the table.

- The "Governments, regulators and legislators" category includes "Global organisations." The "Wider society" category may be more appropriate for "Global organisations." Alternatively, if the IAASB believes that "Global organisations" should be included under the "Governments, regulators, and legislators" category, DTTL recommends adding an example such as "(e.g., European Union)" to "Global organisations" and an example such as "(e.g., United Nations)" to the "Wider society" category.

- "Trading negotiable instruments" and "Financial decisions in other entities" are included as examples of items that may influence decision making or be affected by the entity in these areas for the "Wider society" category. DTTL believes that linking those examples to the "Investors and economic stakeholders" category as these are the user groups who would partake in those activities.

- In the "Investors and economic stakeholders" category "Share market" should be expanded to include "Share/stock market." DTTL believes that the term "Share market" may be unfamiliar in certain jurisdictions and that the examples of what may influence this user group has not been included. A possible example of something that may influence this user group is evaluating sustainability practices.

Chapter 10: Assuring Narrative Information

Paragraph 187 provides contrasting examples of purely factual narrative subject matter information and subjective narrative subject matter information. DTTL believes that these examples are useful; however, DTTL recommends that the IAASB incorporates examples of how subjective narrative subject matter information may be revised to be more factual in nature and what potential courses of action practitioners may take if the subject matter information remains subjective. DTTL has included examples of how some of the examples of subjective narrative subject matter information may be revised to be more factual in nature below.

- "We produce healthy food for children."

As there are different views as to what constitutes healthy food, this subjective narrative information may be revised as "we produce food with less than X grams of sugar for our children within our target market."

• "We have successfully implemented flexible working throughout the organization."

As there are different views as to what constitutes success or a flexible working arrangement, this subjective narrative information may be revised as "we have implemented a program to allow for flexible working throughout the organization by providing employees with the option to telecommute or to have reduced work arrangements. Employees on reduced work arrangements work less than 40 hours a week whereas employees who telecommute are expected to work 40 hours a week; however, they do not work in the entity's office(s). We have 20 employees who telecommute and 10 employees who are on reduced work arrangements."

DTTL suggests adding language to paragraph 188, following the examples above, to recognize that the practitioner can work with the preparer to reduce the degree of subjective subject matter information.

Paragraph 195 provides an example of analyzing narrative information to differentiate between claims or indicators that may be individually significant and information that may be considered other information. The conclusion over sentence (1) determines that it may be considered other information without providing details on the scope of the engagement. The example indicates that the criteria requires reporting "the water intake by the company in the reporting period, the changes from the previous period, and an explanation for the change"; however, DTTL believes that the conclusion also depends on the scope of the engagement. If the scope of the engagement was limited to the specific criteria mentioned above, then DTTL agrees that the conclusion is valid; however, if the scope of the engagement encompassed the entire EER report then there may be additional considerations relevant to this example. In addition, the example does not provide guidance on how a practitioner would note other information within the EER report and clarify that they are not providing assurance on such information. DTTL recommends either expanding this example to include clarity regarding presentation of other information or including clarification elsewhere (e.g., Chapter 13).

References 18-19

Availability of criteria

Paragraph 120 of Chapter 7 discusses possibilities of criteria being made available outside of the EER report, includes guidance that entities using entity-developed criteria may choose to publish the criteria and reporting policies outside of the EER report and suggests that this may be a preferable option. DTTL believes that this option would make the EER report less understandable to users since the criteria and reporting policies on which the report is based would not be included in the report. While a reference to established and publicly available criteria outside of the EER report may be sufficient, the customized and entity-specific nature of entity-developed criteria warrants integration within the body of the EER report. DTTL recommends either removing this guidance around entities publishing criteria outside of the EER report or revising the drafted guidance as shown below.

120. **In certain cases, such as when an established and publicly available EER framework has been used**, the criteria may be made available outside of the EER report **provided that the EER report includes a clear reference to the criteria**., for example if an established, publicly available EER framework has been used. In the case of entity-developed criteria, **however, it is preferable to publish the criteria within the EER report.** entity may choose to publish the criteria

~~and reporting policies in a separate EER report or on its website, which is then cross-referred to as at a particular date in the EER report. This may be a preferable option where an EER report is intended to be concise.~~

Documentation of an entity's materiality process

DTTL agrees that understanding an entity's materiality process is important for practitioners to evaluate the suitability of criteria as discussed in paragraphs 132 and 164 of Chapter 8. The guidance within these paragraphs does not indicate that entities need to document or disclose their materiality process; however, if an entity's materiality process is necessary to be able to evaluate the suitability of criteria then it would appear that the criteria could only be considered available if the materiality process is disclosed. While the proposed draft guidance encourages preparers to document and disclose their materiality process it does not state that the materiality process would need to be available to the intended users in order to meet the requirement in paragraph 24(b)(iii) of ISAE 3000 (Revised). Furthermore, the proposed draft guidance does not mention that an EER framework may require the preparer to disclose their materiality process. DTTL recommends that the guidance be modified to clarify that in order to meet the requirement that the criteria is available to intended users, the preparer's materiality process would need to be disclosed and mention that an EER framework may require the preparer to disclose their materiality process.

15. EYG

Reference 1

For the EER Paper to be fit-for-purpose over an extended period of time, we believe that the scope and boundaries of the guidance should be better defined to assist practitioners in understanding when the non-authoritative guidance may apply to their engagements. We believe the primary value of the EER Paper is in addressing specific challenges that practitioners may encounter when the framework or the entity's reporting under the framework are still maturing.

Although we support the use of the term EER, it does not alone capture the scope of the guidance. In our view, paragraphs 1-3 of Chapter 1 do not clearly articulate the nature of engagements for which the non-authoritative guidance is being developed. We believe it would be most useful to explain the applicability of the guidance in terms of specific characteristics or circumstances of the engagement (e.g., immature criteria) for which the EER Paper provides supplemental guidance to ISAE 3000 (Revised) (hereinafter referred to as 'the Standard'). Doing so would assist the practitioner both in determining the applicability of the guidance and in navigating the large volume of guidance.

Further, although aspects of this guidance may be applicable for other subject matters than those described in paragraph 1, without significant modifications, the guidance would likely not adequately address challenging areas applicable to all underlying subject matters that are subject to assurance engagements (e.g. ISAE 3402 engagements). We believe adding a statement of this nature would assist with further refining the scope of engagements to which the guidance is intended to apply.

Reference 2

Although the guidance should be targeted to evolving forms of EER, we believe the guidance should also be applicable to more mature forms of EER when it is useful to provide appropriate contrast to the difference in procedures and effort when the challenges identified may and may not exist.

Reference 3

Yes, the guidance comprehensively covers the areas identified within the scope of phase 1 and we believe that it does include useful guidance to address practical challenges. Yet, we do see some opportunities for enhancement as follows:

Reference 4

- In paragraph 53, independence considerations related to performing an assurance readiness engagement is discussed. Performing an assurance readiness engagement is not an assurance engagement and can lead to an independence issue if other assurance engagements are performed for the entity, even if those have no relation to the subject matter, especially for public interest entities. We suggest enhancing the guidance in this paragraph beyond "there may be a self-review threat". When the intention is for the same practitioner to perform a future assurance engagement on the subject matter, the assurance readiness services need to be designed to not affect the potential ability for the practitioner to provide assurance services at a later date (i.e., the practitioner cannot be viewed to be providing assurance on the practitioner's own work).

Reference 5

- We believe that EER reports that are as at a point in time are usually not appropriate and that the appropriateness of the period of time of the EER report should be considered in determining whether the engagement has a rational purpose.

References 6-8

- As noted in paragraph 117, an entity may be developing and improving its reporting processes such that entity-developed criteria may change and evolve between reporting periods. Further attention could be given to the due process of self-developed criteria.

- Paragraph 118 states that it may be desirable for the intended users to acknowledge that the entity's developed criteria are suitable for their purposes. Further clarification is needed as to whether this acknowledgement is intended to be obtained by the entity, or whether the guidance is expecting the practitioner to interact with the users. We do not believe it is practical or feasible for the practitioner to do so. Instead, we believe one purpose of the practitioner's consideration of the entity's 'materiality process' is to understand how the entity makes decisions about the topics, criteria utilized and related elements that would assist the decision-making of intended users. Refer to our response to Q4 and Q5 for further views on the suitability of criteria and the materiality process.

- Integrated or sustainability reports may contain the outcomes of an impact measurement assessment prepared by the entity or a management expert. Given the characteristics of such assessments (e.g., in terms of assumptions, scientific sources, inherent uncertainties in measurement and the willingness to publicly disclose full information on impact measurement models (due to confidentiality or competition)), further guidance in the suitability of criteria section in context of such assessments would be helpful.

Reference 9

- Financial information may be included in EER reports, particularly financial indicators, which may include some indicators derived from the financial statements or others new to the EER report. Such indicators are increasingly common in EER using frameworks such as GRI and IIRC. Guidance that addresses the considerations to be applied by the practitioner in addressing such financial information, and the relationship to procedures on that information that may have been performed as part of the audit of the financial statements, would be useful.

Reference 10

- Chapter 12 has insightful guidance of how to address qualitative characteristics when considering materiality for the purposes of both determining materiality and concluding on whether misstatements are material. However, further guidance could be provided on the concept of performance materiality and how such a concept may be applied in EER engagements.

Reference 11

We also recommend making a clearer distinction between the guidance for assurance engagements with limited assurance and those with reasonable assurance. The Standard uses separate columns for this, which resonates with us.

Reference 12

- Related to evaluating suitability of criteria as part of the preconditions, ISAE 3000.24 provides the following important context to the work effort involved: "The practitioner shall, <u>on the basis of a preliminary knowledge of the engagement circumstances and discussion with the appropriate party(ies)</u>, determine whether …". In our view (which is consistent with current practice), this determination should be able to be made through inquiries in many circumstances because it is a preliminary determination. The requirement for the practitioner to conclude on the suitability of criteria does not occur until the planning phase where ISAE 3000.41 states "The practitioner shall determine whether the criteria are suitable for the engagement circumstances, including that they exhibit the characteristics identified in paragraph 24(b)(ii) (pre-conditions)". As such, the Standard would allow for the practitioner's efforts associated with assessing the suitability of criteria prior to being engaged (i.e. during the assessment of pre-conditions) to be a relatively minimal activity with a more robust work effort to occur during planning. In our view, the guidance does not appropriately distinguish this difference in work effort because it sets the expectation for the robust analysis of criteria set out in Chapter 7 to be done prior to the practitioner being engaged (i.e. during the assessment of the pre-conditions).

- The discussion on the system of internal control in Chapter 6 uses the premise that most of the activities laid out in the Chapter would be performed prior to the practitioner being engaged. As explained above, the requirement in ISAE 3000.24 related to assessing pre-conditions is based on a preliminary knowledge and inquiries, which should not involve the practitioner forming a conclusion on the sufficiency of the system of internal control. Accordingly, we believe most of the Chapter 6 content should instead be placed in the context of the understanding of the system of internal control in accordance with ISAE 3000.47L/R. The guidance could be enhanced to describe the implications of any discovered weaknesses in internal control for the performance of the engagement.

Reference 13

- Paragraphs 140 -144 explain that preparers may need to consider the different information needs or attributes among 'sub-groups' of users, which we believe inappropriately infers that practitioners may need to do the same in setting materiality. We believe this sends a conflicting message to ISAE 3000.A94, which states that the practitioner's consideration of materiality 'is affected by the practitioner's perception of the common information needs of intended users *as a group'*. While we believe the discussion regarding the potential sub-groups of intended users is helpful, the guidance should be clear that there is no requirement of the Standard to determine materiality by sub-group.

Reference 14

- We do not believe that assessing the preparer's 'materiality process' is a separate and distinct activity beyond understanding the system of internal control; it is part of the preparer's process for measuring the underlying subject matter (i.e. how does the preparer identify material topics to be included in the EER report?). Accordingly, we believe the guidance on the materiality process should be placed in the context of how the practitioner can understand such a process when obtaining the required understanding of the system of internal control in accordance with ISAE 3000.47L/R.   We also believe the guidance could clarify the effect of the auditor's understanding of the materiality process on the procedures to be designed in accordance with paragraph 48 L/R. In particular, it should be clarified that there is no requirement to test the controls over the preparer's process (i.e., the practitioner could alternatively perform procedures over the measurement if it can be done effectively without relying on the preparer's process). The guidance does not lay out such an alternative.

Reference 15

In contrast, we believe the discussion of the practitioner's use of assertions is presented as an appropriately optional approach and does not infer it is required. We believe the guidance on assertions will be most useful to those practitioners that have experience in using assertions in performing audits. Many practitioners performing EER engagements are not likely to have this experience, however, and will find the concept to be foreign. This may be a topic where further examples (perhaps in the form of an appendix) may be useful to assist those practitioners less familiar with the concept.

16 GTI

Reference 1

- Assertions – we note that the examples of assertions provided in paragraph 177 are largely consistent with those in ISA 315 (Revised), however, we note two new assertions of 'free from error' and 'connectivity' being suggested as assertions related to the required 'reliability' characteristic of suitable criteria. We are not clear of the meaning of these proposed assertions. Further, we are of the view that nine proposed assertions are too many and recommend that the assertions remain consistent with those used in financial statement audits.

References 2-3

- Paragraph 50 introduces the concept of an 'assurance readiness engagement' and paragraph 52 a 'maturity assessment engagement.' Whilst we understand the purpose of performing such an analysis, we are of the view that it would be beneficial to elaborate further on what procedures may

be expected in such an engagement and the type of report or other deliverable that would be the expected outcome.

- Paragraph 69 includes discussion of information from external information sources. In practice, we are finding that the use of external information sources in this area is growing, as more entities outsource the preparation of the data on which the report is being provided. Specific guidance on the responsibilities of the practitioner, and also for the entity outsourcing the work, regarding such external information would be helpful.

17. KPMG

Reference 1

Scope of the Document

We note that the IAASB appears, in this publication and elsewhere, e.g. in their 2018 Survey: *Envisioning the Future, Survey on the IAASB's Future Strategy*, to describe assurance engagements that are extended external reporting (EER) versus non-EER. We believe that this distinction is not necessarily a bright line and is also likely to further evolve over time.

As a result, we suggest that the IAASB clarify that although this publication is focused on EER assurance engagements, as would currently be captured by this term, it may also be applied more generally to key challenges in the implementation of ISAE 3000 (Revised) and related standards in the assurance suite. This will help to ensure that it has sufficiently broad applicability, and also remains fit for purpose, for the foreseeable future.

Reference 2

In addition, we highlight that certain assurance engagements performed in accordance with ISAE 3000 (Revised) may include financial elements (historical financial information), albeit in a different and specific context. We note that the Guidance Document frequently compares and contrasts aspects of an assurance engagement to an audit of financial statements, to explain the principal differences between the two forms of engagement. As a result, it may be unclear to practitioners that EER assurance engagements may involve historical financial information. Accordingly, we suggest that the Guidance Document provide examples of such historical financial information in the context of an EER assurance engagement, to clarify this matter.

Reference 3

Focus on Sustainability Engagements

Much of the content of the Guidance Document appears to focus, at least implicitly, on sustainability engagements. It is unclear whether this is intentional or whether, as a more established engagement type, examples inevitably draw from practical considerations identified in performing such engagements.

We recommend that the Guidance Document be broadened beyond sustainability engagements and focus more specifically on particular challenges that arise across a wide range of EER Assurance engagements. As part of this, we suggest that the IAASB address a broader base of assurance engagement types and include a more diverse pool of examples, applicable to each concept being illustrated, in the Guidance Document.

Reference 4

In connection with the above, we highlight that the Guidance Document describes a "materiality process" to determine which aspects ("topics and related elements" as set out in the Guidance Document) of the underlying subject matter should be included in the subject matter information. We note that considerations in this regard apply, in particular, to sustainability engagements and therefore we suggest that the Guidance Document clarify that this consideration may not be applicable to other types of assurance engagements.

Reference 5

In respect of the terminology of "materiality" in the context in which this is currently understood in a financial statements audit (i.e. what is "material" information to include in respect of the aspects of the underlying subject matter that are included in the subject matter information), the use of this term in respect of EER assurance engagements may be challenging, in particular, when aspects of the underlying subject matter consist of narrative information, and/or when there are several disparate aspects of the underlying subject matter. Accordingly, we suggest that it would be helpful for the IAASB to focus on considerations as to how to apply this concept in an EER assurance engagement.

In this regard, we suggest the IAASB consider the material in the AICPA guidance document *Attestation Engagements on Sustainability Information*, which is more detailed and may be helpful. In particular, the material addressing evaluation of misstatements across multiple underlying subject matters/different aspects of subject matter information, including finding the "common denominator" and grouping of items, is particularly helpful as this addresses challenges that are specific to assurance engagements.

Reference 6

We note that considerations regarding reasonable and limited assurance engagements, and, in particular, the differences between these two forms of assurance engagement, in terms of the effects on engagement acceptance, understanding the control environment, risk assessment, nature and extent of assurance procedures to perform, and extent of evidence to obtain continue to present challenges to practitioners. We recommend the inclusion of more specific guidance throughout the Guidance Document, including examples that compare and contrast between these two types of engagement.

Reference 7

Appropriateness of the Underlying Subject Matter

We highlight that the guidance addresses suitability of criteria and consideration of the needs of intended users, but does not address the appropriateness of the underlying subject matter itself in detail. We suggest, therefore, that this section focus more specifically on the appropriateness of the underlying subject matter, with linkage to other preconditions for an assurance engagement, such as whether there is a rational purpose to the engagement, as we recognise that such considerations inherently involve significant inter-relationship.

Reference 8

Inter-relationship of Preconditions

We suggest that the Guidance Document be structured to more clearly link the above considerations, under the "preconditions for an assurance engagement" section, with the emphasis in the guidance on

such inter-relatedness. For example, for certain engagements, e.g. assurance over information set out in Management's Discussion and Analysis (MD&A) in an entity's annual report, the practitioner needs to determine whether the underlying subject matter is appropriate, including whether the elements for measurement/evaluation for inclusion in the subject matter information are sufficiently distinct (and, by extension, it may be particularly challenging to identify the aspects of a particular matter/set of information that constitute the subject matter information). As a result, in considering whether the subject matter information is complete in accordance with the criteria, the practitioner would also need to consider whether the criteria are suitable for the needs of the intended users and whether there is a rational purpose to the engagement.

We also recommend that there be greater recognition of consideration of different aspects of the preconditions in the illustrative examples, and that these confront this particular challenge more directly/explicitly.

As a result of this inter-relationship of aspects of the preconditions, we note that at certain points in the guidance concepts appear to have become co-mingled, or descriptions may imply this, e.g. assertions and criteria, identifiability of subject matter information and suitability of criteria, and, as we refer to above, materiality and completeness of subject matter information, which may be misleading to users.

Reference 9

We believe that the chapter addressing suitability of criteria is particularly helpful.

We suggest that this section also acknowledge more directly that a key innovation in some EER frameworks is the emphasis on determining subject matter information, in accordance with the EER framework principles, by reference to the unique features of the organisation's business model/strategy (also referred to as "linkage"). We highlight that frameworks such as the IASB's Management Commentary Practice Statement; the UK's Strategic Report Guidance, and the Integrated Reporting (IR) Framework represent significant departures from traditional prescriptive frameworks, as under these frameworks disclosures are to be determined by reference to the company's business model. Accordingly, we suggest that the Guidance Document cross-refer to the above sources of information and guidance.

We believe that a rigorous approach to assurance engagements on such linkage-based disclosures is possible, but we recognise the more significant level of professional judgement required by assurance practitioners in this scenario, particularly in relation to the completeness of disclosures for frameworks where there is no prescriptive set of disclosures available to practitioners. For EER Frameworks that define disclosure criteria by reference to an organisation's business model, we highlight that it is critical for practitioners to have a deep understanding of the entity's business model in such circumstances.

It may also be helpful to refer to the fact that criteria in certain EER frameworks may be principles-based, and also may allow for criteria to evolve and develop over time as practice matures, in a similar way to financial reporting frameworks, which have been developed over the long term, mainly in response to matters identified in practice. We note that this is different to a more fundamental change in the criteria themselves, as described in the guidance.

We recommend that the Guidance Document provide more information regarding this, with clearer explanation that in this scenario criteria may provide a form of high-level guidance, although must still be capable of providing a suitable basis for consistent measurement/evaluation, and for the practitioner to have sufficient confidence to be able to identify/assess misstatements.

Such considerations are particularly important in respect of EER Frameworks that are principles-based and therefore there is inherent subjectivity in preparing the subject matter information. In particular, the *Neutrality* aspect of suitable criteria is critical in ensuring that information is balanced and negative information is included to an appropriate extent such that the subject matter information is free from bias. As a result, an assurance engagement over such subject matter information would necessarily draw on the professional experience and expertise of an assurance practitioner, and require the exercise of professional skepticism and professional judgement to a significant extent, whilst still remaining objective.

We recommend, therefore, that the IAASB describe more fully the value to a user of assurance by a practitioner in accordance with ISAE 3000 (Revised) as compared to other market offerings that are not conducted with the same rigour, are not based on robust frameworks or criteria, and which may draw on practitioners with subject matter expertise but not expertise and experience in assurance skills and techniques, which are critical to ISAE 3000 (Revised) assurance engagements.

References 10-11

We support the IAASB's decision that the Guidance Document be non-authoritative, framework neutral and principles-based so that it can be applied to any EER framework or entity-developed criteria, and that it is directed at an informed readership comprising assurance practitioners as described in ISAE 3000 (Revised).

We believe the content generally addresses the challenges for practitioners and is helpful and clear. However, we set out comments and suggestions regarding specific areas that may benefit from clarification below:

Scope of the Document

We note that the IAASB appears, in this publication and elsewhere, e.g. in their 2018 Survey: *Envisioning the Future, Survey on the IAASB's Future Strategy*, to describe assurance engagements that are extended external reporting (EER) versus non-EER. We believe that this distinction is not necessarily a bright line and is also likely to further evolve over time.

As a result, we suggest that the IAASB clarify that although this publication is focused on EER assurance engagements, as would be currently captured by this term, it may also be applied more generally to key challenges in the implementation of ISAE 3000 (Revised) and related standards in the assurance suite. This will help to ensure that it has sufficiently broad applicability, and also remains fit for purpose, for the foreseeable future.

References 12-13

In addition, we highlight that certain assurance engagements performed in accordance with ISAE 3000 (Revised) may involve financial elements (historical financial information), albeit in a different and specific context. We note that the Guidance Document frequently compares and contrasts aspects of an assurance engagement to an audit of financial statements to explain the principal differences between the two forms of engagement. As a result, it may be unclear to practitioners that EER assurance engagements may involve historical financial information. Accordingly, we suggest that the Guidance Document provide examples of such historical financial information in the context of an EER assurance engagement, to clarify this matter.

Focus on Sustainability Engagements

Much of the content of the Guidance Document appears to focus, at least implicitly, on sustainability engagements. It is unclear whether this is intentional or whether, as a more established engagement type, examples inevitably draw from practical considerations identified in performing such engagements.

We recommend that the Guidance Document be broadened beyond sustainability engagements and focus more specifically on particular challenges that arise across a wide range of EER Assurance engagements. As part of this, we suggest that the IAASB address a broader base of assurance engagement types and include a more diverse pool of examples, applicable to each concept being illustrated, in the Guidance Document.

Reference 14

In connection with the above, we highlight that the Guidance Document describes a "materiality process" to determine which aspects ("topics and related elements" as set out in the Guidance Document) of the underlying subject matter should be included in the subject matter information. We note that considerations in this regard apply, in particular, to sustainability engagements and therefore we suggest that the Guidance Document clarify that it may not be applicable to other types of assurance engagements

References 15-16

We also note that paragraph 164 suggests that preparers describe their materiality process in their report. Whilst we understand the IAASB's intention in suggesting this, and such information may be helpful for users of EER assurance report, we also recommend that it may be helpful to expand this guidance to explain the practitioner's responsibility if they believe key aspects are not included and the subject matter information as a whole may not be complete/ the criteria may not be suitable in driving this.

In respect of the terminology of "materiality" in the context in which this is currently understood in a financial statements audit (i.e. what is "material" information to include in respect of the aspects of the underlying subject matter that are included in the subject matter information), we note that the use of this term in respect of EER assurance engagements may be challenging, in particular, when aspects of the underlying subject matter consist of narrative information, and/or when there are several disparate aspects of the underlying subject matter. Accordingly, we suggest that it would be helpful for the IAASB to focus on considerations as to how to apply this concept in an EER assurance engagement. Such guidance could address both planning materiality as well as materiality used in evaluating misstatements.

In this regard, we suggest the IAASB consider the material in the AICPA guidance document *Attestation Engagements on Sustainability Information*, which is more detailed and may be helpful. In particular, the material addressing evaluation of misstatements across multiple underlying subject matters/ different aspects of subject matter information, including finding the "common denominator" and grouping of items, is particularly helpful as this addresses challenges that are specific to assurance engagements.

Reference 17

Reasonable and Limited Assurance Engagements

We note that considerations regarding reasonable and limited assurance engagements, and, in particular, the differences between these two forms of assurance engagement, in terms of the effects on engagement acceptance, understanding the control environment, risk assessment, nature and extent of

assurance procedures to perform, and extent of evidence to obtain continue to present challenges to practitioners, and we recommend the inclusion of more specific guidance throughout the Guidance Document, including examples that compare and contrast between these two types of engagement. For example, we note the following:

- Paragraph 60 suggests that the practitioner obtain an "understanding" of the entity's system of internal control relating to its EER report, when performing a reasonable assurance engagement, and to "consider the process" when performing a limited assurance engagement, however, there is a lack of clarity as to the meaning of these two terms and the relative differences between them;

We recommend that the IAASB include clear guidance in this regard throughout the Guidance Document, with practical examples to illustrate each aspect.

- Paragraph 58 refers to the ability of the practitioner to obtain sufficient appropriate evidence, and that this may depend in part on the extent to which the entity's system of internal control is "adequate". We note that less evidence may be required in a limited assurance engagement as compared to a reasonable assurance engagement, however, we would be concerned with a possible interpretation that the practitioner may perform a limited assurance engagement in circumstances where the control environment is still developing, and when it would not support reasonable assurance.

We recommend that the IAASB clarify that the decision as to the level of assurance to be obtained is made by the engaging party primarily based on their understanding of the needs of intended users and should not be driven by whether or not there are aspects of internal control weakness.

References 18-19

Appropriateness of the Underlying Subject Matter

We highlight that the guidance addresses suitability of criteria and consideration of the needs of intended users, but does not address the appropriateness of the underlying subject matter itself in detail. Paragraph 48 addresses whether the underlying subject matter is appropriate in the specific context of whether the subject matter elements are "distinct from other things", and the section describing the "materiality process" addresses considerations as to matters for inclusion in the subject matter information, however, we consider that it is important to address broader challenges in determining whether the underlying subject matter itself is appropriate. We suggest, therefore, that this section focus in more detail on the appropriateness of the underlying subject matter, with linkage to other preconditions for an assurance engagement, such as whether there is a rational purpose to the engagement, which together would address whether the elements of the underlying subject matter that are to be measured or evaluated and included in the subject matter information are sufficiently distinct.

We recognise that such considerations inherently involve significant inter-relationship with matters such as the suitability of the criteria, the needs of the intended users and whether there is a rational purpose to the engagement.

Inter-relationship of Preconditions

We suggest that the Guidance Document be structured to more clearly link the above considerations, under the "preconditions for an assurance engagement" section, with the emphasis in the guidance on such inter-relatedness. For example, for certain engagements, e.g. assurance over information set out in Management's Discussion and Analysis (MD&A) in an entity's annual report, the practitioner needs to

determine whether the underlying subject matter is appropriate, including whether the elements for measurement/evaluation for inclusion in the subject matter information are sufficiently distinct (and, by extension, it may be particularly challenging to identify the aspects of a particular matter/ set of information that constitute the subject matter information). As a result, in considering whether the subject matter information is complete in accordance with the criteria, the practitioner would also need to consider whether the criteria are suitable for the needs of the intended users and whether there is a rational purpose to the engagement. We also recommend that there be greater recognition of consideration of different aspects of the preconditions in the illustrative examples, and that these confront this particular challenge more directly/explicitly.

As a result of this inter-relationship of aspects of the preconditions, we note that at certain points in the guidance concepts appear to have become co-mingled, or descriptions may imply this, e.g. assertions and criteria, identifiability of subject matter information and suitability of criteria, and, as we refer to above, materiality and completeness of subject matter information, which may be misleading to users.

References 20-21

Suitability of Criteria

We believe that the chapter addressing suitability of criteria is particularly helpful.

We suggest that this section also acknowledge more directly that a key innovation in some EER frameworks is the emphasis on determining subject matter information, in accordance with the EER framework principles, by reference to the unique features of the organisation's business model/strategy (also referred to as "linkage"). We highlight that frameworks such as the IASB's Management Commentary Practice Statement, the UK's Strategic Report Guidance, and the Integrated Reporting (IR) Framework represent significant departures from traditional prescriptive frameworks, as under these frameworks disclosures are to be determined by reference to the company's business model. Accordingly, we suggest that the Guidance Document cross-refer to the above sources of information and guidance.

We believe that a rigorous approach to assurance engagements on such linkage-based disclosures is possible, but we recognise the significantly greater level of professional judgement required by assurance practitioners in this scenario, particularly in relation to the completeness of disclosures for frameworks where there is no prescriptive set of disclosures available to practitioners. For EER Frameworks that define disclosure criteria by reference to an organisation's business model, we highlight that it is critical for practitioners to have a deep understanding of the entity's business model in such circumstances.

It may also be helpful to refer to the fact that criteria in certain EER frameworks may be principles-based, and also may allow for criteria to evolve and develop over time as practice matures, in a similar way to financial reporting frameworks, which have been developed over the long term, mainly in response to matters identified in practice. We note that this is different to a more fundamental change in the criteria themselves, as described in the guidance.

We recommend that the Guidance Document provide more information regarding the above, with clearer explanation that in this scenario the EER Framework may provide a form of high-level guidance, upon which an entity develops more specific criteria, which are capable of providing a suitable basis for consistent measurement/evaluation. As part of considering whether the preconditions for an assurance engagement are present, the practitioner would need to determine that the criteria are, in fact, suitable, and whether they have sufficient confidence to be able to identify/assess misstatements.

Such considerations are particularly important in respect of EER Frameworks that are principles-based and therefore there is likely to be greater inherent subjectivity in preparing the subject matter information. In particular, the *Neutrality* aspect of suitable criteria is critical in ensuring that information is balanced and negative information is included to an appropriate extent such that the subject matter information is free from bias. As a result, an assurance engagement over such subject matter information would necessarily draw on the professional experience and expertise of an assurance practitioner, and require the exercise of professional skepticism and professional judgement to a significant extent, whilst still remaining objective.

We recommend, therefore, that the IAASB describe more fully the value to a user of assurance by a practitioner, as there are various market offerings that are not conducted with the same rigour, based on robust frameworks or criteria, or which may draw on practitioners with subject matter expertise but not expertise and experience in assurance skills and techniques. Please refer to our response to Question 6 for more detail.

Reference 22

Controls

We welcome the discussion of the system of internal control in the context of the preparer's responsibilities and in respect of the practitioner's consideration of this in establishing whether the preconditions for an assurance engagement are present. We support the focus on adequacy rather than maturity of the system given that practice is evolving in this area.

We highlight that the guidance in this area is incremental to the requirements and application material relating to the preconditions in ISAE 3000 (Revised) and we suggest that IAASB clarify that this is not intended to create additional requirements.

References 23-24

As we note above, we are concerned that, as drafted, paragraph 58 refers to the ability of the practitioner to obtain sufficient appropriate evidence, and that this may depend in part on the extent to which the entity's system of internal control is "adequate". We note that less evidence may be required in a limited assurance engagement as compared to a reasonable assurance engagement, however, we would be concerned with a possible interpretation that the practitioner may perform a limited assurance engagement in circumstances where the control environment is still developing, and when it would not support reasonable assurance. The decision as to the level of assurance to be obtained is made by the preparer based on their understanding of the needs of intended users and should not be driven by whether or not there are aspects of internal control weakness.

We suggest that this paragraph clarify this point, and guide a practitioner to instead perform a "readiness" assessment in such a situation

Reference 25

We also note that paragraph 60 suggests that the practitioner obtain an "understanding" of the entity's system of internal control relating to its EER report, when performing a reasonable assurance engagement, and to "consider the process" when performing a limited assurance engagement.

We recommend that the IAASB explore providing more detailed guidance in this area, as to what procedures a practitioner should perform in order to obtain such an understanding, and, in particular,

when considering the process, as to what the minimum expectations would be to satisfy this requirement, as there may otherwise be inconsistency in practice.

We highlight that this is an area of debate in respect of audit engagements also, and we refer to our comment letter to the IAASB in respect of ED ISA 315 (Revised), as to the nature and extent of work the practitioner would undertake to obtain such an understanding, whether it necessarily involves evaluation of the design and implementation of controls and how this would support risk identification and assessment. Such considerations are likely to be even more relevant to an assurance engagement, and therefore we recommend that the IAASB provide more context here, with illustrative examples, to ensure that the Guidance Document will be useful and relevant to practitioners.

Reference 26

We also refer to our other comments regarding that standard, and the terminology used, and suggest the IAASB consider similar clarification of terminology in this document, e.g. definitions of "controls", "control activities", explanation of consideration of design and implementation, as well as operating effectiveness, to help ensure consistency in application in practice, in the context of an EER assurance engagement.

References 27-28

Assertions

We are supportive, in general, of the material in relation to assertions, and we believe this is important for practitioners as it provides a mechanism to help them to apply aspects of ISAE 3000 (Revised) in practice.

We highlight that the guidance is extensive and detailed, and is not a concept that is addressed in ISAE 3000 (Revised). As such, we recommend that the IAASB clarify that the purpose of this material is to provide guidance only and is not intended to create requirements that are above and beyond those of the standard itself.

We also recommend that in addition to the overall concept of assertions, the IAASB explore the inclusion of other related concepts, currently set out in the ISAs, such as risks of misstatement, risks of material misstatement, significant risks and *relevant* assertions to provide a clearer path to practical application.

We note that the example categories of assertions set out at paragraph 177 are different to those that are applicable for an audit of financial statements. Whilst we do not necessarily disagree that there would be such differences, given that there is a broader range of subject matter information for EER assurance engagements, we suggest that the IAASB carefully explore the nature of such differences and whether these are appropriate. For example, we note that there is no "completeness" assertion, and we consider that such an assertion would be applicable in an EER assurance engagement as for an audit engagement. Additionally, for assertions that are specific to assurance engagements, e.g. the "connectivity" assertion, we suggest that the IAASB provide further guidance as to the application.

We are concerned that the material in this section is unclear in that it appears to co-mingle characteristics of assertions with those of suitable criteria, which we do not believe to be appropriate as they are distinct concepts. We suggest that the IAASB clarify their intentions in this regard.

Future-Oriented Information

We believe this section is helpful, although we note that it may be less of a priority since ISAE 3400, *The Examination of Prospective Financial Information* already addresses certain considerations in respect of financial information. Whilst we recognise that this standard does not address examination of prospective financial information that is expressed in general or narrative terms, e.g. as set out in MD&A in an entity's annual report, many of the procedures outlined in this standard may be suitable for such an examination.

We believe the guidance in this section could be more detailed and therefore suggest that the IAASB consider the material set out in the AICPA *Prospective Financial Information* guide. We also recommend the IAASB explore drawing on expertise developed in the auditing field, in relation to going concern, as similar challenges and considerations regarding future-oriented information exist.

References 29-31

Practitioners performing these engagements are required to comply with Parts A and B of the IESBA Code related to assurance engagements (or other requirements that are at least as demanding). Since a number of EER Assurance engagements may address highly sensitive areas relating to environmental, regulatory or social matters, it may be helpful if the IAASB were to consider explicit linkage in the guidance to the IESBA Code. For example, this may be particularly important in areas such as actual or suspected NOCLAR or fraud in relation to the underlying subject matter in a similar way to such matters in the context of an audit engagement, involving consideration as to whether the practitioner may have an obligation to report such matters to an external/regulatory body.

Intended Users

The document provides guidance regarding intended users, however, we note that the guidance focuses primarily on a generalised user base. We recommend that the document provide more guidance as to specific users, including how to identify these individuals or groups and consider their needs.

Assurance Skills and Techniques

We note that ISAE 3000 (Revised) requires a practitioner to be satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities to do so. For EER Assurance engagements, this will necessarily involve expertise in the underlying subject matter as a key feature of an engagement team's ability to perform the engagement.

We recognise that Chapter 4, which addresses applying appropriate skills, and Chapter 5, which addresses exercising professional skepticism and professional judgement are not yet drafted. However, we highlight that it will be important for the IAASB to focus on the need for expertise in the underlying subject matter in performing the engagement, emphasising that this is a key feature of such engagements when compared to audit engagements, whilst also ensuring that the engagement team has the necessary assurance expertise, as assurance skills and experience in assurance techniques will also be critical attributes of an engagement team. We also recommend that the IAASB include guidance specifically directed at using the work of subject matter experts, as this is likely to be an integral feature of such engagements.

Reference 32

In respect of the Four Key Factor Model document, we are supportive of the references to Factor 3, Consistent Wider Information, however, we have not yet considered material in respect of Other Information as this is to be addressed by IAASB in Phase 2. We note that Other Information as defined in paragraph 57 is similar to the concept in an audit engagement, however this document appears to broaden the sources of "other information" and practitioner responsibilities, which are described as to "ensure consistency" with any information in the public domain, not just information in the EER report itself that is outside the scope of our assurance engagement. This may not be practicable.

18. MZS

References 1-5

9-15 (scope of draft guidance)

- We believe that the link with the ISAE 3000 framework could be improved so that the user of the guidance is clear on what is coming from the ISAE 3000 and what is guidance. It will also ensure there are no contradictions (it seems to be the case when we compare the § 31 of the consultation paper and the §A3 of ISAE 3000 for the "extent is likely to be less").

- This linkage and more generally speaking the reporting could be done in an innovative format.

- It would be helpful to provide more guidance on the different levels of assurance and especially about possible the combination of reasonable and limited assurance in one single assurance engagement.

- It is key that the guidance updating process is define in advance in order to match as quickly as possible with the evolution of the landscape, the demand and the technologies, especially for the deliverables both on what is produced by the preparer and what the practitioner will release as a reporting. We understand that the chapter "Applying appropriate skills" will be developed in Phase 2. However, it is so structuring as reliance on the work of other is now a common practice, that we believe some guidance around the use of experts could be already be mentioned. In EER engagements, reliance on the work of others is a key topic.

- In some countries such as France, there is an accreditation protocol that is needed to measure competence and organization, checked every via an validation inspection process. This accreditation is a pre-requisite to be able to perform such engagement.

- Direct and attestation engagements is mentioned in § 8 of the Chapter 1. It would be helpful in a further step to provide guidance on direct engagements, if it is really needed and used. Otherwise we suggest to suppress this mention.

- We believe that the split between what is expected from the preparer versus what is expected from the practitioner should be organized.

- As the guidance is intended to be also used by preparers and practitioner, we recommend an ad-hoc process to make sure it is widely and appropriately released.

References 6-10

- We consider internal control framework to be put in place by each preparer as a key success factor (especially on the information system and control activities). While there is a growing awareness

among the practitioners, we note in practice that the level of internal control is not fully mature, especially on the control of the information. As a matter of fact, the usual 3 levels of internal control are often not in place: preparer / control by the business owner of the topic / inspection from the internal audit or from another party. Therefore, the quality of the input data includes many errors, especially for the first year.

- EER reporting is in general a voluntary process and therefore the guidance should include the variety of the reporting but also the variety of frameworks that can be used. So, putting in place internal control should not be an impediment to accept the engagement. Had we not accepted engagements where there is no IC there, we would have performed nearly no engagements. So EER draft guidance need to be pragmatic

- We suggest that the distinction between what is needed at the acceptance stage versus the preconditions is clarified.

- We have noted that in §45 that there are no differences between limited and reasonable assurance on those areas (acceptance and preconditions) and we do agree with this. However, §60 appears to create a difference.

- In §45, the word "must" is used. We believe nevertheless that this a requirement for the standard but not for a non-authoritative guidance.

- In Chapter 3 of the consultation paper (§46), we think it is a good idea to have a diagram. However, the output is misleading and especially clarification on the order of the steps should be provided. Depending on the re-ordering of §46, it should be reflected in §47. The very first question should be around the rational purpose of the engagement.

- The example of §48 relates to greenhouse gas emissions. There is already a standard on this topic. We thus suggest to provide another example.

- §52 "readiness engagement" needs to be elaborated further.

References 11-15

- The maturity of the internal control is key but does not prevent to work on the design of the system upfront. One should be careful not to set the maturity as a precondition to accept the engagement. The main element should the rational purpose of the engagement.

- We believe that further connection with the IESBA code could be provided in §53 when self-review threats and independence are mentioned.

§ 29 (suitability of criteria)

- Chapter 7 is very developed and quite long (20 pages).

- We believe that the introduction is helpful. However, there should be more connection / consistency between the figures of §80 and the ones from §82.

- The differences between the suitable criteria and the assertions appear as not an easy topic. We believe it should be explained further by highlighting that the suitable criteria are part of the framework reporting and that the assertions are the elements to check. The difficulty is that when an auditor reads the standard he or she may be confused as assertions in audit are both for the preparer (criteria) and for the auditor ("audit objectives") about the true & fair view principle.

- We have noted the five characteristics "relevance, completeness, reliability, neutrality and understandability" but we believe that this should also include the assertions. We mean that both criteria and assertions should be used by the preparer. Otherwise it is odd that only completeness is found in the suitable criteria and not in the assertions identified in §177.

- In the glossary definition of the Handbook, the link should be also done with ISAE 3400 and not only ISAE 3401: "Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur. In the context of ISAE 3401, assertions are defined as representations by the entity, explicit or otherwise, that are embodied in the GHG statement, as used by the practitioner to consider the different types of potential misstatements that may occur."

- We think that the concept of performance could be included as it may be required in some cases to give an assurance on those elements. Especially on the measure of the progress of the action plan through relevant Key Performance Indicators. More guidance should be developed on the use of external data: what work effort is expected from the practitioner on those elements.

References 16-19

§ 33 (materiality processes)

- We believe that the chart in §130 is helpful to understand what is done by the preparer and what is done by the practitioner. It could be used in other areas through the guidance on other topics. For example, in France, the Institute developed a practical guidance "*Avis technique sur la Déclaration de Performance Extra-Financière*" (35 pages, without templates) that clarifies also the work to be performed by the preparer.

- The term "materiality process" is new and we should make it clear that it is the process from the preparer.

- The guidance on the issue of materiality is very helpful, as it is a complicated matter. We recommend separating more clearly reporting materiality and the materiality concept relevant for the assurance engagement.

- We believe that the scoping is something to mention before the materiality especially when the entity has multi-locations.

- More guidance and practical examples should be brought on how to consider materiality in different areas an also how to deal with materiality to take qualitative aspects into account? How to quantify materiality per individual indicator and how to aggregate?

§ 35 (materiality of misstatements)

- We believe that as for materiality process, the assessment of the misstatements should be first developed, considering the perspective of the preparer and not only from the practitioner's perspective.

- Again, the evaluation of the misstatements can be very sensitive and complicated when a scoping has been put in place meaning that work has been performed on a limited number of locations for example.

- The concept of clearly trivial threshold may be complicated to apply in practice for qualitative information, so we suggest more emphasis on the use of professional judgement and professional skepticism.

Reference 20

§ 40 (assertions)

- As mentioned in the paragraph "Suitable criteria", there should be some consistency.

- In §177, the mapping between the assertions and the suitable criteria need to be improved. For example, cut-off, existence, completeness contribute to the reliability also and not only to the relevance.

- We believe that the five characteristics should be also mapped within §177 and the content of §178 included. However, we believe that completeness is an assertion.

- We suggest clarifying the term "connectivity".

- We recommend giving further explanations in §179 especially the link between the first sentence and the example.

Reference 21

§ 41 (narrative and future-oriented information)

- We should be careful not to provide assurance on the output of the forward-looking action plan (no reliability nor likelihood). However, like for complex management accounting estimates (impairment tests, expected credit losses), we are able to perform procedures on the quality of the process and the quality of the way the assumptions are set up, and hence to deliver a conclusion.

- More guidance, examples and clarification is needed on future oriented information, especially on the sensitive tests and which work and reporting should be done.

- More guidance is requested on how to deal with financial information; especially regarding financial indicators, which are quite common aspects in GRI-reports and in Integrated Reporting?

- Integrated or sustainability reports may include outcomes, resulting from an impact measurement performed by the client or an external expert. Given the characteristics in terms of assumptions, inherent uncertainties and the public availability of impact measurement models, an assurance provider will have to design an assurance approach that fits those characteristics. We recommend the IAASB to provide further guidance on these aspects.

- The titles chapter 10 & 11 include the word "assuring" narrative and future-oriented information. We believe that the word "assuring" should be deleted.

Reference 22

- the more we use the term EER, the more we face people having difficulties to understand in a straight forward manner. This term may not reflect the variety of the scope and especially the fact that it is not restricted to financial information.

Reference 23

§ 37 & 40 (assertions)

It would be helpful to identify the assertions also used for the audit of financial statements and those that are specific for such EER assurance engagement, and to give more examples around each one, in order to help understand better their specificities.

Reference 24

- We also recommend separating the guidance for assurance engagements, between limited assurance and reasonable assurance.

19. PwC

Reference 1

Assertions

We support the guidance on considering assertions during an EER Assurance engagement and believe that doing so is reflective of current practice. However, we find the description of "categories" of assertions to lack clarity. ISAE 3410 and ISA 315 already contemplate "categories" of assertions, as noted in the guidance. In our view, the categories in those standards are described in a different (and clearer) way to the content in paragraphs 171-183 of the guidance. We believe the extensive discussion of "categories" of assertions and how they may map back to the characteristics of suitable criteria is over-complicating the concept of assertions and found that the proposed guidance hinders rather than helps the practitioner's thought process. In our view, this is also likely to add further confusion when considering materiality and assessing misstatements. We provide a suggestion for how to simplify the discussion of assertions in our response to question 2 in appendix 1.

Reference 2

An important criterion for the proposed guidance is that it does not introduce any new requirements beyond those in ISAE 3000 (Revised) nor remove or change any of the requirements or application material in ISAE 3000 (Revised). That is important both in actuality and in perception. We have one significant comment in that regard.

The entity's materiality process

We agree with the need to understand how the preparer has approached the preparation of the EER report, including what to include. In doing so, the practitioner actively considers, applying professional scepticism, the rigour and robustness of management's process to be satisfied that what is expected to be included appears reasonable based on their understanding of that process and in light of the need for the engagement to have a rational purpose.

We are concerned that the guidance implies an obligation on the practitioner to evaluate or form an independent conclusion on the preparer's assessment. For example, the proposed guidance refers to "reviewing" the process and also the "appropriateness and outcomes" of the materiality process.

Management remains responsible for determining what information is to be included in their reporting and while we understand that many EER frameworks are worded in such a way that leaves room for

interpretation, it is important not to convey an impression that the assurance practitioner is capable of independently determining what should be reported.

We suggest that this section make the above principles clearer, as well as clarifying what is meant by the term *reviewing,* to avoid the potential for misinterpretation. See also our response to question 4 in appendix 1.

References 3-4

Subject to our comments below, we believe the draft guidance appropriately describes the key areas of challenge faced by practitioners that have been identified as within the scope of the draft guidance developed in phase 1.

Preconditions for Assurance

ISAE 3000 (Revised) sets out the preconditions for an assurance engagement, one of which is that the engagement has a rational purpose. We believe that further guidance in applying this criterion to prospective engagements would benefit practitioners. For example, the considerations described in the box under paragraph 49 states (emphasis added) that *"Assuming the subject matter information is expected to address the significant information needs of intended users, whether any aspects of the subject matter information are to be excluded…."*. While it is not the responsibility of the practitioner to independently identify the intended users and establish their needs, we believe it would be useful to emphasise that it is important to consider how the entity has identified the intended users and their information needs, applying a sceptical mindset, and not to simply assume that the information is expected to meet all such needs. As we note in response to question 3, there is a clear linkage here between the proposed chapter on the entity's materiality process (chapter 8), which addresses the identification of intended users and what would aid their decision-making, and consideration of the rational purpose precondition. Better linkage of this guidance would be useful.

With respect to the final bullet of the same considerations box (based on paragraph A56 of ISAE 3000 (Revised)) that addresses inappropriate association by the entity of the practitioner's name with the subject matter or the EER report, we believe expanding this guidance would be helpful. It is important that a practitioner considers the rationale for their requested involvement - is the nature of the engagement and the underlying subject matter relevant to the practitioner's field and knowledge? Considering why the practitioner is being asked to perform the engagement and to issue a report is relevant in determining whether the engagement has a rational purpose.

Reference 5

Looking ahead to phase 2, as the guidance on the scope of the engagement is developed, it will equally be important to link this content to the guidance in (current) chapter 8, which further addresses the selection of topics and elements to be included in the EER report and how this relates back to the needs of the intended users and the overall purpose of the engagement. As phase 2 progresses, further consideration as to how the relevant content in chapters 2 and 8 is best presented may be necessary.

References 6-7

Materiality

Consideration of materiality by the practitioner is important and introducing this only in chapter 9 may be unhelpful. We believe signposting this guidance earlier in the document would be useful. Consideration of materiality in planning an engagement provides essential context to being able to identify and assess the risks of material misstatement and planning the appropriate responses. This is likely to be an area where practitioners will find practical guidance useful. For example, how to consider materiality in the context of a whole EER report versus in relation to individual subject matter elements within the report, depending on the nature of the practitioner's conclusion(s) in the assurance report, and the related implications for the practitioner's work effort and evidence needed to express that conclusion. Further, addressing relevant considerations when dealing with multiple unrelated subject matter elements and multi-location engagements would also be useful. Again, the linkages with chapter 8 will be important.

Maturity in governance and internal control

Chapter 6 includes guidance on the practitioner's consideration of the preparer's system of internal control as part of the overall preconditions when making an acceptance decision. We agree that the level of understanding needed will be affected by the size and complexity of the entity, but that this will also be affected, often more so, by the complexity of the subject matter and related measurement/ evaluation.

We believe it is also important to be clear that a mature system of internal control is not an absolute prerequisite for assurance, so long as the practitioner is satisfied that the pre-conditions for assurance contemplated by ISAE 3000 (Revised) can be met.

We believe these matters could be better reflected in this section, including in relation to paragraphs 72-74.

Reference 8

Narrative and future-orientated information

Overall, we consider the guidance in Chapters 10 and 11 to be a fair summary of the challenges associated with narrative and future-orientated information, respectively. However, with respect to future-orientated information, we believe the guidance could better draw out that there is likely to be a stronger evidential basis for a forecast that is supported by a stable history of accurate forecasting, as compared to future-orientated information that is entirely based on subjective judgement with no history. See also our response to question 2 on the inclusion of further examples.

References 9-10

Assertions

While ISAE 3000 (Revised) does not refer to the use of assertions, we support the guidance on considering assertions during an EER assurance engagement and believe that this is reflective of current practice. However, we find the description of "categories" of assertions to lack clarity. ISA 315 and ISAE 3410 already contemplate "categories" of assertions as noted in the guidance. However, in our view the categories in those standards are described in a different (and clearer) way to the content in paragraphs 171-183, being:

- ISA 315 - (i) assertions about classes of transactions and events, and related disclosures, for the period under audit and (ii) assertions about account balances, and related disclosures, at the period end.

- ISAE 3410 - (i) assertions about the quantification of emissions for the period subject to assurance and (ii) assertions about presentation and disclosure.

We believe the extensive discussion of "categories" of assertions and how they may map back to the characteristics of suitable criteria may be over-complicating the concept of assertions such that the intended guidance hinders rather than helps the practitioner's thought process. This section of guidance gave rise to most questions in outreach with current practitioners. At its simplest, assertions are most easily thought of in terms of "what can go wrong" - what is it about that subject matter that could give rise to a material misstatement?

We suggest focusing on (i) describing the concept of assertions and (ii) how they can be used by the practitioner in considering the types of misstatements of the subject matter information. In doing so, recognising that some practitioners performing these engagements may not have recent audit experience to draw upon or be familiar with ISAE 3410, we believe there would be value in including (potentially in an appendix) a more general description of each assertion, how the information may be misstated and how assertions otherwise may impact a practitioner's testing approach, by providing a few examples i.e., extending the concept explored in paragraphs 182 and 184.

With respect to "neutrality", we suggest that "freedom of bias" is the better term to use and is best addressed as part of considering other assertions, rather than a discrete assertion, or category of assertions, in its own right. This avoids the risk of confusion with the concept of neutrality as a characteristic of suitable criteria.

Narrative and future-orientated information

Chapter 10 provides useful guidance on how a practitioner may approach narrative information, in particular the example in paragraph 195 on how to potentially address sentences or sections of significant narrative information. We believe this is an area where a more detailed worked example that includes the specific criteria, as well as additional shorter examples covering different types of narrative information, would be worthwhile. This is a challenging area and illustrations are likely to add most value here. It is unclear to us, however, whether the example in paragraph 195 was intended to illustrate an approach to presentation of the entity's final EER report, or merely an approach to the practitioner's documentation of their work performed. We believe the latter, but clarity would be welcomed.

We also suggest that examples that illustrate how to consider forward-looking scenarios would also be useful.

References 11-12

We believe this would also be useful in setting relevant context for current proposed chapter 6 on consideration of the system of internal control. Guidance on the entity's materiality process around determining what is to be reported, and how, and what is 'material', will to a large extent drive the consideration of the internal controls that are needed to identify, record, process and report the subject matter information. We comment separately on the content of the materiality process section in our response to question 4 below.

With respect to narrative information, we suggest that Chapter 3, Agreeing the Scope of an EER Assurance Engagement, should include some introductory material that highlights the importance of narrative information in the context of EER, in particular in helping build the practitioner's understanding, in assessing the risks, and in designing procedures. While Chapter 10 sits logically within the structure of the proposed guidance, it is important to emphasise that such information be considered early in the engagement

Reference 13

Chapter 8 of the guidance describes the entity's "materiality process" as the process the entity goes through in order to decide what is of sufficient relevance for users of the EER that it warrants inclusion within the EER report (where the criteria themselves do not stipulate this). It also suggests a method that can be adopted by practitioners in order to obtain an understanding of this (the diagram following paragraph 130).

We agree with the need to understand how the preparer has approached the preparation of the EER report, including what to include. In doing so, the practitioner actively considers, applying professional scepticism, the rigour and robustness of management's process to be satisfied that what is expected to be included appears reasonable based on their understanding of that process and in light of the need for the engagement to have a rational purpose.

We are, however, concerned that the guidance implies an obligation on the practitioner to evaluate or form an independent conclusion on the preparer's assessment. For example, the proposed guidance refers to "reviewing" the process and also the "appropriateness and outcomes" of the materiality process.

Management remains responsible for determining what information is to be included in their reporting and, while we understand that many EER frameworks are worded in such a way that leaves room for interpretation, it is important not to convey an impression that the assurance practitioner is capable of independently determining what should be reported. The practitioner may express views to the preparer that what is being reported may not appear appropriate or relevant, but guidance should not imply the practitioner is the arbiter on this point.

We suggest that this section make the above principles clearer, as well as clarifying what is meant by the term *reviewing,* to avoid the potential for misinterpretation. Similarly, we find reference to how "effective" the entity's materiality process was (also in the diagram) to be unhelpful - effectiveness is a subjective concept and we suggest removing this term. The key test should be whether the pre-conditions for assurance have been met.

We do agree, however, with the principle in paragraph 129 that *"the extent to which"* the practitioner needs to understand the entity's materiality process may depend on the scope of the assurance engagement. We believe the guidance that follows needs to avoid implying the contrary - for example, avoiding phrases such as "the suggested process for a practitioner" (paragraph 130).

2. CFC

Reference 1

Answer: This guidance is essential for the Auditors know carry the ten challenges that were identified in your scope in a systematic process of fastening, which includes the examination of information of financial and non-financial nature, as listed in appendix 1.

However, are need to include some aspects which are essential to make it more precise, such as:

- establish the distinction between External Extended Reporting EER Assurance and Integrated Reporting. Is also relevant to emphasize that RI, includes information about the strategy, structure and corporate governance policies, the operational performance indicators, the sustainability report and other reports come be prepared for particular entity on environmental and social issues;

Reference 2

- clarify the concepts of materiality, materiality processes and materiality of misstatements, including examples applicable to entities of small, medium and large companies;

Reference 3

- include, by way of an appendix, guidelines for the evaluation of qualitative information (narratives and towards the future), as a way to reduce the difficulties that auditors may face, due to the complexities of assessing of these approaches. In this appendix, too, must be highlighted examples of how adding this evidence in a ballot of settings and even in a modified opinion report with caveat, adverse and abstention from opinion;

Reference 4

- in item 62 of Chapter 6, are assigned the five basic components of an internal control structure, namely: control environment, risk assessment process, monitoring process of internal controls, communication system and report (information) of the control activities. That truly understands the components of an internal control Structure. So, here is the suggestion that Chapter 6 is termed: "Considering the Structure of Internal Control"; and

Reference 5

- include in this orientation the use of analytical audit techniques (flowcharts of processes and procedures) to conduct a study and evaluation of the components of the internal control structure.

20. GAO

References 1-2

We believe that the draft has addressed most of the challenges within the scope of phase 1. However, until the guide is fully developed, it is not clear whether all of the challenges have been fully addressed. Many of the areas addressed in phase 1 require professional judgment, in particular, the topics of criteria, materiality, and the scope of the engagement. After the chapter related to professional skepticism and professional judgement is completed, there will be the potential for revisions to chapters developed in phase 1. In addition, we believe that the IAASB should reconsider the use of the word "may" in paragraph 128. We believe that if management uses a materiality process, the practitioner's review of the process would be integral to their evaluation of the criteria.

21. ACCA-CAANZ

Reference 1

As a general observation, some of the questions might have been better answered if we had seen all the guidance at once. For example, the guidance included in the Paper on 'Agreeing the Scope of an EER

Assurance Engagement' in Chapter 3 is incomplete. We appreciate the scope of work involved in the development of the guidance and hence we understand why it was divided into two phases.

References 2-4

The guidance is a step forward in addressing the Key Challenge #1. We have the following comments to consider:

- Further guidance could be considered on what steps the practitioner takes and risks to consider when assurance will be placed on certain aspects only of the subject matter information.

    o The diagram in par. 46 of the Paper appears to be a complex process, while there might be a simpler approach practically.

- The explanation and example in par. 48 is helpful, but some nuances of it may not be evident to all readers.

- Par. 49 seems to expand the list in par. A56 in ISAE 3000, yet remains theoretical. A more practical discussion on situations where the assurance engagement may or may not have a rationale would be useful.

Key Challenge #2: Evaluating the suitability of criteria in a consistent manner (Chapter 7)

Chapter 7 contains helpful guidance on suitability of criteria, which appears to be in keeping with the Assurance Framework and other IAASB literature. The conceptual discussions may be more of use to standard-setters and regulators, rather than practitioners.

We encourage a wider range of examples, ensuring framework neutrality. We are cognisant that this is a standard-setting challenge. We have also made comment, in our response to Question 2 below, on the prevalent use of examples pertaining to quantitative information and the need for more examples on qualitative and narrative information.

Reference 5

Key Challenge #3: Addressing materiality for diverse information with little guidance in EER frameworks (Chapters 8 and 12)

The 'materiality process' in Chapter 8 appears to be different to the concept of 'materiality' in ISAE 3000. It seems to be a client process in order to meet management assertions. For example, the preparer undergoes a process to ensure completeness (which may entail considering what is material and should be part of the subject matter information), and there is a process for relevance as well (which may entail what is not material or otherwise not relevant, and should be left out). Within such processes, materiality is set in context of what would influence the decisions of users. Materiality itself is not a process. The process of recording the underlying subject matter supports all management assertions. To name it a 'materiality process' seems rather confusing.

Reference 6

Also the meaning of the term, 'decision-making' seems vague, and we have also addressed this in our response to Question 2 below.

Reference 7

Key Challenge #5: Lack of maturity in governance and internal control over EER reporting processes (Chapter 6)

We appreciate that the proposed guidance states that the presence of preconditions *may* depend on the extent to which internal controls are adequate (par. 58). The Paper also notes that sophisticated internal controls are not a precondition for an assurance engagement (par. 61). We are concerned, however, that the emphasis on internal controls pertaining to preconditions could result in a barrier to the adoption of EER assurance; however, we acknowledge that this may be the case for initial engagements only.

Reference 8

The Paper notes that a "maturity assessment" may be a separate, non-assurance engagement (par. 50-53). It may be helpful in this instance to refer to independence considerations and to mention managing client expectations and practice risk. It would also be useful to indicate what situations would be viable for a maturity assessment as a separate engagement (if such information currently exist).

Reference 9

Different forms of materiality (Chapter 8)

In addressing materiality (par. 133), the Paper should explicitly address cases where multiple frameworks (ie criteria) are used. In practice, reports often apply multiple criteria at the same time.

References 10-12

Identifying the total purpose of the report (Chapter 8)

The examples provided in par. 136 in regards to the possible purposes of the report seem fragmental. They appear to relate more to sections of a report than to reports as a whole, eg explaining 'how the entity expects to perform' is not the purpose of a strategic report, but the content of the 'outlook' section of a strategic report. Overall purpose of the report needs to be considered, which is a holistic use linked with the report's intended users.

Neutrality or 'freedom of bias' should feature centrally as a category (Chapter 9)

Neutrality should be considered with other categories of assertions as mentioned in par. 178, but it has to feature centrally as a category in its own right. It should therefore be included in the list of examples provided in par.177 even though it may be related to more than one characteristic.

Reference 13

More emphasis and guidance on 'standing back' (Chapter 9)

It should be considered that a situation may arise where each individual piece of subject matter information is free from material misstatement, but the overall message is misleading or biased. This is a prevalent issue. Although par. 180 refers to stand-back procedures, more emphasis is needed on this and what would the stand-back procedures look like.

Reference 14

'Presentational misstatement' (Chapter 12)

Presentational misstatement goes beyond use of wording (see par. 219 (g)). There is also the structure of the overall report, and the priority with which information is presented.

Reference 15

Limited vs reasonable assurance

ISAE 3000 makes a distinction between limited and reasonable assurance. It is important that the difference between limited and reasonable assurance is also clear in the guidance. In practice, integrated reports often have parts belonging to the same report, being provided with different levels of assurance. At the same time, in practice the differences between limited and reasonable assurance are often misunderstood. Therefore, the level of work required in each level of assurance should be clear.

Chapter 6, par. 60 appears to be generally consistent with ISAE 3000, par. 47L and 47R. Only in the case of reasonable assurance, is there a requirement to understand the entity's system of internal control, whereas as per par. 60(a) of the Paper or ISAE 3000 par. 47L, in limited assurance it is only required to consider the process.

Though the guidance seems to be in keeping with ISAE 3000, we believe Chapter 6 could better clarify the different scope of work to be carried out in limited versus reasonable assurance, as there is some repetition in the Paper of what is already contained in ISAE 3000. The extent of attention given by the Paper to the evaluation of internal controls when considering preconditions, could potentially blur the lines even more.

22. AE

Reference 1

We would like to highlight though that EER practice is evolving rapidly, especially with the help of technological solutions. It is therefore essential to consider now how this evolution will impact the principles outlined in the draft guidance. We note that there are increasingly more cases of combined assurance engagements which we believe will become even more common in the future.

Reference 2

EER is not developing in a vacuum. It would be useful to include guidance on how to benefit from the expertise/experience of financial auditors, internal auditors and subject matter experts as there are many useful references in their work.

References 3-4

Paragraphs 9-15 (scope of draft guidance)

The scope of the guidance as developed is appropriate. However, it addresses the reporting practices as we know them today. As EER is rapidly evolving, it is essential to consider now how this evolution will impact independent assurance practice and determine how this can or should be reflected in the guidance. For instance, further consideration of the technology used to report information, or the connectivity of information, may be useful for this guidance to be future-ready. Additionally, further guidance on the combination of reasonable and limited assurance in one assurance engagement could

be useful as we expect this to be part of the future of assurance. In practice, users of the assurance report have difficulties in understanding what is covered by the assurance engagement. Therefore, the scope should be stated in a clear manner, especially when there is a combination of reasonable and limited assurance.

Reference 5

Using the work of experts is common practice in EER assurance engagements. The information included is limited on this aspect, for instance on how to use the work of financial auditors, internal auditors and subject matter experts. What is included in ISAE 3000 may not be sufficient to ensure that assurance practitioners take appropriate steps to rely on the work performed by other experts.

References 6-7

Paragraph 25 (preconditions and the system of internal control)

It is crucial to have clear guidance on the preconditions to assist assurance practitioners. We encourage the IAASB to elaborate more on this aspect of the guidance.

The guidance should explain the work effort implied in the engagement acceptance phase and in the review phase if the preconditions are fulfilled. The IAASB should avoid confusion between the preconditions and the work that has to be performed once the engagement has been accepted. The work effort on the preconditions should be proportionate.

Reference 8

Paragraph 45 states that the same preconditions need to be present for all assurance engagements - whether limited or reasonable assurance is being obtained. Paragraph 60, though, refers to different considerations of internal controls for limited and reasonable assurance. It would be useful to clarify the expectations of the preliminary work for limited and reasonable assurance. The diagram in paragraph 46 is also not clear.

References 9-10

Paragraph 49 refers to a rational purpose. It would be useful to elaborate on this by considering different levels of assurance – reasonable and limited – and also the scope of the assurance engagement. Especially, since paragraph 129 indicates that considering the outcomes of the entity's 'materiality process' is more important than if the scope covered just some indicators. Often, there are misinterpretations on the level and the scope of assurance provided.

Additionally, preparers often go beyond reporting requirements on a voluntary basis to provide more context to disclosures. Such disclosures might not be prepared in accordance with existing reporting frameworks/standards. This is important to consider when agreeing on the scope of an EER assurance engagement and whether or not the assurance practitioner can accept the assurance engagement to provide assurance on the entire report including additional information (Paragraph 19).

References 11-12

It would also be helpful to further elaborate on paragraph 52 as ISAE 3000 could be used by practitioners for readiness, for example, on internal processes.

Reference 13

Additionally, having strong internal control systems in place is important for a qualitative EER assurance engagement, but the absence of mature internal systems does not mean that assurance cannot be provided. For example, the initial scope of assurance can be agreed on the design of the controls for internal purposes only, adding at a later stage the operating effectiveness of controls.

Reference 14

Paragraph 53 refers to advising and/or providing assurance on already existing systems. It would be useful to refer here to the IESBA code to assist practitioners with situations where there is the possibility of a conflict of interests arising to prevent such situations.

Reference 15

Paragraph 29 (suitability of criteria)

The draft guidance on the suitability of criteria is well developed. When applying that in practice though, the assurance practitioner may need to review the suitability of the criteria before accepting the engagement which can be very time consuming and counterproductive. We wonder if this is a proportionate approach moving forward. Also, it should be emphasised that assurance practitioners would not be able to provide assurance in the absence of suitable criteria.

Referring to paragraphs 82 and 98, we would welcome more examples in order to help practitioners identify the elements to be taken into account in different contexts.

Reference 16

Paragraph 35 (materiality of misstatements)

It would be helpful to further clarify the assessment of what would be considered as "clearly trivial". Determining what would be clearly trivial is much less straightforward in an EER engagement than in an audit of financial statements. We expect that it requires greater judgement by the EER assurance provider, which will need to be extensively documented.

Equally, the threshold is not clear for what is or is not clearly trivial as presented in paragraph 215. In EER reports, it may not be apparent as to what would be categorised between what is clearly trivial or not. The outcome might depend on other factors and could be open to a high level of interpretation. In these situations, the only option would be to assess such an issue as not clearly trivial resulting in additional procedures.

For example, if in an integrated report, a statement is included on the brand positioning, but is not backed up by any evidence: while this statement may be considered as clearly trivial, it could be indicative of other gaps in areas that are not trivial. Therefore, a more granular process may be better suited, but less prescriptive, i.e. allowing for the assurance practitioner to exercise judgement when assessing more qualitative types of information.

Performance materiality is not covered by the standard. While we recognise that materiality is a complex matter and welcome additional guidance, introducing additional terms and concepts within the guidance might be counterproductive in this case. The draft guidance is intended to assist practitioners with the application of the standard rather than adding another layer of complexity.

Reference 17

Paragraph 40 (assertions)

ISAE 3000 does not require the use of assertions. The guidance should clearly indicate that this is optional for assurance practitioners. Also, it would be useful for practitioners to have a set of assertions with some practical examples. The proposed assertions should be similar to those used for verification of financial statements.

Reference 18

Paragraph 41 (narrative and future-oriented information)

As the guidance states, some future-oriented information is, by definition, unpredictable and can be influenced by factors outside of the entity's control. That makes it very difficult for the assurance provider to reach a conclusion or provide assurance on this information.

Whilst acknowledging this, the guidance does not provide any clarification as to how the assurance provider should approach, conduct and conclude upon engagements that require assurance over forward-looking information and this clarification is necessary to enable such engagements to be accepted and performed.

23. AICPA

Reference 1

Clarification of the Scope

Paragraphs 1-3 of the introduction to the paper fail to clearly identify the subject matters that are addressed by the paper. It is difficult to determine how the subject matter addressed by the paper differs from any subject matter other than historical financial statements. The paper needs to explain what is unique about its scope. The paper states "…EER encapsulates many different forms of reporting, including, but not limited to, integrated reporting, sustainability reporting and other reporting by entities about environmental, social and governance (ESG) matters. Because the scope is not limited to these examples of EER, we believe it would be helpful if additional examples could be provided to allow a better understanding of the other types of reporting envisioned as EER.

Reference 2

Material Topics and Related Elements

Paragraph 213 of Chapter 12, "Considering the Materiality of Misstatements," states, "If during the assurance engagement the practitioner identifies a misstatement within subject matter information included in the EER report for material topics and related elements, the practitioner is required to make a judgment as to whether the misstatement is material." The paper needs to provide a better explanation of what the term *material topics and related elements* means before it is used in the text. For example, is this concept different from the concept included in paragraph 219*a* which refers to an aspect of the underlying subject matter that has been determined as being particularly significant (material)?

Reference 3

- To better reflect the content of Chapter 7 "Determining the Suitability of Criteria," and the requirements regarding criteria in ISAE 3000, we recommend that the title of the chapter be revised to be "Determining the Suitability <u>and Availability</u> of Criteria"

Reference 4

Materiality Process

The paper uses the term *materiality process* to describe the process a preparer performs when determining what to include in an EER presentation. Paragraph 125 of the paper indicates that a preparer may need to make such determinations when the criteria for an EER framework does not specify in sufficient detail what topics and related elements should be included in the EER presentation. In these circumstances, a reader of ISAE 3000 would conclude that the criteria are incomplete and therefore are not suitable. However, paragraph 31 of the paper states that undertaking a materiality process effectively involves developing or extending the criteria such that they sufficiently exhibit the characteristics of relevance and completeness. The preparer is charged with determining the information needs of intended users and supplementing the criteria to meet those needs. The paper refers to such criteria as entity-developed criteria and provides guidance for determining whether entity-developed criteria are suitable

We searched ISAE 3000 for text related to entity-developed criteria but found that ISAE 3000 only indirectly addresses this topic in

- paragraph A48, which discusses ways in which criteria may be developed ("criteria specifically designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement") and

- paragraph A10, which indicates that there may be different criteria for the same underlying subject matter ("For example, a measurer or evaluator might select, as one of the criteria for the underlying subject matter of customer satisfaction, the number of customer complaints resolved to the acknowledged satisfaction of the customer; another measurer or evaluator might select the number of repeat purchases in the three months following the initial purchase.")

We believe that the guidance on entity-developed criteria is helpful and understand that the "materiality process" is intended to enable a practitioner to perform an engagement that the practitioner ordinarily would be precluded from performing because the criteria are incomplete. However, we recommend that the paper acknowledge that ISAE 3000 does not directly address this topic and indicate that the guidance in the paper is interpretive and intended to fill the gap in ISAE 3000. This would provide a better connection between ISAE 3000 and the paper.

Reference 5

Building and Using Assertions

Chapter 9 "Performing Procedures and Using Assertions," introduces the concept of the proper application of criteria, which adds another dimension to evaluating whether subject matter is in accordance with the criteria. The paper recommends that the practitioner develop a checklist of assertions related to the subject matter information (similar to financial statements assertions), for example, assertions about whether the subject matter information is accurate and whether relevant aspects of the subject matter information exist. Paragraph 177 of the paper contains a table with various

assertions about subject matter information alongside the related characteristic of suitable criteria to which the assertion relates. For example, an assertion about the accuracy of subject matter information relates to the reliability characteristic of suitable criteria.

Taking a broader view of the material in chapter 9 we believe that the introduction of the concept of the proper application of criteria is intended to introduce a "fair presentation" consideration in the evaluation of subject matter information, which is a concept that is not discussed in ISAE 3000, but is included in paragraph 13*a* of International Standard on Auditing (ISA) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, and in paragraph 9 of the IAASB *International Framework for Assurance Engagements*, both shown below:

ISA 200

13*a*. The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

(i)   Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or

(ii)   Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances. The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.

IAASB *International Framework for Assurance Engagements*

9.   Subject matter information can fail to be properly expressed in the context of the subject matter and the criteria, and can therefore be misstated, potentially to a material extent. This occurs when the subject matter information does not properly reflect the application of the criteria to the subject matter, for example, when an entity's financial statements do not give a true and fair view of (or present fairly, in all material respects) its financial position, financial performance and cash flows in accordance with International Financial Reporting Standards, or when an entity's assertion that its internal control is effective is not fairly stated, in all material respects, based on COSO or CoCo.

Although *International Framework for Assurance Engagements* is applicable to all assurance engagements, the underlying assumption in ISAE 3000 is that suitable criteria will result in a fair presentation because the characteristics of suitable criteria require the preparer and practitioner to consider the needs of users when evaluating the suitability of the criteria. For example, note the wording of the following two characteristics of suitable criteria (emphasis added):

Relevance: Relevant criteria result in subject matter information <u>that assists decision-making by the intended users</u>.

Completeness: Criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected <u>to affect decisions of the intended users made on the basis of that subject matter information.</u>

We had some difficulty navigating chapter 9 because in some cases, the complexity of the writing makes the chapter difficult to follow, for example,

- "Assertions are used by the practitioner at the level of the categories into which they fall rather than at the level of detailed assertions about aspects of the subject matter information." (paragraph. 172)

- "The categories of assertions that may be used by the practitioner in an EER assurance engagement result from the requirements of the applicable criteria. If the criteria are suitable, subject matter information resulting from their proper application will have attributes consistent with the attributes of subject matter information resulting from criteria that exhibit the five required characteristics of suitable criteria. This is because the characteristics of suitable criteria are defined in terms of the attributes of the resulting subject matter information. Chapter 6 of this document describes the attributes of subject matter information resulting from criteria that exhibit those characteristics (relevance, completeness, reliability, neutrality and understandability). For example, the proper application of criteria that exhibit 'completeness' requires representations that are of a type that assert that the subject matter information is 'complete.' (paragraph 174)

The presentation of the material and terminology used in chapter 9 are too complicated, and even after reading it several times, some readers struggled to determine what procedures the practitioner should be performing and more importantly, why the practitioner is performing them. The concept that criteria are the benchmarks for evaluating underlying subject matter is well established in ISAE 3000. What is needed here is simpler guidance that provides a link from that point to the additional guidance being offered in chapter 9 and a better explanation of the problem this chapter is addressing.

Reference 6

Reporting on Narrative Information

Chapter 10 of the paper provides guidance on reporting on narrative information. Although ISAE 3000 does not specifically address this topic, the relevant requirements and guidance for such engagements are embedded in paragraph .24 of ISAE 3000, which establishes the preconditions for an assurance engagement and includes, among other things, the following preconditions.

- The underlying subject matter must be appropriate (paragraph 24*b*[i]) Paragraph A40 states, in part, that an appropriate subject matter is capable of consistent measurement or evaluation against the applicable criteria such that the resulting subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion, as appropriate.

- The practitioner must expect to be able to obtain the evidence needed to support the practitioner's conclusion (paragraph 24*b*(iv)

- The criteria must be suitable. (paragraph 24*b*(ii)

Of the six characteristics of suitable criteria identified in paragraph 24*b*(ii), the following characteristics of criteria are particularly relevant to reporting on narrative subject matter:

(c)   Reliability: Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by different practitioners.

(d)   Neutrality: Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.

The first sentence of paragraph 188 of the paper describes the nature of the information addressed by chapter 10, which is narrative information that is (1) not factual (2) subject to management judgment, and (3) may be susceptible to management bias.

Based on ISAE 3000, an engagement to report on such information would not meet the preconditions for an assurance engagement because such information would stem from criteria that are not neutral or reliable, and therefore would not be considered suitable criteria.

We understand that this chapter is meant to help practitioners perform an assurance engagement when portions of the criteria are not suitable. An example of this situation would be an engagement for an entity that wishes to achieve accreditation from a regulator or industry association that has established or adopted criteria that are in part not suitable. The rationale for performing such an engagement is that ordinarily neither management nor the practitioner can control the criteria established by another party, and in order for the entity to remain competitive, it may be essential for the entity to obtain accreditation via an assurance engagement. One of the solutions offered in paragraph 195 suggests that the practitioner identify and highlight aspects of the narrative information that are significant to the entity, determine whether relevant information has been omitted, ask the preparer to add any omitted information to the description, test the information in the description for which the practitioner is able to obtain evidence, evaluate whether misstatements in the description are material, and encourage the preparer to either reword or remove text that would be considered a misstatement. This seems like sensible guidance and provides a way forward.

We believe that the discussion of reporting on narrative subject matter information should be based on the preconditions in paragraph 24 of ISAE 3000. Paragraph 190 of the paper states, "Reliable criteria for narrative information may need to be well-defined and therefore reasonably unambiguous so as to allow reasonably consistent measurement or evaluation of the underlying subject matter." This is a rewording of paragraph A45*c* of ISAE 3000 with less precision and no attribution to ISAE 3000. Disregarding ISAE 3000 prevents the paper from building on the principles established in ISAE 3000 and prevents the reader from easily identifying which aspects of the paper provide additional application guidance that goes beyond what in in ISAE 3000.

24. AIPS

Reference 1

We endorse your identification of significant issues involved in considering systems of internal control as they appear at different phases of maturity within an organisation.

Our work provides a framework for assessing the maturity of the range of relevant and material controls for future-looking achievement of an organisation's broader financial and non-financial objectives. Our approach demonstrates the relationship between this maturity assessment and the level of confidence in the future-achievement of stated (reported) future-outcomes. It includes a structured approach to incorporate materiality in internal and external use.

We invite discussion on our extensive work in this area, and how it may be further developed.

Commentary regarding paragraph #62-#66.

Our work suggests this section contains an overstatement of the role of risk, at the expense of consideration of decision-making.

Our analysis (which we will not try to expound here) suggests this may source from a mismatch or distinction between "Assurance of reporting", and "Assurance of outcomes" (ref: scope of Brydon review).

We invite discussion on our extensive work in this area.

Reference 2

Our work suggests that "selection or development of criteria including materiality", whilst important, should not be left to the skill of the auditor. Assurance is a statement that quality discipline has been successfully applied in a manner appropriate to the need. Extensive definition, development and subsequent standardisation will be required to provide assurance of the quality and reliability of accounting and financial audit to the range of emerging EER issues.

Reference 3

Our analysis (which we will not try to expound here) suggests a mismatch or distinction between "Assurance of reporting", and "Assurance of outcomes" (ref: scope of Brydon review).

We recommend that fit-for-purpose assurance needs to be more than an assurance of the preparation of the report. It needs to provide an assurance that the underlying issue is being effectively engaged by the organisation. This is not adequately communicated in this section.

Reference 4

Roughly speaking, our approach in this area has been to identify where an organisation is (or is not) relying on a standard measurement within its reporting. Our approach to assessment then allows us to determine a level of confidence in the historical, and future reporting against those standards.

We consider that (generally speaking) there is reduced value to users of reporting if organisations choose to report without reference to standards – regardless of the assurance of, or confidence in, those statements. This may vary depending on the maturity of practice in the relevant subject area.

Reference 5

We recommend the need for a systemic approach to materiality

Reference 6

We would suggest that the types of misstatements listed in #184, consistent with financial assurance, are still important, but insufficient for EER, and even less sufficient for future-oriented disclosures.

Misstatement from 'not knowing' is considered likely, from our research, to be material. This can be from poor understanding of the issue, immature disciplines (in an organisation, or generally across all sectors), uncertainty, volatility and complexity.

Our work uses practices to help organisations understand 'how well known' their data is. And, to help them make use of certainty in decision-making and communication. We invite discussion on our extensive work in this area.

Reference 7

We believe that systems for materially enhanced quantified information are the key to providing reliable assurance for reporting and decision-making that adequately serves users' needs.

Narrative should support, not replace, quantified information – as it does with Financial Reports.

However, we understand that adequate (effective and practical) systems for quantified information are not yet in place for the range of EER issues.

Narrative is better than silence, and the proposals in Chapter 10 should serve to help improve the quality of narrative reporting that is performed.

Reference 8

We very strongly recommend the need for a systemic approach to future-oriented information that includes reporting of certainty of achievement of future objectives.

Our preliminary research indicates that the use of such practices is directly linked to an organisation's sustained value creation, and its Long Term Value.

Enhanced disciplined practice is suggested as the key to increased productivity and improved stewardship of (and achievement of) sustainable outcomes.

This is the prime interest of investors and all other stakeholders.

25. ASSIREVI

Reference 1

In our opinion, the draft guidance addressed the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1.

However, we noted some areas of improvements in order to provide additional guidance. Our recommendations regard as the following issues:

- Paragraph 25 of the Explanatory Memorandum (System of Internal Control), related to Chapter 6 of the Draft Guidance (Paragraph 67-70):

  We suggest that paragraph 67 related to "Information system" and paragraph 70 related to "Control Activities" include mention of "*Information Provided by Entity*" (IPE), defined as follows:

  "IPE is any information created by the company using the entity's IT applications, end user computing (EUC) tools or other means (including manually prepared information):

  o System *generated reports, or data*

  - *Excel spreadsheets".*

  Although this term is not included in the glossary of ISAE 3000 (Revised), it is commonly utilized in practice. We suggest to include some examples relating to qualitative information.

Reference 2

- Paragraph 33 of the Explanatory Memorandum (Materiality process), related to Chapter 8 of the Draft Guidance (Paragraph 131):

Paragraph 131 lists the elements the practitioner has to consider in reviewing the context of the preparer's materiality process. The Draft Guidance explains within the chapter only points (a) (EER report purpose) and (b) (Intended users) but it does not describe points (c) (Entity and its environment), (d) (System of internal control) and e) (Criteria).

With reference to materiality scope and consequential impact on the planning and execution of the procedures we believe that the guidance for the practitioners cannot be developed in isolation to the criteria that shall be addressed by those who are in charge for governance in preparing the EER. It should also be the outcome of the "standard setting process" (the suitable criteria): it should identify what is relevant, reliable and useful as part of the process required to develop the "suitable criteria". Same drivers should be provided to preparers and practitioners regardless the judgement applied by them.

References 3-5

- Paragraph 40 of the Explanatory Memorandum (Performing procedures and Using Assertions), related to Chapter 9 of the Draft Guidance (Paragraph 177):

Paragraph 177 lists some examples of assertions that may be used in EER engagements. We suggest to include between the examples the following assertions:

- *Completeness*

- *Valuation* (i.e.: estimation of non-financial data at year end such as energy consumption, CO_2 emission, water consumption, waste produced, training hours)

Additionally, it is recommended to add in the Draft Guidance a new chapter focused on Control Testing Methodologies or activities such as:

- Testing Methods;

- Guide for Sampling Sizes and Detection of Errors;

- Evaluation of control deficiencies.

Reference 6

- Assertions

Paragraph 173 in Chapter 9 of the Draft Guidance clearly describes the meaning of the term *assertion* for the purposes of this document, not to be confused with similar wordings. However, since the use of assertions is not required by ISAE 3000 (Revised) and is adapted from other IAASB standards, some confusion may emerge about the distinct purposes of the characteristics of suitable criteria (in ISAE 3000 (Revised)) and of assertions (in other IAASB standards) depending on the experience and background of the practitioner. We suggest the introduction of one or more examples to clarify this point as well as of a clarification on the context where assertions may be used.

Reference 7

Considering the System of Internal Control (Chapter 6 of the Draft Guidance)

The Draft Guidance appears not aligned to the ISAE 3000 (Revised) since it does not include any differentiation between limited assurance engagements and reasonable assurance engagements with reference to the understanding of internal control.

ISAE 3000 (Revised), in fact, does not provide any specific requirements for limited assurance engagements regarding the understanding of internal control. Paragraph 47L of the standard requires only that the practitioner considers the process used to prepare the subject matter. Differently, paragraph 47R of the standard requires for reasonable assurance engagements that the practitioner obtains an understanding of internal control over the preparation of the subject matter information relevant to the engagement.

Reference 8

Moreover, in our opinion, it is not always clear whether Chapter 6 of the Draft Guidance includes additional requirements than ISAE 3000 (Revised) since it foresees procedures on internal control as preconditions for the acceptance of the assurance engagement that are not included in the requirements of the assurance standard. ISAE 3000 (Revised), in fact, provides that procedures on internal control are performed during the engagement and, as above mentioned, only for reasonable assurance engagements

Reference 9

We would suggest, accordingly, that the Draft Guidance is revised in order to be aligned to the ISAE 3000 (Revised), adding a distinction between reasonable and limited assurance engagements with reference to the understanding of internal control and clarifying which procedures on this area may be carried out before the acceptance of the engagements or after the acceptance, including also indications on the extent of such procedures. On this regard we point out that, in our experience, extended procedures on internal control before the acceptance of the engagements may not be practically feasible and that the guidance should accordingly take into account this circumstance.

Reference 10

Materiality (Chapter 8 and Chapter 12 of the Draft Guidance)

With reference to materiality, Chapter 12 of the Draft Guidance includes specific provisions regarding the consideration of materiality of misstatement. Additionally Paragraph 98 of Chapter 7 states that "*the concept of relevance is considered in evaluating the suitability of criteria, whereas the materiality is considered by the practitioner in the context of potential and identified of misstatements of the subject matter information*".

In this respect the Draft Guidance does not appear fully aligned to ISAE 3000 (Revised) since Paragraph 44 of the standard requires that materiality is considered by the practitioner when:

- *planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures; and*

- *evaluating whether the subject matter information is free from material misstatement*

As above indicated, on the contrary, paragraph 98 of the Draft Guidance appears to state that the concept of materiality is related only to the evaluation of misstatements. We would accordingly suggest

revising the wording in Paragraph 98 with the aim to developing guidance also with respect to the application of materiality in planning and performing the assurance engagements.

Reference 11

We also evaluate that the distinction between "*relevance*" and "*materiality*" stated in Paragraph 98 could be not fully understandable since "relevance" is not only a characteristic of suitable criteria, but also a concept interrelated to materiality. We would accordingly suggest to further analyze this aspect and to provide guidance and further examples regarding the link existing between the two concepts.

26. CPAA

Reference 1

a. **Frameworks illustrated**: The EER guidance in its current form does not seem to be framework-neutral. There appears to be a predominance of sustainability-related matters being covered, with particular focus on GRI, which is emphasised by the examples provided. Consequently, this may limit the value of the EER guidance to those stakeholders providing assurance on, for instance, management commentary or integrated reports. Therefore, we suggest adopting a more macro-level approach that ensures the coverage of a wider range of relevant reporting issues. To achieve this, the guidance could be more framework-neutral to ensure that a broader range of reporting is considered by:

b. Consideration of the work being undertaken by the International Accounting Standards Board (IASB) regarding the revision and update of the IFRS Practice Statement 1 *Management Commentary* issued in 2010. While developing further Phase 1 of the EER guidance, and when commencing with Phase 2, the IAASB should ensure that the scope of the guidance also encompasses matters concerning assurance on management commentary, such as the Strategic Report required in the UK, the Management Discussion and Analysis in the US and the Operating and Financial Review in Australia.

Reference 2

● **'Preconditions and the System of Internal Control'**: we suggest that the pre-conditions discussion in Chapter 6 should be extended to include aspects of business strategy, governance, and risk management. In this respect, the guidance should note that pre-conditions for assurance should extend to the existence and documentation of these matters.

Reference 3

● **'Suitability of Criteria'**: While the guidance, particularly the examples in Chapter 7, provide valuable assistance to practitioners in determining the suitability of criteria, it should be acknowledged that in practice the evaluation of the suitability of criteria may prove to be challenging given the principle-based nature of some reporting frameworks. For example, we note that <IR> is highly principle-based which does not provide much granularity with respect to criteria. In contrast, the GRI reporting framework provides quite specific criteria. The less granular the framework the greater the scope for different interpretations of the suitable criteria.

27. CPAC

Reference 1

EER Definition

The definition of EER provided in Chapter 1 is broad and challenging to apply. There is a wide variety of subject matter and possible forms of reporting which constitute "non-financial information and information that goes beyond that which is contained in traditional financial statements…". It would be helpful to identify the specific categories of measures and reporting covered by the EER definition for the purposes of applying the draft guidance.

We elaborated on the issue of different types of EER, reporting frameworks, users, and varied expectations about assurance in our comment letter to the IAASB on its 2016 Discussion Paper.

Scope of the Draft Guidance

Paragraph 15 notes that the draft guidance is intended to be 'framework-neutral' such that it can be applied to assurance engagements over EER reports that are prepared using any EER framework, or entity-developed criteria. While ISAE 3000 (Revised) offers flexibility to provide assurance on a wide range of matters, it often requires considerable work to adapt the requirements depending on the circumstances of the specific engagement.

Attempting to provide broad generic guidance applicable for all EER assurance situations makes the draft guidance unwieldy, complicated and difficult to apply in practice. We recommend developing a phased approach to the draft guidance to enhance its relevance and usefulness to assurance providers. For example, the initial draft guidance developed in phase one could be tailored to reflect the realities of the current reporting environment as described in the responses to your 2016 Discussion Paper (i.e., more limited assurance and subject-matter specific engagements) and the second phase could address the evolution towards more sophisticated engagements (i.e., reasonable assurance engagements sought on whole reports).

References 2-3

Expectation Gap and Narrative Information

Care should be taken to ensure that the draft guidance does not inadvertently create an expectation that all information should be and is capable of being assured. CPA Canada notes that in phase 2 of this project, the IAASB plans to develop further guidance about obtaining evidence in relation to narrative information included in EER. This will be helpful, and CPA Canada recommends that such further guidance include discussion of different types of both "factual" and "subjective" narrative information and inherent limitations associated with assurance over certain types of information.

The draft guidance may also make appropriate distinctions and explanations about narrative information included in EER and narrative information encountered by assurance providers in other situations, such as comfort letters for offering documents, notes to financial statements, MD&A etc.

Materiality Process

Chapter 8 introduces considerations related to an entity's materiality process when the EER framework does not specify in enough detail what topics and related elements are to be included in the EER report. Assurance providers will need to consider whether they have the relevant professional expertise to

undertake the evaluation of an entity's materiality process for purposes of determining whether the criteria are suitable. We believe that the guidance in this chapter is important and should be carved out and shared with preparers as there is limited guidance on the application of materiality outside of a financial statement context.

Because the concept of a "materiality process" is not included in ISAE 3000 (Revised), we recommend that the draft guidance address the interaction and differences between this concept and auditor's responsibilities with respect to "materiality" outlined in ISAE 3000 (Revised).

28. EFAA

References 1-2

The draft guidance adequately addresses the challenges for practitioners that have been identified within the scope of the draft guidance developed in phase 1. As noted above we expect EER, and assurance thereon, to grow fast and evolve rapidly. Hence, it is vital that guidance anticipates significant developments in technology as well as in the integration and connectivity of information.

Reference 3

In EER engagements reliance on the work of others is common. However, there is limited or no guidance on how to use the work of others. We wonder whether there should be.

29. FACPCE

References 1-5

| Q1) Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1? If not, where and how should it be improved? | Paragraphs 9-15 (scope of draft guidance)

Paragraph 25 (preconditions and the system of internal control)

Paragraph 29 (suitability of criteria) Paragraph 33 ('materiality processes') Paragraph 35 (materiality of misstatements)

Paragraph 40 (assertions)

Paragraph 41 (narrative and future-oriented information) | We consider that it adequately addresses the challenges and, in our opinion, we would have to expand the practical examples on issues such as materiality, affirmations, and future-oriented information, as well as we think it is appropriate to identify these examples with each type of report.

We add comments on each related paragraph:

Paragraph 9 to 15

1. Appropriately delimit the scope of an EER. If the content cannot be defined with precision, it is difficult to establish specific criteria to contrast the information with a standard meter.

2. In that sense, it cannot be any kind of information. Regardless of whether it is quantitative or qualitative information, if the issuance of an assurance report is sought, it is key to have the definition of one or more areas that allow the definition of the scope of the tasks of the practitioners and with it, the |

		required qualifications of your work team.
		For example, if it is information referring to the future (of the type of projected states) it will probably require the participation of economists and actuaries.
		3. Some of the issues that may be involved have not yet been developed or have been partially done, such as chapters 3, 4, 9 and 10
		Paragraph 25
		Governance and Internal Control are not synonymous nor understand the same concepts, so the Guide should not treat them equally. The detail of section 71 seems scarce for governance issues.
		Paragraph 29
		We consider it convenient to clarify about the type of statements referred to in the guide classified by types of reports to which it refers
Q2) Is the draft guidance clear and easy to understand, including through the use of examples and diagrams, and the way terminology is used? Ifnot, where and howshouldit be improved?	Paragraphs 16-17 (examples, diagrams and terminology) Paragraph 34 (term 'materiality process') Paragraphs 37 and 40 (assertions)	We consider that it adequately addresses the challenges and, in our opinion, we would have to expand the practical examples on issues such as materiality, affirmations, and future-oriented information, as well as we think it is appropriate to identify these examples with each type of Report.
		We add comments on each related paragraph:
		Paragraph 9 to 15
		1. Adequately delimit the space of an EER. If the content can not be defined with precision, it is difficult to establish specific criteria to contrast the information with a standard meter.
		2. In that sense, it can not be any kind of
		information. Regardless of whether it is quantitative or qualitative information, if the issuance of an assurance report is sought, it is key to have the definition of one or more areas that allow the definition of the scope of

		the tasks of the practicing professional and with it, the required qualifications of your work team.
		For example, if it is information referring to the future (of the type of projected states) it will probably require the participation of economists and actuaries.
		3. Some of the issues that may be involved have not yet been developed or have been partially done, such as chapters 3, 4, 9 and 10
		Paragraph 25
		Governance and Internal Control are not synonymous nor understand the same concepts, so the Guide should not treat them equally. The detail of section 71 seems scarce for governance issues.
		Paragraph 29
		We consider it convenient to clarify about the type of afirmations referred to in the guide classified by types of reports to which it refers

3. IRBA

References 1-2

a) We believe that the guidance could be further clarified. Some of the challenges addressed in Phase 1 of the project have been commented on below.

b) Determining preconditions and agreeing the scope (Chapter 3):

We have developed and issued a South African Assurance Engagement Practice Statement (SAAEPS 1), *Sustainability Assurance Engagements: Rational Purpose, Appropriateness of Underlying Subject Matter and Suitability of Criteria*. This provides practical assistance to practitioners on certain preconditions and related guidance on determining whether the sustainability assurance engagement exhibits a rational purpose; the underlying subject matter is appropriate; and the criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances as well as the preparation of appropriate engagement documentation on that determination, when requested to accept a sustainability assurance engagement in accordance with the requirements of ISAE 3000 (Revised).

The SAAEPS only deals with the following characteristics that are considered during the *Acceptance and Continuance – Preconditions for the Assurance Engagement* phase in determining whether the preconditions for a sustainability assurance engagement set out in ISAE 3000 (Revised) are present:

References 3-4

- A rational purpose:

  o Consideration 2: Whether aspects of the subject matter information are expected to be excluded from the assurance engagement, and the reason for their exclusion.

  o Consideration 4: Who selected the criteria to be applied to measure or evaluate the underlying subject matter; and what the degree of judgment and scope for bias is in applying them. The engagement is more likely to have a rational purpose if the intended users selected or were involved in selecting the criteria.

- The underlying subject matter is appropriate.

- The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances, including that they exhibit the following characteristics:

  o Relevance.

  o Completeness.

  o Reliability.

  o Neutrality.

  o Understandability.

- To assist the practitioner with determining whether the preconditions for a sustainability assurance engagement are present, this SAAEPS introduces guidance on the following matters:

  o Underlying subject matter;

  o Entity context; and

  o Reporting infrastructure:

  o Relevant reporting framework;

  o Reporting policies and procedures;

  o Reporting systems and controls; and

  o Governance and oversight.

- As an example, the guidance contained in the SAAEPS 1 on reporting infrastructure includes:

  o Reporting infrastructure

    – Reporting infrastructure enables the production of relevant and reliable sustainability information by the reporting entity and is key to the considerations in determining whether the sustainability assurance engagement exhibits a rational purpose, as contained in this SAAEPS.

    – Reporting infrastructure is the combination of components enabling the production of relevant and reliable sustainability information by the reporting entity, and includes, but is not limited to, the following:

      ▪ Relevant reporting framework;

      ▪ Reporting policies and procedures;

      ▪ Reporting systems and controls; and

      ▪ Governance and oversight.

- We recommend that the IAASB considers the content of the SAAEPS for inclusion in the guidance being prepared.

- We also recommend that the useful content in Appendices 1 and 2 of the consultation paper be incorporated into the guidance.

References 5-7

c) Determining the suitability of criteria (Chapter 7):

- We recommend that it be clarified early on in the guidance that there are two levels of determining the suitability of criteria: first, as the preconditions; and then again as part of planning.

- We recommend that the guidance should clarify the level and depth of understanding that is required in order to assess the suitability of the criteria.

d) Considering the entity's "materiality process" (Chapter 8):

- We suggest that the guidance include the fact that the understanding of the materiality process will also inform the scoping process.

- It would be helpful to clarify that this materiality is not used for audit purposes and evaluating misstatements.

e) Assuring narrative information (Chapter 10):

- We recommend including that narrative information should be supported by a system of internal control and measurement and evaluation processes. These systems and processes should support suitable criteria and provide sufficient appropriate evidence for assurance purposes.

- Guidance could also be included on how to assure a part of a paragraph or separate sentences in a report that refer to different subject matter information.

References 8-9

f) Assuring future-orientated information (Chapter 11):

- We recommend including that future-orientated information should be supported by a system of internal control and measurement and evaluation processes. These systems and processes should support suitable criteria and provide sufficient appropriate evidence for assurance purposes.

g) Considering the materiality of misstatements (Chapter 12):

- We recommend that this chapter include more practical guidance and examples. We suggest that an example beginning in earlier chapters (underlying subject matter, subject matter information, criteria, etc.) should be continued here, showing how the materiality of misstatement could be considered.

- We suggest clarifying that materiality may be considered:

  o At the scoping phase;

  o When determining what is material from the content that is scoped in, in order to determine the work-effort; and

  o When assessing the materiality of misstatements, including examples and considerations when these material misstatements may also be pervasive.

- Examples of different units of account could be included to explain how similar materiality principles are applied in determining materiality thresholds and ranges.

- We recommend that more guidance on qualitative materiality considerations, especially for narrative and future-orientated information, be included.

Reference 10

h) We recommend that a separate chapter on underlying subject matter and subject matter information of EER be included. This chapter could include examples illustrating how the content of an EER report can differ substantially between different reports and entities.

Reference 11

i)   With much emphasis being placed on the use of assertions, if a practitioner does not use them (which is acceptable, as it is not a requirement), does the risk exist that it would be difficult to continue the engagement from there, as much of the content further on in the guide relies on the work done on assertions? The guidance may need to clarify this.

Reference 12

j)   Different forms of service delivery performance reporting are common in the public sector environment. The IAASB could consider including a reference or an example in the introduction or background in Chapter 1 to refer to service delivery performance reporting as an example of a form of EER.

30. FAR

Reference 1

•   FAR believes that the wording "Extended External Reporting" might be confusing for the Audit profession. There are already established forms of wording in the profession e.g. ESG/CSR/Sustainability reporting.

Reference 2

Assurance strategy

•   Inherent risk related to sustainability information differs from inherent risk related to financial information. FAR therefore recommends a separate section related to inherent risks is included in the Guide.

Reference 3

•   FAR notes a lack of guidance on "new technology" i.e. how the auditor should act when the reporting is in web-format or in different places e.g. Annual report and separate report.

31. FSR

Reference 1

1)   The first one relates to the way EER reporting is portrayed. The guidance could consider how developments within reporting including the use of technology will impact how and when information and data are provided and what this implies from an assurance perspective and the principles outlined in the guidance – for example in terms of making it clear how to make it visible what data have been verified. It may be that users will be able to extract real-time data from the company's online platforms rather than annual data locked in a pdf-file as is often the case today.

References 2-4

Yes, the draft guidance in its current form does address the identified challenges and the proposed guidance is in line with current practice in the Danish assurance market. We support the development of a frame / guidance that is principles-based and we would encourage more examples (a case collection) to be included to make the guidance a useful tool and source of inspiration. E.g., it would be helpful to have

examples that could highlight paragraph 52 as ISAE 3000 could be used by practitioners for readiness, for example, on internal processes. The examples may be included in a separate section (or through 'click-down' menus) to ensure the guidance itself is not too lengthy.

It would also be good to incorporate considerations related to the use of new technology and how this will impact the principles in the draft guidance to make sure it is not 'outdated' by the time the guidance is released. With reference to item 36, p. 20, it may be interpreted that one only imagines EER as a report - a document. Looking forward, it is expected that reporting will also be information and data made available by a company for the user to retrieve information from the company's website etc. Hence it would be relevant to include guidance and direction for statement tasks on information and data that are not necessarily contained in a physical report.

Furthermore, the IAASB should avoid confusion between the preconditions and the work that has to be performed once the engagement has been accepted. The work effort on the preconditions should be proportionate and the guidance should try to explain the work effort implied in the engagement acceptance phase and in reviewing if the preconditions are fulfilled.

Reference 5

In chapter 6, item 76 etc. we would like to praise the inclusion of a detailed description of assurance readiness assessment and we consider the example in chapter 8, item 127 a good example.

Reference 6

It could be useful to clearly specify the intended audience and the purpose of the guidance. Taking the audience into account, if this draft guidance is targeted towards experienced practitioners, the draft guidance might require a different level of details than if the guidance is drafted for educational purpose.

Reference 7

We also have a number of specific examples where the draft guidance is not clear enough which can serve as input for the further development of the guidance in the second phase:

Chapter 3

- Item 45 in conjunction with item 60: Item 45 states that the same preliminary work must be carried out whether it is a statement task with limited or non-limited assurance. In item 60 different types of preliminary work is explained and it is not clear what the guidance expects. (See also item 49). Furthermore, item 60 states that for a reasonable assurance engagement one must have an understanding of the company's internal controls. This is not necessary when the task only comprehends a limited assurance engagement. This does not seem clear in relation to the entirety of the guidelines.

Reference 8

- Item 57: The last sentence says that additional action must be taken where relevant in the work with material inconsistency or factual errors, etc. in relation to other information. It is clearly recommended that the second phase in detail focuses on what further actions should / can or should not / cannot be included, including identification of where to draw the line for further actions.

Reference 9

- Item 77: In the last sentence - no reference to ISAE 3000 if the conclusion cannot be given. It is recommended, that the second phase continues to work with what must be written and disclosed in the statement, including the extent to which the assurance provider can refer to the pieces of information with causal explanations in the report.

Reference 10

Chapter 9

- Item 183: Why does this item only apply to reasonable assurance engagements?

Reference 11

Chapter 10

- Item 195: Example in sentence 3: What is meant by 'draw a box around it' - should the practitioner draw in the company's reporting? Please make this clear.

- Item 196: This does not provide proper guidance and the item should be extended and related to sentence 1-4 in the example. It does not create guidance to write that other assertions as completeness and neutrality could be relevant.

Reference 12

Chapter 12

- Item 219: The first example does not make much sense and it is recommended to change it.

Reference 13

It could be more clearly stated what needs to be done in relation to insight into systems for internal controls before the engagement is undertaken and in the planning phase include information about what level of evidence is considered relevant – e.g. interviews, inspections, verification of systems etc.

32. GRI

Reference 1

2. A key area for consideration by practitioners in planning and executing an assurance engagement is to understand whether information to be reported is gathered from other entities in a supply chain, or from other business partners. Organizations are increasingly being asked to report sustainability related information from their supply chain, e.g., waste generated by suppliers, or policies and procedures in respect of human rights across the value chain. This introduces further complexity such as understanding sources of this information and potential involvement of other assurance providers. Guidance that provides practical support in this area would be welcomed.

Reference 2

d. *Paragraphs 9-15 (scope of draft guidance)*

3. Whilst appreciating the need to divide the project into two phases, there is clearly overlap and therefore some additional comments may be generated in respect of areas included in phase 1

when the output from phase 2 is published. It is possible therefore that comments below may change or additional comments arise once phase 2 guidance is developed.

Reference 3

e.   *Paragraph 25 (preconditions and the system of internal control)*

4.   Paragraph 42 requires the practitioner to consider who the intended users are in the context of determining whether the assurance engagement has a rational purpose. To assist users of the guidance in a practical sense, it is recommended that a checklist be presented at the outset of Chapter 3 to assist practitioners in identifying the fundamental elements of the reporting and the associated assurance engagement, which would then enable them to assess whether the preconditions for an assurance engagement are met. Practical guidance to support how a practitioner would obtain this information would be very useful. Information that is included in Chapter 8 may be useful if it is brought forward into Chapter 3 to assist practitioners in identifying the purpose of the reporting, the intended users and their information needs, for example.

Reference 4

f.   *Paragraph 29 (suitability of criteria)*

5.   Criteria are judged to be suitable from the perspective of the intended users of the subject matter information and decisions they will make based upon that information. It is therefore critical that the intended users are clearly identified by the preparer and practitioner and their associated information needs are understood. This could be re-emphasized at the start of Chapter 7.

Reference 5

6.   As reporting of qualitative and narrative information presents more challenges for both preparers and assurance practitioners, paragraph 82 could be improved by the inclusion of an example of narrative information. A suggested example:

Underlying subject matter	*Elements/ Qualities*	*Criteria*	*Resulting subject matter information*
Environmental, social and governance matters about Entity X. >> Governance matters >> Risk management processes	Effectiveness of risk management processes.	The reporting organization shall report the following information: a. Highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental, and social topics. (GRI 102-30)	Description of the risk management processes and how the highest governing body is involved (frequency, review processes, accountability).

References 6-9

g. *Paragraph 33 ('materiality processes')*

7. Chapter 8 provides useful practical guidance to assist practitioners in understanding the materiality process applied by the preparer. This is important when providing assurance over non-financial information as the materiality assessments performed by preparers is critical in identifying topics and related elements to be reported.

e. *Paragraph 35 (materiality of misstatements)*

15. Providing examples of what could be considered 'clearly trivial' (paragraph 216) would be helpful – in respect of both quantitative and qualitative information, particularly for users of this guidance who are less familiar with traditional financial audit.

f. *Paragraph 40 (assertions)*

16. As assertions are not included in ISAE 3000, again they may be a new concept for some practitioners, particularly those less familiar with financial audits, and therefore more practical examples of the assertions would be helpful, e.g., the application of cut-off.

g. *Paragraph 41 (narrative and future-oriented information)*

17. In respect of future-oriented information, more practical guidance and examples are welcomed, and we recommend they be incorporated into phase 2.

33. IAAA

Reference 1

A. Yes, we consider that it adequately addresses the commitments and, in our opinion, practical examples should be expanded on issues such as materiality, affirmations, and future-oriented information, as well as examples with each type of Report.

34. IIA

Reference 1

• The document takes the view that in EER frameworks there are fewer prescriptive criteria and well-established processes and internal control is assumed to be less mature. While this may often be the case, it is not always so, and allowance should be made for this.

Reference 2

• There does not appear to be adequate reference to the evidence required to support the drafting of the report and the need to retain such evidence by the preparer. If reliance is to be placed on the report then the evidence needs to be robust and available to external audit as the reviewer.

Reference 3

• Greater clarity with respect to the expected users and stakeholders of EERs should be identified in the document to help give greater definition to the guidance provided.

35. IIRC

Reference 1

In our view, the Draft Guidance does not yet fully address the challenges that practitioners face, as identified in Phase 1 scoping. To that end, we offer the following comments and recommendations, most of which are provided in the context of integrated reporting.

Reference 2

B.   Chapter 3: Determining Preconditions and Agreeing the Scope

Underlying subject matter is identifiable (p. 24)

We acknowledge the example provided in Paragraph 48 of the Draft Guidance, but would recommend the treatment of a broader range of subject matter – including a preparer's *business model*, *strategy and resource allocation,* and *risks and opportunities* – for the benefit of practitioners. We believe it is important to set out minimum documentation requirements with respect to these subject matter elements as a basis for reporting on them. We further recommend that at least one example in this section address the implications of the International <IR> Framework's Guiding Principle on *Connectivity of information*.

Relatedly, and recognizing the reference to integrated reporting in Paragraph 1 of the Draft Guidance, we recommend that the guidance formally recognize the Content Elements of the International <IR> Framework as appropriate underlying subject matter for the purposes of ASAE 3000 (Revised).

Reference 3

Understanding the entity's system of internal control (p. 28)

In its present form, the Draft Guidance is best suited to individual performance measures and routine transactions. In our view – and recognizing the inclusion of integrated reporting in Paragraph 1 of the Draft Guidance – further guidance and examples are needed in relation to subject matter information that is more subjective, qualitative and descriptive in nature. We offer this recommendation in the context of understanding and ensuring appropriate internal control systems for integrated reporting-based assurance engagements.

More specifically, these systems of internal control should, at a minimum, cover the preparer's **strategy** (or strategies over various time horizons), associated **resource allocation** and unique **business model** (including the inputs, business activities, outputs and outcomes components of the business model). Such systems should also address the need for appropriate information management and reporting processes to support the integrity of this extended subject matter information and the subsequent report compilation.

Reference 4

Requirements for suitable criteria (p. 35)

Recognizing the inclusion of integrated reporting in Paragraph 1 of the Draft Guidance, we recommend that the guidance define and analyze suitable criteria for an integrated report assurance engagement, using the International <IR> Framework and its Content Elements as a

basis. We believe assurance practitioners will benefit from guidance and examples in specific areas of integrated reporting, including those discussed below.

Business model

In our opinion, guidance and illustrative examples should, at a minimum, address:

ο   The level of detail to which the preparer should communicate externally the inputs, business activities, outputs and outcomes of its business model, including the capitals (i.e., resources and relationships) on which it relies and/or has an effect *(ref: Paragraph 4.12 of the International <IR> Framework)*

ο   How the above matters can be subject to an assurance engagement, with an emphasis on: (i) minimum documentation, (ii) the design and operating effectiveness of the business model, and (iii) the appropriateness of measures and targets related to business model components.

Strategy and resource allocation

In our opinion, guidance and illustrative examples should, at a minimum, address:

ο   The level of detail to which the preparer should communicate externally its strategy, strategic objectives, resource allocation plans and related targets and achievement measures *(ref: Paragraph 4.28 of the International <IR> Framework)*

ο   How the above matters can be subject to an assurance engagement, with an emphasis on: (i) minimum documentation, (ii) the design of, and ability to implement, the strategy and (iii) the appropriateness of related targets and achievement measures.

We believe guidance and examples in these areas will help practitioners: (i) determine the suitability of criteria used and (ii) provide context for determining assurance procedures in relation to disclosing performance and prospects in the integrated report.

Established criteria (p. 42)

We recommend that the guidance reference the International <IR> Framework as having been developed by a *'recognized body of experts that follows a transparent due process'*. We further recommend that the guidance recognize the Guiding Principles in the International <IR> Framework as suitable criteria for the purposes of ASAE 3000 (Revised), meeting the requirements of relevance, completeness, reliability, neutrality and understandability in ASAE 3000 (Revised).

Reference 5

As noted in Paragraph 41 of the Explanatory Memorandum, narrative information and future-oriented information warrant specific guidance, as such information is more common in EER than in financial statements. We acknowledge that Chapters 10 and 11 are only partially developed, but would nonetheless flag that the Phase 2 material should offer more fulsome guidance in these areas, particularly in the context of integrated reporting.

Reference 6

Certain aspects of the *'extended external reporting'* definition – as provided in Chapter 1: Introduction, Paragraph 1 (p. 16) of the Draft Guidance – are potentially open to interpretation.

ο   With its use of *'including… but not limited to'*, the opening sentence necessarily broadens the scope of the Draft Guidance, and that of the assurance engagement.

ο   In the opening sentence, it may be unclear whether the term *'about environmental, social and governance (ESG) matters'* applies to either of:

- The <u>three</u> listed report forms (i.e., integrated, sustainability and other)

 or

- The <u>third</u> report form alone.

This ambiguity has a significant bearing on the scope of the Draft Guidance and, therefore, the scope of the underlying assurance engagement.

ο   In relation to the above, we consulted the various examples in the Draft Guidance to observe reference to human rights, greenhouse gas emissions, water use/quality and other important matters traditionally allocated to the field of ESG. Notably, matters related to the quality of, or accessibility to, public or private infrastructure *(manufactured capital)*, the role of intellectual property and institutional knowledge *(intellectual capital)* and other key contributors to strategy, business model viability and financial performance are not covered. Based on the preceding definitional concerns and scope of illustrative examples, we recommend one of two courses of action:

- Amend the title of the guidance to more accurately reflect its ESG focus

or

- Clarify the broader scope of the guidance by: (i) revising the opening sentence of Paragraph 1 to resolve the above-noted ambiguity (see second bullet point) and (ii) extend the subject matter of examples to include forms of manufactured capital, intellectual capital and other key contributors to strategy, business model, risks and opportunities, and overall value creation.

36. ICAEW

Reference 1

3.   The proposed guidance includes numerous references to 'preparers' of EER reports and what they would do, as well as practical considerations for practitioners. This has the potential to lead to confusion over who the intended audience is for this guidance. Indeed, in places, the proposed guidance refers to how 'preparers' may use the practical examples. We believe that there is a need to clarify in paragraph 5 that it is aimed at practitioners performing EER assurance engagements and the purpose of the guidance is to help practitioners apply the principles in ISAE 3000 (Revised) to EER assurance engagements. Preparers may find some of the information in the guidance helpful when they are preparing EER reports and in considering a need for an assurance report thereon but the guidance does not provide them with a comprehensive guide to doing this.

Reference 2

4.   While supportive of the inclusion of guidance on assertions, chapter 9 required more work to be of practical value to practitioners. The description of 'categories' of assertions lacks clarity and makes the proposed guidance seem very theoretical in nature. The categories of assertions in ISA 315

(Revised) and in ISAE 3410 are described in a much clearer way. Including a simple indicative set of assertions, a general description of each, how the information may be misstated and how assertions may impact the practitioner's approach to testing with some practical examples would improve the proposed guidance significantly.

Reference 3

5.   We believe that there are some underlying issues with how ISAE 3000 (Revised) differentiates limited and reasonable assurance engagements. While these concerns do not directly impact the proposed guidance, they have potential consequences for how it may be interpreted. The issues impact considerations about whether assurance is at least meaningful and whether there is a rational purpose. We would be happy to follow up our concerns here separately with the IAASB.

References 4-6

6.   Yes, the proposed guidance addresses the key challenges for practitioners identified as being within the scope of phase 1, though there is scope to improve the guidance in some areas, as we highlight below.

CHAPTER 2: OVERVIEW OF AN EER ENGAGEMENT

7.   As highlighted in our key points, we believe that there is an underlying problem that arises from time to time with how ISAE 3000 (Revised) differentiates limited and reasonable assurance engagements. This impacts considerations about whether assurance is at least meaningful and whether there is a rational purpose. These concerns do not directly impact the proposed guidance but have potential consequences for how it may be interpreted. We would be happy to meet separately with IAASB to discuss these concerns.

CHAPTER 3 : DETERMINING PRECONDITIONS AND AGREEING THE SCOPE

8.   We believe that the proposed guidance in paragraph 49 on rational purpose, including the box 'considerations for the practitioner', could be expanded to be of more value to practitioners. In particular, more could be included about inappropriate association of the practitioner's name with the underlying subject matter or EER report by the preparer, including considering the rationale for requesting the practitioner's involvement. Likewise, while the practitioner is not responsible for independently identifying intended users and their needs, emphasis could be given to the importance of considering how the entity itself has identified the intended users and their information needs.

9.   To help practitioners avoid starting engagements that then become misleading, it would be helpful to reiterate the importance of a rational purpose in relation to limited assurance engagements on process, particularly where there may be no checks to source data and yet, in many cases, the error is likely to be with the source data.

Reference 7

CHAPTER 6: CONSIDERING THE SYSTEM OF INTERNAL CONTROL

10.   The proposed guidance provides an appropriate level of detail on how internal control can operate. However, further guidance would be helpful to explain that internal controls may break down for

some of the period of the assurance engagement under review, and as a result, the practitioner may need to take specific care over how it conducts the engagement, for example, how samples are selected and when substantive testing may be required for a certain section of the period under review.

11. It is important to be clear that a mature system of internal control is not an absolute prerequisite for assurance, so long as the practitioner is satisfied that the pre-conditions for assurance contemplated by ISAE 3000 (Revised) can be met.

CHAPTER 7: DETERMINING THE SUITABILITY OF CRITERIA

12. The proposed guidance in this chapter is helpful, but we would place more emphasis in paragraph 84 on the importance of maintaining continuity and monitoring criteria changes year-on-year. This is a key area of risk in voluntary reporting and easily manipulated so it would be helpful to have a warning of the need to be sceptical here. This is touched on in paragraph 100 but needs more emphasis.

13. The example in paragraph 108, while relevant, fails to mention that survey results are inevitably biased by the way questions are framed and what questions are used. It would be helpful to highlight this point as this is an inherent risk that could bias the whole EER report and skew the meaning of a related assurance report.

CHAPTER 8: CONSIDERING THE ENTITY'S 'MATERIALITY PROCESS'

14. While there is helpful guidance in this section, the term 'materiality process' is a newly introduced concept and should not be confused with the concept of 'materiality' as used in ISAE 3000 (Revised). It would, therefore, be helpful if this distinction could be made clearer, particularly for those practitioners who might be less familiar with the term.

15. Paragraph 129 touches on how understanding the outcomes of a 'materiality process' may also be an important consideration when agreeing the assurance scope and determining whether an assurance engagement has a rational purpose. We believe more could be made of this in the context of meaningful levels of assurance and rational purpose. Looking at the bigger picture is crucial if practitioners are being asked for limited assurance or assurance over just a small piece of the whole report. This is an example of where misleading assurance can easily be provided. It might, therefore, be helpful to include a separate section about the overall context of the engagement.

16. As explained in paragraph 14 above, there is a clear link between this chapter and the proposed chapter on determining preconditions and we would encourage the IAASB to consider how this link can be made clearer in the guidance.

17. The proposed guidance also needs to be clearer about the importance of disclosing the 'materiality process' in the report. The diagram on page 47 explains that it is best practice for preparers to disclose details of the 'materiality process'. We would suggest that the specific reference to 'best practice' is removed here but that paragraph 164 is strengthened by explaining why such disclosure is important, and by making the point that a practitioner would generally expect the 'materiality

process' to be disclosed in the report. Likewise, where this is not the case the practitioner would want the preparer to provide an acceptable justification for this. As it stands paragraph 164 seems weak. Likewise we would expect the considerations for the practitioner outlined in paragraph 157 to also include whether the 'materiality process' has been disclosed to users.

18. Paragraph 141 explains that it may be necessary to limit the intended users in certain situations. We also believe, however, that it is crucial to disclose who the intended users are so that the users of the report understand the extent to why they can rely on the report. This applies to the example here too.

19. There is also a need to provide greater clarification in paragraph 144 because, as written, it has the potential to be misinterpreted. The paragraph explains that it is not necessary for the preparer or practitioner to create a detailed list of the intended users but the practitioner cannot consider the entity's 'materiality process' if management fail to or refuse to disclose who the users are. The paragraph needs to differentiate between:

o a defined user group, for example, all users of a system; who do not need to be identified individually, but who will all have broadly the same needs;

o a specific set of named users who have a specific purpose, would need to be named and may have specific and differing materiality needs.

20. The example in paragraph 150 explains considering 'impact' but the example again fails to consider the need to disclose the basis used which we believe is important in order for a user to evaluate the report.

21. It is not clear in the diagram in paragraph 153 whether the consideration of likelihood and magnitude is intended to be gross or net of any related control.

22. Paragraph 156 highlights some of the sources a practitioner could use in evaluating the completeness of the criteria. However, while the list references interviews with stakeholders it fails to include result of management interviews with stakeholders and this needs to come out more clearly. The list could be developed further by suggesting the things that management should be doing and leading on to what the practitioner might do. It might therefore be preferable to include a side by side list of the activities expected of management in one column, alongside what the practitioner might do in another. They will not be the same but they will highlight review and evaluation versus independent substantive evidence collection.

23. Paragraph 163 discusses what to do in circumstances where information results from criteria that is not suitable or available and this is discovered after the engagement has been accepted. It doesn't say though that any discovery of unsuitable or unavailable criteria should be disclosed by management in their report.

CHAPTER 9: PERFORMING PROCEDURES AND USING ASSERTIONS

24. We are supportive of guidance in this area but believe that this chapter requires further work to be of practical use to practitioners. The description of 'categories' of assertions used in the proposed guidance lacks clarity and makes the guidance seem very theoretical in nature. The categories of assertions in ISA 315 (Revised) and in ISAE 3410 are described in a much clearer way. Including a simple indicative set of assertions, a general description of each, how the information may be

misstated and how assertions may impact the practitioner's approach to testing with some practical examples would significantly improve this chapter.

25. Paragraph 178 dealing with assertions addressing neutrality needs expansion and more clarity with examples.

26. Paragraph 180 makes a very important point about the need to stand back and look at the report as a whole and consider whether, despite each individual piece of subject matter information being free from material misstatement, the overall message is misleading or biased. However, we think the point is lost within the section. There is a need for greater emphasis to be given to understanding the context to ensure that practitioners do not miss this point.

Reference 14

CHAPTER 10 ASSURING NARRATIVE INFORMATION

27. We believe that the chapter needs to include a stronger definition of what narrative information comprises and guidance on what needs assuring. The proposed guidance should also emphasise that greater focus is needed on the claims by management on which the practitioner might expect the user to rely, which is where the assurance effort goes, as a subset of claims by management as a whole. The need to read the whole report for context is also missing from this chapter; the point being that the individual details might be appropriate but, taken as a whole, the report might be biased and give the wrong impression.

28. The example in paragraph 187 could be more helpful. It might be better to separate out the two types of narrative information with the examples under each and then bring out the point more clearly about subjective narrative subject matter information being vague and difficult to obtain assurance on, as well as the consequences of this for the practitioner.

29. Paragraph 188 says that subjective narrative information may be more susceptible to bias. We don't think there is a may be about it, it just is.

References 15-16

CHAPTER 11: ASSURING FUTURE-ORIENTED INFORMATION

30. Paragraph 207 explains that for subjective future-oriented information, the criteria may need to require detailed description of the assumptions and the nature, sources and extent of uncertainty in order to be suitable. Given the nature of the information, we believe that the criteria will – rather than may – need to require detailed description.

31. It may be helpful to include more about how practitioners may evaluate a methodology applied in paragraph 208 and in paragraphs 209 and 211 we would suggest removing the word 'ordinarily' from the reference to practitioners being unable to predict the future.

32. The proposed guidance in paragraph 210 needs more consideration. An entity's risk register may not, in itself be complete so shouldn't be referred to as a completeness check.

33. Paragraph 211 explains that as practitioners are not in a position to predict the future, and therefore express an assurance conclusion, for example, on whether the results forecasted will be achieved, they may instead focus on whether any assumptions are reasonable. We would, however, question whether practitioners can assure the reasonableness of the assumptions as what does reasonable

mean in this context and from whose perspective and what would happen if an assumption has been missed that potentially makes the forecast unreliable?

CHAPTER 12: CONSIDERING THE MATERIALITY OF MISSTATEMENTS

34.   Paragraphs 223 to 226 could be strengthened to include consideration of the EER report as a whole and the accumulated misstatements, including the need to think about the overall tone and message conveyed.

35.   It would be helpful if paragraph 229 included guidance on what the practitioner needs to do in circumstances where there may be a misstatement because the preparer has not used the information available to measure or evaluate the underlying subject matter as precisely as would be possible.

37. ICAG

Reference 1

We welcome the initiative of the IAASB to come out with Extended External Reporting framework which encapsulates many different forms of reporting, including, but not limited to, integrated reporting, sustainability reporting and other reporting by entities about environmental, social and governance matters.

References 2-3

Yes, the draft guidance developed in phase 1 has adequately addressed the challenges faced by practitioners by developing the guidance of using assertions and also on performance materiality. Matters involving materiality processes and materiality of misstatements are addressed. We note that parts of chapter 3 (agreeing the scope); chapter 4 (applying appropriate skills); and chapter 5 (exercising professional skepticism and professional judgment) were not addressed within this guidance.

Guidance on whether pre-conditions of an audit exist through looking at the components of a system of internal control is generally clear. There seems to be nothing missing and it is quite comprehensive. The challenges of the practitioner considering whether the preparer's internal controls is adequate to support the determination as to whether the preconditions of an assurance engagement are present have been minimized as this draft guidance throws more light on it. (p25)

Selecting or developing the assurance concept of criteria is treated well in chapter 7 "determining the suitability of criteria". However, the presentation of this chapter is not an easy read and whilst there is a lot of useful information, the presentation can be improved upon in order for this to be readable such that the practitioner will utilize.

According to paragraph 84 of Chapter 7, practitioners may need to exercise considerable professional judgment and professional skepticism in determining the suitability of criteria in an EER assurance engagement. The illustrative examples do help give a clearer of processes required in determining suitable criteria in a consistent manner. However, the use of illustrative questions and decision trees can provide better guidance and reduce the risk of significant management bias particularly in determining materiality process and determining suitable criteria.

Reference 4

The guidance for "materiality processes in chapter 8; *"Considering the materiality process"* seems to be complete. The flow charts is an essential part of the guidance in laying out an approach for the practitioner and the guidance is quite extensive. Guidance on Chapter 12; *"Materiality of misstatements"* is clear and complete. No additions appear to be necessary for this chapter. Guidance on Chapter 9; *"Performing procedures and using assertions"* is clear and complete. It appears to address all the challenges. Guidance in Chapter 10; *"Assuring Narrative Information"* and Chapter 11; *"Assuring Future-Oriented information"* both appear to be complete and easy enough to understand.

Reference 5

We do suggest that we list out the traditional assertions from IAASB and what they mean to support this guidance.

Reference 6

We do however feel the guidance could be further enhanced by adding a section to define/explain the typical Assertions used in normal IAASB guidance and explaining what they mean. For the most part there are very few other assertions out there and so rather than re-invent new ones the practitioner could perhaps be guided as to what these are and how they are applied to an EER engagement.

38. ICAS

Reference 1

Whilst the current guidance addresses EER assurance engagements as they exist today, the topic of EER is continually evolving. Therefore, it is important for the IAASB to consider how they can ensure that the guidance remains future proof and relevant to encapsulate the type of reporting that might fall within the scope of EER assurance engagements in the near future.

Reference 2

a. *Paragraph 25 (preconditions and the system of internal control)*

The guidance should explain the work effort needed both in the engagement acceptance phase and in reviewing whether the preconditions have been fulfilled. The guidance should be sufficiently clear in order to avoid confusion between the work required to ensure that the preconditions have been satisfied and the work that has to be performed once the engagement has been accepted.

The guidance could also place more emphasis on the need for an entity to have a robust system of internal control for an EER assurance engagement to be performed.

Reference 3

b. *Paragraph 29 (suitability of criteria)*

This section would appear to include all of the characteristics necessary in order to ensure that the information can be considered to possess suitable criteria in an assurance engagement of this nature.

We welcome the inclusion of 'Neutrality' as a characteristic which is particularly important and relevant when undertaking some of these engagements as the information produced is more

subjective. This will remove some of the risk that the information will be used as part of a marketing or promotional exercise by the entity.

References 4-6

c.   *Paragraph 35 (materiality of misstatements)*

The reference to the term 'not clearly trivial' in relation to materiality of misstatements, as per paragraph 215, may be challenging for an assurance practitioner to assess. In EER reports, it may not be apparent as to what would be categorised between what is clearly trivial and what is not. The outcome may depend on other factors and is largely subjective, and thereby open to challenge at a later date. In these situations, the assurance practitioner may determine that, by default, the only option is to assess such an issue as not clearly trivial, thereby resulting in additional procedures being performed.

Hence, we consider the proposed classification of information between what is clearly trivial and what is 'not clearly trivial' to be very much a binary option and is set at too low a level. Therefore, we would suggest that a more granular approach to assessing what is clearly trivial may be more appropriate to make it easier for the assurance practitioner to exercise greater professional judgement when assessing the significance of more qualitative types of information.

d.   *Paragraph 40 (assertions)*

The reference to assertions might be a new concept for some users of the guidance. This might present an obstacle to its effective application.

In addition, the assertions stated are more related to financial information and there may be a challenge for assurance practitioners in determining the assertions relevant for EER assurance engagements. We would suggest that consideration should be given to the inclusion of some, or all, the characteristics of the UK FRC Financial Reporting Lab publication, 'Reporting of Performance Metrics', which lists the principles of performance indices as: Aligned to strategy; Transparent, In context; Reliable; and Consistent which may be more appropriate in EER assurance engagements.

https://www.frc.org.uk/getattachment/e94631d1-69c1-4349-8ce5-780d4eca455f/LAB_Reporting-of-performance-metrics_June-2018.PDF

e.   *Paragraph 41 (narrative and future-oriented information)*

Future oriented information is, by its nature, unpredictable and uncertain which presents a significant challenge for assurance practitioners when trying to assess and conclude upon information of this type. The guidance does not currently include sufficient detail as to how an assurance practitioner might go about assessing, evaluating and concluding upon this type of information so further clarification in this respect would be welcome.

39. ICPAU

References 1-3

COMMENT:

ICPAU believes that the draft guidance doesn't adequately address all the challenges for practitioners in applying ISAE 3000 (Revised) to assurance engagements over EER as identified by the 2016 Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting. Areas which need further clarity include the following:

- Determining the scope of EER engagements. The Consultation Paper doesn't adequately reduce the complexity of determining the scope of these engagements.

- Demonstration about how professional skepticism and professional judgment can be exercised in EER engagements. The only demonstrations of this is the assessment of the ability of an entity's internal control system to produce sufficient appropriate evidence for the EER report as well as consideration of materiality of misstatements of subject matter information included in the EER report.

4. AUASB

Reference 1

- **Reporting Frameworks:** Whilst the guidance purports to be reporting framework-neutral, there is an overriding Sustainability Reporting and Global Reporting Initiative (GRI) theme. This manifests itself in significant gaps emerging with respect to relevant examples for other types of reporting, such as Integrated Reporting <IR>. No examples are provided throughout the guidance in relation to the fundamental subject matter of an <IR>, such as the business model, strategy or value creation.

Reference 2

- **Reasonable versus Limited Assurance:** Remains a "grey area" for EER assurance practitioners, with guidance needed in terms of scope, work effort, output and value. Although practitioners acknowledge coverage of these areas in ISAE 3000 (Revised), they acknowledged the guidance could provide more in addressing the differences between the two engagements. Given the objectives of this guidance, this represents an opportunity to build greater understanding and consistency and a more robust approach to EER assurance engagements.

References 3-4

- **Materiality:** As part of scoping an EER assurance engagement, materiality is widely accepted as a core component and is therefore suggested for inclusion in the guidance. There is a need to cover more than just impact in a materiality determination. For example, value creation is the fundamental concept of <IR> in the short, medium and long term. The needs of EER users is crucial to the materiality determination. Links to examples of materiality disclosure from publicly available EERs would add value.

- **Qualitative Statements:** EER assurance practitioners highlighted a strong need for guidance in relation to the assurance of qualitative statements, i.e. narrative, where evidence requirements may prove challenging for the assurance practitioner to satisfy.

References 5-6

- **IASB Links:** Stronger links to the International Accounting Standards Board (IASB) project to update its IFRS Practice Statement 1 Management *Commentary* to ensure that the EER guidance will be fit for purpose across the broader corporate reporting suite.

- **Preconditions:** Avoid establishing too high a hurdle, e.g. preconditions and the interplay between suitable criteria and internal controls which are iterative in nature, may result in the assurance process becoming a barrier to the development of EER.

Reference 7

The AUASB highlighted, in its response to the discussion paper on the Ten Key Challenges, the ongoing challenge of limited versus reasonable assurance. Furthermore, the lack of understanding of the differences was highlighted for attention, as well as the wide ranging subject matter and criteria placing increased demands on both assurance practitioners and EER preparers. The AUASB suggests that further clarity may be achieved through additional tables in an appendix, highlighting the differences between reasonable and limited assurance through a case study depicting the application or each to EER. The IAASB may also consider further collaboration with professional accounting and education bodies to improve the training of new auditors and assurance practitioners in this ever growing area.

References 8-11

Targeting multiple users may not assist in meeting the overall purpose of the guidance. Stemming from this, the AUASB highlights a number of areas for further consideration by the IAASB during Phase 2. Addressing the following areas for improvement in the draft guidance will play a fundamental role in underpinning the credibility and trust of EER going forward:

- **Reasonable versus Limited Assurance:** Remains a "grey area" for EER assurance practitioners, with guidance needed in terms of scope, work effort, output and value. Although assurance practitioners acknowledge coverage of these areas in ISAE 3000 (Revised), it is suggested that the guidance could address the differences between the two types of engagements. Given the objectives of this guidance, this represents an opportunity to build greater understanding and consistency and a more robust approach to EER assurance engagements.

- **Materiality:** As part of scoping an EER assurance engagement, materiality is widely accepted as a core component and is therefore suggested for inclusion in the guidance. There is a need to cover more than just impact in a materiality determination. For example, value creation is the fundamental concept of <IR> in the short, medium and long term. The needs of EER users is crucial to the materiality determination. Links to examples of materiality disclosure from publicly available EERs would add value.

- **Qualitative Statements:** EER assurance practitioners highlighted a strong need for guidance in relation to the assurance of qualitative statements, i.e. narrative, where evidence requirements may prove challenging for the assurance practitioner to satisfy.

References 12-15

Scope of Draft Guidance: Paragraphs 9-15:

- **Direct Engagements:** More focus is suggested in the draft guidance on direct EER engagements as this is a common type of engagement occurring in practice. The draft guidance predominantly focuses on the principles of an attestation engagement.

- **Use of Experts:** It is understood that applying appropriate skills in an EER assurance engagement will be considered in Phase 2. Under the 'obtaining evidence' heading in Chapter 2, the consultation paper states that use of experts and the work of another practitioner are outside the scope of this draft guidance. In practice, the need to use experts or the work of another practitioner is a particular challenge for which additional guidance and examples are needed.

- **Other Information**: Although other information has been identified as outside the scope of the draft guidance, examples are needed.

- **Criteria Availability:** Guidance on how to appropriately make the criteria available to intended users would be useful. This may be addressed in the guidance to be developed on reporting. There is a requirement in ISAE 3000 (Revised) for the practitioner to evaluate whether the criteria are available to intended users. However, it is unclear from paragraph 37 of the draft guidance as to whether or not this will be covered in Phase 2. Providing additional guidance in Chapter 3 and/or when developing guidance on reporting would be useful.

References 16-23

- **Governance and Oversight:** The AUASB suggests that the governance and oversight process described in paragraph 71 not only focuses on the process to prepare the EER but also includes a higher level of governance over the content and presentation of the report. It could also refer to the process of seeking assurance over the EER information. In many instances, assurance is voluntarily sought, and may be for internal purposes only, or for a select group of users. Clarification by the report preparer as to why assurance is being sought may assist the assurance practitioner in evaluating whether or not the preconditions for assurance have been met (i.e. the level of assurance sought and what measures have been selected for the scope of the engagement).

- Re-ordering paragraph 71 to present governance and oversight before the paragraphs on the reporting system could help to reinforce this. Amending the diagram in paragraph 62 such that governance and oversight is an overarching component may also help to emphasise this point.

- **Table in Paragraph 47:** The AUASB questions the need for the table in paragraph 47 a)-g) in addition to the diagram in paragraph 46**.** It may be more useful to integrate the content in paragraph 47 into the diagram. If paragraph 47 remains in the guidance, it could be enhanced with an example flowing through the different stages. For example, could the greenhouse gas emissions of the entity be considered in terms of the contribution to climate change in comparison to peers in the sector?

- **Effort Related to Preconditions:**

  o The distinction between what falls within assessing the "precondition" based on preliminary knowledge as opposed to performing detailed walk throughs or testing (i.e. the knowledge

needed to make a complete assessment) is unlikely to be possible without starting to perform some detailed work, which represents a practical challenge. Performing work to understand the control systems (walk through procedures) is not typically done as part of the acceptance of an engagement in practice. This is part of performing the assurance engagement.

o The focus on the 'assurance readiness' work is therefore a useful addition to the draft guidance (paragraphs 50-53). However, it is not clear, where no assurance readiness engagement is undertaken, as to when these procedures would be performed, i.e. on "preconditions" or in the "engagement performance and testing" phase. This delineation could be clarified in the draft guidance, to cater for types of EER where the "assurance readiness" engagements are not practicable.

o The draft guidance on preconditions seems to set a high barrier to accepting an assurance engagement. Practically, the assurance practitioner may be unable to reach a final conclusion on the suitability of the criteria, understand the materiality process and identify whether or not the internal control system is robust enough to be able to provide the evidence needed to conclude. A system walk through may be needed before a conclusion can be made, that is traditionally performed as part of the assurance engagement.

o The draft guidance may need to further recognise that EER preparers are on a journey to evolve their reporting, and that the assurance practitioner needs to be able to evolve their methodology and procedures alongside them. As an entity moves from "readiness" to "assurance" some of the measures reported may be assurable and some may not. It may not be as clear as accepting and scoping the engagement accordingly, but rather it may be more appropriate to report on this journey. ISAE 3000 (Revised) does not preclude the assurance practitioner on reporting findings and recommendations. This is something that may be best dealt with under the "Preparing the Assurance Report' in Phase 2, i.e., by encouraging the assurance practitioner to include recommendations and findings in the assurance report.

o Based on the guidance, if an assurance readiness assessment is not performed separately, in many instances it is unclear how an assurance practitioner would be able to determine whether or not the preconditions have been met, based only on preliminary knowledge. Examples of where the delineation between "precondition and "the work performed as part of the assurance engagement" could have greater clarity are in the following paragraphs in the consultation paper:

  − Response where the Preconditions are not present (paragraphs 75-78)

  − Reliability of underlying data and source information (paragraph 107)

  − Changes to criteria (paragraph 117)

  − Consider process to prepare subject matter information (paragraph 128)

o It should be acknowledged that there is a high level of judgement applied in the preconditions phase, based around discussions and reasonable assumptions regarding access to evidence. The assurance practitioner would then move into the planning phase to perform more work on internal controls.

o The draft guidance may imply the need for significant knowledge to determine whether or not the preconditions for an assurance engagement are met, due to:

− Lack of maturity in many of the EER frameworks.

− Range of frameworks available that can be combined by EER preparers in developing EER information.

− Need for some level of maturity in thinking and processes to prepare the EER information.

Reference 24

Materiality Processes: Paragraph 33

- **Materiality results are relevant:** Irrespective of whether or not the assurance scope covers the whole EER. The AUASB disagrees with the first sentence of paragraph 129. In fact, the outcomes of a materiality process are potentially more relevant to limited assurance over certain indicators to ensure that those indicators assured are material to users' decision-making and that the assurance therefore has a rational purpose. Removal of the first sentence of paragraph 129 is therefore suggested.

- **Materiality is important to determining assurance scope:** The second sentence of paragraph 129 addresses this and could be made more prominent, perhaps with a subheading and links to other relevant parts of the draft guidance.

- **Materiality process diagram potentially confusing:** Inclusion of the EER preparer's role alongside that of the assurance practitioner in the diagram in paragraph 130 could be confusing. For other areas of the draft guidance, this context has been moved to Appendix 1, which is also suggested here, to avoid any potential confusion. Furthermore, paragraph 132 strays into the EER preparer's role rather than the role of the assurance practitioner.

- **Focus on Assurance Practitioner**: The AUASB questions the relevance of paragraphs 136-144 to the assurance practitioner. Perhaps this content could be condensed into one or two short paragraphs. Paragraphs 145 onwards are more relevant to the assurance practitioner.

- **Sole focus on impact:** Paragraphs 152-154 represent a GRI and Sustainability Reporting (SR) focus. In <IR>, this would be value creation rather than impact. Perhaps an additional example could be included in the draft guidance.

- **Examples of disclosure of the materiality process are needed:** Paragraph 164 would benefit from a couple of published examples, perhaps a best practice <IR> and a best practice SR, showing how entities report their materiality process and the charts used to present their materiality results.

Reference 25

- **Material Misstatements:** If a significant matter is omitted, then this may result in a material misstatement depending on the scope of the engagement. This cannot be limited to a precondition for the engagement, but may be a conclusion after performing the assurance procedures. Further consideration of this is needed in Phase 2.

References 26-32

- **The New Zealand Auditing and Assurance Standards Board (NZAuASB) Service Performance Information (SPI) assurance standard experience (NZ AS1):** The NZAuASB experience with SPI identified that it is difficult to conclude on overall SPI, as well as whether or not a material misstatement exists within one measure. These matters are not mutually exclusive. Coverage of financial materiality thresholds relating to percentage error may help assurance practitioners to understand this area.

Suitability of Criteria: *Paragraph 29*

- The AUASB is supportive of the draft guidance and examples developed to assist assurance practitioners to evaluate the suitability of criteria. In practice, this can present a real challenge. The evaluation of completeness balanced against conciseness for understandability is a challenge when dealing with highly principles based, non-specific reporting frameworks.

- There also appears to be wide judgement applied on who determines the suitable criteria in the draft guidance when undertaking an EER assurance engagement. Ordinarily this responsibility resides with the preparer of an EER.

- Depending on the maturity of the suitable criteria (frameworks), comparability may be achieved from one EER to the next (period basis), e.g. Sustainability Reports using the GRI as suitable criteria.

- Some reporting frameworks applied as suitable criteria in EER are principles based, such as the <IR> framework, hence the goal may be less related to comparability and more to achieving transparency, balance and completeness, which can lead to enhanced credibility and trust in the EER.

Narrative and Future-Oriented Information: Paragraph 41

- Concerns relating to the assurance of narrative subject matter includes the following:

  o Boundary of the subject matter: As an example on page 60, it is difficult to define the narrative subject matter information. What does the 'minimal' mean? This is one of the key challenges for EER and, as such, the AUASB encourages the IAASB to consider this in Phase 2.

  o The examples in paragraph 187 on assuring narrative information may not provide sufficient practical guidance. With reference to the example on page 60 of the draft guidance, the underlying criteria of the narrative subject matter is vague.

  o The challenges relating to subjective statements on some subject matters are suggested for consideration in the draft guidance alongside the interplay with possible management bias.

  o There are two key views on assurance of narrative disclosures. The proposed International Standard on Auditing (ISA) (UK) 570 *Going Concern* on limited assurance and asking the auditor to do more work and disclose more on going concern, and the second being ISA 720 *Other Information* which is no assurance, only a read and consider for material inconsistencies. It is suggested that the draft guidance takes into account where this debate lands.

   o   Assurance practitioners may find the idea of assuring future oriented information challenging. However, they are typically comfortable to consider whether or not assumptions seem reasonable and the methodology appropriate. This aligns with work currently performed in the audit of financial statements.

Rational Purpose: Paragraph 49

- The AUASB suggests bringing some information from paragraph 94 relating to user decision making and consequential user needs in relation to EER into paragraph 49. These are key considerations in the determination of materiality.

- Those Charged with Governance (TCWG) may be seeking assurance on the data and information provided by management for publication in their EER, effectively representing a 'private' assurance engagement.

- Internationally the AUASB are seeing and hearing that other users, such as investors and other key stakeholders, are also demanding assurance of EER. In fact, part of the value of assurance for TCWG is to be able to share that with external users to build credibility and trust in their published EER.

Assurance Readiness Engagements and "Maturity Assessments": Paragraph 52

- The AUASB suggests further consideration of the example assurance readiness engagements used in paragraph 52. Some of these types of engagements, e.g "considering the design or effectiveness of a system as a whole", may be performed as a limited assurance in certain jurisdictions, but undertaken "privately" depending on the users and EER preparers.

Reference 33

- **IASB Links:** Stronger links to the International Accounting Standards Board (IASB) project to update its IFRS Practice Statement 1 *Management Commentary* to ensure that the EER guidance will be fit for purpose across the broader corporate reporting suite.

- **Clarity of Purpose:** The structure could be improved by clarifying the purpose of the document up front, i.e. to be used in conjunction with ISAE 3000 (Revised) rather than replacing it.

References 34-35

- **Preconditions versus Performing an Engagement:** While the chapters are useful for locating guidance on specific topics, they may inadvertently remove the integrated and iterative nature of many of the considerations. Clarification in relation to when the practitioner is expected to do what may assist. The current structure may be exacerbating the concern that the draft guidance blurs the lines between the preconditions for an engagement and actual performance of the engagement. This emphasis on the iterative nature of these evaluations and assessments on the suitability of criteria, the appropriateness of the internal controls and the consideration of the materiality process could be further emphasised. The NZAuASB developed a similar flowchart to highlight the iterative nature of evaluations for NZ AS 1, which can be seen as an example in the appendix to their submission.

Reference 36

- **Preconditions to Accepting an Assurance Engagement:** Paragraphs 24 and 26: The AUASB agrees that the guidance could draw a link between the preconditions and the system of internal control. However, the draft guidance may currently inadvertently imply an insurmountable hurdle to accepting an EER assurance engagement. Rather, a distinction could be drawn between the work effort based on a preliminary knowledge as opposed to performing detailed walk throughs or testing typically performed during the assurance engagement.

- *Upfront Effort Required:* The draft guidance on preconditions seems to set a very high barrier to accepting an EER assurance engagement. Practically, the assurance practitioner may be unable to reach a final conclusion on the suitability of the criteria, understand the materiality process and identify whether or not the internal control system is robust enough to be able to provide the evidence needed to conclude until the work has started. The assurance practitioner may need to undertake a system walk through, traditionally performed as part of the assurance engagement, before reaching this conclusion.

Reference 37

- *Evolution of EER and Related Assurance:* Further recognition may be needed that as EER preparers continue to evolve their EER, assurance practitioners need to evolve with them on the assurance of EER. On this journey, it may be possible to assure some of the measures reported but not others. As such it may not be straightforward when accepting and scoping the engagement accordingly, but rather it may be more appropriate to report on this journey.

Reference 38

- *EER Assurance Report:* Phase 2 could capture a more flexible way to report, not just a binary "yes" or "no" conclusion. Such flexibility may impact the preconditions for accepting the engagement and "how much is enough" to enable a practitioner to accept an assurance engagement. ISAE 3000 (Revised) does not preclude the assurance practitioner including findings and recommendations in the assurance report.

References 39-40

- *Sufficiency of Internal Controls:* There remains a general lack of understanding in the EER preparer community in relation to internal controls and the preconditions for assurance. Where an entity voluntarily seeks assurance, it may be unsure of the need for internal controls and processes to support the EER. Therefore in practice, the AUASB understands that the current focus from assurance practitioners is in part the "assurance readiness" phase. This is when assurance practitioners work with clients as they develop their EER, to assist them to focus on developing reporting systems that will be "assurable" in the longer term, as well as provide better quality information.

References 41-43

- *Independence Concerns:* It may be a challenge to meet the preconditions for many EER assurance engagements due to the immaturity of data collation processes and reporting systems, as well as the lack of internal controls. Paragraphs 50-53 in the draft guidance provide some useful context on the performance of assurance readiness engagements. If an assurance practitioner

undertakes an assurance readiness engagement, they may be moving into a developmental role and the issue of independence may be raised. Hence, their ability to continue in the role of assurance provider may be questioned.

- **Assertions:** Paragraph 36: On balance, the AUASB is supportive of referencing possible assertions. As mentioned in response to Q1, the link between the qualitative characteristics described in a reporting framework, the practitioner's evaluation of the suitability of criteria and the assertions could be clarified further.

40. IPA

References 1-2

The draft guidance includes much that will be useful to assurance practitioners, however, the IPA considers the material is generic in nature and not particularly specific to EER assurance engagements.

Given generic nature of much the content, it would be better to include the guidance in ISAE 3000 either in the body of that standard or its associated application guidance.

In particular, the IPA recommends that ISAE 3000 be enhanced to include material based on the draft guidance including improved guidance on:

- Preconditions of an engagement

- Suitability of criteria

- Materiality of misstatements

- Assertions, and

- Narrative and future orientated information.

The IPA considers the guidance requires further work in the following areas:

- Information systems –there is insufficient emphasis on obtaining an understanding the sources and systems of the information included in the EER. In particular, the need to ascertain the reliability of such information systems is hardly acknowledged.

References 3-4

- Materiality of misstatements – while the proposed guidance on materiality of misstatements is more substantive to that in ISAE 3000, the guidance needs expansion for the materiality effects of omissions of information or misleading statements.

- Future-orientated information – the proposed guidance on future orientated information is vague and not particularly useful. The guidance provided by Australian Standard ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* may be helpful when formulating further guidance for ISAE 3000 and EER assurance engagements. The IPA is aware of assurance practitioners using ASAE 3450 as guidance in relation to non-financial information (e.g. forecast emissions and production information) for assurance reports to the Australian Clean Energy Regulator.

References 5-6

The IPA also notes that the term "maturity assessment" is introduced in paragraph 52. The guidance should be expanded to detail what constitutes a "maturity assessments" and a clearer articulation made of how the outcomes of such an assessment affects an EER assurance engagement.

41. ISCA

Reference 1

We also understand that this is an interim consultation to assist the Board in updating the draft guidance and completing the non-authoritative guidance document in phase 2, following which an exposure draft of the complete non-authoritative guidance document will be published for public comment.

Notwithstanding the above, we have concerns that the draft guidance does not adequately address the key challenges in phase 1. These concerns are set out below.

Reference 2

Practical considerations

There could be challenges in applying the draft guidance on EER reports in practice.

Paragraph 195 of the draft guidance for testing narrative information shows an example of information in an EER report and how the practitioner may test this information. This example demonstrates that information within an EER report requires varying degrees of testing or none at all, according to whether the information addresses the criteria.

Paragraphs 161 and 162 of the draft guidance adds that information in an EER report which does not result from criteria that are suitable or available is considered to be "other information" which is addressed by ISAE 3000 (Revised).

In our view, notwithstanding the draft guidance on determining the suitability of criteria and considering the entity's "materiality process", it could be conceptually challenging to identify subjective narrative information which fulfils requirements of a criteria and hence requires testing. This is especially pertinent to assurance over an EER report that contains substantial information which (i) does not address a specific criteria, which requires significant judgment in itself to be identified by both preparer and practitioner; and (ii) could be factual, subjective or speculative.

To illustrate the point above, the example in Paragraph 195 acknowledges that there could be some uncertainty (since the word "may" is used) in whether Sentence (4) fulfils the requirements of the criteria ("an explanation for the change"), and presumably the EER report has to be sieved through for the appropriate explanation to be tested. Significant judgment may be required to identify this explanation, or whether the inclusion of other narrative information could be misconstrued to be the appropriate explanation and hence could be misleading to the user.

To build on the point above, depending on the assurance report which the draft guidance will address in phase 2, the user may not be aware of the extent of the practitioner's work on the information in the EER report and could develop an unwarranted reliance on the EER report or sections of it. For example, information, which was determined to be "other information" by the practitioner and hence no substantial work was performed, could be perceived to be important by the user who then places a disproportionate reliance on it.

The challenges above could be mitigated by the guidance on preparing the assurance report, or other chapters to be developed in phase 2. Hence, we would like to ask the Board to give greater consideration to the practical application of the draft guidance in addressing all the key challenges, and provide more direction in these areas in phase 2.

42. MICPA

Reference 1

MICPA's Comments:

Yes, the draft guidance adequately addresses the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1.

43. NASBA

References 1-2

Chapter 1 of the draft guidance within the Consultation Paper provides the background for "Extended External Reporting" (EER); however, EER is not specifically defined. We recommend clarifying that the reporting in EER refers to reporting the results of the measurement of the subject matter, and may be completed by the responsible party, the practitioner or both. The Consultation Paper seems positioned on the assumption that the responsible party is reporting, but that would not be the case for direct engagements per ISAE 3000.12(A)(ii)b.

The scope of the draft guidance is not clear. Paragraph 6 indicates that the guidance does not cover all ISAE 3000 engagements, but it does not identify the engagements that are not covered. Consider inserting additional discussion regarding how a practitioner is able to distinguish an EER engagement from the "other types of engagements" that are not covered.

Reference 3

We believe clarification is needed in the linkage of engagement preconditions and the system of internal control as the draft guidance appears to include contradictory requirements and new requirements not addressed in ISAE 3000 (Revised). See response to Request for Comment 4 below.

References 4-5

It would be helpful to have additional guidance for the examples provided in the fourth through sixth bullets in paragraph 49 as to how much work the practitioner needs to do to understand the needs of users as part of determining whether a proposed EER assurance engagement has a rational purpose.

Reference 6

In the examples provided in paragraph 136 of Chapter 8 for the purpose of the EER report, it appears that the fourth bullet describes or relates to financial reporting and not EER. We recommend removing this bullet.

Reference 7

In Chapter 9, related to performing procedures and using assertions, we recommend including guidance for performing procedures on estimates (for example, based on ISA 540).

44. PAIB

Reference 1

See general comments above.

45. SAICA

Reference 1

- We are satisfied with the scope of the Draft Guidance. There is clear explanation about which of the key challenges have been addressed in Phase 1 of the Consultation Paper as well as which of the challenges will be addressed during Phase 2 of the project. Appendix 1 of the Draft Guidance shows a clear link between the Chapters in the Draft Guidance and the challenge each of the chapters seeks to address.

- The scope of the Draft Guidance relates to specific aspects of applying ISAE 3000 (Revised). SAICA believes that reference should also be made to the International Framework for Assurance Engagements as this is foundational to all assurance engagements. Therefore, where applicable, reference to paragraphs in the Framework should be made. Alternatively, an introductory paragraph that informs readers that the Draft Guidance does not seek to depart from the principles in the Framework would suffice.

Reference 2

25. With reference to the diagram in paragraph 46 explaining the Preconditions, certain members who consulted during our outreach activities, had difficulty understanding the diagram and linking the preconditions in the diagram with the preconditions as set out in ISAE 3000 (Revised). In this regard, the preconditions in the diagram should be referenced to the relevant paragraphs in ISAE 3000 (R). The flow of the arrows is also not easily understandable and it is our view that the lay out could be improved. We suggest that the arrows be removed from the diagram as they seem to suggest that there is a flow or order in how the practitioners should be satisfied that the preconditions have been met. This is not necessarily the case and ISAE 3000 (R) par. 24 does not specify an order/flow in which the preconditions should be met. E.g. in the diagram, the arrows from "*Underlying subject matter is appropriate*" lead to "*Practitioner expects to be able to obtain the evidence needed.*" Should the IAASB disagree, the flow should be clarified.

26. The possible outcomes when all of the preconditions have been met, is that the practitioner will accept, continue or decline to continue with an assurance engagement. These possible scenarios should be the outcome of considering the preconditions and should be incorporated in the diagram.

27. The location of the block with the dotted lines should be reevaluated as it appears to be floating randomly in the diagram.

28. In paragraph 46, we suggest that it is more appropriate to use the word "depicted" and not "summarized".

Reference 3

29. In relation to whether the engagement has a rationale purpose, the *Considerations for the Practitioner* block included in paragraph 49 of the Draft Guidance merely repeats the considerations to be made by the practitioner as included in paragraph A56 of ISAE 3000 (Revised). To enhance

the aim of the Draft Guidance in providing practical assistance, we suggest that rather than repeating the concepts in ISAE 3000 (Revised), the IAASB should consider using detailed examples of where the rational purpose requirements would be satisfied or not.

30.   To this end, we would also like to point the IAASB to the South African Assurance Engagements Practice Statement (SAAEPS) 1 developed by the Independent Regulatory Board of Auditors (IRBA), the audit regulator in South Africa. SAAEPS 1 is aimed at providing practical assistance to practitioners on certain preconditions that need to be present when requested to accept a sustainability assurance engagement in accordance with the requirements of ISAE 3000 (Revised). The characteristics dealt with in SAAEPS 1 are whether the sustainability assurance engagement exhibits:

31.   A rational purpose;

32.   The underlying subject matter is appropriate; and

33.   The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances.

Reference 4

34.   In relation to the illustration of an entity's system of internal controls contained in paragraph 62 of the Draft Guidance, the IAASB may consider using the COSO pyramid to depict an entity's system of internal control. This is consistent with the framework that is recognised in the International Framework for Assurance Engagements to evaluate the effectiveness of internal controls.

Reference 5

•   Determining the suitability of criteria in relation to an assurance engagement on EER is of particular importance in establishing whether the preconditions for the assurance engagement are present, and ultimately whether the engagement can be accepted or not. Unlike the audit of financial statements, where the recognised financial reporting frameworks are often presumed to be suitable, there is no prescribed framework that entities are required to apply in compiling an EER report. The practitioner should therefore not overlook this precondition and ensure that the criteria used in preparing the EER report, be it an externally developed framework or entity-developed criteria is suitable.

•   To this end, SAICA recommends that multiple, comprehensive examples be included in the Draft Guidance due to the complexity of this concept.

Reference 6

•   The meaning of underlying subject matter, how this is then broken down into categories, topics and elements and how criteria is then applied to form subject matter information is still an area of confusion for many practitioners. To assist in resolving the confusion, it is our recommendation that further clarity should be provided on describing the differences between underlying subject matter, categories, topics and elements and the subject matter information.

35.   We believe that the IAASB has explained each of the characteristics of the suitable criteria very well. The examples used to explain these characteristics are easy to understand. The comprehensive example on page 41 was very detailed and explained the five characteristics in a

thorough manner. The IAASB may consider highlighting the characteristics being addressed in the example to give emphasis to the specific characteristic being described.

36. We also support the explanation provided in paragraph 91 that the engagement circumstances may include use of an EER framework, that implicitly or explicitly, requires different or more specific characteristics, other than those described in ISAE 3000 (Revised). This demonstrates that the IAASB has given consideration to the practical implications rather than choosing to be prescriptive in their approach.

Reference 7

37. Materiality guidelines are more difficult to benchmark, because EER engagements have no common unit of measurement or evaluation in which to express each of the content elements relating to the underlying subject matter.

Reference 8

38. ISAE 3000 (Revised) only contains high-level guidance on materiality that would need to be taken into account, if the concept is not defined in the EER framework. Therefore, the Draft Guidance has included additional guidance on *'Considering the Entity's "Materiality Process"'* in Chapter 8. SAICA welcomes this guidance as this has been identified as a challenging area for practitioners.

39. The diagram included in paragraph 130 of the Draft Guidance seems to be incomplete as the conclusion process has been omitted. To elaborate, there is a question posed *Are the criteria available to the intended users,* however, the diagram does not indicate how the practitioner should respond based on the answer to this question. This is of particular importance when the answer to the question posed is *no.* We believe that the diagram should be expanded to clarify the response of the practitioner depending on the answer to the question posed.

40. For ease of reference, we suggest that the Draft Guidance include a reference to where each of the steps depicted in paragraph 131 have been discussed in further detail. For example, EER report purpose (step 1a) has been discussed in paragraphs 136 and 137.

Reference 9

41. The diverse nature of EER subject matter information makes it more challenging to develop appropriate assertions. ISAE 3000 (Revised) is framework-neutral and therefore does not and cannot comprehensively set out all possible assertions for all EER frameworks.

42. Although it could be possible to identify some generic assertions relating to EER, it should be recognised that assertions could be different between different EER reports, based on the EER framework being used.

43. The examples of assertions in paragraph 177 have been noted. For completeness purposes and to enhance the Draft Guidance, examples of assertions for 'Completeness' and 'Neutrality' should also be included in order to assist the practitioner in considering the types of potential misstatements that may occur in applying suitable criteria.

44. The IAASB should also consider using more examples and / or provide more guidance on how practitioners can develop methodologies for building assertions for different EER engagements.

Reference 10

45. Narrative information in EER reports may be factual (more observable and therefore more readily captured by reporting systems) or may be more subjective (less observable and more susceptible to being reflective of, and more variable with, the views of those reporting it). Narrative information can also be future-oriented and may also include management judgements and be more susceptible to management bias.

46. One of the challenges for practitioners is how evidence can be gathered for these types of engagements, particularly relating to more subjective narrative information. The Draft Guidance is light on providing guidance in this regard and could therefore expand on how practitioners can obtain sufficient appropriate evidence for narrative information, particularly when it is more subjective and future-oriented.

47. Due to the fact that there is no specific framework for preparing narrative information and preparing future-oriented information, there is a risk that a variety of misstatements may occur. To emphasise the point made in paragraph 32 above, it is our view that the Draft Guidance should be expanded to include guidance on the consideration of qualitative materiality and how the practitioner evaluates misstatements identified in narrative information and future-oriented information.

Reference 11

48. It is our view that the Draft Guidance is light in addressing materiality of misstatements in the context of qualitative factors. Additional guidance regarding the consideration of qualitative materiality will be helpful as this will be more important for EER engagements. Furthermore, practitioners are less familiar with this type of materiality, therefore, guidance in this regard is necessary.

49. Due to the fact that EER engagements have no common unit of measurement or evaluation in which to express the content elements relating to the underlying subject matter, examples where different units of measurement are used should be included in the guidance to better explain the materiality principles.

50. The diagram included in paragraph 215 of the Draft Guidance seems incomplete in that it does not elaborate on how accumulated misstatements should be evaluated. SAICA recommends that this diagram be expanded on to illustrate how the practitioner evaluates accumulated misstatements, especially for qualitative subject matter. The diagram should also elaborate further the stages of the assurance engagements where materiality may be considered.

51. The explanation in paragraph 219(a) will be better understood if further substantiated with an example. Alternatively, a comprehensive example that addresses all of the materiality concepts should be considered.

46. SASB

Reference 1

Finally, under the Governance and Oversight of the Reporting Process (Chapter 6), SASB agrees that companies should integrate ESG-specific issues in their risk and governance process. Many ESG matters are business risks and opportunities and should be handled accordingly.

As noted by *Enterprise Risk Management Integrated Framework* developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), governance, including strong board oversight, is a prerequisite to effectively identifying, assessing and addressing the full spectrum of company risks. Incorporating ESG-related risks into a company's governance structure and processes are critical to overcoming the challenges issuers face in managing these risks (e.g., siloed management of ESG-related issues, challenges in quantifying ESG-related risks and organizational biases causing ESG-related risks to be disregarded or underestimated).

In this regard, the Task Force might consider noting the importance of actions such as the following:

52. Securing the support of boards of directors and executive leadership teams

53. Integrating ESG into key governance processes, and enhancing board-level oversight through audit and risk committees

54. Bringing together sustainability, governance, finance, and compliance colleagues to agree on roles.

47 WICI

Reference 1

Overall, while we do agree that some form of guidance on assurance of 'Extended External Reporting' is nowadays more and more required and requested, we believe that including in one category "many different forms of reporting" (p. 16), such as integrated and sustainability reporting or reports that comprise ESG, intangibles and non-financial information – basically all those reporting formats other than the financial statement - may contribute to increase the confusion that already exists. Indeed, the adoption of an integrated, a sustainability report, or a non-financial statement by an entity is explained by different logics and is performed in dissimilar manners. Therefore, the use of a single standard of assurance, without any differentiation, might not capture their peculiarities.

In addition, the continuous reference to financial reporting concepts, rationales and classifications as de facto benchmark does not help to clarify this confusion.

Moreover, we think that in the consultation paper a section should be devoted to sustainability reports (especially if prepared using GRI standards) and another one to those reports that are prepared in accordance to a framework (where no standards exist), such as integrated reports.

Reference 2

Paragraphs 37-40 at p. 11 (assertions)

55. Paragraphs 37-40 do not provide a clear guidance to the respondents about what is asked for.

48. WPK

References 1-2

Overall, we believe that the draft guidance adequately address the challenges for practitioners that have been identified within the scope of the draft guidance developed in phase 1.

The instructions in Chapter 10 ("Assuring Narrative Information") and 11 ("Assuring Future-Oriented Information") are accurate but partially a bit general and superficial in our view and could convey even more additional examples.

It is explained in Para. 210:

> *"Similarly, where criteria require information about future risks and opportunities to be reported, the assertions to be tested will likely include that the risks and opportunities exist (existence assertion) and that the list of risks and opportunities is complete (completeness assertion) with respect to the risks and opportunities which would assist intended users' decision-making. The completeness assertion may be tested by reference to the entity's risk register or records of discussions of those charged with governance…".*

This is in our view a matter of course. How should the practitioner respond if the company's "risk register" is not complete? Are there alternative procedures to obtain evidence on the completeness of risks? The implementation of an independent risk research using external sources could be mentioned additionally for example. Here we recommend clarifications.

Reference 3

Regarding the Planning and Performing the Engagement we recommend additional explanations in Para. 25:

> *"…This includes the entity's process to prepare the EER report to the extent required by paragraphs 47L and 47R of the standard for limited and reasonable assurance engagements respectively…."*

In our view the difference between "limited" und "reasonable assurance" engagements could be already explained.

Reference 4

The guidelines comprise exhaustive explanations whether the **preconditions** for an assurance engagement are present (e.g. Para. 16-18, 46, 65 and 132). In our view these explanations are too far reaching due to the fact that the requirements in ISAE 3000 Para 24 regarding the *Preconditions for the Assurance Engagement* are sufficient.

We fear that additional barriers will be created before accepting the EER engagement and doubt this approach.

49. DU

Reference 1

The draft guidance says little about the matters covered above, and more specific aspects of the pre-conditions for assurance covered below. Accordingly, it does not adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in Phase 1 as it relates to integrated reporting. This submission makes suggestions as to where and how the guidance could be improved.

References 2-4

Planning an Integrated Reporting Assurance Engagement

If the conditions for acceptance are satisfied, the following considerations will be relevant to planning the assurance engagement. This submission does not go into these considerations in any detail as it is assumed that they will be focus areas for Phase 2 of the EERA project:

Reasonable assurance engagement

Controls within the reporting process would need to be tested to determine whether integrated reports are likely to meet the requirements of the <IR> Framework / Management Commentary Practice Statement or Basis of Preparation – that is, testing whether the reporting process operates as designed in relation to the preparation of integrated reports.

Substantive evidence would need to be obtained so as to be able to conclude on whether the integrated report reflects the business as designed and in operation, and complies with all requirements of the <IR> Framework / Basis of Preparation. This will include procedures regarding:

- reading the strategic / business planning documentation;

- reading other documentation such as of the business model and governance, risk management, resources and relationships, and board and management reporting; **and**

- attending board and management meetings to observe and evaluate whether and how the above matters are documented and designed, and whether the documentation reflects their operation in practice.

Limited assurance engagement

The reporting process would be considered to determine whether integrated reports will meet the requirements of the <IR> Framework / Basis of Preparation– that is, does the reporting process operate as designed as it relates to the preparation of integrated reports?

Enquiries would be made and analysis carried out to be able to conclude whether there are any reasons to believe that the integrated report does not the fairly reflect the business (*what*, *with* and *how*) as designed and in operation, and complies with the <IR> Framework / Basis of Preparation included in the integrated report.

This **may** include attending board and management meetings to observe and evaluate whether and how such matters are documented and designed, and whether that documentation reflects their operation in practice.

The planning of integrated reporting assurance engagements of the nature described above will have significant implications for Chapter 4, 'Applying appropriate skills'; which has been allocated to Phase 2 of the EERA project. Arguably, the assurance team will require more inbuilt knowledge of business strategies, business models (particularly governance, strategic management, stakeholder management processes) than is the case for financial reporting and sustainability assurance engagements.

Concluding on an Integrated Reporting Assurance Engagement

This submission does not go into any detail on concluding on an integrated reporting assurance engagement as it is assumed that this will be a focus area for Phase 2 of the EERA project.

If a conclusion is reached that the integrated report is misleading in its portrayal of the *what* (strategy, risks and opportunities), *with* (resources & relationships) or *how* (business model and governance) of the business, or that the design or operation of the reporting process is inadequate as it relates to integrated reporting, a modified assurance opinion would need to be expressed.

This would be a very significant finding in the eyes of investors and other stakeholders, going to the trust they place in the organisation. This is an area where the value of integrated reporting assurance can be central to the future of the assurance profession.

Reaching conclusions on integrated reporting assurance engagements of the nature described above has significant implications for Chapter 5, 'Exercising professional scepticism and professional judgement', which has been allocated to Phase 2 of the EERA project. Arguably, the assurance team will require more or at least different attributes in these areas (for example, in being able to judge whether the strategy and business model reported in the integrated report are 'the real' strategy and business model as they operate in practice) than is the case for financial reporting and sustainability assurance engagements.

<u>Integrated Thinking</u>

Where does Integrated Thinking, the foundation of integrated reporting, fit in to evaluating the appropriateness of the subject matter information, the suitability of criteria and internal control system as it relates to extended external reporting? To what extent must an organisation practice integrated thinking in order to support a claim of:

- Adoption of the <IR> Framework or integrated reporting principles in an integrated **report**?

  It is not required that an organisation preparing an integrated report under the <IR> Framework or Basis of Preparation to have perfected its integrated thinking. The integrated report must reflect the business **as it is**, and the assurance engagement will be focused on whether the integrated report communicates the business **as it is.**

- Integrated **reporting** adoption (as distinct from preparing an integrated report)?

  This is an unresolved topic which should be considered by the IIRC.

  The EERA guidance notes the opportunity for the assurance practitioner to advise the preparer on improving the reporting process (paragraph 60), even where the pre-conditions for an EER assurance engagement have not been met.

Whether the judgement is made that the subject matter information is or is not adequate to support an EER assurance engagement, the non-assurance opportunity for the assurance practitioner extends to advising the preparer on applying more integrated thinking to better integrate business planning and performance throughout the organisation, which will be reflected in future integrated reports.

This is another area where the value of integrated reporting assurance can be central to the future of the assurance profession.

As already mentioned, the ability of the integrated report assurance practitioner to be effective in this area will require a team with broader skills than is the case for financial reporting and sustainability assurance engagements, including being able to exercise appropriate professional judgement in these value adding areas.

Country-Specific Considerations

In Australia, under the new ASX Corporate Governance Council Recommendation 4.3, effective in 2020, listed entities will be:

• required to report on an 'if not, why not?' basis whether they have a process to verify the integrity of any periodic report that it releases to the market that is not audited or reviewed by an external auditor;

• encouraged to use integrated reporting principles as explained in the <IR> Framework in preparing Operating & Financial Reviews, the Australian version of a Management Commentary, which are specifically included in the list of periodic reports covered by Recommendation 4.3; and

• encouraged to obtain external or internal assurance on reports such as the OFR when not already assured or reviewed by the entity's external auditor.

Accordingly, the EERA guidance will be important in Australia as listed entities, and non-listed entities who adopt ASX Corporate Governance Principles & Recommendations as best practice corporate governance, develop their reporting under Recommendation 4.3 and make adoption assertions on that recommendation in their periodic reports to investors.

Other countries adopting integrated reporting through corporate governance codes may find the EERA guidance useful for the same reasons as it will be in Australia.

Arguably, the auditor of financial statements already has some level of responsibility under Auditing Standard ASA 720, *The Auditor's Responsibilities Relating to Other Information*, where management commentaries using integrated reporting principles have been used as the underlying framework, through his or her responsibility for 'other information' included in annual reports containing audited financial statements.

Financial statement auditors will develop a certain level of awareness about internal control over periodic reports released to the market, including management commentary included in the annual report (eg Operating & Financial Reviews in Australia and Strategic Reports in the UK) as they plan and perform their financial report reports, and read and consider the management commentary for material inconsistencies with the financial report.

5. CNCC-CSOEC

Reference 1

Concepts of "looking forward" and "performance"

The guidance addresses the reporting practices as at today. But EER is evolving rapidly. We consider it is essential to understand and consider this evolution and its impact on independent assurance practice and how this could be reflected in the guidance. We therefore recommend the IAASB to consider the cases of assurance on performance and/or on looking-forward statements.

References 2-3

Using the work of experts

Using the work of experts is a common practice in EER assurance engagements. However, paragraph 34 states that "The standard also includes requirements relating to the use of experts or the work of another

practitioner and requesting written representations. These are outside the scope of this guidance." This is not consistent with the chapter 4, applying appropriate skills. We consider that this issue should be clearly addressed in the guidance. The following questions could be considered, e.g. how to use the work of financial auditors, internal auditors and subject matter experts?

Paragraph 25 (preconditions and system of internal control)

We believe fundamental to have clear guidance on the preconditions to assist practitioners. We encourage the IAASB to further explain the work effort implied in the engagement acceptance phase and in reviewing if the preconditions are fulfilled. The IAASB should avoid confusion between the preconditions and the work that has to be performed once the engagement has been accepted. The work effort on the preconditions should be proportionate.

References 4-5

Paragraph 45 (chapter 3) states that the same preconditions need to be present for all assurance engagements, whether limited or reasonable assurance. Paragraph 60 (chapter 6) refers to the standard that requires from the auditor different considerations of internal controls for limited and reasonable assurance. It would be useful to clarify the expectations of the preliminary work for limited and reasonable assurance. Moreover the use of "must" in the second sentence of paragraph 45 is not appropriate in a non-authoritative guidance.

Reference 6

Furthermore, the chart in paragraph 46 that summarized the preconditions set out in paragraph 24 of the standard in seven grey shaded boxes is not clear enough. We are of the view that it should be reordered as follows:

- Engagement has a rational purpose and Practitioner's conclusion is to be contained in a written report
- Preparer's roles and responsibilities are suitable
- Underlying subject matter is appropriate
- Criteria are available
- Criteria are suitable.

In addition, the captions "Engagement has a rational purpose", "Practitioner's conclusion is to be contained in a written report" and "Criteria are available" should be linked with other boxes, that is not the case in the current version of the chart.

Finally, the reference to "this IAEPN" in the legend of the chart is not correct.

50. BARNARD

Reference 1

in relation to Challenge 3: Addressing Materiality for Diverse Information with Little Guidance in EER Frameworks. At that time I commented on: the nature of materiality as both an entity-specific and a user-specific consideration; the need for a principles-based approach to materiality thresholds; and the need for more guidance in this regard.

I fully support your draft guidance on addressing materiality for diverse information with little guidance in EER frameworks.

51. CAATAS

Reference 1

Yes.

The draft guidance adequately addresses the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1 because the scope of the non-authoritative guidance document is only specific aspects of applying ISAE 3000 (Revised) decided as a result of responses to the discussion paper 2 issued by the IAASB ("the 2016 discussion paper") that identified ten challenges where a practitioner may find guidance useful , all ten have been adequately addressed. There may be need to source information in the market if there have been any changes post the 2016 discussion paper given the increase in integrated reporting, sustainability reporting and other reporting by entities about environmental, social and governance matters

52. SCHNEIDER

Reference 1

For the most part, the draft guidance adequately addresses the practitioner's challenges identified for the scope of phase 1

Reference 2

While preparing the assurance report has been allocated to phase 2, I expect that matters will be identified in developing such guidance that will require the development of additional guidance for topics addressed in phase 1. Likewise, cross-references to sections to be developed in phase 2 may be needed in phase 1 sections (for example, paragraph 77 discusses what should not be included in the practitioner's report when the practitioner has not met its responsibilities; this same matter should be included in chapter 13 when developed and a cross-reference added here).

Reference 3

In providing guidance on determining the suitability of criteria (as well as in connection with materiality), it might be helpful to discuss the topic(s) in relation to the collective group of intended users vs. certain intended users, and to clearly articulate that while certain intended users may have more specific interests, that these topics are approached from the collective group perspective.

Reference 4

Additional guidance on forming the assurance conclusion should be included in chapter 12 (as alluded to by paragraph 27). This could be developed in conjunction with the development of chapter 13 on preparing the assurance report in phase 2.

Reference 5

Guidance points

Paragraph 49 states, in part, "However, an assurance engagement may be considered to have a rational purpose if the practitioner's conclusion is designed 'to enhance the degree of confidence of the intended users … about the subject matter information'." Given that all requested assurance engagements typically are intended to do so, this does not necessarily make it a rational purpose. In fact, the consideration points listed later in the same paragraph could contradict such statement.

Reference 6

It is unclear whether the categories of assertions listed in paragraph 177 for EER engagements are any different than those in ISA 315 and, if not, it would be helpful to identify any nuances specific to EER engagements. Further, why is the neutrality characteristic not included here but instead is discussed in the paragraph that follows?

Reference 7

Paragraph 212 states that evidence will be speculative in nature for future-oriented subject matter information but fails to provide guidance as to what the practitioner should do with such speculative-in-nature evidence.

Reference 8

I am concerned with the draft guidance's treatment of certain narrative information as "other information" and whether that is consistent with ISAE 3000 (Revised). For example, if the practitioner is engaged to perform an assurance engagement on an EER report, the subject matter of the engagement would be the EER report. The draft guidance appears to treat narrative information within that report for which there is not suitable criteria as other information; whereas ISAE 3000 (Revised) defines other information as information other than the subject matter information. It, therefore, raises a number of questions about scoping the assurance engagement and how the subject matter information is identified in an EER assurance engagement. Accordingly, I believe that paragraphs 161-163 and the discussion in the second paragraph of the example in paragraph 195 should be revisited.

Reference 9

While ISAE 3000 (Revised) explicitly states that there are other standards for which compliance is required as part of an assurance engagement under ISAE 3000 (Revised), it would be helpful if paragraph 13 emphasized that ISAE 3000 (Revised) requires compliance with other IAASB standards such as the ethical requirements mentioned in paragraph 14. Further, it would be beneficial, and in the public interest, if the guidance explicitly stated that it would be inappropriate to refer to ISAE 3000 (Revised) in manners such as that the engagement was conducted by the assurance practitioner in accordance with internally-developed methodology that is similar to or based on ISAE 3000 (Revised), phraseology that is frequently used by assurance practitioners other than a professional accountant in public practice to get around not complying with such other ethics requirements and to avoid making reference to their noncompliance.

6. HKICPA

Reference 1

In general we welcome the draft guidance which addresses an EER assurance engagement under ISAE 3000 (Revised). We agree that the draft guidance has adequately addressed the challenges for practitioners that have been identified within the scope of phase 1.

Specifically, we suggest expanding or clarifying several examples to adequately address the identified challenges (as mentioned in our response to Question 2).

We also consider additional clarity is needed for certain factors or procedures that practitioners should consider/perform. For example, under paragraph 172, further example or scenario can be included to illustrate the concepts of "assertions at the level of categories" and "level of detailed assertions".

Reference 2

58) As interest in sustainability reporting grows, there is a growing demand for external assurance on sustainability disclosures. Yet, the lack of a single reporting framework to sustainability reporting has been an obstacle to preparers and practitioners. For example, companies listed in more than one stock exchange or operate in multiple jurisdictions are obliged to comply with the sustainability reporting rules of respective exchanges and local regulatory bodies. In practice, it is common that a company prepares its sustainability information with reference to multiple reporting frameworks. We recommend the guidance be expanded on practitioner's considerations when assuring on non-financial information prepared using multiple bases.

Reference 3

59) Chapter 6 of the draft guidance elaborates how the practitioner should consider the entity's system of internal control in an EER assurance engagement. In paragraph 60, it would be helpful if the guidance could explain the extent of consideration required in the acceptance procedures for a new engagement in order for the practitioner to establish whether the preconditions for an assurance engagement are present.

Reference 4

Preparing the Assurance Report

60) Practitioners may be engaged to provide assurance on a single set of non-financial information using multiple assurance standards issued by different standard setters and opine in the same practitioner's report, e.g. ISAE 3000 (Revised) issued by the IAASB and AA1000 Assurance Standard issued by Accountability. We suggest that guidance to be given when the practitioner is engaged to do so.

References 5-6

Quality Control

18. Currently, a range of providers including professional accountants and specialist consultants are providing external assurance or verification of sustainability information. Meanwhile, there is no globally agreed standard for the assurance of sustainability related information.

In Hong Kong, some of the non-accountants assuring on sustainability reports performed the engagements "based on", "with reference to" or "against the criteria of" ISAE 3000 (Revised), but the reports were not properly structured according to ISAE 3000 (Revised) requirements and did not state which independence, ethical and quality control frameworks they have complied with when performing the engagement. This gives rise to creditability issue of such ISAE 3000 (Revised) reports prepared by non-accountants who are outside the monitoring regime of the local CPA regulatory body; users of the reports may be misled to believe that non-accountants have properly applied and complied with ISAE 3000 (Revised) in the reporting as professional accountants do. We suggest the guidance to be strengthened when non-accountants perform EER assurance reporting under ISAE 3000 (Revised), for example, requiring non-accountants to perform additional procedures to enable them to state in their reports that the engagement is conducted in accordance with ISAE 3000 (Revised).

19.   Under paragraphs 69(i) and 69(j) of ISAE 3000 (Revised), if the practitioner is not a professional accountant, the report shall identify the professional requirements that the practitioner applies in respect of quality control, independence and ethics that are at least as demanding as ISQC 1 and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants. We believe the draft guidance should expand the documentation requirements on how the practitioner satisfies the quality control, ethical and independence requirements in the EER assurance engagement as stated in the report.

20.   In case the practitioner is not a professional accountant, we also propose including a statement in the report to state whether he/she is subject to any monitoring regime in his/her jurisdiction. Such disclosure would distinguish the reporting between professional accountant and non-accountant and enable users of the report to assess the objectivity, professional competence etc. of the practitioner.

21.   The practitioner of an EER engagement may not be the same as the statutory auditor of the entity's financial statements. In general, statutory auditors are governed by specific regulatory requirements. While it would be useful for the IAASB to clarify if the practitioner, particularly a non-accountant, conducting an EER assurance engagement under ISAE 3000 (Revised) is expected to have the same level of qualifications as the statutory auditor does, it is probably up to individual standard setters or stock exchanges to get this into their local regulations, e.g. by way of licensing requirements or mandating assurance-providers fulfilling certain qualifications. In addition, as noted in the response to Question 2, an annex to the guidance can be prepared to summarise preparer's role in an EER assurance engagement. In this annex, recommendations can be provided to preparers and even intended users on the required/expected qualification of practitioners, particularly a non-accountant.

Some of the suggestions above would require introducing new requirements to ISAE 3000 (Revised). We encourage the IAASB to review the extant ISAE 3000 (Revised) in light of EER assurance reporting and consider necessary amendments.

7. IDW

Reference 1

We therefore believe that the IAASB seriously needs to consider whether the consultation material ought to be used as educational material for applying ISAE 3000 (Revised) generally, rather than as an IAPN

for EER reporting. This might be achieved by clarifying that the guidance on particular issues may apply only if those issues arise.

There is a high degree of correspondence between the issues identified as the ten key challenges from the discussion paper in 2016 entitled "Supporting Credibility and Trust in Emerging Forms of External Reporting" and the draft guidance for both phases 1 and 2 as contemplated in the proposed scope of the draft guidance as described in paragraph 12 of the Explanatory Memorandum. Since the issues identified in the discussion paper reflect the results of the IAASB's consultation on the issues causing difficulty for practitioners, and phases 1 and 2 in the proposed draft guidance cover these matters, we believe that *the scope* of the proposed draft guidance for phases 1 and 2 ought to adequately address *the scope* of the challenges for practitioners.

However, we have identified two matters that we believe ought to be addressed in the draft that currently are not. The current draft only deals with the consideration of the materiality *of misstatements* in Chapter 12: the draft does not deal with the consideration of materiality in the planning and performance of the engagement, which is also a key consideration in EER engagements – particularly for narrative information – and goes beyond the contemplated treatment of performance materiality in phase 2. The IDW Standard dealing with assurance on the management report addresses this matter because of its importance, and we believe the draft guidance should also cover this.

The second matter not currently covered is, as noted in ISAE 3000 (Revised) paragraph 3 (b), the importance of the practitioner being a member of a firm being subject to ISQC 1 or other professional requirements, or requirements in law or regulation, regarding the firm's responsibility for its system of quality control that is just as demanding as ISQC 1. Ethical requirements are addressed in the draft in paragraph 14 and quality control at engagement level is addressed in paragraphs 20 to 21, but these are all predicated on the application of ISQC 1 by the firm. We believe that because many practitioners from outside the profession are using ISAE 3000 (Revised), the relevance of ISQC 1 needs to be mentioned in the draft guidance.

The extent to which phase 1 *adequately* addresses those matters within the current scope of phase 1 as contemplated by the draft is addressed in our comment letter, the responses to the other questions posed in the consultation paper in this appendix and our comments by paragraph in Appendix 2 to this comment letter.

On the whole, we believe that the draft, including the examples and diagrams, is understandable for readers prepared to make the effort to read it with diligence. The only exceptions are the narrative guidance in paragraphs 177 to 180 of the draft and the guidance in other than the first sentence of paragraph 15 of the Background and Contextual Information. In relation to paragraphs 177 to 180:

22.   The second sentence of paragraph 177 is unclear as to what "*categories of assertions* required by one of the five characteristics of suitable criteria" means given the categories of assertions identified in the list in the first sentence; the second sentence it is unclear what "these" refers to: the suitable criteria, the five characteristics, the assertions, or the categories thereof?

23.   The meaning of paragraph 179 and the example are unclear.

24. Paragraph 180 is unclear as to how considering assertions at different "levels" in a "stand-back" (which is not required in ISAE 3000 (Revised)) relates to the accumulation of misstatements and considering them in aggregate as required by ISAE 3000 (Revised) paragraphs 51 and 65, respectively.

Reference 7

25. **Assertions**. We agree that the term "assertions" should be used in the draft but disagree with how it is used, because the definition in ISAE 3402 (and the exposure draft of ISAE 315 (Revised)) referred to in paragraph 167 confuses **1.** the *actual* representations by the measurer or evaluator, explicit or otherwise, that *are* embodied in the subject matter information, and **2.** the *assertion categories used by the practitioner* to consider the different types of potential misstatements that may occur. In addition, paragraph 168 refers to **3.** the assertions as the many individual representations that are embodied in the subject matter information if the applicable criteria are properly applied, which essentially describes the *detailed required assertions*. Paragraphs 169 to 172 do describe and distinguish these three concepts further in a useful way but could be clearer (some unclarity results from use of the term "assertions" in the three different senses). Unfortunately, thereafter paragraph 173 again confuses the matter by referring to the existing definition, which, as noted, confuses two of the concepts. We recognize the largely appropriate use of "categories of assertions" in paragraphs 174 to 183 thereafter, but this usage is not systematically applied throughout Chapter 9 and the rest of the draft. Since ISAE 3000 (Revised) does not use the concept of assertions, and the definitions in ISAE 3402 and the Exposure Draft of ISA 315 (Revised) confuse two different concepts, we recommend that the draft not refer to the definition in ISAE 3402 or the exposure draft, but describe what assertions are for the purposes of ISAE 3000 (Revised) and the draft through a description thereof and then distinguish that concept through a description of the other two concepts. We suggest using the following terms and related descriptions in a systematic manner throughout the document:

   o *Required assertions*: The many individual representations, implicit or otherwise, that would be embodied in the subject matter information if the applicable criteria were properly applied in measuring or evaluating the underlying subject matter.

   o *Actual assertions*: The representations, explicit or otherwise, actually embodied in the subject matter information through the actual measurement or evaluation of the underlying subject matter by the measurer or evaluator.

   o *Assertion categories* (also termed "*assertions*"): Categories, of the detailed *required assertions*, used by the practitioner to consider the different types of potential misstatements that may occur.

   Chapter 9 would need to be redrafted accordingly.

8. JICPA

References 1-2

1. Determining Preconditions and Agreeing the Scope

We agree that, when planning the form that assurance engagements for EER should take, it is important that everybody should share the same fundamental approach of seeking to improve the credibility of

entire reports. Users of EER employ EER to deepen their understanding of a reporting organization as a whole, including its capacity to create value, its business performance, and its sustainability, and they reflect that understanding in their decision-making. The expectations of information users would not be met if the approach of assurance practitioners was to provide assurance for one extremely limited part of an EER report, while being unconcerned with the remainder of the information.

On the other hand, partial assurance targeting specific indicators, etc., is currently the most common form of EER-related assurance, while assurance of entire reports is not seen in practice. One reason why assurance of entire reports has not become common in practice could be the pragmatic need among preparers and assurance practitioners to limit the scope of assurance for reasons of cost benefit. More often than not, practitioners may decide it is inappropriate to assure an entire EER report because (from an assurance perspective) no appropriate criteria exist with regard to narrative and future-oriented information indicating the perceptions and views of senior management within EER reports, and this presents significant challenges in terms of assurance.

Accordingly, we understand that the intention of the IAASB in drawing up this draft guidance is to provide specific guidance on EER-related assurance engagements to facilitate further developments in practice without imposing excessive restraints, given that assurance of EER is still evolving. However, we believe that the text of the draft guidance itself could fail to convey this intention. This is because the draft guidance is written specifically to address assurance relating to EER reports. In Paragraph 3, for example, it contrasts EER reports with the financial statements that are subject to audits, stating that "EER tends to be more diverse than financial statement reporting." The Consultation Paper also regards assurance of the entire EER report as the norm and, while not precluding "partial assurance," it appears to treat such partial assurance as the exception rather than the rule. Paragraph 56, for example, states, "In circumstances where the proposed scope of the engagement is not an entire EER report..."

Another issue that must be considered is the relationship between financial statements and annual reporting (or annual reports). It is unusual for financial statements to be disclosed on their own; in most cases they are disclosed as part of a more comprehensive report, such as an annual report. Accordingly, auditing standards do not designate the entire annual report as subject to assurance. It is possible, therefore, that the relationship between annual reports and financial statements could also apply to EER reports.

Based on this understanding, we think the best approach would be to address the variety of types of information and user needs associated with EER by providing combinations of assurances covering clearly defined subject matter, while at the same time aiming to improve the credibility of EER as a whole. We believe that guidance based on such an approach would bring consistency to EER-related assurance engagements performed in accordance with ISAE 3000 and contribute to such assurance engagements becoming established practice.

In line with the above perception, we propose changing the structure of the guidance as indicated below.

First, change the overall subject of the guidance from assurance of "EER reports" to assurance of "EER information" (or "EER statements"), or alternatively, to assurance of "information included in EER reports." In addition, the EER information that serves as the subject matter information should itself have some form of subject matter. For example, if the EER information comprises an entity's KPIs, the entity's strategic progress and past results relating to financial condition could be designated as the subject matter. If the information subject to assurance is the corporate governance statement included in EER, the entity's development and use of corporate governance could be designated as the subject matter.

These changes would eliminate the risk of vaguely defined subject matter that arises when an entire EER report is regarded as information subject to assurance. It would also eliminate the resultant risk of compromise with regard to scope, criteria, and internal controls. Thus, an assurance practitioner could confidently provide assurance for a clearly defined subject matter, covering the key assurance requirements of subject matter information, scope of assurance, criteria, and internal controls.

Reference 3

Determining Preconditions and Agreeing the Scope

If "EER information" is to be designated as the subject of assurance, the following points will have to be considered.

(1) The EER information subject to assurance needs to be in a coherent form and clearly identifiable to users of the information. Ideally, the information to be assured should be differentiated as a clearly separate section within the EER report, like financial statements within annual reports (or financial reports), and all information within such a section should be subject to assurance. The preparer might be able to reorganize information subject to assurance into a coherent form, switching sections by cross-referencing with other sections in the report. In any case, it is important that the guidance avoids any risk of misunderstanding by ensuring that information users can clearly identify the scope of information assured. This remains a key consideration even if the structure of the current draft is not changed.

(2) The guidance must be clear that it does not preclude the case where EER information to be assured turns out to be the entire EER report. This is because a practitioner might still give blanket assurance for an entire EER report, depending on how an assurance engagement proceeds in practice. Moreover, specific situations may arise, such as the EER report itself containing only information about the past. We therefore hope that the IAASB will design flexible guidance that is applicable to a broad range of practical situations.

Even when "EER information" is designated as the subject of assurance, consideration of materiality will be important. For example, if the information to be assured comprises KPIs, the decision regarding which KPIs to choose will be crucial. If, however, as described in Paragraph 55, the EER information subject to assurance is too narrow in scope compared with the subject matter of the EER report as a whole, the inclusion of an assurance report in the EER report could mislead information users. For that reason, we believe it would also be advisable to consider the relationship between the subject matter of the EER report as a whole and that of the EER information to be assured.

Reference 4

3. Determining Preconditions and Agreeing the Scope

Within the guidance, the following three chapters are interrelated: Chapter 3, "Determining Preconditions and Agreeing the Scope;" Chapter 6, "Considering the System of Internal Control;" and Chapter 7, "Determining the Suitability of Criteria." Accordingly, we believe that users of the guidance need to understand it as a structural whole in terms of these interrelations.

However, the relationship to Chapter 3 and the related provisions for comparison are not necessarily always clearly indicated. For example, the provisions relating to decisions on acceptance of an engagement in Paragraphs 122 and 123 of Chapter 7, "Determining the Suitability of Criteria," relate to Chapter 3, "Determining Preconditions and Agreeing the Scope." In this case, as in other cases, the

extent to which the suitability of criteria needs to be determined at the stage of determining preconditions and agreeing the scope is not explained.

To enable this guidance to be understood as a structural whole, we believe it is necessary to take steps to that end, such as making the interrelationships among Chapters 3, 6, and 7 clear, and adding plenty of cross-references to comparable provisions.

Reference 5

4. Considering the Entity's "Materiality Process"

We understand that the diagram illustrating likelihood of occurrence and magnitude of effect in Paragraph 153 uses likelihood of occurrence and magnitude of effect only as examples of what a practitioner might take into consideration when judging an entity's process of determining materiality. However, the inclusion of such a diagram could be misunderstood to indicate that a standard approach is required, raising the concern that a practitioner may in practice fail to make a judgement aligned with the preparer's own process of determining materiality. We agree with the inclusion of wording stating that likelihood of occurrence and magnitude of effect should be taken into consideration to understand an entity's process of determining materiality and to determine the appropriateness of that process, but we believe it would be advisable to omit the diagram.

5. Considering the Entity's "Materiality Process"

Chapter 8 explains that materiality should be determined from the perspective of intended users. In practice, however, when determining material issues to include in EER, preparers are likely to consider not only whether certain information would assist intended users in their decision-making, but also how the preparer itself should fulfill its duty of accountability with regard to the subject matter, and which matters it ought to communicate to intended users. Accordingly, we consider it advisable to mention that for those performing assurance engagements, likewise, it is worthwhile when considering an entity's process of determining materiality to take into account not only whether certain information would assist intended users in their decision-making, but also whether information relates to matters that the preparer believes it is required to communicate.

Reference 6

Chapter 7, "Determining the Suitability of Criteria," and Chapter 8, "Considering the Entity's 'Materiality Process'"

An entity's process of determining materiality as indicated in Paragraphs 147 to 154 is related to whether or not the scope of EER preparation as specified in the criteria is appropriate, as well as to the steps to be undertaken in accordance with Chapter 7, "Determining the Suitability of Criteria." However, the guidance does not make these interrelations clear. To enable this guidance to be understood as a structural whole, we believe it is necessary to clearly indicate the connections between Chapter 7, "Determining the Suitability of Criteria" and Chapter 8, "Considering the Entity's 'Materiality Process'" by, for instance, adding cross-references to related provisions.

References 7-8

7. Assuring Narrative Information

Paragraph 197 explains about neutrality of narrative information, and it is assumed that it will often be impossible to undertake an assurance engagement in cases where clear criteria regarding the neutrality of narrative information have not been established. We believe this point needs to be made clear in Chapter 10.

8. Considering the Materiality of Misstatements

In connection with the materiality of misstatements, Paragraph 219 (b) gives the example of a fine, but the wording appears to refer to determining the materiality of the regulatory non-compliance itself, rather than the materiality of a related misstatement. We believe the wording should be changed to make it clear that this refers to an example of misstatement during disclosure related to regulatory compliance by, for example, starting with the phrase, "Misstated information regarding an instance..."

9. MAASB

Reference 1

The draft guidance does comprehensively address the challenges for practitioners that have been identified as within the scope of the draft guidance. Nevertheless, we wish to highlight the following for the IAASB's consideration:

Reference 2

f)   Materiality:

- The consideration on how materiality should be applied by the practitioner on large scale engagements involving components with multiple locations, sites and entities with cross-border operations.

- Practical guidance on practitioner's selection and setting up of the materiality would be helpful. (Chapter 12)

Reference 3

g)   In evaluating the Suitability of Criteria as stated in paragraph 88 of the draft guidance, it may be challenging for a practitioner to identify if the criteria exhibit all five characteristics, specifically, completeness. Further procedures on how to address this will be helpful.

Reference 4

h)   In "Preparing the Assurance Report" chapter which will be developed in Phase 2, we recommend that the practitioner's work be specifically stated as covering only the specified items in the report and does not cover other non-material items that has been disclosed.