Extended External Reporting (EER) Assurance Consultation Paper– Question 4

Question 4 of the consultation paper for EER Assurance asked respondents:

Do you agree that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised), and that the draft guidance does not introduce any new requirements?

10. NBA

Reference 1

- The guidance is quite lengthy, especially with the outcome of phase 2 adding up. As a result the guidance may be less accessible in practice and the impression may arise that the guidance is prescriptive rather than a tool for further assistance.

- 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

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 2

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,

Prepared by: Pauline Irwin (September 2019)

which does raise challenges in whether the assertions described in the draft guidance are sufficiently broad to remain framework neutral.

12. BDO

Reference 1

We agree that the draft guidance does not contradict or conflict with the requirements of ISAE 3000 (Revised) and that the draft does not introduce any new requirements (paragraphs 19-21, 24, 26 and 36).

13. CG

Reference 1 - 6.78% Coverag

Do you agree that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised), and that the draft guidance does not introduce any new requirements?	In our view the draft guidance is consistent with ISAE 3000 (Revised).

14. DTT

Reference 1

DTTL agrees that the draft guidance is generally consistent with the requirements or application material in ISAE 3000 (Revised). DTTL has provided commentary and recommendations regarding certain terminology (i.e., assertions, topics, categories, subject matter elements, and materiality process) within the responses to **Question 1** and **Question 2**.

References 2-3

Paragraph 45 of Chapter 3 discusses the concept that suitability is not affected by the level of assurance. The example included in paragraph 45 states "for criteria to be suitable in a limited assurance engagement, the practitioner must be able to determine that they would be suitable in a reasonable assurance engagement." DTTL believes that this example appears to go beyond the related guidance in paragraph A10 of ISAE 3000 (Revised) and should be reworded to align with the ISAE 3000 (Revised).

> 45. The same preconditions need to be present for all assurance engagements, whether limited or reasonable assurance is being obtained. For example, ~~in order for the criteria to be suitable in a limited assurance engagement, the practitioner must be able to determine that they would be suitable in a reasonable assurance engagement~~ **the suitability of criteria is not affected by the level of assurance, that is, if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement.**

15. EYG

Reference 1

Sufficient conditional language is utilized (e.g. may) to reduce the risk that the guidance could contradict or conflict with the Standard (i.e. we did not identify any stated new requirements). However, the nature and volume of guidance for certain topics, including certain of those that are not addressed in the

Standard, may infer a level of work effort to achieve the requirements in the Standard that we believe is inappropriate or unnecessary. Specifically:

- The guidance elaborates quite extensively on the preconditions for accepting an engagement and is, in many cases, appropriate to assist assurance practitioners.   However, we believe this guidance significantly overstates the effort to assess the suitability of criteria and to understand the preparer's internal control before the practitioner is engaged. We believe that efforts are needed to provide a proper balance between the procedures that are relevant during the engagement acceptance stage and those during the performance of the assurance engagement.   More specifically:

  o   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, on the basis of a preliminary knowledge of the engagement circumstances and discussion with the appropriate party(ies), 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).

  o   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.

  o   As noted in our response to Q1, we do not believe it is practical or feasible for the practitioner to obtain an acknowledgement from the intended users that the entity's developed criteria are suitable for their purposes. In the vast majority of engagements, it is likely adequate to obtain acknowledgment from the engaging party that the criteria are suitable for the intended users' purposes.

- 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.

- 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.

16 GTI

Reference 1

- The proposed guidance is focused on a controls-based approach to performing reviews. We would recommend that examples of substantive procedures are also included.

17. KPMG

Reference 1

We understand that the IAASB does not intend to re-open ISAE 3000 (Revised) to incorporate new requirements, however, we highlight that certain concepts extend beyond those set out in ISAE 3000 (Revised) and may be interpreted as creating new requirements, e.g. in respect of the material regarding understanding of internal control, as well as the introduction of the concept of assertions. We recommend, therefore, that the Guidance Document explicitly state that its intended purpose is to provide guidance regarding the application of ISAE 3000 (Revised), and clarify that it does not establish new requirements that are above and beyond those set out in ISAE 3000 (Revised).

Reference 2

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.

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.

Reference 3

We understand that the IAASB does not intend to re-open ISAE 3000 (Revised) to incorporate new requirements, however, we highlight that certain concepts extend beyond those set out in ISAE 3000 (Revised) and may be interpreted as creating new requirements, e.g. in respect of the material regarding understanding of internal control, as well as the introduction of the concept of assertions. We recommend, therefore, that the Guidance Document explicitly state that its intended purpose is to provide guidance regarding the application of ISAE 3000 (Revised), and clarify that it does not establish new requirements that are above and beyond those set out in ISAE 3000 (Revised).

References 4-5

The guidance is non-authoritative and therefore we do not believe it contradicts or conflicts with the content of ISAE 3000 (Revised). Instead it includes material that complements and, where necessary, supplements aspects of ISAE 3000 (Revised), such as the use of terms including "elements" and "qualities", but without introducing additional requirements.

As we note in our response to Question 2, we recommend that the Guidance Document explicitly state that its intended purpose is to provide guidance regarding the application of ISAE 3000 (Revised), and clarify that it does not establish new requirements that are above and beyond those set out in ISAE 3000 (Revised).

Reference 6

We agree with this approach, since the document is designed to address specific challenges in application of ISAE 3000 (Revised) and therefore necessarily will include content not specifically set out in the standard.

18. MZS

Reference 1

§ 19-21 relationships with ISAE 3000 revised

- The guidance is quite lengthy, especially with the outcome of phase 2 adding up. As a result, the guidance may be less accessible in practice and the impression may arise that the guidance is closer to a new standard.

- We recommend not to introduce new terms that could be perceived as new concepts

§ 24 & 26 (linking the preconditions and the system of internal control)

- No further comments

§ 36 assertions

- No further comments

19. PwC

Reference 1

Relationship with ISAE 3000 (Revised)

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 2-3

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).

Lastly, given materiality is already a commonly understood concept for practitioners in the context of an assurance engagement, it may be more helpful to avoid using this term in describing the entity's process. Referring to considering the entity's "scoping" or "basis of preparation" process may limit the potential for confusion with the existing concept.

2. CFC

Reference 1

Answer: We would like to provoke a reflection on this question: Whether the guidance does not introduce any new requirements how can it point to a better targeting for the audit procedures of these reports?

Reference 2

Would it not be better to narrow the scope of the project by focusing on a more effective and targeted approach to the audit of integrated reporting?

20. GAO

Reference 1

We are not providing comments responding to this question.

22. AE

Reference 1

There are instances in the guidance where it can be interpreted that the guidance is providing 'best practice' which we do not believe is the intention. For example, using words such as 'desirable', 'should' and similar, could give the impression that the proposed approach is 'best practice' when the intention is rather to assist the practitioners with the application of the standard.

Reference 2

Paragraphs 24 and 26 (linking the preconditions and the system of internal control)

No further comments.

Paragraph 36 (assertions)

No further comments.

23. AICPA

Reference 1

Materiality of Misstatements in the Aggregate

Paragraph 222 of Chapter 12, "Considering the Materiality of Misstatements," discusses accumulating misstatements, and states, in part, "After considering misstatements individually, the practitioner may need to consider misstatements in combination with others." We believe that the guidance should state that the practitioner should (not may) consider misstatements in the aggregate because paragraph 65 of ISAE 3000 requires the practitioner when forming a conclusion to evaluate whether uncorrected misstatements are material, individually or in the aggregate. Paragraph 222 also appears to conflict with paragraph 226 of chapter 12 which sites the requirement in paragraph 65 of ISAE 3000.

Reference 2

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.

25. ASSIREVI

Reference 1

We support the proposed structure of the draft guidance.

We believe that the division into chapters (and sections of chapters) dealing with the main aspects of an ISAE 3000 (Revised) engagement enhances clarity and easy to use of the guidance. We agree with the inclusion of Chapter 2 which gives an overview of an entire EER assurance engagement and facilitates practitioners in performing effective EER assurance engagements.

Reference 2

In our evaluation Sections of the Draft Guidance regarding internal control and materiality is not fully aligned with ISAE 3000 (Revised) as explained here below.

26. CPAA

Reference 1

- Although the guidance is based on the requirements of ISAE 3000 (Revised), there is not strict alignment between ISAE 3000 (Revised) and the guidance

28. EFAA

Reference 1

The guidance should not introduce new requirements but at times gives that impression. Hence, there is merit in the guidance clarifying that it is not intended to introduce any further requirements beyond those in ISAE 3000. All

Reference 2

Additional requirements might create additional and unnecessary barriers to accepting the EER engagement.

Reference 3

The guidance includes detailed explanations whether the preconditions for an assurance engagement are present, for example on the suitability of criteria. These seem to go beyond the requirements in ISAE 3000. Similarly, the explanations for assertions and use of external experts are articulated as though requirements. Therefore, we suggest reformulating the text to be clear they are simply explanatory rather than a (new) requirement.

29. FACPCE

Reference 1

Q4) Do you agree that the draft guidance does not contradict or conflict with the requirements or application material ofISAE 3000 (Revised), and that the draft guidance does not introduce any newrequirements?	Paragraphs 19-21 (relationship with ISAE 3000 (Revised)) Paragraphs 24 and 26 (linking preconditions and the system of internal control) Paragraph 36 (assertions)	We have not identified any contradiction or point of conflict with the established of ISAE 3000 (Revised).

3. IRBA

References 1-2

- On the whole, we agree that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised), and it does not introduce any new requirements.

- However, a few paragraphs could be better worded in order to remove any unintended contradictions. For example, paragraph 129 includes the word "needs", which implies a requirement. This is not a requirement as the "materiality process" is not a concept included in ISAE 3000 (Revised). We recommend that the IAASB reviews the content to ensure that no new requirements are unintentionally introduced.

30. FAR

Reference 1

- FAR would expect that a guidance that is specifically to instruct the audit profession on ISAE 3000 and within the sustainability area would also refer to ISAE 3410. Has the consultation taken ISAE 3410 into consideration? If so, FAR recommends that the guide also makes reference to this standard. In addition, on climate-related matters FAR believes that under 149 (f) the example could be complemented with Climate Change-related financial disclosure.

Reference 2

- With regard to assurance strategy, the guidance is focused on a control-based review approach. FAR's experience is that the control environment is often less mature for the sustainability information than for financial information. FAR therefore recommends that guidance on substantive based procedures related to sustainability items is to be included.

31. FSR

References 1-2

Overall yes. Whist the guidance is non-mandatory, it is not clear (p. 5, item 3) if it is recommended to refer to the guidance if it has been applied as part of the assurance engagement. We recommend that this is made clear in the final guidance.

32 GRI

Reference 1

- The incorporation of assertions into this guidance introduces new concepts, as does 'materiality process' and it needs to be very clear that these are not included in ISAE 3000 and are not therefore required by practitioners. However, on balance, we do find these helpful to provide more practical guidance.

33. IAAA

Reference 1

A.   Yes, we agree with both statements. We do not find any contradiction or conflict with the requirements or the application material of the current ISAE 3000 (revised), the guide does not eliminate or modify any aspect of the ISAE considered, nor do we find new requirements different from those already contained in the aforementioned ISAE .

36. ICAEW

Reference 1

- Yes, we are not aware of specific conflicts with ISAE 3000 (Revised) or any new requirements being introduced. However, where new concepts have been introduced that are not included in ISAE 3000 (Revised) we believe that is appropriate to make this very clear in the guidance and to make sure that practitioners are in no doubt that these do not constitute new requirements.

37. ICAG

Reference 1

Yes, we agree that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000. There are no **new requirements or removal/change in requirements**. Chapter six gives more detailed guidance on the system of internal controls including entity's governance and does not conflict with ISAE 3000. The new draft guidance has been spelt out in details.

There has not been any new requirement introduced in the draft guidance. Examples of key areas noted to be similar include:

- Ethical requirement

- Quality control

- Engagement acceptance

- Agreeing terms of engagement

- Planning engagement

- Obtaining evidence

- Materiality

- Criteria

There are however matters not covered in ISAE 3000 that are helpful to the practitioner and addressed in this guidance. For example, incremental guidance to the pre-conditions for audit such as considering internal controls, whether the preparer has reasonable basis for subject matter information, whether the practitioner is able to obtain sufficient appropriate evidence, and the use of assertions. The draft guidance supports or enhances the requirements or application material of ISAE 3000 (Revised).

38. ICAS

Reference 1

As previously stated, it is vital that no new concepts are introduced within the guidance that do not already exist within the current ISAE 3000 and we would refer you to our response to question 1d in this regard.

39. ICPAU

Reference 1

COMMENT:

ICPAU agrees that the draft guidance doesn't contradict or conflict with the requirements or application material of IASE 3000 (Revised).

4. AUASB

References 1-2

The following key points are raised with respect to the draft guidance complementing ISAE 3000 (Revised) requirements and application material:

- **Assertions:** The AUASB supports the inclusion of the use of assertions, even though ISAE 3000 (Revised) does not deal with assertions. This support is based on consideration that the draft guidance may give rise to some useful examples to assist assurance practitioners in their application of professional scepticism.

- **Broad Range of Subject Matter:** ISAE 3000 (Revised) is too broad to cover assertions related to the full range of subject matter information, however ISAE 3410 *Assurance Engagements on Greenhouse Gas* Statements addresses assertions. While the AUASB does not consider draft guidance on assertions contrary to the assurance framework or requirements generally, it does acknowledge that EER still covers a broad range of subject matter. This wide scope raises challenges regarding whether or not the assertions described in the draft guidance are sufficiently broad to remain framework neutral.

40. IPA

Reference 1

As noted in our response to Questions 1and 2, the IPA believes the proposed guidance should be incorporated directly in ISAE 3000 and its associated application guidance. In particular, the absence of any mention of assertions in ISAE is problematic, as all assurance engagement are undertaken in the context of providing assurance in the context of the applicable assertions. Assertions need to be addressed.

42. MICPA

Reference 1

> **MICPA's Comments:**
>
> Yes, MICPA agrees that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised), and that the draft guidance does not introduce any new requirements.

43. NASBA

Reference 1

We believe that there are contradictory and new requirements introduced in the draft guidance as compared to ISAE 3000 (Revised), specifically in considerations of internal controls.

Paragraph 47a(iii) seems to imply that if the subject matter information is not "appropriately supported by related aspects of the entity's system of internal control", then the practitioner cannot perform the engagement. However, could the practitioner perform the engagement and issue a qualified or adverse report? ISAE 3000 (Revised) discusses internal control as a part of engagement planning and not as engagement preconditions.

The emphasis on considerations of internal control as preconditions of engagement appears contradictory to the guidance provided for the overall engagement strategy in paragraph 78 which states that "where the practitioner is unable to tests controls, expects that the controls are not operating effectively, or is not cost-efficient to test controls, the practitioner may adopt a fully substantive approach."

Chapter 6 of the draft guidance provides details on considerations of the system of internal control and that these considerations may assist the practitioner in establishing whether preconditions for an

assurance engagement are present. Paragraph 61 states that: "Having a highly sophisticated or developed system of internal control is not a precondition for an assurance engagement." Is the precondition that the subject matter information must be appropriately supported by aspects of the entity's system of internal control?

44. PAIB

Reference 1

We agree that the guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised) and does not introduce any new requirements.

45. SAICA

Reference 1

- SAICA is satisfied that the Draft Guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised). We have also not noted any new requirements that have been introduced in the Draft Guidance.

46. SASB

Reference 1

We will hold our comments until the Phase 2 consultation process.

47 WICI

Reference 1

Paragraphs 19-21 at p. 8 (relationship with ISAE 3000 (Revised))

- We do not agree that the draft guidance does not contradict with the ISAE 3000 (Revised). This standard is considered by many professionals as 'too generic' and, accordingly, able to 'accommodate' any standard or framework. While we do understand that the guidance should be somehow in line with the above standard, we also think that an effort towards taking into account specificities of the different forms of reporting should be made.

48. WPK

Reference 1

There are some instances where we have identified **inconsistencies** between ISAE 3000 and guidelines: For example Para. 75 of the Guidelines

*"Where the practitioner establishes that the preconditions for an assurance engagement are not present, they **may** discuss this with the potential engaging party (management or those charged with governance). If changes cannot be made to meet the preconditions, the practitioner is **not permitted** to accept the engagement as an assurance engagement".*

Compared to Para. 25 of ISAE 3000:

*"If the preconditions for an assurance engagement are not present, the practitioner **shall** discuss the matter with the engaging party. If changes cannot be made to meet the preconditions, the*

practitioner **shall not** accept the engagement as an assurance engagement unless required by law or regulation to do so."..

These inconsistencies should be avoided due to the fact that the "*may*" and "*shall*" are differently interpreted and translates in different jurisdictions. "*Not permitted*" does not correspond to "*shall not*".

References 2-3

We agree with the way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised). It must be ensured that **no new requirements** are created.

The Explanatory Memorandum of the Consultation Paper states that the draft guidance does not introduce any further requirements beyond those in ISAE 3000 (Revised) and does not remove or change any of the requirements or application material in ISAE 3000 (Revised).

Para. 7 of the Guidelines states

> *"as it is non-authoritative, this guidance does not introduce any further requirements beyond those in ISAE 3000 (Revised). Similarly, none of the contents of this guidance remove or change any of the requirements or application material in ISAE 3000 (Revised)."*

To emphasize that this guidelines does not introduce new requirements and to avoid that new requirements will be introduced in the future, IAASB should clarify that it is **not intended** to introduce any further requirements beyond those in ISAE 3000. In the contrast: IAASB intends to help the practitioner in applying ISAE 3000 and to enhance the degree of confidence of the intended users in such services.

However, the wording of the Guidelines sometimes suggests that new requirements should be created. With regard to **assertions** it is stated in Para. 29 of the guidelines

> *"In designing procedures, the practitioner may find it helpful to use assertions to consider the different types of potential misstatements of the information that may occur …".*

Para. 165 of the guidelines adds that

> *"Assertions are a tool that may be used by a practitioner in performing risk assessment procedures and to assist in designing assurance procedures to obtain evidence about whether the subject matter information has been prepared in accordance with the criteria, or is misstated".*

We admit that assertions are a widely-used tool in assurance engagements and agree that 'building' assertions was a key challenge for practitioners in relation to EER. However, this is not required in ISAE 3000. This should be made clearer.

5. CNCC-CSOEC

Reference 1

There are instances in the guidance where it can be understood that the guidance is providing 'best practice' which we believe is not the intention. For example, using such words as 'desirable', "should" and similar words can give the impression that the proposed approach is best practice to be applied. When the intention is rather to assist the practitioners with the application of the standard.

51. CAATAS

Reference 1

Yes.

We agree that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised). The draft guidance is in line with the project's scope and does not remove or change any of the requirements or application material in ISAE 3000 (Revised). The draft guidance does not introduce any new requirements but clearly explains matters not addressed in ISAE 3000 (Revised) i.e. 'materiality process' and whether or how to use assertions, it is understandable that the IAASB agreed these were areas of challenge for practitioners in light of responses to the 2016 discussion paper.

52. SCHNEIDER

Reference 1

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.

6. HKICPA

Reference 1

We agree that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised) and does not introduce any new requirements.

7. IDW

References 1-2

We refer to the comments made in our response to Question 2 that the following terms are being used in a manner that conflicts with the use of those terms in ISAE 3000 (Revised):

- *Relevance* vs. *materiality*

- *Relevant vs. assist decision-making by intended users*

- *Relevance vs. reliability*

- *Substantive approach* and *substantive procedures*

- The use of the verb*s evaluate, review or confirm* vs. *consider* and *determine*

In relation to the second, third and fifth bullet points, to be helpful we identify the instances of inappropriate use of these terms in Appendix 2, which contains our comments by paragraph.

We also believe the draft guidance contradicts or conflicts with the requirements or application material of ISAE 3000 (Revised) or appears to introduce new requirements in the following instances:

- **Paragraph 48** appears to be setting a requirement beyond those contemplated in ISAE 3000 (Revised). The paragraph states that "identifiable underlying subject matter means that the subject matter elements are well-defined and distinct from other things". ISAE 3000 (Revised) requires the underlying subject matter to be identifiable, which means it can be distinguished from other matters, but ISAE 3000 (Revised) does not require, nor does ISAE 3000 (Revised) imply, that aspects of that underlying subject matter (subject matter elements) need to be identifiable as a prerequisite for an assurance engagement. Whether aspects (subject matter elements) need to be identifiable depends upon whether the underlying subject matter can only be measured or evaluated through its elements. The example following paragraph 48 is not really helpful because it supports the need for the underlying subject matter (green house gas emissions) to be identifiable – not necessarily any elements thereof. We suggest that paragraph 48 be revised so that it does not suggest a requirement or prerequisite for an assurance engagement that may not always be necessary. The example may need to be changed accordingly.

- **The fourth sentence of paragraph 49** appears to be setting a requirement beyond ISAE 3000 (Revised). The fourth sentence suggests that an enhancement of the degree of confidence about the subject matter information needs to be logical, coherent and appropriate in the engagement circumstances: the fourth sentence appears to use a "shotgun approach" to concepts, since being "appropriate in the circumstances" cannot be fulfilled if being logical and coherent is not. Furthermore, being appropriate in the circumstances is not really helpful guidance. For these reasons, we believe this sentence can be deleted without any impairment of the meaning of this paragraph.

- **The final sentence in paragraph 49 and the following example** conflict with the application material in ISAE 3000 (Revised). The final sentence suggests that the examples stem from paragraph A56 of ISAE 3000 (Revised), when in fact some of the text stems from paragraph A7. The wording of the examples also appears to mix the wording from paragraphs A7 and A56. We recommend that the wording in the examples clearly distinguish between those matters that relate to the meaningfulness of the level of assurance (from paragraph A7) and those that relate to other matters (such as scope as described in the third-last bullet point) concerning a rational purpose (from paragraph A56). To this effect, the wording in each of the examples should be closer to that in each of A7 and A56 of ISAE 3000 (Revised).

- **The second sentence of paragraph 82** posits that the purpose of suitable criteria is to have their application result in information that assists decision-making by intended users, which is not in line with ISAE 3000 (Revised). The description of the characteristics of suitable criteria in ISAE 3000 (Revised) only relates relevance to assisting decision-making by intended users, completeness to the omission of relevant factors to the affect on decision-making by intended users, and understandability to understanding by intended users. Unlike some financial reporting frameworks, such as IFRS, assisting decision-making by intended users as defined in that context may not be the objective of every EER report (it could be, for example, stewardship, or another objective). ISAE 3000 (Revised) was purposely silent on what the underlying objective of the criteria as a whole might be. Consequently, the phrase in the second sentence beginning with "resulting information …" should be deleted.

- **The diagram below paragraph 89** appears to add a requirement that practitioners must "confirm" that criteria will not result in subject matter information or an assurance report that is misleading. Rather, paragraph 41 of ISAE 3000 (Revised) requires that practitioners determine whether the criteria are suitable in accordance with 24 (b) (ii) and then paragraph A50 alerts practitioners that if criteria are specifically designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement, those criteria are not suitable if they result in subject matter information or an assurance report that is misleading to intended users. This means that there is no additional "confirm whether the criteria will result in subject matter information or an assurance report that is misleading" step envisaged by ISAE 3000 (Revised). Rather, in certain circumstances, like the one mentioned in paragraph A50, practitioners may need to be aware that the criteria may result in subject matter information or an assurance report that is misleading and act accordingly when they become aware of such situations.

- **Paragraph 102** is not in line with the meaning of materiality as described in ISAE 3000 (Revised) because it confuses the term, which is described in relation to misstatements, with relevance. Factors that should not be omitted because they "affect decisions of intended users" means that relevant factors need to be included so that the criteria are complete. The word "material" therefore should be replaced with "relevant". Furthermore, the description of completeness speaks of "relevant factors", not "all relevant factors", so the word "all" should be deleted from **paragraph 103**.

- **Paragraph 105** sets requirements that are not in ISAE 3000 (Revised), that upon closer examination are not appropriate, and deals with issues about relevance that belong in the section on relevance – not in the section on reliability. The paragraph states that subject matter information can be sufficiently accurate if it is as precise as possible, results from applying a well-defined process without undue error, and if it includes information about the inherent limitations in its precision. First, subject matter information does not need to be as precise as possible: it needs to be as precise as required to be relevant. Second, even if a process is not well-defined, a practitioner may be able to repeat the measurement reasonably consistently using another process, so having a well-defined process is only needed if the same process needs to be repeated. Third, the reference to undue error is superfluous since error is covered by precision. Fourth, information about inherent limitations in precision only needs to be provided if those inherent limitations are relevant. We also note that although the paragraph distinguishes accuracy from precision, the paragraph does not explain what the difference is. The paragraph also contradicts itself in that it equates the necessary degree of accuracy with freedom from error in one sentence and then makes lack of undue error a component of accuracy in the next. Overall the paragraph should have linked the concept of "*reasonably* consistent" to relevance and then provided this additional guidance on relevance in the section on relevance. In line with the comments on paragraph 105, the example after paragraph 105 also needs to replace "as is reasonably possible" with "as needed to be relevant".

- **The second sentence of paragraph 107** sets a requirement beyond ISAE 3000 (Revised) for underlying data and source information to be sufficiently accurate and complete for it to be collected and processed in a manner that is neutral and maintains its integrity (in fact, the sentence thereafter identifies this as a "requirement"). To avoid writing a requirement, assertions about underlying data and source information need to be phrased in terms of the impact of the nature and extent of these on the ability to prepare an EER report using criteria that meet the characteristics of suitable criteria. In this vein, the sentence also appears to be addressing the neutrality of a process, rather than of the information, as set forth by the characteristic of suitable criteria neutrality and

addresses the maintenance of integrity of the data and information as part of that process. Furthermore, sufficient accuracy relates to relevance – not reliability, and should be treated in the section on relevance, just as completeness relates to the completeness characteristic.

- **Paragraph 108** misinterprets the description of neutrality in ISAE 3000 (Revised) by stating that neutral criteria would normally be designed to cover both favorable and unfavorable aspects. The description of neutrality purposely includes a phrase not included in the other descriptions of characteristics "as appropriate in the engagement circumstances" because some assurance engagements may be focussed only on certain negative or positive aspects and in this case the criteria are not designed to be neutral overall, but only neutral in respect to the matter at hand, which itself may not be neutral. Consequently, the sentence would need to clarify that for EER reports not designed to cover only certain favorable or unfavorable aspects as needed by and agreed with users (e.g., special purpose EER reports), neutral criteria are ordinarily designed to cover both favorable and unfavorable aspects.

- **The diagram after paragraph 130, as well as paragraph 134 and the example after paragraph 157**, appear to be adding a requirement. These paragraphs address having the practitioner answer the question whether the preparer's "materiality process" was effective in identifying topics and related elements, information about which is "relevant" (paragraph 134 actually takes this further by stating that the practitioner considers the direction on materiality considerations in the EER Framework "to determine whether the process undertaken by the preparer is appropriate"). While the practitioner's actions in relation to the decision on the effectiveness of the process are couched in terms of a "suggested process for a practitioner" (paragraph 130) or a key judgement that a practitioner may make (paragraph 157), the emphasis on deciding on the effectiveness of the process, rather than on the outcome of the process (the suitability of the criteria), together with the use of the term "to determine whether the process… is appropriate" in paragraph 134 would lead readers to conclude that this decision or determination on the effectiveness or appropriateness of the process is effectively required and that this might involve some form of testing of the operating effectiveness or appropriateness of the process. Based on ISAE 3000 (Revised), which only requires a determination of the suitability of the criteria, "considering the process so as to obtain an understanding as to how the criteria were developed" (with the words as we suggest here, as opposed to determining the appropriateness of effectiveness of the process, which suggests some form of tests of control) is a step that is only needed to the extent that the practitioner is not able to determine the suitability of the criteria without such consideration: this needs to be absolutely clear in the draft. The noted paragraphs and diagram need to be amended accordingly.

- **Paragraph 158** appears to set an additional requirement through the use of the present tense phrase "in doing so the practitioner uses professional judgement and professional skepticism to evaluate the preparer's decisions". In addition, the wording suggests that an "evaluation" is required (even though, as we point out in our comments on paragraphs 130, 134, and 157, it is not) and the use of the term "evaluate" as defined in the IAASB Glossary of Terms may involve the performance of procedures to form a conclusion, whereas applying the practitioners mind and therefore the use of the word "consider" suffices. This paragraph should be amended accordingly.

- **Paragraph 180 appears to be suggesting** that there may be a requirement that the practitioner may need to design procedures to "stand back" and consider potential types of misstatements of the EER report as a whole, even though each individual item of information in the EER report is not materially misstated, individually or in aggregate (see our response to Question 2 on the difficulty in

distinguishing misstatements in aggregate from the "stand-back"). In our view, there needs to be a clear distinction between those EER frameworks that require some form of "fair presentation" (in the sense of a "fair presentation framework" as defined in ISA 200 and also addressed in ISAE 3000 (Revised) paragraph A182) so that even if there are no misstatements of the individual pieces of information, both the preparer and the practitioner are required to determine whether the EER report as a whole is materially misstated, and those EER frameworks that are "compliance frameworks" (as defined in ISA 200 and addressed in ISAE 3000 (Revised) paragraph A182), for which such an evaluation of "fair presentation", beyond the practitioner's consideration under the IESBA Code as to whether the practitioner is being associated with an EER report that is misleading, is not relevant.

- **Paragraph 208** appears to be adding a requirement beyond ISAE 3000 (Revised) by stating that good disclosure of assumptions and the context of subject matter information "is" necessary. We suggest changing "is" to "may be".

- **Paragraph 217 and the diagram above paragraph 216** of the draft are both not in line with the requirement in paragraph 65 of ISAE 3000 (Revised). In particular, both paragraph 217 and the diagram refer to a "detailed" materiality consideration. The use of the word "detailed" suggests that something more detailed needs to be done than what paragraph 65 of ISAE 3000 (Revised) requires. In addition, paragraph 217 appears to suggest that further consideration of uncorrected misstatements is not required by using the words "may need to undertake a more detailed consideration", when in fact paragraph 65 of ISAE 3000 (Revised) requires an "evaluation" of the materiality of uncorrected misstatements. Paragraph 217 and the diagram should be amended accordingly.

- **Paragraph 218 (in the third sentence)** appears to be setting a definition of materiality even though ISAE 3000 (Revised) – like ISA 320 – does not define materiality, because if materiality is defined by the criteria (or, in the case of financial statements, the financial reporting framework), then that definition should be used (we note, in particular, that IFRS and US GAAP now have definitions of materiality that are not consistent with each other) unless the practitioner determines on the basis of persuasive grounds that the definition is not appropriate in the circumstances. The description in paragraph A94 is application material that needs to be applied when the criteria do not define materiality or that definition is inadequate. The way paragraph 218 is written, it suggests that the definition is always applicable, which was not intended when ISAE 3000 (Revised) was written. Furthermore, the sentence thereafter suggests that "influence relevant decisions" means that users make a "different decision". A decision may be influenced in terms of the basis for the decision being changed even though the decision itself is not. We therefore recommend that paragraph 218 provide a more fulsome discussion of situations where the criteria define materiality and the role of the description in paragraph A94 of ISAE 3000 (Revised) and not equate influencing a decision with changing a decision.

- **The first sentence of paragraph 222** suggests, through the use of the words "may need to consider", that evaluating uncorrected misstatements in combination with others is not required by ISAE 3000 (Revised). In fact, paragraph 65 of ISAE 3000 (Revised) requires the "evaluation" of such misstatements individually *and in aggregate*. We suggest that the first sentence of paragraph 222 be amended accordingly.

8. JICPA

Reference 1

We agree that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised), and that the draft guidance does not introduce any new requirements.

9. MAASB

Reference 1

In general, we agree that the draft guidance, may not contradict or be in conflict with the requirements or application material of ISAE 3000 (Revised) and does not introduce any new requirements to a certain extent.

However, we noted that Paragraph 88 of the draft guidance states that each of the five characteristics MUST be exhibited in all cases. Although paragraph 24(b)(ii) of ISAE 3000 (Revised) mentions about the five characteristics, it does not explicitly require compliance of all of those criteria in all engagements. As the information being presented can be rather subjective, practitioners may encounter difficulty in complying with such requirements such as the 'completeness' characteristics. (See Q1).