

**Extended External Reporting (EER) Assurance Consultation Paper– Question 5**

Question 5 of the consultation paper for EER Assurance asked respondents:

*Do you agree with the way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised)?*

**1. CRUF****Reference 1**

We welcome the proposal in Chapter 8 to require the assurance practitioner to check the entity's materiality process.

In our experience, we are concerned that there appears to be a bias toward positive information that we observe in integrated reports or the non-statutory annual reports published by Japanese companies. In these voluntary disclosure documents, we have never seen the disclosure of possibly negative information, such as cross-shareholdings, i.e. the shares held for strategic purposes, whilst there are many examples that describe the active use of independent non-executive directors and diversity in detailed reports.

We have seen misconduct or fraudulent disclosure by some companies, which have been commended for their excellent voluntary disclosure documents such as the integrated reports. In the voluntary reporting published by these companies, we have never seen the information which would allow us to foresee the possible misconducts. We hope the assurance practitioners encourage companies to disclose relevant information, not only positive but also possibly negative ones, to them, to the intended readers of the EER.

We believe it is not the assurance practitioners' responsibility, but management's, to identify the information material to the entity. That said, assurance practitioners should strongly encourage the companies to disclose the relevant information identified as material by the management, considering the entity's materiality process. When an entity is reluctant to disclose negative information, we expect that the assurance practitioners should decline to undertake the assurance engagement, unless management agrees to provide such information in the EER. We appreciate the addition of the guidance on the materiality process in the CP-EER, in order to meet the users' expectations above.

On the other hand, it is essential to foster practitioners of assurance with the perspective of investors to evaluate and determine whether there may be no omission of material information. In that sense, an audit firm should work actively to establish a system to gather the information from investors. We strongly suggest to include these points in "Chapter 4: Applying Appropriate Skills".

**11. NZAASB****Reference 1***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.

#### Reference 2

The NZAuASB recommends that Phase 2 should capture a more flexible way to report, not just a binary yes or no conclusion. Such flexibility may impact on the preconditions for accepting the engagement and “how much is enough” to enable a practitioner to accept an assurance engagement. More flexibility in reporting is appropriate given preparers may be on a reporting journey and the assurance practitioner should be aiming at providing as much assurance as possible along that journey.

#### Reference 3

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.

## 12. BDO

### Reference 1

We agree with the way the draft guidance covers matters not addressed in the ISAE 3000 (Revised) including materiality processes, preconditions, systems of control and assertions (paragraphs 19-21, 24, 26 and 36).

## 13. CG

### Reference 1

Do you agree with the way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised)?	The areas that are not addressed in ISAE 3000 (Revised) are properly addressed. It is right to address additional areas such as assertions and materiality, and sensible to consider the perspective of the preparer.
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## 14. DTT

### Reference 1

The diagram included in paragraph 46 of Chapter 3 incorporates incremental guidance regarding the adequacy of an entity's system of internal control being adequate in regard to assessing the preconditions. DTTL believes that this incremental guidance neither conflicts with requirements in ISAE 3000 (Revised) nor introduces any new requirements. This incremental guidance will, however, be relevant to all assurance engagements and DTTL believes consideration should be given to incorporating this incremental guidance in ISAE 3000 (Revised).

### Reference 2

DTTL has provided commentary and recommendations on broad topics pertaining to matters not addressed in ISAE 3000 (Revised) and related guidance and examples in the Overall Comments section of this letter and in the responses to **Questions 1, 2, and 6**. In addition, DTTL has the following additional recommendations.

#### **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

It is equally important that practitioners understand how the guidance aligns to the Standard. Accordingly, it may be helpful to repeat the relevant Standard requirement paragraphs at the top of each of the sections for easy reference, as well as align headings to those used in the Standard. Enhancing the structure in this manner would make it easier to read and understand alongside the application material of the Standard.

#### Reference 2

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:
  - 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 discussion of the form and content of the guidance highlights that the proposed guidance covers matters that are not addressed in ISAE 3000 (Revised), including the introduction of a 'materiality process.' Consideration should be given to amending ISAE 3000 (Revised) for such matters. If they are considered to be sufficiently important to be included in the proposed guidance, including them in ISAE 3000 (Revised) will promote consistency of application

## 17. KPMG

### Reference 1

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. These challenges are practical in nature, and/or involve application of audit-related matters to broader assurance engagements. We therefore welcome the comparison points at various points in the document which explain a concept in terms of its application in an audit, and then explain how the concept would apply in an assurance engagement. We believe this to be appropriate and helpful.

We note that the description of challenges and guidance in respect of the materiality process is very helpful, however, as we describe above, we believe the term "materiality process" itself may be confusing/misleading to users of our report.

## 18. MZS

### Reference 1

- The § 80 to 82 include terms that are not easy to understand.

## 19. PwC

### Reference 1

Our comments on matters not addressed by ISAE 3000 (Revised) are set out in our responses to the following questions:

- Subject matter element "qualities" - question 2.
- Assertions - question 2.
- Materiality process - question 4.

## 2. CFC

### Reference 1

**Answer:** Once again, it appears a contradiction in terms, because if this consultation paper does not introduce any requirements in ISAE 3000, how can cover topics not explored in this standard?

## 20. GAO

### Reference 1

We believe that ideally some of the information from the draft guidance could be added to the application material for ISAE 3000 (Revised) to provide a more complete set of application material to the practitioner. The application material could provide examples of non-financial types of assurance engagements.

## 22. AE

### Reference 1

#### **Paragraph 19-21 (matters not addressed in ISAE 3000 (Revised) and including details on the preparer’s role and ‘materiality processes’)**

We refer to our response to Question 1.

In paragraph 80, it is unclear how the practitioner is supposed to deal with the newly introduced concepts, elements (such as underlying subject matter, resulting subject matter). This adds additional complexity.

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

No further comments.

#### **Paragraph 36 (assertions)**

We refer to Question 1.

## 23. AICPA

### Reference 1

#### **Consistency of Terminology With ISAE 3000**

Paragraph 9 of Chapter 1 states, “Terminology in this guidance is consistent with ISAE 3000 (Revised).” However, terminology introduced in this paper, such as *building assertions*, *materiality process*, *subject matter elements and their qualities* are not used in ISAE 3000. For example, in explaining what the term *subject matter elements* means, paragraph 48 of the paper states the following

Subject matter elements or elements are analogous to assets, liabilities, income or expenses, which are aspects of the underlying subject matter (the entity’s financial condition and performance) to which criteria are applied in preparing financial statements.

It shouldn’t be necessary to introduce the term *subject matter elements* because ISAE 3000 already uses the term *aspects* to represent the same concept. In addition, the explanation of that term and many other explanations in the paper analogize between EER engagements and financial statement audits. In explaining what the term *subject matter elements* means, it would be more helpful if the paper provided examples of elements of subject matter information other than financial statements, for example, aspects of a greenhouse gas emissions presentation. Paragraph 2 of the explanatory memorandum states that assurance engagements on EER are similar in concept to an audit (a specific type of assurance engagements) but they are performed on EER reports rather than on financial statements. Again, it shouldn’t be necessary to state that assurance engagements on EER are similar to audits because ISAE 3000 goes to great lengths to explain the nature of assurance engagements covered by that standard and

the types of subject matter addressed. The paper seems to assume that the reader is unfamiliar with ISAE 3000 and attempts to compensate for that by rewording the requirements in ISAE 3000 with less rigorous wording and analogies to financial statement audits. We believe that ISAE 3000 should provide the foundation for any concepts introduced in the paper.

## 25. ASSIREVI

### References 1-2

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.

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.

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.

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.

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.

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.

As previously mentioned in question 2, the Draft Guidance additionally develops the “Entity’s materiality process” in Chapter 8, without pointing out any link between such process and the concept of materiality for the practitioner. We instead would evaluate useful to investigate further and develop the interrelation between the two concepts given that we do not consider appropriate that “materiality for the practitioner” and “materiality for the preparer” are dealt as not interrelated and separate concepts.

#### References 3-4

Since the document is designed to cover specific challenges in application of ISAE 3000 (Revised) it will necessarily include content not specifically addressed in the standard. However, given the innovative nature of these topics we suggest a broader comparison of certain concepts vis-à-vis the terms applied in the field of financial data audits. This exercise will help the practitioners in understanding how the concept would apply in an assurance engagement.

Furthermore, we note that the draft guidance, being a non-mandatory guideline, could raise various inconsistencies in their interpretation by the various stakeholders.

The description of challenges and guidance in respect of the materiality process is very helpful, however, as described above, we believe the term “materiality process” itself may be confusing to users extended external reporting.

#### 26. CPAA

##### Reference 1

Refer response to **Question 4**.

#### 28. EFAA

##### Reference 1

Please see our response to Q4 above.

29. FACPCE

Reference 1

<p>Q5) Do you agree with the way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised)?</p>	<p>Paragraphs 19-21 (matters not addressed in ISAE 3000 (Revised) and including details on the preparer's role and 'materiality processes')</p> <p>Paragraphs 24 and 26 (linking preconditions and the system of internal control)</p> <p>Paragraph 36 (assertions)</p>	<p>We believe that the Consultation-Paper carries out an adequate treatment on the topic Internal Control, although it does it out of the proper context. The issue of Internal Control should be analyzed in the context of the risk approach. Making a parallel with international auditing standards, ISA 315 does so.</p> <p>The knowledge of the Internal Control and the weaknesses that this may have can be useful for the accountants who carry out an assurance assignment since it would allow them to know inherent risks or control. Consequently, we believe that the Consultation-Paper should comprehensively analyze the issue of identifying and assessing the risks of material misstatement through knowledge of the entity and its environment (including the issue of internal control) and the response to assessed risks.</p> <p>It would also help that the Consultation-Paper remember and clarify that, although the ISAs and ISRE have been drafted for audits and reviews of historical financial information, respectively, and are not applicable to other assurance assignments, they can, nevertheless, provide guidance in relation to the process of the assignment in general to professionals who perform an assurance assignment in accordance with the ISA.</p>
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3. IRBA

Reference 1

- We urge the IAASB to include a “classification system” in the guidance. For example, any guidance regarding content incremental to the requirements of ISAE 3000 (Revised) could have a specific icon next to that paragraph. This will assist a practitioner to easily identify which content is not in ISAE 3000 (Revised).

- Where terminology such as “elements”, “qualities” and “materiality process” is used, this icon could also be appended to that terminology.
- The guidance places much emphasis on the use of assertions, and we believe that it is necessary to include this as it is very useful. However, as assertions are not referred to in ISAE 3000 (Revised), the risk arises that a practitioner may perceive the use of assertions as being a requirement in ISAE 3000 (Revised). By using icons, as explained above, this could be clarified.

### 31. FSR

#### Reference 1

The guidance covers a broader scope of matters than the standard. While providing guidance on additional matters is helpful to practitioners, it should be clear in the guidance when specific parts go beyond ISAE 3000 to avoid any confusion.

### 32. GRI

#### Reference 1

Refer to responses in question 1 that cover these specific areas.

### 33. IAAA

#### Reference 1

Yes, we agree. We found adequate harmony between the ISAE 3000 (Revised) and the draft guide. We share the IAASB's idea that the professional may need to rely on internal controls to ensure the existence of preconditions for agreeing to engage with the EER. In all the services provided by an accountant in public activity, as an independent professional, it requires a solid internal control of the entity (preparer of the information) before accepting an assignment.

### 35. IIRC

#### Reference 1

Paragraph 20 of the Explanatory Memorandum notes, *“The draft guidance does however cover matters not addressed in ISAE 3000 (Revised), for example how to consider an entity’s ‘materiality process’ and whether or how to use assertions.”*

We agree with this decision and further recommend that the guidance, as an aid in applying ISAE 3000 (Revised), clearly signpost the matters not previously addressed in the standard.

### 36. ICAEW

#### References 1-2

- Yes we broadly agree, though the introduction of new terms and concepts such as ‘materiality process’ may lead to some confusion for practitioners less familiar with performing EER assurance engagements and so we think there is a need to give greater clarity in these areas (see, for example, our comments in response to question 1 above).
- We also understand from outreach with firms that the term ‘qualities’ of subject matter elements is not a concept that is widely understood. Instead, the term ‘characteristics’ of the subject matter

elements that are to be measured, which is used in the International Framework for Assurance Engagements, is preferred.

### 37. ICAG

#### References 1-2

We generally do agree that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised). The draft guidance to a larger extent, resolves all matters addressed in ISAE 3000. Particularly, matters like setting out the requirements of the engagement partner, such as having appropriate competence and capabilities, are more emphasised in the draft guidance.

The guide adopts a practical approach to support the practitioner. The steps take us through how to consider an entity's materiality process and ropes in internal controls. For "Assertions", we appreciate the use of "Representations" to explain this. 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

We would refer you to our previous responses particularly in relation to 'materiality processes' and 'assertions'.

As stated in our general comments, the user perspective needs to be considered and the guidance should be sufficiently clear and capable of application and use by those assurance practitioners performing these engagements who are less familiar with terminology more associated with the audit process.

### 39. ICPAU

#### Reference 1

#### **COMMENT:**

No. ICPAU believes that the draft guidance does not address all the matters that are not addressed in ISAE 3000 (Revised). This is especially true because the challenges that were identified by the practitioners in the application of ISAE 3000 (Revised) are not sufficiently addressed. This means that the application of the standard will remain problematic until these challenges are satisfactorily addressed by the IAASB.

### 40. IPA

#### Reference 1

Please note our response to Question 4.

#### 42. MICPA

##### Reference 1

**MICPA's Comments:**

Yes, MICPA agrees with the way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised).

#### 43. NASBA

##### Reference 1

As stated in the comment above, we believe clarification is needed in the linkage of 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).

#### 44. PAIB

##### References 1-2

It would be helpful if the guidance made it clearer where material is related directly to a requirement of the standard and where matters not under the scope of ISAE 3000 (Revised) have been included to address the 'Ten Key Challenges' previously identified.

#### 45. SAICA

##### References 1-2

- In general, we are satisfied with the way the Draft Guidance covers matters that are not addressed in ISAE 3000 (Revised). As stated in Question 1, more guidance in relation to 'Consideration of an Entity's Materiality Process' and the 'Assertions' will be useful. These should be clearly defined in the glossary of terms section in the Draft Guidance document and explained that they are not included in ISAE 3000 (R). These can be further explained through examples based on the globally-known EER Frameworks.

#### 46. SASB

##### Reference 1

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

#### 47 WICI

##### References 1-2

Paragraphs 19-21 at p. 8 (matters not addressed in ISAE 3000 (Revised) and including details on the preparer's role and 'materiality processes')

- It is stated that "The draft guidance does however cover matters not addressed in ISAE 3000 (Revised), for example how to consider an entity's 'materiality process' and whether or how to use assertions" (para. 20, p. 8). We do agree with this decision, but we also believe that, being the purpose of the IAASB guidance to assist the practitioner in applying the standard, the subject

matters not previously addressed by the standard should be properly indicated and better highlighted.

#### 48. WPK

##### Reference 1

Some of the guidelines go beyond the extant ISAE 3000. This may - in some jurisdictions - initially be considered as a soft law but is considered a new tough requirement after some time.

Therefore, we would like to repeat our concern and point out that the explanations especially regarding to the

- Preconditions
- Assertions
- External expert

are not formulated as requirements but only as an assistance, example or interpretation.

#### 51. CAATAS

##### Reference 1

Yes, we agree.

The draft guidance considers materiality and assertions in the context of EER. The draft guidance gives more detail for the practitioner but also for the preparer which is quite critical as the prepare may sometimes be outsourced and as such they need to understand the use of assertions and materiality considerations.

#### 52. SCHNEIDER

##### Reference 1

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

##### References 1-3

Overall, the draft guidance has covered matters in an EER assurance engagement not addressed in ISAE 3000 (Revised).

However, we believe the contents to be introduced in Phase 2 could greatly affect our stance for the above, particularly the following matters that we consider are more critical in an EER assurance engagement.

#### Understanding the Engagement Circumstances

- 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.
- 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.

#### Preparing the Assurance Report

- 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.

#### Quality Control

- 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 credibility 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).

- 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.

- 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.
- 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

### References 1-2

We generally agree with the way the draft guidance covers matters that are not addressed in ISAE 3000 (Revised), but we have a serious general concern and a good number of issues in relation in this respect in relation to the guidance in particular paragraphs.

Our general concern relates to the nature of guidance in a separate document as opposed to the application material in a standard. The application material in a standard includes material that provides suggestions on how to apply requirements and additional guidance and is subject to a certain due process. Guidance in a separate document, such as an IAPN or a consultation paper, is not subject to the same stringent due process and therefore does not have the same level of authority. Consequently, guidance in such separate documents should not convey the impression that the suggestions provided are the ONLY way to address the requirements and application material in a standard. This generally needs to be done by providing practitioners with more than one option (at least two) in how to address the matters upon which guidance is given. Providing only one option conveys the message that there is only one solution. The current draft often only provides one solution to certain matters, rather than exploring different ways to address the same issue.

For example, the draft introduces the concept of “assertions” (more specifically, “assertion categories” – see our response to Question 2), but does not recognize explicitly that there are other ways to deal with the issue giving rise to the potential usefulness of a tool like “assertion categories”, such as addressing

the “required assertions”, which may be more detailed than assertion categories. Another option would be to use the concepts from measurement theory or psychometrics. A further example is the reference to “subject matter elements”, which only becomes relevant when underlying subject matter can only be measured through certain aspects thereof. Another (perhaps simpler) approach would be to recognize that EER reports contain multiple underlying subject matters and that the subject matter information (the EER report) involves the result of the measurement or evaluation of these different underlying subject matters.

Overall, if the draft guidance is supposed to be regarded as guidance, rather than as some form of light requirement, more than one option to resolve issues needs to be presented to readers.

Our issues with specific paragraphs that deal with matters going beyond ISAE 3000 (Revised) are as follows:

- **Paragraphs 19, 55 and 56** explain that narrowing the assurance scope may increase the risk of the engagement lacking a rational purpose or misleading readers of the EER report. However, the draft guidance also needs to discuss that there are also risks to expanding the assurance scope, including increasing the risk that non-assurable information is included within the scope and that the cost of expanding the scope may exceed the benefits of the expanded scope to users.
- **The second half of the sentence with the example in paragraph 79** suggests that examples in which substantive procedures alone do not provide sufficient appropriate evidence are when those procedures are not possible or practicable. There may be many cases in which such procedures are possible or practicable, but are not effective (i.e., do not appropriately respond to the risk of material misstatement being addressed) or efficient (it is more efficient to perform tests of controls than other procedures alone). In line with this matter and our comment in our response to Question 2 on the use of the term “substantive procedures”, we suggest that the words in this phrase be:  

*“... for example, because such other procedures do not respond appropriately to the risk of material misstatement or may not be efficient”.*
- **Paragraph 150 et seq.** introduces the concept of “impact” as being distinguishable from “interests”. Given the example after this paragraph, we fail to see the need for a concept of “impact” beyond the interests of intended users because, using the example, local communities using the river for fishing or water supply do have interests in relation to pollutants that affect their use of the water. Furthermore, indirect impacts on the company itself imply that the interests of the company are affected. For these reasons, we believe that the concept of “impacts” is not adequately distinguishable from “interests” and should therefore not be introduced. The IAASB should therefore reconsider the content of paragraphs 150 to 151.
- **Paragraph 159** introduces a potential “public interest” test for confidential information. This obviously draws upon the requirement in relation to the non-communication of a key audit matter in paragraph 14 (b) of ISA 701 and the related application material in paragraphs A43 to A56. However, we would like to point out that key audit matters deal with auditor reporting in the auditor’s report – not directly with the suitability of relevance and completeness of the criteria determining what the preparer is required to report, which is what paragraph 159 addresses. Furthermore, a public interest test in this form is unenforceable in most jurisdictions of which we are aware. We believe that rather than suggesting the use of a public interest test for the suitability of criteria, this paragraph ought to draw on the ethical responsibilities of the practitioner under the IESBA Code not to be associated with misleading information. If the application of the criteria leads

to misleading information in the EER, then the requirements of the Code “kick-in” with the concomitant consequences for the practitioner without needing to consider the suitability of the criteria as an additional step.

- **Paragraphs 161 and 162** suggest that information may be included in the EER report that may not result from criteria that are suitable or available, or may not even result from any criteria, and that such information may be of little consequence. If that is the case, it begs the question as to why such information is included in the report. When writing our standard for assurance on the management report in Germany, we sought to steer practitioners to seek to have management remove such non-assurable information, or at least to redraft it so that it is assurable. In addition, if such non-assurable information is not removed from the report or appropriately redrafted, guidance needs to be given that the preparer and the practitioner clarify in the EER report and the practitioner’s report (the scope paragraph and conclusion paragraph), respectively, which information has been subjected to the assurance engagement and which has not. We suggest that paragraphs 161 and 162 be augmented accordingly.
- **Paragraph 164** suggests that if a description of the process used to develop the criteria is needed to understand the criteria, then such a description should be included in the report or elsewhere, such as on a website. We agree with the former placement, but have concerns about the latter placement elsewhere, such as on a website. If the description is needed to understand the criteria, then this should be in the report. If it is not in the report, then placing the description elsewhere to where intended users have access means that at the very least a reference would need to be made from the report to that description to inform users of the existence of that description. However, such a reference from the report entails having the practitioner clarify in his or her report whether that description is covered by the assurance conclusion or represents other information.
- **Paragraph 165** suggests that assertions (i.e., the assertion categories) are tools used in performing risk assessment procedures. First, we would like to clarify that ISAE 3000 (Revised), unlike ISA 315, does not use the term “risk assessment procedures”, so the reference should be changed to “assessing the risks of material misstatement”. Then this statement would be true but assessing the risks of material misstatement is only required in ISAE 3000 (Revised) for reasonable assurance engagements. Assertions categories can also be used in limited assurance engagements to identify areas where a material misstatement is likely to arise. Paragraph 165 needs to be amended accordingly.
- **In line with our general comments to this question above, paragraph 166** should explain the alternatives to the use of categories of assertions.
- **In relation to paragraphs 175 and 176**, we ask ourselves what “other characteristics of applicable criteria” there might be that cannot be subsumed under those set forth in ISAE 3000 (Revised). Hence, while further characteristics might be included in EER frameworks, there needs to be some clarity as to whether these are just more detailed aspects of those characteristics set forth in ISAE 3000 (Revised), actually represent “required assertions”, or are in fact “additional” characteristics.
- **The last sentence of Paragraph 183** correctly points out that the nature of the procedures that a practitioner plans to perform may be informed by the assessment of the risks of material misstatement of an assertion *for reasonable assurance engagements*. However, the nature of the procedures that a practitioner plans to perform may be also informed by the identification of areas

where a material misstatement is likely to arise *for a limited assurance engagement*. Paragraph 183 needs to be amended accordingly.

- **In the example after paragraph 195 the treatment of sentence (1)** claims that this sentence is vague, may be unsubstantiated, is not based on criteria, may be other information, and would not require practitioner attention. We disagree: The first two phrases of that sentence are factual general knowledge that need no further verification. However, the third phrase represents a logical implication (if water is a scarce resource in some parts of the world, then we are required to use water responsibly in our all our operations) that does require verification because the consequent does not necessarily follow from the antecedent. For example, if some of the operations are in Northern Canada or Northern Finland, where fresh water is more than plentiful (presuming fresh water is being used) then using water responsibly (whatever that means) in such an environment is an entirely different proposition than if the operations are in Saudi Arabia. In line with our comments on paragraph 161 and 162, practitioners should be seeking to have preparers either redraft such phrases so that they are assurable or to delete such phrases if they are not. If such non-assurable information is not removed from the report or appropriately redrafted, guidance needs to be given that the preparer and the practitioner clarify in the EER report and the practitioner's report (the scope paragraph and conclusion paragraph), respectively, which information has been subjected to the assurance engagement and which has not. The treatment of sentence (1) in the example should be amended accordingly.
- **In paragraph 204**, reference is made to future-oriented information being subject to estimation uncertainty. However, future-oriented information is also subject to recognition uncertainty (i.e., whether an event occurs at all). This paragraph should be augmented accordingly.
- **Paragraphs 208 and 277** refer to "inherent measurement or evaluation uncertainty". The term "inherent measurement uncertainty" is being used in two different senses in the draft: 1. measurement uncertainty as defined in ISA 540 (Revised), which does not relate to uncertainty about recognition, and 2. uncertainty about measurement (including recognition), where measurement means that evaluation of quantitative information. We believe that paragraph 208 is referring to the latter due to the juxtaposition of "measurement and evaluation", but some clarification here (particularly in relation to paragraph 204 – see comment above) would be helpful.
- **Paragraph 210** addresses the assurance issues in relation to future risks and opportunities. At the IDW we have gained considerable standard setting experience with this issue because a statutory audit of the financial statements in Germany includes assurance on the management report, including a separate assurance conclusion on whether the management report appropriately presents the risks and opportunities of future development. In particular, our standard recognizes that in more complex environments, providing such an assurance conclusion may not be practicable without the practitioner relying on the part of the entity's risk management system used to identify and assess risks to the entity, and that therefore the practitioner must test whether this part of the risk management system is appropriately designed and is operating effectively. We suggest that paragraph 210 be augmented to reflect this matter.
- **Paragraph 228** posits that subject matter information with inherent variability may be sufficiently accurate if it is as precise as it reasonably can be and the information about the inherent uncertainty is also disclosed. As we note in our response to Question 2, accuracy is a question of relevance (as described for a characteristic of suitable criteria), and therefore the appropriate degree of accuracy depends upon the accuracy that is needed to be relevant. Consequently,

accuracy need not be as precise as it reasonably can be: it only needs to be as precise as needed to be relevant. Furthermore, only if the inherent uncertainty is relevant does such an uncertainty need to be disclosed. For these reasons, the first sentence of paragraph 228 should be changed to read “...may be sufficiently accurate if it is precise as needed to be relevant, and information about inherent uncertainty may need to be disclosed to the extent that information is relevant”.

- **Paragraph 229** asserts that uncertainty that is not inherent because the preparer has not measured or evaluated the underlying subject matter as precisely as would be possible may give rise to misstatements. In line with our comment on paragraph 228, the needed precision in measurement or evaluation depends upon the degree of precision required to be relevant and therefore imprecision that is not relevant cannot lead to a misstatement (this should be clearly distinguished from materiality considerations). The sentence should therefore be changed to read “...as precisely as needed to be relevant”.

## 8. JICPA

### Reference 1

We understand that the draft guidance will not introduce any new requirements, but we believe that the content and wording of the following matters not stipulated in ISAE 3000 should be reconsidered.

#### 1. Treatment of Trivial Misstatements

Paragraph 216 states “Where the misstatement is not clearly trivial...the practitioner may present it to...,” indicating that the practitioner “may” present a non-trivial misstatement to the EER preparer who then has the opportunity to correct the misstated information. However, in such cases it would be usual for a practitioner to present a misstatement to the EER preparer, so we believe it would be appropriate to replace “may present” with “generally/normally presents.”

#### 2. Assertions

Paragraph 166 states that assertions are sometimes used and sometimes not used, but this statement refers only to use of assertions in general and does not make clear that assertions are sometimes not employed in EER-related assurance engagements specifically. If Paragraph 166 is followed by detailed assertion-related guidance, there is a risk of failing to adequately communicate the occasional non-use of assertions in EER-related assurance engagements.

We believe that Paragraph 166 should clearly state that assertions are sometimes not employed in EER-related assurance engagements.

## 9. MAASB

### Reference 1

We agree with the way the draft guidance covers matters that are not addressed in ISAE 3000 (Revised).

We propose that the ISAE 3000 to be updated for consistency with the draft guidance once it is finalised. For example, the term ‘phenomenon’ which is not widely used in the International Standards on Auditing (ISAs) or International Standards on Assurance Engagement (ISAEs), is explained in the draft guidance but not in ISAE 3000 (Revised).