



**ICGN**

International Corporate Governance Network

International Auditing and Assurance Standards Board  
Submitted online

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**Subject: ICGN Response to the International Auditing and Assurance Standards Board (IAASB) public consultation on Proposed Guidance: Extended External Reporting Assurance**

The International Corporate Governance Network (ICGN) is pleased to respond to the International Auditing and Assurance Standards Board (IAASB) public consultation on Proposed Guidance: Extended External Reporting (EER) Assurance.

Led by investors responsible for assets under management in excess of US\$54 trillion, ICGN is a leading authority on global standards of corporate governance and investor stewardship. Our membership is based in more than 45 countries and includes companies, advisors and other stakeholders. ICGN's mission is to promote high standards of professionalism in governance for investors and companies alike in their mutual pursuit of long-term value creation contributing to sustainable economies world-wide.

Our policy positions are guided by the ICGN Global Governance Principles<sup>1</sup> and the ICGN Global Stewardship Principles,<sup>2</sup> both of which have been developed in consultation with ICGN Members and as part of a wider peer review. For more information on ICGN please see: [www.icgn.org](http://www.icgn.org).

One of ICGN's core policy priorities is to seek transparency through better reporting, audit and metrics, so the importance of quality audit and assurance is prominent on our agenda.<sup>3</sup> ICGN commends the IAASB for its global leadership in promoting high standards of audit and assurance, and we note that investors are one of the key beneficiaries of your work. The use by investors of so-called non-financial (or pre-financial) factors continues to build, particularly with regard to environmental, social and governance (ESG) information. The investor community makes use of this information both to conduct risk and investment analysis and to guide stewardship activities, including engagement and voting. We recognise that the sometimes subjective nature of information in EER reporting poses professional challenges for auditors and assurers.

But it is important to continue to make improvements here and raise professional standards where possible to build greater credibility and encourage greater use of EER. If investors have reason to doubt the quality or credibility of a company's non-

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<sup>1</sup> See: ICGN Global Governance Principles:  
[http://icgn.flpbks.com/icgn\\_global\\_governance\\_principles\\_jpn/](http://icgn.flpbks.com/icgn_global_governance_principles_jpn/)

<sup>2</sup> See: ICGN Global Stewardship Principles:  
[https://www.icgn.org/sites/default/files/ICGN\\_Global\\_Stewardship\\_Principles\\_JPN\\_1.pdf](https://www.icgn.org/sites/default/files/ICGN_Global_Stewardship_Principles_JPN_1.pdf)

<sup>3</sup> See ICGN Policy Priorities:  
<https://www.icgn.org/sites/default/files/ICGN%20Policy%20Priorities%202018-9.pdf>

financial reporting, then this form of reporting risks not being taken as seriously as audited financial information. So ICGN supports the IAASB on its mission.

## ICGN'S RESPONSE TO THE PUBLIC CONSULTATION ON THE PROPOSED GUIDANCE ON EER ASSURANCE

### Consultation questions:

Questions to Respondents	
Q1	Does the draft Guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft Guidance? If not, where and how should it be improved to better serve the public interest in EER assurance engagements?
Q2	Is the draft Guidance structured in a way that is easy for practitioners to understand and use in performing EER assurance engagements? If not, where and how should it be improved to better serve the public interest in EER assurance engagements?

### Overarching comments

- Overall, the Guidance is an impressive document. From an investor's perspective, if given the proper competence and capabilities, we should be able to use more of the practitioner's judgment to be able to get the appropriate level of assurance.
- The length of the piece remains a problem. There is room to shorten the non-authoritative guidance by referring to the Standard rather than repeating the information in Standard. For example, paragraph 51 on the meaning of "engagement circumstances" repeat S.12, paragraph 117 repeating S.25, paragraph 139, 148, 151, 154 and 155 repeating S.A45.a, S.A45.b, S.A45.c, S.A45.e, S.A45.e respectively.
- While the Guidance has a good focus on the independence of the practitioner, it is light on the independence of the practitioner's expert who can be external to the assurance provider. Given the diversity and complexity in subject matter information of the EER report, in many cases, an external expert will be involved in the engagement. S.52 (and A.125 – 218) of the Standard on *Work Performed by a Practitioner's Expert* requires that when the work of a practitioner's expert is to be used, the practitioner shall evaluate the competence, capabilities and objectivity of the practitioner's expert, including any interests and relationships that may create a threat to that expert's objectivity. This is an important requirement of the Standard, yet the Guidance does not address how the practitioner could conduct such evaluation.
- It appears that the Guidance attempts to deal with various uncertainties even in light of specific questions. For example, the discussion in paragraph 77, appears to address SASB's use of metrics and topics, but the language does not specifically address the issues. The Guidance may benefit from more directly addressing known issues, especially when involving top frameworks.

- Please consider changing all references from financial v. non-financial to financial statement v. non-financial statement because the information may very well have a long-term financial impact even if not included in the most recent financial statement.
- The terms the “engaging party”, “reporting entity” and “preparer” should be more consistently used between the Standard and the Guidance. We notice that the Guidance frequently uses the term “the preparer” of the EER report, however, such term is not used at all in the Standard. Instead, the Standard uses the “engaging party” and “entity”.
- Can the guidance be elevated to something beyond non-authoritative guidance?

**Response to Question 1:**

The Guidance has addressed the challenges for practitioners that have been identified as within the scope of the draft Guidance. However, there are still some scope for further improvement.

The Guidance does not address the challenges for practitioners on multi-location or multi-site engagements. We believe that it would be helpful to add Guidance in this area, either to each chapter, or perhaps, in order not to delay issuing this much-needed Guidance, as a separate addendum or chapter in due course. Guidance would be particularly helpful in helping teams determine whether they have sufficient appropriate evidence when performing their engagement across multiple locations or sites.

Considering the increasing use of IT systems in non-financial reporting, Chapter 5 paragraph 213 might also put more focus on the importance of IT controls, especially for reasonable assurance engagements, including the need to involve an IT expert in the assurance engagement when appropriate.

In Chapter 9 paragraphs 322(h) and 322(i), the preparer behaviours do not recognize that (i) a preparer may contend that a misstatement is immaterial even when they have other reasons why they are reluctant to correct the misstatement, because this seems to them a way to conceal the real reason and (ii) the preparer may contend that a misstatement is immaterial, and the practitioner disagrees. We suggest that the wording of these bullets be amended to recognize these situations.

Chapter 11: Regarding narrative and future-oriented information, further guidance and practical examples should be provided to help the practitioner establish a good basis/framework to provide assurance for subjective information. When there is subjectivity in the measurement or evaluation of the underlying subject matters, more detailed guidance in terms of types of evidence to support the factual ground of subjective or future-oriented information could be helpful here. Guidance may include different approaches when there is historical information that supports the future-oriented information versus cases in which there is no history. The Guidance’s current focus is more on the former, not the latter.

Regarding Chapter 11 paragraph 196(a)-(h), it would be helpful to include the following additional details where misstatements in qualitative subject matter could also arise:

- The style in which the narrative is presented, (e.g., the use of superlatives and adjectives may help to paint a more positive picture than more factual reporting)
- Using statistics based on small samples to extrapolate a more sweeping qualitative conclusion, for example:
  - “a large number of companies worldwide”, which, from the source is actually 100 companies - although 100 may be “large”, it is a very small number of the total number of companies worldwide
  - the use of terms such as “increasingly”, which may be used to imply a larger uptake of something than is reality or
  - “the numbers have doubled since last year,” a fact that is based off a small base, which is not disclosed

## **Response to Question 2:**

The draft Guidance is well structured. The structure of the discussion of “What” is addressed in the chapter, “Why” they are relevant and “How” to overcome the challenges for each chapter is clear and consistent across all chapters.

We, however, observe that while some in some chapters of the Guidance (Ch1, 3, 4, 5, 6, 8, 9), the relevant paragraphs of the Standards are listed right at the beginning, in the other chapters (Ch2, 7, 10) the reference to the Standard paragraphs are blended in the explanatory text. It would be helpful for users of the Guidance if all chapters consistently start with the reference to the relevant Standard’s paragraphs. Detailed reference to the Standards can still be kept in the discussion text of the chapters.

Regarding Supplement A, the four key factor model for credibility and trust in relation to EER is useful in explaining the value of EER reporting, and assurance on such reporting (i.e., it is useful for stakeholders to easily understand the ‘value proposition’ of EER). Because this document has a wider intended audience than the practitioner, we support publishing this as a separate standalone Supplement with appropriate references in the EER Guidance.

We hope these comments are useful in your deliberations. If you would like to follow up with us with questions or comments, please contact our Policy Director George Dallas: [george.dallas@icgn.org](mailto:george.dallas@icgn.org) .

Yours sincerely,



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