



INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB) CONSULTATION PAPER: EXTENDED EXTERNAL REPORTING (EER) ASSURANCE

RESPONSE FROM ICAS TO THE IAASB

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Background

ICAS is a professional body for more than 22,000 world class businessmen and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

General comments

ICAS welcomes the opportunity to respond to the International Auditing and Assurance Standards Board (IAASB) Consultation paper on Extended External Reporting (EER) Assurance.

We commend the IAASB for taking the initiative to produce this guidance to assist assurance practitioners undertaking EER assurance engagements. It is an evolving area and one in which additional guidance will be extremely helpful. Related to this, it is vital that the IAASB ensures that the final guidance remains future proof and relevant as this area continues to evolve and therefore we would encourage an innovative approach to the drafting process that reflects the needs of users, not only now, but in the future.

It is vital for the IAASB to consider the ultimate users of such guidance. Some of these users may not be as familiar with the terminology and processes referred to in the guidance, and also in International Standard on Assurance Engagements (ISAE) 3000, as those performing more traditional audit and assurance engagements. The guidance therefore should ensure that all users can understand what is required and expected of them in terms of work effort and application of the guidance.

However, we are concerned about the length of the guidance. The current document only reflects phase 1 of the final output. Therefore, once the second phase is added, the overall length may present a barrier to its use and application.

Question 1

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

Answer 1

a. Paragraphs 9-15 (scope of draft guidance)

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

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

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

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

c. Paragraph 29 (suitability of criteria)

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

We welcome the inclusion of 'Neutrality' as a characteristic which is particularly important and relevant when undertaking some of these engagements as the information produced is more subjective. This will remove some of the risk that the information will be used as part of a marketing or promotional exercise by the entity.

d. Paragraph 33 ('materiality processes')

This represents the introduction of new terminology and risks creating some confusion around what assurance practitioners already understand to be the concept of materiality and how this then relates to the new proposed concept of 'materiality processes'. Therefore, we do not believe that use of the term 'materiality processes' is appropriate in this context.

e. Paragraph 35 (materiality of misstatements)

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

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

f. Paragraph 40 (assertions)

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

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

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

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

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

Question 2

Is the draft guidance clear and easy to understand, including through the use of examples and diagrams, and the way terminology is used? If not, where and how should it be improved?

- Paragraphs 16-17 (examples, diagrams and terminology)
- Paragraph 34 (term 'materiality process')
- Paragraphs 37 and 40 (assertions)

Answer 2

The guidance is already extremely lengthy which will be further compounded following the inclusion of material produced during phase 2 of the project.

We would suggest that the examples which are currently included within the main body of the text could be inserted into a separate supplementary paper, entitled 'Implementation guidance' or simply 'Examples' to reduce the overall length.

The introduction of effective signposting might also help users to navigate the guidance.

Question 3

Do you support the proposed structure of the draft guidance? If not, how could it be better structured? (Paragraph 18 (structure))

Answer 3

We would refer you to our response to question 2, specifically our concerns over the length of the guidance and the suggestion for the introduction of effective signposting.

Question 4

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?

- Paragraphs 19-21 (relationship with ISAE 3000 (Revised))
- Paragraphs 24 and 26 (linking preconditions and the system of internal control)
- Paragraph 36 (assertions)

Answer 4

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.

Question 5

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

- Paragraphs 19-21 (matters not addressed in ISAE 3000 (Revised) and including details on the preparer's role and 'materiality processes')
- Paragraphs 24 and 26 (linking preconditions and the system of internal control)
- Paragraph 36 (assertions)

Answer 5

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.

Question 6

Do you agree that the additional papers contain further helpful information and that they should be published alongside the nonauthoritative guidance document? Paragraphs 42-45 (additional papers)

Answer 6

We agree that the additional material is helpful, especially for those not yet experienced in this area. This material, if effectively communicated, could also prove to be a helpful tool for communicating with preparers and clients as to the assurance practitioner's expectations of them.