

17 July 2020

Submitted electronically at www.iaasb.org.

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue

New York
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Dear Willie

AGSA COMMENT LETTER ON THE IAASB'S PROPOSED GUIDANCE PAPER ON EXTENDED EXTERNAL REPORTING (EER) ASSURANCE

The Auditor-General of South African (AGSA) participated as a member in the workgroup of the South African Institute of Chartered Accountants (SAICA) to provide comments on the proposed guidance on EER assurance. The AGSA performs the mandatory assurance engagements on the audit of predetermined objectives (i.e. performance information) in terms of ISAE 3000R which forms the basis for the audit methodology and application in the South African context. Our high-level inputs were incorporated to the SAICA comment letter, however we would also like to submit a few more detailed comments based on our practical experience for the IAASB's consideration to further enhance practical application guidance and examples included in the guidance paper. This comment letter should be read and considered with the SAICA comment letter.

Please refer to further comments from the AGSA below.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Tini Laubscher (tinil@agsa.co.za)

Yours sincerely

Tini Laubscher
Senior technical manager – Audit research and development

AGSA's COMMENTS

1. Our comments below should be read with the SAICA comment letter submitted to the IAASB. It provides more detailed input and suggestions on further practical application guidance and examples for consideration and inclusion in the guidance paper. The comments are presented in the sequence of the questions as they have been included in the draft Guidance Paper.

Question 1

Does the Draft Guidance adequately address the challenges for practitioners that have been identified as within the scope of the Draft Guidance?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?

2. The guidance paper provides very good practical application guidance and examples covering the range of assurance engagements that can fall within the ambit of ISAE 3000R, especially in relation to the pre-engagement and planning stages of the engagements. However, when considering materiality, execution, evaluation and concluding stages, further practical guidance and considerations can be included, more specifically in relation to the application of in these phases of the audit in different scenarios. For example, taking into account different subject matters and subject matter information and the possible considerations and impact on the audit process.

Chapter 8: Obtaining evidence

3. Par 288 (b)(i) and 289 – please provide more context in which circumstances it will be appropriate to design procedures only to detect individually material misstatements. It is not a specific requirement or principle or requirement in the standards; i.e. it is rather a matter of designing procedures to address the risk identified and the higher the level of assurance required or in the case of risk requiring special audit consideration such as fraud risks, it will require specific procedures. Also consider clarification in both limited and reasonable assurance contexts.

Chapter 9: Considering the materiality of misstatements

4. Overall comments for consideration:
 - a. Consider limiting this chapter to the determination and use of materiality with a separate chapter on accumulation and evaluation of misstatements and concluding. Very different principles need to be addressed with examples of accumulation and evaluation as well as materiality– please refer to further comments below.
 - b. The next chapter already addresses the assurance report. There is currently a gap in the guidance in respect of concluding on the assurance opinion or conclusion, including the conclusion on whether misstatements are material and/or pervasive. Consider incorporating guidance on evaluation of misstatements chapter as per comment above.
5. The materiality chapter should not be limited to use in evaluation of misstatements but need to be complete in addressing:
 - a. The purpose of determining materiality levels and the use of materiality during the audit
 - b. The determination of materiality levels (overall and performance) during planning, including quantitative benchmarks/ thresholds and qualitative considerations. This should

include different considerations and examples as it is more complex to determine and will vary based on the nature of the subject matter information

- c. Important to emphasise that materiality is determined in the context of the subject matter. If different parts of the report are scoped in for audit purposes, the materiality and any accumulation to be considered and explained in the context of the elements (aggregated and disaggregated information) of each subject matter separately, i.e. different conclusions or opinions per subject matter will require separate materiality and evaluations of misstatements.
6. Diagram 10 on p126 consider to start with determination of qualitative and/or quantitative materiality before it goes into the detail accumulation of misstatements.
7. ISAE3000 (R) par A95-96 emphasise that qualitative considerations are more relevant than quantitative in ISAE3000 engagement. This needs to be clarified.
8. Consider moving guidance and considerations on qualitative materiality with basic examples in par 322 -324 upfront in chapter. Consider to clarify that qualitative considerations are not only applied to qualitative disclosure type information but equally apply, if not more relevant, even for information expressed in quantitative form.
9. Par 306 – consider including basic examples to explain the principle with different units of measurements and how a percentage can be applied.
10. Par 311- 312; 316 - need to be explained in the context of the perimeter of the subject matter information. Each subject matter will require separate materiality (overall and/or performance materiality) to be determined as well as, pending the subject matter information, different considerations of the accumulation of the misstatements pertaining to the elements of the subject matter information (aggregated and disaggregated) and the overall evaluation and materiality.
11. Further examples to be included to provide more practical application guidance and consideration on different scenarios that may be encountered. For example, scenarios with different subject matters being separate individual KPIs or a specific section in the EER with multiple KPIs including disaggregated and qualitative information. Please read with comments on App B examples below.
12. Par 311 - The example to include context of what is the subject matter, e.g. the whole EER report or each of those KPIs separately. It refers to different subject matters which means each should have its own materiality and should be evaluated separately. Accumulating and aggregating misstatements are not applicable across different subject matters. It should therefore be clear if the subject matter is the EER, then accumulation and evaluation of misstatements will be applicable and which considerations may apply.
13. Par 313 – this is referring to qualitative materiality considerations. With reference to par 5 above, these considerations need to be determined upfront during planning for consideration in execution and for evaluation of misstatements. Consider including an example how this is practically applied.
14. Par 314 – Any information not included in the perimeter of the subject matter is considered “other information” as correctly indicated in an earlier chapter of the guide. The materiality

principles of evaluating inconsistencies are not considered at this point and should not be confused.

15. Par 315 –Context need to be provided in terms of subject matters of the engagement in relation to the EER report as whole if the EER report is not the subject matter. As it reads at the moment the guidance only applies if the EER reports as whole is the subject matter on which and opinion/conclusion will be expressed.
16. Par 322 - consider including considerations from chapter 11 par 396 as these qualitative considerations equally apply in principle to quantitative information

Chapter 11 and 12

17. The two chapters addresses practical application of principles as per the previous chapters on specific types of subject matters / subject matter information. Consider to include the practical application in the different chapters as examples.
18. Consider including a detailed example of considerations in App B to the extent not already addressed. Read with comment on materiality example below.
19. In terms of future-orientated information, consider including how this is different to normal estimates being reported and audited; i.e. what needs to be specifically considered in addition to auditing any estimates and the assumptions used in estimates.

Question 2

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?

Supplement B: Illustrative examples

20. Consider cross referencing App B example 7 to Chapter 9 as it also includes materiality principles. Consider elaborating on considerations and including qualitative considerations.
21. Example 9 – although noted that it may not be intended as a complete example, consider adding the aspects listed below to the example as it is necessary to understand the context of information provided:
 - a. What is the subject matter information and any disaggregation of the information especially because financial and non- financial information is provided?
 - b. Consider adding as planning consideration on p 32 –
 - Determination of materiality and materiality considerations
 - Identification of risk and risk assessments
 - Use of assertions
 - c. Obtaining audit evidence is very high-level considering it is a reasonable assurance engagement. Reference need to be made to risk assessment, level of assurance, understanding of the processes and design of procedures and assertions.
 - d. Considerations of the payment gap – p35. No reference is made to the consideration of scales and pay grade used in different countries and how this is converted into the average reported in US\$.

22. Example 10 – although noted it is not intended as a comprehensive example, consider providing the following context for a more complete and practical example:
- a. What is the subject matter and elements of the subject matter information? If the intention is to be the complete integrated report what are the different elements of the subject matter information?
 - b. Consider providing an alternative to the example where management did not agree to make the audit adjustments and how the practitioner would then accumulate and evaluate the misstatements in order to conclude. This example provides different types of misstatements and information and lends it to also explaining the accumulation and evaluation principles in a practical manner.
23. Example 11 – consider elaborating on the materiality and evaluation of the misstatements by:
- a. Providing more context as to the subject matter – being the service report on all four services or each service separately.
 - b. Also indicate how the two misstatements potentially could impact the audit opinion of each of these scenarios. E.g. it could result in an adverse opinion if considered per service due to a pervasive impact on the subject matter or alternatively can be material in the context of the service report as a whole as subject matter.
 - c. Consider adding some of the qualitative considerations as per inputs on chapter 9 above.

Request for general comments

In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:

- (a) Stakeholder perspectives – respondents representing stakeholders such as preparers (including smaller entities) of EER reports, users of EER reports, and public sector entities are asked to comment on the questions above from their perspective
- (b) Developing nations – recognising that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in using the draft guidance in a developing nation environment.
- (c) Translation – recognising that many respondents may intend to translate the final guidance for adoption in their own environments, the IAASB welcomes comments on potential translation issues.

24. No additional comments.