



Il Presidente

IAASB
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017
USA

21 June 2019

IAASB Consultation Paper – Extended External Reporting (EER) Assurance

Dear Sirs,

ASSIREVI is the association of Italian audit firms. Its member firms represent the majority of the audit firms under the oversight of CONSOB (*Commissione Nazionale per le Società e la Borsa*) and are responsible for the audit of almost all of the companies listed on the Italian stock exchange. ASSIREVI promotes technical research in the field of auditing and accounting and publishes technical guidelines for its members. It collaborates with Governmental bodies, CONSOB, the Italian accounting profession and other bodies in the development of auditing and accounting standards.

ASSIREVI is pleased to submit its comments on the Consultation Paper “Extended External Reporting (EER) Assurance” issued by IAASB in February 2019.

Our detailed comments to the questions are set out in the attached document.

Should you wish to discuss our comments, please do not hesitate to contact us.

Yours faithfully,


Mario Boella
Chairman of ASSIREVI



COMMENTS ON THE IAASB CONSULTATION PAPER

Extended External Reporting (EER) Assurance (February 2019)

DRAFT GUIDANCE COMMENTS

Q1) Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1?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?

In our opinion, the draft guidance addressed the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1. However, we noted some areas of improvements in order to provide additional guidance. Our recommendations regard as the following issues:

- **Paragraph 25 of the Explanatory Memorandum (System of Internal Control), related to Chapter 6 of the Draft Guidance (Paragraph 67-70):**

We suggest that paragraph 67 related to “Information system” and paragraph 70 related to “Control Activities” include mention of “*Information Provided by Entity*” (IPE), defined as follows:

“*IPE is any information created by the company using the entity’s IT applications, end user computing (EUC) tools or other means (including manually prepared information):*

- *System generated reports, or data*
- *Excel spreadsheets”.*

Although this term is not included in the glossary of ISAE 3000 (Revised), it is commonly utilized in practice. We suggest to include some examples relating to qualitative information.

- **Paragraph 33 of the Explanatory Memorandum (Materiality process), related to Chapter 8 of the Draft Guidance (Paragraph 131):**

Paragraph 131 lists the elements the practitioner has to consider in reviewing the context of the preparer’s materiality process. The Draft Guidance explains within the chapter only points (a) (EER report purpose) and (b) (Intended users) but it does not describe points (c) (Entity and its environment), (d) (System of internal control) and e) (Criteria).

With reference to materiality scope and consequential impact on the planning and execution of the procedures we believe that the guidance for the practitioners cannot be developed in isolation to the criteria that shall be addressed by those who are in charge for governance in preparing the EER. It should also be the outcome of the “standard setting process” (the suitable criteria): it should identify what is relevant, reliable and useful as part of the process required to develop the “suitable criteria”. Same drivers should be provided to preparers and practitioners regardless the judgement applied by them.

– **Paragraph 40 of the Explanatory Memorandum (Performing procedures and Using Assertions), related to Chapter 9 of the Draft Guidance (Paragraph 177):**

Paragraph 177 lists some examples of assertions that may be used in EER engagements. We suggest to include between the examples the following assertions:

- Completeness
- Valuation (i.e.: estimation of non-financial data at year end such as energy consumption, CO2 emission, water consumption, waste produced, training hours)

Additionally, it is recommended to add in the Draft Guidance a new chapter focused on Control Testing Methodologies or activities such as:

- Testing Methods;
- Guide for Sampling Sizes and Detection of Errors;
- Evaluation of control deficiencies.

Q2) 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?

We believe that the draft guidance is sufficiently clear and easy to understand. Regarding the Section 3 of the Explanatory Memorandum about ‘Significant Matters’, we report below some issues and opportunities for improvement which may be evaluated.

• **Examples, diagrams and terminology**

We found that examples and diagrams included in the Draft Guidance are appropriate in the way they can effectively enable the reader’s comprehension with respect to practical cases. In addition, whenever it is deemed necessary, the purpose of boxes named as “CONSIDERATIONS FOR THE PRACTITIONER” may be introduced in *Chapter 1: Introduction*, by explaining the way such boxes clarify/deepen/summarize specific contents which are already expressed within the text of the document.

We believe that terminology used in the Draft Guidance is consistent with terminology from the ISAE 3000 (Revised). At best, the insertion of a glossary for those recurring words that are not characteristic from the IAASB vocabulary may furtherly support the reader throughout the document.

• **The term ‘materiality process’**

The preparer’s ‘*materiality process*’ is correctly distinguished by the concept of *materiality of misstatements* considered by the practitioner, and the distinction is also clear from a formatting point of view. In fact, we consider it’s clear that the use of “*materiality process*” relates to a process and not to the Materiality concept as mentioned in the Standard. However, we believe that the opportunity to change the terminology, in order to avoid confusion when referring to the ‘*materiality process*’, should be taken into consideration. In this respect, terms such as *relevance* (e.g. ‘*relevance analysis*’ or ‘*relevance assessment*’) or *priorities/prioritization* (e.g. ‘*topics prioritization process*’) might be considered as globally used equivalent expressions to refer to. Alternatively, a preliminary paragraph clearly explaining the difference of the two concepts both deriving from the word *material/materiality* may also be helpful for all intended users of the Draft Guidance.

- **Assertions**

Paragraph 173 in Chapter 9 of the Draft Guidance clearly describes the meaning of the term *assertion* for the purposes of this document, not to be confused with similar wordings. However, since the use of assertions is not required by ISAE 3000 (Revised) and is adapted from other IAASB standards, some confusion may emerge about the distinct purposes of the characteristics of suitable criteria (in ISAE 3000 (Revised)) and of assertions (in other IAASB standards) depending on the experience and background of the practitioner. We suggest the introduction of one or more examples to clarify this point as well as of a clarification on the context where assertions may be used.

Q3) Do you support the proposed structure of the draft guidance? If not, how could it be better structured?

We support the proposed structure of the draft guidance.

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

Q4) Do you agree that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised), and that the draft guidance does not introduce any new requirements?

In our 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:

- a. *planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures; and*
- b. *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.

Q5) Do you agree with the way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised)?

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.

Q6) Do you agree that the additional papers contain further helpful information and that they should be published alongside the non-authoritative guidance document?

In ASSIREVI’s view, any effort for improving the understanding of the preparers and practitioners role in relation to EER is important.

According to ASSIREVI’s view, there are not significant issues in publishing the additional papers alongside the Draft Guidance but, to avoid any misunderstanding, the additional paper could be clearly labeled as it follows “this is not an integral part of the non-authoritative / non-mandatory document”.

Q7) In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:

- c) Translation—Recognizing that many respondents may intend to translate the final guidance for adoption in their own environments, the IAASB welcomes comments on potential translation issues.**

Considering that many countries may translate the Draft Guidance into their own languages, we think it will be useful to include at the beginning of this document a glossary containing the most important terms. This policy is already in use for other international standards already published (see paragraph called “Definitions” in ISA/ISRE/ISAE).

We are aware that some of the terms used in the Draft Guidance are already present in other international standards or in the Draft Guidance itself, however for a day-by-day use, collect the most important terms in this document with the relevant definition may reduce time spent in glossary researches and help its correct comprehension.

Milan, 21 June 2019