



The Chairman

IAASB
International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue,
New York, NY 10017

13 July 2020

Public consultation on proposed Guidance – Proposed Non-Authoritative Guidance – Extended External Report (EER) Assurance

Dear Sirs:

Assirevi is the association of the Italian audit firms. Its member firms represent the vast majority of the audit firms licensed to audit companies listed on the Italian stock exchange and other public interest entities in Italy, under the supervision of CONSOB (*Commissione Nazionale per le Società e la Borsa*).

Assirevi promotes technical research in the field of auditing and accounting and publishes technical guidelines for the benefit of its members. It collaborates with CONSOB, the Italian accounting profession and other bodies in developing auditing and accounting standards.

Assirevi is pleased to submit its comments on the “**Proposed Non-Authoritative Guidance – Extended External Report (EER) Assurance**” issued by the IAASB in March 2020, as detailed in the enclosed document.

Should you have any queries, please do not hesitate to contact us.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Gianmario Crescentino".

Gianmario Crescentino
Chairman

(Enclosure)

COMMENTS ON THE IAASB PUBLIC CONSULTATION ON PROPOSED NON-AUTHORITATIVE GUIDANCE

Extended External Reporting (EER) Assurance

(March 2020)

OVERALL COMMENTS

Regarding both Question 1 and Question 2, we would like to underline some overarching comments. More specific comments are then outlined for each single Chapter where useful.

Q1 Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance?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?

The publication of the Draft Guidance (hereinafter the Guidance) to clarify some of the aspects outlined in the existing assurance principles (e.g. ISAE 3000 Revised, hereinafter "ISAE 3000") when facing EER assurance engagements is certainly useful. We support the revised structure and order of the Guidance: we think that ordering the Chapters based on the flow of various stages and other aspects of the performance of an engagement is a more logical order for the practitioner to follow.

The Guidance has to be read alongside ISAE 3000: in this respect, we consider it necessary that the Guidance provides a clear explanation of how to use the existing assurance principles in EER engagements. As we already stressed in our comments to the previous consultation (2019), the Guidance should not add new requirements.

Furthermore, we believe that the Guidance should be more useful to practitioners by providing more examples of the procedures and considerations that can help practitioners in conducting these types of EER assurance engagements.

With reference to the various matters included in the Guidance, such as the entity's process to identify reporting topics, the system of internal controls, the suitability of criteria, we believe that this Guidance for practitioners should take into account the developments addressed by the EER standard setters.

Moreover, some parts of the Guidance do not seem to add any suggestions or explanatory materials on the elements already included in the relevant ISA/ISAE standards. In those cases it might be useful to simply cross reference the related standards.

In addition, the Guidance should better clarify when it refers to requirements coming from ISAE 3000, as opposed to the application and explanatory material of the assurance principle.

The concepts expressed in the Guidance are sometimes directed at helping practitioners in conducting an EER reasonable assurance engagement. At the moment, however, the most common level of assurance for engagement on non-financial statements/sustainability reports is limited assurance: it would therefore be important for the Guidance to also address in greater detail limited assurance issues.

Overall, the impression when reading the Guidance is that the focus is more on the description of possible situations that the practitioner could face rather than (and often times without) providing guidance around how to plan and execute assurance activities in these situations.

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?

The Guidance contains a huge number of cross-references between the Guidance itself and the Supplements.

We agree that the Guidance should include hyperlinks and pop-ups to render the document more user-friendly without becoming unduly long. We suggest anyway to include illustrative examples (currently described in Supplement B) directly in the Guidance. At the same time, Supplement A could be summarized and merged with the Guidance itself.

Moreover, in our opinion, it would be useful to include at the end of each Chapter a table to help practitioners to discern between requirements for reasonable and for limited assurance engagement. This would be useful in particular to determine preconditions and agree the scope of the EER assurance engagement.

CHAPTER 1: APPLYING APPROPRIATE COMPETENCE AND CAPABILITIES

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?

Paragraph 24 includes a significant sentence: “The competence needed to perform an assurance engagement includes both competence in assurance skills and techniques (hereafter “assurance competence”) and competence in the underlying subject matter of the engagement and in its measurement or evaluation (hereafter “subject matter competence”).”

We suggest underlining this sentence by separating it from the additional text because it contains a fundamental principle for EER assurance.

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?

With reference to Paragraph 26 we would suggest not to mention the existence of competence in both auditing skills and techniques and in financial accounting in a financial statement audit engagement. Auditors’ competences are already far beyond those mentioned (e.g. legal, tax, cost control issues) – and they can use appropriate specialists when needed. Also, if we consider the recent digitization and automation

of accounting, we must conclude that today a more extensive expertise is already needed for a financial statement audit engagement. The paragraph seems to imply that a practitioner performing financial statement audit engagements may have a level of subject matter competence lower than what is required by a complex EER reporting engagement. The difference, however, is not between financial and non-financial assurance engagements, but between simple and complex engagements: auditors may use the work of experts in complex engagements.

We would therefore suggest to reconsider paragraph 26.

As regards **paragraph 27**, it refers to using the work of an expert. It also clarifies that the expert is not required to have assurance competence, and only needs sufficient understanding of ISAE 3000. We would suggest to rephrase the paragraph by referring to the principles already stated in ISA 620.

Paragraph 38, and Diagram 2, are not clear in our opinion: this paragraph seems to refer to ISQC1, while the diagram seems to use the same wording as ISQM. At the moment, it should refer to ISQC1 and the paragraph should be updated when ISQM is in force.

In **paragraph 43**, the definitions of “professional accountant” and “assurance practitioner” should be improved: actually, the paragraph does not clarify the differences.

CHAPTER 2: EXERCISING PROFESSIONAL SKEPTICISM AND PROFESSIONAL JUDGMENT

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?

In general, this Chapter clearly addresses the challenges for practitioners.

Paragraph 49 should clarify that the factors identified are mentioned as examples.

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?

Chapter 2 is well structured and easy to use. It provides a wide and detailed definition of professional skepticism. **Diagram 4** is clear and useful to exercise professional skepticism.

Paragraph 47 appears to be redundant though, as it repeats concepts already expressed in previous paragraphs. It could be reduced or deleted.

CHAPTER 3: DETERMINING PRECONDITIONS AND AGREEING THE SCOPE OF EER ASSURANCE ENGAGEMENT

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?

In **paragraph 83** it would be useful to better outline the kind of analysis that the practitioner has to conduct on the internal control system (in particular the internal control system related to non-financial information) in the acceptance phase of the engagement. In particular, it would be helpful to provide an overview of the different approach and procedures to be performed for a reasonable assurance engagement and a limited assurance engagement.

Considering **paragraph 84 et seq.**, it would be useful to add a specific note to clarify that the information within the perimeter should be easily identified. Intended users should have a clear understanding that the perimeter of the activities of the practitioner is limited to certain items.

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?

In **paragraph 69, diagram 5** is not sufficiently clear nor detailed. The link between circumstances and preconditions could be better highlighted and detailed.

The content of **paragraphs 78-81** is further explained in Chapter 4. A simple cross-reference would therefore be enough.

In our view, the narrative example included in the second sentence of **paragraph 95** in Chapter 3 (“*Similarly in the context*”) does not cover the definition of the scope of the engagement because it depicts the testing strategy and approach determined by the practitioner in accordance with his/her professional judgement (and relevant professional standards). To avoid any unintended consequences, we also suggest to include – on top of example 3 presented in Appendix B (or in a separate example) how the scope paragraph of the assurance report would describe the so called “rolling program”.

Paragraph 104 in Chapter 3 explains the nature of a “separate pre-acceptance engagement” as being an “assurance readiness engagement”. However, paragraph 107.b affirms that such engagement is performed in accordance with “agreed terms”. To avoid unintended consequences we believe that the Guidance should clearly explain the nature (and rationale) of such “pre-acceptance engagement”, consistently with professional standards.

CHAPTER 4: DETERMINING THE SUITABILITY AND AVAILABILITY OF CRITERIA

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?

Considering paragraphs 129 and 167, it would be useful to have a guidance on how to deal with possible inconsistencies and/or contradictions between different EER frameworks and how this could impact the work of the practitioner.

CHAPTER 5: CONSIDERING THE SYSTEM OF INTERNAL CONTROL

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?

We note that some areas of improvement do exist in order to provide more specific guidance for practitioners. Our recommendations concern particular circumstances in which an EER reporting process obtains data or information from an external source (paragraphs 204-206). The Guidance clearly describes examples of possible information obtained from an external source and possible approaches for the Reporting Entity to implement an internal control system; however, more detailed guidance and examples could be provided to practitioners (paragraphs 211-213) about how to provide limited or reasonable assurance on such information.

As already mentioned, the Guidance is focalized on the description of possible situations that the practitioner could face – but it does not provide indications on the assurance approach to adopt in those specific situations.

CHAPTER 6: CONSIDERING THE ENTITY'S PROCESS TO IDENTIFY REPORTING TOPICS

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?

The topic of this Chapter is crucial in the process of preparing an EER (e.g. Sustainability Report or NFRD). In fact, the language is focused more on the role of the preparer and less on the role of the practitioner. Overall, this paragraph seems to fairly outline the issues that practitioners might face in practice, without however providing much help on how to solve them.

The last sentence in paragraph 226 states that *“If the preparer has not undertaken an appropriate process to determine the contents of the EER Report, the practitioner may need to consider whether this suggests the preconditions for an assurance engagement are not all present”*. This point is not sufficiently clear and detailed about what the practitioner should do in this situation, nor is this matter addressed in (nor linked to) Chapter 3, which deals with preconditions. In addition, this statement in the context of Chapter 6 may be misleading with respect to the extent of procedures that should be carried out before the acceptance of an engagement –

whether in relation to a limited assurance engagement, “*considering the process used to prepare the subject matter information*”, or in connection with a reasonable assurance engagement, “*obtaining an understanding of internal control over the preparation of the subject matter information*”. It is beneficial to point out that conducting extended procedures on the entity's process before the acceptance of the engagement, to identify reporting topics as part of the verification of the pre-conditions, may not be practically feasible; the Guidance should hopefully take this circumstance into account.

Paragraphs 244, 245 and 246 refer to the concept of impact, in a way similar to the “double materiality” concept described in the new consultation on the NFRD EU Directive, which requires that companies disclose not only how sustainability issues may affect the company, but also how the company affects society and the environment (this is the so-called “double materiality perspective”). These paragraphs should better clarify this concept.

Paragraph 250 does not seem to be clearly linked to either the preceding or the following paragraphs.

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?

Paragraphs 215 and the following often refer to “EER frameworks” as the source for guidance and instructions for the preparer. Moving from this perspective, the Chapter, even if quite long, appears nonetheless to be incomplete or to overlap different EER frameworks for practitioners. The first part of the paragraph (“EER frameworks commonly refer to such a process as a ‘materiality assessment’ or ‘materiality’”) clarifies the concept of materiality on the preparer’s side. The remaining part of the paragraph (“*However, the concepts of relevance and materiality are not the same, even though both refer to user decision-making. Relevance is considered in evaluating the suitability of criteria, whereas materiality is considered in the context of potential and identified misstatements of the subject matter information. Materiality is a threshold of significance to decision-making considered by the practitioner in relation to potential and identified misstatements, in the circumstances of the engagement. Applying the concept of materiality in that context is discussed in G.Ch9.*”) refers to the concept of relevance and materiality on the practitioner’s side. It would be therefore more appropriate to move this latter part of the paragraph to either Chapter 4 (“Determining the Suitability and Availability of Criteria”) or Chapter 9 (“Considering the Materiality of Misstatements”).

CHAPTER 7: USING ASSERTIONS

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?

As regard **Paragraph 261**, this new draft Guidance clarifies that the use of assertions is not required but may be a useful tool for practitioners in considering how misstatements might arise in the subject matter information.

Considering paragraph 259, in order to have a clear and complete definition of "assertion" for the practitioners, we suggest to use the definition contained in standards ISA 315 and ISAE 3410 par 33L.33R -A81-A82 (using for example hyperlinks).

CHAPTER 8: OBTAINING EVIDENCE

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?

As regard paragraph 271, the Chapter refers explicitly to the existing standard ISAE 3000 Revised (S.48L / R-60): it would be useful to introduce further examples of limited versus reasonable assurance evidence required for EER reporting information, in addition to the examples included in supplement B.

CHAPTER 9: CONSIDERING THE MATERIALITY OF MISSTATEMENTS

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?

In order to better serve the public interest in EERs, we recommend the following improvements:

- **Practitioner responsibilities in relation to identified misstatement – Diagram 10** included in paragraph 303 (see below) provides guidance on practitioner responsibilities in relation to identified misstatements.

Practitioner Responsibilities

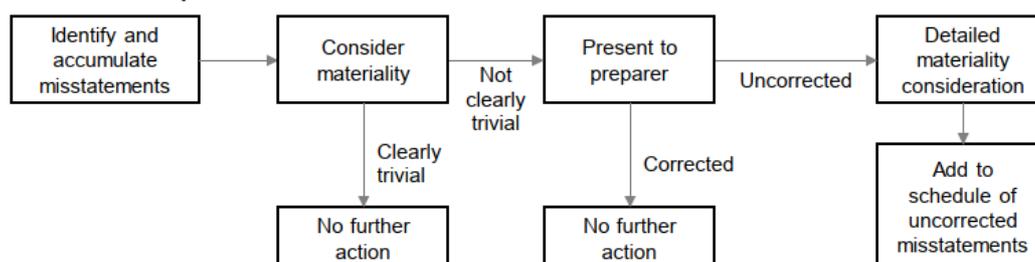


Diagram 10 - Practitioner Responsibilities in Relation to Identified Misstatements

The diagram above seems to suggest that no further action is needed for corrected misstatements. The Guidance should clarify that when the practitioner identifies misstatements, both corrected and uncorrected, the practitioner assesses: (i) the impact of those misstatements on its substantive procedures, (ii) the nature and extent of the misstatements identified, regardless of whether the entity corrects these misstatements (i.e., if the corrected and uncorrected misstatements are an indication that controls are not operating effectively, or of a previously unidentified inherent risk or risk of material misstatement due to fraud).

- **Accumulating misstatements** - Paragraph 310 provides guidance on how misstatements should be accumulated: *“After considering misstatements individually, the practitioner may need to consider misstatements in combination with others”*. According to paragraph 316, *“the practitioner is required to form a conclusion about whether the subject matter information is free from material misstatements, including whether the uncorrected misstatements are material, individually or in the aggregate. Whether the subject matter information is materially misstated, the practitioner follows the requirements in S.74-77”*.

The Guidance should clarify that the practitioner should evaluate not only the materiality of the uncorrected misstatements, but also their pervasiveness (see ISAE 3000.A189), in order to conclude whether the sustainability report is materially misstated (adverse conclusion).

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?

We recommend the following improvements:

- provide more qualitative examples on errors to be classified as “trivial errors”;
- provide examples on how to accumulate uncorrected misstatement, given the fact that an EER report comprises different and various underlying subject matters.

CHAPTER 10: PREPARING THE ASSURANCE REPORT

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?

Paragraph 341 provides guidance on the identification of the addressee. *“An addressee identifies to whom the assurance report is directed. This may be done for example by referring to the intended users in the title of the assurance report, or in the body of the report.”* In order to avoid misunderstandings, we suggest referring to ISAE 3000.A163 *“An addressee identifies the party or parties to whom the assurance report is directed. The assurance report is ordinarily addressed to the engaging party, but in some cases there may be other intended users”*.

As far as **Specific Purpose reports** are concerned, paragraph 342 provides guidance on “intended users” and “restriction of use”, making directly reference to ISAE 3410.A47.

Since the EER is expected to have a broader scope and not only include greenhouse gas statements, we suggest to:

- separate paragraph 341 from paragraph 342 with a subtitle “specific purpose”,
- make reference to ISAE3000.A167 and ISAE3000.A168, instead of ISAE 3410.A47, which describe the scope of Specific Purpose reports.

Reporting guidance included in Chapter 10 does not present any example of conclusions on *“quantitative subject matter information”* presented in combination

with “*qualitative future oriented*” information. We believe that such an example would facilitate the combination of reporting concepts resulting from ISAE 3000 with those embodied in ISAE 3400.

CHAPTER 11: ADDRESSING QUALITATIVE EER INFORMATION

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?

We noted some areas of improvement in order to provide more specific guidance for practitioners. Our recommendations are as follows:

- **Specific Considerations for Evaluating Misstatements in Qualitative Information (Paragraphs 396-406).** There are no practical examples of qualitative information misstatements. The concepts developed remain at a theoretical and abstract level and this does not help the practitioner.
- **Specific Considerations for Communicating in Assurance Report Qualitative Information (Paragraphs 411- 412).** The Guidance is unclear on this point and too short. Considerations are quite obvious for an auditor but should be further developed for practitioner’s expert.
- As described in example 8 included in Supplement B, the boundary between “subject matter information” and “other information” is the result of the assessment of several aspects (“the extent to which the evidence may be needed”, “the likelihood of it being materially misstated or misleading in this case”, “and that the intended users may not pay much attention to it”). While acknowledging that Paragraph 286 in Chapter 8 restates the professional standards applied in an assurance engagement, we believe that Chapter 11 should clearly explain that the established criteria, if available, represent the appropriate metrics to set a distinction between “subject matter information” and “other information”. In our view, such explanation would reinforce the consistency with the guidelines reported in Chapter 10 at Paragraph 346 and facilitate the evaluation required by Paragraph 172 at Chapter 4.

CHAPTER 12: ADDRESSING FUTURE-ORIENTED EER INFORMATION

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?

The Guidance addresses generic procedures to be designed for practitioners. We note some areas of improvements in order to provide more specific guidance for practitioners in the context of future-oriented information. Our recommendations are as follows:

- Referring to **Paragraph 428**, evidence of future-oriented information should be consistent with the company's business plan in fact many data and information, even if not financial, could impact on financial forecasts.

A procedure could be designed to obtain audit evidence to support the feasibility of the objectives that underlie future-oriented information provided, creating relationships with the business plan approved by the Board of Director.

In addition to the sensitivity analyses (Paragraph 432), the design of procedures for authenticating the information sources used to predict future events could be envisaged.

Referring to **Paragraph 434, b)**, experts' work on specific topics could be used to assist the practitioner in evaluating the sufficiency and appropriateness of the assurance evidence obtained for future-oriented information.

- **Paragraph 422.b** at Chapter 12 apparently introduces in the range of future-oriented EER information the "hypothetical things that will never be observable". We believe that the guidelines should provide examples of the nature of such information and specific indications on how the practitioner can obtain evidence.