

21 June 2019

Willie Botha  
Technical Director  
c/o International Auditing and Assurance Standards Board  
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On-line submission

Dear Willie

**CPA Australia Submission on the IAASB's Consultation Paper: *Extended External Reporting (EER) Assurance***

CPA Australia represents the diverse interests of 164,000 members working in 150 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia considers the IAASB Consultation Paper (CP) a significant milestone in supporting assurance engagements on extended external reporting (EER) and advancing the realisation of the IAASB's goal to develop non-authoritative EER guidance. We welcome the development of this guidance to address a number of the challenges previously identified.

Overall, we consider that the CP provides comprehensive guidance on those challenges addressed so far. In further refining the guidance and progressing with Phase 2, there are some areas which we recommend the IAASB consider. We note that issuing a CP, which addresses only a selection of identified challenges, may not provide an encompassing overview of the "bigger picture" of assurance engagements for EER and may, in fact, have to be reviewed again once remaining challenges are addressed in Phase 2. In particular, once the challenges of *Applying Appropriate Skills*, *Exercising Professional Skepticism* and *Preparing the Assurance Report* are addressed, the way challenges addressed in Phase 1 are interpreted, may be affected.

Moreover, the guidance is at risk of becoming a lengthy and overly complex document. In its current form, the draft guidance (Phase 1) is 57 pages long (including Appendix 1). Given that Phase 1 does not address all identified challenges and does not discuss several challenges in their entirety, CPA Australia is concerned that practitioners may find it challenging to implement such a lengthy document. We suggest inserting hyperlinks referring to relevant sources and standards (e.g. ISAE 3000 (Revised)), which provide necessary detail (refer to our response to **Question 3**). Such measures would not only shorten the overall length of the guidance but also facilitate understandability and readability (refer to our response to **Question 2**).

Further, to foster the credibility and understandability of the guidance, the inclusion of examples in an EER assurance process case study may be helpful. Such case study, which contextualises all ten key challenges potentially faced in the assurance engagement would help practitioners in using the guidance.

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Finally, in its current form, the guidance demonstrates a predominant focus on Sustainability Reporting under the GRI framework. For the guidance to cater to other types of reporting, we recommend the inclusion of examples/case studies that address <IR> and management commentary.

In the attachment to this letter, we have provided responses to specific questions raised in the CP for consideration by the IAASB when finalising Phase 1, as well as progressing Phase 2 of the EER guidance. If you require further information on the views expressed in this submission, please contact Claire Grayston, Policy Adviser – Audit & Assurance, on +61 3 9606 5183 or at [claire.grayston@cpaaustralia.com.au](mailto:claire.grayston@cpaaustralia.com.au).

Yours sincerely



Dr Gary Pflugrath  
Head of Policy and Advocacy

## ATTACHMENT

### 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?

- **Frameworks illustrated:** The EER guidance in its current form does not seem to be framework-neutral. There appears to be a predominance of sustainability-related matters being covered, with particular focus on GRI, which is emphasised by the examples provided. Consequently, this may limit the value of the EER guidance to those stakeholders providing assurance on, for instance, management commentary or integrated reports. Therefore, we suggest adopting a more macro-level approach that ensures the coverage of a wider range of relevant reporting issues. To achieve this, the guidance could be more framework-neutral to ensure that a broader range of reporting is considered by:
  - Consideration of the work being undertaken by the International Accounting Standards Board (IASB) regarding the revision and update of the IFRS Practice Statement 1 *Management Commentary* issued in 2010. While developing further Phase 1 of the EER guidance, and when commencing with Phase 2, the IAASB should ensure that the scope of the guidance also encompasses matters concerning assurance on management commentary, such as the Strategic Report required in the UK, the Management Discussion and Analysis in the US and the Operating and Financial Review in Australia.
  - Provision of more “high level” examples: for example, with respect to the ‘Materiality Process’. We suggest including examples that demonstrate in detail how entities report their materiality process and present their materiality results. In this regard, we suggest the provision of best practice <IR>, best practice management commentary and best practice Sustainability Report examples that illuminate the materiality process. This would allow users of the guidance document to work through a more explicitly described process. Through the coverage of a multitude of diverse reporting matters, the guidance would evidently adopt a bigger picture perspective, while users would be offered a clearer demonstration of the applicability of the guidance.
  - Shortening the main body of the guidance and moving examples/case studies to the Appendix would improve the usability and readability of the guidance. In this context, it might not be necessary to provide multiple examples comparing financial reporting with GRI. In fact, the examples may shift users’ focus towards financial reporting, away from EER. Provided examples may even give the wrong impression to assurance providers with limited accounting knowledge. To ensure the integrity and credibility of the guidance we propose centring examples on matters related exclusively to EER.
- **‘Preconditions and the System of Internal Control’:** we suggest that the pre-conditions discussion in Chapter 6 should be extended to include aspects of business strategy, governance, and risk management. In this respect, the guidance should note that pre-conditions for assurance should extend to the existence and documentation of these matters.
- **‘Suitability of Criteria’:** While the guidance, particularly the examples in Chapter 7, provide valuable assistance to practitioners in determining the suitability of criteria, it should be acknowledged that in practice the evaluation of the suitability of criteria may prove to be challenging given the principle-based nature of some reporting frameworks. For example, we note that <IR> is highly principle-based which does not provide much granularity with respect to criteria. In contrast, the GRI reporting framework provides quite specific criteria. The less

granular the framework the greater the scope for different interpretations of the suitable criteria.

**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?**

- We welcome the attempt to use plain language in order to facilitate the readability of the guidance. However, the guidance still uses a lot of jargon and technical language, which makes it read somewhat like a standard and makes it somewhat inaccessible in places. Further work to simplify language and reduce the use of jargon and technical language would be beneficial particularly to assist assurance providers from outside the accounting profession.
- In addition to using more non-technical language when developing Phase 2, we also suggest streamlining the guidance by providing case studies. This would help to make the guidance more practical by illustrating how to apply what is proposed by the IAASB. Incorporating case studies in the Appendix that exemplify and contextualise all ten key challenges for EER would enhance the usability of the guidance (refer to response to **Question 1**).

**3. Do you support the proposed structure of the draft guidance? If not, how could it be better structured?**

- ISAE 3000 (Revised) is repeatedly interpreted and paraphrased, which not only increases the length of the guidance but potentially hinders its usability. We suggest including a reference at the beginning of the guidance to the importance of ISAE 3000 (Revised) in understanding the guidance and rely on cross-references using hyperlinks to relevant paragraphs of ISAE 3000 (Revised). In this way, the IAASB could cut the length of the document, and enhance usability of the guidance.
- Further, we understand that the challenges listed in Appendix 1 (page 71) of the guidance were ordered to accord with the approach of an assurance engagement. We suggest reordering the sections within the guidance to be aligned with this list of challenges. The structure of the guidance would then be more consistent with ISAE 3000 (Revised).
- Overall, the structure of the guidance can be enhanced using more examples in the form of case studies that draw from other commonly used EER frameworks such as <IR>, Sustainability Reporting and management commentary (refer to responses to **Question 1** and **Question 2**).

**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?**

- Although the guidance is based on the requirements of ISAE 3000 (Revised), there is not strict alignment between ISAE 3000 (Revised) and the guidance. The guidance also draws on concepts from other IAASB standards, which needs to be explicitly acknowledged. For instance, the requirements in ISAE 3000 (Revised) do not cover suitable criteria, the use of assertions, or the relevance of internal controls as pre-conditions for the engagement. These examples included in the guidance instead align and/or link with other auditing and assurance standards.
- This, in turn, raises the question of whether the guidance is supposed to be a stand-alone document, or whether practitioners, when using the guidance, are expected to read and use it in conjunction with other standards. The fact that certain matters are not covered by ISAE

3000 (Revised) but are instead addressed in certain other auditing or assurance standards suggests that reference to other standards is necessary but this is not made clear. We question to what extent the guidance would be useful and accessible to assurance providers outside the accounting profession, if they require a detailed knowledge of these other standards.

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

- Refer response to **Question 4**.

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

- We find the “Background and Contextual Information” on pp. 72-76 to be confusing. However, we consider the “Four Key Factor Model” on p. 77 and “Figure 1: Overview of Credibility and Trust” as useful. We suggest providing clearer examples in the “Background and Contextual Information” section. Such examples could be integrated into a case study, which provides insights into an assurance engagement from beginning to end (refer to response to **Question 1**).