

21 June 2019

Willie Botha — Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017

Dear Mr. Botha:

Deloitte Touche Tohmatsu Limited (DTTL) is pleased to have the opportunity to provide comments on the *Extended External Reporting Assurance Consultation Paper* (“EER consultation paper” or “proposed draft guidance”) issued by the International Auditing and Assurance Standards Board (IAASB) in February 2019.

## **Overall comments**

Consistent with DTTL’s response to the discussion paper on this topic issued by the IAASB in 2016, DTTL supports and appreciates the work of the IAASB regarding extended external reporting (EER) and the issuance of the EER consultation paper. The demand for assurance in areas outside of the financial statements continues to grow and EER reporting is an area of increasing focus by investors. DTTL recognizes the need to provide guidance to enable more consistent and appropriate application of International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, to assurance engagements over extended external reporting (EER) subject matter information (“EER reports” or “EER disclosures”).

DTTL has several overarching observations and recommendations to enhance the clarity and completeness of the proposed draft guidance. These overall comments are as follows:

## **Applicability of the EER Consultation Paper**

DTTL believes that additional clarity is needed regarding the applicability of the EER consultation paper and what subject matter information EER is intended to capture. Paragraph 1 of Chapter 1 states “EER encapsulates many different forms of reporting, including, but not limited to, integrated reporting, sustainability reporting and other reporting by entities about environmental, social, and governance (ESG) matters.” This is a broad characterization; however, the examples in the proposed draft guidance focus primarily on ESG matters. DTTL appreciates the intent to use the examples on ESG matters as a reference point to illustrate EER reporting and disclosure practices applicable to subject matters outside of ESG matters. Since there are many different frameworks and forms of reporting within EER, DTTL believes that additional guidance and examples are needed around the applicability of the proposed draft guidance to types of EER reports or disclosures and EER subject matters outside of ESG matters where the criteria may be less defined (e.g., integrated reporting, other nonfinancial information). Furthermore, DTTL recommends adding language to recognize that given the varied nature of the EER

subject matters, the practitioner may need to exercise judgment in ascertaining whether the proposed draft guidance is applicable to the engagement.

## Presentation

DTTL supports the structure of the proposed draft guidance and finds that dividing the different aspects of undertaking an assurance engagement into chapters is straightforward. DTTL has the following two broad observations to enhance the structure of the drafted guidance:

DTTL agrees that ISAE 3000 (Revised) should be the foundation for the drafted guidance within the EER consultation paper; however, there are portions within the proposed draft guidance that reference ISAE 3000 (Revised) extensively and it may be difficult for a reader to distinguish between content that is directly from ISAE 3000 (Revised) and new content within the proposed draft guidance. Setting apart content that is directly from ISAE 3000 (Revised) may more clearly differentiate that content within the drafted guidance. This may be accomplished through incorporating links to ISAE 3000 (Revised), including the content directly from ISAE 3000 (Revised) in boxes shaded grey or by providing the content from ISAE 3000 (Revised) in a table to set it apart from the nonauthoritative guidance. Furthermore, incorporating a glossary will provide a clear way to distinguish between terms from IAASB standards and new terms. DTTL recommends adding a glossary to define certain terms and has included a list of terms in response to **Question 2 in Appendix I**.

The first additional paper, *Background and Contextual Information on Understanding How Subject Matter Information Results from Measuring or Evaluating Subject Matter Elements Against the Criteria*, explains and provides context to concepts within Chapter 7 of the proposed draft guidance. Whereas the second additional paper, *Four Key Factor Model for Credibility and Trust in Relation to EER*, explains and provides concepts that occur throughout several chapters, mostly within Chapter 8, of the proposed draft guidance. The additional papers include references to applicable sections of ISAE 3000 (Revised); however, DTTL believes that including references within the additional papers to the related paragraphs or chapters of proposed draft guidance will increase clarity between the concepts included in the proposed draft guidance and provide further explanation and context for those concepts included in the additional papers.

## Examples and Diagrams

DTTL supports the use of examples and diagrams throughout the proposed draft guidance and believes that they serve an important role in providing insight into the practical application of certain guidance. Several of the examples serve as good illustrations of scenarios that may require additional practitioner judgment; however, DTTL believes that the examples could be enhanced by illustrating what courses of action preparers and practitioners may take in response to the scenarios and, where applicable, the impact to the presentation within an EER report. DTTL has included suggestions for specific examples as well as diagrams in response to **Question 2 in Appendix I**.

As discussed in response to **Question 6 in Appendix I**, DTTL appreciates the IAASB's efforts to create additional papers to better support and illustrate key topics in the proposed draft guidance. Several of the examples within Chapters 7 and 8 as well as the additional paper, *Background and Contextual Information on Understanding How Subject Matter Information Results from Measuring or Evaluating Subject Matter Elements Against the Criteria*, illustrate only discrete aspects of evaluating the suitability of criteria or considering the entity's "materiality process." DTTL recommends developing an Appendix with more comprehensive examples to illustrate what an entity's materiality process might encompass and what a practitioner might do as part of their evaluation of that entity's materiality process. In addition, these examples should illustrate the link between determining the suitability of criteria and considering the entity's materiality process, including how to refer to or describe applicable criteria, when a preparer uses an EER framework and supplements the criteria with a materiality process. The more comprehensive examples should also encompass scenarios where the scope of assurance provided is limited to specific indicators in an EER report. DTTL believes that developing comprehensive examples

that demonstrate how the practitioner addresses various aspects of performing an assurance engagement on EER reports will provide preparers and practitioners alike with important practical guidance on these key topics.

## **Terminology**

As discussed in the introductory materials for the EER consultation paper, the drafted guidance and terminology used therein is based on and is broadly consistent with ISAE 3000 (Revised). There is, however, terminology introduced in the proposed draft guidance that is not contained in ISAE 3000 (Revised) (e.g., materiality process) or terminology that has been incorporated from other IAASB standards (e.g., “assertions”). DTTL appreciates that the IAASB has generally identified any new terms and has provided their rationale for using such terms. It is important that the use of new terminology or incorporating terminology from other IAASB guidance is clearly defined and used consistently within the proposed draft guidance. As mentioned above, DTTL recommends adding a glossary to define certain terms. In addition, DTTL believes that the use of certain terms such as assertions, materiality process, “subject matter elements,” and “topics” is not consistent within the proposed draft guidance or is inconsistent with other IAASB standards. DTTL has included commentary on these terms in response to **Question 2 in Appendix I**.

## **Considerations for Development of Phase 2 Guidance**

DTTL appreciates that the IAASB has divided the project into two phases and that the request for comment is focused on the guidance developed as part of phase 1. In an effort to help with phase 2, DTTL offers several recommendations regarding certain topics to be developed as part of phase 2.

*Written representations:* Paragraph 34 of Chapter 2 states that while ISAE 3000 (Revised) includes requirements related to requesting written representations, those requirements are outside the scope of the proposed draft guidance. While written representations were not identified as a challenge for the practitioner in developing the guidance, DTTL believes that providing examples of written representations will be helpful, especially as it relates to representations that a practitioner may request concerning a preparer’s materiality process and the appropriateness of the subject matter information when the scope of an engagement is limited to specific indicators, “narrative,” and “future-oriented” information.

*Other information:* Paragraph 36 of Chapter 2 states that further guidance on a practitioner’s responsibilities in respect to “other information” is outside the scope of the drafted guidance; however, the proposed draft guidance contains several discussions on other information in Chapters 3, 8, and 10. DTTL believes that further guidance on a practitioner’s responsibilities over other information, discussed in paragraph 57 of Chapter 3, would be helpful. Specifically, when the scope is narrow, and the subject matter information is limited to a small set of specific indicators within an EER report, as opposed to the entire EER report. To avoid confusion and bring transparency to the content in the EER report that is subject to the assurance engagement, DTTL recommends providing guidance on how the presentation of other information could be disclosed in an EER report and the assurance report so that it is clear that other information is not subject to the assurance engagement, especially when other information is not in a discrete section of the EER report.

*Assurance over narrative and future-oriented information:* DTTL agrees that whether a practitioner can provide assurance on narrative or future-oriented information depends on the criteria and availability of appropriate evidence and understands that guidance on obtaining evidence in relation to narrative and future-oriented information is to be developed in phase 2. DTTL believes that the proposed draft guidance in Chapters 10 and 11 identifies challenges that practitioners face but does not address how practitioners may respond to those challenges. It will be important that the guidance over obtaining evidence in relation to narrative and future-oriented information includes examples of suitable criteria, appropriate evidence, and procedures that practitioners may perform to obtain appropriate evidence.

DTTL's detailed comments are attached to this letter as follows:

**Appendix I** — Specific Requests for Comments

**Appendix II** — Other Recommendations and Editorial Comments

**Conclusion**

DTTL is supportive of the work on EER that the IAASB has undertaken and believes that certain aspects of the EER consultation paper should be revisited to provide additional clarity and greater consistency in application of ISAE 3000 (Revised). The recommendations articulated in this letter are provided to assist the IAASB as it continues its development of nonauthoritative guidance relating to EER.

DTTL appreciates the opportunity to provide our perspective on the EER consultation paper and would be pleased to discuss this letter with you or your staff at your convenience. If you have any questions, please contact me via email (cbuss@deloitte.ca) or at +1 604 640 3313.

Very truly yours,

A handwritten signature in black ink, appearing to read "Calvin H. Buss". The signature is fluid and cursive, with a large initial "C" and "B".

Calvin H. Buss, FCPA, FCA

Senior Managing Director, Global Audit & Assurance Quality Leader  
Deloitte Touche Tohmatsu Limited

## **Appendix I – Specific Request for Comments**

DTTL’s responses to the detailed questions included in the IAASB’s Explanatory Memorandum accompanying the EER consultation paper are set forth in this appendix. In these comments, recommended additional text is shown using **bold underline**; recommended deletions to the text are shown using double ~~strike through~~.

### **Questions for Respondents**

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

DTTL has included commentary and recommendations below for each of the areas highlighted in paragraph 10 of the Explanatory Memorandum as being in-scope for phase 1.

##### **Evaluating the suitability of criteria in a consistent manner**

###### *Overall Observation*

EER frameworks and criteria are mentioned throughout the proposed draft guidance. DTTL believes that EER frameworks represent the criteria applied in preparing EER reports; however, this link is not clearly stated within the proposed draft guidance. DTTL recommends providing a clear link between these concepts within the proposed draft guidance and has included an example of this recommendation below:

2. EER reports may be required by law or regulation, or alternatively may be produced by entities voluntarily. They may be prepared using frameworks, standards and guidance established by law or regulation, by international or national standard setters, or by other bodies (referred to in this document as “EER frameworks”). **Alternatively, they may be prepared on a basis determined by the entity itself (entity-developed criteria), particularly in areas where frameworks, standards, and guidance have not been established. EER frameworks, entity-developed criteria, or both represent the criteria applied in preparing EER reports.**

###### *Extent of procedures to evaluate suitability of criteria*

Paragraph 85 of Chapter 7 describes that it is a precondition for an assurance engagement that the practitioner determines that the applicable criteria are suitable and, in addition, the practitioner has a further requirement to determine whether the criteria are suitable in planning and performing the engagement. DTTL believes that the proposed draft guidance should include additional clarity on the distinction between the requirement relating to establishing the preconditions are present and the requirement for practitioners to determine whether the criteria are suitable in planning and performing the engagement. This distinction could be illustrated by incorporating examples of how a practitioner may obtain the preliminary knowledge (e.g., inquiries with the preparer) to determine whether the applicable criteria are suitable as a precondition to the assurance engagement versus how a practitioner may determine whether the criteria are suitable in planning and performing the engagement (e.g., review of the criteria and the entity’s draft EER report).

Paragraph 41 of ISAE 3000 (Revised) requires a practitioner to determine whether the criteria are suitable for the engagement circumstances regardless of whether the criteria are based on an established EER framework or if they have been internally developed. DTTL believes that Chapter 7 does not address this requirement sufficiently and recommends incorporating this requirement within Chapter 7 with clear references to ISAE 3000 (Revised) and developing examples of how a practitioner evaluates whether the criteria are suitable for the engagement circumstances.

### *Requirement of the criteria to disaggregate or aggregate information*

DTTL agrees that the context for materiality considerations for misstatements may be affected by the requirements of the criteria to disaggregate or aggregate information as discussed in paragraph 99 of Chapter 7. This concept is relatively straightforward in the context of a financial statement audit; however, it is more difficult to understand in the context of an EER engagement particularly if the practitioner does not have a financial statement audit background. An example to illustrate this relationship would be beneficial for preparers and practitioners as subject matter information under EER are varied and the determination of materiality may be more subjective than for a financial statement audit. The current explanation of level of aggregation or disaggregation as similar to a “unit of account” may lead to confusion as this term is primarily applicable to financial statement audits and may not be applicable to EER subject matter information or familiar to practitioners who do not have a financial statement audit background. DTTL recommends developing a new example to demonstrate this concept and suggests the following modifications:

99. EER frameworks do not always specify in detail the required level of aggregation or disaggregation ~~(sometimes referred to as the unit of account)~~. They may, however, include principles for determining an appropriate level **of aggregation or disaggregation** in particular circumstances.

### *Established criteria*

DTTL believes that aspects of the drafted guidance on evaluating established criteria in paragraphs 83, 115, and 116 within Chapter 7 are inconsistent as follows:

Paragraph 115 states that established criteria “are presumed to be suitable in the absence of indications to the contrary”; however, paragraphs 83 and 116 describe that the limited level of maturity or high-level approach used in developing criteria based on commonly used EER frameworks may indicate that such criteria, on their own, may not be suitable even for criteria prescribed by law or regulation.

DTTL understands that the concept covered within paragraph 116 is appropriate; however, DTTL believes additional transition language is necessary between the guidance in paragraph 115 and paragraph 116 to clarify the progression from established criteria being presumed to be suitable to established criteria not being suitable despite being prescribed by law or regulation. This transition language should incorporate the further requirement that a practitioner is required to determine whether the criteria are suitable for the circumstances of the engagement.

In addition, paragraph 118 in Chapter 7 discusses when modifications or adjustments to established criteria that are not commonly used in the entity’s sector may be an indicator of management bias. This discussion appears out of place within the proposed draft guidance under the heading “Established Criteria” and does not include the broader concept regarding criteria specifically developed by the entity. DTTL recommends including a new section to address criteria that is specifically developed by the entity and developing guidance to address how the criteria may be selected and developed as discussed in paragraph A48 of ISAE 3000 (Revised). This new section may also include guidance around potential indicators of management bias.

### **Addressing materiality for diverse information with little guidance in EER frameworks**

#### *Commentary relevant to considering the entity’s materiality process*

As discussed within the Overall Comments pertaining to examples and diagrams, DTTL recommends (1) enhancing existing examples around considering the entity’s materiality process to illustrate the specific course of action preparers and practitioners may take and (2) developing comprehensive examples to illustrate what an entity’s materiality process might

look like and what a practitioner may do to evaluate the entity's materiality process. DTTL has included commentary and specific recommendations for existing examples in response to **Question 2**.

*Commentary relevant to considering materiality when planning and performing the engagement and evaluating whether the subject matter is free from material misstatement*

Chapter 9 of the proposed drafted guidance mentions that guidance on considering materiality in planning and performing the engagement will be developed as part of phase 2. DTTL agrees that considering the entity's materiality process and considering materiality in planning and performing the engagement are two distinct concepts. DTTL will provide commentary and recommendations on that guidance once it is available. DTTL also has a recommendation regarding Chapter 12 pertaining to the use of quantitative and qualitative factors in determining materiality thresholds contained in the response to **Question 2** as well as several clarifying comments in **Appendix II**.

### **Building assertions for subject matter information of a diverse nature**

DTTL believes that there are several instances in the proposed draft guidance where the characterization and use of assertions is not clear or consistent with the use of assertions in International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* and International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*. These include instances characterizing that practitioners test assertions or that assertions may be misstated which appear throughout the proposed draft guidance. ISA 315 (Revised) and ISAE 3410 state that practitioners use assertions to (1) consider different types of potential misstatements that may occur and (2) perform procedures in response to assessed risks of material misstatement (these procedures may include tests of controls, tests of details and analytical procedures). In the proposed draft guidance, however, there are several instances where it states that practitioners test assertions or that assertions may be misstated. DTTL believes that, in the context of EER, the more appropriate characterizations are that practitioners perform procedures in response to assessed risks of material misstatement as opposed to testing assertions and that subject matter information may be misstated as opposed to assertions. DTTL has included specific examples of guidance and commentary on other instances where the use of assertions is unclear below.

Paragraph 166 of Chapter 9 mentions the use of assertions for both reasonable assurance engagements and limited assurance engagements; however, it does not appropriately characterize how practitioners use assertions. DTTL recommends the following edit.

ISAE 3000 (Revised) does not specifically require the practitioner to use assertions, and it therefore does not prescribe or identify specific assertions to be used, as these may vary from one engagement to another depending on the underlying subject matter and the criteria. However, a practitioner may use assertions **to consider the different types of potential misstatements that may occur** in both reasonable assurance engagements and limited assurance engagements.

Paragraph 177 of Chapter 9 includes examples of categories of assertions that may be used in EER engagements. Similar to examples within ISA 315 (Revised), DTTL believes that each of these examples should have a description and that the description for each example would be in the context of an EER report. While it is noted that the examples of categories of assertions are not meant to be comprehensive, DTTL believes it would be helpful to include completeness and valuation as examples and recommends adding these categories of assertions. In addition, DTTL noted that connectivity is included as an example; however, this assertion is not included or defined elsewhere in the IAASB standards; accordingly, DTTL recommends clarifying this assertion within the requested description for each category.

Paragraph 181 of Chapter 9 describes that a practitioner may express their conclusion on the subject matter information as “whether the subject matter information is prepared, in all material respects, in accordance with the applicable criteria.” This description only applies to a reasonable assurance engagement where the practitioner is expressing an unmodified conclusion. Per paragraph 72b of ISAE 3000 (Revised), in the case of a limited assurance engagement where the practitioner is expressing an unmodified conclusion, they may express their conclusion on the subject matter information as “based on the procedures performed and evidence obtained, no matter(s) has come to the attention of the practitioner that causes the practitioner to believe that the subject matter information is not prepared, in all material respects, in accordance with the applicable criteria.” DTTL recommends revising paragraph 181 to (1) distinguish between reasonable assurance engagements and limited assurance engagements, (2) clarify that the examples in the proposed drafted guidance are only applicable to unmodified conclusions, and (3) include a reference to ISAE 3000 (Revised) paragraph 72.

**When performing a reasonable assurance engagement**, ISAE 3000 (Revised) requires the practitioner to form a conclusion about whether the subject matter information is free ~~from~~ **of** material misstatement, which may be expressed as whether the subject matter information is prepared, in all material respects, in accordance with the applicable criteria. **When performing a limited assurance engagement, ISAE 3000 (Revised) requires the practitioner to form a conclusion stating that no matter has come to the attention of the practitioner that causes the practitioner to believe that the subject matter information is not prepared, in all material respects, in accordance with the applicable criteria, based on the procedures performed and evidence obtained.**

Several paragraphs in Chapter 9 inappropriately state that practitioners test assertions and that assertions may be misstated. DTTL recommends the following changes to the proposed draft guidance to be more consistent with paragraphs 48L and 48R of ISAE 3000 (Revised).

182. The practitioner may then design **and perform** procedures to **address the areas where a material misstatement** ~~test whether~~ **of the subject matter is likely to arise in a limited assurance engagement or respond to the assessed risks of material misstatement in a reasonable assurance engagement.** ~~information is misstated with respect to the identified assertions. If the assertions are not misstated, this provides evidence that the information is properly prepared in accordance with the applicable criteria.~~

183. As in a financial statement audit, a single procedure ~~or test~~ may be designed to test whether subject matter information exhibits more than one assertion. Decisions on the extent and nature of procedures that the practitioner plans to perform may be informed ~~both by the nature of the assertions being tested and~~ by the practitioner’s assessment of the risks of material misstatement ~~of that assertion~~ (in a reasonable assurance engagement).

195. The practitioner can then ~~test~~ **perform procedures on** each one, and ultimately the assurance working papers can be referenced to the related parts of the text in the subject matter information.

Below is an example of information that may be included in an EER report. The sentences have been numbered in ~~brackets~~ **parentheses**.

197. More judgement may be required by a practitioner **when performing procedures to identify and assess risks of material misstatement at the assertion level** ~~to test assertions for~~ **over** subjective narrative subject matter information.



208. Where future-oriented information is more subjective, assertions such as neutrality may become more of the focus **when designing procedures** ~~for testing~~ due to the risk of management bias. Presentation or understandability assertions may also be a focus where **detailed** ~~good~~ disclosure of assumptions and the context of subjective information is necessary.

209. Where criteria require a statement of intended future strategy, a target, or other intentions of an entity, ~~the explicit material assertion that a practitioner can test is~~ **design procedures to evaluate** whether management or those charged with governance have an intention to follow that strategy or that the target or intention exists (existence assertion). Appropriate evidence could be obtained in the form of documentation of board meetings or actions that management have already taken to work towards adopting the strategy or agreeing the target. There is likely to be a further implied ~~assertion~~ **position** that the entity has the capability to carry out its intent, or will develop the means to do so, or there may be separate explicit criteria addressing capability.

210. Similarly, where criteria require information about future risks and opportunities to be reported, the **risks of material misstatement at the assertion level (for a reasonable assurance engagement)** ~~assertions to be tested~~ will likely include that the risks and opportunities exist (existence assertion) and that the list of risks and opportunities is complete (completeness assertion) with respect to the risks and opportunities which would assist intended users' decision-making. **Appropriate evidence could be obtained in the form of** ~~The completeness assertion may be tested by~~ reference to the entity's risk register or records of discussions of those charged with governance.

222. However, the practitioner may still need to consider whether there are misstatements ~~of assertions~~ that relate to the EER report as a whole (such as criteria relating to presentation of the EER report), where such criteria apply in the context of the engagement.

### **Lack of maturity in governance and internal control over EER reporting processes**

As discussed in paragraph 58 of Chapter 6, DTTL agrees that whether the preconditions that (1) the roles and responsibilities of the preparer are suitable and (2) the practitioner determines that they expect to be able to obtain sufficient appropriate evidence, are present may depend on the extent to which the entity's system of internal control is adequate to support those preconditions. It is unclear, however, the level of knowledge a practitioner would need to have regarding an entity's internal control to conclude that it is adequate to support these preconditions. Practitioners determine if the preconditions are present based on preliminary knowledge prior to accepting the engagement. In order to gain an understanding of an entity's system of internal controls, however, practitioners perform procedures such as holding discussions with entity personnel and reviewing materials and data involved in the performance of controls. DTTL recommends clarifying that the practitioner's judgment on the entity's system of internal control, in the context of determining if preconditions are present, is based on their preliminary knowledge and including some examples of appropriate sources to consider. See below for proposed edits and a possible example.

58. Whether these preconditions are present may depend on the extent to which the entity's system of internal control is, in the practitioner's professional judgment, adequate to support those preconditions, taking into account the nature, extent and complexity of the underlying subject matter and criteria. **This determination is based on the practitioner's preliminary knowledge of the entity. A practitioner may consider a variety of sources of information to inform their judgment, including but not limited to, knowledge gained from performing**

**other services (e.g., financial statement audits) for the entity and preliminary discussions with the preparer.**

DTTL believes that the example of suggested considerations of aspects of each of the components of a system of internal control, included in paragraphs 67, 70, and 71 of the proposed draft guidance, are helpful to practitioners in considering an entity's system of internal control; however, DTTL believes that an additional consideration in paragraph 67 relating to processes to select suitable external source(s) for data and then to obtain and evaluate information from those sources should be added to incorporate the guidance in paragraph 69. For further comments and recommendations regarding examples and diagrams specific to Chapter 6 refer to the response to **Question 2**.

67. Policies, procedures and resources of the reporting (information) system and communication that the practitioner may consider are included below:

**d) Processes to select, obtain, review, and monitor EER report subject matter information from external source(s):**

⇒ e) Records and source documentation to support the preparation of the subject matter information relating to those elements. These are ideally stored and accessible so that they can be used as evidence by the practitioner;

⇒ f) Processes to prepare the EER report; and

⇒ g) How the entity uses IT to support the above.

**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?**

***Use of Examples and Diagrams:***

As discussed in the cover letter, DTTL is supportive of including examples and diagrams to illustrate and provide additional explanation and make the guidance easier to understand. We believe that overall the examples and diagrams, particularly the example within paragraph 114 which demonstrates how a practitioner could approach determining the suitability of criteria, are helpful. DTTL has several recommendations where we believe the current examples and diagrams can be clarified or enhanced; these recommendations are presented below, by chapter, as they appear throughout the proposed draft guidance.

***Chapter 3: Determining Preconditions and Agreeing the Scope***

The diagram in paragraph 46 of the proposed draft guidance summarizes the preconditions for an assurance engagement and provides references or contains portions of the application material for certain preconditions. This diagram is difficult to follow as it does not (1) include the context to explain why the illustration focuses on application material for certain preconditions and (2) explain the relationship between the preconditions and guidance illustrated by the arrows. For example, the content related to the precondition "underlying subject matter is appropriate" highlights if the underlying subject matter is identifiable and reliable but does not capture the guidance in paragraph A44 of ISAE 3000 (Revised) that it may be appropriate for the practitioner to consider whether information about the aspect on which the practitioner is asked to report is likely to meet the information needs of intended users when the assurance engagement relates to only one part of a broader underlying subject matter. DTTL recommends either (1) simplifying this diagram to just focus on the preconditions and providing references to where the additional guidance for each precondition is covered in greater detail within the proposed draft guidance or (2) adding additional context to provide the reader with a greater understanding of the process to determine that the preconditions are present.

Paragraph 49 includes several considerations for practitioners when determining whether a proposed EER assurance engagement has a rational purpose. The fourth consideration in the list is difficult to understand and appears duplicative with the fifth consideration which addresses whether the level of assurance is meaningful to the intended users; accordingly, DTTL recommends removing the fourth consideration.

~~...Whether the level of assurance that the practitioner plans to obtain (and therefore what would constitute sufficient appropriate evidence) is expected to reduce engagement risk to a level which is at least meaningful in the circumstances of the engagement, having regard to the extent of the consequence to the intended users of an inappropriate conclusion by the practitioner.~~

#### *Chapter 6: Considering the System of Internal Control*

The proposed draft guidance includes a diagram in paragraph 62 that illustrates the components of an entity's system of internal control. DTTL believes that the diagram in paragraph 62 is not clear as to how governance and oversight of the reporting process interacts with the five inter-related components. The lines suggest that governance and oversight only apply to the control environment, risk assessment process, and process to monitor the system of internal control; further, paragraph 65 states that the three components shown in the top three boxes in paragraph 62 (the control environment, the risk assessment process, and the process to monitor the system of internal control) are considered together under the heading "governance and oversight of the reporting process." Governance and oversight of reporting process is also relevant to reporting (information) system and related business processes as well as communication and control activities. DTTL recommends extending the brackets around the components of an entity's system of internal control so that they encompass all the components of an entity's system of internal control and; accordingly, modifying paragraph 65.

#### *Chapter 7: Determining the Suitability of Criteria*

Paragraph 84 discusses that there may be considerable opportunity for management bias in determining the content of an EER report. DTTL agrees with the proposed draft guidance; however, an example to illustrate this point would be beneficial. A potential example could involve management disclosing metrics on the volume of complaints; however, the criteria only requires disclosing a certain class of complaints and omitting other classes of complaints.

The diagram in paragraph 89 is a clear illustration of the high-level steps in determining the suitability of criteria. DTTL believes that the diagram can be enhanced by:

- Including references to the related paragraphs in the drafted guidance for each high-level step to refer the reader to specific details for each step.
- Expanding the diagram to illustrate what the practitioner should do if they determine that the criteria will result in subject matter information or an assurance report which is misleading.
- Addressing in the diagram the requirements if the practitioner determines that the criteria does not exhibit the five required characteristics or will result in subject matter information or an assurance report that is misleading (i.e., discuss the matter with the preparer to resolve the matter and make changes to the criteria or do not to accept the engagement).
- Modifying the following language in the last box of the diagram to be consistent with the language used in ISAE 3000 (Revised):

89. ~~Confirm~~ **Determine that the** criteria will not result in subject matter information or an assurance report which is misleading.

Paragraph 98 of the proposed draft guidance appears to focus on materiality in relation to quantitative factors; however, DTTL believes that paragraph 98 should be expanded to:

- Include a discussion on the consideration of qualitative factors, as materiality is considered in the context of qualitative factors and, when applicable, quantitative factors.
- Incorporate these additional concepts in the examples in paragraph 98 through an expanded rationale as to why the omission for the financial reporting example and the EER example are not material based on the quantitative materiality threshold as well as evaluation of relevant qualitative factors.

Paragraph 101 discusses the relevance and comparability of criteria across entities. The paragraph includes an example where an entity does not use criteria from an established EER framework and develops their own criteria. The example, however, appears inconsistent as the example mentions an entity developing their own criteria as opposed to using an EER framework and then includes 'where permitted by the EER framework adopted'. DTTL recommends the following modification to clarify the example.

101. However, there may be good reasons not to use such criteria, for example where the entity can develop more relevant criteria ~~(that are also reliable), where permitted by the EER framework adopted and where those criteria are made available~~ **that are also reliable and made available to the users by inclusion in the EER report.**

Paragraph 121 provides an example that is intended to illustrate that it is not necessary to disclose detailed explanations of the reporting policies and measurement or evaluation methods as they are available by general understanding to the intended users; however, DTTL believes that the example relating to measuring time in hours and minutes is not a comparable example to referring to the criteria which includes the measurement or evaluation methods. Accordingly, DTTL recommends removing the example relating to measuring time and making the following modifications:

121. ~~Measuring time in hours and minutes, or energy usage in kilowatt hours, is generally understood in a consistent way internationally due to scientific convention. Similarly, a preparer may assume that the intended users will understand greenhouse gas emissions measured in accordance with the Greenhouse Gas Protocol without~~ **having to disclose how to measure the greenhouse gas emissions as the criteria appropriately includes the measurement methods and the Greenhouse Gas Protocol is publicly available** ~~providing full explanation due to its widespread acceptance and usage.~~

#### *Chapter 8: Considering the Entity's Materiality Process*

Paragraph 127 of Chapter 8 provides contrasting examples of EER frameworks where the criteria may or may not be suitable on their own. The last example in this paragraph intends to illustrate where criteria may be considered suitable on their own and refers to the Sustainability Accounting Standards Board (SASB) standards as an example of an EER framework that would not require an entity to undergo a materiality process. The SASB standards provide relevant topics and measures/disclosures that have a likelihood of being material; however, it is still the preparer's judgment to determine the SASB topics and measures that are material to the business and would provide useful disclosure to investors. Accordingly, DTTL believes that the reference to the SASB standards in this context may cause confusion and the reference should be replaced with another EER framework that defines the content to be included in the EER report (e.g., a specific regulation). See below for the recommended changes to clarify this example.

127. In this case the criteria may already be suitable, and the preparer may not need to undertake a 'materiality process' because the EER framework-setter has already made a judgment about what the intended users want to know **and has specified in the EER framework the topics and related elements that should be disclosed in the EER report.** This is common in reporting to meet specific regulatory

~~requirements, but some generally applicable EER frameworks assess what indicators are likely to be relevant criteria for specific industry sectors, for example as in the Sustainability Accounting Standards Board (SASB) standards.~~

DTTL agrees with the distinction between intended users and stakeholders discussed in Paragraph 139. Within the related example, however, the parties referenced may not be effective in demonstrating the relationship between the stakeholder (victim of child slavery) and the third-party agents (charity/politicians/lobbyists) as in this example this relationship may not be clearly defined. DTTL recommends revising the example to use a stakeholder and third-party agent who have a more clearly defined relationship. A possible suggestion is to use members of a workforce union working for a manufacturing company as the stakeholders as they may not take the time to read the company's report, however, the union officials would read the EER report and they could represent the third-party agents in a revised example.

The table in paragraph 144 is a good overview of broad groups of intended users and how their possible context(s) within an entity's materiality process. DTTL has several recommendations, however, regarding the terminology used within the table.

- The "Governments, regulators and legislators" category includes "Global organisations." The "Wider society" category may be more appropriate for "Global organisations." Alternatively, if the IAASB believes that "Global organisations" should be included under the "Governments, regulators, and legislators" category, DTTL recommends adding an example such as "(e.g., European Union)" to "Global organisations" and an example such as "(e.g., United Nations)" to the "Wider society" category.
- "Trading negotiable instruments" and "Financial decisions in other entities" are included as examples of items that may influence decision making or be affected by the entity in these areas for the "Wider society" category. DTTL believes that linking those examples to the "Investors and economic stakeholders" category as these are the user groups who would partake in those activities.
- In the "Investors and economic stakeholders" category "Share market" should be expanded to include "Share/stock market." DTTL believes that the term "Share market" may be unfamiliar in certain jurisdictions and that the examples of what may influence this user group has not been included. A possible example of something that may influence this user group is evaluating sustainability practices.

#### *Chapter 10: Assuring Narrative Information*

Paragraph 187 provides contrasting examples of purely factual narrative subject matter information and subjective narrative subject matter information. DTTL believes that these examples are useful; however, DTTL recommends that the IAASB incorporates examples of how subjective narrative subject matter information may be revised to be more factual in nature and what potential courses of action practitioners may take if the subject matter information remains subjective. DTTL has included examples of how some of the examples of subjective narrative subject matter information may be revised to be more factual in nature below.

- "We produce healthy food for children."  
As there are different views as to what constitutes healthy food, this subjective narrative information may be revised as "we produce food with less than X grams of sugar for our children within our target market."
- "We have successfully implemented flexible working throughout the organization."

As there are different views as to what constitutes success or a flexible working arrangement, this subjective narrative information may be revised as “we have implemented a program to allow for flexible working throughout the organization by providing employees with the option to telecommute or to have reduced work arrangements. Employees on reduced work arrangements work less than 40 hours a week whereas employees who telecommute are expected to work 40 hours a week; however, they do not work in the entity’s office(s). We have 20 employees who telecommute and 10 employees who are on reduced work arrangements.”

DTTL suggests adding language to paragraph 188, following the examples above, to recognize that the practitioner can work with the preparer to reduce the degree of subjective subject matter information.

Paragraph 195 provides an example of analyzing narrative information to differentiate between claims or indicators that may be individually significant and information that may be considered other information. The conclusion over sentence (1) determines that it may be considered other information without providing details on the scope of the engagement. The example indicates that the criteria requires reporting “the water intake by the company in the reporting period, the changes from the previous period, and an explanation for the change”; however, DTTL believes that the conclusion also depends on the scope of the engagement. If the scope of the engagement was limited to the specific criteria mentioned above, then DTTL agrees that the conclusion is valid; however, if the scope of the engagement encompassed the entire EER report then there may be additional considerations relevant to this example. In addition, the example does not provide guidance on how a practitioner would note other information within the EER report and clarify that they are not providing assurance on such information. DTTL recommends either expanding this example to include clarity regarding presentation of other information or including clarification elsewhere (e.g., Chapter 13).

### **Use of Terminology**

In most cases, DTTL believes that the terminology used is sufficiently simple and is consistent with other IAASB literature, including ISAE 3000 (Revised). There are several terms, however, that DTTL believes are complex or not consistent with other IAASB literature. These terms include assertions, topics, categories, subject matter elements, and materiality process. DTTL has provided commentary and recommendations over assertions in response to **Question 1** and topics, categories, subject matter elements, and materiality process following the list of terms below. Based on the extent of new terminology, DTTL recommends adding a glossary and defining the following terms. In certain cases, these terms may be defined by linking, referencing or amending a definition already included in other IAASB literature.

- Aspects.
- Assertions.
- Extended external reporting.
- Extended external reporting framework.
- Extended external reporting report.
- Forecast.
- IMSB.
- Integrated reporting.

- Materiality.
- Materiality process.
- Preparer.
- Projection.
- Qualities.
- Reporting boundaries.
- Subject matter elements.
- Sustainability reporting.
- Those charged with governance (TCWG).

### **Use of terms Topics and Categories**

The diagram in paragraph 80 depicts the relationship between underlying subject matter, criteria, and subject matter information; however, it is unclear whether some of the terminology used in the diagram is appropriate. Specifically, it is unclear if there is a difference between topics and categories. Throughout the proposed draft guidance, including the examples contained in paragraphs 81 and 82, it appears that these terms (i.e., topics and categories) are used interchangeably. If both terms are interchangeable, DTTL recommends simplifying the proposed draft guidance, including the diagram and related examples, by choosing one term and using it consistently. If both terms are necessary and they are not intended to be interchangeable, DTTL recommends adding additional clarification to illustrate the differences between topics and categories.

### **Use of the term Subject Matter Elements**

The explanation of subject matter elements within paragraph 11 of the Introductory Memorandum states the following:

References to “subject matter elements” or “elements” are analogous to “assets,” “liabilities,” “income” or “expenses,” which are aspects of the underlying subject matter (the entity’s financial condition and performance) to which criteria are applied in preparing financial statements.

This explanation implies that the term subject matter elements conveys the same concept as “aspects” of underlying subject matter. While the term subject matter elements is not used in ISAE 3000 (Revised) it does use the term aspects. The introduction of the term subject matter elements may cause confusion; therefore, DTTL suggests using the term “subject matter aspects” instead (as the term aspects is already established under ISAE 3000 (Revised)).

### **Use of the term “Materiality Process”**

DTTL appreciates the logic behind using the concept and term materiality process; however, the use of materiality process and materiality within the current version of the proposed draft guidance may lead to confusion amongst practitioners as these terms are meant to convey different concepts. DTTL suggests using a term such as “basis of preparation and presentation,” rather than materiality process, since the term basis of preparation and presentation incorporates the concept of the entity determining which topics and related aspects will be included in the EER report. The draft proposed guidance can still recognize that the term materiality process is commonly used by preparers and in EER frameworks.

Furthermore, using materiality in a manner consistent with ISAE 3000 (Revised) will provide more clarity to practitioners.

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

As discussed in the presentation section of the Overall Comments, DTTL generally supports the structure of the proposed draft guidance. In addition to the broad observations included in the Overall Comments and the recommendation of adding a glossary included in **Question 2**, DTTL believes the following paragraphs are better placed in other chapters of the proposed draft guidance:

- Paragraph 159 of Chapter 8 should be removed from Chapter 8 and incorporated into Chapter 7 as paragraph 159 primarily addresses considerations relating to suitability of criteria, which is addressed in Chapter 7.
- Paragraph 163 of Chapter 8 discusses information resulting from applicable criteria that are not suitable or available under the other information section. DTTL believes that this paragraph is not appropriate within the other information section as information resulting from applicable criteria would not be considered other information rather, as the guidance indicates, at least one of the preconditions would not be present. DTTL suggests moving this paragraph to Chapter 7 since this paragraph pertains more closely with evaluating the suitability of criteria.

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

DTTL agrees that the draft guidance is generally consistent with the requirements or application material in ISAE 3000 (Revised). DTTL has provided commentary and recommendations regarding certain terminology (i.e., assertions, topics, categories, subject matter elements, and materiality process) within the responses to **Question 1** and **Question 2**.

In addition, the following specific instances warrant further consideration.

Paragraph 45 of Chapter 3 discusses the concept that suitability is not affected by the level of assurance. The example included in paragraph 45 states “for criteria to be suitable in a limited assurance engagement, the practitioner must be able to determine that they would be suitable in a reasonable assurance engagement.” DTTL believes that this example appears to go beyond the related guidance in paragraph A10 of ISAE 3000 (Revised) and should be reworded to align with the ISAE 3000 (Revised).

45. The same preconditions need to be present for all assurance engagements, whether limited or reasonable assurance is being obtained. For example, ~~in order for the criteria to be suitable in a limited assurance engagement, the practitioner must be able to determine that they would be suitable in a reasonable assurance engagement~~ **the suitability of criteria is not affected by the level of assurance, that is, if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement.**

The diagram included in paragraph 46 of Chapter 3 incorporates incremental guidance regarding the adequacy of an entity’s system of internal control being adequate in regard to assessing the preconditions. DTTL believes that this incremental guidance neither conflicts with requirements in ISAE 3000 (Revised) nor introduces any new requirements. This incremental guidance will, however, be relevant to all assurance engagements and DTTL believes consideration should be given to incorporating this incremental guidance in ISAE 3000 (Revised).



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

DTTL has provided commentary and recommendations on broad topics pertaining to matters not addressed in ISAE 3000 (Revised) and related guidance and examples in the Overall Comments section of this letter and in the responses to **Questions 1, 2, and 6**. In addition, DTTL has the following additional recommendations.

**Availability of criteria**

Paragraph 120 of Chapter 7 discusses possibilities of criteria being made available outside of the EER report, includes guidance that entities using entity-developed criteria may choose to publish the criteria and reporting policies outside of the EER report and suggests that this may be a preferable option. DTTL believes that this option would make the EER report less understandable to users since the criteria and reporting policies on which the report is based would not be included in the report. While a reference to established and publicly available criteria outside of the EER report may be sufficient, the customized and entity-specific nature of entity-developed criteria warrants integration within the body of the EER report. DTTL recommends either removing this guidance around entities publishing criteria outside of the EER report or revising the drafted guidance as shown below.

~~120. **In certain cases, such as when an established and publicly available EER framework has been used**, the criteria may be made available outside of the EER report **provided that the EER report includes a clear reference to the criteria**, for example if an established, publicly available EER framework has been used. In the case of entity-developed criteria, **however, it is preferable to publish the criteria within the EER report**. entity may choose to publish the criteria and reporting policies in a separate EER report or on its website, which is then cross-referred to as at a particular date in the EER report. This may be a preferable option where an EER report is intended to be concise.~~

**Documentation of an entity's materiality process**

DTTL agrees that understanding an entity's materiality process is important for practitioners to evaluate the suitability of criteria as discussed in paragraphs 132 and 164 of Chapter 8. The guidance within these paragraphs does not indicate that entities need to document or disclose their materiality process; however, if an entity's materiality process is necessary to be able to evaluate the suitability of criteria then it would appear that the criteria could only be considered available if the materiality process is disclosed. While the proposed draft guidance encourages preparers to document and disclose their materiality process it does not state that the materiality process would need to be available to the intended users in order to meet the requirement in paragraph 24(b)(iii) of ISAE 3000 (Revised). Furthermore, the proposed draft guidance does not mention that an EER framework may require the preparer to disclose their materiality process. DTTL recommends that the guidance be modified to clarify that in order to meet the requirement that the criteria is available to intended users, the preparer's materiality process would need to be disclosed and mention that an EER framework may require the preparer to disclose their materiality process.

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

DTTL agrees that the additional papers contain further helpful information and believes that they provide context around certain aspects of EER engagements. DTTL suggests publishing the additional papers with the proposed draft guidance; however, DTTL has several recommendations to enhance the wording and examples within the additional papers apart from the broad observation in the presentation section of the Overall Comments.

*Detailed Clarification Comments for Additional Paper "Background and Contextual Information on Understanding How Subject Matter Information Results from Measuring or Evaluating Subject Matter Elements Against the Criteria"*

Paragraphs 6-7 incorporate terminology and wording that is not consistent with the wording and terminology used in paragraphs 80-82 in Chapter 7 of the proposed draft guidance. Specifically, paragraphs 6-7 refer to “measurement, valuation, and estimation (measurement or evaluation)” while Chapter 7 uses the term “qualities” to describe measurement or evaluation against specified criteria. DTTL recommends the following changes to clarify this terminology in paragraphs 6-7:

- Para. 6 • Measurement, valuation and estimation (~~measurement or evaluation~~ **qualities**).
- Para. 7 • Measurement or estimation and assessment or appraisal (~~measurement or evaluation~~ **qualities**).

In addition, paragraphs 6-7 use “financial reporting standards and accounting policies” to describe criteria and “measurement, recognition, presentation, and disclosure bases” to describe benchmarks whereas Chapter 7 describes criteria as “the benchmarks used to measure or evaluate the underlying subject matter.” If the IAASB intends for these terms to be distinct, DTTL recommends adding clarification in Chapter 7 and paragraphs 6-7 on the distinction between “criteria” and “benchmarks.” Alternatively, DTTL recommends the following changes to paragraphs 6-7.

Para. 6

- ~~Financial reporting standards and accounting policies (criteria).~~
- Measurement, recognition, presentation and disclosure bases (**e.g., financial reporting standards and accounting policies**) (~~benchmarks~~ **criteria**).

Para. 7

- ~~[EER] Reporting Framework or Standards and reporting policies (criteria).~~
- Metrics or measurement protocols (**e.g., [EER] Reporting Framework or Standards and reporting policies or preparer’s ‘materiality process’**) (~~benchmarks~~ **criteria**).

Paragraphs 10 and 13 contain examples illustrating the subject matter elements and the nature of qualities of a subject matter element. As mentioned in the commentary relating to the use of the term subject matter elements in **Question 2**, DTTL recommends using the term aspects instead of subject matter elements. In addition, while these examples may be helpful to some readers they would be more effective if they were replaced with examples that are specific to EER reporting.

DTTL believes that the examples within paragraph 11 can be enhanced to include additional detail on the illustrated questions in the examples as shown below:

Example question “(g) What has been the change in value over the last year? (expression of the outcome of a change in the machine’s state or condition).”

The guidance related to this example question should indicate what the change in value is based on in this example.

Example question “(i) Why have the directors decided to sell the machine? (expression of the intent of an action to cause a change).”

The guidance related to this example question should indicate how intent would be measured in this example.

DTTL also recommends clarification for the following questions pertaining to the second example:

Example question “(b) How much water flows through the river? (expression of characteristic).”

Example question “(d) How has the water quality changed over a period of time? (expression of change in condition).”

The guidance related to the example questions above should indicate the measurement basis that might be used within this example.

Example question “(e) What is the impact of the factory on the water quality of the river? (explanation of cause of change in condition).”

The guidance related to this example question should indicate how the impact of the factory might be determined in this example.

*Detailed Clarification Comments for Additional Paper “Four Key Factor Model for Credibility and Trust in Relation to EER”*

Paragraph 4 describes factors that are likely to enhance credibility of EER reports including “External Professional Services and Other Reports.” Considerations relating to this factor occur throughout this portion of the additional paper including paragraphs 20, 28, and 33. The description and considerations pertaining to the “External Professional Services and Other Reports” factor do not indicate what types of professional services or other reports would enhance credibility and trust in the context of EER reports. DTTL believes that the description and related considerations should clarify the type of external professional services and other reports that would enhance credibility and trust. DTTL believes this clarification is important as not all types of engagements, such as nonassurance engagements, are intended to enhance credibility and trust.

DTTL appreciates that *Figure 1: Overview of Credibility and Trust* in paragraph 6 is an illustrative summary of the concepts within this portion of the additional paper and has the following recommended clarifications and changes to this figure to make the content consistent with content within the proposed draft guidance:

- The description of the third factor “consistent wider information” appears inconsistent with the characterization of the third factor in paragraphs 25-27 of this additional paper. Paragraphs 25-27 do not mention users performing their own evaluation of the consistency of the EER report with wider information. DTTL recommends revising the description of the third factor, as shown below, so it is consistent with drafted guidance in paragraphs 25-27.

~~Consistent wider information – Users perform their own evaluation of the consistency of the EER report with wider available sources of information to which they have access~~

**Consistency of information in the EER report with other sources of information about the entity likely to be available to users of the EER report.**

- The fourth factor does not indicate what external professional services and other reports would enhance credibility and trust. Please refer to the previous comment for further details on this item.
- The last sentence within the figure discuss how external transparency enables external users to confirm consistency of the EER report with wider information. As mentioned above, this characterization appears inconsistent with the characterization of “consistent wider information” in paragraphs 25-27. DTTL recommends the following edits.

External transparency about these matters and publication of the EER report and of any external professional services report(s) **promotes** ~~enables external users to confirm the~~

consistency of the EER report with wider available information about the entity **likely to be available to users of the EER report**.

- DTTL believes that the links within the graphic should be revised. Currently, it appears that the first two factors apply only to internal users and the last two factors apply only to external users and recommends that the IAASB revise the graphic to clarify that each of the factors applies to both internal and external users.

Paragraph 32 introduces the concept of transparency about competence of those performing the professional service or other external input may add to the credibility of the EER report. This concept is not discussed elsewhere in the proposed draft guidance and it is unclear what the IAASB is referring to in the context of an assurance engagement. DTTL recommends clarifying this concept.

## **Appendix II – Other Recommendations and Editorial Comments**

DTTL has other recommendations and editorial comments with respect to the EER Consultation Paper as detailed below. In these comments, recommended additional text is shown using **bold underline**; recommended deletions to the text are shown using double ~~strike through~~.

<b>Paragraph Reference</b>	<b>Paragraph Detail</b>	<b>Proposed Amendments</b>	<b>Reasons</b>
Chapter 1, paragraph 2	2. There may also be diversity in the criteria used to prepare the EER report given the wide selection of EER frameworks, and because entities often develop their own criteria either in addition to, or instead of, using EER frameworks.	2. There may also be diversity in the criteria used to prepare the EER report given the wide selection of EER frameworks <b><u>(for example, the Sustainability Accounting Standards Board (“SASB”) conceptual framework and Global Reporting Initiative (“GRI”) Standards)</u></b> , and because entities often develop their own criteria either in addition to, or instead of, using EER frameworks.	See suggested edits to provide examples of EER frameworks.
Chapter 2, paragraph 27	27. The practitioner is required to consider materiality in determining the nature, timing and extent of procedures (performance materiality – to be included in Chapter 9 in phase 2), as well as in evaluating the materiality of misstatements (see under ‘Forming the Assurance Conclusion’ below and Chapter 12).	27. The practitioner is required to consider materiality in determining the nature, timing, and extent of procedures (performance materiality – to be included in Chapter 9 in phase 2), as well as in evaluating <del>whether the materiality of misstatements</del> <b><u>subject matter information is free from material misstatement</u></b> (see under ‘Forming the Assurance Conclusion’ below and Chapter 12).	Recommend revising the language so it is consistent with ISAE 3000 (Revised), as this is referring to what is required.

Paragraph Reference	Paragraph Detail	Proposed Amendments	Reasons
Chapter 3, paragraph 44	44. For a recurring engagement, the same preconditions are required, however the continuance process may be more straightforward as the practitioner will already have good knowledge of the entity and the engagement circumstances with which to determine if the preconditions are present.	44. For a recurring engagement, the same preconditions are required, however the continuance process may be more straightforward as the practitioner will already have good knowledge of the entity and the engagement circumstances with which to determine if the preconditions are present. <b><u>The practitioner is required to assess whether circumstances require the terms of the engagement to be revised.</u></b>	Recommend modifying to address the requirement in paragraph 28 of ISAE 3000 (Revised).
Chapter 7, paragraph 89 diagram	89. The following diagram shows steps the practitioner may follow in determining the suitability of criteria:  Confirm criteria will not result in subject matter information or an assurance report which is misleading.	89. The following diagram shows steps the practitioner may follow in determining the suitability of criteria:  <b><u>Determine</u></b> <del>Confirm</del> criteria will not result in subject matter information or an assurance report which is misleading.	Consider replacing "Confirm" with "Determine" as the practitioner has to evaluate and determine rather than confirm that the criteria will not result in subject matter information or an assurance report that is misleading.
Chapter 7, paragraph 108	108. Neutral criteria would normally be designed to cover both favorable and unfavorable aspects of the underlying subject matter being reported on, in an unbiased manner.	108. Neutral criteria would normally be designed to cover both favorable and unfavorable aspects of the underlying subject matter being reported on, in an unbiased manner. <b><u>Criteria would not be neutral if they can mislead the intended user in the interpretation of the subject matter information.</u></b>	Recommend clarifying that criteria would not be considered neutral if they can mislead the intended users in the interpretation of the subject matter information.

Paragraph Reference	Paragraph Detail	Proposed Amendments	Reasons
Chapter 7, paragraph 117	117. In the first few years of preparing EER reports, an entity may be developing and improving its reporting processes such that entity-developed criteria (potentially designed to supplement an EER framework) may change and evolve between reporting periods.	117. In the first few years of preparing EER reports, an entity may be developing and improving its reporting processes such that <del>entity-developed criteria</del> <b><u>the entity's materiality process</u></b> (potentially designed to supplement an EER framework) may change and evolve between reporting periods.	Recommend removing discussion of entity-developed criteria as paragraph 117 pertains to established criteria.
Chapter 8, paragraph 128	128. The practitioner may need to review an entity's 'materiality process' as part of determining whether the criteria are suitable (see Chapter 7). The practitioner is also required to consider the process used to prepare the subject matter information in a limited assurance engagement, or to obtain an understanding of internal control over the preparation of the subject matter information in a reasonable assurance engagement. This may also involve reviewing an entity's 'materiality process' where the preparer has undertaken one.	128. <b><u>When an EER framework does not specify the content that should be included in the report, the the</u></b> practitioner may need to review an entity's 'materiality process' as part of determining whether the criteria are suitable (see Chapter 7) <b><u>where the preparer has undertaken one. As part of understanding the underlying subject matter and other engagement circumstances, the the</u></b> practitioner is also required to consider the process used to prepare the subject matter information in a limited assurance engagement, or to obtain an understanding of internal control over the preparation of the subject matter information in a reasonable assurance engagement. <del>This may also involve reviewing an entity's 'materiality process' where the preparer has undertaken one.</del>	Recommend modifications to clarify when a practitioner may need to review an entity's materiality process and remove duplicative content.

Paragraph Reference	Paragraph Detail	Proposed Amendments	Reasons
Chapter 8, paragraph 136	<p>136. The purpose will be to report certain information about an underlying subject matter to a group(s) of intended users. A few examples of the EER report purpose might include:</p> <ul style="list-style-type: none"> <li>To inform the intended users of the financial position, financial performance and cash flows of the entity.</li> </ul>	<p>136. The purpose will be to report certain information about an underlying subject matter to a group(s) of intended users. A few examples of the EER report purpose might include:</p> <p><del>To inform the intended users of the financial position, financial performance and cash flows of the entity.</del></p>	<p>Recommend removing example pertaining to financial statements, as this example is not relevant to an EER report.</p>
Chapter 10, paragraph 196	<p>196. Purely factual narrative subject matter information is more straightforward to test for misstatement (by direct observation) than subjective narrative subject information.</p>	<p>196. Purely factual narrative subject matter information is more straightforward <del>to test for misstatement</del> <b>to obtain evidence to support the practitioner's conclusion</b> (by direct observation) than subjective narrative subject information.</p>	<p>Suggest editing language to be consistent with paragraph 24(b)(iv) of ISAE 3000 (Revised).</p>
Chapter 12, paragraph 217	<p>217. If the preparer does not want to correct the misstatement, the practitioner may need to undertake a more detailed consideration of whether the misstatement is material, and may take into account the considerations below.</p>	<p>217. If the preparer does not want to correct the misstatement, the practitioner may need to undertake a more detailed consideration of whether the misstatement is material, and may take into account the considerations below. <b><u>If the preparer refuses to correct some or all of the misstatements communicated by the practitioner, the practitioner may consider obtaining an understanding of the preparer's reasons for not making the corrections and take that understanding into account when forming the practitioner's conclusion.</u></b></p>	<p>Consider editorial comment to incorporate the concept in paragraph 54 of ISAE 3410.</p>



Paragraph Reference	Paragraph Detail	Proposed Amendments	Reasons
Chapter 12, paragraph 218	Below is a series of 'materiality considerations' that a practitioner may use when considering materiality initially or in a detailed manner.	Below is a series of 'materiality considerations' that a practitioner may use when considering materiality <del>initially or in a detailed manner.</del>	Recommend removing "initially or in a detailed manner" as it is unclear when a practitioner would not consider materiality in a detailed manner.
Chapter 12, paragraph 219	219. A misstatement is more likely to be material if.	219. <b><u>Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. Qualitative factors that may indicate that</u></b> a misstatement is more likely to be material if.	Suggest incorporating language to recognize that materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. Reference can be added for the first sentence to paragraph A95 of ISAE 3000 (Revised).