

June 21, 2019

IAASB

Reference: Request for Information – Extended External Reporting (EER) Assurance – IAASB Consultation Paper (FEBRUARY 2019)

This work group is organized by the *Conselho Federal de Contabilidade* of Brazil “Federal Accounting Council”, a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

The main purpose of our activities is to develop a local auditing standard that can be applied in assurance procedures about the integrated reporting (IR), which follow the framework of the International Integrated Reporting Council – the IIRC.

Under this scope, we would like to mention our concern about the extent of the scope that the EER project is assuming, which is entitling some reports that are not compatible with each other in terms of principles, when consider the terminology of EER. We respectfully contemplate that this approach is not adequate to address, for example, a positive assurance for IR.

Considering this disclaimer, we would like to provide our comments about the four questions listed by the IAASB considering the focus on the integrated reporting.

Preceding the answers, we had listed the relationships between the questions proposed by the IAASB, as well as the paragraphs of the consultation paper, with the paragraphs of the IIRC framework, this association had as objective to demonstrate that some points discussed in the consultation paper, already have a direction in the framework of the IIRC.

If you have any questions about our comments, please do not hesitate to contact us at eduardoflores@usp.br.

Yours sincerely,
Assurance of Integrated Reporting – Technical Group

Association between the Consultation Paper of the IAASB and the Framework of the IIRC

Questions	Specific ‘Significant Matters’ Highlighted for Respondent Consideration	Comments regarding the IIRC’s framework
<p>Q1) Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1? If not, where and how should it be improved?</p>	<p>Paragraphs 9-15 (scope of draft guidance) Paragraph 25 (preconditions and the system of internal control) Paragraph 29 (suitability of criteria) Paragraph 33 (‘materiality processes’) Paragraph 35 (materiality of misstatements) Paragraph 40 (assertions) Paragraph 41 (narrative and future-oriented information)</p>	<p>1.20 Responsibility for an integrated report; 3.17 An integrated report should disclose information about matters that substantively affect the organization’s ability to create value over the short, medium and long term; 3A Strategic focus and future orientation</p>
<p>Q2) Is the draft guidance clear and easy to understand, including through the use of examples and diagrams, and the way terminology is used? If not, where and how should it be improved?</p>	<p>Paragraphs 16-17 (examples, diagrams and terminology) Paragraph 34 (term ‘materiality process’) Paragraphs 37 and 40 (assertions)</p>	<p>There is a Glossary; There’s no exemple such as diagrms and terminology;</p>
<p>Q3) Do you support the proposed structure of the draft guidance? If not, how could it be better structured?</p>	<p>Paragraph 18 (structure)</p>	<p>1B Objective of the Framework: 1.3 The purpose of this Framework is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them.</p>
<p>Q4) Do you agree that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised), and that the draft guidance does not introduce any new requirements?</p>	<p>Paragraphs 19-21 (relationship with ISAE 3000 (Revised)) Paragraphs 24 and 26 (linking preconditions and the system of internal control) Paragraph 36 (assertions)</p>	<p>There’s no contradict or conflict.</p>
<p>Q5) Do you agree with the way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised)?</p>	<p>Paragraphs 19-21 (matters not addressed in ISAE 3000 (Revised) and including details on the preparer’s role and ‘materiality processes’)</p>	<p>Agreed.</p>

	Paragraphs 24 and 26 (linking preconditions and the system of internal control) Paragraph 36 (assertions)	
Q6) Do you agree that the additional papers contain further helpful information and that they should be published alongside the non authoritative guidance document?	Paragraphs 42-45 (additional papers)	None.
Q7) In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below: a) Stakeholder Perspectives —Respondents representing stakeholders such as preparers (including smaller entities) of EER reports, users of EER reports, and public sector entities are asked to comment on the questions above from their perspective.		3C Stakeholder relationships 3.10 An integrated report should provide insight into the nature and quality of the organization’s relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.
Q7) b) Developing Nations —Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in using the draft guidance in a developing nation environment.		None.
Q7) c) Translation —Recognizing that many respondents may intend to translate the final guidance for adoption in their own environments, the IAASB welcomes comments on potential translation issues.		Working in progress.

Q1) Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1? If not, where and how should it be improved?

Answer: This guidance is essential for the Auditors know carry the ten challenges that were identified in your scope in a systematic process of fastening, which includes the examination of information of financial and non-financial nature, as listed in appendix 1. However, are need to include some aspects which are essential to make it more precise, such as:

- (a) establish the distinction between External Extended Reporting EER Assurance and Integrated Reporting. Is also relevant to emphasize that RI, includes information about the strategy, structure and corporate governance policies, the operational performance indicators, the sustainability report and other reports come be prepared for particular entity on environmental and social issues;
- (b) clarify the concepts of materiality, materiality processes and materiality of misstatements, including examples applicable to entities of small, medium and large companies;
- (c) include, by way of an appendix, guidelines for the evaluation of qualitative information (narratives and towards the future), as a way to reduce the difficulties that auditors may face, due to the complexities of assessing of these approaches. In this appendix, too, must be highlighted examples of how adding this evidence in a ballot of settings and even in a modified opinion report with caveat, adverse and abstention from opinion;
- (d) in item 62 of Chapter 6, are assigned the five basic components of an internal control structure, namely: control environment, risk assessment process, monitoring process of internal controls, communication system and report (information) of the control activities. That truly understands the components of an internal control Structure. So, here is the suggestion that Chapter 6 is termed: “Considering the Structure of Internal Control”; and
- (e) include in this orientation the use of analytical audit techniques (flowcharts of processes and procedures) to conduct a study and evaluation of the components of the internal control structure.

Q2) Is the draft guidance clear and easy to understand, including through the use of examples and diagrams, and the way terminology is used? If not, where and how should it be improved?

Answer: The draft guidance application framework introduced some new concepts additional to those present in the ISAE 3000, such as the terms ‘elements and qualities’ related to the ‘underlying subject matters’ under assurance. Besides that, the ‘underlying subject matters’ under assurance that can arise in an Integrated Report, can be quite different from those seen in other reports so far under the ISAE 3000 scope.

As the current Integrated Reports released to the market are still quite heterogeneous with respect to their content, purpose and end users (natural in introducing a new way of looking at business performance and consequently new factors for decision making), the assurance process could ensure more clearly the adequacy of the Integrated Report under review to the integrated reporting framework (IIRC), rather than fully delegating the adequacy of the selected ‘underlying subject matters’ to the preparer (see Chapter 3).

One way of addressing this question would be to add exhaustively, perhaps in Chapter 3 or 7: (i) examples of possible subject matters related to the 6 capitals addressed in the IIRC framework; ii) examples of possible elements related to each subject matter.

This technique was used, for example, in the introduction of the concept of "intangible assets" in the financial reports, when it was necessary to fully explain inside the accounting standards the possible intangible assets classified by nature for managers, accountants and auditors understanding.

Another point related to transparency and better understanding would also be to require the benchmarks used by the preparer of the Integrated Report for the definition of the elements, if possible, within its business segment. The draft guidance points only to the need for benchmarks for the selected measurement or evaluation criteria.

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

Answer: We acknowledge the idea of using subheadings. However, in terms of reorganizing the text, it would be easier for the reader to understand if the paragraphs were grouped into two groups: with and without further guidance.

The inclusion of topics related to Phase 2 could bring confusion to the development of comment letters. Should we focus solely on topics related to Phase 1 one or should we also consider topics related to Phase 2?

The use of diagrams may help readers to better understand the proposed Standards. However, without specific definitions and a clear structure for each diagram, it could be difficult to convey the underlying message. We present some discussions about potential improvements in the diagrams.

- Paragraph 46: the figure should be enhanced. For example: what is the purpose of the arrows? What is the sequence of events?

- Paragraph 62: the figure would portrait a system, but the connections are not there.

- Paragraph 80: the figure is not clear. The use of the 'plus' sign and the 'arrow' does not make it clear if the 'subject matter information' is the result of 'underlying subject matter' + 'criteria'. Also, the figure doesn't mention 'qualities'. Why?

- Paragraph 89: although this figure is clearer, when compared to the others, it would be beneficial to make it clear that the relation between the 'third box' with the five characteristics shown below.

- Paragraph 130: about step 2 for the practitioner: why not include 'yes' or 'no' boxes when evaluating both questions? It would be easier for the reader to follow the decision process.

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

Answer: We would like to provoke a reflection on this question: Whether the guidance does not introduce any new requirements how can it point to a better targeting for the audit procedures of these reports?

Would it not be better to narrow the scope of the project by focusing on a more effective and targeted approach to the audit of integrated reporting?

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

Answer: Once again, it appears a contradiction in terms, because if this consultation paper does not introduce any requirements in ISAE 3000, how can cover topics not explored in this standard?

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

Answer: Yes, we do, However, some diagrams and charts are needed, as prior mentioned, aiming to make the consultation paper clear and comprehensive.