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Board
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Subject : IAASB Consultation on Extended External Reporting (EER) Assurance

Dear Sir,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the IAASB consultation paper on Extended External Reporting (EER) Assurance.

We are supportive of the IAASB's project to develop non-authoritative guidance to assist assurance practitioner in the application of ISAE 3000. Nevertheless, we believe that the guidance should clearly indicate that it is required to read ISAE 3000 prior to use the EER guidance. This prerequisite should be addressed in chapter 1 – Introduction.

We consider that the document is already quite lengthy whereas the consultation focuses on the outcome of the sole phase one. The volume of the document including the phase 2 might become too voluminous and difficult to use. We consider important to provide guidance which is user-friendly, for example with an appropriate structure and an innovative format.

We believe that the guidance should be properly referenced with the ISAE 3000. This should improve the readability of the document. Moreover, as it is non-authoritative, the guidance should not introduce any further requirements beyond those in ISAE 3000. We have the same comment for the terminology used in the guidance. The IAASB should ensure full consistency between the guidance and the standard.

The draft guidance may be considered as too high level and too academic, especially if the guidance paraphrases the requirements of ISAE 3000. We encourage the IAASB to provide more examples and explanations on how to apply ISAE 3000.

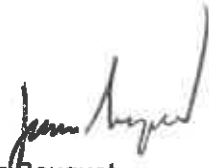
There are instances in the guidance where it can be understood that the guidance is providing 'best practice' which we believe is not the intention. For example, using such words as 'desirable', "should" and similar words can give the impression that the proposed approach is best practice to be applied. When the intention is rather to assist the practitioners with the application of the standard.

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Responses to the specific questions raised in the Consultation Paper are set out below.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,



Jean Bouquot
President of CNCC



Charles-René Tandé
President of CSOEC

Questions

Question 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?

Paragraphs 9-15 (scope of draft guidance)

The scope of the guidance as developed is appropriate.

However, we have the following comments:

– Consistency of the draft guidance with ISAE 3000 (Revised)

Paragraph 9 of the guidance states that the terminology used in the guidance is consistent with the standard. But, we noted a number of exceptions to this general principle. For example, the guidance uses the following terms:

- "Preparer" to mean a responsible party who is also the measurer or evaluator in ISAE 3000;
- "Subject matter element" (or "elements") and their qualities in the context of an EER report. ISAE 3000 uses the terms "subject matter information", "underlying subject matter" and "criteria";
- "Categories" / "Topics" / "Elements". These terms are not used in ISAE 3000.

We consider that the IAASB should ensure the consistency of terminology between the standard and the guidance which is indispensable for making it easily understandable. Introducing additional terms and concepts within the guidance might be counterproductive.

– Concepts of "looking forward" and "performance"

The guidance addresses the reporting practices as at today. But EER is evolving rapidly. We consider it is essential to understand and consider this evolution and its impact on independent assurance practice and how this could be reflected in the guidance. We therefore recommend the IAASB to consider the cases of assurance on performance and/or on looking-forward statements.

– Using the work of experts

Using the work of experts is a common practice in EER assurance engagements. However, paragraph 34 states that "The standard also includes requirements relating to the use of experts or the work of another practitioner and requesting written representations. These are outside the scope of this guidance." This is not consistent with the chapter 4, applying appropriate skills. We consider that this issue should be clearly addressed in the guidance. The following questions could be considered, e.g. how to use the work of financial auditors, internal auditors and subject matter experts?

Paragraph 25 (preconditions and system of internal control)

We believe fundamental to have clear guidance on the preconditions to assist practitioners. We encourage the IAASB to further explain the work effort implied in the engagement acceptance phase and in reviewing if the preconditions are fulfilled. The IAASB should avoid confusion between the preconditions and the work that has to be performed once the engagement has been accepted. The work effort on the preconditions should be proportionate.

At this stage, we have also the following comments:

- Inconsistency between chapter 3 (Determining preconditions and agreeing the scope) and chapter 6 (Considering the system of internal control)

Paragraph 45 (chapter 3) states that the same preconditions need to be present for all assurance engagements, whether limited or reasonable assurance. Paragraph 60 (chapter 6) refers to the standard that requires from the auditor different considerations of internal controls for limited and reasonable assurance. It would be useful to clarify the expectations of the preliminary work for limited and reasonable assurance. Moreover the use of "must" in the second sentence of paragraph 45 is not appropriate in a non-authoritative guidance. Furthermore, the chart in paragraph 46 that summarized the preconditions set out in paragraph 24 of the standard in seven grey shaded boxes is not clear enough. We are of the view that it should be reordered as follows:

- 1) Engagement has a rational purpose and Practitioner's conclusion is to be contained in a written report
- 2) Preparer's roles and responsibilities are suitable
- 3) Underlying subject matter is appropriate
- 4) Criteria are available
- 5) Criteria are suitable.

In addition, the captions "Engagement has a rational purpose", "Practitioner's conclusion is to be contained in a written report" and "Criteria are available" should be linked with other boxes, that is not the case in the current version of the chart.

Finally, the reference to "this IAEPN" in the legend of the chart is not correct.

– Chapter 3 (Determining preconditions and agreeing the scope)

We have the following comments concerning the part relating to the preconditions for assurance.

• Paragraph 47

Paragraph 47 that addresses the "considerations for the practitioner in the acceptance or continuance decision" essentially rephrases paragraph 24 of the standard. We note, however, that the terms "in the circumstances" are missing after "appropriate parties" to be fully consistent with paragraph 24a) of the standard.

We consider that the purpose of the guidance is not to rephrase the standard but to provide useful guidance and appropriate illustrations to help practitioners in conducting assurance over EER.

• Paragraph 48

Paragraph 48 deals with the meaning of "underlying subject matter is identifiable" and takes the example of "greenhouse gas emission of an entity". We consider that taking such an example in the non-authoritative guidance is not appropriate as there is already an international standard on this matter, i.e. ISAE 3400 – *Assurance engagement on greenhouse gas statements*.

• Paragraph 50

Concerning the title before paragraph 50, Assurance Readiness should be put in double quotes.

Paragraphs 50 to 53 deal with the case of the pre-audit. We have a concern with the following sentence, i.e. "If it is found by the practitioner that the preconditions for assurance are present, the entity can then choose to proceed with requesting an assurance engagement." We could understand that the request for an assurance engagement systematically depends on the pre-audit conclusions. We consider that the IAASB should further clarify the point.

– Chapter 6 - Considering the system of internal control

We have a concern with the structure of chapter 6. We have difficulties to distinguish in the developments what has to be considered as preconditions to accept or continue an assurance engagement and what is part of planning and performing the engagement. We therefore recommend the IAASB to further clarify this distinction. Please also refer to our comment on paragraph 77 here below.

- Introduction

The first sentence of paragraph 61 "Having a highly sophisticated or developed system of internal control is not a precondition for an assurance engagement" should be moved below the title of chapter 6.

- Understanding the Entity's system of internal control

Paragraph 62 deals with the 5 components of an entity's system of internal control. However, we note that the description provided is not consistent with the COSO framework.

- Response where the preconditions are not present

To clarify the first sentence, we propose to replace "they" by "the practitioner", i.e. "Where the practitioner establishes that the preconditions for an assurance engagement are not present, ~~they~~ the practitioner may discuss this with the potential engaging party (management or those charged with governance)".

- Paragraph 77

We have a concern with paragraph 77¹ of the guidance that appears as a hidden requirement.

A formalized and robust system of internal control seems to be as a precondition to accept an assurance engagement under ISAE 3000. But this is inconsistent with paragraphs 24 to 25 of the standard. Having strong internal control systems in place is important for a qualitative EER assurance engagement, but absence of mature internal systems does not mean that assurance cannot be provided. For example, the initial scope of assurance can be set on the design of the controls for internal purposes only, adding at a later stage the operating effectiveness.

We consider that paragraph 77 should be amended accordingly. Moreover, we also suggest including a new chapter, between chapter 9 (Performing procedures and using assertions) and chapter 10 (Assuring narrative information) to deal with obtaining appropriate evidence.

Paragraph 29 (suitability of criteria)

- Paragraph 82

We consider that the first example of paragraph 82, that concerns the financial reporting, is not useful and could be removed from the guidance.

The 2nd example of paragraph 82 illustrates the specific terms from non-financial statement reporting, i.e. underlying subject matter, elements, qualities, criteria and resulting subject matter information. As mentioned previously, we consider that divergences in the terminology used in the standard and the guidance adds complexity without providing real added value. We therefore recommend removing the terms "elements" and "qualities" from the guidance.

Moreover, we consider that the diagram in paragraph 89 that shows steps the practitioner may follow in determining the suitability of criteria should be moved into paragraph 46 that summarizes the preconditions for assurance.

- Direct engagements

As mentioned in paragraph 8 of the draft guidance, ISAE 3000 can be used in both direct and attestation engagements. However, like the standard, the guidance is written in the context of attestation engagements. We consider that the guidance should explain how it can be applied to direct engagements.

¹ Par 77: "In circumstances where the preparer has not met its responsibilities and the practitioner cannot decline the engagement due to its acceptance being required by law or regulation, the practitioner may need to consider whether it is necessary to express a qualified conclusion or disclaim a conclusion. An engagement conducted under such circumstances does not comply with ISAE 3000 (Revised). Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with ISAE 3000 (Revised) or any other ISAE(s)"

Paragraph 33 ('materiality processes')

Paragraph 27 of the guidance states that 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. We draw your attention to the fact that the concept of performance materiality is not developed in ISAE 3000. This concept will be addressed in phase 2. The IAASB should be aware that the developments should not be written in a prescriptive way.

Paragraph 35 (materiality of misstatements)

It would be helpful to further clarify the assessment of what would be considered as "clearly trivial". We therefore recommend the IAASB to add in the guidance the concept of "clearly trivial" that is defined in paragraph A2 of ISA 450 – *Evaluation of misstatements identified during the audit*.

We consider that determining what would be clearly trivial is much less straightforward in an EER engagement than in an audit of financial statements. We expect that it requires greater judgement by the EER assurance provider, which will need to be extensively documented.

Equally, the threshold is not clear for what is or is not clearly trivial as presented in paragraph 215. In EER reports, it may not be apparent as to what would be categorised between what is clearly trivial or not. The outcome might depend on other factors and could be open to a high level of interpretation.

Paragraph 40 (assertions)

ISAE 3000 does not specifically require the practitioner to use assertions, and, therefore, it 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, as mentioned in paragraph 166 of the guidance a practitioner may use assertions in both reasonable assurance engagements and limited assurance engagements.

We have the following comments concerning the part of the guidance relating to identifying categories of assertions that may be used. We consider that the guidance:

- on assertions could be seen as rather theoretical. It would be useful for practitioners to have a set of assertions with some practical examples;
- should include the definition for all categories of assertions, especially the connectivity that seems to be a new category of assertion;
- avoid inconsistencies. For example, paragraphs 174 and 184 refer to the completeness assertion whereas paragraph 177 does not mention it as category of assertions that may be used in EER engagements.

Moreover, we do not understand why the categories of assertions in the EER context differ from the ones for the financial statements.

Finally, we consider that the category of assertions, i.e. free from error that is mentioned in paragraph 177 is not an assertion but the result of the procedures performed after having considered the categories of assertions. We consider that this category needs to be withdrawn from the guidance.

Paragraph 41 (narrative and future-oriented information)

As the guidance states, some future-oriented information is, by definition, unpredictable and can be influenced by factors outside of the entity's control. That makes it very difficult for the assurance provider to reach a conclusion or provide assurance on this information.

Whilst acknowledging this, the guidance does not provide any clarification as to how the assurance provider should approach, conduct and conclude upon engagements that require assurance over forward-looking information and this clarification is necessary to enable such engagements to be accepted and performed.

We have also the following comments :

- Paragraph 194, we suggest that "individual claims or Indicators" be replaced by "individual statements of indicators"
- The titles of chapter 10 – *Assuring narrative information*, should be replaced for "Providing assurance on narrative information". We have the same comment for the chapter 11 – *Assuring future-oriented information* and suggest "Providing assurance on future-oriented information".

Question 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?

Paragraphs 16-17 (examples, diagrams and terminology)

Please refer hereafter above our comments on paragraph 82.

Paragraph 34 (term 'materiality process')

The materiality process is not addressed in the Standard ISAE 3000 (Revised). We refer to our response to Question 1.

Paragraphs 37 and 40 (assertions)

No further comments.

Question 3:

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

Paragraph 18 (structure)

The structure is workable, but the document is already very lengthy and can be difficult to digest. As the consultation paper indicates, it only includes the outcome of the first phase. It will be compounded once the outcome of phase 2 is added, but we expect that it will be necessary to adapt the structure accordingly to keep the guidance user-friendly. As the draft guidance will be further developed, it is challenging to comment on the structure before the final guidance is issued.

The guidance needs to be well structured and of appropriate length, otherwise its use will be limited. As the document is already quite lengthy, careful signposting could help the user understand the structure of the document. Also, using digital solutions would improve the structure. The guidance would be most useful if digital and referenced.

Question 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?

Paragraph 19-21 (relationship with ISAE 3000 (Revised))

Please refer to our comments above.

Paragraphs 24 and 26 (linking the preconditions and the system of internal control)

We have no further comments.

Paragraph 36 (assertions)

Please refer to question 1.

Question 5:

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

Paragraph 19-21 (matters not addressed in ISAE 3000 (Revised) and including details on the preparer's role and 'materiality processes')

We refer to question 1.

Paragraphs 24 and 26 (linking preconditions and the system of internal control)

We have no further comments.

Paragraph 36 (assertions)

We refer to question 1.

Question 6:

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)

We agree that the additional material is helpful, especially for those that are not experienced in this field of activity yet. This material could also prove to be helpful in communicating with preparers and engaging parties. We suggest clarifying the intended audience, of the guidance, but also of all the material published. It will help disseminate the information to the targeted stakeholders.

Request for General Comments

Question 7:

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.

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.

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.

We do not have any specific comments to add.