



International Auditing and Assurance Standards Board
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Via IAASB website at www.iaasb.org

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to provide input on the International Auditing and Assurance Standard Board's (IAASB) Consultation on Proposed Non-Authoritative Guidance Extended External Reporting (EER) Assurance (the draft Guidance).

We welcome the efforts to provide guidance in this developing area of assurance engagements. Overall, we are of the view that the guidance proposed in the draft Guidance is significantly improved from the proposals in Phase I of the project. In particular, we support the creation of two supplements, Supplement A, *Credibility and Trust Model and Background and Contextual Information* and Supplement B, *Illustrative Examples*, as a means of providing further guidance for those less familiar with EER assurance engagements. Whilst the draft Guidance remains a long, and perhaps daunting document, we are of the view that this guidance is necessary and relevant. We appreciate the tools put in place to aid navigation of the document. In particular, Diagram 1 serves as a good navigational tool for both the draft Guidance and for the linkages to ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. Further, hyperlinks throughout the proposed Guidance will only serve to improve its usability. Similar to the first phase of this project, we would recommend simplification of the proposed draft Guidance wherever possible.

Overall, we find the use of examples and diagrams throughout the document helpful in bringing the concepts to life. We do have comments on the appropriateness of specific diagrams and examples in the proposed guidance, and suggestions as to where additional examples or diagrams might be helpful, which we have included in the detailed comments below. Further, we recommend that consideration be given to providing contrasting examples in some circumstances to highlight what would not be appropriate based on the facts and circumstances of the example.

Given the lack of established frameworks and the variety of subject matter information on which assurance may be given, performing these assurance engagements requires significant exercise of professional judgment in determining whether the subject matter information and criteria are suitable. In that respect, we would like to emphasise the importance of determining completeness not only of the suitable criteria, but also of the characteristics and individual elements of the criteria. Assurance practitioners need the ability to appropriately exercise professional judgment and scepticism to ensure that each criterion being reported on includes all the required characteristics and elements, and in combination with other criteria, is a complete set of criteria; not just the characteristics or elements, or criteria that are biased towards presenting the entity in a more favourable light.

The current global environment, including the COVID-19 pandemic and global social unrest, has the potential to elevate the importance of EER assurance engagements. Entities may seek to be able to provide assurance reports on the steps they are taking from a social responsibility perspective. We have seen unprecedented change in such a short period of time. As this draft Guidance is finalised, consideration should be given to how it may help assurance practitioners in exercising professional judgment in selecting the underlying subject matter information to be reported upon, including determining whether the underlying subject matter remains relevant and the criteria selected to assess results remain appropriate.

We are of the view it is important to issue the proposed draft Guidance as soon as possible, bearing in mind the challenges posed by the current environment. Further we recommend that a robust post implementation review be performed not more than two years after it comes into effect to identify ways in which the Guidance can be made more practical.

We would also recommend that support material be issued with the approved Guidance to highlight the key messages of the guidance and to help users through the navigational aspects of appropriately applying the proposed draft guidance. Support material may also help to explain some of the concepts for potential users of the Guidance who are less familiar with performing assurance engagements. Staff Audit Practice Alerts subsequent to issuance of the draft Guidance on specific areas that practitioners are finding troublesome to implement would also be useful. In this respect, we recommend that consideration is given to replicating the process followed by the IAASB in its recent Staff Audit Practice Alerts on COVID-19, which provided relevant and timely guidance for all assurance practitioners.

We attach our detailed responses to the draft guidance, which elaborates on the points highlighted above. We would be pleased to discuss our comments with you. If you have any questions, please contact me or Sara Ashton at sara.hm.ashton@uk.gt.com or at +1 646 825 8468.

Sincerely,



Mark Hucklesby
Director of Financial Reporting
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Enc: Appendix A: Responses to Consultation Paper – Proposed Non-Authoritative Guidance
Extended External Reporting (EER) Assurance

The IAASB's Consultation Paper – Proposed Non-Authoritative Guidance Extended External Reporting (EER) Assurance

The following provides our detailed response to the IAASB's request for comments to Consultation Paper – Proposed Non-Authoritative Guidance – Extended External Reporting (EER).

QUESTIONS

- Q1. Does the draft Guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance? If not, where and how should it be improved to better serve the public interest in EER assurance engagements?**

Introduction

We note that the introduction describes the intended audience as 'practitioners carrying out EER assurance engagements.' We are of the view that it is important to include in the introduction that, in explaining the concepts and requirements included in ISAE 3000 (Revised),¹ the guidance assumes that practitioners already possess a base level of knowledge of performing assurance engagements.

We found Diagram 1 – Relationship Between the Stages of Engagement, Standard Requirements and this Guidance, particularly helpful as a navigational tool to the draft Guidance. The inclusion of hyperlinks in the table in the final Guidance would also be appreciated, as this would facilitate easier navigation. As noted in our response to Question 2 below, we would recommend a similar table is included in each of the other chapters as a means to navigate the content of that chapter.

Chapter 1 – Applying Appropriate Competence and Capabilities

We support the emphasis on assembling an engagement team with the appropriate competence and capabilities to perform the engagement and, in particular, this may result in a multi-disciplinary team from different service lines within the firm undertaking the assurance work. We also support highlighting that external experts in specialist subject matters may be needed to support such engagement teams.

We note paragraph 31 states:

'the extent to which the work of experts is used, and how it is used, are a matter of professional judgment for the practitioner, taking account of factors such as ... the level of assurance obtained.'

We are of the view the use of an expert is in direct relation to the underlying subject matter information and not the level of assurance required from the assurance engagement. Further, we believe that it is important that the Guidance does not imply it is appropriate to use individuals on a limited assurance engagement that are less capable than the individuals used on a reasonable assurance engagement. The value of both limited assurance and reasonable assurance engagements will be undermined if practitioners do not have the competence and capabilities to attend to the key aspects of the engagement.

Further, we are of the view the example provided in paragraph 34 is a very simplistic example. We recommend this example be deleted.

¹ Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

Chapter 2 – Exercising Professional Skepticism or Professional Judgment

Overall, we question whether this chapter is focused on the appropriate concepts in relation to the application of professional scepticism and professional judgement. We do not believe the intent of the chapter is, or should be, to 'teach' how to apply professional scepticism or professional judgment. If practitioners are not aware of what professional scepticism and professional judgment mean, we are of the view it is not appropriate for those practitioners to be performing these types of assurance engagements. As such, we believe it is not necessary to include the definitions of professional scepticism and professional judgment, which can quite easily be found in other assurance standards. If the more basic discussion of professional scepticism and professional judgment is removed from the chapter, the guidance could be focused more on their specific application in relation to the performance of these types of assurance engagements and would, as a result, be more effective.

Further, we question the use of the professional judgment and professional scepticism symbols throughout the examples in the document. We are not clear what they add to the proposed draft Guidance and find they are more of a distraction than an aid.

Chapter 3 – Determining Preconditions and Agreeing the Scope

We believe this chapter would benefit from further simplification. In particular, we found Diagram 5 – Acceptance and Continuance Considerations, overly complex and somewhat confusing. The 'jellyfish' tries to capture too much information and the table included below adds to the complexity. We would recommend one of two ways to simplify the diagram, either to present the concepts as a process flow or to represent the concepts in a number of smaller diagrams. In addition, our view is the discussion following the diagram does not flow logically.

Chapter 4 – Determining the Suitability and Availability of Criteria

We view this aspect of an assurance engagement as the one where the application of the most professional judgment is needed and one that could benefit from more application guidance. For example, in the section of the paragraph discussing characteristics of suitable criteria, the discussion of the criteria of completeness appears somewhat curtailed. We view this as a particularly important criteria that warrants further discussion, particularly in relation to the completeness of the characteristics or elements of the criteria in addition to determining that there is a 'complete set' of criteria. Without a proper understanding of all the elements of suitable criteria, it is more difficult to get the planning of the engagement correct.

We noted there are a limited number of frameworks that practitioners are able to reference when performing these assurance engagements and that these frameworks are evolving as they become more established. However, we do think it would be beneficial to practitioners to include an overview of the landscape of frameworks that are currently widely recognised around the world. We appreciate it may not be appropriate to include this in the proposed draft Guidance itself, and as such, would recommend that consideration be given to incorporating in Supplement A to the draft Guidance.

Where an entity has developed its own criteria, it is even more important that the practitioner is able to appropriately exercise professional judgment and professional scepticism; to consider whether the entity is attempting to manipulate the conclusion of the assurance engagement through the selection and determination of the criteria on which it is requesting the engagement. We believe the draft Guidance could focus on encouraging such a mindset and such behaviours. Further, we also recommend additional guidance is provided for practitioners to reference other sources that other practitioners may have used in establishing their own criteria, for example, other data, indices or key performance indicators.

Chapter 5 – Considering the System of Internal Control

We found the discussion of the various considerations for practitioners to be very helpful and believe an appropriate balance has been achieved in the amount of detail incorporated. We did, however, have a specific comment in respect of the example included in paragraph 210. To us this example appears to be incomplete or unfinished. The example is highlighted, through the incorporation of the professional judgment symbol, as a situation in which professional judgment would be applied. It would therefore be helpful to practitioners to extend the discussion of this example to include what the application of professional judgment would look like, rather than simply highlighting this as an example of where professional judgment may be applied.

Chapter 6 – Considering the Entity's Process to Identify Reporting Topics

In our opinion, this chapter would be better positioned earlier in the draft Guidance because it sets out the considerations made by the practitioner in determining whether the reporting topics on which the EER assurance engagement is to be performed have an appropriate purpose. As these are actions performed at the start of the engagement, it would seem logical that this would be placed before chapters 3-5.

We are also of the view this chapter would benefit from better clarity between the procedures that would be performed in a limited assurance engagement and those that would be performed in a reasonable assurance engagement. For example, in relation to the processes used to prepare the subject matter information, the draft Guidance appears to be proposing the process only needs to be understood for a limited assurance engagement but the process and internal controls also need to be understood in a reasonable assurance engagement. It would be helpful if the draft Guidance was expanded to provide clarity on why it is important to understand controls in a reasonable assurance engagement, particularly in light of the fact that understanding the controls will have no impact on the extent of the testing required, i.e., the effect understanding controls may have on the nature and timing of the procedures to be performed.

To differentiate between the procedures and guidance provided for limited assurance engagements and that provided for reasonable assurance engagements, we recommend consideration be given to presenting the guidance in a similar manner to that in ISAE 3000 (Revised).²

Further, we found Diagram 8 – Entity's Process to Identify Reporting Topics, to be confusing. It identifies two steps, step one is colour coded in yellow, step 2 is colour coded in green. There is then a set of boxes at the end of the diagram, colour coded in blue, which are not identified as a step. It is not clear whether the boxes highlighted in blue are meant to be additional steps. It is also not clear in the text where the content of the blue boxes is discussed.

Chapter 7 – Using Assertions

Overall, we are of the view this chapter is too conceptual and it would benefit from more practical guidance. We note the language used in this chapter appears inconsistent with that used in the rest of the draft guidance. We therefore recommend that consideration is given to redrafting this entire chapter using the more simplistic language found in the other chapters.

Whilst we appreciate that the concept of assertions may be well understood by those practitioners that perform audits and other assurance engagements, we are of the view the incorporation of practical examples of applying assertions to assurance engagements in

² ISAE 3000 (Revised), paragraphs 46-49

Supplement A (with a corresponding reference in this chapter) may further assist those practitioners who may not be as familiar with their application.

We are also concerned the guidance will allow too much flexibility in the use of assertions in assurance engagements; given the importance of appropriately defining the assertions for which evidence is being obtained. For example, as noted in our comments above, we view completeness as a particularly important assertion in these types of assurance engagements and do not believe it is appropriate to imply that a practitioner may not need to consider this assertion. We would recommend that the guidance not provide options but takes an approach that is similar to the approach to that in ISA 315 (Revised 2019).³

Paragraph 251 of the draft Guidance includes a list of internal resources that the practitioner may use in considering the completeness of the criteria. We recommend the following sources be added to the internal sources:

- The reporting entity's regulatory filings such as Form-10K or annual reports, which would be a good source of the entity's risk analyses.
- Ethics 'hot topics' and communications from compliance channels, which are often used as ways to establish relationships with stakeholders.
- Environment, health and safety systems and process, which are often maintained separately from financial processes

Paragraph 268 provides examples of the different types of possible misstatement associated to the assertion to which the misstatement relates. We recommend that consideration is given to providing an additional example in relation to the rights and obligations assertion.

Chapter 8 – Obtaining Evidence

This chapter clearly sets out need for the practitioner to use professional judgment in determining when enough evidence has been obtained on which to form a conclusion; a framework with which to make such judgments is important and we believe the 'Considerations for the Practitioner' highlighted in the guidance are helpful in that respect. We are also of the view the guidance is helpful in setting out a spectrum that illustrates the shift from limited to reasonable assurance. We noted this chapter references two detailed and comprehensive illustrations in Supplement B. In addition to these illustrations, we believe this chapter would benefit from one or two short contrasting examples to illustrate the application of the practical considerations for the practitioner.

Chapter 9 – Considering the Materiality of Misstatements

We found the examples in this chapter in relation to qualitative materiality considerations to be useful. Our view is this chapter could benefit from a further example, such as the accumulation and evaluation of misstatements, including the evaluation of whether a misstatement(s) is material and pervasive, in reaching a conclusion; or an example that demonstrates an evaluation that does not reach an acceptable conclusion.

We would also like to highlight guidance, soon to be published by the American Institute of Certified Public Accountants (AICPA) on qualitative materiality.⁴ We believe that this may be helpful in finalising the guidance in this area.

³ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraphs A190-A191

⁴ Materiality Considerations for Attestation Engagements Involving Aspects of Subject Matters that Cannot be Quantitatively Measured

Chapter 10 – Preparing the Assurance Report

We have no specific comments on this chapter because our view is the guidance is appropriately presented and sufficiently detailed.

Chapter 11 – Addressing Qualitative EER Information

As noted in our comments above, we are of the view this Guidance should be for practitioners who have a base level knowledge of assurance engagements. As such, we would recommend consideration is given to identifying those paragraphs in this chapter that do not provide guidance that is unique to the performance of an EER engagement. Paragraph 395 would be a good example of such a paragraph.

Chapter 12 – Addressing Future-Oriented Information

In relation to obtaining and considering evidence about future-oriented information, we recommend the guidance include further discussion around the use of external information to anchor disclosures. Information from outside the entity may be seen as more objective and engender more trust in the assurance report.

Q2. Is the draft Guidance structured in a way that is easy for practitioners to understand and use in performing EER assurance engagements? If not, where and how should it be improved to better serve the public interest in EER assurance engagements.

We are of the view the draft Guidance is structured in a way that practitioners will be able to navigate and use in performing EER assurance engagements. As noted in our comments above, we found the table in the Introduction to be particularly helpful. We are also supportive of the behavioural aspects being located at the beginning of the draft Guidance with the following chapters being structured in the manner of an engagement. As noted above we recommend that chapter 6 is located earlier in the structure, but otherwise find this ordering of the topics to be very helpful.

Further, the use and presentation of examples and diagrams overall enhance the understandability of the proposed draft Guidance.

To help navigate within each individual chapter within the draft Guidance, we would recommend including an index or contents table at the beginning of each chapter that includes the main topics discussed within the chapter with hyperlinks to where that topic is discussed.

Translation-Recognising 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 noted no specific translation issues with the proposed draft Guidance.