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Mr. Willie Botha
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IAASB Consultation Paper: Extended External Reporting (EER) Assurance

Dear Mr Botha

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the *Consultation Paper, Extended External Reporting (EER) Assurance* (EER Paper) issued by the International Auditing and Assurance Standards Board (IAASB).

We support the IAASB's project to provide non-authoritative guidance to assist practitioners in dealing with challenges that are occurring in practice as described in the IAASB's previously issued Discussion Paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*. As we noted in our response to that Paper, we believe it is also important for the IAASB to continue its outreach activities to those developing or maintaining frameworks related to EER. By being proactive in providing input to these organizations, we believe the IAASB can assist in reducing practical challenges to practitioners that could be avoided through greater clarity in the frameworks. Nevertheless, we recognize that a certain level of challenges will continue to exist because these frameworks, and entities' reporting in accordance with them, are evolving and in varying states of maturity.

Scope of the engagements to which the EER paper applies

For the EER Paper to be fit-for-purpose over an extended period of time, we believe that the scope and boundaries of the guidance should be better defined to assist practitioners in understanding when the non-authoritative guidance may apply to their engagements. We believe the primary value of the EER Paper is in addressing specific challenges that practitioners may encounter when the framework or the entity's reporting under the framework are still maturing.

Although we support the use of the term EER, it does not alone capture the scope of the guidance. In our view, paragraphs 1-3 of Chapter 1 do not clearly articulate the nature of engagements for which the non-authoritative guidance is being developed. We believe it would be most useful to explain the applicability of the guidance in terms of specific characteristics or circumstances of the engagement (e.g., immature criteria) for which the EER Paper provides supplemental guidance to ISAE 3000 (Revised) (hereinafter referred to as 'the Standard'). Doing so would assist the practitioner both in determining the applicability of the guidance and in navigating the large volume of guidance.

Further, although aspects of this guidance may be applicable for other subject matters than those described in paragraph 1, without significant modifications, the guidance would likely not adequately address challenging areas applicable to all underlying subject matters that are subject to assurance engagements (e.g. ISAE 3402 engagements). We believe adding a statement of this nature would assist with further refining the scope of engagements to which the guidance is intended to apply.

Maintaining a work effort consistent with expectations under ISAE 3000 (Revised)

The EER paper has a significant volume of content in the form of supplemental guidance to the Standard and includes several concepts not included in the Standard. We understand this is because of the realities that many entities' EER reporting is relatively immature compared to financial reporting. Many entities are in a journey in developing processes, internal controls and measurement techniques related to EER as well as developing entity-specific supplemental criteria as necessary. For example, the World Business Council for Sustainable Development (WBCSD) has inventoried that the EEG topic has nearly 200 different criteria issued in 70 countries. As such, many of the criteria, alone, likely do not meet the requirement of suitable criteria, as noted in Chapter 7 of the EER Paper.

Although we support the guidance addressing concepts and challenges that may arise in EER that are not specifically or fully addressed by the Standard, it is important that the guidance sets forth an appropriate work effort consistent with that which would be expected under the Standard. We see areas of the guidance that we believe imply a greater work effort than is necessary in all circumstances. Refer to our responses to Q4 and Q5 for further details.

Although the guidance should be targeted to evolving forms of EER, we believe the guidance should also be applicable to more mature forms of EER when it is useful to provide appropriate contrast to the difference in procedures and effort when the challenges identified may and may not exist.

Our responses to the specific questions on which the IAASB is seeking feedback are set out below.

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?*

Yes, the guidance comprehensively covers the areas identified within the scope of phase 1 and we believe that it does include useful guidance to address practical challenges. Yet, we do see some opportunities for enhancement as follows:

- ▶ In paragraph 53, independence considerations related to performing an assurance readiness engagement is discussed. Performing an assurance readiness engagement is not an assurance engagement and can lead to an independence issue if other assurance engagements are performed for the entity, even if those have no relation to the subject matter, especially for public interest entities. We suggest enhancing the guidance in this paragraph beyond "there may be a self-review threat". When the intention is for the same practitioner to perform a future assurance engagement on the subject matter, the assurance readiness services need to be designed to not affect the potential ability for the practitioner to provide assurance services at a later date (i.e., the practitioner cannot be viewed to be providing assurance on the practitioner's own work).

- ▶ We believe that EER reports that are as at a point in time are usually not appropriate and that the appropriateness of the period of time of the EER report should be considered in determining whether the engagement has a rational purpose.
- ▶ As noted in paragraph 117, an entity may be developing and improving its reporting processes such that entity-developed criteria may change and evolve between reporting periods. Further attention could be given to the due process of self-developed criteria.
- ▶ Paragraph 118 states that it may be desirable for the intended users to acknowledge that the entity's developed criteria are suitable for their purposes. Further clarification is needed as to whether this acknowledgement is intended to be obtained by the entity, or whether the guidance is expecting the practitioner to interact with the users. We do not believe it is practical or feasible for the practitioner to do so. Instead, we believe one purpose of the practitioner's consideration of the entity's 'materiality process' is to understand how the entity makes decisions about the topics, criteria utilized and related elements that would assist the decision-making of intended users. Refer to our response to Q4 and Q5 for further views on the suitability of criteria and the materiality process.
- ▶ Integrated or sustainability reports may contain the outcomes of an impact measurement assessment prepared by the entity or a management expert. Given the characteristics of such assessments (e.g., in terms of assumptions, scientific sources, inherent uncertainties in measurement and the willingness to publicly disclose full information on impact measurement models (due to confidentiality or competition)), further guidance in the suitability of criteria section in context of such assessments would be helpful.
- ▶ Financial information may be included in EER reports, particularly financial indicators, which may include some indicators derived from the financial statements or others new to the EER report. Such indicators are increasingly common in EER using frameworks such as GRI and IIRC. Guidance that addresses the considerations to be applied by the practitioner in addressing such financial information, and the relationship to procedures on that information that may have been performed as part of the audit of the financial statements, would be useful.
- ▶ Chapter 12 has insightful guidance of how to address qualitative characteristics when considering materiality for the purposes of both determining materiality and concluding on whether misstatements are material. However, further guidance could be provided on the concept of performance materiality and how such a concept may be applied in EER engagements.

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?*

We agree with paragraph 6 of paper "The purpose of this guidance document is to provide practical assistance to a practitioner carrying out assurance engagements over EER in the form of guidance on the application of the standard". However, we do believe that the guidance is more lengthy and detailed than necessary. We encourage the IAASB to make the key points more prominent and reduce lengthy explanations; otherwise the guidance (particularly after the addition of the Phase 2 topics) may become too unwieldy for practical implementation.

Consistent with our introductory comments in this letter, we believe effort should be made to communicate more 'straightforward' engagement circumstances (e.g., published criteria are suitable and the entity has a mature reporting process) and not imply that significant efforts need to be taken or that topics outside of the Standard need to be addressed for most EER engagements. Therefore, we encourage providing contrasting examples when entities are more sophisticated and the published criteria is sufficient without needing to be supplemented. Doing so, in our view, will improve the understandability of the guidance and its practical application and facilitate the guidance remaining fit-for-purpose into the future.

We find the diagrams and figures useful. For example, the graphic in Chapter 8 that describes procedures performed by the preparer v. practitioner is insightful. The use of examples helps in better understanding the guidance particularly when the examples are specific and provided in the context of specific frameworks or in the context of criteria that has been developed or customized for the engagement. However, including such examples throughout the document makes it quite lengthy and as reporting evolves, other examples might become more relevant. Therefore, we suggest the consideration of an appendix for some portion of the examples (e.g., those that are targeted to specific framework or topic) that would better facilitate updating these examples periodically.

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

The categories in the EER paper are primarily aligned to the 2016 Discussion Paper. It is understandable that the paper has been assembled using this approach. Consistent with our introductory comments, we believe the guidance will be most understandable and usable if the practitioner can easily find the guidance that is applicable to the specific challenge they are facing in their engagement. It is equally important that practitioners understand how the guidance aligns to the Standard. Accordingly, it may be helpful to repeat the relevant Standard requirement paragraphs at the top of each of the sections for easy reference, as well as align headings to those used in the Standard. Enhancing the structure in this manner would make it easier to read and understand alongside the application material of the Standard.

We also recommend making a clearer distinction between the guidance for assurance engagements with limited assurance and those with reasonable assurance. The Standard uses separate columns for this, which resonates with us.

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?*

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

Sufficient conditional language is utilized (e.g. may) to reduce the risk that the guidance could contradict or conflict with the Standard (i.e. we did not identify any stated new requirements). However, the nature and volume of guidance for certain topics, including certain of those that are not addressed in the Standard, may infer a level of work effort to achieve the requirements in the Standard that we believe is inappropriate or unnecessary. Specifically:

- ▶ The guidance elaborates quite extensively on the preconditions for accepting an engagement and is, in many cases, appropriate to assist assurance practitioners. However, we believe this guidance significantly overstates the effort to assess the suitability of criteria and to understand the preparer's internal control before the practitioner is engaged. We believe that efforts are needed to provide a proper balance between the procedures that are relevant during the engagement acceptance stage and those during the performance of the assurance engagement. More specifically:
 - Related to evaluating suitability of criteria as part of the preconditions, ISAE 3000.24 provides the following important context to the work effort involved: "The practitioner shall, on the basis of a preliminary knowledge of the engagement circumstances and discussion with the appropriate party(ies), determine whether ...". In our view (which is consistent with current practice), this determination should be able to be made through inquiries in many circumstances because it is a preliminary determination. The requirement for the practitioner to conclude on the suitability of criteria does not occur until the planning phase where ISAE 3000.41 states "The practitioner shall determine whether the criteria are suitable for the engagement circumstances, including that they exhibit the characteristics identified in paragraph 24(b)(ii) (pre-conditions)". As such, the Standard would allow for the practitioner's efforts associated with assessing the suitability of criteria prior to being engaged (i.e. during the assessment of pre-conditions) to be a relatively minimal activity with a more robust work effort to occur during planning. In our view, the guidance does not appropriately distinguish this difference in work effort because it sets the expectation for the robust analysis of criteria set out in Chapter 7 to be done prior to the practitioner being engaged (i.e. during the assessment of the pre-conditions).
 - The discussion on the system of internal control in Chapter 6 uses the premise that most of the activities laid out in the Chapter would be performed prior to the practitioner being engaged. As explained above, the requirement in ISAE 3000.24 related to assessing pre-conditions is based on a preliminary knowledge and inquiries, which should not involve the practitioner forming a conclusion on the sufficiency of the system of internal control. Accordingly, we believe most of the Chapter 6 content should instead be placed in the context of the understanding of the system of internal control in accordance with ISAE 3000.47L/R. The guidance could be enhanced to describe the implications of any discovered weaknesses in internal control for the performance of the engagement.
 - As noted in our response to Q1, we do not believe it is practical or feasible for the practitioner to obtain an acknowledgement from the intended users that the entity's developed criteria are suitable for their purposes. In the vast majority of engagements, it is likely adequate to obtain acknowledgment from the engaging party that the criteria are suitable for the intended users' purposes.
- ▶ Paragraphs 140 -144 explain that preparers may need to consider the different information needs or attributes among 'sub-groups' of users, which we believe inappropriately infers that practitioners may need to do the same in setting materiality. We believe this sends a conflicting message to ISAE 3000.A94, which states that the practitioner's consideration of materiality "is affected by the practitioner's perception of the common information needs of intended users as a *group*". While we believe the discussion regarding the potential sub-groups of intended users is

helpful, the guidance should be clear that there is no requirement of the Standard to determine materiality by sub-group.

- ▶ We do not believe that assessing the preparer's 'materiality process' is a separate and distinct activity beyond understanding the system of internal control; it is part of the preparer's process for measuring the underlying subject matter (i.e. how does the preparer identify material topics to be included in the EER report?). Accordingly, we believe the guidance on the materiality process should be placed in the context of how the practitioner can understand such a process when obtaining the required understanding of the system of internal control in accordance with ISAE 3000.47L/R. We also believe the guidance could clarify the effect of the auditor's understanding of the materiality process on the procedures to be designed in accordance with paragraph 48 L/R. In particular, it should be clarified that there is no requirement to test the controls over the preparer's process (i.e., the practitioner could alternatively perform procedures over the measurement if it can be done effectively without relying on the preparer's process). The guidance does not lay out such an alternative.

In contrast, we believe the discussion of the practitioner's use of assertions is presented as an appropriately optional approach and does not infer it is required. We believe the guidance on assertions will be most useful to those practitioners that have experience in using assertions in performing audits. Many practitioners performing EER engagements are not likely to have this experience, however, and will find the concept to be foreign. This may be a topic where further examples (perhaps in the form of an appendix) may be useful to assist those practitioners less familiar with the concept.

Q6. *Do you agree that the additional papers contain further helpful information and that they should be published alongside the non-authoritative guidance document?*

The additional paper on the background and contextual information on understanding how subject matter information results from measuring or evaluating subject matter elements against the criteria is educational in nature rather than practical implementation guidance. We do not object to it, but we are not finding this guidance valuable from a practitioner standpoint.

We find the four key factor model for credibility and trust in relation to EER to be useful in explaining the value of EER reporting, and assurance on such reporting (i.e., it is useful for stakeholders to easily understand the 'value proposition' of EER). Because this document has a wider intended audience than the practitioner, we believe that this should be published as a standalone document and not buried within practitioner guidance, although the guidance could refer to the separate publication.

We would be pleased to discuss our comments with members of the IAASB or its staff. If you wish to do so, please contact Kurt Hohl, Global Deputy Vice Chair, Professional Practice (kurt.hohl@eyg.ey.com).

Yours sincerely,

Ernst + Young Global Limited