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Submitted electronically at www.iaasb.org,

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue

New York
10017 USA

Dear Willie

SAICA COMMENT LETTER ON THE IAASB'S CONSULTATION PAPER ON EXTENDED EXTERNAL REPORTING (EER) ASSURANCE

The South African Institute of Chartered Accountants (SAICA) is the home of chartered accountants in South Africa – we currently have over 44,000 members from various constituencies, including members in public practice ($\pm 30\%$), members in business ($\pm 49\%$), in the public sector ($\pm 4\%$), education ($\pm 2.0\%$) and other members ($\pm 15\%$). In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the Audit Regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

In response to your **Consultation Paper on Extended External Reporting (EER) Assurance (Consultation Paper)**, please find included the comments prepared by SAICA.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Thandokuhle Myoli (thandokuhlem@saica.co.za) or Hayley Barker Hoogwerf (hayleyb@saica.co.za).

Yours sincerely

Signed electronically

Thandokuhle Myoli
Project Director – Assurance

INTRODUCTION

1. EER continues to evolve amid demands from investors, shareholders and other stakeholders for more transparent and more relevant information in the context that financial reporting alone does not provide a broader, more holistic picture that users require.
2. EER refers to reporting practices in terms of which an entity reports more holistically on the broader impact of its activities and its future prospects and performance (both financial and otherwise).
3. EER reports can be published as part of an entity's traditional Annual Report, or as separate reports.
4. The IAASB has responded to the calls from investors, shareholders and other stakeholders and in-line with its objective of serving the public interest, recognises that there is a demand to provide guidance on EER Assurance, based on the principles contained in International Standard on Assurance Engagements (ISAE) 3000 (Revised).
5. The guidance aims to enable more consistent and appropriate application of ISAE 3000 (Revised) such that users of EER reports will have greater trust in the resulting assurance reports. SAICA appreciates the efforts by the IAASB to develop a 'framework-neutral' approach as this will ensure that the guidance can be applied to assurance engagements over EER reports that are prepared using any EER framework, or entity-developed criteria.
6. ISAE 3000 (Revised) is flexible enough to accommodate a variety of subject matters and subject matters information, but it may require considerable work in adapting the concepts, principles and requirements to subject-matter specific engagements. E.g. in South Africa, ISAE 3000 (Revised) has been used as a foundation standard for:
 - a. Broad-Based Black Economic Empowerment (B-BBEE) verification engagements;
 - b. Audit of Attorneys' Trust Accounts;
 - c. AGSA Methodology Project where the audit of performance information and the audit of compliance are framed as ISAE 3000 (Revised) engagements;
 - d. Regulatory Assurance Engagements such as Medical Schemes and Banks.

SAICA'S APPROACH FOLLOWED TO RESPOND

7. SAICA's approach followed to gather information to inform our comment letter can be summarised as follows:
 - a. An Internal Working Group studied and debated the Consultation Paper and prepared initial thoughts and input pertaining to the questions that have been posed.
 - b. We requested members of the internal working group to provide additional inputs to the comment letter.
 - c. SAICA participated in the IRBA EER Task Group Meeting (Task Group) where interested parties were invited to provide their views and comments in finalising the IRBA and SAICA comment letters. The Task Group comprised representatives from the IRBA, SAICA, academia, audit firms and assurance service providers other than traditional auditors.

SAICA's COMMENTS

8. Our comments are presented in the sequence of the questions as they have been included in the Draft Guidance. We have responded to all 6 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?

9. Draft Guidance has been developed for the following areas:
- a. Evaluating the suitability of criteria in a consistent manner;
 - b. Addressing materiality for diverse information with little guidance in EER frameworks;
 - c. Building assertions for subject matter information of a diverse nature; and
 - d. Lack of maturity in governance and internal control over EER reporting processes.
10. In addition, Draft Guidance has been developed for obtaining assurance over narrative and future-oriented information, insofar as they relate to the areas (a) to (d) above.

Scope of the Draft Guidance

11. We are satisfied with the scope of the Draft Guidance. There is clear explanation about which of the key challenges have been addressed in Phase 1 of the Consultation Paper as well as which of the challenges will be addressed during Phase 2 of the project. Appendix 1 of the Draft Guidance shows a clear link between the Chapters in the Draft Guidance and the challenge each of the chapters seeks to address.
12. The scope of the Draft Guidance relates to specific aspects of applying ISAE 3000 (Revised). SAICA believes that reference should also be made to the International Framework for Assurance Engagements as this is foundational to all assurance engagements. Therefore, where applicable, reference to paragraphs in the Framework should be made. Alternatively, an introductory paragraph that informs readers that the Draft Guidance does not seek to depart from the principles in the Framework would suffice.
13. Although not in the scope of this Draft Guidance, SAICA would like to encourage the IAASB that additional support with regard to Engagements other than Assurance Engagements may be required in the field of EER. For example, paragraph 2 of ISRS 4410 (Revised), *Compilation Engagements* states that, "...The ISRS may be applied, adapted as necessary, to compilation engagements for financial information other than historic financial information, and to compilation engagements for non-financial information." Support and guidance will be required to be developed in respect of such engagements.
14. In the paragraphs that follow, SAICA has expanded on certain aspects of the specific areas that have been addressed in the Draft Guidance.

Determining the Preconditions and Agreeing the Scope

15. There are a number of examples included in the Draft Guidance on Greenhouse Gas emissions, but without reference to ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*. If there is a link with other subject-specific ISAEs that have already been developed, e.g. ISAE 3400, 3402, 3410, 3420, reference should be made in these type of

examples to the appropriate subject-specific ISAE. The Draft Guidance should also expand on the relationship between ISAE 3000 (Revised) and that subject-specific standard; specifically, which standard takes preeminence or how the different standards are examples of the application of ISAE 3000 to specific scenarios.

16. With reference to the diagram in paragraph 46 explaining the Preconditions, certain members who consulted during our outreach activities, had difficulty understanding the diagram and linking the preconditions in the diagram with the preconditions as set out in ISAE 3000 (Revised). In this regard, the preconditions in the diagram should be referenced to the relevant paragraphs in ISAE 3000 (R). The flow of the arrows is also not easily understandable and it is our view that the lay out could be improved. We suggest that the arrows be removed from the diagram as they seem to suggest that there is a flow or order in how the practitioners should be satisfied that the preconditions have been met. This is not necessarily the case and ISAE 3000 (R) par. 24 does not specify an order/flow in which the preconditions should be met. E.g. in the diagram, the arrows from “*Underlying subject matter is appropriate*” lead to “*Practitioner expects to be able to obtain the evidence needed.*” Should the IAASB disagree, the flow should be clarified.
17. The possible outcomes when all of the preconditions have been met, is that the practitioner will accept, continue or decline to continue with an assurance engagement. These possible scenarios should be the outcome of considering the preconditions and should be incorporated in the diagram.
18. The location of the block with the dotted lines should be reevaluated as it appears to be floating randomly in the diagram.
19. In paragraph 46, we suggest that it is more appropriate to use the word “depicted” and not “summarized”.
20. In the *Key* section of the diagram on page 23, reference is made to the fact that the Draft Guidance is an International Assurance Engagement Practice Note (IAEPN). However, in paragraph 5 of the Explanatory Memorandum to the Consultation Paper, it is stated that the final form of the non-authoritative guidance document is due to be determined by the IAASB in Phase 2 of the project. Once Phase 2 of the project is complete and the final form of the non-authoritative guidance document is determined, the IAASB is reminded to revisit the *Key* section and make the necessary amendment.
21. The language in the *Considerations for the Practitioner* box on page 23 paragraph 47 of the Draft Guidance needs to be improved. The use of “you” to refer to the practitioner in the third person should be removed and written in the style as contained in paragraph 24 of ISAE 3000 (Revised); as follows:
 - c) Are the criteria ~~you (as the practitioner)~~ expected to be applied by the preparer suitable for the engagement circumstances (see guidance in Chapter 7)?
 - i) Does the preparer have an appropriate process in place for developing and reviewing the criteria?
 - d) Will the criteria ~~that you (as the practitioner)~~ expected to be applied by the preparer be available to the intended users?
 - e) ~~Do you (as the practitioner) Is there an expectation that to be able to obtain~~ the evidence needed to support your assurance conclusion can be obtained?

22. In relation to whether the engagement has a rationale purpose, the *Considerations for the Practitioner* block included in paragraph 49 of the Draft Guidance merely repeats the considerations to be made by the practitioner as included in paragraph A56 of ISAE 3000 (Revised). To enhance the aim of the Draft Guidance in providing practical assistance, we suggest that rather than repeating the concepts in ISAE 3000 (Revised), the IAASB should consider using detailed examples of where the rational purpose requirements would be satisfied or not.
23. To this end, we would also like to point the IAASB to the South African Assurance Engagements Practice Statement (SAAEPS) 1 developed by the Independent Regulatory Board of Auditors (IRBA), the audit regulator in South Africa. SAAEPS 1 is aimed at providing practical assistance to practitioners on certain preconditions that need to be present when requested to accept a sustainability assurance engagement in accordance with the requirements of ISAE 3000 (Revised). The characteristics dealt with in SAAEPS 1 are whether the sustainability assurance engagement exhibits:
- A rational purpose;
 - The underlying subject matter is appropriate; and
 - The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances.

Considering the System of Internal Control

24. In relation to the illustration of an entity's system of internal controls contained in paragraph 62 of the Draft Guidance, the IAASB may consider using the COSO pyramid to depict an entity's system of internal control. This is consistent with the framework that is recognised in the International Framework for Assurance Engagements to evaluate the effectiveness of internal controls.

Determining the Suitability of Criteria

25. Determining the suitability of criteria in relation to an assurance engagement on EER is of particular importance in establishing whether the preconditions for the assurance engagement are present, and ultimately whether the engagement can be accepted or not. Unlike the audit of financial statements, where the recognised financial reporting frameworks are often presumed to be suitable, there is no prescribed framework that entities are required to apply in compiling an EER report. The practitioner should therefore not overlook this precondition and ensure that the criteria used in preparing the EER report, be it an externally developed framework or entity-developed criteria is suitable.
26. To this end, SAICA recommends that multiple, comprehensive examples be included in the Draft Guidance due to the complexity of this concept.
27. In paragraph 80 of the Draft Guidance, there seems to be an inconsistency between the narrative information in sub-paragraph 80(a) and the diagram. This inconsistency stems from the use of the terms *nature and scope of the topics and related elements* in the narrative but the use of *categories, topics and elements* in the diagram. We suggest that the terms used in the diagram be consistent with those used in the narrative or the difference explained.
28. The meaning of underlying subject matter, how this is then broken down into categories, topics and elements and how criteria is then applied to form subject matter information is still an area of confusion for many practitioners. To assist in resolving the confusion, it is our recommendation that further clarity should be provided on describing the differences between underlying subject matter, categories, topics and elements and the subject matter information.

29. We believe that the IAASB has explained each of the characteristics of the suitable criteria very well. The examples used to explain these characteristics are easy to understand. The comprehensive example on page 41 was very detailed and explained the five characteristics in a thorough manner. The IAASB may consider highlighting the characteristics being addressed in the example to give emphasis to the specific characteristic being described.
30. We also support the explanation provided in paragraph 91 that the engagement circumstances may include use of an EER framework, that implicitly or explicitly, requires different or more specific characteristics, other than those described in ISAE 3000 (Revised). This demonstrates that the IAASB has given consideration to the practical implications rather than choosing to be prescriptive in their approach.

Considering the Entity's 'Materiality Process'

31. Materiality guidelines are more difficult to benchmark, because EER engagements have no common unit of measurement or evaluation in which to express each of the content elements relating to the underlying subject matter.
32. ISAE 3000 (Revised) only contains high-level guidance on materiality that would need to be taken into account, if the concept is not defined in the EER framework. Therefore, the Draft Guidance has included additional guidance on '*Considering the Entity's "Materiality Process"*' in Chapter 8. SAICA welcomes this guidance as this has been identified as a challenging area for practitioners.
33. The diagram included in paragraph 130 of the Draft Guidance seems to be incomplete as the conclusion process has been omitted. To elaborate, there is a question posed *Are the criteria available to the intended users*, however, the diagram does not indicate how the practitioner should respond based on the answer to this question. This is of particular importance when the answer to the question posed is *no*. We believe that the diagram should be expanded to clarify the response of the practitioner depending on the answer to the question posed.
34. For ease of reference, we suggest that the Draft Guidance include a reference to where each of the steps depicted in paragraph 131 have been discussed in further detail. For example, EER report purpose (step 1a) has been discussed in paragraphs 136 and 137.

Performing Procedures and Using Assertions

35. The diverse nature of EER subject matter information makes it more challenging to develop appropriate assertions. ISAE 3000 (Revised) is framework-neutral and therefore does not and cannot comprehensively set out all possible assertions for all EER frameworks.
36. Although it could be possible to identify some generic assertions relating to EER, it should be recognised that assertions could be different between different EER reports, based on the EER framework being used.
37. The examples of assertions in paragraph 177 have been noted. For completeness purposes and to enhance the Draft Guidance, examples of assertions for 'Completeness' and 'Neutrality' should also be included in order to assist the practitioner in considering the types of potential misstatements that may occur in applying suitable criteria.
38. The IAASB should also consider using more examples and / or provide more guidance on how practitioners can develop methodologies for building assertions for different EER engagements.

Assuring Narrative Information and Future-Oriented information

39. Narrative information in EER reports may be factual (more observable and therefore more readily captured by reporting systems) or may be more subjective (less observable and more susceptible to being reflective of, and more variable with, the views of those reporting it). Narrative information can also be future-oriented and may also include management judgements and be more susceptible to management bias.
40. One of the challenges for practitioners is how evidence can be gathered for these types of engagements, particularly relating to more subjective narrative information. The Draft Guidance is light on providing guidance in this regard and could therefore expand on how practitioners can obtain sufficient appropriate evidence for narrative information, particularly when it is more subjective and future-oriented.
41. Due to the fact that there is no specific framework for preparing narrative information and preparing future-oriented information, there is a risk that a variety of misstatements may occur. To emphasise the point made in paragraph 32 above, it is our view that the Draft Guidance should be expanded to include guidance on the consideration of qualitative materiality and how the practitioner evaluates misstatements identified in narrative information and future-oriented information.

Considering the Materiality of Misstatements

42. It is our view that the Draft Guidance is light in addressing materiality of misstatements in the context of qualitative factors. Additional guidance regarding the consideration of qualitative materiality will be helpful as this will be more important for EER engagements. Furthermore, practitioners are less familiar with this type of materiality, therefore, guidance in this regard is necessary.
43. Due to the fact that EER engagements have no common unit of measurement or evaluation in which to express the content elements relating to the underlying subject matter, examples where different units of measurement are used should be included in the guidance to better explain the materiality principles.
44. The diagram included in paragraph 215 of the Draft Guidance seems incomplete in that it does not elaborate on how accumulated misstatements should be evaluated. SAICA recommends that this diagram be expanded on to illustrate how the practitioner evaluates accumulated misstatements, especially for qualitative subject matter. The diagram should also elaborate further the stages of the assurance engagements where materiality may be considered.
45. The explanation in paragraph 219(a) will be better understood if further substantiated with an example. Alternatively, a comprehensive example that addresses all of the materiality concepts should be considered.

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?

46. In general, SAICA is satisfied that the Draft Guidance is clear and easy to understand. Please refer to our response to Question 1 above for specific matters where areas of concerns have been noted as well as suggestions on how these areas can potentially be addressed.

47. The contents page, on page 14 of the Draft Guidance is structured differently to other IAASB standards and guidance documents. It is our view that the layout of the contents page should be made consistent with the layout in other IAASB documents. This should include the reference to paragraphs in the guidance material, which is also usually included.
48. Terminology not used in ISAE 3000 (Revised) has been included in the Draft Guidance, for example materiality process and assertions. We propose that a glossary of terms should be included in the Draft Guidance which will incorporate all the terms that have been used.
49. We also believe that more examples should be included in the Draft Guidance that cover the different types of EER engagements that practitioners may encounter in practice. These comprehensive examples should be based on the globally-known EER Frameworks such as the International Integrated Reporting Council (IIRC) Framework, Global Reporting Initiative (GRI) Sustainability Reporting Standards.
50. In South Africa, the Auditor-General performs audits of performance information and compliance which are premised on ISAE 3000 (R). More examples should also be included in the Draft Guidance to show the public sector perspective.
51. The diagrams used and examples should be numbered/labelled for ease of reference in the document. Please also refer to our response to Question 1 included above for specific examples of diagrams that could be further enhanced to clarify concepts to practitioners.
52. Where the examples used in the Draft Guidance relate to a subject-specific ISAE such as ISAE 3410, these should be clearly referenced and further explanations included to show how the requirements of ISAE 3000 (Revised) and the subject-specific standard have been mapped and interrelate to each other.

Question 3

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

53. SAICA is in agreement with the structure of the Draft Guidance. Comprehensive, working examples could also be included as annexures to the Draft Guidance for different types of EER engagements, making general reference to the different EER frameworks known globally.
54. The structure of the Draft Guidance will further be assessed and commented on after Phase 2 of the project has been published, to assess the overall flow of the document.

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?

55. SAICA is satisfied that the Draft Guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised). We have also not noted any new requirements that have been introduced in the Draft Guidance.

Question 5

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

56. In general, we are satisfied with the way the Draft Guidance covers matters that are not addressed in ISAE 3000 (Revised). As stated in Question 1, more guidance in relation to 'Consideration of an Entity's Materiality Process' and the 'Assertions' will be useful. These should be clearly defined in the glossary of terms section in the Draft Guidance document and explained that they are not included in ISAE 3000 (R). These can be further explained through examples based on the globally-known EER Frameworks.

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?

57. We are in agreement with the principles in the paper on the 'Four Key Factor Model for Credibility and Trust in Relation to EER' being included in the Draft Guidance as it describes factors that enhance the credibility of EER reports and engender trust. The paper discussed in detail the four key factors which include:
- a. A Sound EER Framework;
 - b. Strong Governance over the reporting process;
 - c. Consistent wider information;
 - d. External professional services and other reports.
58. This paper will prove very useful to assurance practitioners, preparers and users of EER reports. The IAASB should consider including this paper as an introductory chapter to the Draft Guidance rather than having it as an annexure. A place in the Draft Guidance document where this paper may be included is in Chapter 6, *Considering the System of Internal Control*. It would serve as useful background information in providing the link between the preconditions for an EER engagement and the system of internal control.
59. Regarding the paper titled, "Background and Contextual Information on Understanding how Subject Matter Information Results from Measuring or Evaluating Subject Matter Elements against the Criteria," members of the Task Group were of the opinion that aspects of this paper should be included in the Draft Guidance rather than it being an annexure. This includes the following sections in the paper:
- a. Understanding the nature and role of criteria;
 - b. Understanding the nature of qualities;
 - c. Understanding the nature of evaluation and measurement of subject matter elements.
60. Although the paper appears to be primarily addressed to preparers of EER reports, rather than the practitioner, the paper includes valuable information that would give practitioners a deeper understanding and provide assistance to perform effective EER assurance engagements. A suitable place in the Draft Guidance where this paper could be included is in Chapter 7, *Determining the suitability of criteria*.

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 – recognising 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 – 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.

61. Our outreach activities included the solicitation of views from different stakeholders. Therefore, the responses for questions 1 to 6 above incorporate the views of all of these stakeholders. Except for the matters identified in Questions 1 - 6 above, there are no foreseeable difficulties or potential translation issues identified in using the draft guidance.