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Mr. Willie Botha  
Technical Director  
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Dear Willie

**SAICA COMMENT LETTER ON THE IAASB'S PROPOSED GUIDANCE 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 approximately 47,000 members from various constituencies, including members in public practice, business, the public sector, education and other industries. 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In response to your *Proposed Non-authoritative Guidance on Extended External Reporting (EER) Assurance* (Draft Guidance), please find included the comments prepared by SAICA. We formed a task group comprising representatives from the Independent Regulatory Board for Auditors (IRBA), SAICA, the Auditor General of South Africa (AGSA), academia, audit firms and assurance service providers other than “traditional” financial statement auditors.

We thank you for the opportunity to provide comments on this Draft Guidance. Our comments have been provided under two sections:

- A. Overall comments;
- B. Responses to the questions in the Draft Guidance (with reference to Annexure 1);
- C. Comments on Supplements A and B; and
- D. Request for general comments.

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](mailto:thandokuhlem@saica.co.za)).

Yours sincerely

***Signed electronically***

**Thandokuhle Myoli**  
**Project Director: Audit and Assurance**

## A. OVERALL COMMENTS

1. Extended External Reporting (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. 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 assurance engagements on EER, based on the principles contained in International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. The Draft Guidance will be useful to practitioners in addressing the challenges that they commonly encounter in applying ISAE 3000 (Revised) in assurance engagements on EER.
3. The Draft 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 Draft Guidance can be applied to assurance engagements on reports that are prepared using any EER framework, or entity-developed criteria.
4. ISAE 3000 (Revised) is flexible enough to accommodate a variety of subject matters and subject matter information. In South Africa, ISAE 3000 (Revised) has been used as a foundation standard for:
  - a. The Auditor General of South Africa's (AGSA) Methodology Project where the audit of performance information and the audit of compliance are ISAE 3000 (Revised) engagements;
  - b. The assurance of legal practitioners' trust accounts;
  - c. The assurance of fresh produce agents' trust accounts;
  - d. Sustainability assurance engagements where sustainability or non-financial information is reported either in stand-alone sustainability reports or as part of other reports such as the integrated report; and
  - e. Regulatory assurance engagements such as those on medical schemes and banks.

## B. RESPONSES TO THE QUESTIONS IN THE DRAFT GUIDANCE

5. Our comments are presented in the sequence of the questions as they have been included in the Draft Guidance. We have responded to all of the 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? If not, where and how should it be improved to better serve the public interest in EER assurance engagements?*

6. SAICA has noted the significant improvements made from the EER Assurance Consultation Paper (February 2019) that was submitted during Phase 1 of the project. We are satisfied with

the scope of the Draft Guidance and believe that the guidance provided therein adequately addresses the ten key challenges that were identified at the beginning of the project.

7. SAICA is in support of the inclusion of guidance on the competence and skills requirements of assurance teams. Having both assurance competence and subject matter expertise is critical in being able to contextualise the engagement and conduct and interpret the analysis of the subject matters (both quantitative and qualitative), but especially for the broader subject matters described in narrative and future-looking information.
8. Below, we have included further details on how we believe that the Draft Guidance could be further improved:

Chapter 3: Determining preconditions and agreeing the scope of the EER Assurance engagement

9. Diagram 5 – Acceptance and continuance considerations, still appears to be too complex. We urge the IAASB to consider whether there is a need to retain the diagram given that the questionnaire format used in paragraph 71 illustrates the principles succinctly. Should the diagram be retained in order to create a visual summary, it needs to be simplified so that it does not lose its usefulness. Regarding the existing diagram, it is the “umbrella” component that is difficult to decipher. The questions in the pink “snake” are clear, as are the quality management considerations for the practitioner firm. Refer to **Annexure 1** for a proposed diagram. The references in that diagram relate to paragraph 71 of the Draft Guidance and ISAE 3000 (Revised).
10. Editorial: Paragraph 70 should be referring to diagram above, not below.

Chapter 7: Using assertions

11. 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.
12. In light of the paragraph above, SAICA is of the opinion that short examples should be included in the Draft Guidance to assist practitioners. The Draft Guidance is meant to be a standalone document, therefore, even though a detailed example has been included in Supplement B (example 6), shorter examples should be included in Chapter 7 in order to clarify the principles raised in this section.

13. Editorial change:

Paragraph 265: The nature of the assertions in the categories in the rows in region B of the table is that they are ~~are~~...

Chapter 8: Obtaining evidence

14. This chapter includes a detailed discussion on performance materiality. SAICA is of the view that this discussion should be included in Chapter 9: *Considering the materiality of misstatements*. This is in line with the flow of the standards relating to audit engagements where ISA 320, *Materiality in planning and performing the audit*, contains a comprehensive discussion on both planning and performance materiality. Chapter 9 should, therefore, be the section which constitutes a detailed discussion on all aspects relating to materiality.

15. Editorial change:

Paragraph 271 (second sentence): "...It also sets out considerations for practitioners..."

Chapter 9: Considering the materiality of misstatements

16. As discussed in paragraph 14, SAICA is of the opinion that the discussion on performance materiality should be included in Chapter 9. The discussion on performance materiality is considered in the context of designing procedures to obtain audit evidence, therefore, should be at the beginning of the Chapter. Given this context, another alternative is to include the discussion on performance materiality in a separate chapter, before Chapter 8, *Obtaining Evidence*, as this deals with planning considerations.
17. Paragraph 310: The heading used in this section is 'Accumulating misstatements'. Given the nature of EER assurance engagements and that the information being assured may be non-financial and qualitative, SAICA suggests that a different heading should be used in this section. An appropriate heading would be, "Classifying and collating misstatements". This would incorporate all the types of misstatements that could potentially arise from EER assurance engagements.
18. Paragraph 322: The IAASB can also consider including some examples or principles from a public sector perspective. Examples of factors that may indicate that a misstatement is material in this environment include:
- a. Subject matter information relates to primary functions in terms of the mandate of a department / entity
  - b. The misstatement is of significant national / community / public interest
  - c. The misstatement is of significant risk to the public, such as those which impact on public health, safety, social, economic or environmental wellbeing
  - d. The extent to which a misstatement results in the performance information presenting a certain trend which is contrary to the actual / true situation.
  - e. Items where confirmed performance or confirmed service delivery is in line with planned or forecast levels may have a significant effect on:
    - i. management performance rewards or bonus;
    - ii. the allocation of resources/ budgets or funding.

Chapter 10: Preparing the assurance report

19. Paragraphs 337(b) and 346 emphasise that there is a need to clearly identify both information subject to assurance and information excluded from assurance. SAICA suggests that, from a practical perspective and in the spirit of keeping the assurance report user friendly and succinct, as long as the information "in scope for assurance" is clearly identified it should not be necessary or required to also identify information excluded from assurance.

**Question 2**

*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?*

20. The Draft Guidance is written in a manner that is easily understandable and consistent with ISAE 3000 (Revised). We believe that it will be of great use to EER assurance engagement

providers, irrespective of their experience in performing EER assurance engagements. The IAASB has made exemplary use of diagrams and short examples to elaborate on the principles contained in the Draft Guidance.

21. Terminology not used in ISAE 3000 (Revised) has been appropriately included in the glossary of terms (Appendix 1). An example of this is the term, 'reporting topics' which is not used in ISAE 3000 (Revised) or in the most commonly known EER frameworks. This has been well defined in Appendix 1 and clearly explained in the relevant section in the Draft Guidance.
22. Diagram 1 (on page 60) provides an excellent reference point on how the Draft Guidance relates to ISAE 3000 (Revised). This diagram provides a clear overview of how each section in the Draft Guidance fits into the various stages of the EER assurance life cycle.
23. Professional scepticism continues to be an important concept in the performance of assurance engagements. In South Africa, the IRBA have consistently reported that this is the underlying reason for many of the findings reported in their annual inspections findings reports. Therefore, in light of this, SAICA welcomes Chapter 2 of the Draft Guidance, 'Exercising Professional Skepticism and Professional Judgment.' We further welcome the signposting throughout the Draft Guidance (including Supplement B) on areas where the practitioner should be applying professional scepticism and professional judgement.
24. SAICA welcomes the IAASB's suggestion of the use of hyperlinks to assist the users of the Draft Guidance to navigate through the document, including the supplementary information. We urge the IAASB to follow through with this suggestion.

## **C. COMMENTS ON SUPPLEMENTS A AND B**

### *Supplement A: Credibility and Trust Model and Background and Contextual Information*

25. SAICA agrees with this document being included as a supplement as this will reduce the length of the Draft Guidance. This supplement will prove useful to assurance practitioners, preparers and users of EER reports as it describes factors that enhance the credibility of EER reports and engender trust.
26. Supplement A could prove to be a very useful tool to ensure that users of EER reports are informed and can hold preparers accountable. Given that the information contained in this document is not primarily directed to assurance providers, the IAASB should promote this document separately as it is of great educational value to stakeholders. This will ensure that there is an "informed" EER market.

### *Supplement B: Illustrative Examples*

27. SAICA supports the decision of the IAASB to include the comprehensive examples in a separate document. This will allow practitioners who seek guidance in a particular EER area to obtain even more detailed guidance in the form of a comprehensive example, after familiarising themselves with the content of the Draft Guidance.
28. The examples, however, need to be representative of the different types of EER engagements that practitioners are likely to encounter. Currently, of the twelve examples included in Supplement B, seven relate to Environmental, Social and Governance (ESG) matters.

Examples should not be skewed towards a particular focus area and views should be sought from affected parties to ensure that the examples remain as diverse as possible.

29. SAICA is also of the opinion that examples should be grouped according to their topics. This would mean that example 12 which addresses suitability of criteria should be moved further up in the document, as example 4 or 5. The effect of this would be that the first ten examples address specific topics while the last two are integrated examples.
30. The IAASB should consider including an example on the practical application of materiality considerations in different scenarios encountered in ISAE 3000 (Revised) assurance engagements, taking into account the nature of subject matters and the scope of engagements. The following principles could be addressed:
- a. Subject matter for scoping, elements of the subject matter information and disaggregation of information e.g.:
    - subject matter is only one Key Performance Indicator (KPI) but with multiple misstatements;
    - subject matter consists of multiple KPIs with misstatements;
  - b. Different assertions tested;
  - c. Different units of measurement, qualitative and future -orientated information;
  - d. Determination of quantitative and qualitative materiality considerations and thresholds and application of both in evaluation of misstatements;
  - e. Impact and application of the above on the accumulation and evaluation of misstatements; and
  - f. Impact on the assurance opinion.

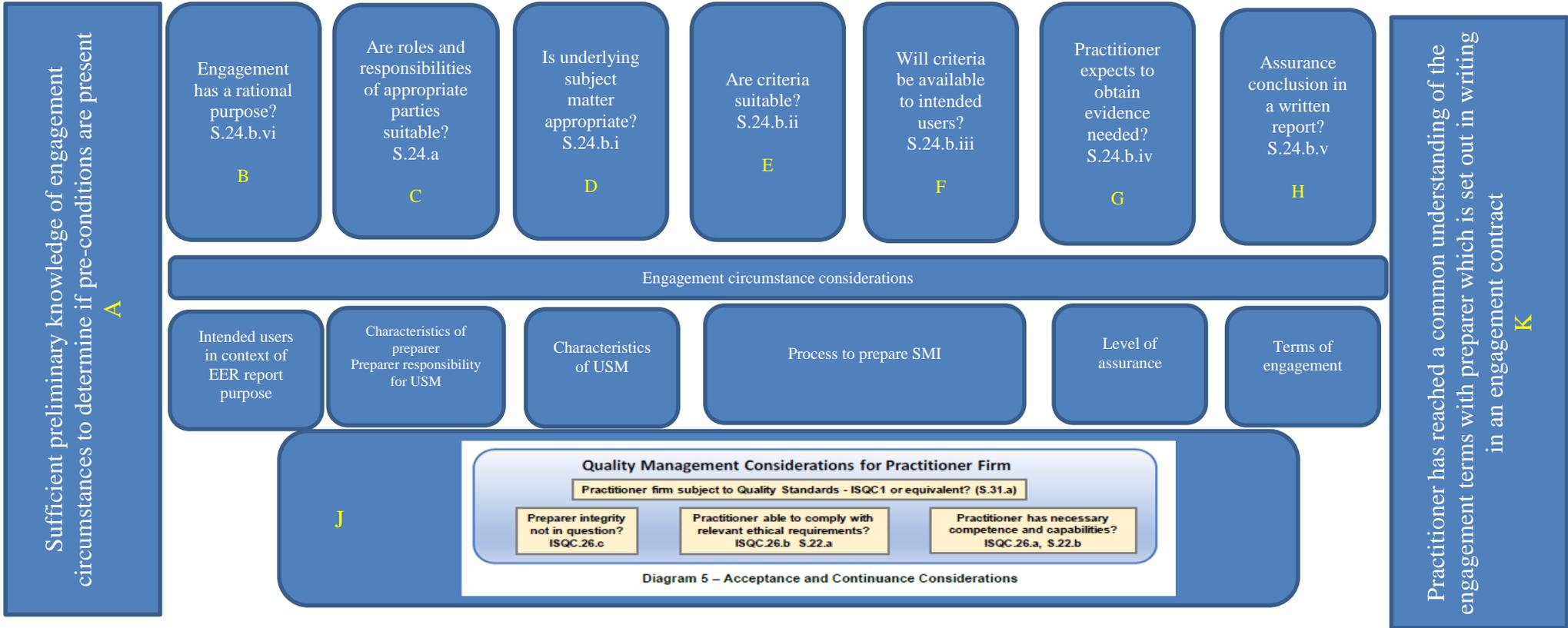
#### D. REQUEST FOR GENERAL COMMENTS

*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.*

31. Our outreach activities included the solicitation of views from different stakeholders. Our internal working group comprised individuals from various constituencies, including public and private sector spheres. Therefore, the responses to the questions above incorporate the views of all of these stakeholders. Except for the matters identified in the questions above, there are no foreseeable difficulties or potential translation issues identified in using the draft guidance.

**ANNEXURE 1:**



Sufficient preliminary knowledge of engagement circumstances to determine if pre-conditions are present **A**

Engagement has a rational purpose?  
S.24.b.vi  
**B**

Are roles and responsibilities of appropriate parties suitable?  
S.24.a  
**C**

Is underlying subject matter appropriate?  
S.24.b.i  
**D**

Are criteria suitable?  
S.24.b.ii  
**E**

Will criteria be available to intended users?  
S.24.b.iii  
**F**

Practitioner expects to obtain evidence needed?  
S.24.b.iv  
**G**

Assurance conclusion in a written report?  
S.24.b.v  
**H**

Engagement circumstance considerations

Intended users in context of EER report purpose

Characteristics of preparer  
Preparer responsibility for USM

Characteristics of USM

Process to prepare SMI

Level of assurance

Terms of engagement

**J**

**Quality Management Considerations for Practitioner Firm**

Practitioner firm subject to Quality Standards - ISQC1 or equivalent? (S.31.a)

Preparer integrity not in question? ISQC.26.c	Practitioner able to comply with relevant ethical requirements? ISQC.26.b S.22.a	Practitioner has necessary competence and capabilities? ISQC.26.a, S.22.b
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Diagram 5 – Acceptance and Continuance Considerations

Practitioner has reached a common understanding of the engagement terms with preparer which is set out in writing in an engagement contract **K**