

21 June 2019

To: Professor Arnold Schilder  
The Chairman  
International Auditing and Assurance Standards Board  
529 5th Avenue 6th Floor  
New York 10017  
United States of America

Submission via [IAASB website](#)

## **Submission on Extended External Reporting (EER) Assurance Consultation Paper**

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 800,000 current and next generation accounting professionals across 180 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in Appendix B.

We welcome the opportunity to comment on the Consultation Paper (“the Paper”). We support the notion that the guidance needs to be practical and should not conflict with current standards. To this end, we suggest that framework neutrality be taken into account when making use of examples, including examples on both qualitative and quantitative information. Also, the new concept of ‘materiality process’ has a different meaning than ‘materiality’ in ISAE 3000, which could create confusion. The guidance should therefore be clear on the differences. Similarly, it is also important that the differences between limited and reasonable assurance are set out clearly.

Although the guidance is developing in the right direction, it already seems long. Given the fact that this is only Phase 1, it is only expected to get even longer. We appreciate the scope of work involved in the development of the guidance and hence it was divided into two phases; however, some of the questions might have been better answered if we had seen all the guidance at once. We would support revisiting some of the consultation if necessary going forward.

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Our responses to the specific questions raised in the Paper follow in Appendix A. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact Gerrie Burger, Senior Policy Advocate at CA ANZ via email; [gerrie.burger@charteredaccountantsanz.com](mailto:gerrie.burger@charteredaccountantsanz.com) and Antonis Diolas, Manager Audit and Business Law at ACCA via email [antonis.diolas@accaglobal.com](mailto:antonis.diolas@accaglobal.com)

Yours sincerely

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# Submission on Extended External Reporting (EER) Assurance Consultation Paper

## Appendix A

### 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?

As a general observation, some of the questions might have been better answered if we had seen all the guidance at once. For example, the guidance included in the Paper on 'Agreeing the Scope of an EER Assurance Engagement' in Chapter 3 is incomplete. We appreciate the scope of work involved in the development of the guidance and hence we understand why it was divided into two phases.

*Key Challenge #1: Determining the scope of an EER assurance engagement can be complex (Chapter 3)*

The guidance is a step forward in addressing the Key Challenge #1. We have the following comments to consider:

- Further guidance could be considered on what steps the practitioner takes and risks to consider when assurance will be placed on certain aspects only of the subject matter information.
- The diagram in par. 46 of the Paper appears to be a complex process, while there might be a simpler approach practically.
- The explanation and example in par. 48 is helpful, but some nuances of it may not be evident to all readers.
- Par. 49 seems to expand the list in par. A56 in ISAE 3000, yet remains theoretical. A more practical discussion on situations where the assurance engagement may or may not have a rationale would be useful.

*Key Challenge #2: Evaluating the suitability of criteria in a consistent manner (Chapter 7)*

Chapter 7 contains helpful guidance on suitability of criteria, which appears to be in keeping with the Assurance Framework and other IAASB literature. The conceptual discussions may be more of use to standard-setters and regulators, rather than practitioners.

We encourage a wider range of examples, ensuring framework neutrality. We are cognisant that this is a standard-setting challenge. We have also made comment, in our response to Question 2 below, on the prevalent use of examples pertaining to quantitative information and the need for more examples on qualitative and narrative information.

*Key Challenge #3: Addressing materiality for diverse information with little guidance in EER frameworks (Chapters 8 and 12)*

The 'materiality process' in Chapter 8 appears to be different to the concept of 'materiality' in ISAE 3000. It seems to be a client process in order to meet management assertions. For example, the preparer undergoes a process to ensure completeness (which may entail considering what is material and should be part of the subject matter information), and there

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is a process for relevance as well (which may entail what is not material or otherwise not relevant, and should be left out). Within such processes, materiality is set in context of what would influence the decisions of users. Materiality itself is not a process. The process of the underlying subject matter supports all management assertions. To name it a 'materiality process' seems rather confusing.

Also the meaning of the term, 'decision-making' seems vague, and we have also addressed this in our response to Question 2 below.

*Key Challenge #5: Lack of maturity in governance and internal control over EER reporting processes (Chapter 6)*

We appreciate that the proposed guidance states that the presence of preconditions *may* depend on the extent to which internal controls are adequate (par. 58). The Paper also notes that sophisticated internal controls are not a precondition for an assurance engagement (par. 61). We are concerned, however, that the emphasis on internal controls pertaining to preconditions could result in a barrier to the adoption of EER assurance; however, we acknowledge that this may be the case for initial engagements only.

The Paper notes that a "maturity assessment" may be a separate, non-assurance engagement (par. 50-53). It may be helpful in this instance to refer to independence considerations and to mention managing client expectations and practice risk. It would also be useful to indicate what situations would be viable for a maturity assessment as a separate engagement (if such information currently exist).

## **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?**

*Examples on quantitative information (Chapter 7 & 9)*

The guidance and especially the examples appear to focus on quantitative information. But where assurance over subject matter information is most onerous is around qualitative information and narrative information (consisting mostly of qualitative information). More examples and guidance on these would be useful. For example, in par. 82 guidance would be helpful on how to measure or evaluate qualitative 'elements qualities.' Another example is in par. 114, which refers to criteria requiring an entity to report 'water intake in reporting period.' The measurement in this example is again quantitative, ie the volume or units of litres.

The example provided in par.195 is helpful; however, it is based on criteria that have a quantifiable element. It would be more difficult to assure criteria such as, "An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation's ability to create value over time" (see Integrated Reporting Framework, par. 3.6). Examples therefore need to focus on narrative-based criteria, too.

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## *'Materiality process' (Chapter 8)*

As pointed out in our response to Questions 1 and 4, the term is confusing. We have suggested a way to improve the terminology in our response to Question 4.

## *Different forms of materiality (Chapter 8)*

In addressing materiality (par. 133), the Paper should explicitly address cases where multiple frameworks (ie criteria) are used. In practice, reports often apply multiple criteria at the same time.

## *'Decision making' (Chapter 8)*

The Paper discusses the characteristic of relevance as influencing the decisions of intended users. The wording of the guidance is often vague about what 'decision-making' by users cover. This is harder when dealing with users other than economic users, and the guidance is a good opportunity to clarify.

## *Identifying the total purpose of the report (Chapter 8)*

The examples provided in par. 136 in regards to the possible purposes of the report seem fragmental. They appear to relate more to sections of a report than to reports as a whole, eg explaining 'how the entity expects to perform' is not the purpose of a strategic report, but the content of the 'outlook' section of a strategic report. Overall purpose of the report needs to be considered, which is a holistic use linked with the report's intended users.

## *Neutrality or 'freedom of bias' should feature centrally as a category (Chapter 9)*

Neutrality should be considered with other categories of assertions as mentioned in par. 178, but it has to feature centrally as a category in its own right. It should therefore be included in the list of examples provided in par.177 even though it may be related to more than one characteristic.

## *More emphasis and guidance on 'standing back' (Chapter 9)*

It should be considered that a situation may arise where each individual piece of subject matter information is free from material misstatement, but the overall message is misleading or biased. This is a prevalent issue. Although par. 180 refers to stand-back procedures, more emphasis is needed on this and what would the stand-back procedures look like.

## *'Presentational misstatement' (Chapter 12)*

Presentational misstatement goes beyond use of wording (see par. 219 (g)). There is also the structure of the overall report, and the priority with which information is presented.

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

In general, we think that the structure should follow that of ISAE 3000 as far as practical, or the best way otherwise in order to make ISAE 3000 easier to understand and apply.

Professional scepticism and professional judgement could be separated, as these are two distinct concepts - professional scepticism is a 'state of mind' and should be applied throughout the whole engagement, and professional judgement is an action taken in certain situations during the engagement. It is confusing having the two terms discussed in one chapter. Professional scepticism could be kept separate from the rest within Chapter 5, where guidance on professional judgement could be embedded where relevant in other chapters.

Generally, the guidance seems long. Given the fact that this is only Phase 1, it is only expected to get even longer. It could be shortened, especially where it repeats text from ISAE 3000.

### 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?

#### *Limited vs reasonable assurance*

ISAE 3000 makes a distinction between limited and reasonable assurance. It is important that the difference between limited and reasonable assurance is also clear in the guidance. In practice, integrated reports often have parts belonging to the same report, being provided with different levels of assurance. At the same time, in practice the differences between limited and reasonable assurance are often misunderstood. Therefore, the level of work required in each level of assurance should be clear.

Chapter 6, par. 60 appears to be generally consistent with ISAE 3000, par. 47L and 47R. Only in the case of reasonable assurance, is there a requirement to understand the entity's system of internal control, whereas as per par. 60(a) of the Paper or ISAE 3000 par. 47L, in limited assurance it is only required to consider the process.

Though the guidance seems to be in keeping with ISAE 3000, we believe Chapter 6 could better clarify the different scope of work to be carried out in limited versus reasonable assurance, as there is some repetition in the Paper of what is already contained in ISAE 3000. The extent of attention given by the Paper to the evaluation of internal controls when considering preconditions, could potentially blur the lines even more.

#### *Materiality process*

'Materiality process' is a new concept that has a different meaning than 'materiality' in ISAE 3000. This could create confusion particularly for those that are only familiar with the term in ISAE 3000. The guidance should therefore be very clear on the differences. The 'materiality

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process' could be redefined so that the connection is made to the process of attaining completeness and relevance.

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

It appears many sections repeat what is already contained in ISAE 3000, for example Chapter 3, par. 43-45, 47, 49, and parts in Chapter 10, although the examples in Chapter 10 are helpful. (For other matters not addressed in ISAE 3000, refer to our responses to Questions 1 and 2.)

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

We agree that the additional papers contain helpful information and we do not have a specific problem should they be published alongside the non-authoritative guidance document. However, there is a need to be mindful of the length of the additional papers and the guidance document, and consider shortening them.

Some of the examples are not closely connected with assurance engagements (the examples with apples and colours), but we do think they are quite useful as training material. On this basis, we do not have a problem also including them as long as there is sufficient framework neutral practical examples as well.

Some use of hyperlinking technology alongside ISAE 3000 may be worthwhile to consider.

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## Appendix B

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 121,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

### About ACCA

ACCA is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 208,000 members and over 503,000 students in 179 countries, helping them to develop successful careers in accounting and business, with the skills required by employers.

ACCA works through a network of 104 offices and centres and more than 7,300 Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas, including: taxation (business and personal); small business; audit; pensions; education; corporate governance and corporate social responsibility.