13 July 2020

To: Tom Seidenstein
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 the Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance

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 Public Consultation on *Proposed Guidance on Extended External Reporting (EER) Assurance* ("Guidance"). We commend the IAASB for recognising its key role in developing a framework for practitioners to follow in providing assurance over extended external reporting ("EER"). We continue to support the development of guidance to enhance the application of existing standards rather than to issue additional standards.

The proposed Guidance is a positive step towards ensuring the profession is well placed to respond to the challenges presented by the increasing demands for assurance over EER to enhance trust and credibility. This presents an opportunity for the IAASB to actively monitor and, where relevant, influence the development of EER frameworks to ensure that they are fit-for-purpose and will enable entities to prepare EER reports that are suitable to be subject to external independent assurance.

We appreciate that the term "materiality process," the process the entity goes through to develop criteria, has been renamed – a point we raised in our submission on the Phase 1 consultation.

The proposed Guidance recognises (in paragraph 50) that EER processes often lack maturity, which may give rise to engagement acceptance issues. In our Phase 1 submission, we raised our concern that the emphasis on internal controls pertaining to preconditions could result in a barrier to the adoption of EER assurance; therefore, we welcome emphasis on this matter.

It is noted with gratitude that, following our Phase 1 submission, the proposed Guidance notes (in paragraph 66) that where a "maturity assessment" may be a separate, non-assurance engagement, such a situation can also give rise to potential threats to the practitioner's independence. As we have stated in our previous submission, 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). Some preparers have noted that it would be helpful for them, including their audit committees, if the proposed Guidance provides more on this and what the preparer can practically do to ensure independence of the practitioner.

We support moving the background/contextual information, the information that is primarily targeted towards stakeholders other than practitioners and the more comprehensive examples, into the supplementary papers. We also acknowledge the intention to enhance the cross-referencing system using hyperlinks to aid navigability, which we had suggested in our Phase 1 submission.

Our responses to the specific questions raised in the proposed Guidance follow in Appendix B. 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 and Antonis Diolas, Head of Audit and Assurance at ACCA via email antonis.diolas@accaglobal.com.

Yours gratefully

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Appendix A

About CA ANZ

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 125,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live. Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of 227,000 members and 544,000 future members based in 176 countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that support both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop a profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions preparing us for tomorrow.

Find out more at www.accaglobal.com

Submission on the Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance

Appendix B

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?

General

The proposed Guidance is helpful and appears to be in keeping with the Assurance Framework and other IAASB literature. The conceptual discussions may be more of use to standard setters, regulators, preparers or other users rather than practitioners. We appreciate that conceptual reference is useful to enable users that are not aware of the IAASB literature (ie preparers, EER assurance providers that are not involved in financial audits or other users) to understand and use the Guidance. However, the primary users of the guidance are practitioners who are highly likely to be aware of the IAASB literature. Therefore, the Guidance needs to strike the right balance in terms of length if we expect practitioners to use it.

There is also a need to be mindful of the length of the proposed Guidance in general if practitioners are to meaningfully engage with it. We recognise that the chapters in the proposed Guidance can also be used separately and not necessarily as a whole, which necessitate some repetition. However, we still received many comments with much concern regarding the length.

Some ways it could be shortened, is by:
- Removing repetition, especially where content from existing IAASB literature is duplicated (eg ISAE 3000) and areas where the proposed Guidance repeats itself.
- Removing generic content (eg Chapter 2) and only keeping practical application material that is EER specific.
- Reconsidering whether each diagram is useful for the primary target audience (ie practitioners). The conceptual aspects may be of more use to national standard setters and regulators.
- Some of the guidance could be seen as outside of the core guidance: for instance, where the examples become lengthy, consider moving them to the appendices.

As many EERs will also aimed at broader societal users of both the reports and assurance opinions, the IAASB could also consider separate non-technical and succinct content tailored for them. This will help set expectations of the work effort and the level of assurance, especially where there will be gaps in reliability. We suggest such content to be in the form of an engagement output separate from the proposed Guidance.

Limited vs reasonable assurance

Where relevant, the differences between limited and reasonable assurance need to be made clear (separate discussions may be helpful). ISAE 3000 makes a distinction between limited and reasonable assurance, which is why 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, and the Guidance is a good opportunity to address that.

Submission on the Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance

We have raised this as a concern in our Phase 1 submission and we appreciate that Chapter 5 makes the distinction clear in paragraphs 52, 186 and 211-213, with reference to specific examples in Supplement B. We also appreciate that paragraphs 187 and 194 link with preconditions considerations. However, as we have stated in our Phase 1 submission, only in the case of reasonable assurance is there a requirement to understand the entity's system of internal control, whereas in limited assurance it is only required to consider the entity's EER reporting process (S.47L). We believe Chapter 5 (especially paragraphs 195-210) could better clarify the different scope of work to be carried out in limited versus reasonable assurance.

Some of our constituents are of the view that many EER reports today have limited assurance placed on (often, because of the risk involved), but users often demand reasonable assurance. While the proposed Guidance calls it out to some extent, it needs to address this gap further. The proposed Guidance is also focused more on reasonable assurance, but in practice limited assurance is also prevalent, at least at this stage.

Use of symbols

The use of symbols to highlight illustrations of the exercise of professional scepticism and professional judgement may cause confusion. In the proposed Guidance, the symbols "are not intended to indicate every place in the proposed Guidance where the exercise of professional scepticism and professional judgement are discussed." However, professional scepticism is a 'state of mind' and should be applied throughout the whole engagement. Professional judgement is an action taken in certain situations during the engagement, therefore any indication of such situations should be complete. Certain preparers received the addition of these symbols positively, but also mentioned that more context in the form of short text would be helpful each time the symbols are displayed.

Block sections

Some of the "Considerations for the Practitioner" sections could read like requirements and it may be inferred that the proposed Guidance requires more work effort than ISAE 3000 (eg paragraph 284). These sections often seem to expand on content in ISAE 3000, and yet remains theoretical (eg paragraph 71). We encourage a more practical discussion.

Diagrams

The diagram in paragraph 69 of the proposed Guidance appears to be a complex process, while there might be a simpler approach practically. However, this updated version from the original one (in paragraph 46 of the Phase 1 Consultation Paper) is more 'user friendly' and understandable. Preparer constituents have commended the new diagram and found it to be quite helpful in understanding the EER process.

Examples

We continue to encourage a wider range of examples, ensuring framework neutrality, while aware that this is a standard-setting challenge. We appreciate the proposed Guidance has more examples than in the Phase 1 version, and that comprehensive examples have been added in Supplement B. Our constituents have mentioned that the examples in the main Guidance are fragmental and disconnected, though. The 'link' or context within the specific type of engagement it relates to, is sometimes lost on the reader. For instance, the explanation and example in paragraph 74 is helpful, but some nuances of it may not be evident to all readers. To this end, the

Submission on the Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance

more comprehensive examples in Supplement B are helpful. We recognise that a standard-setting challenge is to have both comprehensive examples (covering an entire EER engagement from start to finish in order to put those in context) and examples from a wide range of EER types (to ensure framework neutrality).

As mentioned in our Phase 1 submission, our constituents have again expressed concern over the prevalent use of examples pertaining to quantitative information and the need for more examples on qualitative and narrative information. They mentioned that they experience ISAE 3000 to have limitations as it is more focused on datasets, and less on assuring qualitative information. The proposed Guidance is therefore a good opportunity to supplement ISAE 3000 without changing or adding any principles.

Yet, the proposed 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, the proposed Guidance contain many examples and references to assurance on metered water GHG emissions, which are quantitative. More guidance on what evidence is needed for qualitative information would also be useful (discussed in more detail below).

Examples – 'decision making' and materiality

We welcome the fact that the proposed Guidance often refers to the "decision-making" of users and discusses the decision-making of intended users in context of the purpose of the EER report. We noted in our Phase 1 submission that the wording of the proposed 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. Our constituents are of the view that there could also be more examples illustrating material misstatements for qualitative information.

Different forms of materiality

In practice, reports often apply multiple frameworks (criteria) at the same time. We are grateful that the IAASB has responded to our comment in our previous submission regarding the use of multiple frameworks. (For example, Chapter 10 includes a number of examples where multiple frameworks have been used to prepare the EER subject matter information.) It would also be helpful if the Guidance, when addressing materiality, explicitly address cases where multiple frameworks are used. For instance, sustainability report preparers are often uncertain whether to use the SASB framework, GRI standards, or TCFD disclosures, or take the 'best' out of each. Applying multiple criteria may lead to uncertainty as to materiality. This is a challenge for preparers, practitioners and users.

Framework neutrality and also 'industry neutrality'

In addition to our comment above on comprehensive examples and a wide range of examples to ensure framework neutrality, we believe it is important to also maintain framework neutrality in the discussions (not only in the examples). The proposed Guidance appears to be focused more on manufacturers with less but larger office locations and manufacturing plants. An example of this is the GHG emissions discussion in paragraph 95. Some entities can, however, perform the measuring remotely and do not have to perform site visits, as those are not practical when the entity has a high number of small offices. This is especially relevant for non-manufacturers, like financial services firms.

Submission on the Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance

Perimeter of subject matter information

We agree in principle with the content of paragraphs 170-171. The practitioner should understand all the information paragraph 170 refers to. Some preparers believe that in practice, practitioners do not do this due to fee pressures. The Guidance should also address this issue and whether fee pressures are a valid consideration or not.

Scope limitations

Further to our above comments under "Limited vs reasonable assurance" and "Perimeter of subject matter information," preparers believe that, because practitioners are used to the datasets (eg in an audit of financial information), they tend to scope out assurance on qualitative information, while users demand assurance thereon. The Guidance should clarify whether and when a practitioner is compelled to include in the scope of the EER assurance engagement the qualitative content of the EER report, or whether and under which circumstances may they choose to scope it out. The question has arisen whether this is relevant when considering the total purpose of the EER report and decision-making of users. Some constituents believe that until mandatory, practitioners will be reluctant to provide assurance on qualitative information.

Future oriented EER information

Scope limitations (above) are also relevant to Chapter 12, as some preparers are of the view that practitioners may 'by default' scope out future oriented EER information, while users are at the same time contacting preparers for information on whether assurance was placed on future oriented EER information, and to what extent. There is a higher litigation risk on the practitioner when placing any assurance on future oriented EER information. As with quantitative information, some constituents believe that until mandatory, practitioners will be reluctant to provide assurance on future oriented EER information. The Guidance should clarify some of these expectations.

Qualitative information – evidence

Further to our comment above on "Examples," evidence on qualitative information is difficult to collect, and preparers often rely on third parties, as this information is not recorded by many preparers' own systems. The information is often by its very nature subjective. Guidance on evidence required for qualitative information, especially when making use of estimates and when correcting qualitative prior period errors, is missing from the proposed Guidance.

Future oriented EER information - evidence

Similarly to our comment above on "Qualitative information – evidence," paragraphs 427-433 should address what types of evidence is required from preparers regarding future oriented EER information.

Terminology

Given how technical the topic is, we encourage the use of plain English as far as practicable.

The introduction of some of the new terms (eg "assurance competence") may not be necessary where existing terms (eg "assurance skills" and "techniques") would suffice.

Submission on the Proposed Non-Authoritative Guidance – Extended External Reporting (EER) Assurance

As mentioned above, we appreciate that the term "materiality process," has been renamed. However, the use of the term "criteria" in the context of identifying reporting topics (eg paragraphs 214, 219, 200, 221 and 240) may cause confusion. It is not clear how this relates to the requirement for the practitioner to determine the suitability of criteria.

The term, "presentational misstatement" goes beyond use of wording (see paragraph 322 (g)). There is also the structure of the overall report, and the priority with which information is presented.

Paragraph 117 of the proposed Guidance uses the phrase, "is not permitted." We suggest replacing that with "shall not accept" to be consistent with S.25 of ISAE 3000.

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?

As we have mentioned above in our response to Question 1, the proposed Guidance seems long. We have suggested some ways in which it could be shortened.

The structure should follow that of ISAE 3000 (ie following the engagement process) as far as practical to make ISAE 3000 easier to understand and apply for practitioners.

We encourage the exploration of additional electronic functionality to further enhance navigability of the Guidance.

Much of Chapter 6 is applicable at the acceptance/continuance phase of the assurance engagement, therefore would be better placed earlier on in the Guidance.

Chapter 10, "Preparing the Assurance Report," should come last after Chapter 11, "Addressing Qualitative EER Information" and Chapter 12, "Addressing Future-Oriented EER Information." We do recognise that an explanation was added in paragraph 80 of the Explanatory Memorandum. However, we still believe that it should be the last chapter, as a practitioner considers Chapters 11 and 12 before preparing the assurance report.

Qualitative information is common in EER reports, so it should be a 'normal' consideration. Therefore, we support integration of qualitative considerations throughout the Guidance as opposed to being located in a separate standalone chapter (Chapter 11).

We maintain that professional scepticism and professional judgement should be separated into separate chapters, 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 and within Chapter 2, where guidance on professional judgement should be embedded where relevant in other chapters.