June 21, 2018

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017

Re: Consultation Paper: *Extended External Reporting (EER) Assurance*

Dear Mr. Botha:

The American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) is pleased to respond to the International Auditing and Assurance Standards Board's (IAASB) above referenced consultation paper.

The AICPA is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries and a history of serving the public interest since 1887. AICPA members represent many areas of practice, including business and industry, public practice, government, education, and consulting. Specifically, the ASB sets U.S. auditing standards (generally accepted auditing standards or GAAS) for private companies, nonprofit organizations, and federal, state and local governments (nonissuers).

The ASB supports the IAASB's project to provide guidance to practitioners engaged to perform assurance engagements for which the criteria may need to be augmented to achieve the attributes of suitable criteria, and thereby enable practitioners to perform engagements to meet the needs of regulators, industry groups, and other users. Our primary concerns are that in some instances, the new terminology and concepts introduced in the paper make the guidance difficult to understand and that the paper often fails to provide a navigable path from the requirements and guidance in ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, to the guidance in the paper.

For the IAASB's consideration, we have provided our specific responses to certain questions presented in the paper.

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 Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1?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?

Clarification of the Scope

Paragraphs 1-3 of the introduction to the paper fail to clearly identify the subject matters that are addressed by the paper. It is difficult to determine how the subject matter addressed by the paper

differs from any subject matter other than historical financial statements. The paper needs to explain what is unique about its scope. The paper states "…EER encapsulates many different forms of reporting, including, but not limited to, integrated reporting, sustainability reporting and other reporting by entities about environmental, social and governance (ESG) matters. Because the scope is not limited to these examples of EER, we believe it would be helpful if additional examples could be provided to allow a better understanding of the other types of reporting envisioned as EER.

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?

Terminology

Use of the Term Report
Paragraph 3 of the explanatory memorandum states, "This project 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." In this sentence, the term *EER report* is used to refer to the presentation prepared by the preparer and the term *assurance report* is used to refer to the practitioner's written report in which the practitioner expresses a conclusion about whether the subject matter information is in accordance with the criteria. In the remainder of the paper, the term *report* is used almost exclusively without any modifier (but usually appears to refer to the presentation prepared by the preparer). We believe it would improve the clarity of the paper to establish a convention that differentiates which use of the word report is intended, for example, *practitioner's report* and *EER presentation.*[1]

Material Topics and Related Elements
Paragraph 213 of Chapter 12, "Considering the Materiality of Misstatements," states, "If during the assurance engagement the practitioner identifies a misstatement within subject matter information included in the EER report for material topics and related elements, the practitioner is required to make a judgment as to whether the misstatement is material." The paper needs to provide a better explanation of what the term *material topics and related elements* means before it is used in the text. For example, is this concept different from the concept included in paragraph 219*a* which refers to an aspect of the underlying subject matter that has been determined as being particularly significant (material)?

Maturity of Governance and Internal Control
In numerous places in the paper there are references to the maturity in governance and internal control (see paragraph 10). Although the term *maturity* may be well understood in the literature, to our knowledge there are no established criteria to assess maturity. For that reason, we suggest that this discussion refer to the effectiveness, rather than the maturity, of internal control.

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[1] In the remainder of this comment letter, we use the term *EER presentation* to refer to the preparer's EER presentation and the term *practitioner's report* to refer to the practitioner's written report in which the practitioner expresses a conclusion about whether the subject matter information is in accordance with the criteria.

Building Assertions
On page 6 in paragraph 10*c*, we recommend that the term *building assertions* be replaced with the term *identifying assertions* or *considering assertions* to be more descriptive, and better align with the discussion in Chapter 9, "Performing Procedures and Using Assertions."

Also see our comments regarding the terms *materiality process* and *building and using assertions* in Question 5.

Diagrams and Other Illustrations

Diagram Illustrating Effect of Internal Control on Preconditions
Chapter 6, "Considering the System of Internal Control," indicates that the existence of the following preconditions in an assurance engagement may depend on the adequacy of the entity's system of internal control:

- whether the preparer has a reasonable basis for the subject matter information
- whether the roles and responsibilities of the preparer are suitable
- whether the practitioner expects to be able to obtain sufficient appropriate evidence

The chapter then identifies matters for the practitioner to consider when assessing the adequacy of the entity's internal control in this context. This concept represents guidance that is not included in ISAE 3000 and we believe it is helpful incremental guidance. The diagram in paragraph 46 of the paper contains 13 squares that each represent a requirement or application guidance in ISAE 3000 related to the preconditions for an assurance engagement, and also contains a new square that represents the incremental guidance introduced in chapter 6. This diagram includes curved lines and arrows intended to illustrate the relationship between the consideration of internal control and the preconditions. We believe that the box representing the consideration of internal control gets lost in this diagram and that the curved lines and arrows make the diagram difficult to navigate. We believe it would be preferable to delete the diagram in paragraph 46 because it obfuscates rather than clarifies the text in chapter 6.

Diagram of Components of internal Control
In the diagram of the components of an entity's system of internal control in paragraph 62, the control environment, risk assessment process, and process to monitor the system of internal control are grouped together and bracketed with the label "governance and the oversight of the reporting process." Paragraph 65 states that these three components of internal control are considered together but does not explain why that is the case. Our initial thought is that governance and the oversight of the reporting process relate to all components of internal control, and for that reason it would be helpful to explain why this approach is taken.

Diagram in the Introduction of Chapter 7
The relationship of the items in the diagram in paragraph 80 of chapter 7 and the rationale for their depiction is not evident. For example, why is the word *elements* depicted with each letter encircled and set apart from the rest of the diagram? Where do *elements* come from and are they part of *categories* or *topics*?" The diagram and subsequent discussion need to be better

integrated, for example, the term *categories* is included in the diagram, but not discussed in the paragraph. If the diagram cannot be revised to make it more meaningful, it should be deleted.

Considerations for the Practitioner and Other Subheadings
It is not always clear whether the paper is directing guidance to the preparer or to the practitioner. It would improve the usefulness of the paper if it better differentiated guidance directed to the preparer from guidance directed to the practitioner. Throughout the paper there are lists of considerations for the practitioner intended to help the practitioner implement the guidance. These lists are identified by a vertical subheading "Considerations for the Practitioner" alongside the lists of matters for the practitioner's consideration. We suggest that these subheadings be placed horizontally at the beginning of each list because some readers missed these subheadings during an initial reading of the document.

Categories of Assertions and Characteristics of Suitable Criteria
Paragraph 177 of the paper contains a table with examples of categories of assertions that may be used in EER engagements and the characteristic of suitable criteria to which the category relates. We suggest that the two columns be labeled "Assertions" and "Characteristic of Suitable Criteria" to make the table easier to understand.

Examples

Subject Matter Elements
Paragraph 48 states that identifiable underlying subject matter means that the subject matter elements are well-defined and distinct from other things. This is followed by an example of identifiable underlying subject matter related to greenhouse gas emissions. This example does not include the term *subject matter elements* or an example of subject matter elements. Adding this term and an example will help the reader understand what a subject matter element is.

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

For the most part, we support the proposed structure of the draft guidance but have the following suggestions for improving the structure:

- To better reflect the content of Chapter 7 "Determining the Suitability of Criteria," and the requirements regarding criteria in ISAE 3000, we recommend that the title of the chapter be revised to be "Determining the Suitability <u>and Availability</u> of Criteria"

- Paragraphs 75-77 regarding the practitioner's response when the preconditions are not present, are included in Chapter 6, "Considering the System of Internal Control." This topic does not relate only to the system of internal control and might fit more appropriately in Chapter 1, "Introduction," or Chapter 3, "Determining Preconditions and Agreeing the Scope."

- Paragraphs 80-84 of chapter 7 present the components of an EER engagement, a topic that is relevant to the entire paper, and therefore might be better placed in Chapter 1, "Introduction," or chapter 3.

- Paragraphs 122 and 123 of chapter 7, which address consequences when criteria are not suitable or available, should be moved to chapter 3 because these paragraphs relate to preconditions.

- See our comment under Question 6 regarding moving the information included in the paper "Background and Contextual Information on Understanding How Subject Matter Information Results from Measuring or Evaluating Subject Matter Elements Against the Criteria," into the primary paper.

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?

Materiality of Misstatements in the Aggregate
Paragraph 222 of Chapter 12, "Considering the Materiality of Misstatements," discusses accumulating misstatements, and states, in part, "After considering misstatements individually, the practitioner may need to consider misstatements in combination with others." We believe that the guidance should state that the practitioner should (not may) consider misstatements in the aggregate because paragraph 65 of ISAE 3000 requires the practitioner when forming a conclusion to evaluate whether uncorrected misstatements are material, individually or in the aggregate. Paragraph 222 also appears to conflict with paragraph 226 of chapter 12 which sites the requirement in paragraph 65 of ISAE 3000.

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

Materiality Process
The paper uses the term *materiality process* to describe the process a preparer performs when determining what to include in an EER presentation. Paragraph 125 of the paper indicates that a preparer may need to make such determinations when the criteria for an EER framework does not specify in sufficient detail what topics and related elements should be included in the EER presentation. In these circumstances, a reader of ISAE 3000 would conclude that the criteria are incomplete and therefore are not suitable. However, paragraph 31 of the paper states that undertaking a materiality process effectively involves developing or extending the criteria such that they sufficiently exhibit the characteristics of relevance and completeness. The preparer is charged with determining the information needs of intended users and supplementing the criteria to meet those needs. The paper refers to such criteria as entity-developed criteria and provides guidance for determining whether entity-developed criteria are suitable

We searched ISAE 3000 for text related to entity-developed criteria but found that ISAE 3000 only indirectly addresses this topic in

- paragraph A48, which discusses ways in which criteria may be developed ("criteria specifically designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement") and

- paragraph A10, which indicates that there may be different criteria for the same underlying subject matter ("For example, a measurer or evaluator might select, as one of the criteria for the underlying subject matter of customer satisfaction, the number of customer complaints resolved to the acknowledged satisfaction of the customer; another measurer or evaluator might select the number of repeat purchases in the three months following the initial purchase.")

We believe that the guidance on entity-developed criteria is helpful and understand that the "materiality process" is intended to enable a practitioner to perform an engagement that the practitioner ordinarily would be precluded from performing because the criteria are incomplete. However, we recommend that the paper acknowledge that ISAE 3000 does not directly address this topic and indicate that the guidance in the paper is interpretive and intended to fill the gap in ISAE 3000. This would provide a better connection between ISAE 3000 and the paper.

We also believe that it would be preferable to use a term other than *materiality process* for this concept because (1) that term is not included in ISAE 3000 (2) the word materiality and forms of that word mean something else to both preparers and practitioners, and (3) the process really relates to evaluating the completeness of the criteria. Although we appreciate the guidance in this chapter, we think the level of complexity introduced is beyond what is needed.

Building and Using Assertions

Chapter 9 "Performing Procedures and Using Assertions," introduces the concept of the proper application of criteria, which adds another dimension to evaluating whether subject matter is in accordance with the criteria. The paper recommends that the practitioner develop a checklist of assertions related to the subject matter information (similar to financial statements assertions), for example, assertions about whether the subject matter information is accurate and whether relevant aspects of the subject matter information exist. Paragraph 177 of the paper contains a table with various assertions about subject matter information alongside the related characteristic of suitable criteria to which the assertion relates. For example, an assertion about the accuracy of subject matter information relates to the reliability characteristic of suitable criteria.

Taking a broader view of the material in chapter 9 we believe that the introduction of the concept of the proper application of criteria is intended to introduce a "fair presentation" consideration in the evaluation of subject matter information, which is a concept that is not discussed in ISAE 3000, but is included in paragraph 13*a* of International Standard on Auditing (ISA) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, and in paragraph 9 of the IAASB *International Framework for Assurance Engagements*, both shown below:

> ISA 200
> 13*a*. The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

(i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or

(ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances. The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.

IAASB *International Framework for Assurance Engagements*
9. Subject matter information can fail to be properly expressed in the context of the subject matter and the criteria, and can therefore be misstated, potentially to a material extent. This occurs when the subject matter information does not properly reflect the application of the criteria to the subject matter, for example, when an entity's financial statements do not give a true and fair view of (or present fairly, in all material respects) its financial position, financial performance and cash flows in accordance with International Financial Reporting Standards, or when an entity's assertion that its internal control is effective is not fairly stated, in all material respects, based on COSO or CoCo.

Although *International Framework for Assurance Engagements* is applicable to all assurance engagements, the underlying assumption in ISAE 3000 is that suitable criteria will result in a fair presentation because the characteristics of suitable criteria require the preparer and practitioner to consider the needs of users when evaluating the suitability of the criteria. For example, note the wording of the following two characteristics of suitable criteria (emphasis added):

Relevance: Relevant criteria result in subject matter information <u>that assists decision-making by the intended users</u>.

Completeness: Criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected <u>to affect decisions of the intended users made on the basis of that subject matter information.</u>

We had some difficulty navigating chapter 9 because in some cases, the complexity of the writing makes the chapter difficult to follow, for example,

— "Assertions are used by the practitioner at the level of the categories into which they fall rather than at the level of detailed assertions about aspects of the subject matter information." (paragraph. 172)

— "The categories of assertions that may be used by the practitioner in an EER assurance engagement result from the requirements of the applicable criteria. If the criteria are suitable, subject matter information resulting from their proper application will have attributes consistent with the attributes of subject matter information resulting from criteria that exhibit the five required characteristics of suitable criteria. This is because the characteristics of suitable criteria are defined in terms of the attributes of the resulting

subject matter information. Chapter 6 of this document describes the attributes of subject matter information resulting from criteria that exhibit those characteristics (relevance, completeness, reliability, neutrality and understandability). For example, the proper application of criteria that exhibit 'completeness' requires representations that are of a type that assert that the subject matter information is 'complete.' (paragraph 174)

The presentation of the material and terminology used in chapter 9 are too complicated, and even after reading it several times, some readers struggled to determine what procedures the practitioner should be performing and more importantly, why the practitioner is performing them. The concept that criteria are the benchmarks for evaluating underlying subject matter is well established in ISAE 3000. What is needed here is simpler guidance that provides a link from that point to the additional guidance being offered in chapter 9 and a better explanation of the problem this chapter is addressing.

Reporting on Narrative Information
Chapter 10 of the paper provides guidance on reporting on narrative information. Although ISAE 3000 does not specifically address this topic, the relevant requirements and guidance for such engagements are embedded in paragraph .24 of ISAE 3000, which establishes the preconditions for an assurance engagement and includes, among other things, the following preconditions.

- The underlying subject matter must be appropriate (paragraph 24*b*[i]) Paragraph A40 states, in part, that an appropriate subject matter is capable of consistent measurement or evaluation against the applicable criteria such that the resulting subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion, as appropriate.

- The practitioner must expect to be able to obtain the evidence needed to support the practitioner's conclusion (paragraph 24*b*(iv)

- The criteria must be suitable. (paragraph 24*b*(ii)

Of the six characteristics of suitable criteria identified in paragraph 24*b*(ii), the following characteristics of criteria are particularly relevant to reporting on narrative subject matter:

(c) Reliability: Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by different practitioners.

(d) Neutrality: Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.

The first sentence of paragraph 188 of the paper describes the nature of the information addressed by chapter 10, which is narrative information that is (1) not factual (2) subject to management judgment, and (3) may be susceptible to management bias.

Based on ISAE 3000, an engagement to report on such information would not meet the preconditions for an assurance engagement because such information would stem from criteria that are not neutral or reliable, and therefore would not be considered suitable criteria.

We understand that this chapter is meant to help practitioners perform an assurance engagement when portions of the criteria are not suitable. An example of this situation would be an engagement for an entity that wishes to achieve accreditation from a regulator or industry association that has established or adopted criteria that are in part not suitable. The rationale for performing such an engagement is that ordinarily neither management nor the practitioner can control the criteria established by another party, and in order for the entity to remain competitive, it may be essential for the entity to obtain accreditation via an assurance engagement. One of the solutions offered in paragraph 195 suggests that the practitioner identify and highlight aspects of the narrative information that are significant to the entity, determine whether relevant information has been omitted, ask the preparer to add any omitted information to the description, test the information in the description for which the practitioner is able to obtain evidence, evaluate whether misstatements in the description are material, and encourage the preparer to either reword or remove text that would be considered a misstatement. This seems like sensible guidance and provides a way forward.

We believe that the discussion of reporting on narrative subject matter information should be based on the preconditions in paragraph 24 of ISAE 3000. Paragraph 190 of the paper states, "Reliable criteria for narrative information may need to be well-defined and therefore reasonably unambiguous so as to allow reasonably consistent measurement or evaluation of the underlying subject matter." This is a rewording of paragraph A45*c* of ISAE 3000 with less precision and no attribution to ISAE 3000. Disregarding ISAE 3000 prevents the paper from building on the principles established in ISAE 3000 and prevents the reader from easily identifying which aspects of the paper provide additional application guidance that goes beyond what in in ISAE 3000.

Consistency of Terminology With ISAE 3000
Paragraph 9 of Chapter 1 states, "Terminology in this guidance is consistent with ISAE 3000 (Revised)." However, terminology introduced in this paper, such as *building assertions*, *materiality process*, *subject matter elements and their qualities* are not used in ISAE 3000. For example, in explaining what the term *subject matter elements* means, paragraph 48 of the paper states the following

> Subject matter elements or elements are analogous to assets, liabilities, income or expenses, which are aspects of the underlying subject matter (the entity's financial condition and performance) to which criteria are applied in preparing financial statements.

It shouldn't be necessary to introduce the term *subject matter elements* because ISAE 3000 already uses the term *aspects* to represent the same concept. In addition, the explanation of that term and many other explanations in the paper analogize between EER engagements and financial statement audits. In explaining what the term *subject matter elements* means, it would be more helpful if the paper provided examples of elements of subject matter information other than financial statements, for example, aspects of a greenhouse gas emissions presentation.

Paragraph 2 of the explanatory memorandum states that assurance engagements on EER are similar in concept to an audit (a specific type of assurance engagements) but they are performed on EER reports rather than on financial statements. Again, it shouldn't be necessary to state that assurance engagements on EER are similar to audits because ISAE 3000 goes to great lengths to explain the nature of assurance engagements covered by that standard and the types of subject matter addressed. The paper seems to assume that the reader is unfamiliar with ISAE 3000 and attempts to compensate for that by rewording the requirements in ISAE 3000 with less rigorous wording and analogies to financial statement audits. We believe that ISAE 3000 should provide the foundation for any concepts introduced in the paper.

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

The paper "Four Key Factor Model for Credibility and Trust in Relation to EER," is very helpful in understanding how various factors (a sound EER framework, strong governance, consistent wider information, and external professional services) enhance the credibility of EER information. The usefulness of this paper would be enhanced if it included references to the related guidance in the primary paper, for example,

- paragraph 9 of this paper regarding the features of an EER framework that engender credible EER information and the relationship of those features to the characteristics of suitable criteria should reference paragraph 86 and other paragraphs in Chapter 7 "Determining the Suitability of Criteria," of the primary paper.

- the discussion of strong governance should reference Chapter 6 "Considering the System of Internal Control," of the primary paper

A review of the connections between the two papers may also help to identify appropriate changes to one of the papers, for example, the key factor *consistent wider information* does not appear to be addressed in the primary paper. We also suggest that the word "wider" in the phrase "consistent wider information" be replaced with a word such as "additional" or "other."

The paper titled "Background and Contextual Information on Understanding How Subject Matter Information Results from Measuring or Evaluating Subject Matter Elements Against the Criteria," provides some very useful information, especially the examples included in this paper. However, we suggest that the information in this paper be incorporated in the primary paper because having important information in two separate documents is not the most efficient or effective approach to providing the information. Consider including some of the information in the background and contextual information paper in chapter 1 of the primary paper, especially as it relates to terminology.

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Thank you for the opportunity to comment on this consultation paper. If you have any questions regarding the comments in this comment letter, please contact me at Mike.Santay@us.gt.com or Judith Sherinsky at Judith.Sherinsky@aicpa-cima.com.

Mr. Willie Botha
June 21, 2019

Respectfully submitted,

/s/ Michael J. Santay

Chair, Auditing Standards Board