23 July 2020

Attention: Willie Botha
Technical Director
IAASB
529 5th Avenue
New York, New York 10017

Via online submission: www.iaasb.org

Dear Willie

Submission on IAASB Public Consultation on Proposed Guidance on Extended External Reporting Assurance

CPA Australia welcomes the opportunity to comment on the IAASB's proposed guidance on extended external reporting (EER) assurance (the Guidance), which we consider is an important initiative to support the role of assurance in furthering robust and consistent EER reporting, as different forms of EER evolve and proliferate. CPA Australia represents the diverse interests of more than 166,000 members working in over a 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia takes a keen interest in the global development of EER to better meet stakeholder needs. We also consider that assurance on such reporting is important to provide users with a robust basis for gaining credibility and trust in that reporting. CPA Australia has demonstrated its commitment to EER to meet users' needs by issuing an integrated report annually since 2013 using the IIRC <IR> framework. CPA Australia has also demonstrated its commitment to assurance on EER by obtaining limited assurance in 2019 that the entire <IR> Report was prepared in accordance with the content elements of the <IR> Framework and is aiming to obtain limited assurance over its 2020 <IR> report against the entire <IR> framework. CPA Australia is especially proud to have won the Integrated Report of the Year for its 2019 Integrated Report at the 2020 Australasian Reporting Awards, along with a Gold General Reporting Award.

In our past submissions on the IAASB's strategy, as well as our previous submission on the then partially drafted Guidance on EER Assurance, we encouraged the IAASB to develop guidance for practitioners in the conduct of assurance engagements on EER. This will enable practitioners to better understand how to apply the standards on assurance engagements to meet the challenges of providing such assurance. We commend the IAASB in completing the Guidance, and in doing so providing a significant volume of detailed guidance to explain and illustrate how the IAASB standards can be applied to EER. We consider that the Guidance will be important in assisting practitioners in developing high quality assurance services on EER.

The Guidance addresses the challenges for assurance engagements on EER well. Although we identify some areas for further refinement, we do not consider these to represent fatal flaws.

We raise a number of issues in the attachment to this letter. However, the key issues for consideration are:

- Scope of the EER engagement: In considering the scope of the engagement and the "perimeter" (for which we suggest using the term "boundary") of the EER, we suggest the Guidance address the possibility of that perimeter not being bound by the concept of "entity", but rather allow for broader boundaries, which may cut across multiple entities relevant to the activity being assured.

- Assurance readiness: A more fulsome consideration of readiness reviews, including when they would be provided as an assurance engagement and what such engagements would entail, would be useful.

- Reasonable and limited assurance: The difference between these levels of assurance is already unclear. The challenges for EER assurance compound this lack of clarity. The Guidance reflects the IAASB position that limited assurance can fall anywhere within a range of levels of assurance below reasonable. We consider it to be impractical to expect users to be able to interpret from a brief synopsis of the procedures conducted, the level of assurance provided and whether that differs from another engagement. This is a significant impediment for both practitioners and users in gaining an understanding of these engagements. It effectively prevents comparability of assurance reports and does not aid robust and consistent assurance practice. The risk is that the lack of clarity regarding such engagements may diminish confidence in their utility and so also diminish their value. Alternatively, standards requiring limited assurance to meet a defined level of assurance, such as "moderate," would be a simple but useful starting point for practitioners to obtain a consistent level of assurance.

We consider that the Guidance is well structured overall, which may be significantly enhanced once electronic tools are in place for navigating the material. Further improvements could be gained by addressing the following matters:

- Digital navigation: Navigation between Chapters, Supplements, diagrams, examples and paragraphs within the Guidance, linking to relevant paragraphs of ISAE 3000 and other standards and definitions would be significantly aided by hyperlinks or other electronic tools.

- Terminology and Referencing: Certain terms used are not intuitive and do not have plain English meanings, the most obvious example being "subject matter information". Consideration could be given to using plain English terms and explaining their equivalent to terms used in ISAE 3000 or other pronouncements, rather than the reverse approach which has been adopted in the drafting. For example, "EER information" maybe a more obvious and shorter term than "subject matter information". Much of the referencing is also not intuitive. For example, by using "ISAE 3000" rather than "the Standard", the term would be immediately understandable. Likewise, the abbreviations of "S" and "G" could be rethought or at least referenced under each diagram. Hyperlinks for each reference would aid in this understanding.

- Diagrams: The diagrams need to be reviewed to ensure that they clearly convey the information intended and provide an aid to communication of the Guidance. Specifically, we consider that diagrams 5 and 8 could simplified or restructured and diagram 7 could reflect the COSO internal controls framework.

- Repositioning Chapter 6: This Chapter would be better placed earlier in the Guidance. We suggest it should follow Chapter 3, as the process to identify reporting topics addressed in Chapter 6 is an essential part of satisfying the preconditions and agreeing the scope addressed in Chapter 3. Chapter 4 on the suitability of the criteria then logically follows the content in Chapter 6.

- Differentiation of levels of assurance: The paragraphs could be structured using tables to differentiate limited and reasonable assurance procedures or approaches.

- Integrating qualitative and future-oriented information: Chapter 11 on qualitative information and Chapter 12 on future-oriented information, which address suitability of criteria, obtaining evidence, evaluating misstatements

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and reporting in relation to that information, would benefit from integration into relevant chapters on these topics, including Chapters 4, 8, 9 and 10, as appropriate.

- Example reports: The supplementary material is very useful and we provide some suggested adjustments to the example report on an <IR> Report in Supplement B.

Our detailed comments in response to the IAASB's questions are in the attachment to this letter.

We acknowledge that the IAASB has been expeditious in progressing this project and we encourage the IAASB to maintain this momentum by issuing this Guidance promptly. Inevitably, EER frameworks will continue to evolve and mature, as will assurance practices, which will doubtlessly necessitate future revisions. Implementation of this Guidance will enable it to be "road-tested" and monitoring its practical application will be important to enable future versions to be refined in addressing the challenges encountered by practitioners.

If you require further information on the views expressed in this submission, please contact Claire Grayston, Policy Adviser Audit and Assurance at claire.grayston@cpaaustralia.com.au.

Your sincerely

Dr. Gary Pflugrath
Executive General Manager, Policy and Advocacy

Enc: Attachment: Responses to Questions in IAASB Consultation Paper – Proposed Non-Authoritative Guidance Extended External Reporting (EER) Assurance

Responses to Questions in IAASB Consultation Paper – Proposed Non-Authoritative Guidance Extended External Reporting (EER) Assurance

Q 1: Does the 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?

The proposed Guidance addresses the challenges for assurance engagements on EER very thoroughly, although we identify some areas for further refinement. These areas for further refinement or consideration are:

1. **Scope of the EER engagement**: The Introduction states that "EER encapsulates many different types of reporting that provide information about the financial and non-financial consequences of an entity's activities" (p.57). However, we note that not all EER is limited to the boundaries of a particular "entity". Instead, the EER may either focus on only one part of an entity or cut across a number of entities which may be contributing to that activity. For example, an abatement project in Australia to deliver abatements under the Emissions Reduction Fund to meet contracts with the Clean Energy Regulator, may be provided by multiple entities. Future assurance engagements which may be required on Modern Slavery Statements, which are required in Australia for entities with revenue of $100 million or more. These statements are issued by an entity, but cover the activities of their supply chain. Therefore, we suggest that the "entity" be defined in broad terms to encompass a segment, location or activity stream within an entity, an entire entity or group of entities, segments of multiple unrelated entities or multiple entities in their entirety. The Guidance should clarify that the boundaries of the activity or entity/ies covered by the EER and related assurance need to be clearly identified in the scope of the engagement. The boundaries of the activity or entity/ies in turn need to align with a rational purpose for the engagement and the availability of evidence to cover the activities or entities within that boundary.

    With respect to terminology we suggest using the term "boundary" rather than "perimeter", as this is the term commonly used by IFAC and others in reference to the scope of financial and non-financial reporting, as well as widely used in relation to the scope of greenhouse gas emissions reporting. Likewise, we consider that "consequences", a term used in the definition of EER information in the Guidance, is not commonly used in this context but instead "output", "outcome" or "impact" may be more suitable terms. Each of these terms has a separate meaning and may be measured or evaluated in different ways, so it will depend on the nature of the engagement as to which term is relevant.

    We suggest that paragraph 10 could include reference to a broader range of reporting, including integrated reports, modern slavery statements and carbon abatement information. It may also be helpful to reference some of the main reporting frameworks, such as the frameworks provided by the IIRC for integrated reporting, GRI for sustainability reporting and the Sustainability Accounting Standards Board (SASB).

2. **Assurance readiness:** Readiness, which is raised in para.66 and explored in para.107, could be more fully addressed in **Chapter 3** as a pre-condition to the assurance engagement, along with readiness reviews as a precursor to an assurance engagement on the subject matter. The Guidance describes these readiness reviews as advisory engagements, however, we consider that they can also be provided as an assurance engagement, albeit of a different type to assurance on EER. This readiness review could include an assurance engagement on the design and implementation of controls over governance or the measurement and evaluation criteria, which is partially reflected in para.111. We suggest that the approach in para.107(c) could include an assurance engagement as well as an advisory engagement. This is because advisory engagements

are often conducted by non-assurance practitioners who may not appreciate the preconditions required to be met for an assurance engagement, including controls relevant to measurement or evaluation against the criteria. Consequently, an assurance engagement may be a valuable option and may overcome the independence challenges of advising on the systems and controls needed in preparation for assurance, which as the Guidance quite rightly points out would preclude the practitioner from obtaining assurance subsequently.

3. **Preparer's responsibility for the Criteria:** We suggest that **Chapter 4** should clearly state that the criteria will usually need to be referenced in the basis of preparation of the EER report, which would set out the reporting frameworks and other criteria applied in preparing the report. It is easy to overlook that it is the preparer's responsibility to make the criteria available to users. Therefore, we suggest that the Guidance in Chapter 4 states that the practitioner can expect the preparer to identify the frameworks applied in preparation of the EER report, as well as making any additional criteria available to users in the basis of preparation in that report. Chapter 10 spells out more clearly the preparer's responsibility for communicating the criteria. Normally the practitioner would not be expected to provide the criteria. If the preparer did not make that criteria available and identify it in the EER report, the practitioner may need to revisit whether the preconditions have been met or whether a qualification in their report is needed.

Depending on the nature of the engagement, assessing the suitability of the criteria may require an in-depth understanding of the business, in so far as it relates to the subject matter, and high level of professional judgement by the practitioner. The examples in this chapter may be a little too simplistic to effectively communicate this complexity.

In addition, we suggest that Chapter 10 discusses reporting of any misstatements in the description or identification of the criteria used to prepare the EER, as set out in the basis of preparation in the EER report.

4. **Internal Controls**: We consider that Chapter 5 could be directly aligned and referenced to the COSO Internal Control Framework rather than setting its own components and diagram, which are largely aligned anyway. Also, discussion of the components should preferably start with the control environment as part of the overarching governance and oversight arrangements, and then proceed to work down through the components, rather than the reverse. The thought process and focus needed with respect to governance and oversight arrangements to enable development of a robust EER system, that is suitable to be assured, could be more fully addressed. The example of integrated thinking, which is required to produce an integrated report, would be useful to illustrate the importance of robust governance arrangements in establishing effective EER, along with the system of control to underpin robust and reliable reporting. Governance and oversight arrangements could also include approval of the reporting frameworks to be applied, the reporting topics and the criteria for its measurement or evaluation.

Reference to readiness reviews should be included in Chapter 5, as such reviews focus primarily on the suitability of the system of controls relevant to the EER report.

We understand the example in paragraph 210 is seeking to illustrate different levels of complexity in the internal control system and the professional judgement required in assessing those controls. This being the case, we believe it may need redrafting to better address those matters. The small entity scenario does not include any controls over the data captured and stored, whereas it should, at the very least, include the simpler controls which may suffice in this circumstance. Additionally, the particular need for professional judgement is not illustrated for either scenario.

5. **Reporting topics**: The first paragraph of **Chapter 6** is confusing and may need to be redrafted in plain English or omitted. It discusses criteria at length, but we are not sure that it is necessary to use the term criteria in this

context. It is important that criteria are used for the measurement or evaluation of the subject matter and it may cause confusion to use this term for identification of the reporting topics.

We suggest that Chapter 6 incorporates an Integrated Reporting example to illustrate the selection of reporting topics by identifying which of the six <IR> capitals will be addressed in the report. Other examples of frameworks have been used to illustrate this process of identifying reporting topics, but as the <IR> framework is gaining traction, we consider that it is particularly relevant to illustrate.

6. **Assertions**: It would be helpful to develop a non-exhaustive list of assertions in, or referenced to, **Chapter 7,** from which practitioners could select to plan procedures for testing elements of an EER. These assertions could be grouped by the type of information which those assertions would be used to evaluate.

7. **Reasonable vs limited assurance:** The Guidance in **Chapter 8** highlights the difference between the nature of procedures and the evidence required to reach reasonable assurance as opposed to limited assurance. This difference can be particularly challenging for practitioners to determine and may need an example to fully illustrate (see paragraphs 100-101). The level of meaningful assurance in a limited assurance engagement ranging from "just above 'clearly inconsequential' to just below what would be meaningful in a reasonable assurance" engagement does not provide sufficient clarity. Describing limited assurance as a range is unhelpful to practitioners and users alike and does not allow comparability between assurance reports for different entities. Users cannot be expected to understand the level of assurance provided by reading a description of the procedures conducted, especially in these areas of reporting which are still emerging and evolving, and are not as well understood as more established frameworks, such as financial reporting. Contrary to the statement in paragraph 345, the level of assurance cannot be well understood from an "informative summary of the procedures performed". This is because the adequacy of those procedures in reducing the risk of material misstatement will depend on the assessed risks, which are not shared in the assurance report. It would be more practical to state in plain English the level of assurance which practitioners are seeking to achieve, such as "moderate", and then articulating what work effort that may require.

8. **Other information**: Whilst consideration of "other information", contained within an EER but which has not been assured, is addressed in Chapter 8, we suggest it needs further consideration in Chapter 10 on reporting. In particular, this would include setting out the other information to be presented with the EER report, and its consideration for consistency, with the assured EER information by the practitioner.

9. **Qualitative subject matter:** The Guidance overall focusses to a greater extent on assurance of quantitative information, which is measured using numerical criteria from a reporting framework, than qualitative information, broadly using non-numeric criteria. This is understandable given that the accounting profession is focused historically on financial information which is largely quantitative. This balance could be redressed by incorporating the Guidance in Chapter 11 in relevant sections within other chapters.

    Chapter 11 needs to better address the practitioner's understanding of the business or the subject matter necessary to assure qualitative information, such as the business model and strategy in the management commentary. This may encompass an Integrated Report, or in Australia an Operating and Financial Review (OFR) required for listed companies. Such reporting may include not only narrative but also pictures, graphs and diagrams. The OFR is an example of management commentary which encompasses the directors' assessment of the company's operations, financial position and business strategies, and prospects for future years. It would be helpful to include an example which addresses how assurance on a directors' assessment of governance matters is provided and reported. This assessment may include few, if any, quantitative criteria, but instead relate to narrative descriptions relating to complex business judgements. Supplement B, Example 10 could be used to illustrate assurance against qualitative criteria – see our further comments on Supplement B below.

10. **Sources of evidence**: Chapter 12 addresses assurance on future-oriented EER information, including forecasts, projections or future risks and opportunities. We consider that external sources of evidence are particularly important, if not critical, in evaluating the reasonableness of the assumptions used in preparing this future-oriented information and should be discussed in this Chapter.

11. **Appendix 1 –** we suggest redefining the terms "EER information" by replacing the word "consequences" with the words "outputs, outcomes or impacts", which cover the purposes of a broad range of EER, and adding that EER information encompasses the term "subject matter information" as used in ISAE 3000. The Guidance can then use the term "EER information" throughout and avoid using the term "subject matter information", which is not a plain English term. Refer to our comments on Supplement A Section II below for further information.

Q 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?

The Guidance is well structured, and we support moving materials into Supplement A and B to make the main Guidance less lengthy. We suggest that further improvements could be gained by:

1. **Digital navigation**: We strongly support the proposal to use electronic tools to navigate the Guidance. The use of hyperlinks from diagrams to Guidance paragraphs, examples or between related paragraphs, as well as links to definitions, would help to navigate this very lengthy Guidance. The absence of definitions or diagrams to explain terms such as "subject matter information", which are not in common usage, is a drawback of the Guidance, which hyperlinks to relevant definitions could alleviate.

2. **Terminology and references** need to be written in plain English or, at the very least, terms which are not plain English must be defined and explained, particularly given the diverse engagements which this Guidance encompasses. Certain terminology and references are explained at the end of the introduction section, after they have already been used throughout the introduction. This is confusing as the references are not immediately intuitive. We suggest this section be moved closer to the start of the introduction before any of the references are used. In addition, we suggest consideration of more intuitive referencing. This would add some more characters to the document but would enable someone reading the Guidance to have no difficulty understanding the meaning of terms used. For example:

   - Replace "the Standard" with "ISAE 3000"

   - Replace "S." with "ISAE 300 para." – we estimate this appears 153 times

   - Replace "G." with "para." – we estimate that this appears 169 times

   - In contrast, the reference "Ch." is more commonly used and should be widely recognized as "Chapter".

   - Certain references are not cited in full in their first appearance, such as ISQC 1 (page 66).

   Hyperlinking all of these references will further enhance the clearer referencing suggested above.

   Whichever abbreviations are used, we note that Diagram 1 is not referenced in the same way as the "terminology and resources" section indicates, as it omits the "S" and "G" references denoting ISAE 3000 and the Guidance respectively. In addition to addressing this inconsistency, we suggest that all diagrams in the Guidance should be able to stand alone and would be easier to understand if they were each accompanied by a legend, which provided the meanings for any abbreviations, with full citations for standards or other documents, and any colour coding used in the diagram.

3. **Diagrams** are a helpful means of communicating the information presented and we support visual representations, but they should only be included where they aid readers understanding of the text.

See comments above regarding referencing and a legend for Diagram 1.

Diagram 5 is confusing, exacerbated by the sections of the umbrella not aligning with the flowchart below it. This is illustrated by the number of arrows needed to make the circumstances fit with the preconditions. Coupled with the diagram's complexity, use of the abbreviation "SMI" and other referencing without any legend to explain them is confusing. SMI is an abbreviation for "subject matter information", which is not intuitive, even for those familiar with this term. As we have already noted this is not a meaningful term in plain English, and so the chances are low that those unfamiliar with the IAASB's lexicon will know where to look for the meaning of this abbreviation.

Diagram 7 could reflect the COSO framework in line with our recommendations in question 1 above with respect to internal controls.

Diagram 8 is not clearly mapped to the Guidance and does not seem to follow the suggested process in Chapter 6. As explained above, we do not consider using the term "criteria" is useful in this context as criteria are used to measure or evaluate the EER information itself. The identification of reporting topics relates to the engagement having a rational purpose and the EER information not being misleading due to selective use of reporting topics, rather than identification of suitable criteria. The diagram includes "develop list of reporting topics that may potentially assist intended users' decision-making", which seems to be a pre-emptive step that could be removed, as consideration of the user needs should come first. The diagram introduces the idea that criteria for identifying reporting topics need to be available to users without explaining this anywhere else in the Guidance. We consider this is taking criteria out of context and the part of the diagram on "make criteria available" should be removed. In addition, the diagram requires a legend to explain the colour coding.

4. **Repositioning Chapter 6**: Chapter 6 on the entity's process to identify reporting topics is more closely aligned with Chapter 3 on determining the preconditions and agreeing the scope of the engagement. Therefore, it needs to be placed earlier in the Guidance. We suggest it be relocated immediately following Chapter 3, as it is fundamental to the conduct of the engagement and is a good introduction to Chapter 4 on criteria. We acknowledge that the Chapters in the Guidance cannot exactly sequentially follow the conduct of an engagement. Nevertheless, some approximation of the flow of the engagement should still be followed in the Guidance's structure.

5. **Differentiating limited and reasonable assurance engagements:** Where reasonable assurance and limited assurance are discussed in the same paragraph, but require different procedures, we suggest presenting that guidance in a tabular format, much like the format used in ISAE 3000. Chapter 6 Paragraph 222 is a good example of where greater clarity would be achieved if the reasonable assurance and limited assurance guidance could be separately identified, as this paragraph contains sentences which combine the requirements for reasonable assurance and limited assurance with respect to internal controls and risk assessment.

6. **Integrating Chapters 11 and 12**: The Guidance would benefit from integrating Chapter 11 on qualitative information and Chapter 12 on future-oriented information across Chapters 4, 5, 8 and 10, as we consider that this type of information is often integral to the EER report and cannot be considered in isolation during an assurance engagement.

Supplement A: Views on structure and content of each Supplement, including whether they are clear and understandable, as well as the relationship of the Supplements to the draft Guidance document.

We support provision of this contextual information to help practitioners, who may not be familiar with the IAASB's standards, to better understand how the concepts which underpin an assurance engagement fit together.

Supplement B: Views on structure and content of each Supplement, including whether they are clear and understandable, as well as the relationship of the Supplements to the draft Guidance document.

The supplementary material illustrating the challenges faced by practitioners in conducting assurance on EER in various scenarios is very useful. We suggest that a readiness review example could to be provided, particularly if it were structured as an assurance engagement.

Some amendments to example 10 on integrated report assurance would enhance its relevance and practical application. Firstly, the example assumes that the preconditions have been met, whereas determination of whether preconditions have been met for integrated report assurance is a key challenge for such engagements and will feed into the risk assessment. How preconditions are assessed for an integrated report should be explored in this example, including whether integrated thinking has been implemented. Secondly, example 10 applies reasonable assurance on an integrated report. We consider this to be an unrealistic basis for the example given the current early stage of evolution of assurance on integrated reports. We are only aware of four integrated reports issued worldwide which have been fully assured, all of which have been subject to limited assurance, except to the extent the audit (reasonable assurance) of the financial statements addresses financial capital within the <IR> Report. Thirdly, assurance of the narrative description of "the Business" in the integrated report, which provides the strategic business context for the self-determined metrics, could be further drawn out in this example.