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Mr Willie Botha
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue
New York
10017 USA

Dear Willie

Comments on the IAASB's Consultation Paper on *Extended External Reporting (EER) Assurance*

The Independent Regulatory Board for Auditors (IRBA) is both the audit regulator and national auditing standard setter in South Africa. Its statutory objectives include the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in South Africa.

We appreciate this opportunity to comment on the IAASB's Consultation Paper on *Extended External Reporting (EER) Assurance* developed by the International Auditing and Assurance Standards Board (IAASB).

Our comments have been prepared by a task group that comprised representatives from audit firms, academics, a preparer, the Auditor-General South Africa and the South African Institute of Chartered Accountants.

The comments are presented under the following sections:

A.   Overall comments;
B.   Responses to specific questions; and
C.   Responses to general questions.

Kindly e-mail us at creintjes@irba.co.za, if further clarity is required on any of our comments.

Yours faithfully,

Signed electronically

Imran Vanker
Director: Standards

A. OVERALL COMMENTS

a) The IRBA supports and commends the IAASB in its efforts to provide guidance on assurance on extended external reporting (EER). In South Africa, integrated reports are produced by many entities listed on our biggest stock exchange, and requests for assurance on selected elements of these integrated report are becoming more frequent, we welcome this guidance for practitioners.

b) Investors are using integrated reports to corroborate whether management and those charged with governance are fulfilling their management and governance roles adequately and appropriately.

c) Many companies in South Africa also report to stakeholders on sustainability indicators. These reports may be accompanied by assurance reports. The IRBA has provided practitioners with illustrative assurance reports on sustainability reports or sustainability indicators[1].

d) We recognise that there is currently little regulatory interest in the assurance over EER. This is a function of regulator focus on financial reporting and the public interest issues in that area. However, EER presents a host of public interest issues, and it can be predicted that regulatory interest will grow, and that the publication of this guidance could be a forerunner to closing the gap between practice and regulatory oversight. This possibility makes the IAASB's work in this area very relevant, and in support of the public interest.

e) Our comments are primarily in the context of integrated reporting and sustainability reporting, as these are the more popular forms of EER in South Africa. We note that the application of this guidance based on ISAE 3000 (Revised) could be different for each form of EER. We recognise that the spectrum of reporting that is embraced by the EER banner, is growing, particularly as it relates to reports on governance, ethics, social issues and environmental issues, and that the broad range of corporate reports is mushrooming. There is therefore, at this stage, little understanding of the what this growth will lead to, but we recognise that the discussion around assurance of these products is ever-present.

f) As the proposed IAASB guidance will be non-authoritative (not prescribing or requiring specific application principles), consistency will mainly be achieved from clear and detailed examples of the application of the principles for the main forms of EER, such as the consideration of frameworks, objectives, scoping considerations and subject matter information. This will enable a consistent understanding of how the concepts and principles are applied in the context of the different environments.

g) As indicated in previous letters, we remain supportive that a medium to long term goal of the IAASB should be to develop authoritative guidance, once the use of EER and the assurance thereon are more embedded, and in wider use.

h) We note that the currently proposed guidance is focused on assurance on the disclosure in an EER report. In other words, the content or information or data in the EER report is what is assured. The sustainability, integration, value creation, viability, going concern and other such strategic goals of the entity are not being reported on. The assurance work does not extend to whether or not it is likely that an entity will exist in a few years, or that the actions that the entity intends to take to continue as a sustainable organisation are suitable. We believe that this guidance is therefore a necessary step in the direction of eventually reporting on sustainability and value creation as a whole. Guidance (or at a later stage, a standard) could then include a

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[1] Available at https://www.irba.co.za/guidance-for-ras/technical-guidance-for-ras/other-assurance/assurance-on-sustainability-reports.

conceptual framework that has several stages:

    i.   Providing an assurance opinion on data (as is the direction of this guidance).

    ii.   Providing an assurance opinion on data and internal controls.

    iii.   Providing an assurance opinion on data and internal controls, and interpreting (or providing an opinion on) sustainability, integration, value creation, viability, going concern or similar.

i)   Regarding other information, as per the International Standard on Auditing (ISA) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*:

    i.   The IRBA developed and issued the *IRBA Staff Audit Practice Alert: Determining Other Information as Defined in ISA 720 (Revised) in the South African Context*[2]. An EER report could, in some cases, be regarded as other information, as defined in ISA 720 (Revised). The Staff Alert states that EER reports, such as sustainability reports, when issued as standalone documents, are not typically part of the combination of documents that comprise an annual report; therefore, they are not other information within the scope of ISA 720 (Revised). When an entity publishes an integrated report, which includes the financial statements and a sustainability report, all the information in the integrated report, other than the financial statements, is regarded as other information. The practitioner then considers whether there is a material inconsistency between the other information and the financial statements. Although ISA 720 (Revised) is not a separate assurance engagement standard, the content of the EER report is therefore other information and is in this way considered to be included in the audit of financial statements.

B.   RESPONSES TO SPECIFIC QUESTIONS

Question 1

Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1? If not, where and how should it be improved?

a)   We believe that the guidance could be further clarified. Some of the challenges addressed in Phase 1 of the project have been commented on below.

b)   Determining preconditions and agreeing the scope (Chapter 3):

    i.   We have developed and issued a South African Assurance Engagement Practice Statement (SAAEPS 1), *Sustainability Assurance Engagements: Rational Purpose, Appropriateness of Underlying Subject Matter and Suitability of Criteria*[3]. This provides practical assistance to practitioners on certain preconditions and related guidance on determining whether the sustainability assurance engagement exhibits a rational purpose; the underlying subject matter is appropriate; and the criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances as well as the preparation of appropriate engagement documentation on that determination, when requested to accept a sustainability assurance engagement in accordance with the requirements of ISAE 3000 (Revised).

       The SAAEPS only deals with the following characteristics that are considered during the *Acceptance and Continuance – Preconditions for the Assurance Engagement* phase in

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[2]   Available at https://www.irba.co.za/guidance-for-ras/technical-guidance-for-ras/staff-practice-alerts.

[3]   Available at https://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/auditing-standards-and-guides/south-african-standards-and-practice-statements.

determining whether the preconditions for a sustainability assurance engagement set out in ISAE 3000 (Revised) are present:

- A rational purpose:

  - o Consideration 2: Whether aspects of the subject matter information are expected to be excluded from the assurance engagement, and the reason for their exclusion.

  - o Consideration 4: Who selected the criteria to be applied to measure or evaluate the underlying subject matter; and what the degree of judgment and scope for bias is in applying them. The engagement is more likely to have a rational purpose if the intended users selected or were involved in selecting the criteria[4].

- The underlying subject matter is appropriate[5].

- The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances[6], including that they exhibit the following characteristics:

  - o Relevance.
  - o Completeness.
  - o Reliability.
  - o Neutrality.
  - o Understandability.

To assist the practitioner with determining whether the preconditions for a sustainability assurance engagement are present, this SAAEPS introduces guidance on the following matters:

- Underlying subject matter;

- Entity context; and

- Reporting infrastructure:

  - o Relevant reporting framework;
  - o Reporting policies and procedures;
  - o Reporting systems and controls; and
  - o Governance and oversight.

As an example, the guidance contained in the SAAEPS 1 on reporting infrastructure includes:

- Reporting infrastructure

  - o Reporting infrastructure enables the production of relevant and reliable sustainability information by the reporting entity and is key to the considerations in determining whether the sustainability assurance engagement exhibits a rational

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[4] ISAE 3000 (Revised), paragraph A56.

[5] ISAE 3000 (Revised), paragraph 24(b)(i).

[6] ISAE 3000 (Revised), paragraph 24(b)(ii).

purpose, as contained in this SAAEPS.

   o   Reporting infrastructure is the combination of components enabling the production of relevant and reliable sustainability information by the reporting entity, and includes, but is not limited to, the following:

   ➢ Relevant reporting framework;

   ➢ Reporting policies and procedures;

   ➢ Reporting systems and controls; and

   ➢ Governance and oversight.

   We recommend that the IAASB considers the content of the SAAEPS for inclusion in the guidance being prepared.

   ii.   We also recommend that the useful content in Appendices 1 and 2 of the consultation paper be incorporated into the guidance.

c)   Determining the suitability of criteria (Chapter 7):

   i.   We recommend that it be clarified early on in the guidance that there are two levels of determining the suitability of criteria: first, as the preconditions; and then again as part of planning.

   ii.   We recommend that the guidance should clarify the level and depth of understanding that is required in order to assess the suitability of the criteria.

d)   Considering the entity's "materiality process" (Chapter 8):

   i.   We suggest that the guidance include the fact that the understanding of the materiality process will also inform the scoping process.

   ii.   It would be helpful to clarify that this materiality is not used for audit purposes and evaluating misstatements.

e)   Assuring narrative information (Chapter 10):

   i.   We recommend including that narrative information should be supported by a system of internal control and measurement and evaluation processes. These systems and processes should support suitable criteria and provide sufficient appropriate evidence for assurance purposes.

   ii.   Guidance could also be included on how to assure a part of a paragraph or separate sentences in a report that refer to different subject matter information.

f)   Assuring future-orientated information (Chapter 11):

   i.   We recommend including that future-orientated information should be supported by a system of internal control and measurement and evaluation processes. These systems and processes should support suitable criteria and provide sufficient appropriate evidence for assurance purposes.

g)   Considering the materiality of misstatements (Chapter 12):

   i.   We recommend that this chapter include more practical guidance and examples. We suggest that an example beginning in earlier chapters (underlying subject matter, subject matter information, criteria, etc.) should be continued here, showing how the materiality of misstatement could be considered.

   ii.   We suggest clarifying that materiality may be considered:

a. At the scoping phase;

b. When determining what is material from the content that is scoped in, in order to determine the work-effort; and

c. When assessing the materiality of misstatements, including examples and considerations when these material misstatements may also be pervasive.

iii. Examples of different units of account could be included to explain how similar materiality principles are applied in determining materiality thresholds and ranges.

iv. We recommend that more guidance on qualitative materiality considerations, especially for narrative and future-orientated information, be included.

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?

a) We believe that examples, diagrams and terminology could be improved, as explained below.

b) Examples:

i. We encourage the IAASB to include working examples that "flow" through the document. This involves developing one example/case study throughout the material. These working examples could include three different frameworks: the IIRC's integrated reporting framework, the GRI framework and a financial reporting framework. The latter would be for comparison purposes, for practitioners to understand what the related principles in financial reporting frameworks are, as practitioners are generally more familiar with these principles. Paragraph 98, for example, includes financial reporting and EER examples, that we found helpful. This type of layout and content could be extended throughout the document. This would also reinforce the fact that the guidance is applicable to a wide range of EER.

ii. We recommend that more practitioner "considerations" be included in the guidance. We refer you to the IRBA-issued SAAEPS 1 mentioned in earlier paragraphs. The SAAEPS includes extensive lists of considerations for practitioners, serving as an aide memoire and the beginnings of a work programme and procedures. In addition, SAAEPS 1 states that: "The guidance is supplemented by a series of questions that the practitioner may ask. After receiving feedback from the reporting entity, the practitioner may consider the responses collectively to determine whether the sustainability assurance engagement exhibits the characteristics set out in the objective paragraph of this SAAEPS."

c) Diagrams:

i. Although we believe that the diagram in paragraph 46 is useful, we encourage the IAASB to better link it to the related questions (considerations) in paragraph 47. The diagram includes only a few references, and that makes it seem incomplete. The grey blocks could be referenced to the requirements and application material paragraphs in ISAE 3000 (Revised). For example, "preparer's roles and responsibilities are suitable" could be referenced to paragraph 24a of the standard, while "take responsibility for the underlying subject matter" could be referenced to paragraph A238 of the standard, and so on (a reference for each block that provides the link to the source of the block).

ii. Although we believe that the diagram in paragraph 130 is useful, it could be better linked to the paragraphs explaining the content that follows the diagram. Sub-headings that link to the diagram could be used in the explanatory paragraphs.

     iii.   We believe that throughout the guidance, where tables could be used to simplify the content of a paragraph, these should be used.

d)   Terminology:

     i.   For new or additional definitions, we recommend that the IAASB considers including a section in Chapter 1 on definitions.

     ii.   Terminology can further be simplified with practical application examples for the different forms of reporting.

     iii.   Proposed additional definitions of terminology related to subject matter concepts, such as definitions for "elements", "topics" and "categories", are useful as it is difficult to explain and apply the high-level definitions included in ISAE 3000 (Revised). We urge the IAASB to include a comparative table with examples where the application of these concepts can further be explained for the different forms of reporting. We suggest that it would be useful to include the comparative term or concept from the financial reporting framework.

     iv.   If the term "materiality process" is used in the guidance, we propose that a definition be included. The definition could be "materiality framework for preparers of EER reports".

Question 3

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

a)   We support the proposed structure of the draft guidance.

b)   We recommend that a separate chapter on underlying subject matter and subject matter information of EER be included. This chapter could include examples illustrating how the content of an EER report can differ substantially between different reports and entities.

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?

a)   On the whole, we agree that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised), and it does not introduce any new requirements.

b)   However, a few paragraphs could be better worded in order to remove any unintended contradictions. For example, paragraph 129 includes the word "needs", which implies a requirement. This is not a requirement as the "materiality process" is not a concept included in ISAE 3000 (Revised). We recommend that the IAASB reviews the content to ensure that no new requirements are unintentionally introduced.

Question 5

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

a)   We urge the IAASB to include a "classification system" in the guidance. For example, any

guidance regarding content incremental to the requirements of ISAE 3000 (Revised) could have a specific icon next to that paragraph. This will assist a practitioner to easily identify which content is not in ISAE 3000 (Revised).

b) Where terminology such as "elements", "qualities" and "materiality process" is used, this icon could also be appended to that terminology.

c) The guidance places much emphasis on the use of assertions, and we believe that it is necessary to include this as it is very useful. However, as assertions are not referred to in ISAE 3000 (Revised), the risk arises that a practitioner may perceive the use of assertions as being a requirement in ISAE 3000 (Revised). By using icons, as explained above, this could be clarified.

d) With much emphasis being placed on the use of assertions, if a practitioner does not use them (which is acceptable, as it is not a requirement), does the risk exist that it would be difficult to continue the engagement from there, as much of the content further on in the guide relies on the work done on assertions? The guidance may need to clarify this.

Question 6

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

a) We agree that the additional papers contain further helpful information and that they should be published alongside the non-authoritative guidance document. We recommend that the IAASB consider including the additional papers in the guidance document itself; and that these additional papers should not be published as separate documents. This will simplify access to the guidance.

C. RESPONSES TO GENERAL QUESTIONS

Question 7

Stakeholder Perspectives—Respondents representing stakeholders such as preparers (including smaller entities) of EER reports, users of EER reports, and public sector entities are asked to comment on the questions above from their perspective.

a) Our Auditor-General South Africa already applies ISAE 3000 (Revised) in the audit of pre-determined objectives when auditing the annual performance reports.

b) The Auditor-General South Africa has indicated that no additional guidance is required to specifically address a public sector perspective as the nature and scope of the guidance in the consultation paper is general and can be applied in the public sector context. The proposed guidance is not prescriptive in any way that would limit application in a public sector environment.

c) Different forms of service delivery performance reporting are common in the public sector environment. The IAASB could consider including a reference or an example in the introduction or background in Chapter 1 to refer to service delivery performance reporting as an example of a form of EER.

Question 8

Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in using the draft guidance in a developing nation environment.

a)   We do not foresee any unique difficulties in using the draft guidance in South Africa.

Question 9

Translation—Recognizing that many respondents may intend to translate the final guidance for adoption in their own environments, the IAASB welcomes comments on potential translation issues.

a)   We do not require the guidance to be translated.