MAZARS

Paris La Defense, June 21, 2019

International Federation of Accountants
International Auditing and Assurance Standards Board
Mr. Arnold Schilder, IAASB
545 Fifth Avenue - 14th Floor
New York NY 10017 USA

Re: IAASB Consultation on Extended External Reporting (EER) Assurance

Dear Mr. Schilder,

MAZARS is pleased to submit this letter in response to the invitation to comment from the IFAC International Auditing and Assurance Standards Board (IAASB), on its consultation on Extended External Reporting (EER) Assurance.

MAZARS is an international, integrated and independent partnership, specialising in audit, accountancy, advisory, tax and legal services. As of 1st January 2019, there are over 23,000 professionals, including more than 1,000 partners, in 104 countries worldwide, trusted and committed in serving major international groups, entrepreneurial and small businesses, private investors and state owned entities at every stage of their development.

MAZARS is a member of the IFAC Forum of Firms, and thus fully supports, for more than 12 years, the initiatives of IFAC IAASB, IESBA, Forum of Firms and Transnational Auditors Committee, as well as those of the regulators in these areas of common concern for public interest, in promoting high quality standards as part of the international roll-out of audit engagements. All MAZARS firms and correspondents are committed to support and apply those initiatives.

We are committed to being **#MazarsForGood** – that is a global citizen devoted to having a positive impact on the world and communities in which we operate. We are dedicated to contributing to society in the best possible way, whether through providing quality services to our clients to help them achieve sustainable growth, enabling our talented people to reach their highest potential, or contributing to the public debate with positive insights for the future.

We would be pleased to discuss our detailed comments submitted hereafter with you and remain at your disposal, should you require further clarification or additional information.

Yours sincerely,

Jean-Luc Barlet
MAZARS Chief Compliance Officer
jean-luc.barlet@mazars.fr

MAZARS

Overall comments

MAZARS is supportive of all initiatives taken to enhance audit and assurance quality and the future of the profession, for the benefit of the public interest, and thus welcome the opportunity to add our views to the debate.

We believe that this project is part of a more global framework around the key trends of evolution taking place such as:
- Decarbonisation,
- Human Health,
- Digitalization,
- How to find or develop living places sizable for the next generations.

So we encourage IFAC and IAASB to put those topics on their agenda, to provide a sense of purpose for sustainable business, standards, frameworks, in line with UN Sustainable Development Goals.

We also encourage the IAASB to have a look on initiatives taken by the other international or European organisations, on matters that will also have a significant and maybe disruptive impact on the accounting profession: https://corporatereportingdialogue.com/ and https://bcorporation.net/ and https://www.accountancyeurope.eu/wp-content/uploads/190527-Corporate-Governance-Cogito-NEW-FINAL-2-1.pdf and https://boardagenda.com/resource/leadership-in-corporate-sustainability-european-report-2018/

We are very supportive of the project to provide guidance around EER assurance, as we believe that providing financial information is not sufficient for the decisions of the users and stakeholders. We also convinced that those kind of topics make the profession attractive and participate to the future development of the profession.

We have been working and involved on sustainability and non-financial information for a long time. I am personally since 2003 the chair the Non-Financial Reporting/CSR working group of the *Compagnie Nationale des Commissaires aux Comptes* (CNCC, French Association of Statutory Auditors). This taskforce includes experts and auditors in firms from various size, engaged in assurance reporting on those matters, and provides guidance and template of assurance report to the French professionals, in the scope of the regulatory framework implemented, further to the European Non-Financial Reporting Directive.

MAZARS is also an active supporter of the International Integrated Reporting Council initiative, and I am personally a member of its Framework panel (IIRC https://integratedreporting.org/). At MAZARS, we always try to implement what we recommend, and have thus organised and released our annual and transparency reports using the <IR> Framework https://www.mazars.com/content/download/949207/49372364/version//file/Yearbook%202018%20English.pdf

We believe that phase 2 of EER ED should be released rapidly and that an ad hoc smooth process for updating the whole guidance put in place to consider the evolutions that will for sure happen around EER in the coming 2 years:
- new outputs/deliverables;
- growing use of technology both to perform procedures and to release the reporting information;
- interactions with other topics, such as tagging of information in reporting (e.g. ESEF);
- interactions with transparency reports and quality reporting (ISQM1), applicable to the practitioners themselves.

We recommend setting up some pilot phase, mixing practitioners and experts of sustainability and non-financial information, to make sure that the proposed framework is understandable.

Last, we encourage a post-implementation review of the guidance, to gather practical issues and frequently asked questions, but also get feedbacks from all stakeholders to enhance the guidance, for the benefit of all.

Request for comments

Q1) 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?

§ 9-15 (scope of draft guidance)

- We believe that the link with the ISAE 3000 framework could be improved so that the user of the guidance is clear on what is coming from the ISAE 3000 and what is guidance. It will also ensure there are no contradictions (it seems to be the case when we compare the § 31 of the consultation paper and the §A3 of ISAE 3000 for the "extent is likely to be less").
- This linkage and more generally speaking the reporting could be done in an innovative format.
- It would be helpful to provide more guidance on the different levels of assurance and especially about possible the combination of reasonable and limited assurance in one single assurance engagement.
- It is key that the guidance updating process is define in advance in order to match as quickly as possible with the evolution of the landscape, the demand and the technologies, especially for the deliverables both on what is produced by the preparer and what the practitioner will release as a reporting. We understand that the chapter "Applying appropriate skills" will be developed in Phase 2. However, it is so structuring as reliance on the work of other is now a common practice, that we believe some guidance around the use of experts could be already be mentioned. In EER engagements, reliance on the work of others is a key topic.
- In some countries such as France, there is an accreditation protocol that is needed to measure competence and organization, checked every via an validation inspection process. This accreditation is a pre-requisite to be able to perform such engagement.
- Direct and attestation engagements is mentioned in § 8 of the Chapter 1. It would be helpful in a further step to provide guidance on direct engagements, if it is really needed and used. Otherwise we suggest to suppress this mention.
- We believe that the split between what is expected from the preparer versus what is expected from the practitioner should be organized.
- As the guidance is intended to be also used by preparers and practitioner, we recommend an ad-hoc process to make sure it is widely and appropriately released.

§ 25 (preconditions and the system of internal control)

- We consider internal control framework to be put in place by each preparer as a key success factor (especially on the information system and control activities). While there is a growing awareness among the practitioners, we note in practice that the level of internal control is not fully mature, especially on the control of the information. As a matter of fact, the usual 3 levels of internal control are often not in place: preparer / control by the business owner of the topic / inspection from the internal audit or from another party. Therefore, the quality of the input data includes many errors, especially for the first year.
- EER reporting is in general a voluntary process and therefore the guidance should include the variety of the reporting but also the variety of frameworks that can be used. So, putting in place internal control should not be an impediment to accept the engagement. Had we not accepted engagements where there is no IC there, we would have performed nearly no engagements. So EER draft guidance need to be pragmatic
- We suggest that the distinction between what is needed at the acceptance stage versus the preconditions is clarified.
- We have noted that in §45 that there are no differences between limited and reasonable assurance on those areas (acceptance and preconditions) and we do agree with this. However, §60 appears to create a difference.
- In §45, the word "must" is used. We believe nevertheless that this a requirement for the standard but not for a non-authoritative guidance.
- In Chapter 3 of the consultation paper (§46), we think it is a good idea to have a diagram. However, the output is misleading and especially clarification on the order of the steps should be provided. Depending on the re-ordering of §46, it should be reflected in §47. The very first question should be around the rational purpose of the engagement.
- The example of §48 relates to greenhouse gas emissions. There is already a standard on this topic. We thus suggest to provide another example.
- §52 "readiness engagement" needs to be elaborated further.

- The maturity of the internal control is key but does not prevent to work on the design of the system upfront. One should be careful not to set the maturity as a precondition to accept the engagement. The main element should the rational purpose of the engagement.
- We believe that further connection with the IESBA code could be provided in §53 when self-review threats and independence are mentioned.

§ 29 (suitability of criteria)

- Chapter 7 is very developed and quite long (20 pages).
- We believe that the introduction is helpful. However, there should be more connection / consistency between the figures of §80 and the ones from §82.
- The differences between the suitable criteria and the assertions appear as not an easy topic. We believe it should be explained further by highlighting that the suitable criteria are part of the framework reporting and that the assertions are the elements to check. The difficulty is that when an auditor reads the standard he or she may be confused as assertions in audit are both for the preparer (criteria) and for the auditor ("audit objectives") about the true & fair view principle.
- We have noted the five characteristics "relevance, completeness, reliability, neutrality and understandability" but we believe that this should also include the assertions. We mean that both criteria and assertions should be used by the preparer. Otherwise it is odd that only completeness is found in the suitable criteria and not in the assertions identified in §177.
- In the glossary definition of the Handbook, the link should be also done with ISAE 3400 and not only ISAE 3401: "Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur. In the context of ISAE 3401, assertions are defined as representations by the entity, explicit or otherwise, that are embodied in the GHG statement, as used by the practitioner to consider the different types of potential misstatements that may occur."
- We think that the concept of performance could be included as it may be required in some cases to give an assurance on those elements. Especially on the measure of the progress of the action plan through relevant Key Performance Indicators. More guidance should be developed on the use of external data: what work effort is expected from the practitioner on those elements.

§ 33 (materiality processes)

- We believe that the chart in §130 is helpful to understand what is done by the preparer and what is done by the practitioner. It could be used in other areas through the guidance on other topics. For example, in France, the Institute developed a practical guidance "*Avis technique sur la Déclaration de Performance Extra-Financière*" (35 pages, without templates) that clarifies also the work to be performed by the preparer.
- The term "materiality process" is new and we should make it clear that it is the process from the preparer.
- The guidance on the issue of materiality is very helpful, as it is a complicated matter. We recommend separating more clearly reporting materiality and the materiality concept relevant for the assurance engagement.
- We believe that the scoping is something to mention before the materiality especially when the entity has multi-locations.
- More guidance and practical examples should be brought on how to consider materiality in different areas an also how to deal with materiality to take qualitative aspects into account? How to quantify materiality per individual indicator and how to aggregate?

§ 35 (materiality of misstatements)

- We believe that as for materiality process, the assessment of the misstatements should be first developed, considering the perspective of the preparer and not only from the practitioner's perspective.
- Again, the evaluation of the misstatements can be very sensitive and complicated when a scoping has been put in place meaning that work has been performed on a limited number of locations for example.
- The concept of clearly trivial threshold may be complicated to apply in practice for qualitative information, so we suggest more emphasis on the use of professional judgement and professional skepticism.

§ 40 (assertions)

- As mentioned in the paragraph "Suitable criteria", there should be some consistency.
- In §177, the mapping between the assertions and the suitable criteria need to be improved. For example, cut-off, existence, completeness contribute to the reliability also and not only to the relevance.

- We believe that the five characteristics should be also mapped within §177 and the content of §178 included. However, we believe that completeness is an assertion.
- We suggest clarifying the term "connectivity".
- We recommend giving further explanations in §179 especially the link between the first sentence and the example.

§ 41 (narrative and future-oriented information)

- We should be careful not to provide assurance on the output of the forward-looking action plan (no reliability nor likelihood). However, like for complex management accounting estimates (impairment tests, expected credit losses), we are able to perform procedures on the quality of the process and the quality of the way the assumptions are set up, and hence to deliver a conclusion.
- More guidance, examples and clarification is needed on future oriented information, especially on the sensitive tests and which work and reporting should be done.
- More guidance is requested on how to deal with financial information; especially regarding financial indicators, which are quite common aspects in GRI-reports and in Integrated Reporting?
- Integrated or sustainability reports may include outcomes, resulting from an impact measurement performed by the client or an external expert. Given the characteristics in terms of assumptions, inherent uncertainties and the public availability of impact measurement models, an assurance provider will have to design an assurance approach that fits those characteristics. We recommend the IAASB to provide further guidance on these aspects.
- The titles chapter 10 & 11 include the word "assuring" narrative and future-oriented information. We believe that the word "assuring" should be deleted.

Q2) 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?

- We have made several tests among auditors and experts: the feedback we receive is that the document is written for people who are very knowledgeable of the auditing standards and of ISAE 3000. But no so easy to be understood by expert practitioners in EER in the firms. So, the first year the engagement must be performed, a huge time of investment will be needed. We encourage to have a pilot phase (see our overall comments) to make the standard easier to use especially for expert practitioners in EER and to compare with the other framework developed in other EER initiatives (see also overall comments).

§ 16-17 (Examples, diagrams and terminology)

- We think that charts and examples are helpful and really a must have.
- For ISAE 3000, we recommend highlighting when it is a copy or put a footnote but not summarize it.
- Terminology:
    - careful not to introduce new terms without further guidance and examples;
    - the terms subject matter information, underlying subject matter, elements, qualities, resulting subject matter information, phenomena, are quite confusing as, distinction among are not easy to understand.
    - the more we use the term EER, the more we face people having difficulties to understand in a straight forward manner. This term may not reflect the variety of the scope and especially the fact that it is not restricted to financial information.
- A full example of a reporting would be helpful in appendix.

§ 34 Term materiality process

See above our response to Q1.

§ 37 & 40 (assertions)

It would be helpful to identify the assertions also used for the audit of financial statements and those that are specific for such EER assurance engagement, and to give more examples around each one, in order to help understand better their specificities.

Q3) Do you support the proposed structure of the draft guidance? If not, how could it be better structured?

- The structure of the guidance follows the key challenges and a certain chronological order when performing the engagement but it could be improved through a global workflow of the engagement, providing scope and perimeter.
- We recommend a better separation between the guidance for preparers and the guidance for practitioners.
- We also recommend separating the guidance for assurance engagements, between limited assurance and reasonable assurance.

Q4) 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?

§ 19-21 relationships with ISAE 3000 revised

- The guidance is quite lengthy, especially with the outcome of phase 2 adding up. As a result, the guidance may be less accessible in practice and the impression may arise that the guidance is closer to a new standard.
- We recommend not to introduce new terms that could be perceived as new concepts

§ 24 & 26 (linking the preconditions and the system of internal control)

- No further comments

§ 36 assertions

- No further comments

Q5) Do you agree with the way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised)?

- The § 80 to 82 include terms that are not easy to understand.

Q6) Do you agree that the additional papers contain further helpful information and that they should be published alongside the non-authoritative guidance document?

- We believe that appendix 1 and additional papers could be summarized and published alongside the guidance.

Q7) In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:

a) 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.

- N/A

b) 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.

- N/A

c) 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.

- Issues may arise with the translation of new terms especially in §80 to 82.