For the attention of Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, New York, 10017
USA

[Submitted via IAASB website]

21 June 2019

Dear Mr. Botha,

IAASB Consultation Paper: Extended External Reporting (EER) Assurance

We[1] appreciate the opportunity to comment on the IAASB's Consultation Paper (CP) for Extended
External Reporting (EER) Assurance.

We support the IAASB in developing this guidance to assist practitioners in applying ISAE 3000
(Revised) to various forms of EER. The demand for such reporting by entities and for assurance
thereon is growing rapidly in many jurisdictions, with the diversity in types of information reported likely
to continue to expand. Establishing clear guiding principles to help practitioners navigate future
engagements is therefore useful.

In evaluating the proposed guidance, we have focused on three key attributes:

- the clarity and understandability of the content, including the overall structure, concepts and
  terminology, and whether the examples provide relevant, useful illustrations;
- whether the guidance elaborates on, but does not override or appear to extend the
  practitioner's responsibilities set out in ISAE 3000 (Revised); and
- whether the guidance is reflective of actual experience.

Our more significant comments in this regard are set out below and described in more detail in our
responses to the questions posed in the consultation in appendix 1 to this letter.

Clarity and understandability

Overall, we find the guidance to be well structured and understandable, if perhaps long. Recognising
that this is only phase 1, we are concerned that, to be useful, the guidance needs to be perceived as
manageable. In moving forward with phase 2 (and in finalising phase 1), we encourage a close focus
on the most salient points of guidance, in the context of EER, and avoiding excessive background, or
theoretical, content that unduly adds to its length. The guidance should avoid becoming an exercise in
general education about concepts in ISAE 3000 (Revised).

We believe that the introduction of certain new concepts may detract from the usefulness of some

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aspects of the guidance and give rise to confusion rather than clarity, as described below.

Subject matter element "qualities"

We do not support the proposed concept of "qualities" of subject matter elements. In outreach with practitioners that conduct engagements of this nature, the term was not widely understood and was considered to be confusing. Our view is that it should be removed. Instead, the simpler concept of "characteristics" of the subject matter elements that are to be measured, which is used in the International Framework for Assurance Engagements, is more intuitive and easier to understand.

Assertions

We support the guidance on considering assertions during an EER Assurance engagement and believe that doing so is reflective of current practice. However, we find the description of "categories" of assertions to lack clarity. ISAE 3410 and ISA 315 already contemplate "categories" of assertions, as noted in the guidance. In our view, the categories in those standards are described in a different (and clearer) way to the content in paragraphs 171-183 of the guidance. We believe the extensive discussion of "categories" of assertions and how they may map back to the characteristics of suitable criteria is over-complicating the concept of assertions and found that the proposed guidance hinders rather than helps the practitioner's thought process. In our view, this is also likely to add further confusion when considering materiality and assessing misstatements. We provide a suggestion for how to simplify the discussion of assertions in our response to question 2 in appendix 1.

Background and contextual material

While the main body of the guidance is drafted in a manner that is clear and uses 'plain English', the background and contextual information is less easy to read. The content is quite theoretical and difficult to understand in places. For the reasons described above, we also do not support the material in this section further describing "qualities". The International Framework for Assurance Engagements already includes sections on underlying subject matter and criteria, together with other useful "educational" material, and is written in a more readily understandable style. Consequently, we question whether the proposed background and contextual information will add to users' understanding of the guidance and suggest that the Board consider removing it. We comment further in our response to question 6 in appendix 1.

See also our responses to questions 1, 2, 3 & 6 in appendix 1 for other observations on clarity and structure.

Relationship with ISAE 3000 (Revised)

An important criterion for the proposed guidance is that it does not introduce any new requirements beyond those in ISAE 3000 (Revised) nor remove or change any of the requirements or application material in ISAE 3000 (Revised). That is important both in actuality and in perception. We have one significant comment in that regard.

The entity's materiality process

We agree with the need to understand how the preparer has approached the preparation of the EER report, including what to include. In doing so, the practitioner actively considers, applying professional

scepticism, the rigour and robustness of management's process to be satisfied that what is expected to be included appears reasonable based on their understanding of that process and in light of the need for the engagement to have a rational purpose.

We are concerned that the guidance implies an obligation on the practitioner to evaluate or form an independent conclusion on the preparer's assessment. For example, the proposed guidance refers to "reviewing" the process and also the "appropriateness and outcomes" of the materiality process.

Management remains responsible for determining what information is to be included in their reporting and while we understand that many EER frameworks are worded in such a way that leaves room for interpretation, it is important not to convey an impression that the assurance practitioner is capable of independently determining what should be reported.

We suggest that this section make the above principles clearer, as well as clarifying what is meant by the term *reviewing,* to avoid the potential for misinterpretation. See also our response to question 4 in appendix 1.

In conclusion, we are supportive of the development of guidance to support practitioners in applying ISAE 3000 (Revised) in practice. Subject to our key comments above and more detailed comments and suggestions in the appendix to this letter, we are comfortable with the direction being taken in the phase 1 guidance and hope our observations in this letter and the accompanying appendices provide useful input in taking the guidance forward. As a two-part process, final views on all of the guidance, both phase 1 and phase 2, can only be judged once the guidance can be read in its entirety - in that respect, our comment on length and how that affects the perceived usefulness of the guidance is important. We have also identified, in our detailed responses in appendix 1, a number of areas where important linkages in the guidance will be needed, which will need to be assessed once the document is complete. We look forward to providing our further views on the proposed IAEPN in 2020.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Diana Hillier, at diana.hillier@pwc.com, or me, at james.chalmers@pwc.com.

Yours sincerely,

James Chalmers
Global Assurance Leader

Appendix 1 - Responses to specific questions

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?**

Subject to our comments below, we believe the draft guidance appropriately describes the key areas of challenge faced by practitioners that have been identified as within the scope of the draft guidance developed in phase 1.

Preconditions for Assurance

ISAE 3000 (Revised) sets out the preconditions for an assurance engagement, one of which is that the engagement has a rational purpose. We believe that further guidance in applying this criterion to prospective engagements would benefit practitioners. For example, the considerations described in the box under paragraph 49 states (emphasis added) that *"Assuming the subject matter information is expected to address the significant information needs of intended users, whether any aspects of the subject matter information are to be excluded…."*. While it is not the responsibility of the practitioner to independently identify the intended users and establish their needs, we believe it would be useful to emphasise that it is important to consider how the entity has identified the intended users and their information needs, applying a sceptical mindset, and not to simply assume that the information is expected to meet all such needs. As we note in response to question 3, there is a clear linkage here between the proposed chapter on the entity's materiality process (chapter 8), which addresses the identification of intended users and what would aid their decision-making, and consideration of the rational purpose precondition. Better linkage of this guidance would be useful.

With respect to the final bullet of the same considerations box (based on paragraph A56 of ISAE 3000 (Revised)) that addresses inappropriate association by the entity of the practitioner's name with the subject matter or the EER report, we believe expanding this guidance would be helpful. It is important that a practitioner considers the rationale for their requested involvement - is the nature of the engagement and the underlying subject matter relevant to the practitioner's field and knowledge? Considering why the practitioner is being asked to perform the engagement and to issue a report is relevant in determining whether the engagement has a rational purpose.

Looking ahead to phase 2, as the guidance on the scope of the engagement is developed, it will equally be important to link this content to the guidance in (current) chapter 8, which further addresses the selection of topics and elements to be included in the EER report and how this relates back to the needs of the intended users and the overall purpose of the engagement. As phase 2 progresses, further consideration as to how the relevant content in chapters 2 and 8 is best presented may be necessary.

Materiality

Consideration of materiality by the practitioner is important and introducing this only in chapter 9 may be unhelpful. We believe signposting this guidance earlier in the document would be useful. Consideration of materiality in planning an engagement provides essential context to being able to identify and assess the risks of material misstatement and planning the appropriate responses. This is likely to be an area where practitioners will find practical guidance useful. For example, how to consider materiality in the context of a whole EER report versus in relation to individual subject matter

elements within the report, depending on the nature of the practitioner's conclusion(s) in the assurance report, and the related implications for the practitioner's work effort and evidence needed to express that conclusion. Further, addressing relevant considerations when dealing with multiple unrelated subject matter elements and multi-location engagements would also be useful. Again, the linkages with chapter 8 will be important.

Maturity in governance and internal control

Chapter 6 includes guidance on the practitioner's consideration of the preparer's system of internal control as part of the overall preconditions when making an acceptance decision. We agree that the level of understanding needed will be affected by the size and complexity of the entity, but that this will also be affected, often more so, by the complexity of the subject matter and related measurement/ evaluation.

We believe it is also important to be clear that a mature system of internal control is not an absolute prerequisite for assurance, so long as the practitioner is satisfied that the pre-conditions for assurance contemplated by ISAE 3000 (Revised) can be met.

We believe these matters could be better reflected in this section, including in relation to paragraphs 72-74.

Narrative and future-orientated information

Overall, we consider the guidance in Chapters 10 and 11 to be a fair summary of the challenges associated with narrative and future-orientated information, respectively. However, with respect to future-orientated information, we believe the guidance could better draw out that there is likely to be a stronger evidential basis for a forecast that is supported by a stable history of accurate forecasting, as compared to future-orientated information that is entirely based on subjective judgement with no history. See also our response to question 2 on the inclusion of further examples.

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?**

Subject to our overarching comment on length, our comments below, and in response to question 6, we believe the guidance is clear and easy to follow.

Subject matter element qualities

The introduction of the term "qualities" is causing confusion. In outreach with practitioners that conduct engagements of this nature, the term was not widely understood and the consensus from our practitioners was that it should be removed. We believe that a simpler concept of "characteristics" of the subject matter elements that are to be measured will be more easily understood and applied. See also our response to question 6 on the accompanying background and contextual information where the concept of "qualities" is further addressed.

Assertions

While ISAE 3000 (Revised) does not refer to the use of assertions, we support the guidance on considering assertions during an EER assurance engagement and believe that this is reflective of current practice. However, we find the description of "categories" of assertions to lack clarity. ISA 315

and ISAE 3410 already contemplate "categories" of assertions as noted in the guidance. However, in our view the categories in those standards are described in a different (and clearer) way to the content in paragraphs 171-183, being:

- ISA 315 - (i) assertions about classes of transactions and events, and related disclosures, for the period under audit and (ii) assertions about account balances, and related disclosures, at the period end.
- ISAE 3410 - (i) assertions about the quantification of emissions for the period subject to assurance and (ii) assertions about presentation and disclosure.

We believe the extensive discussion of "categories" of assertions and how they may map back to the characteristics of suitable criteria may be over-complicating the concept of assertions such that the intended guidance hinders rather than helps the practitioner's thought process. This section of guidance gave rise to most questions in outreach with current practitioners. At its simplest, assertions are most easily thought of in terms of "what can go wrong" - what is it about that subject matter that could give rise to a material misstatement?

We suggest focusing on (i) describing the concept of assertions and (ii) how they can be used by the practitioner in considering the types of misstatements of the subject matter information. In doing so, recognising that some practitioners performing these engagements may not have recent audit experience to draw upon or be familiar with ISAE 3410, we believe there would be value in including (potentially in an appendix) a more general description of each assertion, how the information may be misstated and how assertions otherwise may impact a practitioner's testing approach, by providing a few examples i.e., extending the concept explored in paragraphs 182 and 184.

With respect to "neutrality", we suggest that "freedom of bias" is the better term to use and is best addressed as part of considering other assertions, rather than a discrete assertion, or category of assertions, in its own right. This avoids the risk of confusion with the concept of neutrality as a characteristic of suitable criteria.

Narrative and future-orientated information

Chapter 10 provides useful guidance on how a practitioner may approach narrative information, in particular the example in paragraph 195 on how to potentially address sentences or sections of significant narrative information. We believe this is an area where a more detailed worked example that includes the specific criteria, as well as additional shorter examples covering different types of narrative information, would be worthwhile. This is a challenging area and illustrations are likely to add most value here. It is unclear to us, however, whether the example in paragraph 195 was intended to illustrate an approach to presentation of the entity's final EER report, or merely an approach to the practitioner's documentation of their work performed. We believe the latter, but clarity would be welcomed.

We also suggest that examples that illustrate how to consider forward-looking scenarios would also be useful.

Evaluation uncertainty

Chapter 12 of the guidance includes reference to "evaluation uncertainty". Guidance is needed on how this term differs from "measurement uncertainty".

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

We believe the proposed structure of the draft guidance generally follows a logical approach to performing an assurance engagement. Given the close relationship between the consideration of the purpose of the engagement and the intended users and the preconditions for the engagement, we feel there is an argument for locating Chapter 8, Considering the Entity's 'Materiality Process', earlier in the document, for example, to follow chapter 3 - see also our response to question 1.

We believe this would also be useful in setting relevant context for current proposed chapter 6 on consideration of the system of internal control. Guidance on the entity's materiality process around determining what is to be reported, and how, and what is 'material', will to a large extent drive the consideration of the internal controls that are needed to identify, record, process and report the subject matter information. We comment separately on the content of the materiality process section in our response to question 4 below.

With respect to narrative information, we suggest that Chapter 3, Agreeing the Scope of an EER Assurance Engagement, should include some introductory material that highlights the importance of narrative information in the context of EER, in particular in helping build the practitioner's understanding, in assessing the risks, and in designing procedures. While Chapter 10 sits logically within the structure of the proposed guidance, it is important to emphasise that such information be considered early in the engagement.

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?**

Chapter 8 of the guidance describes the entity's "materiality process" as the process the entity goes through in order to decide what is of sufficient relevance for users of the EER that it warrants inclusion within the EER report (where the criteria themselves do not stipulate this). It also suggests a method that can be adopted by practitioners in order to obtain an understanding of this (the diagram following paragraph 130).

We agree with the need to understand how the preparer has approached the preparation of the EER report, including what to include. In doing so, the practitioner actively considers, applying professional scepticism, the rigour and robustness of management's process to be satisfied that what is expected to be included appears reasonable based on their understanding of that process and in light of the need for the engagement to have a rational purpose.

We are, however, concerned that the guidance implies an obligation on the practitioner to evaluate or form an independent conclusion on the preparer's assessment. For example, the proposed guidance refers to "reviewing" the process and also the "appropriateness and outcomes" of the materiality process.

Management remains responsible for determining what information is to be included in their reporting and, while we understand that many EER frameworks are worded in such a way that leaves room for interpretation, it is important not to convey an impression that the assurance practitioner is capable of independently determining what should be reported. The practitioner may express views to the preparer that what is being reported may not appear appropriate or relevant, but guidance should not

imply the practitioner is the arbiter on this point.

We suggest that this section make the above principles clearer, as well as clarifying what is meant by the term *reviewing,* to avoid the potential for misinterpretation. Similarly, we find reference to how "effective" the entity's materiality process was (also in the diagram) to be unhelpful - effectiveness is a subjective concept and we suggest removing this term. The key test should be whether the pre-conditions for assurance have been met.

We do agree, however, with the principle in paragraph 129 that *"the extent to which"* the practitioner needs to understand the entity's materiality process may depend on the scope of the assurance engagement. We believe the guidance that follows needs to avoid implying the contrary - for example, avoiding phrases such as "the suggested process for a practitioner" (paragraph 130).

Lastly, given materiality is already a commonly understood concept for practitioners in the context of an assurance engagement, it may be more helpful to avoid using this term in describing the entity's process. Referring to considering the entity's "scoping" or "basis of preparation" process may limit the potential for confusion with the existing concept.

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

Our comments on matters not addressed by ISAE 3000 (Revised) are set out in our responses to the following questions:

- Subject matter element "qualities" - question 2.
- Assertions - question 2.
- Materiality process - question 4.

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

While the main body of the guidance is drafted in a manner that is clear and uses 'plain English', we feel the background and contextual information is less easy to read. In particular, for example, we find the "understanding the nature of evaluation and measurement of subject matter elements" section to be quite theoretical and challenging to comprehend. The illustrative example is particularly complex to understand. Simpler language, or simpler examples, may be beneficial.

As noted in our response to question 2, we believe the introduction of new concepts such as "qualities" is adding complexity and, in part, resulting in the need for further explanation within the proposed appendix. Further, we believe the examples in the "understanding the nature and role of criteria" may confuse, rather than aid, understanding, by referring to both "expressions" of various things, as well as "characteristics". We believe the multitude of terms is unhelpful - it is unclear how "qualities" are to be distinguished from these other attributes. As stated above, we recommend simply referring to "characteristics" (or potentially "attributes") of the subject matter element.

In addition, we also note that the IAASB's International Framework for Assurance Engagements already includes sections on underlying subject matter and criteria, together with other useful "educational" material, and refers to "characteristics" of different subject matters. We find this material to be written in a more readily understandable style.

Taken as a whole, for the reasons described above, we question whether the proposed background and contextual information will add to users' understanding of the guidance. We suggest that the body of the guidance should address all appropriate contextual content that will aid practitioners in understanding how to approach such engagements. If deemed necessary to refer to additional "educational" content, we would instead suggest referencing the International Framework for Assurance Engagements.

We do, however, support the proposed "four key factor model for credibility and trust in relation to EER" paper. We believe this has educational value as a stand-alone paper.

7. **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.**
   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.**
   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.**

No specific comments.

Appendix 2 - Detailed comments

The section below sets out our other observations and editorial comments by paragraph.

Paragraph and Comment

Paragraph 21 – We suggest the addition of *"the practitioner to exercise"* before *"significant professional judgement"*.

Paragraph 24 – We are concerned this paragraph could be read as implying that the consideration of suitability of criteria would come after acceptance and continuance. The aim should be to have as much information to consider whether the criteria are suitable before accepting the engagement.

Paragraph 36 – We suggest the following edit: *"....'other information that is included in a document ~~together with~~ that contains the information….".*

Paragraph 69 – It would be useful to provide additional examples of relevant considerations a practitioner may take into account when information is obtained from an external information source.

Paragraph 74 – It is unclear how the physical location plays into this consideration.

Paragraph 82 – We do not believe it is clear that *"elements"* and *"qualities"* are distinct sub-headings that relate to the separate items in those particular columns. Numbering each heading and related statement might clarify this.

Paragraph 96 – When the underlying subject matter is subject to high measurement uncertainty, the criteria for presentation / disclosure often becomes more important so that the inherent uncertainty is clear in what is presented.

Paragraph 100 – We suggest including that consideration of changes in the criteria during the acceptance and continuance decision is also important.

Paragraph 151 – It is unclear in point (e) why changes need to be irreversible to be a relevant impact. We suggest deleting this word.

Paragraph 160 – This sentence is unclear. We suggest this be re-drafted to better convey the meaning as explained in the given example.

Paragraph 191 – We suggest the following edit to the last sentence: *".....the criteria ~~cannot~~ are not suitable if they result in…..".*

Paragraphs 209 & 211 – We recommend deleting the word *"ordinarily"* before *"not in a position to predict the future"* in both paragraphs. This is a fact.

Paragraph 224 – This seems to be unduly prescriptive in its suggestion. If retained, we suggest changing *"It may be helpful"* to *"A practitioner may choose to…"*.

Throughout the guidance we recommend that "when" be used rather than "where" when referring to situations or circumstances that may occur.

Four Key Factor model

Paragraph 4 – It is unclear what is meant by *"other external inputs relating to the EER report to which the user has access"*.

Paragraph 26 – We suggest clarifying if this paragraph is referring to the preparer or practitioner in respect of ensuring the consistency of the information in the EER with other sources of information.

Paragraph 32 – It is unclear what is being suggested by *"transparency about the competence of those performing the professional service"*. We also suggest that *"meet"* is replaced with *"comply with"* in the second sentence with respect to independence requirements.

Paragraph 33 – We suggest the following edit in the last sentence: *"....periods and with ~~other entities that prepare~~ EER reports <u>prepared by other entities</u>."*