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Submitted via website

Brussels, 21 June 2019

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

Dear Sir,

Accountancy Europe is pleased to provide you with its comments on the consultation paper on Extended External Reporting (EER) Assurance.

We are supportive of the IAASB's project to develop non-authoritative guidance to assist assurance practitioners in the application of ISAE 3000. We expect the demand for assurance over EER to increase exponentially in the upcoming years and we are aware that assurance practitioners encounter challenges in practice due to the fact that EER is an evolving area. The guidance alongside ISAE 3000 will therefore be helpful for assurance practitioners in conducting assurance over EER.

We consider the scope of the draft guidance appropriate. But, as the consultation focuses only on the outcome of phase one, it is difficult to judge whether the guidance is complete. We would need to see the outcome of both phases to comprehend whether or not this guidance is complete.

We would like to highlight though that EER practice is evolving rapidly, especially with the help of technological solutions. It is therefore essential to consider now how this evolution will impact the principles outlined in the draft guidance. We note that there are increasingly more cases of combined assurance engagements which we believe will become even more common in the future.

The structure is important for the guidance to be user-friendly. Whilst the structure of the draft guidance is workable, the document is already quite lengthy. Depending on the volume that will be added after phase two, the guidance might become too voluminous and difficult to use. It might be necessary to adapt the structure to keep the guidance user-friendly. Using digital solutions could improve this.

The final guidance should explicitly state the intended audience and its purpose. For example, it could be useful to indicate which parts of the guidance are intended for assurance practitioners and which parts are for preparers. Also, differentiation between the intended audiences might improve the structure of the guidance.

The draft guidance addresses a very complex matter – materiality – which is very helpful. However, the guidance should provide a clear distinction between such concepts as ‘materiality’ and ‘the materiality process’. The latter is a newly introduced concept, which is not related to the concept of materiality as used in ISAE 3000. Assurance practitioners already familiar with the existing concept of materiality might not be aware of the distinction between the two concepts. Equally, as the draft guidance is also addressing preparers, it is advisable to make clear the distinction between the different perspectives of materiality to avoid adding another level of complexity.

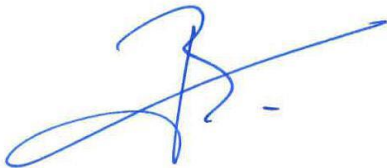
The guidance overall should indicate in a very clear manner what matters link back to the standard and what concepts have been newly introduced in the guidance. In addition, the guidance should state why these newly introduced concepts can assist assurance practitioners in the application of the standard.

EER is not developing in a vacuum. It would be useful to include guidance on how to benefit from the expertise/experience of financial auditors, internal auditors and subject matter experts as there are many useful references in their work.

There are instances in the guidance where it can be interpreted that the guidance is providing ‘best practice’ which we do not believe is the intention. For example, using words such as ‘desirable’, ‘should’ and similar, could give the impression that the proposed approach is ‘best practice’ when the intention is rather to assist the practitioners with the application of the standard.

For further information on this comment letter, please contact Noémi Robert on +32(0)28933380 or via email at noemi@accountancyeurope.eu or Vita Ramanauskaite on +32(0)28933369 or via email vita@accountancyeurope.eu .

Sincerely,



Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 36 countries that represent **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

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?

Paragraphs 9-15 (scope of draft guidance)

The scope of the guidance as developed is appropriate. However, it addresses the reporting practices as we know them today. As EER is rapidly evolving, it is essential to consider how this evolution will impact independent assurance practice and determine how this can or should be reflected in the guidance. For instance, further consideration of the technology used to report information, or the connectivity of information, may be useful for this guidance to be future-ready. Additionally, further guidance on the combination of reasonable and limited assurance in one assurance engagement could be useful as we expect this to be part of the future of assurance. In practice, users of the assurance report have difficulties in understanding what is covered by the assurance engagement. Therefore, the scope should be stated in a clear manner, especially when there is a combination of reasonable and limited assurance.

Using the work of experts is common practice in EER assurance engagements. The information included is limited on this aspect, for instance on how to use the work of financial auditors, internal auditors and subject matter experts. What is included in ISAE 3000 may not be sufficient to ensure that assurance practitioners take appropriate steps to rely on the work performed by other experts.

Paragraph 25 (preconditions and the system of internal control)

It is crucial to have clear guidance on the preconditions to assist assurance practitioners. We encourage the IAASB to elaborate more on this aspect of the guidance.

The guidance should explain the work effort implied in the engagement acceptance phase and in the review phase if the preconditions are fulfilled. The IAASB should avoid confusion between the preconditions and the work that has to be performed once the engagement has been accepted. The work effort on the preconditions should be proportionate.

Paragraph 45 states that the same preconditions need to be present for all assurance engagements - whether limited or reasonable assurance is being obtained. Paragraph 60, though, refers to different considerations of internal controls for limited and reasonable assurance. It would be useful to clarify the expectations of the preliminary work for limited and reasonable assurance. The diagram in paragraph 46 is also not clear.

Paragraph 49 refers to a rational purpose. It would be useful to elaborate on this by considering different levels of assurance – reasonable and limited – and also the scope of the assurance engagement. Especially, since paragraph 129 indicates that considering the outcomes of the entity's 'materiality process' is more important than if the scope covered just some indicators. Often, there are misinterpretations on the level and the scope of assurance provided.

Additionally, preparers often go beyond reporting requirements on a voluntary basis to provide more context to disclosures. Such disclosures might not be prepared in accordance with existing reporting frameworks/standards. This is important to consider when agreeing on the scope of an EER assurance engagement and whether or not the assurance practitioner can accept the assurance engagement to provide assurance on the entire report including additional information (Paragraph 19).

It would also be helpful to further elaborate on paragraph 52 as ISAE 3000 could be used by practitioners for readiness, for example, on internal processes.

Additionally, having strong internal control systems in place is important for a qualitative EER assurance engagement, but the absence of mature internal systems does not mean that assurance

cannot be provided. For example, the initial scope of assurance can be agreed on the design of the controls for internal purposes only, adding at a later stage the operating effectiveness of controls.

Paragraph 53 refers to advising and/or providing assurance on already existing systems. It would be useful to refer here to the IESBA code to assist practitioners with situations where there is the possibility of a conflict of interests arising to prevent such situations.

Paragraph 29 (suitability of criteria)

The draft guidance on the suitability of criteria is well developed. When applying that in practice though, the assurance practitioner may need to review the suitability of the criteria before accepting the engagement which can be very time consuming and counterproductive. We wonder if this is a proportionate approach moving forward. Also, it should be emphasised that assurance practitioners would not be able to provide assurance in the absence of suitable criteria.

Referring to paragraphs 82 and 98, we would welcome more examples in order to help practitioners identify the elements to be taken into account in different contexts.

Paragraph 33 ('materiality processes')

The term "materiality processes" is new. The introduction of such a term raises some concerns as this term is not intended to relate to the concept of materiality as used in ISAE 3000, which this guidance will accompany. This might create confusion amongst assurance providers as many of them will already be familiar with the existing concept of materiality and therefore not be aware of the distinction between that concept and the materiality process.

Additionally, the draft guidance also includes some details on the preparer's role (paragraphs 26, 27 and 127). Preparers might use different terminology/terms for this, so to avoid confusion, the guidance needs to clearly indicate what perspective it refers to.

Paragraph 35 (materiality of misstatements)

It would be helpful to further clarify the assessment of what would be considered as "clearly trivial". Determining what would be clearly trivial is much less straightforward in an EER engagement than in an audit of financial statements. We expect that it requires greater judgement by the EER assurance provider, which will need to be extensively documented.

Equally, the threshold is not clear for what is or is not clearly trivial as presented in paragraph 215. In EER reports, it may not be apparent as to what would be categorised between what is clearly trivial or not. The outcome might depend on other factors and could be open to a high level of interpretation. In these situations, the only option would be to assess such an issue as not clearly trivial resulting in additional procedures.

For example, if in an integrated report, a statement is included on the brand positioning, but is not backed up by any evidence: while this statement may be considered as clearly trivial, it could be indicative of other gaps in areas that are not trivial. Therefore, a more granular process may be better suited, but less prescriptive, i.e. allowing for the assurance practitioner to exercise judgement when assessing more qualitative types of information.

Performance materiality is not covered by the standard. While we recognise that materiality is a complex matter and welcome additional guidance, introducing additional terms and concepts within the guidance might be counterproductive in this case. The draft guidance is intended to assist practitioners with the application of the standard rather than adding another layer of complexity.

Paragraph 40 (assertions)

ISAE 3000 does not require the use of assertions. The guidance should clearly indicate that this is optional for assurance practitioners. Also, it would be useful for practitioners to have a set of assertions with some practical examples. The proposed assertions should be similar to those used for verification of financial statements.

Paragraph 41 (narrative and future-oriented information)

As the guidance states, some future-oriented information is, by definition, unpredictable and can be influenced by factors outside of the entity's control. That makes it very difficult for the assurance provider to reach a conclusion or provide assurance on this information.

Whilst acknowledging this, the guidance does not provide any clarification as to how the assurance provider should approach, conduct and conclude upon engagements that require assurance over forward-looking information and this clarification is necessary to enable such engagements to be accepted and performed.

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?

Paragraphs 16-17 (examples, diagrams and terminology)

Visuals and examples should be used more wisely.

Visuals - In principle, visuals can be very helpful, but they should be well thought-through, properly put into context and introduced in the best place within the guidance. In the current draft, some visuals are not properly referenced in the text or do not include a link to other parts of the guidance. Their usefulness is therefore limited. For example, in paragraph 80 – the links between the different elements are not clear.

Examples - The draft guidance includes some examples, but some do not provide solutions that are sufficiently practical. Besides, examples which are relevant now could become obsolete relatively quickly. Therefore, it is worth considering the most appropriate location for such examples.

Such examples could be stored in a separate section or document with references to the section in the guidance to which they relate, and vice versa from the guidance to the specific example, to reduce the overall length, improve the flow and make the guidance itself easier to digest. With such a solution, it would also be easier to update or complement the examples when necessary. We would also suggest broadening the scope, for example, add examples on human rights as this is the area of increasing importance and there is currently not enough guidance in practice.

The divergence in terminology used by assurance practitioners, preparers and other involved stakeholders brings confusion in practice and it would be helpful to align the terminology even if the IAASB's effort alone will not be sufficient.

Some of the terms used (subject matter information, elements, qualities etc) are used in financial audits. It could be useful to showcase how these link to the terminology used within the framework of ISAE 3000 (Revised).

As referred to in our response to Question 1, there could be more practical examples on assertions to assist assurance practitioners.

Paragraph 34 (term ‘materiality process’)

The materiality process is not addressed in the Standard ISAE 3000 (Revised). We refer to our response to Question 1.

Paragraphs 37 and 40 (assertions)

No further comments.

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

Paragraph 18 (structure)

The structure is workable, but the document is already very lengthy and can be difficult to digest. As the consultation paper indicates, it only includes the outcome of phase one. This issue will be compounded once the outcome of phase 2 is added, therefore we expect that it will become necessary to adapt the structure accordingly to keep the guidance user-friendly. As the draft guidance will be further developed, it is challenging to comment on the structure before the final guidance is issued.

The guidance needs to be well structured and of appropriate length, otherwise its use will be limited. As the document is already quite lengthy, careful signposting could help the user understand the structure of the document. Also, using digital solutions and cross references would improve the structure.

At the beginning of the document, it might be helpful to clearly specify the intended audience and the purpose of the guidance. The draft guidance might require a different level of detail depending on the audience and its experience. As the draft guidance currently states that it is primarily intended for assurance practitioners, but it could be also helpful for preparers, it might be useful to clearly indicated which chapters are intended for which audience.

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?

Paragraph 19-21 (relationship with ISAE 3000 (Revised))

The draft guidance covers a broader scope of matters than ISAE 3000. While providing guidance on additional matters is helpful to practitioners, it should be clearly stated in the guidance that specific parts go beyond ISAE 3000 to avoid any confusion. We refer for instance to paragraphs 62, 80 and 82. New content, but also new concepts have been developed. The IAASB should be cautious not to augment or substitute terms that are currently used and well understood by practitioners with these new concepts.

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

No further comments.

Paragraph 36 (assertions)

No further comments.

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

Paragraph 19-21 (matters not addressed in ISAE 3000 (Revised) and including details on the preparer’s role and ‘materiality processes’)

We refer to our response to Question 1.

In paragraph 80, it is unclear how the practitioner is supposed to deal with the newly introduced concepts, elements (such as underlying subject matter, resulting subject matter). This adds additional complexity.

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

No further comments.

Paragraph 36 (assertions)

We refer to Question 1.

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?

Paragraphs 42-45 (additional papers)

We agree that the additional material is helpful, especially for those that are not experienced in this field of activity yet. This material could also prove to be helpful in communicating with preparers and clients. As mentioned in our response to Question 4, we suggest clarifying the intended audience, of the guidance, but also of all the material published. It will help disseminate the information to the targeted stakeholders.