



## CONSULTATION PAPER, EXTENDED EXTERNAL REPORTING (EER) ASSURANCE

Issued 21 June 2019

ICAEW welcomes the opportunity to comment on the Consultation Paper, Extended External Reporting (EER) Assurance published by IAASB on 28 February 2019, a copy of which is available from this [link](#).

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## KEY POINTS

1. We welcome the opportunity to comment on this consultation paper. New technology and growing demand from stakeholders mean that Extended External Reporting (EER) is developing and, as a consequence, there is increased interest in, and discussions around, the need for assurance over it. We anticipate that the demand for assurance on EER will continue to grow and are, therefore, supportive of the development of non-authoritative guidance in this area.
2. Overall, we think the proposed guidance in phase 1 of the project provides helpful material for those performing assurance engagements on EER and addresses the key challenges practitioners face. Our answers in our detailed comments below highlight areas where we believe there could be additional clarity and the examples could be improved.
3. While the structure of the proposed guidance looks appropriate, the content included in phase 1 is already long. There will be a need to revisit the question of suitability of structure and perceived usefulness in phase 2 when we have the opportunity to see the proposed guidance in its entirety. To ensure that the guidance as a whole is relevant and accessible to practitioners, there needs to be a focus on avoiding unnecessary background material and theoretical content. Alongside this, the linkages between the chapters need to be clear. Also, as this proposed guidance is intended to be published alongside other background papers, it will be important to explain to practitioners how these all fit together, and how they relate to ISAE 3000 (Revised), to ensure that practitioners can easily navigate their way around them.
4. The proposed guidance includes numerous references to ‘preparers’ of EER reports and what they would do, as well as practical considerations for practitioners. This has the potential to lead to confusion over who the intended audience is for this guidance. Indeed, in places, the proposed guidance refers to how ‘preparers’ may use the practical examples. We believe that there is a need to clarify in paragraph 5 that it is aimed at practitioners performing EER assurance engagements and the purpose of the guidance is to help practitioners apply the principles in ISAE 3000 (Revised) to EER assurance engagements. Preparers may find some of the information in the guidance helpful when they are preparing EER reports and in considering a need for an assurance report thereon but the guidance does not provide them with a comprehensive guide to doing this.
5. Chapter 8 introduces the concept of the entity’s ‘materiality process’. The term ‘materiality process’ is a newly introduced concept and should not be confused with the concept of ‘materiality’ as used in ISAE 3000 (Revised). We believe that there is a need to make this distinction clearer in the proposed guidance, particularly for those practitioners who might be less familiar with the term. We also question whether the proposed guidance goes far enough when it addresses disclosure of the entity’s ‘materiality process’. In our view, the importance of disclosure should be emphasised and, where the ‘materiality process’ is not disclosed, the practitioner would want to understand the preparer’s justification for this.
6. We understand from outreach with firms that the term ‘qualities’ of subject matter elements is not a concept that is widely understood. Instead, the term ‘characteristics’ of the subject matter elements that are to be measured, which is used in the International Framework for Assurance Engagements, is preferred.
7. While supportive of the inclusion of guidance on assertions, chapter 9 required more work to be of practical value to practitioners. The description of ‘categories’ of assertions lacks clarity and makes the proposed guidance seem very theoretical in nature. The categories of assertions in ISA 315 (Revised) and in ISAE 3410 are described in a much clearer way. Including a simple indicative set of assertions, a general description of each, how the information may be misstated and how assertions may impact the practitioner’s approach to testing with some practical examples would improve the proposed guidance significantly.
8. We think that some of the chapters would benefit from greater emphasis being given to the need to stand back and look at the EER report as a whole and to think about bias. This is particularly relevant to chapter 9 on narrative information and chapter 12 on considering the materiality of misstatements.

9. We believe that there are some underlying issues with how ISAE 3000 (Revised) differentiates limited and reasonable assurance engagements. While these concerns do not directly impact the proposed guidance, they have potential consequences for how it may be interpreted. The issues impact considerations about whether assurance is at least meaningful and whether there is a rational purpose. We would be happy to follow up our concerns here separately with the IAASB.

## ANSWERS 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?***

10. Yes, the proposed guidance addresses the key challenges for practitioners identified as being within the scope of phase 1, though there is scope to improve the guidance in some areas, as we highlight below.

## CHAPTER 2: OVERVIEW OF AN EER ENGAGEMENT

11. As highlighted in our key points, we believe that there is an underlying problem that arises from time to time with how ISAE 3000 (Revised) differentiates limited and reasonable assurance engagements. This impacts considerations about whether assurance is at least meaningful and whether there is a rational purpose. These concerns do not directly impact the proposed guidance but have potential consequences for how it may be interpreted. We would be happy to meet separately with IAASB to discuss these concerns.

## CHAPTER 3 : DETERMINING PRECONDITIONS AND AGREEING THE SCOPE

12. We believe that the proposed guidance in paragraph 49 on rational purpose, including the box 'considerations for the practitioner', could be expanded to be of more value to practitioners. In particular, more could be included about inappropriate association of the practitioner's name with the underlying subject matter or EER report by the preparer, including considering the rationale for requesting the practitioner's involvement. Likewise, while the practitioner is not responsible for independently identifying intended users and their needs, emphasis could be given to the importance of considering how the entity itself has identified the intended users and their information needs.
13. To help practitioners avoid starting engagements that then become misleading, it would be helpful to reiterate the importance of a rational purpose in relation to limited assurance engagements on process, particularly where there may be no checks to source data and yet, in many cases, the error is likely to be with the source data.
14. There is a clear link between this chapter and the proposed chapter on the entity's 'materiality process' which addresses the identification of intended users and we would encourage the IAASB to consider how this link can be made clearer in the proposed guidance, particularly as content in phase 2 is added. This may require a change to the structure.

## CHAPTER 6: CONSIDERING THE SYSTEM OF INTERNAL CONTROL

15. The proposed guidance provides an appropriate level of detail on how internal control can operate. However, further guidance would be helpful to explain that internal controls may break down for some of the period of the assurance engagement under review, and as a result, the practitioner may need to take specific care over how it conducts the engagement, for example, how samples are selected and when substantive testing may be required for a certain section of the period under review.
16. It is 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.

**CHAPTER 7: DETERMINING THE SUITABILITY OF CRITERIA**

17. The proposed guidance in this chapter is helpful, but we would place more emphasis in paragraph 84 on the importance of maintaining continuity and monitoring criteria changes year-on-year. This is a key area of risk in voluntary reporting and easily manipulated so it would be helpful to have a warning of the need to be sceptical here. This is touched on in paragraph 100 but needs more emphasis.
18. The example in paragraph 108, while relevant, fails to mention that survey results are inevitably biased by the way questions are framed and what questions are used. It would be helpful to highlight this point as this is an inherent risk that could bias the whole EER report and skew the meaning of a related assurance report.

**CHAPTER 8: CONSIDERING THE ENTITY'S 'MATERIALITY PROCESS'**

19. While there is helpful guidance in this section, the term 'materiality process' is a newly introduced concept and should not be confused with the concept of 'materiality' as used in ISAE 3000 (Revised). It would, therefore, be helpful if this distinction could be made clearer, particularly for those practitioners who might be less familiar with the term.
20. Paragraph 129 touches on how understanding the outcomes of a 'materiality process' may also be an important consideration when agreeing the assurance scope and determining whether an assurance engagement has a rational purpose. We believe more could be made of this in the context of meaningful levels of assurance and rational purpose. Looking at the bigger picture is crucial if practitioners are being asked for limited assurance or assurance over just a small piece of the whole report. This is an example of where misleading assurance can easily be provided. It might, therefore, be helpful to include a separate section about the overall context of the engagement.
21. As explained in paragraph 14 above, there is a clear link between this chapter and the proposed chapter on determining preconditions and we would encourage the IAASB to consider how this link can be made clearer in the guidance.
22. The proposed guidance also needs to be clearer about the importance of disclosing the 'materiality process' in the report. The diagram on page 47 explains that it is best practice for preparers to disclose details of the 'materiality process'. We would suggest that the specific reference to 'best practice' is removed here but that paragraph 164 is strengthened by explaining why such disclosure is important, and by making the point that a practitioner would generally expect the 'materiality process' to be disclosed in the report. Likewise, where this is not the case the practitioner would want the preparer to provide an acceptable justification for this. As it stands paragraph 164 seems weak. Likewise we would expect the considerations for the practitioner outlined in paragraph 157 to also include whether the 'materiality process' has been disclosed to users.
23. Paragraph 141 explains that it may be necessary to limit the intended users in certain situations. We also believe, however, that it is crucial to disclose who the intended users are so that the users of the report understand the extent to why they can rely on the report. This applies to the example here too.
24. There is also a need to provide greater clarification in paragraph 144 because, as written, it has the potential to be misinterpreted. The paragraph explains that it is not necessary for the preparer or practitioner to create a detailed list of the intended users but the practitioner cannot consider the entity's 'materiality process' if management fail to or refuse to disclose who the users are. The paragraph needs to differentiate between:
  - a defined user group, for example, all users of a system; who do not need to be identified individually, but who will all have broadly the same needs;
  - a specific set of named users who have a specific purpose, would need to be named and may have specific and differing materiality needs.
25. The example in paragraph 150 explains considering 'impact' but the example again fails to consider the need to disclose the basis used which we believe is important in order for a user to evaluate the report.

26. It is not clear in the diagram in paragraph 153 whether the consideration of likelihood and magnitude is intended to be gross or net of any related control.
27. Paragraph 156 highlights some of the sources a practitioner could use in evaluating the completeness of the criteria. However, while the list references interviews with stakeholders it fails to include result of management interviews with stakeholders and this needs to come out more clearly. The list could be developed further by suggesting the things that management should be doing and leading on to what the practitioner might do. It might therefore be preferable to include a side by side list of the activities expected of management in one column, alongside what the practitioner might do in another. They will not be the same but they will highlight review and evaluation versus independent substantive evidence collection.
28. Paragraph 163 discusses what to do in circumstances where information results from criteria that is not suitable or available and this is discovered after the engagement has been accepted. It doesn't say though that any discovery of unsuitable or unavailable criteria should be disclosed by management in their report.

## CHAPTER 9: PERFORMING PROCEDURES AND USING ASSERTIONS

29. We are supportive of guidance in this area but believe that this chapter requires further work to be of practical use to practitioners. The description of 'categories' of assertions used in the proposed guidance lacks clarity and makes the guidance seem very theoretical in nature. The categories of assertions in ISA 315 (Revised) and in ISAE 3410 are described in a much clearer way. Including a simple indicative set of assertions, a general description of each, how the information may be misstated and how assertions may impact the practitioner's approach to testing with some practical examples would significantly improve this chapter.
30. Paragraph 178 dealing with assertions addressing neutrality needs expansion and more clarity with examples.
31. Paragraph 180 makes a very important point about the need to stand back and look at the report as a whole and consider whether, despite each individual piece of subject matter information being free from material misstatement, the overall message is misleading or biased. However, we think the point is lost within the section. There is a need for greater emphasis to be given to understanding the context to ensure that practitioners do not miss this point.

## CHAPTER 10 ASSURING NARRATIVE INFORMATION

32. We believe that the chapter needs to include a stronger definition of what narrative information comprises and guidance on what needs assuring. The proposed guidance should also emphasise that greater focus is needed on the claims by management on which the practitioner might expect the user to rely, which is where the assurance effort goes, as a subset of claims by management as a whole. The need to read the whole report for context is also missing from this chapter; the point being that the individual details might be appropriate but, taken as a whole, the report might be biased and give the wrong impression.
33. The example in paragraph 187 could be more helpful. It might be better to separate out the two types of narrative information with the examples under each and then bring out the point more clearly about subjective narrative subject matter information being vague and difficult to obtain assurance on, as well as the consequences of this for the practitioner.
34. Paragraph 188 says that subjective narrative information may be more susceptible to bias. We don't think there is a may be about it, it just is.

## CHAPTER 11: ASSURING FUTURE-ORIENTED INFORMATION

35. Paragraph 207 explains that for subjective future-oriented information, the criteria may need to require detailed description of the assumptions and the nature, sources and extent of uncertainty in order to be suitable. Given the nature of the information, we believe that the criteria will – rather than may – need to require detailed description.



36. It may be helpful to include more about how practitioners may evaluate a methodology applied in paragraph 208 and in paragraphs 209 and 211 we would suggest removing the word 'ordinarily' from the reference to practitioners being unable to predict the future.
37. The proposed guidance in paragraph 210 needs more consideration. An entity's risk register may not, in itself be complete so shouldn't be referred to as a completeness check.
38. Paragraph 211 explains that as practitioners are not in a position to predict the future, and therefore express an assurance conclusion, for example, on whether the results forecasted will be achieved, they may instead focus on whether any assumptions are reasonable. We would, however, question whether practitioners can assure the reasonableness of the assumptions as what does reasonable mean in this context and from whose perspective and what would happen if an assumption has been missed that potentially makes the forecast unreliable?

## CHAPTER 12: CONSIDERING THE MATERIALITY OF MISSTATEMENTS

39. Paragraphs 223 to 226 could be strengthened to include consideration of the EER report as a whole and the accumulated misstatements, including the need to think about the overall tone and message conveyed.
40. It would be helpful if paragraph 229 included guidance on what the practitioner needs to do in circumstances where there may be a misstatement because the preparer has not used the information available to measure or evaluate the underlying subject matter as precisely as would be possible.

### ***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?***

41. Yes, other than the points highlighted in response to question 1, the proposed guidance is clear and easy to understand. The proposed guidance is, however, already long in length and with the addition of content in phase 2 there will be a need to revisit whether, and to what extent, the guidance as a whole remains relevant and accessible to practitioners. We would encourage the IAASB to focus on avoiding unnecessary background material and theoretical content in the guidance.
42. Overall, we think that practitioners would benefit from the inclusion of more specific and practical examples. For example, we think that the example in paragraph 49 could do with more specific examples on rational purpose (as noted above) and that the examples in paragraph 82 could be made more specific.

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

43. It is difficult to comment on this question without seeing the guidance as a whole. In principle, the structure looks appropriate but, as we note above, there are linkages across some of the chapters, for example chapters 3 and 8 that could be made clearer. It will also be important to revisit this question when the full guidance is available.

### ***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?***

44. Yes, we are not aware of specific conflicts with ISAE 3000 (Revised) or any new requirements being introduced. However, where new concepts have been introduced that are not included in ISAE 3000 (Revised) we believe that is appropriate to make this very clear in the guidance and to make sure that practitioners are in no doubt that these do not constitute new requirements.

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

45. Yes we broadly agree, though the introduction of new terms and concepts such as ‘materiality process’ may lead to some confusion for practitioners less familiar with performing EER assurance engagements and so we think there is a need to give greater clarity in these areas (see, for example, our comments in response to question 1 above).
46. We also understand from outreach with firms that the term ‘qualities’ of subject matter elements is not a concept that is widely understood. Instead, the term ‘characteristics’ of the subject matter elements that are to be measured, which is used in the International Framework for Assurance Engagements, is preferred.

**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?**

47. It is unclear who the intended audience is for these additional papers. We are not convinced about the usefulness of the background and contextual information. It is very theoretical and not easy to read.
48. In relation to the four key factor model for credibility and trust in relation to EER we believe it would be helpful to make the point, alongside paragraph 19, that strong internal controls do not necessarily equate with reasonable assurance. We also think that the section about skills (paragraph 30) needs greater emphasis here.

**Question 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.**
49. Introducing new concepts in the proposed guidance such as ‘materiality process’ will inevitably lead to concerns about translation, particularly where similar terms with very different meanings are used in close proximity. We urge the IAASB to work closely with translators to ensure that there is no confusion here.