Australian Government

Auditing and Assurance Standards Board

21 June 2019

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Chair of the Extended External Reporting Taskforce
c/o International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, New York 10017 USA

Dear Marek,

AUASB Submission on the IAASB's Consultation paper: *Extended External Reporting (EER) Assurance*

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB's Consultation paper: *Extended External Reporting (EER) Assurance.*

The AUASB commends the IAASB's initiative to issue non-authoritative guidance as an appropriate outcome from the submissions received on the discussion paper issued by the IAASB for comment in 2016: *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements.*

The Australian perspective

In Australia, EER continues to gain momentum in a voluntary market coupled with some form of assurance on this type of reporting. The ASX Governance Principles and Recommendations, revised in February 2019, now support the need for listed entities to have appropriate processes to verify the integrity of their corporate periodic reports and, as such, adequate credibility enhancing mechanisms in place to ensure that this occurs. These mechanisms may include external assurance provided by the listed entities' auditors. These initiatives are consistent with the direction being adopted internationally. Current academic research also supports the view that such credibility enhancing techniques are beneficial to market participants (Zhou, et al., 2019)[1].

The AUASB and Australian Accounting Standards Board (AASB) see EER as a key strategic objective, acknowledging the role both reporting and assurance can play in enhancing credibility and trust, and recognising that the information needs of report users are at the forefront of this thinking. The AUASB continues to be very active in this area, including through our representation on the IAASB Project Advisory Panel to the EER Taskforce through Jo Cain (current AUASB Member) and Nick Ridehalgh (stakeholder in our jurisdiction), and as such considers it appropriate for the IAASB to continue to prioritise the finalisation of the guidance. This project enable's the IAASB to achieve its strategic vision through implementation of its three strategic objectives, i.e. the maintenance and development of robust assurance standards, the future proofing of the assurance standards by considering their continued relevance to stakeholder needs, and the importance of collaboration and co-operation with contributors to the financial reporting supply chain.

As part of the AUASB's strategic project on EER, the AUASB and AASB released a Bulletin on Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2 in December 2018, which looks at both the reporting and assurance considerations.

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[1] Evaluating Combined Assurance as a New Credibility Enhancement Technique – Shan Zhou, Roger Simnett, Hien Hoang. Auditing: A Journal of Practice and Theory (2019). Available at http://aaajournals.org/doi/abs/10.2308/ajpt-52175.

The AUASB is also undertaking a survey of assurance practitioners to gather views on:

- Types of credibility enhancing techniques currently being utilised for EER in the market place and reported publicly; and

- To understand how innovation is being applied by assurance practitioners to enhance credibility and trust in EER.

This survey will be cross jurisdictional and the AUASB will work with other National Standard Setters on its promulgation.

In formulating its response, the AUASB sought input from key stakeholders via two round tables in Melbourne and Sydney. These discussion sessions focused on EER assurance practitioners as the primary audience for this guidance, with professional accounting bodies, education bodies, academics and EER preparers also represented to a lesser degree.

Overarching comments

The AUASB supports the development of this non-authoritative guidance to build credibility and trust in EER through more robust and consistent EER assurance. The follow through of the ten EER assurance challenges identified in the development of the guidance to-date is commended, not least the engagement of those experienced in the EER space on the IAASB EER PAP to provide insights to the IAASB EER Task Force. We thank the IAASB for consulting on this draft part way through to allow stakeholders not only to feedback on the guidance thus far, but also to influence the remainder of the guidance going forward. We note the progress made with respect to the following:

- **Purpose:** Clarity of purpose to apply ISAE 3000 (Revised) to a wide range of subject matter.

- **ISAE 3000 Requirements:** Alignment with the requirements of ISAE 3000 (Revised).

- **ISAE 3000 Terminology:** Consistent use of ISAE 3000 (Revised) terminology.

- **Target Audience:** Clarity of audience, namely assurance practitioners, with useful context relating to EER preparers.

- **Examples:** Inclusion of examples to "bring the guidance to life." NB: This remains an area for improvement.

It is the AUASB's concern that the guidance risks becoming a lengthy, complex document targeting multiple users which may not assist in it meeting its overall purpose. Stemming from this concern, the AUASB highlights a number of areas for further consideration by the IAASB during Phase 2. In consultation with our key stakeholders, the AUASB believes that addressing the following areas for improvement in the guidance will play a fundamental role in underpinning the credibility and trust of EER going forward:

- **Momentum:** Move quickly in line with the evolving nature of EER and to harness its current momentum.

- **Reporting Frameworks:** Whilst the guidance purports to be reporting framework-neutral, there is an overriding Sustainability Reporting and Global Reporting Initiative (GRI) theme. This manifests itself in significant gaps emerging with respect to relevant examples for other types of reporting, such as Integrated Reporting <IR>. No examples are provided throughout the guidance in relation to the fundamental subject matter of an <IR>, such as the business model, strategy or value creation.

- **Examples:** Further work is needed on the examples provided throughout the guidance, including:

  - *Themed Examples:* Flow an example EER assurance process through the challenges, i.e. work through an example EER assurance engagement from start-to-finish, anchoring on an example relevant to each challenge. This may work well in an appendix.

- o   *Financial Examples:* Acknowledge that EER assurance practitioners will come from a wide range of backgrounds, some financial, some non-financial. With this in mind, include financial examples with non-financial examples, where possible.

- **Reasonable versus Limited Assurance:** Remains a "grey area" for EER assurance practitioners, with guidance needed in terms of scope, work effort, output and value. Although practitioners acknowledge coverage of these areas in ISAE 3000 (Revised), they acknowledged the guidance could provide more in addressing the differences between the two engagements. Given the objectives of this guidance, this represents an opportunity to build greater understanding and consistency and a more robust approach to EER assurance engagements.

- **Boundaries of an EER engagement**: Potential blurring of the lines between the role of the assurance practitioner versus that of the EER preparer, with regard to materiality, the materiality process, subject matter and suitable criteria.

- **Materiality:** As part of scoping an EER assurance engagement, materiality is widely accepted as a core component and is therefore suggested for inclusion in the guidance. There is a need to cover more than just impact in a materiality determination. For example, value creation is the fundamental concept of <IR> in the short, medium and long term. The needs of EER users is crucial to the materiality determination. Links to examples of materiality disclosure from publicly available EERs would add value.

- **Qualitative Statements:** EER assurance practitioners highlighted a strong need for guidance in relation to the assurance of qualitative statements, i.e. narrative, where evidence requirements may prove challenging for the assurance practitioner to satisfy.

- **Sequence of EER Assurance Challenges:** The sequence in which EER assurance challenges are presented warrants further attention, such as bringing materiality further forward.

- **Flow Charts:** A flow chart of a typical EER assurance engagement would enhance the guidance at the start of Chapter 2: Overview of an EER Assurance Engagement. Then throughout the guidance, at the start of each chapter, a flow chart would assist to summarise what is covered in that chapter, with hyperlinks to each subsection from the flow chart for accessibility.

- **Hyperlinks:** To reduce the length of the document and repetition of ISAE 3000 (Revised) requirements, a suitable technology solution is suggested, such as hyperlinks. This could maintain the linkage to ISAE 3000 (Revised) so that the guidance is accessible to all assurance practitioners.

- **IASB Links:** Stronger links to the International Accounting Standards Board (IASB) project to update its IFRS Practice Statement 1 *Management Commentary* to ensure that the EER guidance will be fit for purpose across the broader corporate reporting suite.

- **Preconditions:** Avoid establishing too high a hurdle, e.g. preconditions and the interplay between suitable criteria and internal controls which are iterative in nature, may result in the assurance process becoming a barrier to the development of EER.

The AUASB's detailed responses to the specific questions asked in the discussion paper are included in this letter as Attachment 1.

Should you have any queries regarding this submission, please do not hesitate to contact Marina Michaelides on mmichaelides@auasb.gov.au

Yours sincerely,

Roger Simnett

AUASB Chair

SUBMISSION OF THE AUSTRALIAN AUDITING AND ASSURANCE STANDARDS BOARD

IAASB Consultation Paper – Extended External Reporting (EER) Assurance

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?

Through outreach, feedback was received from a representative range of AUASB stakeholders, including assurance providers, EER reporters, professional accounting and education bodies and academics. This representative sample of stakeholders commend the IAASB's initiative to issue non-authoritative guidance as an appropriate outcome from the submissions received on the discussion paper issued by the IAASB for comment in 2016: *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements.*

The AUASB highlighted, in its response to the discussion paper on the Ten Key Challenges, the ongoing challenge of limited versus reasonable assurance. Furthermore, the lack of understanding of the differences was highlighted for attention, as well as the wide ranging subject matter and criteria placing increased demands on both assurance practitioners and EER preparers. The AUASB suggests that further clarity may be achieved through additional tables in an appendix, highlighting the differences between reasonable and limited assurance through a case study depicting the application or each to EER. The IAASB may also consider further collaboration with professional accounting and education bodies to improve the training of new auditors and assurance practitioners in this ever growing area.

Key concerns include the length and complexity of the draft guidance. Targeting multiple users may not assist in meeting the overall purpose of the guidance. Stemming from this, the AUASB highlights a number of areas for further consideration by the IAASB during Phase 2. Addressing the following areas for improvement in the draft guidance will play a fundamental role in underpinning the credibility and trust of EER going forward:

- **Reasonable versus Limited Assurance:** Remains a "grey area" for EER assurance practitioners, with guidance needed in terms of scope, work effort, output and value. Although assurance practitioners acknowledge coverage of these areas in ISAE 3000 (Revised), it is suggested that the guidance could address the differences between the two types of engagements. Given the objectives of this guidance, this represents an opportunity to build greater understanding and consistency and a more robust approach to EER assurance engagements.

- **Materiality:** As part of scoping an EER assurance engagement, materiality is widely accepted as a core component and is therefore suggested for inclusion in the guidance. There is a need to cover more than just impact in a materiality determination. For example, value creation is the fundamental concept of <IR> in the short, medium and long term. The needs of EER users is crucial to the materiality determination. Links to examples of materiality disclosure from publicly available EERs would add value.

- **Qualitative Statements:** EER assurance practitioners highlighted a strong need for guidance in relation to the assurance of qualitative statements, i.e. narrative, where evidence requirements may prove challenging for the assurance practitioner to satisfy.

The areas for improvement are tackled in turn below:

Scope of Draft Guidance: Paragraphs 9-15:

- **Direct Engagements:** More focus is suggested in the draft guidance on direct EER engagements as this is a common type of engagement occurring in practice. The draft guidance predominantly focuses on the principles of an attestation engagement.

- **Use of Experts:** It is understood that applying appropriate skills in an EER assurance engagement will be considered in Phase 2. Under the 'obtaining evidence' heading in Chapter 2, the consultation paper states that use of experts and the work of another practitioner are outside the scope of this draft guidance. In practice, the need to use experts or the work of another practitioner is a particular challenge for which additional guidance and examples are needed.

- **Other Information**: Although other information has been identified as outside the scope of the draft guidance, examples are needed.

- **Criteria Availability:** Guidance on how to appropriately make the criteria available to intended users would be useful. This may be addressed in the guidance to be developed on reporting. There is a requirement in ISAE 3000 (Revised) for the practitioner to evaluate whether the criteria are available to intended users. However, it is unclear from paragraph 37 of the draft guidance as to whether or not this will be covered in Phase 2. Providing additional guidance in Chapter 3 and/or when developing guidance on reporting would be useful.

Preconditions and the System of Internal Control: Paragraph 25:

- **Governance and Oversight:** The AUASB suggests that the governance and oversight process described in paragraph 71 not only focuses on the process to prepare the EER but also includes a higher level of governance over the content and presentation of the report. It could also refer to the process of seeking assurance over the EER information. In many instances, assurance is voluntarily sought, and may be for internal purposes only, or for a select group of users. Clarification by the report preparer as to why assurance is being sought may assist the assurance practitioner in evaluating whether or not the preconditions for assurance have been met (i.e. the level of assurance sought and what measures have been selected for the scope of the engagement).

- Re-ordering paragraph 71 to present governance and oversight before the paragraphs on the reporting system could help to reinforce this. Amending the diagram in paragraph 62 such that governance and oversight is an overarching component may also help to emphasise this point.

- **Table in Paragraph 47:** The AUASB questions the need for the table in paragraph 47 a)-g) in addition to the diagram in paragraph 46. It may be more useful to integrate the content in paragraph 47 into the diagram. If paragraph 47 remains in the guidance, it could be enhanced with an example flowing through the different stages. For example, could the greenhouse gas emissions of the entity be considered in terms of the contribution to climate change in comparison to peers in the sector?

- **Effort Related to Preconditions:**

  - The distinction between what falls within assessing the "precondition" based on preliminary knowledge as opposed to performing detailed walk throughs or testing (i.e. the knowledge needed to make a complete assessment) is unlikely to be possible without starting to perform some detailed work, which represents a practical challenge. Performing work to understand the control systems (walk through procedures) is not typically done as part of the acceptance of an engagement in practice. This is part of performing the assurance engagement.

  - The focus on the 'assurance readiness' work is therefore a useful addition to the draft guidance (paragraphs 50-53). However, it is not clear, where no assurance readiness

engagement is undertaken, as to when these procedures would be performed, i.e. on "preconditions" or in the "engagement performance and testing" phase. This delineation could be clarified in the draft guidance, to cater for types of EER where the "assurance readiness" engagements are not practicable.

o   The draft guidance on preconditions seems to set a high barrier to accepting an assurance engagement. Practically, the assurance practitioner may be unable to reach a final conclusion on the suitability of the criteria, understand the materiality process and identify whether or not the internal control system is robust enough to be able to provide the evidence needed to conclude. A system walk through may be needed before a conclusion can be made, that is traditionally performed as part of the assurance engagement.

o   The draft guidance may need to further recognise that EER preparers are on a journey to evolve their reporting, and that the assurance practitioner needs to be able to evolve their methodology and procedures alongside them. As an entity moves from "readiness" to "assurance" some of the measures reported may be assurable and some may not. It may not be as clear as accepting and scoping the engagement accordingly, but rather it may be more appropriate to report on this journey. ISAE 3000 (Revised) does not preclude the assurance practitioner on reporting findings and recommendations. This is something that may be best dealt with under the "Preparing the Assurance Report' in Phase 2, i.e., by encouraging the assurance practitioner to include recommendations and findings in the assurance report.

o   Based on the guidance, if an assurance readiness assessment is not performed separately, in many instances it is unclear how an assurance practitioner would be able to determine whether or not the preconditions have been met, based only on preliminary knowledge. Examples of where the delineation between "precondition and "the work performed as part of the assurance engagement" could have greater clarity are in the following paragraphs in the consultation paper:

   ♦   Response where the Preconditions are not present (paragraphs 75-78)

   ♦   Reliability of underlying data and source information (paragraph 107)

   ♦   Changes to criteria (paragraph 117)

   ♦   Consider process to prepare subject matter information (paragraph 128)

o   It should be acknowledged that there is a high level of judgement applied in the preconditions phase, based around discussions and reasonable assumptions regarding access to evidence. The assurance practitioner would then move into the planning phase to perform more work on internal controls.

o   The draft guidance may imply the need for significant knowledge to determine whether or not the preconditions for an assurance engagement are met, due to:

   ♦   Lack of maturity in many of the EER frameworks.

   ♦   Range of frameworks available that can be combined by EER preparers in developing EER information.

   ♦   Need for some level of maturity in thinking and processes to prepare the EER information.

Materiality Processes: Paragraph 33

- **Materiality results are relevant:** Irrespective of whether or not the assurance scope covers the whole EER. The AUASB disagrees with the first sentence of paragraph 129. In fact, the outcomes of a materiality process are potentially more relevant to limited assurance over certain indicators to ensure that those indicators assured are material to users' decision-making and that the assurance therefore has a rational purpose. Removal of the first sentence of paragraph 129 is therefore suggested.

- **Materiality is important to determining assurance scope:** The second sentence of paragraph 129 addresses this and could be made more prominent, perhaps with a subheading and links to other relevant parts of the draft guidance.

- **Materiality process diagram potentially confusing:** Inclusion of the EER preparer's role alongside that of the assurance practitioner in the diagram in paragraph 130 could be confusing. For other areas of the draft guidance, this context has been moved to Appendix 1, which is also suggested here, to avoid any potential confusion. Furthermore, paragraph 132 strays into the EER preparer's role rather than the role of the assurance practitioner.

- **Focus on Assurance Practitioner**: The AUASB questions the relevance of paragraphs 136-144 to the assurance practitioner. Perhaps this content could be condensed into one or two short paragraphs. Paragraphs 145 onwards are more relevant to the assurance practitioner.

- **Sole focus on impact:** Paragraphs 152-154 represent a GRI and Sustainability Reporting (SR) focus. In <IR>, this would be value creation rather than impact. Perhaps an additional example could be included in the draft guidance.

- **Examples of disclosure of the materiality process are needed:** Paragraph 164 would benefit from a couple of published examples, perhaps a best practice <IR> and a best practice SR, showing how entities report their materiality process and the charts used to present their materiality results.

- **Materiality vs Materiality Process:** Separating the terms and highlighting the difference between 'materiality' and 'materiality process' is helpful. The chapter on the 'materiality process' aims to provide assurance practitioners with guidance when considering an entity's 'materiality process', first by reviewing the context of the process and then by reviewing the materiality results. Where this is applicable to the engagement, this would contribute to the assurance practitioner determining whether or not the criteria are suitable and would be performed as part of agreeing the scope of an EER engagement.

- **Material Misstatements:** If a significant matter is omitted, then this may result in a material misstatement depending on the scope of the engagement. This cannot be limited to a precondition for the engagement, but may be a conclusion after performing the assurance procedures. Further consideration of this is needed in Phase 2.

- **The New Zealand Auditing and Assurance Standards Board (NZAuASB) Service Performance Information (SPI) assurance standard experience (NZ AS1):** The NZAuASB experience with SPI identified that it is difficult to conclude on overall SPI, as well as whether or not a material misstatement exists within one measure. These matters are not mutually exclusive. Coverage of financial materiality thresholds relating to percentage error may help assurance practitioners to understand this area.

Suitability of Criteria: *Paragraph 29*

- The AUASB is supportive of the draft guidance and examples developed to assist assurance practitioners to evaluate the suitability of criteria. In practice, this can present a real challenge. The evaluation of completeness balanced against conciseness for understandability is a challenge when dealing with highly principles based, non-specific reporting frameworks.

- There also appears to be wide judgement applied on who determines the suitable criteria in the draft guidance when undertaking an EER assurance engagement. Ordinarily this responsibility resides with the preparer of an EER.

- Depending on the maturity of the suitable criteria (frameworks), comparability may be achieved from one EER to the next (period basis), e.g. Sustainability Reports using the GRI as suitable criteria.

- Some reporting frameworks applied as suitable criteria in EER are principles based, such as the <IR> framework, hence the goal may be less related to comparability and more to achieving transparency, balance and completeness, which can lead to enhanced credibility and trust in the EER.

Narrative and Future-Oriented Information: Paragraph 41

- Concerns relating to the assurance of narrative subject matter includes the following:

  o Boundary of the subject matter: As an example on page 60, it is difficult to define the narrative subject matter information. What does the 'minimal' mean? This is one of the key challenges for EER and, as such, the AUASB encourages the IAASB to consider this in Phase 2.

  o The examples in paragraph 187 on assuring narrative information may not provide sufficient practical guidance. With reference to the example on page 60 of the draft guidance, the underlying criteria of the narrative subject matter is vague.

  o The challenges relating to subjective statements on some subject matters are suggested for consideration in the draft guidance alongside the interplay with possible management bias.

  o There are two key views on assurance of narrative disclosures. The proposed International Standard on Auditing (ISA) (UK) 570 *Going Concern* on limited assurance and asking the auditor to do more work and disclose more on going concern, and the second being ISA 720 *Other Information* which is no assurance, only a read and consider for material inconsistencies. It is suggested that the draft guidance takes into account where this debate lands.

  o Assurance practitioners may find the idea of assuring future oriented information challenging. However, they are typically comfortable to consider whether or not assumptions seem reasonable and the methodology appropriate. This aligns with work currently performed in the audit of financial statements.

Rational Purpose: Paragraph 49

- The AUASB suggests bringing some information from paragraph 94 relating to user decision making and consequential user needs in relation to EER into paragraph 49. These are key considerations in the determination of materiality.

- Those Charged with Governance (TCWG) may be seeking assurance on the data and information provided by management for publication in their EER, effectively representing a 'private' assurance engagement.

- Internationally the AUASB are seeing and hearing that other users, such as investors and other key stakeholders, are also demanding assurance of EER. In fact, part of the value of assurance for TCWG is to be able to share that with external users to build credibility and trust in their published EER.

Assurance Readiness Engagements and "Maturity Assessments": Paragraph 52

- The AUASB suggests further consideration of the example assurance readiness engagements used in paragraph 52. Some of these types of engagements, e.g "considering the design or effectiveness of a system as a whole", may be performed as a limited assurance in certain jurisdictions, but undertaken "privately" depending on the users and EER preparers.

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?

- The following key points are highlighted with respect to the clarity of the draft guidance, in particular the important role that examples play in "bringing the guidance to life":

    o **Reporting Frameworks:** Whilst the draft guidance purports to be reporting framework-neutral, there is an overriding Sustainability Reporting (SR) and Global Reporting Initiative (GRI) theme, with many examples relating to sustainability and greenhouse gas reporting. This manifests itself in significant gaps emerging with respect to relevant examples for other types of reporting, such as <IR>. No examples are provided throughout the draft guidance in relation to the fundamental subject matter of an <IR>, including, but not limited to, the business model, strategy and value creation.

    o **Examples:** Further work is suggested on the examples provided throughout the draft guidance, including:

        ♦ *Themed Examples:* Flow an example EER assurance process through the challenges, i.e. work through an example assurance engagement from start-to-finish, anchoring on an example relevant to each challenge. This may work well in an appendix.

        ♦ *Financial Examples:* Acknowledge that EER assurance practitioners will come from a wide range of backgrounds, some financial, some non-financial. With this in mind, include financial examples alongside non-financial, where possible.

    o **Terminology:** The technical language used in the draft guidance may be challenging to understand for assurance practitioners or EER preparers from different backgrounds. In Australia, this is of particular importance because the definition of 'assurance practitioner' in ASAE 3000 is broader than that included in ISAE 3000 (Revised). It encapsulates other assurance practitioners from outside the accounting profession. This draft guidance could also be useful for EER preparers to better understand what the assurance practitioner expectations may be of them with regard to EER and the assurance process.

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

The following key points are highlighted with respect to the proposed structure of the draft guidance and how this may be enhanced:

- **Sequence of EER Assurance Challenges:** The sequence in which EER assurance challenges are presented warrants further attention, such as bringing materiality further forward. Chapter 8 *Considering the Entity's 'Materiality Process'* would be better placed as Chapter 6 (after criteria and before Chapter 6 *Considering the System of Internal Control*).

- **Flow Charts:** A flow chart of a typical EER assurance engagement from "cradle to grave" would enhance navigation of the draft guidance at the start of Chapter 2: *Overview of an EER Assurance Engagement*. Then throughout the draft guidance, at the start of each chapter, a flow chart would

assist to summarise what is covered in that chapter, with hyperlinks to each subsection from the flow chart for accessibility.

- **Hyperlinks and Accessibility:** Use of hyperlinks to more detailed examples within published EERs would add value. In addition, reducing the amount of repetition of ISAE 3000 (Revised) requirements through a suitable technology solution. Practitioners rarely read a standard or guidance document in hard copy these days. Hence, in its current form, the draft guidance may not be easily accessible or 'user-friendly' for assurance practitioners. A technology solution could enhance the accessibility of the draft guidance and links to ISAE 3000 (Revised).

- **Length:** The draft guidance is quite lengthy and could be more useful if the focus were on how to apply ISAE 3000 (Revised) to EER assurance through use of examples and case studies.

- **Language and distribution:** The use of plain English, and language which easily translates, would facilitate the understandability of this draft guidance. Broader distribution may be done once the final guidance has been issued through webinar's or working with professional accounting bodies, education bodies and academics in this area.

- **IASB Links:** Stronger links to the International Accounting Standards Board (IASB) project to update its IFRS Practice Statement 1 *Management Commentary* to ensure that the EER guidance will be fit for purpose across the broader corporate reporting suite.

- **Clarity of Purpose:** The structure could be improved by clarifying the purpose of the document up front, i.e. to be used in conjunction with ISAE 3000 (Revised) rather than replacing it.

- **Preconditions versus Performing an Engagement:** While the chapters are useful for locating guidance on specific topics, they may inadvertently remove the integrated and iterative nature of many of the considerations. Clarification in relation to when the practitioner is expected to do what may assist. The current structure may be exacerbating the concern that the draft guidance blurs the lines between the preconditions for an engagement and actual performance of the engagement. This emphasis on the iterative nature of these evaluations and assessments on the suitability of criteria, the appropriateness of the internal controls and the consideration of the materiality process could be further emphasised. The NZAuASB developed a similar flowchart to highlight the iterative nature of evaluations for NZ AS 1, which can be seen as an example in the appendix to their submission.

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?

The following key points are raised with respect to the draft guidance complementing ISAE 3000 (Revised) requirements and application material:

- **Assertions:** The AUASB supports the inclusion of the use of assertions, even though ISAE 3000 (Revised) does not deal with assertions. This support is based on consideration that the draft guidance may give rise to some useful examples to assist assurance practitioners in their application of professional scepticism.

- **Broad Range of Subject Matter:** ISAE 3000 (Revised) is too broad to cover assertions related to the full range of subject matter information, however ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements* addresses assertions. While the AUASB does not consider draft guidance on assertions contrary to the assurance framework or requirements generally, it does acknowledge that EER still covers a broad range of subject matter. This wide scope raises challenges regarding whether or not the assertions described in the draft guidance are sufficiently broad to remain framework neutral.

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

The following key points are highlighted with respect to matters not explicitly covered in ISAE 3000 (Revised) but tackled in this draft guidance:

- **Report Preparer's Materiality Process:** Paragraphs 19-21: The AUASB is supportive of the inclusion of references to the preparer's role and the materiality process. The AUASB cautions against trying to cover too much in one document. Whilst guidance on the preparer's role is important, the IAASB is encouraged to not lose sight of the primary audience for this draft guidance or blur the role of the assurance practitioner with that of the EER preparer.

- **Preconditions to Accepting an Assurance Engagement:** Paragraphs 24 and 26: The AUASB agrees that the guidance could draw a link between the preconditions and the system of internal control. However, the draft guidance may currently inadvertently imply an insurmountable hurdle to accepting an EER assurance engagement. Rather, a distinction could be drawn between the work effort based on a preliminary knowledge as opposed to performing detailed walk throughs or testing typically performed during the assurance engagement.

- *Upfront Effort Required:* The draft guidance on preconditions seems to set a very high barrier to accepting an EER assurance engagement. Practically, the assurance practitioner may be unable to reach a final conclusion on the suitability of the criteria, understand the materiality process and identify whether or not the internal control system is robust enough to be able to provide the evidence needed to conclude until the work has started. The assurance practitioner may need to undertake a system walk through, traditionally performed as part of the assurance engagement, before reaching this conclusion.

- *Evolution of EER and Related Assurance:* Further recognition may be needed that as EER preparers continue to evolve their EER, assurance practitioners need to evolve with them on the assurance of EER. On this journey, it may be possible to assure some of the measures reported but not others. As such it may not be straightforward when accepting and scoping the engagement accordingly, but rather it may be more appropriate to report on this journey.

- *EER Assurance Report:* Phase 2 could capture a more flexible way to report, not just a binary "yes" or "no" conclusion. Such flexibility may impact the preconditions for accepting the engagement and "how much is enough" to enable a practitioner to accept an assurance engagement. ISAE 3000 (Revised) does not preclude the assurance practitioner including findings and recommendations in the assurance report.

- *Sufficiency of Internal Controls:* There remains a general lack of understanding in the EER preparer community in relation to internal controls and the preconditions for assurance. Where an entity voluntarily seeks assurance, it may be unsure of the need for internal controls and processes to support the EER. Therefore in practice, the AUASB understands that the current focus from assurance practitioners is in part the "assurance readiness" phase. This is when assurance practitioners work with clients as they develop their EER, to assist them to focus on developing reporting systems that will be "assurable" in the longer term, as well as provide better quality information.

- *Independence Concerns:* It may be a challenge to meet the preconditions for many EER assurance engagements due to the immaturity of data collation processes and reporting systems, as well as the lack of internal controls. Paragraphs 50-53 in the draft guidance provide some useful context on the performance of assurance readiness engagements. If an assurance practitioner undertakes an assurance readiness engagement, they may be moving into a developmental role and the issue of independence may be raised. Hence, their ability to continue in the role of assurance provider may be questioned.

- **Assertions:** Paragraph 36: On balance, the AUASB is supportive of referencing possible assertions. As mentioned in response to Q1, the link between the qualitative characteristics described in a reporting framework, the practitioner's evaluation of the suitability of criteria and the assertions could be clarified further.

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

Four Key Factor Model for Credibility: The Four Key Factor Model for Credibility on page 77 is useful and the AUASB supports its publication alongside the draft guidance.

Background and Contextual Information: The Background and Contextual Information section on page 72 could be confusing. It is unclear how much of this information will assist the EER preparer. If this material is published, which the AUASB does not support, it is recommended that the examples be changed and that it is clearly articulated how this particular guidance will assist EER preparers. Areas that the AUASB found particularly confusing include:

- A distinction drawn between criteria and benchmarks (two separate bullet points in paragraph 6). ISAE 3000 (Revised) defines criteria as benchmarks, therefore separating criteria and benchmarks could be confusing. It is understood that the measurement, recognition, presentation and disclosure bases are a part of the criteria.

- The example of the apple to illustrate the idea of "elements" and "qualities" is not useful as it does not relate to EER information.