Australian Government

Auditing and Assurance Standards Board

Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	**6.2**
Meeting Date:	16 April 2019
Subject:	EER Assurance – Issuance of Phase 1 EER Consultation Paper – IAASB Seeking comments by 21 June 2019
Date Prepared:	8 April 2019

<u>Comments received from Jo Cain</u>

Overall Comments

- Purpose of the Guidance to apply ISAE 3000 (Revised) to a wide range of subject matter is now clear.
- Alignment with ISAE 3000 (Revised) requirements is much stronger.
- Use of ISAE 3000 (Revised) terminology is more consistent.
- Separating guidance potentially more applicable to report developers into Appendix 1 makes the distinction clearer, highlighting that the audience for this Guidance is the assurance practitioner.
- **Valuable examples are improving throughout the Guidance - however, this remains an area for improvement**: There is still a need to "flow" practical examples throughout the Guidance, providing a financial reporting example alongside a non-financial reporting (EER) example, thus accommodating the different backgrounds from which assurance practitioners will come to use this Guidance.

Chapter 1: Introduction

- Strengths of this draft:
  - Integrated reporting (IR) is now mentioned upfront, as well as sustainability reporting (para 1).
  - Clarity is now provided upfront that this guidance is for assurance practitioners, whilst EER preparers may also find it useful as a secondary audience (para 5).
  - Clarity is now provided re: ISAE 3000 (Revised):
    - The purpose of the guidance is the application of 3000 to a wide range of subject matter (para 6).
    - No requirements additional to 3000 are included (para 7).
    - It is most likely to be applied to attestation engagements (para 10).
    - Terminology is consistent with 3000 (para 11).
  - Para 11a provides a good financial reporting example followed by an EER example.
- Areas for improvement:

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- o **Make it clear that EER can include financial information:** Not just non-financial/ESG information (para 1).
- o **Enhance the clarity of subject matter elements with examples in situ (para 11a):** For example why do we need "individual" employees and "individual" customers?

Chapter 2: Overview of an EER Assurance Engagement
- Areas for improvement:
  - o **Flow chart is all that is needed:** Could this chapter be summed up in a one page flow chart of a typical EER assurance process, pointing to where in the guidance each stage is covered? The statements made under the subheadings in this chapter appear not to go further than the ISAE 3000 (Revised) requirements, hence the value is questionable.
  - o **Rational purpose generalisation should be avoided:** Para 19 contains a potentially dangerous generalisation that if the assurance scope does not cover the whole report, it increases the risk of there not being a rational purpose for the engagement. Whereas, many assurance practitioners would argue that tailoring the scope to facilitate a deep dive on data and narrative relating to material issues, potentially on a rolling program, can be extremely useful. The concept of deep dive into material issues versus wide and shallow across more content volume warrants better explanation here.
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Chapter 3: Determining Preconditions and Agreeing the Scope
- Strengths of this draft:
  - o Diagram in para 46 is useful.
  - o Coverage of assurance readiness engagements in paras 50-53 is useful – in particular comments such as "Such communications may encourage those charged with governance or management, as appropriate, to take steps to improve the process to prepare EER reports" (para 51).
  - o **Good to see independence challenges highlighted**: In para 53 – however, a stricter stance is needed re: an assurance practitioner not being in a position to continue in that capacity if an assurance readiness engagement is undertaken resulting in substantial guidance on EER development processes. In this case, the practitioner is acting in a developmental capacity rather than as an independent assurance auditor.
- Areas for improvement:
  - o **Potential confusion re: reasonable versus limited assurance:** In para 45, by having the same preconditions. More context is needed to explain this.
  - o **Do we need para 47 a)-g) in addition to the diagram:** In para 44, or can the content in para 47 be integrated into the diagram? If para 47 remains, it could be enhanced with a user-friendly example flowing through the stages. 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?
  - o **Consideration of materiality in scoping assurance:** Para 49 should include specific consideration of materiality in scoping and accepting the assurance engagement to ensure a focus on material issues and datasets. If the reporting entity has undertaken a robust materiality process, what is most important (material) to intended users in their decision-making will have been determined. Considering

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materiality in the assurance scope will help to ensure that it is meaningful to intended users, in particular for limited assurance (para 49, 5th bullet point, 1st sentence). Para 56 points in this direction without providing valuable linkage to materiality – representing a missed opportunity to assist assurance practitioners.

Chapter 6: Considering the System of Internal Control
- Strengths of this draft:
    - Comprehensive identification of policies, procedures and resources that make up the reporting system (para 67), types of control activities (para 70) and governance aspects (para 71).
    - Practical example in para 73.
    - Further context on when an assurance readiness engagement may be the appropriate scope in place of an assurance engagement (para 76).
- Areas for improvement:
    - **More practical guidance is needed:** In paras 58-66 – hence the value of these two pages of the guidance is questioned.
    - **Specific examples are essential for the assurance practitioner:** In this chapter, in particular:
        - Procedures and resources, for a)-f) in para 67.
        - Different types of control activities listed in a)-d) of para 70.
        - Governance oversight activities listed in a)-h) of para 71.

Chapter 7: Determining the Suitability of Criteria
- Strengths of this draft:
    - This chapter is one of the strongest in the draft Guidance.
    - Use of diagrams to explain concepts: Para 80 - underlying subject matter, criteria and subject matter information and how they interrelate; para 89 – determining the suitability of criteria.
    - Financial and non-financial examples: Provided side-by-side in para 82 – this approach to example provision is needed throughout the entire Guidance document.
    - Examples of the characteristics of criteria: Relevance (para 96), Materiality (para 98), Reliability (para 105) and Neutrality (para 108).
    - Example of determining the suitability of criteria: Para 114 (pages 41-42) across all five criteria.
- Areas for improvement:
    - **Materiality subheading needed:** For para 98.
    - **Financial and non-financial examples needed side-by-side:** Both for Completeness as a characteristic of criteria (paras 102-104), financial for Relevance (para 96), financial for Reliability (para 105) and financial for Neutrality (para 108).

Chapter 8: Considering the Entity's Materiality Process:
- Strengths of this draft:
    - The context for a materiality process is well-defined upfront in paras 124 and 125.
    - Stakeholder engagement context (para 155).
    - Sources of information for materiality (para 156).
- Areas for improvement:

- **Risk is an important input to the materiality process:** But risk represents one of many inputs. Hence the example provided re: risk in para 127 may be more confusing than helpful.
- **Materiality results are relevant:** Irrespective of whether or not the assurance scope covers the whole EER. Disagree with the first sentence of para 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. Suggest removal of the first sentence of para 129.
- **Materiality is important to determining assurance scope:** Second sentence of para 129 addresses this and could be made more prominent, perhaps with a subheading and links to other relevant parts of the Guidance.
- **Materiality process diagram potentially confusing:** Inclusion of the preparer's role alongside that of the practitioner in the diagram in para 130 could be confusing. For other areas of the Guidance, this context has been moved to Appendix 1, which is also suggested here, to avoid any potential confusion.
- Para 132 strays into the preparer's role rather than the assurance practitioner's.
- Question the relevance of paras 136-144 to the assurance practitioner. Perhaps this content could be condensed into one or two short paras?
- Para 145 onwards are more relevant to the assurance practitioner.
- **Disagree with the sole focus on impact:** Paras 152-154 represent a GRI and Sustainability Reporting focus. In Integrated Reporting, this would be value creation, not impact. Perhaps an additional example could be included?
- **Examples of disclosure of the materiality process needed:** Para 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.

Chapter 9: Performing Procedures and Using Assertions:
- Strengths of this draft:
  - Well written content on assertions.
- Areas for improvement:
  - **Categories of assertions need examples**: Diagram in para 177 would benefit from specific subject matter examples, both financial and non-financial, alongside each category.
  - **Balance guidance still needed**: Para 178 goes some way towards addressing the challenge experienced by assurance practitioners in the face of overly positive performance reporting lacking in appropriate balance of achievements and challenges.

Chapter 10: Assuring Narrative Information:
- Strengths of this draft:
  - Coverage of factual versus subjective narrative information in para 187.
  - Explanation of the typical assurance outcomes with narrative information, including rewording or removal of statements (para 200).

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Chapter 11: Assuring Future-Oriented Information:
- Strengths of this draft:
  - Again, coverage of factual versus subjective future-oriented information is helpful.

Chapter 12: Considering the Materiality of Misstatements:
- Strengths of this draft:
  - Coverage of different types of misstatements, quantitative and qualitative, in para 219. In particular, those relating to presentation and the preparer's behaviour, both of which can result in misleading the user.
  - Direct linkage to ISAE 3000 (Revised) requirements, such as in para 226.
- Areas for improvement:
  - **Coverage of financial materiality thresholds may assist**: Relating to percentage error may help assurance practitioners to understand this area.