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Professor Arnold Schilder
International Auditing and Assurance
Standards Board
International Federation of Accountants
529 Fifth Avenue
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Our ref SRA/288

21 June 2019

Dear Professor Schilder

Re: IAASB Consultation Paper, *Draft Guidance in Applying ISAE 3000 (Revised) to Extended External Reporting (EER)* – Phase 1

We appreciate the opportunity to comment on the above Consultation Paper (CP) issued by the IAASB. We have consulted with, and this letter represents the views of, the KPMG network.

We understand that the IAASB is seeking higher-level feedback regarding the *Draft Guidance In Applying ISAE 3000 (Revised) to Extended External Reporting (EER)* (the "Guidance Document") at this time, and that we will have the opportunity to comment more specifically when the Guidance Document is completed and formally exposed. We therefore set out our overarching comments below, which are focused primarily on the overall direction and structure of the document, and on the content as a whole, at this stage of the process. We also provide our responses to the specific questions posed by the IAASB, in Appendix 1.

Furthermore, we also provide more detailed drafting feedback in Appendix 2, which highlights suggestions for clarification regarding certain aspects of the content of the Guidance Document.

We are supportive of the material set out in the Guidance Document. We recognise the significant work effort of the IAASB in preparing this and we believe, insofar as we are able to comment at this stage, that in general it captures those areas that are more challenging for practitioners in performing EER Assurance engagements, as identified by respondents to the IAASB Discussion Paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements,* and that the material included will be very useful for practitioners in performing such assurance engagements.

We support the IAASB's decision that the Guidance Document be non-authoritative, framework neutral and principles-based so that it can be applied to any EER framework or entity-developed criteria, and that it is directed at an informed readership comprising assurance practitioners as described in ISAE 3000 (Revised).

Scope of the Document

We note that the IAASB appears, in this publication and elsewhere, e.g. in their 2018 Survey: *Envisioning the Future, Survey on the IAASB's Future Strategy*, to describe assurance engagements that are extended external reporting (EER) versus non-EER. We believe that this distinction is not necessarily a bright line and is also likely to further evolve over time.

As a result, we suggest that the IAASB clarify that although this publication is focused on EER assurance engagements, as would currently be captured by this term, it may also be applied more generally to key challenges in the implementation of ISAE 3000 (Revised) and related standards in the assurance suite. This will help to ensure that it has sufficiently broad applicability, and also remains fit for purpose, for the foreseeable future.

Linkage to ISAE 3000 (Revised)

We welcome the alignment of terminology with that used in ISAE 3000 (Revised), which will support consistent usage. We also support the use of terminology that is not derived from ISAE 3000 (Revised) but complements the application of requirements in the standard, and is commonly used in practice, such as "elements" and "qualities", since use of such terminology is necessary in order to provide sufficiently detailed guidance.

We understand that the IAASB does not intend to re-open ISAE 3000 (Revised) to incorporate new requirements, however, we highlight that certain concepts extend beyond those set out in ISAE 3000 (Revised) and may be interpreted as creating new requirements, e.g. in respect of the material regarding understanding of internal control, as well as the introduction of the concept of assertions. We recommend, therefore, that the Guidance Document explicitly state that its intended purpose is to provide guidance regarding the application of ISAE 3000 (Revised), and clarify that it does not establish new requirements that are above and beyond those set out in ISAE 3000 (Revised).

In addition, we highlight that certain assurance engagements performed in accordance with ISAE 3000 (Revised) may include financial elements (historical financial information), albeit in a different and specific context. We note that the Guidance Document frequently compares and contrasts aspects of an assurance engagement to an audit of financial statements, to explain the principal differences between the two forms of engagement. As a result, it may be unclear to practitioners that EER

assurance engagements may involve historical financial information. Accordingly, we suggest that the Guidance Document provide examples of such historical financial information in the context of an EER assurance engagement, to clarify this matter.

Focus on Sustainability Engagements

Much of the content of the Guidance Document appears to focus, at least implicitly, on sustainability engagements. It is unclear whether this is intentional or whether, as a more established engagement type, examples inevitably draw from practical considerations identified in performing such engagements.

We recommend that the Guidance Document be broadened beyond sustainability engagements and focus more specifically on particular challenges that arise across a wide range of EER Assurance engagements. As part of this, we suggest that the IAASB address a broader base of assurance engagement types and include a more diverse pool of examples, applicable to each concept being illustrated, in the Guidance Document.

We also suggest that in selecting terminology, the Guidance Document be aligned to terminology that is widely used and understood in the context of engagements performed in accordance with ISAE 3000 (Revised), as well as audits of financial statements performed in accordance with the ISAs, rather than concepts and terms that are applicable more specifically to sustainability assurance engagements.

Materiality Process

In connection with the above, we highlight that the Guidance Document describes a "materiality process" to determine which aspects ("topics and related elements" as set out in the Guidance Document) of the underlying subject matter should be included in the subject matter information. We note that considerations in this regard apply, in particular, to sustainability engagements and therefore we suggest that the Guidance Document clarify that this consideration may not be applicable to other types of assurance engagements.

Whilst much of the content of this section is very helpful in addressing practical challenges, we are concerned that the term "materiality process" may be confusing in respect of whether and how it involves materiality considerations. We suggest that references to materiality are reserved for the context of design of assurance procedures in order to obtain sufficient evidence, as well as identification and assessment of misstatements, and not used in respect of determining which aspects or attributes of the underlying subject matter should be measured/evaluated for inclusion in the subject matter information. We suggest that a different term be used, and that the guidance focus on consideration of suitable criteria that define the matters for inclusion

in the subject matter information, as well as relevance to users, linked to the precondition that there be a rational purpose to the engagement.

In respect of the terminology of "materiality" in the context in which this is currently understood in a financial statements audit (i.e. what is "material" information to include in respect of the aspects of the underlying subject matter that are included in the subject matter information), the use of this term in respect of EER assurance engagements may be challenging, in particular, when aspects of the underlying subject matter consist of narrative information, and/or when there are several disparate aspects of the underlying subject matter. Accordingly, we suggest that it would be helpful for the IAASB to focus on considerations as to how to apply this concept in an EER assurance engagement.

In this regard, we suggest the IAASB consider the material in the AICPA guidance document *Attestation Engagements on Sustainability Information*, which is more detailed and may be helpful. In particular, the material addressing evaluation of misstatements across multiple underlying subject matters/different aspects of subject matter information, including finding the "common denominator" and grouping of items, is particularly helpful as this addresses challenges that are specific to assurance engagements.

Reasonable and Limited Assurance Engagements

We note that considerations regarding reasonable and limited assurance engagements, and, in particular, the differences between these two forms of assurance engagement, in terms of the effects on engagement acceptance, understanding the control environment, risk assessment, nature and extent of assurance procedures to perform, and extent of evidence to obtain continue to present challenges to practitioners. We recommend the inclusion of more specific guidance throughout the Guidance Document, including examples that compare and contrast between these two types of engagement.

Preconditions for an Assurance Engagement

Appropriateness of the Underlying Subject Matter

We highlight that the guidance addresses suitability of criteria and consideration of the needs of intended users, but does not address the appropriateness of the underlying subject matter itself in detail. We suggest, therefore, that this section focus more specifically on the appropriateness of the underlying subject matter, with linkage to other preconditions for an assurance engagement, such as whether there is a rational purpose to the engagement, as we recognise that such considerations inherently involve significant inter-relationship.

Inter-relationship of Preconditions

We suggest that the Guidance Document be structured to more clearly link the above considerations, under the "preconditions for an assurance engagement" section, with the emphasis in the guidance on such inter-relatedness. For example, for certain engagements, e.g. assurance over information set out in Management's Discussion and Analysis (MD&A) in an entity's annual report, the practitioner needs to determine whether the underlying subject matter is appropriate, including whether the elements for measurement/evaluation for inclusion in the subject matter information are sufficiently distinct (and, by extension, it may be particularly challenging to identify the aspects of a particular matter/set of information that constitute the subject matter information). As a result, in considering whether the subject matter information is complete in accordance with the criteria, the practitioner would also need to consider whether the criteria are suitable for the needs of the intended users and whether there is a rational purpose to the engagement.

We also recommend that there be greater recognition of consideration of different aspects of the preconditions in the illustrative examples, and that these confront this particular challenge more directly/explicitly.

As a result of this inter-relationship of aspects of the preconditions, we note that at certain points in the guidance concepts appear to have become co-mingled, or descriptions may imply this, e.g. assertions and criteria, identifiability of subject matter information and suitability of criteria, and, as we refer to above, materiality and completeness of subject matter information, which may be misleading to users.

Development of End-to-End Case Studies

To help address the complexity in this area described above, we suggest that the IAASB develop end-to-end case studies for inclusion in the Guidance Document, to illustrate the application of these concepts throughout the guidance, rather than treating these matters as discrete considerations.

Suitability of Criteria

We believe that the chapter addressing suitability of criteria is particularly helpful.

We suggest that this section also acknowledge more directly that a key innovation in some EER frameworks is the emphasis on determining subject matter information, in accordance with the EER framework principles, by reference to the unique features of the organisation's business model/strategy (also referred to as "linkage"). We highlight that frameworks such as the IASB's Management Commentary Practice Statement; the UK's Strategic Report Guidance, and the Integrated Reporting (IR) Framework represent significant departures from traditional prescriptive frameworks, as under

these frameworks disclosures are to be determined by reference to the company's business model. Accordingly, we suggest that the Guidance Document cross-refer to the above sources of information and guidance.

We believe that a rigorous approach to assurance engagements on such linkage-based disclosures is possible, but we recognise the more significant level of professional judgement required by assurance practitioners in this scenario, particularly in relation to the completeness of disclosures for frameworks where there is no prescriptive set of disclosures available to practitioners. For EER Frameworks that define disclosure criteria by reference to an organisation's business model, we highlight that it is critical for practitioners to have a deep understanding of the entity's business model in such circumstances.

It may also be helpful to refer to the fact that criteria in certain EER frameworks may be principles-based, and also may allow for criteria to evolve and develop over time as practice matures, in a similar way to financial reporting frameworks, which have been developed over the long term, mainly in response to matters identified in practice. We note that this is different to a more fundamental change in the criteria themselves, as described in the guidance.

We recommend that the Guidance Document provide more information regarding this, with clearer explanation that in this scenario criteria may provide a form of high-level guidance, although must still be capable of providing a suitable basis for consistent measurement/evaluation, and for the practitioner to have sufficient confidence to be able to identify/assess misstatements.

Such considerations are particularly important in respect of EER Frameworks that are principles-based and therefore there is inherent subjectivity in preparing the subject matter information. In particular, the *Neutrality* aspect of suitable criteria is critical in ensuring that information is balanced and negative information is included to an appropriate extent such that the subject matter information is free from bias. As a result, an assurance engagement over such subject matter information would necessarily draw on the professional experience and expertise of an assurance practitioner, and require the exercise of professional skepticism and professional judgement to a significant extent, whilst still remaining objective.

We recommend, therefore, that the IAASB describe more fully the value to a user of assurance by a practitioner in accordance with ISAE 3000 (Revised) as compared to other market offerings that are not conducted with the same rigour, are not based on robust frameworks or criteria, and which may draw on practitioners with subject matter expertise but not expertise and experience in assurance skills and techniques, which are critical to ISAE 3000 (Revised) assurance engagements.

Use of Smart Technology

The Guidance Document is long, with many inter-related sections and concepts. Accordingly, we recommend that the IAASB consider the use of smart technology within the Guidance Document, in particular, the use of "click-through" functionality to facilitate access and enhance its usefulness to practitioners.

Please contact Sheri Anderson if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix 1 - Specific Questions Posed by IAASB

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?

We support the IAASB's decision that the Guidance Document be non-authoritative, framework neutral and principles-based so that it can be applied to any EER framework or entity-developed criteria, and that it is directed at an informed readership comprising assurance practitioners as described in ISAE 3000 (Revised).

We believe the content generally addresses the challenges for practitioners and is helpful and clear. However, we set out comments and suggestions regarding specific areas that may benefit from clarification below:

Scope of the Document

We note that the IAASB appears, in this publication and elsewhere, e.g. in their 2018 Survey: *Envisioning the Future, Survey on the IAASB's Future Strategy*, to describe assurance engagements that are extended external reporting (EER) versus non-EER. We believe that this distinction is not necessarily a bright line and is also likely to further evolve over time.

As a result, we suggest that the IAASB clarify that although this publication is focused on EER assurance engagements, as would be currently captured by this term, it may also be applied more generally to key challenges in the implementation of ISAE 3000 (Revised) and related standards in the assurance suite. This will help to ensure that it has sufficiently broad applicability, and also remains fit for purpose, for the foreseeable future.

Linkage to ISAE 3000 (Revised)

We welcome the alignment of terminology with that used in ISAE 3000 (Revised), which will support consistent usage. We also support the use of terminology that is not derived from ISAE 3000 (Revised) but complements the application of requirements in the standard, and is commonly used in practice, such as "elements" and "qualities", since use of such terminology is necessary in order to provide sufficiently detailed guidance.

We understand that the IAASB does not intend to re-open ISAE 3000 (Revised) to incorporate new requirements, however, we highlight that certain concepts extend beyond those set out in ISAE 3000 (Revised) and may be interpreted as creating new requirements, e.g. in respect of the material regarding understanding of

internal control, as well as the introduction of the concept of assertions. We recommend, therefore, that the Guidance Document explicitly state that its intended purpose is to provide guidance regarding the application of ISAE 3000 (Revised), and clarify that it does not establish new requirements that are above and beyond those set out in ISAE 3000 (Revised).

In addition, we highlight that certain assurance engagements performed in accordance with ISAE 3000 (Revised) may involve financial elements (historical financial information), albeit in a different and specific context. We note that the Guidance Document frequently compares and contrasts aspects of an assurance engagement to an audit of financial statements to explain the principal differences between the two forms of engagement. As a result, it may be unclear to practitioners that EER assurance engagements may involve historical financial information. Accordingly, we suggest that the Guidance Document provide examples of such historical financial information in the context of an EER assurance engagement, to clarify this matter.

Focus on Sustainability Engagements

Much of the content of the Guidance Document appears to focus, at least implicitly, on sustainability engagements. It is unclear whether this is intentional or whether, as a more established engagement type, examples inevitably draw from practical considerations identified in performing such engagements.

We recommend that the Guidance Document be broadened beyond sustainability engagements and focus more specifically on particular challenges that arise across a wide range of EER Assurance engagements. As part of this, we suggest that the IAASB address a broader base of assurance engagement types and include a more diverse pool of examples, applicable to each concept being illustrated, in the Guidance Document.

We also suggest that in selecting terminology, the Guidance Document be aligned to terminology that is widely used and understood in the context of engagements performed in accordance with ISAE 3000 (Revised), as well as audits of financial statements performed in accordance with the ISAs, rather than concepts and terms that are applicable more specifically to sustainability assurance engagements.

Materiality Process

In connection with the above, we highlight that the Guidance Document describes a “materiality process” to determine which aspects (“topics and related elements” as set out in the Guidance Document) of the underlying subject matter should be included in the subject matter information. We note that considerations in this regard apply, in particular, to sustainability engagements and therefore we suggest

that the Guidance Document clarify that it may not be applicable to other types of assurance engagements.

Whilst much of the content of this section is very helpful in addressing practical challenges, we are concerned that the term "materiality process" may be confusing in respect of whether and how it involves materiality considerations. We suggest that references to materiality are reserved for the context of design of assurance procedures in order to obtain sufficient evidence, as well as identification and assessment of misstatements, and not used in respect of determining which aspects or attributes of the underlying subject matter should be measured/ evaluated for inclusion in the subject matter information. We suggest that a different term be used, and that the guidance focus on consideration of suitable criteria that define the matters for inclusion in the subject matter information, as well as relevance to users/link to the precondition that there be a rational purpose to the engagement.

We also note that paragraph 164 suggests that preparers describe their materiality process in their report. Whilst we understand the IAASB's intention in suggesting this, and such information may be helpful for users of EER assurance report, we also recommend that it may be helpful to expand this guidance to explain the practitioner's responsibility if they believe key aspects are not included and the subject matter information as a whole may not be complete/ the criteria may not be suitable in driving this.

In respect of the terminology of "materiality" in the context in which this is currently understood in a financial statements audit (i.e. what is "material" information to include in respect of the aspects of the underlying subject matter that are included in the subject matter information), we note that the use of this term in respect of EER assurance engagements may be challenging, in particular, when aspects of the underlying subject matter consist of narrative information, and/or when there are several disparate aspects of the underlying subject matter. Accordingly, we suggest that it would be helpful for the IAASB to focus on considerations as to how to apply this concept in an EER assurance engagement. Such guidance could address both planning materiality as well as materiality used in evaluating misstatements.

In this regard, we suggest the IAASB consider the material in the AICPA guidance document *Attestation Engagements on Sustainability Information*, which is more detailed and may be helpful. In particular, the material addressing evaluation of misstatements across multiple underlying subject matters/ different aspects of subject matter information, including finding the "common denominator" and grouping of items, is particularly helpful as this addresses challenges that are specific to assurance engagements.

Reasonable and Limited Assurance Engagements

We note that considerations regarding reasonable and limited assurance engagements, and, in particular, the differences between these two forms of assurance engagement, in terms of the effects on engagement acceptance, understanding the control environment, risk assessment, nature and extent of assurance procedures to perform, and extent of evidence to obtain continue to present challenges to practitioners, and we recommend the inclusion of more specific guidance throughout the Guidance Document, including examples that compare and contrast between these two types of engagement. For example, we note the following:

— Paragraph 60 suggests that the practitioner obtain an "understanding" of the entity's system of internal control relating to its EER report, when performing a reasonable assurance engagement, and to "consider the process" when performing a limited assurance engagement, however, there is a lack of clarity as to the meaning of these two terms and the relative differences between them;

  We recommend that the IAASB include clear guidance in this regard throughout the Guidance Document, with practical examples to illustrate each aspect.

— Paragraph 58 refers to the ability of the practitioner to obtain sufficient appropriate evidence, and that this may depend in part on the extent to which the entity's system of internal control is "adequate". We note that less evidence may be required in a limited assurance engagement as compared to a reasonable assurance engagement, however, we would be concerned with a possible interpretation that the practitioner may perform a limited assurance engagement in circumstances where the control environment is still developing, and when it would not support reasonable assurance.

We recommend that the IAASB clarify that the decision as to the level of assurance to be obtained is made by the engaging party primarily based on their understanding of the needs of intended users and should not be driven by whether or not there are aspects of internal control weakness.

Preconditions for an Assurance Engagement

Appropriateness of the Underlying Subject Matter

We highlight that the guidance addresses suitability of criteria and consideration of the needs of intended users, but does not address the appropriateness of the underlying subject matter itself in detail. Paragraph 48 addresses whether the underlying subject matter is appropriate in the specific context of whether the

subject matter elements are "distinct from other things", and the section describing the "materiality process" addresses considerations as to matters for inclusion in the subject matter information, however, we consider that it is important to address broader challenges in determining whether the underlying subject matter itself is appropriate. We suggest, therefore, that this section focus in more detail on the appropriateness of the underlying subject matter, with linkage to other preconditions for an assurance engagement, such as whether there is a rational purpose to the engagement, which together would address whether the elements of the underlying subject matter that are to be measured or evaluated and included in the subject matter information are sufficiently distinct.

We recognise that such considerations inherently involve significant inter-relationship with matters such as the suitability of the criteria, the needs of the intended users and whether there is a rational purpose to the engagement.

Inter-relationship of Preconditions

We suggest that the Guidance Document be structured to more clearly link the above considerations, under the "preconditions for an assurance engagement" section, with the emphasis in the guidance on such inter-relatedness. For example, for certain engagements, e.g. assurance over information set out in Management's Discussion and Analysis (MD&A) in an entity's annual report, the practitioner needs to determine whether the underlying subject matter is appropriate, including whether the elements for measurement/evaluation for inclusion in the subject matter information are sufficiently distinct (and, by extension, it may be particularly challenging to identify the aspects of a particular matter/ set of information that constitute the subject matter information). As a result, in considering whether the subject matter information is complete in accordance with the criteria, the practitioner would also need to consider whether the criteria are suitable for the needs of the intended users and whether there is a rational purpose to the engagement. We also recommend that there be greater recognition of consideration of different aspects of the preconditions in the illustrative examples, and that these confront this particular challenge more directly/explicitly.

As a result of this inter-relationship of aspects of the preconditions, we note that at certain points in the guidance concepts appear to have become co-mingled, or descriptions may imply this, e.g. assertions and criteria, identifiability of subject matter information and suitability of criteria, and, as we refer to above, materiality and completeness of subject matter information, which may be misleading to users.

Development of End-to-End Case Studies

To help address the complexity in this area described above, we suggest that the IAASB develop end-to-end case studies for inclusion in the Guidance Document, to

illustrate the application of these concepts throughout the guidance, rather than treating these matters as discrete considerations.

Suitability of Criteria

We believe that the chapter addressing suitability of criteria is particularly helpful.

We suggest that this section also acknowledge more directly that a key innovation in some EER frameworks is the emphasis on determining subject matter information, in accordance with the EER framework principles, by reference to the unique features of the organisation's business model/strategy (also referred to as "linkage"). We highlight that frameworks such as the IASB's Management Commentary Practice Statement, the UK's Strategic Report Guidance, and the Integrated Reporting (IR) Framework represent significant departures from traditional prescriptive frameworks, as under these frameworks disclosures are to be determined by reference to the company's business model. Accordingly, we suggest that the Guidance Document cross-refer to the above sources of information and guidance.

We believe that a rigorous approach to assurance engagements on such linkage-based disclosures is possible, but we recognise the significantly greater level of professional judgement required by assurance practitioners in this scenario, particularly in relation to the completeness of disclosures for frameworks where there is no prescriptive set of disclosures available to practitioners. For EER Frameworks that define disclosure criteria by reference to an organisation's business model, we highlight that it is critical for practitioners to have a deep understanding of the entity's business model in such circumstances.

It may also be helpful to refer to the fact that criteria in certain EER frameworks may be principles-based, and also may allow for criteria to evolve and develop over time as practice matures, in a similar way to financial reporting frameworks, which have been developed over the long term, mainly in response to matters identified in practice. We note that this is different to a more fundamental change in the criteria themselves, as described in the guidance.

We recommend that the Guidance Document provide more information regarding the above, with clearer explanation that in this scenario the EER Framework may provide a form of high-level guidance, upon which an entity develops more specific criteria, which are capable of providing a suitable basis for consistent measurement/evaluation. As part of considering whether the preconditions for an assurance engagement are present, the practitioner would need to determine that the criteria are, in fact, suitable, and whether they have sufficient confidence to be able to identify/assess misstatements.

Such considerations are particularly important in respect of EER Frameworks that are principles-based and therefore there is likely to be greater inherent subjectivity in preparing the subject matter information. In particular, the *Neutrality* aspect of suitable criteria is critical in ensuring that information is balanced and negative information is included to an appropriate extent such that the subject matter information is free from bias. As a result, an assurance engagement over such subject matter information would necessarily draw on the professional experience and expertise of an assurance practitioner, and require the exercise of professional skepticism and professional judgement to a significant extent, whilst still remaining objective.

We recommend, therefore, that the IAASB describe more fully the value to a user of assurance by a practitioner, as there are various market offerings that are not conducted with the same rigour, based on robust frameworks or criteria, or which may draw on practitioners with subject matter expertise but not expertise and experience in assurance skills and techniques. Please refer to our response to Question 6 for more detail.

Use of Smart Technology

The Guidance Document is long, with many inter-related sections and concepts. Accordingly, we recommend that the IAASB consider the use of smart technology within the Guidance Document, in particular, the use of “click-through” functionality to facilitate access and enhance its usefulness to practitioners.

Controls

We welcome the discussion of the system of internal control in the context of the preparer’s responsibilities and in respect of the practitioner’s consideration of this in establishing whether the preconditions for an assurance engagement are present. We support the focus on adequacy rather than maturity of the system given that practice is evolving in this area.

We highlight that the guidance in this area is incremental to the requirements and application material relating to the preconditions in ISAE 3000 (Revised) and we suggest that IAASB clarify that this is not intended to create additional requirements.

As we note above, we are concerned that, as drafted, paragraph 58 refers to the ability of the practitioner to obtain sufficient appropriate evidence, and that this may depend in part on the extent to which the entity’s system of internal control is “adequate”. We note that less evidence may be required in a limited assurance engagement as compared to a reasonable assurance engagement, however, we would be concerned with a possible interpretation that the practitioner may perform

a limited assurance engagement in circumstances where the control environment is still developing, and when it would not support reasonable assurance. The decision as to the level of assurance to be obtained is made by the preparer based on their understanding of the needs of intended users and should not be driven by whether or not there are aspects of internal control weakness.

We suggest that this paragraph clarify this point, and guide a practitioner to instead perform a "readiness" assessment in such a situation.

We also note that paragraph 60 suggests that the practitioner obtain an "understanding" of the entity's system of internal control relating to its EER report, when performing a reasonable assurance engagement, and to "consider the process" when performing a limited assurance engagement.

We recommend that the IAASB explore providing more detailed guidance in this area, as to what procedures a practitioner should perform in order to obtain such an understanding, and, in particular, when considering the process, as to what the minimum expectations would be to satisfy this requirement, as there may otherwise be inconsistency in practice.

We highlight that this is an area of debate in respect of audit engagements also, and we refer to our comment letter to the IAASB in respect of ED ISA 315 (Revised), as to the nature and extent of work the practitioner would undertake to obtain such an understanding, whether it necessarily involves evaluation of the design and implementation of controls and how this would support risk identification and assessment. Such considerations are likely to be even more relevant to an assurance engagement, and therefore we recommend that the IAASB provide more context here, with illustrative examples, to ensure that the Guidance Document will be useful and relevant to practitioners.

We also refer to our other comments regarding that standard, and the terminology used, and suggest the IAASB consider similar clarification of terminology in this document, e.g. definitions of "controls", "control activities", explanation of consideration of design and implementation, as well as operating effectiveness, to help ensure consistency in application in practice, in the context of an EER assurance engagement.

Assertions

We are supportive, in general, of the material in relation to assertions, and we believe this is important for practitioners as it provides a mechanism to help them to apply aspects of ISAE 3000 (Revised) in practice.

We highlight that the guidance is extensive and detailed, and is not a concept that is addressed in ISAE 3000 (Revised). As such, we recommend that the IAASB clarify that the purpose of this material is to provide guidance only and is not intended to create requirements that are above and beyond those of the standard itself.

We also recommend that in addition to the overall concept of assertions, the IAASB explore the inclusion of other related concepts, currently set out in the ISAs, such as risks of misstatement, risks of material misstatement, significant risks and *relevant* assertions to provide a clearer path to practical application.

We note that the example categories of assertions set out at paragraph 177 are different to those that are applicable for an audit of financial statements. Whilst we do not necessarily disagree that there would be such differences, given that there is a broader range of subject matter information for EER assurance engagements, we suggest that the IAASB carefully explore the nature of such differences and whether these are appropriate. For example, we note that there is no "completeness" assertion, and we consider that such an assertion would be applicable in an EER assurance engagement as for an audit engagement. Additionally, for assertions that are specific to assurance engagements, e.g. the "connectivity" assertion, we suggest that the IAASB provide further guidance as to the application.

We are concerned that the material in this section is unclear in that it appears to co-mingle characteristics of assertions with those of suitable criteria, which we do not believe to be appropriate as they are distinct concepts. We suggest that the IAASB clarify their intentions in this regard.

Future-Oriented Information

We believe this section is helpful, although we note that it may be less of a priority since ISAE 3400, *The Examination of Prospective Financial Information* already addresses certain considerations in respect of financial information. Whilst we recognise that this standard does not address examination of prospective financial information that is expressed in general or narrative terms, e.g. as set out in MD&A in an entity's annual report, many of the procedures outlined in this standard may be suitable for such an examination.

We believe the guidance in this section could be more detailed and therefore suggest that the IAASB consider the material set out in the AICPA *Prospective Financial Information* guide. We also recommend the IAASB explore drawing on expertise developed in the auditing field, in relation to going concern, as similar challenges and considerations regarding future-oriented information exist.

Ethical Considerations

Practitioners performing these engagements are required to comply with Parts A and B of the IESBA Code related to assurance engagements (or other requirements that are at least as demanding). Since a number of EER Assurance engagements may address highly sensitive areas relating to environmental, regulatory or social matters, it may be helpful if the IAASB were to consider explicit linkage in the guidance to the IESBA Code. For example, this may be particularly important in areas such as actual or suspected NOCLAR or fraud in relation to the underlying subject matter in a similar way to such matters in the context of an audit engagement, involving consideration as to whether the practitioner may have an obligation to report such matters to an external/regulatory body.

Intended Users

The document provides guidance regarding intended users, however, we note that the guidance focuses primarily on a generalised user base. We recommend that the document provide more guidance as to specific users, including how to identify these individuals or groups and consider their needs.

Assurance Skills and Techniques

We note that ISAE 3000 (Revised) requires a practitioner to be satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities to do so. For EER Assurance engagements, this will necessarily involve expertise in the underlying subject matter as a key feature of an engagement team's ability to perform the engagement.

We recognise that Chapter 4, which addresses applying appropriate skills, and Chapter 5, which addresses exercising professional skepticism and professional judgement are not yet drafted. However, we highlight that it will be important for the IAASB to focus on the need for expertise in the underlying subject matter in performing the engagement, emphasising that this is a key feature of such engagements when compared to audit engagements, whilst also ensuring that the engagement team has the necessary assurance expertise, as assurance skills and experience in assurance techniques will also be critical attributes of an engagement team. We also recommend that the IAASB include guidance specifically directed at using the work of subject matter experts, as this is likely to be an integral feature of such engagements.

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?

Overall, we believe the draft guidance is clear and easy to understand, and that the examples and diagrams are helpful to better illustrate key points.

We support that terminology is aligned with that used in ISAE 3000 (Revised), which will support consistent usage. We also support the use of terminology that is not derived from ISAE 3000 (Revised) but complements the application of requirements in the standard, and is commonly used in practice, such as “elements” and “qualities” since use of such terminology is necessary in order to provide sufficiently detailed guidance.

We suggest that terminology be aligned to ISAE 3000 (Revised) and ISAs rather than specifically focused on sustainability engagements (e.g. use of “materiality process” as we describe above).

We understand that the IAASB does not intend to re-open ISAE 3000 (Revised) to incorporate new requirements, however, we highlight that certain concepts extend beyond those set out in ISAE 3000 (Revised) and may be interpreted as creating new requirements, e.g. in respect of the material regarding understanding of internal control, as well as the introduction of the concept of assertions. We recommend, therefore, that the Guidance Document explicitly state that its intended purpose is to provide guidance regarding the application of ISAE 3000 (Revised), and clarify that it does not establish new requirements that are above and beyond those set out in ISAE 3000 (Revised).

As noted in our response to Question 1, we suggest that the examples are broadened beyond sustainability engagement matters and focus more specifically on particular challenges that arise across a wide range of EER Assurance engagements.

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

Overall, we believe that the proposed structure is clear and appropriate and we support the inclusion of specific matters in individual chapters. We highlight above that certain aspects of these assurance engagements would also benefit from guidance that does not currently appear to be proposed, e.g. the suitability of the underlying subject matter, as well as better links between inter-related areas in considering whether the preconditions for an assurance engagement are present.

The Guidance Document is long, with many inter-related sections and concepts. Accordingly, we recommend that the IAASB consider the use of smart technology within the Guidance Document, in particular, the use of "click-through" functionality to facilitate access and enhance its usefulness to practitioners.

Additionally, to help address the complexity regarding the inter-relationship of the preconditions for an assurance engagement, we suggest that the IAASB develop end-to-end case studies for inclusion in the Guidance Document, as we describe in our response to Question 1.

4. Do you agree that the draft guidance does not contradict or conflict with the requirements of application material of ISAE 3000 (Revised), and that the draft guidance does not introduce any new requirements?

The guidance is non-authoritative and therefore we do not believe it contradicts or conflicts with the content of ISAE 3000 (Revised). Instead it includes material that complements and, where necessary, supplements aspects of ISAE 3000 (Revised), such as the use of terms including "elements" and "qualities", but without introducing additional requirements.

As we note in our response to Question 2, we recommend that the Guidance Document explicitly state that its intended purpose is to provide guidance regarding the application of ISAE 3000 (Revised), and clarify that it does not establish new requirements that are above and beyond those set out in ISAE 3000 (Revised).

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

We agree with this approach, since the document is designed to address specific challenges in application of ISAE 3000 (Revised) and therefore necessarily will include content not specifically set out in the standard. These challenges are practical in nature, and/or involve application of audit-related matters to broader assurance engagements. We therefore welcome the comparison points at various points in the document which explain a concept in terms of its application in an audit, and then explain how the concept would apply in an assurance engagement. We believe this to be appropriate and helpful.

We note that the description of challenges and guidance in respect of the materiality process is very helpful, however, as we describe above, we believe the term "materiality process" itself may be confusing/misleading to users of our report.

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

We believe these are helpful and we propose to support their publication alongside the Guidance Document. In particular, we find it helpful that these emphasise the role and responsibilities of the preparer of EER reports, as well as those of the practitioner.

In respect of the Four Key Factor Model document, we are supportive of the references to Factor 3, Consistent Wider Information, however, we have not yet considered material in respect of Other Information as this is to be addressed by IAASB in Phase 2. We note that Other Information as defined in paragraph 57 is similar to the concept in an audit engagement, however this document appears to broaden the sources of "other information" and practitioner responsibilities, which are described as to "ensure consistency" with any information in the public domain, not just information in the EER report itself that is outside the scope of our assurance engagement. This may not be practicable.

We also suggest that the section addressing Factor 4, External Professional Services, clarify that there may be a "journey" towards assurance, with assurance solutions aligned with evolving reporting practice, in turn dependent on market demand. Initially non-assurance activities may be of most benefit to entities, such as readiness reviews to determine whether an entity is sufficiently prepared for an assurance engagement, or advisory engagements that are focused on providing recommendations to management, drawing on professional expertise and knowledge of best practice.

Solutions may progress through a "modular" assurance approach that involves assurance over elements of e.g. an Integrated Report, such as descriptions of risks, to allow the scope of assurance to evolve in line with the quality of the Report.

In describing the potential solutions, it may be helpful for the IAASB to describe more fully the value to a user of assurance by a practitioner, in accordance with ISAE 3000 (Revised) as compared to other market offerings that are not conducted with the same rigour, are not based on robust frameworks or criteria, and which may draw on practitioners with subject matter expertise but not expertise and experience in assurance skills and techniques, which are critical to ISAE 3000 (Revised) assurance engagements. Since much of the content of these supplementary guidance documents appears to be for educational purposes and directed at a wider audience than experienced practitioners, we believe it would be helpful to provide factual information regarding the value of assurance by a practitioner.

Appendix 2 – Additional Suggestions for Consideration

We set out below further additional suggestions for consideration by the IAASB, at a more detailed drafting level.

— Paragraph 46 – The diagram does not clearly illustrate one of the fundamental concepts of an assurance engagement, i.e. that the underlying subject matter, subjected to evaluation/measurement in accordance with suitable criteria, results in the subject matter information. We suggest the diagram illustrate this explicitly;

  Additionally, the arrow between the description of capability of consistent measurement and the reliability characteristic of suitable criteria, in isolation, may give rise to the interpretation that this is the only applicable attribute of suitable criteria;

  We suggest that the statement that criteria are available be expanded to explain how these may be made available to intended users in accordance with ISAE 3000.24(b)(iii);

  We also suggest that the statement that the engagement has a rational purpose be expanded to explain this more clearly, and explain how this relates to the other preconditions for an assurance engagement;

— Paragraph 49 – In setting out considerations for the practitioner in determining whether the engagement has a rational purpose, we note the following:

  - Bullet 5 appears to co-mingle the meaning of limited assurance and a meaningful level of assurance. We suggest to state that in some circumstances, for the level of assurance to be meaningful to intended users, the procedures may resemble those performed for a reasonable assurance engagement. This concept may be illustrated with a ladder image that shows that assurance meaningful to intended users ("limited assurance") is a band on the ladder. "Meaningful" may be procedures on a low rung of the ladder for some engagements, whilst for other engagements it may be a higher rung on the ladder, closer to "reasonable assurance". There is no band for reasonable assurance – it is one level/rung on the ladder;

  - Bullet 6 appears to set out the definition of "meaningful" (the bar for limited assurance engagements) and is not a new consideration (please refer to ISAE 3000. A4). We therefore suggest that this paragraph be re-drafted to refer to whether the scope of the practitioner's work is expected to be limited

significantly such that the "practitioner is unable to gather evidence sufficient for the level of assurance of the engagement";

- Bullet 7 – We are concerned that the reference to whether the engaging party, the responsible party and the measurer/evaluator are not all the same party may suggest that in such scenarios the roles of the parties to the assurance engagement are not suitable, in accordance with ISAE 3000. 24(a), which is a precondition for an assurance engagement. Furthermore, this may suggest that engagements where management is the responsible party and Those Charged With Governance are the intended user are inappropriate. These considerations are different to addressing whether the engagement has a rational purpose. Accordingly, we suggest to focus on the characteristics of the relationships between these parties and whether these may undermine the rational purpose of the engagement, e.g. if the responsible party does not consent to the use to be made of the subject matter information or will not have the opportunity to review the subject matter information before it is made available to intended users;

- We also suggest that in describing the considerations in relation to who the intended users are and what their information needs are, and whether the subject matter information is expected to address their information needs, the IAASB consider cross-referencing to paragraph 94, which addresses how subject matter information may assist intended users' decision-making;

— Paragraph 50 – We believe this guidance in respect of readiness reviews is helpful. We suggest that, in addition to addressing the scenario that the entity is ready for assurance and may choose to proceed with requesting an assurance engagement, the paragraph also address the alternative scenario that if the preconditions are not found to be present, the entity may address the findings of the readiness review and prepare for an assurance engagement at a future date;

— Paragraph 52 – In elaborating further in relation to assurance readiness engagements/maturity assessments, we highlight that the descriptions of these non-assurance engagements are not clearly distinct from assurance engagements over these particular underlying subject matters, e.g. "evaluation of… the design and implementation of effectiveness of the system of internal control". We suggest that the IAASB provide examples that are more clearly distinct;

— Paragraph 53 – We recommend that the reference to an audit or other assurance engagement in respect of the self-review threat be amended to refer to whether the entity then plans to undertake a subsequent EER assurance or other audit or assurance engagement. As currently drafted this may suggest

that performing audit or other assurance engagements may, in themselves, represent a self-review threat to EER assurance. We suggest that the IAASB provide clarification that the self-review threat comes from advising on the development or implementation of the EER process;

- Paragraph 54 – Some assurance engagements may not be performed in respect of subject matter information that is in the form of a report, or a part thereof (e.g. internal controls or compliance/regulatory engagement). We suggest that the IAASB address these scenarios by referring also to "statements" in addition to reports;

- Paragraph 70 – We highlight that bullet (c), as described, does not appear to be referring to a control activity, but rather to part of the Information Systems and Communication component of internal control;

- Paragraph 96 – We suggest to clarify that additional disclosure of measurement uncertainty aids "understandability";

- Paragraphs 102-104 and 114 – We recommend inclusion of discussion as to when it may be appropriate to supplement established criteria with internally developed criteria for completeness (e.g. if the criteria do not include presentation and disclosure criteria or do not define certain terms).