



KPMG IFRG Limited
15 Canada Square
London E14 5GL
United Kingdom

sranderson@kpmg.com

Thomas Seidenstein
International Auditing and Assurance
Standards Board
International Federation of Accountants
529 Fifth Avenue
New York, NY 10017
USA

Our ref SRA/288

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Dear Mr Seidenstein

Re: IAASB Consultation Paper, *Proposed Non-Authoritative Guidance: Extended External Reporting (EER) Assurance*

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 welcome the Proposed Non-Authoritative Guidance: Extended External Reporting (EER) Assurance (the "Guidance Document"). We recognise the significant work effort of the IAASB in preparing this and we believe that, in general, it captures and appropriately addresses 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*. We consider that the material included will be very useful for practitioners in performing such engagements.

We support the IAASB's decision that the Guidance Document be non-authoritative, framework neutral and principles-based and therefore is capable of being applied to assurance engagements across a broad range of EER frameworks or entity-developed criteria, and that it is directed at an informed readership comprising assurance practitioners as described in ISAE 3000 (Revised).

We commented on a previous iteration of the Guidance Document in June 2019, when the IAASB sought feedback on approximately half of the content at the end of Phase I of the development project. We support the IAASB's modifications to the guidance in response to those comments.

We also highlight recent initiatives and dialogue in respect of interconnected standard-setting for corporate reporting, with increasing recognition by many independent

standard-setting bodies, regulators, preparers, practitioners and other stakeholders that reporting on historical financial information alone is not sufficient to provide a holistic view of a company's performance. There is increasing demand for a longer-term, future-oriented view across a wider range of aspects of a company's performance, including non-financial information elements, the impacts of these different aspects and their interdependency with financial reporting.

In connection with the above, there is increased stakeholder focus on the risks of climate change, environmental damage and societal issues, and such matters are likely to be in the spotlight more than ever as we emerge from the COVID-19 outbreak. As a result, we expect greater emphasis on reporting by companies that addresses their impacts and initiatives in relation to these overarching global concerns as a core feature impacting their market value.

We believe the IAASB has a key part to play in engaging in the dialogue to develop a global solution that best serves the public interest in this arena. In this context we welcome the Guidance Document as an important and timely step, both in addressing many of the challenges in EER assurance engagements and in furthering the dialogue and building global consensus in this area.

Question 1: Does the draft Guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft Guidance? If not, where and how should it be improved to better serve the public interest in EER assurance engagements?

Relationship to ISAE 3000 (Revised)

We highlight that certain concepts established in the Guidance Document may be considered to extend beyond those set out in ISAE 3000 (Revised). Accordingly, these may be interpreted by some 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 recognise that the Guidance Document states upfront that it is non-authoritative and is designed only to "assist practitioners" in performing EER assurance engagements, which we support. However, we recommend that the IAASB consider further emphasis throughout the Guidance Document, in particular, when introducing each aspect of content that may be interpreted as going beyond ISAE 3000 (Revised), that these aspects of the Guidance Document should be read as suggested approaches and practitioners may also develop their own alternative approaches, as appropriate in the circumstances of particular engagements. Please also refer to our suggestion below regarding separating such material, e.g. by inclusion in an appendix.

We understand that the IAASB does not intend to re-open ISAE 3000 (Revised) at the current time in order to incorporate such content within the standard itself, however, we recommend that the IAASB consider a project to update ISAE 3000 (Revised), together with the other assurance standards in the 3000 suite, in the medium term. We consider that these standards would benefit from updates to more closely align them with the auditing standards, which have undergone significant revisions in recent years, in particular, with respect to reporting matters; the identification and assessment of risks, and the effects on an audit of recent rapid developments in technology. As part of this update, we suggest the IAASB consider whether aspects of the Guidance Document should be included in the assurance standards themselves. We recommend that such consideration be made further to outreach to preparers, practitioners, and other stakeholders, to help ensure that the standard is fit for purpose as assurance practice continues to evolve. We refer also to our comments above regarding interconnected standard-setting for corporate reporting, as this initiative gains momentum.

Use of Audit Concepts/Terminology

As we note above, we are supportive of the inclusion of certain concepts/terminology, which are not themselves described in ISAE 3000 (Revised), to assist practitioners in operationalising certain requirements of the standard, in particular, the inclusion of the concept of “assertions”. We welcome the improvements made to the descriptions of assertions and their applicability during Phase II of this project.

However, we note that such concepts/terminology are currently understood as part of a broader suite of inter-related concepts, which together form a framework for auditors of financial statements to identify and assess risks, develop responses to these, evaluate their findings, identify and assess misstatements and form an opinion on those financial statements overall. Accordingly, we question the usefulness of introducing individual elements of this framework in isolation and suggest the IAASB consider also including material to address the complementary concepts, such as risk identification and assessment, evaluation of significant risks, and, in connection with these, the concepts of “relevant” assertions as well as risks of misstatement and risks of material misstatement, to provide assurance practitioners with a fully cohesive framework.

We suggest that discussion of application of these concepts, as an entire suite, including assertions, may be better placed in an appendix to the Guidance Document, with clear “signposting” within that appendix to assist practitioners in comparing and contrasting each of these concepts with their equivalents in an audit engagement. We believe such placement would further assist practitioners from an auditing background in applying these concepts appropriately on an EER assurance engagement, whilst at the same time, clarifying their intended purpose and helping to avoid any implication that application of these concepts is mandatory.

“Standback” Requirement

In connection with the above, we also recommend that the Guidance Document discuss the concept of a “standback”, similar to that of an audit engagement, i.e. that the practitioner makes an overall evaluation once procedures have been performed to consider whether he/she believes that sufficient appropriate evidence has been obtained, in order to conclude. ISAE 3000 describes this approach at paragraph 64 and establishes a requirement for the practitioner to consider all relevant evidence, including “disconfirming” evidence. We consider this standback to be particularly important for EER assurance engagements, for which the subject matter information may comprise diverse elements, as well as narrative and future-oriented information, the measurement/evaluation of which may be associated with significant inherent limitations, and therefore it is critical that the practitioner makes such an overall evaluation. Accordingly, and since this is a requirement of the standard, we recommend the IAASB give greater emphasis to this within the Guidance Document, and include an example of such evaluation.

Intended Audience of Guidance Document

As we note above, the Guidance Document includes a number of concepts that form an integral part of a framework for auditors, which we support. However, the intended audience for this Guidance Document consists of all practitioners as described in ISAE 3000 (Revised), many of whom will not have an audit background and, as such, may find these concepts more challenging to understand and apply properly, without further guidance.

We recommend that the IAASB provide further educational support for such practitioners, to assist them in appropriate application of these concepts. We do not consider that such material should form part of the Guidance Document itself, and we believe that the development of such material should not delay the issuance of the Guidance Document. Instead we recommend that such material be developed to complement this Guidance Document, for example, by further enhancing Supplement A, which discusses key aspects of an assurance engagement.

Extending Content Beyond Sustainability Engagements

We noted in our comment letter in response to Phase I that much of the content of the Guidance Document appears to focus, at least implicitly, on sustainability engagements, possibly because this is currently a more established engagement type.

Whilst we note that the Guidance Document retains a primary focus on sustainability engagements, we welcome the changes made to address a broader base of engagement types, in particular, with the inclusion of a more diverse pool of examples.

We refer to our comments upfront in this letter regarding interconnected standard-setting, and also highlight the development over time of various reporting frameworks in this area, including the IIRC's Integrated Reporting (IR) Framework. Such frameworks provide a basis for identifying the entity-specific matters on which information should be provided but do not (and cannot) prescribe a list of the information to be disclosed. We consider it important that the Guidance Document address the particular challenges for practitioners involved in EER assurance engagements of such an integrated nature, as initiatives in this area gain momentum and corporate reporting evolves beyond the traditional focus on historical financial information.

Practitioners will also need to evaluate whether the information provided meets the needs of the intended users, which may be more challenging for these EER engagement types. We suggest that the Guidance Document/related examples provide further detail for practitioners as to how they may identify and consider such needs, such as assessing whether information would affect users "modelling" of an entity's prospects. This would assist practitioners both in making the determination that there is a rational purpose to the integrated reporting engagement, as well as in risk assessment, evaluating the evidence obtained and forming a conclusion. (See also below under Intended Users and Preconditions for an Assurance Engagement).

Historical Financial Information

In addition to the above, we note that certain assurance engagements performed in accordance with ISAE 3000 (Revised) may include financial elements (historical financial information), albeit in a specific context that is different to an audit engagement. 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, which is helpful. However, 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 specific examples of such historical financial information in the context of an EER assurance engagement, to clarify this matter.

Removal of the term "Materiality Process"

We previously raised concerns in connection with the terminology of "materiality process" in respect of the determination as to which aspects of the underlying subject matter should be included in the subject matter information. We considered that the term may be confusing as it is a different concept to "materiality" as currently used in audit and other assurance engagements.

We welcome the change in terminology in this area to “the entity’s process to identify reporting topics” as this term appropriately and clearly describes the concept. In addition, we believe that references to materiality should be reserved for the context of design of assurance procedures in order to obtain sufficient evidence, as well as identification and evaluation 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.

Materiality

In respect of the terminology of “materiality” in the context in which this is understood in a financial statements audit, the application of this concept in respect of EER assurance engagements may be challenging to practitioners, since it may not translate well for use in an engagement of this type, in particular, when aspects of the underlying subject matter consist of qualitative/narrative information, future-oriented information (as the measurement/evaluation of these against the applicable criteria may be subject to significant inherent limitations) and/or when there are several disparate elements that together comprise the subject matter information.

We believe the material set out in the Guidance Document is helpful, but we find this is pitched at a rather theoretical level and therefore we believe this could be further developed to better assist practitioners in this undoubtedly challenging area.

In this regard, we suggest the IAASB consider the material in the AICPA guidance document *Attestation Engagements on Sustainability Information*, which is more detailed. In particular, the material addressing the aggregation and evaluation of misstatements across various different underlying subject matters/different aspects of subject matter information, including finding the “common denominator” and grouping of items, is particularly helpful.

We also suggest that further practical examples be included, with a greater focus on qualitative information, future-oriented information and multiple elements to an overall set of subject matter information.

Furthermore, we recommend that the document also explore the application of the concept of materiality to the identification of material misstatements. We note that “materiality” is clearly understood in an audit of financial statements, when addressing information that is measured/evaluated against criteria comprising mature and established financial reporting standards. Furthermore, part of the consideration of such audit misstatements usually involves the assessment in a quantitative manner by way of a relative comparison to other aspects of those same financial statements, such as by reference to an established benchmark, or consideration of their effects on key ratios, or they are considered to relate to matters that are clearly understood by users to be “sensitive” and therefore material by nature, e.g. remuneration of Directors.

However, for EER assurance engagements material misstatements may be understood less by a relative comparison to the overall subject matter information itself, but rather by the use that intended users will make of this information and whether and how it will affect their decision-making – i.e. there is a lack of clearly delineated reference information. Additionally, some frameworks do not precisely define the intended users of the report, or specify a range of intended users that may have diverse information needs. We recommend that the IAASB further develop the Guidance Document in this area and include specific examples of assessment of material misstatements across different scenarios. Additionally, we suggest that the IAASB emphasise the need to exercise professional scepticism and professional judgement in identifying misstatements and determining whether these are material, and to address the importance of the practitioner developing an understanding of the intended users of the subject matter information and the particular use they are expected to make of this and our report thereon.

In addition to the above, we recommend that the IAASB provide a clearer link to consideration of the “presentation and disclosure” assertion to assist practitioners when considering whether there may be (material) misstatements of narrative information and future-oriented information. Furthermore, we suggest that the concept of “connectivity” of the subject matter information as a whole be given greater emphasis when subject matter information comprises multiple diverse underlying subject matters/elements of these. It would be helpful for the Guidance Document to discuss this by comparing/contrasting to a financial statement audit (or an assurance engagement over quantitative information/a single discrete underlying subject matter), where there may be greater clarity that an item is “incorrect”, in a binary fashion, versus an EER assurance engagement over narrative information when aspects of the subject matter information may be misstated in a more nuanced manner, e.g. as a result of the relative degree of emphasis given to a particular aspect over other aspects. In considering whether the information may be misstated, the practitioner will need to exercise professional scepticism and professional judgement and carefully consider the needs of intended users.

We note that the needs of intended users are discussed in detail with regard to considering which aspects of the underlying subject matter should be included in the subject matter information, but additional material would be helpful in the context of whether there may be a material misstatement in that information by reference to such user needs. We recommend the IAASB consider the inclusion of examples as to what a material misstatement as described above may, and may not, look like, and factors to consider in making such a determination.

Intended Users

In connection with the above, we are concerned that much of the Guidance Document content focuses on a generalised user base and even, in places, uses the terms

“intended users” interchangeably with “stakeholders”, which we do not consider to be appropriate, as we believe “stakeholders” may represent a significantly broader group than the report’s intended users.

We consider it important that the Guidance Document focus more specifically on “intended users” as defined by ISAE 3000.12(m), i.e. “the individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report”, and assists practitioners in identifying such intended users and considering their needs.

ISAE 3000 (Revised), at paragraph A16, clarifies that practitioners may not be able to identify all those who will read the assurance report, particularly where this will be made widely available on a public basis. Accordingly, the standard clarifies that in such cases, particularly where possible users are likely to have a broad range of interests in the underlying subject matter, intended users may be limited to major stakeholders with significant and common interests. The standard highlights that intended users may be identified in different ways, for example, by agreement between the practitioner and the responsible party or engaging party, or by law or regulation.

We suggest that the Guidance Document discuss the above in more detail, including examples of identification of intended users when these may be a broad group. Again, we suggest that the Guidance Document compare and contrast this to a financial statement audit, wherein intended users, and the duty of care owed to them by the practitioner, are more clearly identifiable, defined by jurisdictional laws and regulations and/or established, e.g. by legal precedent.

Furthermore, we also suggest that the Guidance Document provide clarity to practitioners as to (i) how they may clearly identify the intended user group in the assurance report itself, and avoid others inadvertently placing reliance on the assurance report, and (ii) the circumstances in which the lack of clarity is such that it would not be appropriate to accept an engagement. We suggest that such discussion include the following:

- consideration as to the appropriate addressee(s) of the Practitioner’s Report and whether it may be appropriate to identify certain intended users/user groups as specific addressees in addition to the engaging party. We recommend the Guidance Document provide examples of factors to consider in making such a determination, for example, an understanding of the prevailing laws/regulations in the particular jurisdiction in which the Report is prepared, with regard to the permissibility of such identification as well as the legal/regulatory consequences;
- the inclusion of restriction of use and/or distribution clauses within the Report, which can also be used to identify other intended users in addition to the addressee(s) of the assurance report, as well as alerting other potential readers of the assurance report not to place inadvertent reliance on this, subject to local

laws/regulations; and

- the inclusion of a description of any significant inherent limitations associated with the measurement/evaluation of the particular underlying subject matter against the applicable criteria, which is required, when appropriate, by ISAE 3000.69(e) in order to draw the attention of intended users to these limitations. Such descriptions are focused on the particular engagement circumstances and are not generic descriptions. They may be particularly appropriate when there is a broader intended user group, and/or when the entity is expected to make the subject matter information and the practitioner’s report thereon publicly available, e.g. by publishing on their website. In such circumstances the practitioner may be concerned that it is not practicable to identify all users and, in addition, may consider that such potential users may not have a clear understanding of the nature of an EER assurance engagement or the inherent limitations of the particular engagement.

Reasonable and Limited Assurance Engagements

We previously commented that considerations regarding reasonable and limited assurance engagements, 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 recommended the inclusion of more specific guidance throughout the Guidance Document, including examples that compare and contrast between these two types of engagement.

We welcome the changes made to provide greater clarity in this area, for example, at paragraph 211. However, we highlight that practical examples would also be helpful to practitioners to help determine the nature and extent of risk identification and assessment procedures to perform for each type of engagement. We suggest the inclusion of examples, for a limited assurance engagement in respect of a small and less complex entity, to demonstrate that it may be acceptable to perform inquiry and analytical procedures only, versus a larger and more complex entity, for which it may be necessary to perform walkthroughs in order to properly “consider” the control environment and whether this is “adequate”.

We also highlight that although additional material has been introduced in respect of considering the risk of fraud, we are concerned that this may not provide sufficient clarity as to whether there is intended to be a difference in work effort in respect of a reasonable assurance engagement and a limited assurance engagement, and, if so, what the principal differences would be. Again, we suggest that an illustrative example that compares and contrasts between a reasonable assurance engagement and a limited assurance engagement would be helpful. We also note that such material is

included primarily within the chapter addressing materiality, whereas we suggest that this be moved earlier in the document, to form part of the content that addresses understanding the entity and its environment.

In connection with the above, we also suggest that the Guidance Document (or Supplement A, which provides more information on key concepts), clarify that when performing a limited assurance engagement, the nature and extent of procedures themselves may be limited when compared to a reasonable assurance engagement over the same subject matter information, but this does not equate to performing a limited assurance engagement in circumstances where the internal control environment is still developing and would not support a reasonable assurance engagement (i.e. the preconditions for an assurance engagement must be present for either a reasonable or a limited assurance engagement, and it is not acceptable/appropriate to decide to perform a limited assurance engagement in place of a reasonable assurance engagement if the preconditions are not present).

Additionally, it would be helpful to explain in the Guidance Document, perhaps using an illustrative diagram, that reasonable assurance is a “level” but limited assurance is a range that extends from being “meaningful” through to being close to reasonable assurance, considered in the context of user needs and whether there is a rational purpose to the engagement. We suggest that this be discussed as part of ensuring that the preconditions for an assurance engagement are present.

Preconditions for an Assurance Engagement

Inter-relationship of Preconditions

We welcome the enhancements to the Guidance Document in respect of ensuring that the preconditions for an assurance engagement are all present, including the introduction of the diagram on page 74.

We suggest that greater emphasis be included in the guidance on the inter-relatedness of the preconditions. 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 aspects 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 suggest that certain of the illustrative examples expand on this point by addressing

consideration of different aspects of the preconditions within a particular example, to confront this 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/aspects of the underlying subject matter to include and suitability of criteria, and we recommend that the IAASB ensure that the correct terminology be applied.

Suitability of Criteria

We welcome the enhancements made to this chapter. We recognise that the chapter notes that criteria to be used for EER assurance engagements may be principles-based, and may be less prescriptive than criteria for more established engagement types, e.g. an audit of financial statements, even in cases where the criteria have been developed by a recognised body, further to extensive due process. Such principles-based frameworks 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. Additionally, an entity may enhance/further develop recognised criteria to ensure they are fit for purpose and are suitable for the entity and its circumstances.

As a result, “criteria” may provide a form of high-level guidance that is enhanced by the entity to be capable of providing a suitable basis for consistent measurement/evaluation, and for the practitioner to have sufficient confidence to be able to form a conclusion.

The Guidance Document appears to focus on the above in a somewhat negative context, i.e. that information may not be comparable across entities or reporting periods as a result of gradual improvement/adaptation. We recommend that the Guidance Document provide more information regarding this, in terms of application of the criteria themselves as they are developing, as well as the reporting consequences of this, including the importance of making the criteria available to users; including “basis of preparation” information to explain updates, enhancements or particular interpretations made, as well as restatements/adjustments and related disclosure within the subject matter information, similar to the requirements of financial reporting frameworks, aspects of which are subject to update/enhancement from time to time and therefore give rise to restatements/adjustments and additional disclosure within the financial statements. The emphasis of guidance should be on usefulness and transparency to the user.

Such considerations are particularly important in respect of EER Frameworks that are principles-based and therefore there is a greater degree of 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 scepticism 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 performed in accordance with other “frameworks” that do not support engagements that are conducted with such a high degree of rigour, including the fact that they do not require such a robust evaluation of the suitability of the 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.

We also recommend that this chapter 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. We recommend that the Guidance Document discuss the above.

Question 2: Is the draft Guidance structured in a way that is easy for practitioners to understand and use in performing EER assurance engagements? If not, where and how should it be improved to better serve the public interest in EER assurance engagements?

Structure of the Guidance Document

We believe the document is structured in a clear and helpful way, with distinct chapters and additional material in Supplements A and B for ease of use. With the exception of our recommendations below regarding smart technology, we do not suggest other modifications as to structure and layout, such as further grouping together of particular chapters into sections.

Use of Smart Technology

The Guidance Document is necessarily lengthy, with many inter-related sections and concepts, supplemented by appendices. Accordingly, we recommend that the IAASB consider the use of smart technology within the Guidance Document, in particular, the use of “click-through” functionality, “hover-over” functionality and hyperlinks within the Guidance Document itself as well as to ISAE 3000 (Revised) requirements to facilitate access and enhance its usefulness and accessibility 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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