

Public Consultation on Proposed Guidance: Proposed Non-Authoritative Guidance, Extended External Reporting (EER) Assurance

Detailed Comments on Supplements A and B

Appendix 4 to the Comment Letter to the IAASB:

Detailed Comments on Supplement A by Paragraph

As a general comment, we have identified a good number of instances where the supplement uses wording or concepts in a manner that is not consistent with IAASB standards – in particular ISAE 3000 (Revised) or in which the supplement goes beyond the standards in an inappropriate manner. Furthermore, there are a good number of instances where we have identified assertion in the text whose technical validity is questionable or where it appears that requirements are being set. The text of the supplement also contains the considerable use of superlatives, which can be regarded as representing rather reckless, unprofessional language that really should not be used in professional literature. Pressure may also result on the content of future projects (e.g., audit evidence) because the IAASB may feel bound in some way to what it would have approved. For these reasons and the reasons, we mention in our comment on paragraph 3 of the introduction, we do not believe that this supplement should be published at this time.

Introduction

3. According to this paragraph, the supplement provides background and contextual information about *general assurance concepts* and draws comparisons between EER and more established forms of reporting (we note – primarily reporting on financial statements) and how they relate to *key assurance concepts* reflected in the standard. We are very concerned with the breadth and nature of the guidance provided in this supplement. It seems to us to represent conceptual framework type material that properly belongs in a separate project on the conceptual foundations for assurance engagements – including audits and reviews. Furthermore, much of the conceptual guidance draws out particular issues on an eclectic basis without a systematic treatment of the conceptual issues that would

Page 2 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

constitute a proper conceptual framework, which means the supplement is not well-rounded in this respect, which can lead to misunderstanding. Furthermore, the conceptual issues addressed here have not been subject to the kind of due process that would be necessary for a conceptual framework. The de facto breadth of scope beyond EER reports bears with it the danger that there may be an expectation by stakeholders that the concepts in this supplement ought to be applied by practitioners not only for assurance on EER reports, but also for other reports subject to engagements under the standard or even audits and reviews of financial statements. There are also a good number of “absolute statements” in the supplement that appear to imply the existence of requirements, which we seek to have remediated with our comments, but these statements also cause issues with the supplement too. For these reasons, despite some of the good work done on this supplement, we are not in favor of publishing this supplement at this time. Furthermore, even if it were published, in line with our comments on paragraph 19 of the guidance, no references should be included within the guidance to the supplement (please refer to our comments on paragraph 19 of the guidance).

Four Key Factor Model For Credibility and Trust In Relation to EER Reports

3. It is unclear to us what distinction is being drawn here between credibility and trust both in this paragraph and paragraph 16 of this supplement.
5. The word “greatest” should be changed to “greater” (no superlatives).
6. In item 3 within figure 1, the word “available” can be deleted, since no one expects users to use unavailable sources of information.
9. We have the following comments on the table subsequent to this paragraph:
 - In the second box on the left side, the word “material” should be replaced with “relevant”, since the standard uses the term “materiality” in another context
 - In the third box on the right side, the concept of “reliability” ought to be added because this concept deals with the issue of measurement under uncertainty
 - In the fourth box on the right side, the concept of “reliability” ought to be deleted because none of the issues on the left side relate to reliability.

Page 3 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

10. The word “because” should be replaced with “when” since following items are prerequisites for credibility.
13. In line with our comments on the difference between relevance and materiality, in the first bullet the word “materiality” should be replaced with “relevance (sometimes called “materiality” by some EER frameworks)”.
15. We suggest the word “ordinarily” be inserted after the words “Strong governance” to make the statement less absolute.
16. In the first line the words “is therefore” should be changed to “may therefore be” to make the statement less absolute. We also suggest deleting “that is required” for the same reason. We have considerable difficulty with the statement that preparers should behave in a way that is consistent with the spirit of the objectives of the relevant EER framework to present EER information faithfully and without bias. First, some EER frameworks do not set forth objectives. Second, even if they did, in many frameworks, compliance is required with the requirements and seeking compliance with the objectives would be unenforceable. Third, faithful presentation is not required for all types of information in every EER framework: we suggest that the concept of reliability be applied instead, which would be consistent with the standard. For these reasons, we believe this part of the sentence ought to be deleted or appropriately redrafted.
18. This paragraph should be written in the IAASB jurisdiction-neutral form, in which “the Board of Directors and audit committee” is replaced with “those charged with governance or management, as appropriate”.
19. To prevent an absolute statement, we suggest inserting the word “generally” prior to “founded”.
21. We suggest inserting “may” after “engagement” to prevent an absolute statement. The word “material” should be replaced with “relevant” for reasons noted previously.
22. To avoid an absolute statement, we suggest changing the words to state “Management may routinely communicate and engage”.
23. In line with our comments on the use of “material” and superlatives, we suggest changing “most material” to “relevant”.
24. To avoid an absolute statement, we suggest that the second sentence begin: “This may include”.

Page 4 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

25. Users (like practitioners) do not use all of the information available to them. Hence the word “available to” should be replaced by “used by”. The second sentence contains an unusual assertion – i.e., that EER reports need to describe all relevant issues and be complete if they are to be consistent with other information available about the entity. First, while generally EER reports should contain the relevant issues, if they include all of them, by definition, they are complete (so the words “and be complete” are superfluous and misleading). Second, there is no requirement in an EER framework of which we are aware that EER reports must be consistent with other information available about the entity. It seems to us that depends upon the nature of the other information available about the entity (i.e., its relevance, neutrality, completeness and reliability). For all of these reasons, we believe that the assertion in the second sentence is conceptually problematic and believe it ought to be deleted.
27. Change “most” to “more” to eliminate the superlative.
29. Delete both uses of “most” to eliminate the superlatives.
30. We suggest that the fifth bullet point begin with “Quality control or management, ...” to recognize that ISQM 1 will be applying a quality management approach (quality control needs to be retained because ISAE 3000 has not been revised to introduce a quality management approach).
33. There appears to be a doubling up of concepts in the second sentence: the clear structure of reports serves understandability, and well-balanced reports serve neutrality (lack of bias), so the references to “clearly structured” and “well-balanced” can be deleted.
34. To recognize that ISQM 1 will be applying a quality management approach, we suggest inserting “or quality management” after “quality control”.
35. Since related services engagements do not lead to assurance, the words “,if any,” need to be inserted after the word “assurance”.
36. IAASB literature does not refer to “assurance providers” because, by definition, assurance engagements do not “provide assurance”. We therefore suggest that the term “assurance providers” be replaced with “practitioners”, which is broad to cover all those needing to be covered.

Page 5 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

EER Assurance Engagements – Background and Context

4. In relation to the first sentence in this paragraph, the definition of subject matter information in the standard refers to the underlying subject matter as being the phenomenon being measured or evaluated by applying the criteria – not the attribute of the underlying subject matter. However, when measuring or evaluating the phenomenon, it is the attributes thereof that are measured or evaluated. We suggest that the sentence be revised to correctly make this distinction. The same applies to paragraphs 5, 6, 9, 19 and 22. Overall the supplement does not adequately deal with the relationship between the underlying subject matter, the attributes, and the criteria, which hinders a proper understanding of the issue. In any case, this is an issue that ought to be addressed in a conceptual framework rather than such a supplement or guidance. Based upon the use of the term “attribute” in science, research, and philosophy, we suggest deleting the word “inherent”, which is not a requirement for something to be an attribute. We also suggest that the definition in appendix 1 to the supplement be amended accordingly.
7. In the second bullet point, it should be clarified that quantitative disclosures are measured – not evaluated – under the usage in the standard. The fourth and fifth bullet points together represent the criteria under the standard. Consequently, it is not appropriate to separate out benchmarks (criteria are defined as such) for measurement from the criteria and the two bullet points should be merged. This also applies to the second sentence of paragraph 22: the criteria are defined in the standard as benchmarks and therefore the descriptions noted are a part of the criteria – not identified by the criteria.
8. The fourth and fifth bullet points together represent the criteria under the Framework. Consequently, it is not appropriate to separate out benchmarks (criteria are defined as such) for measurement, etc. from the criteria and the two bullet points should be merged.
10. In line with our comments on the guidance on this matter, not underlying subject matter, but subject matter information can be aggregated or disaggregated. The standard speaks of aspects of underlying subject matter, so the words “at level(s) of disaggregation” should be changed to read “at level(s) of detail of aspects of the underlying subject matter”. The same applies to the title prior to this paragraph, in which “its disaggregation” should be changed to “its level of detail”. This also applies to the first sentence of paragraph 13. In line with our comments on the

Page 6 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

guidance “assists decision-making by the intended users” should be changed to “is relevant”.

12. This paragraph introduces the concept of “subject matter elements” without having reconciled this concept of “aspects of underlying subject matter” as used in the standard. We do not see why a new concept needs to be introduced when the standard already sets forth an adequate concept in its application material. Adding new concepts causes misunderstanding and confusion.
19. The reference to “its” in the second sentence is unclear – we presume it intends to refer to the underlying subject matter. If so, that term should be used instead of “its”.
21. In the example box following this paragraph, both the description of time in a) and the description of location in b) can be attributes too, like color in c). We suggest this be clarified in a) and b). 23. Mathematically speaking, ordering on the basis of greater to lesser is an ordinal scale that is quantitative because it can be subjected to non-parametric mathematical methods. Consequently, the distinction between quantitative and qualitative in paragraphs 23 and 24 needs to be between nominal scales (qualitative, because no ordering is possible) and all other scales (quantitative, because these scales are expressions of quantity). Both of these paragraphs need to be amended accordingly.
28. We would like to point out that the descriptions of the inherent limitations on precision apply to scales other than absolute or ratio scales as described in this paragraph. For example, colors can be ordered by hue and classifications of hue can be undertaken. However, the limit on precision in classification arises when attempting to attribute hues to one class or another. Another inherent limitation on precision even for simple counting is the qualitative determination whether particular items actually belong to the class in question being counted. Overall, we come to the conclusion that the supplement addresses some interesting questions in the area of measurement (as defined in measurement theory), but it does not do so in any systematic way, which is one reason why we believe that the supplement is not ripe for publication.
31. Since it is not in line with the definition of professional skepticism, we suggest deleting the words “of mind” within parentheses.
32. We believe it to be beyond the remit of the project to provide guidance on the application of the standard to EER reports to engage in a fundamental

Page 7 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

conceptual treatment of professional judgment and professional skepticism. However, we welcome the background and contextual information to the extent it deals with practical matters related to EER reports without seeking to deal with fundamental conceptual matters.

34. The references to “risk of material misstatement exists” and “control operated effectively” applies only to reasonable assurance engagements, and the reference to classes of transactions or balance means that this is not about an assurance engagement – but an audit. We believe that the example should be changed to be relevant to EER reporting and should take into account both reasonable and limited assurance engagements, or clarify that the example deals only with a reasonable assurance engagement. Since under the standard, materiality is not assessed, but considered, we suggest that at the end of the paragraph the word “consideration of” be inserted in between “or” and “materiality”.
35. In line with the Exposure Draft of ISA 220, the reference to “sufficiency and effectiveness” of direction, supervision and review should be changed to “sufficiency and appropriateness”. In addition, the word “procedures” should be deleted, since IAASB standards never address the “sufficiency and appropriateness” of procedures – only their nature, timing and extent.
38. To avoid the impression of a requirement, we suggest that the word “is” in the introductory phrase be changed to “may be”. We suggest that the word “challenge” in the first bullet be changed to “question”, since we do not believe that one can “challenge” oneself effectively. In the fourth bullet point, in line with the third bullet point, we suggest adding “... , where necessary, ...” prior to the word challenge, since it may not always be necessary to move from inquiry to a challenge, which is a severe form of questioning. In the last bullet, the word “it” is missing in between “whether” and “corroborates”.
39. Under definition of professional skepticism, the critical assessment in exercising professional skepticism is of evidence: consequently, the words “of evidence” need to be inserted after the word “assessment”. Both uses of the word “involves” suggest the supplement is setting forth a new requirement. Therefore, the word “may” needs to be inserted prior to each “involves”.
41. The description of independence in the first sentence is not in line with the definition. To be in line with the definition, we suggest that the first sentence be written as follows: “Independence of mind avoids being

Page 8 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

affected by influences that compromise professional judgment in forming an assurance conclusion”. The words “in forming an assurance conclusion” at the end of the second sentence should be deleted, since these are not in line with the descriptions in A33 of the standard, and are not correct because the practitioner does not act with integrity, and exercise objectivity and professional skepticism, only when forming an assurance conclusion.

44. In line with the definition of professional skepticism, the “set” should be deleted from “mindset”.
45. This paragraph states that experts are “members of the engagement team”. This is not always correct: external experts are not members of the engagement team. Furthermore, when an external expert is used by the practitioner, neither under ISA 620 nor under ISAE 3000 (Revised) is that expert subject to direction, supervision or review as a member of the engagement team: ISA 620 and paragraph 52 of ISAE 3000 (Revised) set forth the requirements for the engagement team (not the engagement partner) for dealing with such experts and their work. For these reasons, this paragraph needs to be redrafted.
48. The word “underlying” needs to be inserted prior to the word “subject matter”. If “assessing the risks of material misstatement” is meant, then “of material misstatement” needs to be added after the word “risks”. However, this would be required to be applied only for a reasonable assurance engagement. Either this paragraph needs to be augmented for the situation for a limited assurance engagement, or clarification is needed that this applies to a reasonable assurance engagement.
49. In line with the IAASB Glossary of Terms and the requirements in ISA 620 and paragraph 52 of ISAE 3000 (Revised), the word “assess” should be changed to “evaluate”.
50. In line with the definitions of professional skepticism and objectivity, part of the first sentence should read “... level of competence to apply a questioning mind and objectivity...” (IAASB standards do not speak of a critical or questioning mindset or of an objective mindset). Since challenge is a severe form of questioning not always needed, we suggest adding “,if needed,” prior to the word “challenge”.
51. In line with our comments on paragraph 50, the last part of the sentence should read: “...apply a questioning mind and objectivity to the engagement”.

Page 9 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

58. In line with the standard, the title to this paragraph should read “Assessing risk and considering materiality”. In line with the Glossary of Terms, the word “assess” in relation to the completeness of subject matter information should be changed to “evaluate”. The text in this paragraph refers to “risks of misstatement” and “obtaining an understanding of where risks may exist, and the possible causes of those risks” (which should be augmented to “risks of material misstatement”) and “designing assurance procedures to address those risks”. These words apply to reasonable assurance engagements – they are not required for limited assurance engagements. Either the paragraph needs to be augmented for limited assurance engagements, or clarification is needed that this applies only to reasonable assurance engagements.
59. The words “influence their decisions” should be changed to “be relevant to them”. In line with the standard, the word “assessing” should be changed to “considering”.
60. In our view, this paragraph is not in line with what ISAE 3000 (Revised) requires for reasonable assurance engagements, and does not even address what is required for limited assurance engagements. This paragraph therefore requires considerable redrafting or should be deleted. Furthermore, the heading prior to this paragraph and the paragraphs under this heading refer to “evidence-gathering procedures”. The standard does not refer to “evidence-gathering procedures” as a separate phase or stage in the assurance engagement, since evidence is gathered throughout the engagement and prior to acceptance. We therefore suggest that this term not be used in these paragraphs.
61. The term “assurance evidence” is not used in IAASB standards, so we suggest that the word “assurance” be dropped.
62. The term “assurance evidence” is not used in IAASB standards, so we suggest that the word “assurance” be dropped. The second sentence appears to be requiring a “critical self-assessment” and a “reassessment” of the subject matter information, which inappropriately goes beyond the standard. In addition, in both cases the use of the word “assess” is not in line with the IAASB Glossary of Terms. We suggest that the words be changed to “critical evaluation” and “evaluate” and to insert the word “may” prior to “allows” to clarify that no requirement is intended.

Furthermore, there is no requirement or application material in the standard to evaluate the subject matter information and the sufficiency

Page 10 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

and, in particular, appropriateness of the evidence obtained “from the perspective of what would be likely to influence the users’ decision-making”. This phrase should therefore be deleted from the last sentence.

70. We are not convinced that if an EER framework establishes a guidance principle or characteristic that requires completeness of the subject matter information, the criteria therefore “have” (i.e., fulfill) the characteristic of completeness. More detailed criteria are likely to be necessary to ensure that the criteria are suitable with respect to completeness. For this reason, we suggest that the word “have” be replaced with “address”.
72. We are not clear on what is being referenced by “such” criteria at the end of the paragraph.
73. The identification of categories of assertions to identify potential types of misstatements is a matter that can only be required for reasonable assurance engagements under the standard, since for limited assurance engagements the practitioner is only required to identify those *areas* where material misstatements are likely to arise. Consequently, either this paragraph needs to be augmented for limited assurance engagements, or the paragraph needs to clarify that only reasonable assurance engagements are being dealt with in the paragraph. In line with our comments on the guidance on this matter, not underlying subject matter, but subject matter information can be aggregated or disaggregated. The standard speaks of aspects of underlying subject matter, so the words “at an appropriate level of disaggregation of the underlying subject matter” should be changed to read “at an appropriate level of detail of aspects of the underlying subject matter”.
74. To clarify the meaning of this sentence, we suggest adding “in the subject matter information as a whole” after the word “message” (this clarifies that this is not about the message in the assurance report), and adding the words “(i.e., not neutral)” after the words “misleading or biased” (this clarifies that the question being addressed here relates to the qualitative characteristic of criteria neutrality reflected in the subject matter information).
76. This paragraph states that it provides background and contextual information about the fundamental concepts of evidence and aggregation risk. As we point out in our response to paragraph 3 of the introduction, we believe that addressing fundamental issues relating to the concepts of evidence and aggregation risk, which apply to all assurance

Page 11 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

engagements, including audits and reviews, is beyond the scope of this project. Furthermore, this paragraph introduces the concept of “characteristics of persuasive evidence”, which we believe is such a fundamental issue beyond the scope of the project, and that for audits of financial statements is being addressed as part of the project on audit evidence. We believe that the reference should be to “persuasive evidence” without mention of the characteristics. Overall we believe that section 4 on obtaining evidence deals with fundamental issues about evidence and procedures that go far beyond the remit of the project on providing guidance for EER and has not been subjected to an appropriate due process for the treatment of such fundamental issues. For these reasons, we believe this supplement should not be published at this time.

77. The reference should be to paragraph A147, not A146.
78. To clarify the first sentence further, we suggest adding the word “actual” prior to the first use of “subject matter information” and adding the term “(i.e., the “required subject matter information”)” in parentheses after the word “criteria”.
80. It seems to us that the procedures designed to be performed actually determine the evidence *that is obtained* when the procedures are performed – not *that is available to be obtained*, since the evidence that is available to be obtained is independent of the design of the procedures. We therefore suggest that the words “available to be” be deleted.
82. The reference in footnote 9 is incorrect: it ought to be to paragraph 62 in the Framework. Furthermore, as the Framework is not authoritative, reference should be made to paragraphs A148 and A149 in ISAE 3000 (Revised). We agree that relevance, reliability, and sufficiency are not binary qualities as there are different degrees of each of these. However, the decision of whether evidence is relevant, reliable and sufficient is a binary decision, and therefore the third sentence should add this at the end of that sentence. The last sentence appears to confuse the strength of the evidence as a concept of sufficiency with the concepts of relevance and reliability. The strength of an individual piece of evidence relates to the degree of belief or confidence that can be attached to that piece of evidence being as relevant and reliable as it purports to be – it does not relate to the “strength of the relevance and reliability of the evidence”, since this just expresses the degree of relevance and reliability and is already covered by these concepts as a part of “appropriateness”. Furthermore, sampling is not the only means of selecting pieces of

Page 12 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

evidence: as ISA 500 points out, there are other means of selection. For these reasons, the latter half of the last sentence needs to be changed to read: "...; the nature and extent of selection) and the strength of the individual piece of evidence, which represents the confidence that a piece of evidence is as relevant and reliable as it purports to be."

83. We believe that this paragraph is difficult to understand. We find the explanation given in the first sentence of paragraph A27 of ISA 500 provides a succinct and technically less problematic explanation. We suggest that this paragraph therefore be redrafted on that basis.
84. The first sentence of this paragraph represents a shotgun blast of supposed reliability concepts (informational validity, representational faithfulness, authenticity, completeness, accuracy, neutrality (lack of bias), precision, and verifiability) that has no foundation in current IAASB standards (i.e. is either inconsistent with usage in current IAASB standards, including ISAE 3000 (Revised), or the terms are not addressed in these standards), measurement theory, psychometrics, or the natural sciences. We suggest that this sentence be deleted and replaced by the description of reliability as in line with its description as a characteristic of suitable criteria in line with ISAE 3000 (Revised).
85. The reference in footnotes 10 ought to be augmented by a reference to paragraph A149 in ISAE 3000 (Revised), which is authoritative, whereas the Framework is not. The same applies to footnotes 11 and 12, where the footnote references ought to be augmented by references to paragraph A149 and A150, respectively, in ISAE 3000 (Revised).
86. In line with our comments on paragraph 82, the latter portion of the first sentence should be changed to read: "... extent of evidence obtained and the strength of a piece of evidence which represents the confidence that a piece of evidence is as relevant and reliable as it purports to be."
92. There are no grounds in current IAASB standards for the assertion that the "nature" of a procedure also refers to its "purpose", even though the "purpose of a procedure" or "aim of a procedure" is addressed separately in some places in IAASB standard. By setting forth that the nature of a procedure also covers its purpose, this assertion would be in effect requiring not only that the type of procedure and the procedure itself be documented when documenting the nature, timing and extent of procedures, but also that a statement of purpose would need to be documented as well. We therefore disagree with that statement and

Page 13 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

recommend the sentence be changed to refer to the fact that procedures have a purpose. We also disagree with the statement that the type of procedure refers to the manner in which the procedure is performed: the type of procedure refers to the nature of the procedure – that is, is it a procedure to obtain an understanding or to consider something related a process, or is it a test of design or test of operating effectiveness of control, or does it relate to obtaining evidence with respect to subject matter information directly (e.g. a substantive procedure), and to kind of procedure is (observation, inquiry, etc.). The manner in which a procedure is performed relates to how it is performed. We believe that this paragraph needs to be redrafted to reflect current IAASB standards.

93. Some procedures are designed to assess inherent or control risk, which means they do not contribute to a reduction in detection risk, but contribute to the practitioner's consideration of how far detection risk needs to be reduced to reduce engagement risk. The paragraph needs to be redrafted accordingly.
94. With regard to the first sentence, we refer to our comment on paragraph 93. It is unclear what "such procedures" refers to, since the previous sentence deals with classes of procedures.
95. At the end of the sentence, we do not believe it to be appropriate to refer to the procedures for limited assurance as "risk assessment procedures", because no assessment of the risks of material misstatement is required for limited assurance engagements. When writing ISAE 3000 (Revised), the IAASB purposely avoided using that term in relation to limited assurance, and the guidance should respect that decision.
96. The problems with using the term "risk assessment procedures" as noted in our response to paragraph 95 becomes apparent in this paragraph: limited assurance does not require evidence about the operating effectiveness of a control.
98. ISAE 3000 (Revised) does not directly require the practitioner to evaluate the competence of another practitioner – only to evaluate whether the work is adequate for the practitioner's purposes.
99. We refer to our comments on paragraph 92 on the meaning of "type of a procedure" vs. "manner in which it is performed", which would mean that this paragraph requires some redrafting.
103. We are very concerned about the description of the steps in paragraphs 103 to 113. The way these paragraphs are written, they suggest that these

Page 14 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

are required steps and considerations for EER engagements, even though they go far beyond what ISAE 3000 (Revised) requires. Furthermore, their general nature means that expectations can be raised that these paragraphs ought to be applied to audits and reviews of financial statements. These paragraphs are another reason why we believe that the supplement should not be published at this time.

As noted, the first two sentences are written like requirements and therefore need to be redrafted.

- 104. The same applies to the first sentence of this paragraph.
- 106. The same applies to the first sentence of this paragraph. The last sentence asserts that at this stage the practitioner would be able to evaluate the reliability of evidence not yet obtained. We disagree: at most the practitioner would be able to evaluate the expected reliability of the evidence not yet obtained.
- 107. The first sentence reads like a requirement and therefore needs to be redrafted.
- 108. The same applies to the first sentence of this paragraph. The word “available” can be deleted, since practitioners neither seek to obtain unavailable evidence nor seek to obtain all of the evidence available.
- 109. The first sentence reads like a requirement and therefore needs to be redrafted. The phrase “what is likely to affect the decisions of intended users” is not relevant at this stage because at this stage the criteria are presumably suitable and in considering misstatements the practitioner would be considering materiality. Therefore, the noted phrase should be deleted.
- 110. The sentence reads like a requirement and therefore needs to be redrafted.
- 111. The first sentence reads like a requirement and therefore needs to be redrafted. The last portion of the first sentence after the comma needs to reflect our comments on paragraph 82, which means that it should be redrafted to read: “... and the confidence in the purported relevance and reliability of the evidence needed”.
- 112. The first sentence reads like a requirement and therefore needs to be redrafted.

Page 15 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

113. The first sentence reads like a requirement and therefore needs to be redrafted. In the second sentence, the word “should” should be replaced with “may”.

114.-119.

The bold heading prior to paragraph 114 is incorrect: this section does not deal with aggregation risk, but rather deals with addressing the level of detail at which aspects of the underlying subject matter are measured or evaluated. In line with our comments on the guidance and this supplement on the issue of disaggregation of underlying subject matter (actually, only subject matter information can be aggregated or disaggregated), we suggest the title be changed to “Addressing the Level of Detail Measured or Evaluated”. Likewise, the subheading in italic type would need to be changed to “Considering the level of detail of aspects of the underlying subject matter measured or evaluated.” In the first sentence, “disaggregation into” should be replaced with “measurement or evaluation of”. In the second sentence “disaggregation” should be changed to “detail”.

We also believe that considerations relating to the level of detail at which aspects of underlying subject matter ought to be measured or evaluated is an issue that ought to be addressed prior to the other evidence issues in this chapter (5) and probably ought to be moved to before considering assertions in previous chapter (4).

115. The word “disaggregation” should be replaced with “detail” in both sentences.

116. In the first sentence, “disaggregation” should be replaced with “detail”, but the use of “disaggregation” in relation to subject matter information is correct and should not be changed.

117. The word “disaggregation” should be replaced with “detail”.

118. The word “disaggregation” in the second sentence should be replaced with “detail”; no change should take place in the third sentence, since reference is made to subject matter information.

119. We do not understand the reference to the requirement in S.50, since this has nothing to do with the level of detail at which underlying subject matter is measured or evaluated.

120. It seems to us that considering performance materiality ought to be done prior to considering the other issues relating to the other evidence issues

Page 16 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

in this chapter (5) and probably ought to be moved to before considering assertions in previous chapter (4). However, this material naturally follows the previous material on considering the level of detail at which underlying subject matter is measured or evaluated.

123. In (e), the word “a” prior to “lesser” should be changed to “or”.
126. The last sentence in this paragraph deals with an issue that is not related to aggregation risk as defined. Inherent limitations in the assurance procedures beyond not detecting aggregated material misstatements due to only detecting individually material misstatements are not dealt with through performance materiality, but through other measures. Consequently, this sentence ought to be deleted.
141. We are concerned with this section of the paper pronouncing upon “the nature of assurance reporting principles”. The requirements in ISAE 3000 (Revised) together with its related application material provide considerable obligations and guidance to the practitioner on what to include in an assurance report and how. Providing additional guidance in this supplement for particular issues is an acceptable goal, but setting forth assurance reporting principles is beyond the scope of the project on EER reporting. This is another reason why we believe this supplement is not ripe for publication.
143. Missing in the list of matters that might be described in the report is a more detailed description of the procedures performed and their results. The reference to S.A160 should be to S.A161. The final parenthesis in this paragraph is superfluous and can be deleted.
144. Since interpretations challenges and the expectations gap cannot be minimized by means of linear or non-linear programming, we suggest changing the word “minimized” to “reduced”.
145. The superlative “be most likely to be” should be changed to “likely be”. The following paragraph number is 150, which needs to be changed to 146 and all of the paragraphs thereafter renumbered accordingly.
146. In line with our comment on paragraph 144, we suggest changing the words “minimized” to “reduced”.
148. Since the communication by means of an assurance report is one-way, in line with IAASB drafting conventions, the word “with” in the first line should be changed to “to”. We do not understand what the second sentence is trying to say.

Page 17 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

149. We are concerned about applying the characteristics of suitable criteria as reporting principles applicable to the assurance report. We believe that the requirements and application material in the standard provide an adequate anchor for assurance reports and therefore we believe this paragraph and the following paragraph can be deleted.
151. Insufficient clarity is provided in paragraphs 151 and 152 as to what is already required by ISAE 3000 (Revised) and what are “nice to haves”. Calling these matters “key elements” suggests that some of these could be considered required. We suggest that the requirements in ISAE 3000 (Revised) be provided here together with some additional guidance that draws on the application material in ISAE 3000 (Revised).
153. The reference in the footnote ought to be augmented by a reference to paragraph 3 in Appendix 3 of ISAE 3000 (Revised), which contains the same statement, but is authoritative.
160. The last phrase in this paragraph after the word “understandable” is, in our view, inappropriate. We note that ISAE 3000 (Revised) itself provides requirements and guidance on matters that must or may be included in the report to ensure that intended users or other users do not inappropriately rely on the report. These include:
- The level of assurance obtained
 - Identification of the applicable criteria
 - Description of inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria
 - An alert to readers when the applicable criteria are designed for a specific purpose, and that as a result the subject matter information may not be suitable for another purpose
 - The description of the responsibilities of the appropriate parties
 - Description of the lesser procedures performed, and hence lesser assurance obtained for a limited assurance engagement
 - The context in which the conclusion is to be read
 - Any limitations on distribution or use

In some jurisdictions, reference may be made to limitations on liability and general terms of engagement.

Overall, therefore, such information limiting reliance is an appropriate part of an assurance report under ISAE 3000 (Revised) and the noted part of the sentence should be deleted.

Page 18 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

Appendix 5 to the Comment Letter to the IAASB: Detailed Comments on Supplement B by Example and Paragraph

As a general comment, we find the examples and guidance in supplement B to be useful, but have identified a number of issues that we believe need to be addressed that align the examples closer to the concepts and wording in the standard.

6. As we believe that supplement A should not be published at this time, the reference to supplement A should be deleted.

Example 1

The second sentence in the first paragraph on page 4, sounds like a requirement and is inconsistent with the fifth paragraph on this matter: we suggest that the wording be changed to: “The practitioner may find it necessary to include”.

In the fifth paragraph on page 4, the word “look” should be changed to “evaluate”. The reference should be changed from S.A120-134 to S.A121-135. The word “details” should be changed to “application and other explanatory material”.

In the sixth paragraph on page 4, the word “analysis” in the first bullet should be changed to “evaluation”, “knowledge” in the second bullet should be changed to “understanding”, and “knowledge” in the third bullet should be changed to “identification”. It is unclear to us as to “risks of what” were identified at the end of that sentence.

In the last paragraph of the example on page 5, “with the rest of” should be replaced with “within” and “any” thereafter deleted.

Example 2

It seems to us that this example should first deal with the other relevant preconditions of an assurance engagement, such as the suitability of the criteria – in this case primarily neutrality and completeness – prior to seeking to apply the rational purpose test. The rational purpose test in ISAE 3000 (Revised) was intended to be applied to catch those cases where the other preconditions

Page 19 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

would not help avoid having the practitioner accept an engagement that is likely to lead to the association of the practitioner with misleading information. We also note our comments on the guidance in relation to the concept of the “coherence relationship” and the suggested wording that ought to be applied.

Example 3

As we pointed out for Example 2, the practitioner would first determine whether the other preconditions of an engagement will be fulfilled before making a determination of whether the engagement has a rational purpose.

To the extent that the rational purpose test is being applied, it may be helpful to relate the considerations in the bullet point list to particular bullet points in paragraph A56 of ISAE 3000 (Revised):

- First and second bullets to first bullet of S.A56
- Third bullet to second bullet of S.A56

The fourth bullet is not about whether the engagement has a rational purpose, but whether the requirements for suitable and available criteria have been met (S.24 (b)(i) and (iii)).

The first sentence in second last paragraph can be related to the first bullet of S.A56. It is unclear what the basis for the second sentence is.

Example 4

The bullet prior to item 3 uses the word “challenge”, which we believe should be changed to “question” unless there are reasons for severe questioning constituting a challenge.

In the introductory sentence to item 3, the rest of the description of reliability as set forth in the standard should be included (i.e., the references to presentation and disclosure).

Example 5

Our review of this example indicates that sometimes the term “materiality” is used as the GRI uses it, but sometimes it is used like ISAE 3000 (Revised) uses it. We suggest that at the beginning of the example, clarification is provided that the GRI use of “materiality” is cognate to the ISAE 3000 (Revised) concept of relevance of the suitable criteria and that when reference is made to the GRI

Page 20 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

materiality concepts, these are placed in quotation marks to distinguish them from the ISAE 3000 (Revised) materiality concept. This implies that such quotation marks would need to be used as described.

In the first paragraph on page 11, we suggest changing the wording at the end as follows: "... reporting topics, and relevant information about them (i.e., information that would influence intended users' decision-making)". This would align the usage to that in the standard.

In the second paragraph within the box on page 12, the term "material reporting topics" should be changed to "relevant reporting topics", since this is not an instance of GRI materiality.

In the last bullet point on page 13, the words "assessment of materiality, including performance materiality" would need to be changed to "consideration of materiality, including determining performance materiality" to be in line with paragraphs 44 and A98 of the standard.

Throughout pages 14 and 15 (and in the right-hand box on page 16), reference is made to "material reporting topics" and "material topics", when "relevant reporting topics" is meant. In the last bullet point in the first paragraph of page 14 and the bullet preceding this one, "material when preparing the report" should be changed to "relevant reporting topics" and "material topics" should be changed to "relevant topics". In the last paragraph on this page, reference is made to "to allow for reasonably consistent identification, measurement or evaluation, related disclosures and presentation of the information to be reported and assured". This should be changed to read "to allow for reliable information to be reported and assured". In the following bullet points, issues regarding relevance and reliability are mixed together: the first five bullet points on page 14 relate to relevance, whereas the last one relates to reliability and therefore not to the identification of reporting topics and ought to be removed.

The first sub-bullet on page 15 relates to evidential consideration, not the identification of reporting topics and ought to be removed. The left box at the end of page 15 refers to "material matters", when reference should be made to "relevant matters".

Some of the bullet points in the right box on page 16 do not appear to be related to the identification of reporting topics. In particular, the bullet point on irrelevant information is an understandability and neutrality issue – not a relevance issue related to the identification of reporting topics. The information from the downstream value not necessarily being reliable is a reliability issue – not an issue in relation to identification of reporting topics. The same applies to the

Page 21 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

degree of uncertainty. That information may be presented in a misleading manner is a neutrality issue – not an issue for identifying reporting topics. The use of an inappropriate time horizon does not appear to relate to identifying reporting topics either. On page 17, the issues relate to reliability and its presentation – not the identification of reporting topics. Overall, there needs to be some reconsideration of these examples to ensure that these relate to the identification of reporting topics and not other issues, to determine whether they should be retained in this example.

On page 18, we presume that in the box on the left the reference to risks relates to risks from corruption: this should be clarified.

Example 6

The heading under the box on page 19 should include the word “for” in between “considerations” and “using”. In the last paragraph on this page, the words “areas where” needs to be inserted after the word “identified” and the word “that” deleted so that the example is in line with the requirements in the standard for limited assurance engagements.

In note 1 on page 22, the word “will” should be changed to “may”. In note 2, the word “should” should be changed to “may need to”. In note 3, both instances of “will” should be changed to “may”. The word “component practitioners” does not exist in IAASB standards and should therefore be changed to “other practitioners” in note 3. In note 4, the word “will” should be changed to “may”.

Example 7

The lowest level of work effort should be ascribed to intended users, so the word “assess” in the third line on page 23 should be changed to “consider”.

The first sentence on page 24 should be changed to read “The decisions that may need to be made include...”. In the sixth bullet point on this page, the words “for a user to be able to make decisions” should be changed to “to be relevant”. In the sentence prior to the last bullet point on this page the word “may” should be inserted after the word “team”.

In the fourth bullet point on page 25, in line with the requirements for limited assurance engagement, the word “where” should be replaced with “in which areas”.

Page 22 of 22 Appendices 4 and 5 to the Comment Letter to the IAASB of 5 August 2020:
Detailed Comments on Supplements A and B

Example 8

The statement in the second paragraph that water can be a scarce resource in *some parts of the world* which then requires the entity to use water responsibly *in all its operations* is inconsistent: water would then only be needed to be used responsibly when it is scarce. This issue is not addressed in the treatment of the assertions made below.

Example 9

We find some of the assertions in the first and second paragraphs on taxes paid on page 31 to be quite broad (the application of the supposed criteria for setting up operations, that all taxes due in all countries are paid – which implies considerable work effort to determine the taxes due for each country) etc. We ask ourselves why this issue was not addressed in the evaluation of misstatements section of this example.

In the second paragraph on page 33, the “will” should be changed to “may”.

On the top of page 37, the word “needs” should be replaced with “may need”.

Example 10

On the first filled black bullet on page 43, we suggest deleting the words “validity of its”, since the introduction of the concept of validity detracts from the need to obtain evidence to support what is reported.

At the very end of page 47, we do not understand the meaning of “form their opinion and inform their assurance conclusion”. Are there two assurance conclusions?

Example 12

In the first bullet point on page 54, the word “material” should be changed to “relevant”. The words “relevant to user decision-making” should be changed to “relevant to users”.