

27 July 2020

Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, New York 10017
USA

Dear Sir,

RESPONSE TO THE INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB) CONSULTATION PAPER (CP) ON PROPOSED NON-AUTHORITATIVE GUIDANCE, EXTENDED EXTERNAL REPORTING (“EER”) ASSURANCE

The Institute of Singapore Chartered Accountants (ISCA) appreciates the opportunity to comment on the above CP issued by the IAASB in March 2020.

To solicit meaningful feedback for the topic, ISCA undertook the following initiatives to seek views from key stakeholders:

- (i) Conducted a one-month public consultation to seek feedback from its members
- (ii) Organised a focus group discussion to engage key stakeholders to obtain their views on the CP. We would like to put on record our thanks to the participants of the focus group:
 - Ms Fang Eu-Lin (Chair)
 - Mr Mohit Grover
 - Ms Shirley Hu
 - Mr Titus Kuan
 - Mr David Lai
 - Ms Nhan Quang
 - Ms Gowri Palaniappan
 - Mr Jeremy Phua
 - Mr Krishna Sadashiv
 - A/Prof Tan Wee Cheng
 - A/Prof Joanne Tay
 - Mr Simon Yeo
 - Ms Tracy Yeow
- (iii) Solicited feedback on the CP from members of the ISCA Auditing and Assurance Standards Committee and Corporate Reporting Committee.

Through the non-authoritative Guidance on EER Assurance (“Guidance”), the IAASB seeks to promote consistent high-quality application of ISAE 3000 (Revised) so as to:

- (a) Strengthen the influence of EER assurance engagements on the quality of EER reporting;
- (b) Enhance trust in the resulting assurance reports; and
- (c) Engender greater user confidence in the credibility of EER reports so that the reports can be trusted and relied upon by their intended users.

The Guidance aims to address key challenges for the application of ISAE 3000 (Revised) on EER assurance engagements identified in the IAASB’s 2016 Discussion Paper titled *Supporting Credibility and Trust in Emerging Forms of External Reporting*.

We believe that the Guidance supports the above objectives and is timely as EER reporting becomes increasingly important to stakeholder decision-making.

In the local Singapore context, the Singapore Exchange (SGX) requirements on sustainability reporting for listed entities came into effect for accounting periods ended on or after 31 December 2017. To boost stakeholder confidence in the accuracy and completeness of the information disclosed, listed entities are encouraged, but not required, to undertake independent assurance, even if only on selected important aspects in their initial years. In 2019, the SGX and the Centre for Governance, Institutions & Organisations, NUS Business School, conducted a study on the latest sustainability reports published as at 31 December 2018. It was found that 14 out of 495 companies which produced sustainability reports had obtained external assurance, of which the ISAE 3000 (Revised) was the most utilised framework for assurance. By clarifying the requirements to practitioners, the Guidance could encourage the application of ISAE 3000 (Revised) in EER assurance, which may in turn lead to more sustainability reports being partially or wholly assured.

In addition to practitioners, we find that the Guidance is also potentially useful to directors and management for working towards getting their EER reports ready for assurance as their EER capabilities mature. This allows them to understand the requirements of EER assurance and this may provide a baseline understanding between the preparers and assurance providers on the application of ISAE 3000 (Revised) in the assurance of EER reports.

The Guidance provides useful recommendations and application materials but is very lengthy and challenging to read. We suggest the inclusion of a concise separate document to provide sufficient emphasis to the important points unique to EER assurance. This would highlight to users the key points to better navigate through the comprehensive content. Some of the key points that in our view should be more prominently presented include:

1) Determining the Scope for Meaningful Assurance

In determining the scope for assurance, ISAE 3000 (Revised) allows the practitioner flexibility to agree on the scope of work with the entity. However, the practitioner needs to exercise professional judgement when assessing whether the scope of work and level of assurance are meaningful.

This is an important consideration for EER assurance, for instance it may not be meaningful to assure only the quantitative disclosures in EER reports when the qualitative information is more important for contextual understanding.

While the guidance cautions exercising professional judgement over this area under paragraph 72, we are concerned that this important message is not prominently presented in the Guidance.

It is worth noting that there may be practical challenges for a practitioner to assess the information needs and level of assurance required by the “intended” users, particularly given the limited avenue for interaction with such users. In this regard, further guidance with practical solutions may be helpful.

2) Obtaining Assurance over Qualitative EER Information

Qualitative information will almost certainly form the bulk of EER reports. Thus key recommendations to practitioners regarding assurance over such information should be highlighted in Chapter 11, over other details contained in that chapter.

In addition, this is an example of how important considerations could lose impact by being presented alongside other statements. Presentation/structure of the Guidance should be re-examined to highlight recommendations that are specific to the unique qualities of EER more prominently over the other more generic recommendations.

3) Communicating Effectively in the Assurance Report

Paragraphs 334 and 337(b) state that ISAE 3000 (Revised) does not require a standardised format for assurance reports and the EER assurance report should convey sufficiently clearly to intended users what information has been assured and what has not been. These messages should be highlighted as the intended users will need to know which parts of the EER report has been assured, especially the qualitative sections.

In this regard, we suggest that the Guidance further reinforces and underscores the importance of effective communication in the assurance report in the following two ways:

Firstly, caution must be given to the risk of being misleading in conveying what has been assured and what has not been in the assurance report, especially when it could be

challenging to describe clearly and precisely the extent of both in the EER context. Practical guidance and illustrative examples would be helpful to demonstrate the considerations in paragraphs 336 to 338 for effective communication in the assurance report, including whether it is relevant and complete.

Secondly, the Guidance could provide templates for assurance reports that would both illustrate the relevant principles and align meaningfully the assurance reports issued by different practitioners.

Below are our further comments on the Guidance:

Comments on Chapter 3: Determining Preconditions and Agreeing the Scope of the EER Assurance Engagement

Practical challenges in determining preconditions

Paragraph 107 suggests various possible approaches to determine whether preconditions for EER reporting are present, including carrying out a separate pre-acceptance engagement under paragraph 107(b).

In an ideal situation, conducting such a pre-acceptance engagement would help the practitioner make an assessment of the preconditions and report to management internally on their assessment of the entity's readiness to adopt EER reporting. This can be viewed as a "two-step engagement", where the purpose of the pre-audit is to help the entity put in place the necessary systems to support EER reporting.

While ideal, we would like to highlight several practical challenges of conducting such a pre-acceptance engagement, such as:

- Entity may not be willing to incur costs or expend resources on a pre-acceptance engagement;
- Entity may not be willing to share sufficient information for the practitioner to perform a robust assessment during such a pre-acceptance engagement;
- In a competitive market situation, the practitioner who insists on conducting a pre-acceptance could lose out to a competing practitioner who agrees to taking up an assurance engagement upfront as desired by the entity. Thus, the risk of non-application of a uniform standard of care in approaching the same prospective engagement by different practitioners;
- Independence concerns arise when the practitioner performing the pre-acceptance engagement would subsequently be the assurance provider; and
- This may induce selection bias as the entity may likely select an accounting firm that is familiar with their systems (for example, their existing financial statements auditor).

Due to some of these practical challenges, such a pre-acceptance engagement is currently not performed in practice. A possible suggestion to help practitioners assess the preconditions is to develop a checklist for the entity to complete prior to engagement acceptance. Because the nature of EER reporting is such that underlying subject matter and subject matter information are entity-specific and possibly unique even among entities in the same sector, a template may not be able to capture all potential considerations. However, it may be a good starting point for preliminary assessment by practitioners.

Considering perimeter of subject matter information that varies cyclically

Paragraph 94, read in context with the subsequent paragraphs, cautions practitioners that the entity may take into account cost considerations when deciding to establish a programme to systematically vary the perimeter of the subject matter information year on year. While the purpose of this paragraph is to highlight such possible risk, the way it is worded could lead to entities misinterpreting that it is a recommendation for them to establish this programme based on cost considerations instead of risk considerations.

Comments on Chapter 8: Obtaining Evidence

Obtaining evidence commensurate to level of assurance

We appreciate that, as mentioned in paragraph 15 of Appendix 2, the Guidance includes considerations for the practitioner on the differential requirements for limited and reasonable assurance, in response to comments received for Phase 1 of the CP.

Paragraph 15 of Appendix 2 also sets apart the question of “how much evidence is enough” as an area specially addressed. Notwithstanding that obtaining evidence requires the application of professional skepticism and professional judgment, Chapter 8 does not provide sufficient guidance on obtaining evidence with enough collective persuasiveness to reduce engagement risk as appropriate.

We understand that it is intended for Supplement B of the Guidance to provide examples of how much may be enough evidence in the different circumstances. Each example is identified either as a limited or reasonable assurance engagement. We would like to recommend the inclusion of an additional example on the differences in the extent of audit evidence required for both levels of assurance if each of these is to be performed on the same subject matter information. This will provide a clearer understanding of the application of ISAE 3000 (Revised) in EER via meaningful comparison.

We note that different requirements for both levels of assurances are not exclusive to the area of obtaining evidence. For example, the Guidance also highlights that the practitioner is required to obtain an understanding of internal controls over the subject matter information in a reasonable assurance engagement but not necessarily so in a limited assurance engagement. It will be useful to illustrate comprehensively in the suggested example, all different requirements in applying

ISAE 3000 (Revised) for limited and reasonable assurance engagements in every stage of an EER assurance engagement.

We also like to propose for this example to be made in the context of sustainability reporting as it is currently one of the most common types of EER. Examples could be drawn from occupational health and safety indicators or environmental indicators like effluents, emissions, etc.

Obtaining evidence from analytical reviews for limited assurance

We would also like to highlight that analytical review is an important procedure for limited assurance. The Guidance should set out considerations when performing analytical reviews on EER assurance engagements, especially for subject matter information that is largely qualitative. There should also be clarification over whether analytical reviews should be performed on qualitative information and if yes, how to.

Chapter 11: Addressing Qualitative EER Information

Practical challenges to identify subject matter information for assurance and communication

Qualitative information has been noted in the Guidance to be inherently subjective (not directly observable and variable with the views of those reporting it).

The example in paragraph 385 further notes that subjective information could be vague, unsubstantiated and interpreted in different ways by different people. Because of these attributes, the example states that it is unlikely for subjective qualitative information to be identified by suitable criteria as subject matter information and hence such information will not be suitable for assurance. Assessment of qualitative targets and measurement of performance is also highly judgmental for both preparer and practitioner.

It is very unlikely for an EER report to comprise only information which has been assured. Preparers will likely include claims and quotes to make the EER report a more interesting read. In addition, the EER report will include images and visual enhancements (which also constitute “other information” according to paragraph 408) to make it more aesthetically pleasing. For the same reason, it is not realistic to expect preparers to clearly delineate “other information” in the EER report (as suggested in paragraph 390) just to meet assurance objectives.

These create a profound challenge for practitioners to identify subject matter information for assurance procedures and communication in the assurance report.

This challenge is partially mitigated by the guidance to convey in the assurance report what information has been assured and what has not been. Notwithstanding this, to provide more clarity over assuring qualitative information, it is crucial to provide more guidance to the practitioner on the issues of materiality thresholds and assessing the size and materiality of misstatements, with illustrative examples as appropriate. Using the existing guidance, it could be

especially challenging to assess if qualitative information contains misstatements that are individually material, given that qualitative information is not measurable and could be ambiguous.

Comments on structure and presentation

Structure and flow

The structure of the Guidance seems appropriate and logical, beginning from the fundamental issues of a proposed engagement (the competence and independence/objectivity of the practitioner; the scope of the engagement and proposed criteria) and following the familiar approach applied for financial statement audits.

However, at more than 150 pages, the Guidance is quite challenging to read. While we note that the Guidance has partitioned the conceptual material to Supplement A and the illustrative examples to Supplement B, it could be further broken up into separate statements. Using the scheme shown in Diagram 1, separate statements could be:

- EER Guidance 1001 – Chapters 1, 2 and 3
- EER Guidance 2001 – Chapters 4, 5 and 6
- EER Guidance 3001 – Chapters 7, 8 and 9
- EER Guidance 4001 – Chapter 10
- EER Guidance 5001 – Chapters 11 and 12

This would make it simpler for practitioners to locate specific reference / guidance material for their circumstances. Training and application materials could also be more focused. As EER practice develops over the short to medium term, such separation could also facilitate future revisions, amendments and additions.

We note that every chapter of the Guidance now contains the sections “Matters addressed by the Guidance in this chapter” and “Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners”, which are useful summaries of each chapter. To better present such information, we suggest presenting these two sections in bullet points within a shaded box to make the Guidance more readable and accessible. In addition, to build on our suggestion earlier in this letter, the important points of each chapter may be summarised and presented in this shaded box for emphasis.

Another comment is that sentences across the Guidance making references to Supplement B can be bolded to draw attention to the readers (for example, the last sentence of paragraph 395).

Illustrations that are useful

We found the following illustrations useful and aided in better understanding the Guidance:

- Diagram 1 (paragraph 20) is key to the whole Guidance, as it shows how the various chapters relate generally to ISAE 3000 (Revised) and to one another.
- Diagram 2 (paragraph 38) is useful because it combines the two dimensions required for effective assurance i.e. assurance competence and subject matter competence. The relationship is shown simply and clearly and reflects the reality that the assurance team will comprise some mix of staff with differing levels of competence across both dimensions. It would indicate which team members should work together, and how.
- Diagram 6 (paragraph 135) is very useful. Suitability of criteria is fundamental to an assurance engagement, and this diagram clarifies what is required during the acceptance stage, and what can be done later during the planning stage.

Illustrations that could be improved

However, the following illustrations could be improved:

- Diagram 4 (paragraphs 52 to 58) – a suggestion is for the lower half of the diagram depicting “Impediments and other factors affecting exercise of professional skepticism” to be repositioned above and linked directly to “Awareness of impediments and other factors affecting exercise of professional skepticism”.
- Diagram 7 (paragraph 195) depicts “monitoring” and “information system and communication” as layers, rather than as flows, in the system of internal control.

Supplement A

We found the discussion of the Four Key Factors useful, particularly on the EER framework.

Since the Guidance is aimed at practitioners who are familiar with financial reporting, the simplified examples in paragraphs 13 and 20 could use elements of financial reporting as illustration to better enable practitioners to relate EER subject matter, criteria and information to what they already know and practice.

Supplement B

Apart from those already mentioned earlier in this letter, examples that could be useful include:

- Example of an entity that has collated a set of EER subject matter information using different recognised standards, which do not however represent any cohesive framework. This might be a plausible scenario as smaller entities ramp up their EER.
- Example of dealing with “mixed” levels of assurance in engagements (i.e. reasonable assurance for some elements of an EER report, and limited assurance for other elements).
- Examples on other types of EER, as the current examples are focused on “corporate sustainability reporting”.

Should you require any further clarification, please feel free to contact the following Managers of ISCA's Technical Department:

- Ms Wang Zhumei (zhumei.wang@isca.org.sg)
- Mr Donaphan Boey (donaphan.boey@isca.org.sg)

Yours faithfully,

Ms Ju May, Lim
Deputy Director
TECHNICAL: Financial & Corporate Reporting;
Ethics & Specialised Industries;
Audit & Assurance