

Submission to the International Auditing and Assurance Board

The Chair
International Auditing and Assurance Board
C/- The International Federation of Accountants
529 5th Avenue
New York
United States of America

15 July 2019

Dear Sir/Madam

Re: Consultation Paper: *Extended External Reporting Assurance*

On behalf of the Institute of Public Accountants (IPA), I submit our comments on the IAASB's consultation paper *Extended External Reporting Assurance*.

The IPA believes that much of the proposed guidance is generic and could be applied to *any* assurance engagement under ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, not just to Extended External Reporting (EER) assurance engagements.

As much of the proposed guidance is an upgrade to the existing IASE 3000 content, the IPA recommends the proposed guidance be included in ISAE 3000 and its associated application guidance.

Any content of the proposed guidance that is specific to EER assurance engagements should be an appendix to ISAE 3000.

The IPA does not support the concept of non-authoritative guidance. If the IAASB continues with the concept of the proposed guidance as a separate document that IPA is of the view it should have authoritative status.

The IPA would like to also raise the following issues:

1. Materiality processes

The term “materiality processes” is confusing and not an accurate description of the processes used in the related section of the proposed guidance.

In the “materiality processes” section the proposed guidance is describing the formulation of the reporting framework. The application of materiality is a component of applying a reporting framework. The use of the term “materiality processes” unnecessarily confuses the application of the materiality concept and its role in assurance and assessment of errors.

2. Ethical requirements

The IPA has two concerns in relation to the application of ethical requirements to EER assurance engagements.

The current distinction in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* between audit and assurance engagements (of financial reports) and other assurance engagements are not relevant in an environment where assurance is being given to other publicly available assurance subject matter. The distinction is inconsistent with potential user’s and the public’s expectations of independence of an audit or review regardless of the subject matter. The IPA believes the IASB needs to liaise with the IESBA to remove this distinction.

The IPA is concerned that “readiness for assurance” and “maturity assessment” services (both concepts identified in the proposed guidance) are being or may be offered by assurance service firms. The IPA believes these services could be potentially considered independence threats. Guidance should be provided as to whether such services impair the ability of an assurance practitioner to subsequently undertake an assurance EER engagement.

3. Risk assessment

The proposed guidance does not address assurance risk assessment.

The risk of material misstatement of the EER subject matter is an integral to any EER assurance engagement. Such an assessment should include the identification of motives to misstate, including the impact of performance requirements and remuneration structures on the risk of material misstatement. The risk assessment should include the impact of non-compliance with applicable law and regulations in relation to the EER subject matter and the risk of fraudulent statements in relation to such statements.

4. Reporting

Although reporting is not being addressed, the IPA notes that the guidance in ISAE 3000 is limited.

When developing guidance for EER assurance engagement, the IAASB needs to be more aware of user needs and expectations. The IPA considers the current framework of assurance reporting may no longer best serve user needs. A different reporting framework may be particularly appropriate for EER assurance engagement which may require more analytical content in the assurance report or direct reporting.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca (stephenlagreca@aol.com) or Mr Colin Parker (colin@gaap.com.au) GAAP Consulting.

Yours sincerely

Vicki Stylianou
Executive General Manager, Advocacy & Technical
Institute of Public Accountants

CC Chair, AUASB

About the IPA

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

Appendix

Question 1

Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1? If not, where and how should it be improved?

Specific “Significant Matters” Highlighted for Respondent Consideration”

Paragraphs 9-15 (scope of draft guidance)

Paragraph 25 (preconditions and the system of internal control)

Paragraph 29 (suitability criteria)

Paragraph 33 (“materiality processes”)

Paragraph 35 (materiality of misstatements)

Paragraph 40 (assertions)

Paragraph 41(narrative and future-oriented information)

IPA response

The draft guidance includes much that will be useful to assurance practitioners, however, the IPA considers the material is generic in nature and not particularly specific to EER assurance engagements.

Given generic nature of much the content, it would be better to include the guidance in ISAE 3000 either in the body of that standard or its associated application guidance.

In particular, the IPA recommends that ISAE 3000 be enhanced to include material based on the draft guidance including improved guidance on:

- Preconditions of an engagement
- Suitability of criteria
- Materiality of misstatements
- Assertions, and
- Narrative and future orientated information.

The IPA considers the guidance requires further work in the following areas:

- Information systems –there is insufficient emphasis on obtaining an understanding the sources and systems of the information included in the EER. In particular, the need to ascertain the reliability of such information systems is hardly acknowledged.

- Materiality of misstatements – while the proposed guidance on materiality of misstatements is more substantive to that in ISAE 3000, the guidance needs expansion for the materiality effects of omissions of information or misleading statements.
- Future-orientated information – the proposed guidance on future orientated information is vague and not particularly useful. The guidance provided by Australian Standard ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* may be helpful when formulating further guidance for ISAE 3000 and EER assurance engagements. The IPA is aware of assurance practitioners using ASAE 3450 as guidance in relation to non-financial information (e.g. forecast emissions and production information) for assurance reports to the Australian Clean Energy Regulator.

The use of the phrase of “materiality process” is confusing and not consistent with the general usage of the term “materiality”. The IPA does not support the introduction of the term “materiality processes”.

Question 2

Is the draft guidance clear and easy to understand, including through the use of examples and diagrams, and the way the terminology is used? If not, where and how should it be improved?

Specific “Significant Matters” Highlighted for Respondent Consideration”

Paragraphs 16-17 (examples, diagrams and terminology)

Paragraph 34 (term “materiality process”)

Paragraph 37 and 40 (assertions)

IPA response

The format of the proposed guidance, particularly, in its relationship with ISAE 3000 is not clearly presented.

In addition, in our response to Question 1, we do not support the use of the terminology “materiality process”.

The IPA also notes that the term “maturity assessment” is introduced in paragraph 52. The guidance should be expanded to detail what constitutes a “maturity assessments” and a clearer articulation made of how the outcomes of such an assessment affects an EER assurance engagement.

Question 3

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

Specific “Significant Matters” Highlighted for Respondent Consideration”

Paragraph 18 (structure)

IPA response

As noted in our response to Question 1, the IPA is of the opinion that much of proposed guidance is generic and can be applied to any engagement conducted under ISAE 3000, not just EER assurance engagement. As such, the IPA recommends the proposed guidance be incorporated in ISAE 3000 and its associated application guidance.

Question 4

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

Specific “Significant Matters” Highlighted for Respondent Consideration”

Paragraphs 19-21 (relationship with ISAE 3000 (Revised))

Paragraphs 24 and 26 (linking preconditions and the system of internal control)

Paragraph 36 (assertions)

IPA response

As noted in our response to Questions 1 and 2, the IPA believes the proposed guidance should be incorporated directly in ISAE 3000 and its associated application guidance. In particular, the absence of any mention of assertions in ISAE is problematic, as all assurance engagements are undertaken in the context of providing assurance in the context of the applicable assertions. Assertions need to be addressed.

Question 5

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

Specific “Significant Matters” Highlighted for Respondent Consideration”

Paragraphs 19-21 (matters not addressed in ISAE 3000 (Revised) and including details on the preparer’s role and “materiality processes”)

Paragraphs 24 and 26 (linking preconditions and the system of internal control)

Paragraph 36 (assertions)

IPA response

Please note our response to Question 4.

Question 6

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

Specific “Significant Matters” Highlighted for Respondent Consideration”

Paragraphs 42-45 (additional papers)

IPA response

The IPA agrees the additional papers contain useful information and should be incorporated into ISAE 3000 and its associated application guidance. The additional papers could be issued as appendices to ISAE 3000.

Request for General Comments

Question 7

In addition to the request for specific comments above, the IAASB is also seeking comments on the matters set out below:

- a) Stakeholder Perspectives – Respondents representing stakeholders such as preparers (including smaller entities) of EER, users of EER reports, and public sector entities are asked to comment on the questions above from their perspective.*
- b) Developing Nations – Recognising that many developing nations have adopted or are in the process of adopting International Standards, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in using the draft guidance in a developing nation environment.*
- c) Translation – Recognising that many respondents may intend to translate the final guidance for adoption in their own environments, the IAASB welcomes potential translation issues.*

IPA response

The IPA has no comment for Question 7.
