

21 June 2019

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Dear Willie,

***IAASB Consultation Paper –Extended External Reporting (EER) Assurance***

Thank you for the opportunity to comment on this Consultation Paper. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) to the specific questions raised in the consultation paper in the attachment.

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards.

*The New Zealand perspective*

In New Zealand, EER continues to gain momentum. The NZX listing rules have introduced a requirement for listed issuers to report environmental, social and governance factors (ESG) information, or if it does not do so it must explain why it has not. The [ESG Guidance Note](#) issued by the NZX states "An issuer may wish to strengthen credibility of its ESG data through external assurance." Some entities (for example, Sanford and New Zealand Post) have issued integrated reports. However, few entities (for example, Sanford) present their EER information with an independent assurance report at this stage. We note research by the [XRB and McGuinness Institute](#) in 2017 found that 76% of users thought that EER should be independently assured.

Reporting of service performance information, a limited form of EER, has been common in the Public Sector of New Zealand for many years. This information has historically been audited in conjunction with the audit of the financial statements. Whilst service performance is not as broad as integrated reporting, it is a form of more holistic external reporting, whereby the entity is required to tell its performance story. The NZAuASB has considered many of the key challenges addressed in the IAASB's consultation paper, in the context of developing [NZ AS 1](#) *The Audit of Service Performance Information*. Where relevant, our responses to the questions posed, highlight the conclusions the NZAuASB reached in finalising NZ AS 1.

The XRB has developed an [EER position](#) paper and an EER navigational resource to help preparers understand the numerous frameworks to assist them to prepare EER. There is also ongoing monitoring by the XRB to contribute to the International Accounting Standards Board (IASB) project to update its IFRS Practice Statement 1 *Management Commentary*.

*Overarching comments*

The NZAuASB is very supportive of the IAASB's project to develop guidance on EER assurance and encourages the IAASB to continue to prioritise the finalisation of the guidance document. The NZAuASB

commends the IAASB's effort in developing the guidance so far. The feedback included in our responses to the specific questions are suggestions to refine and improve the draft.

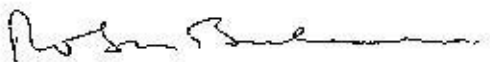
The NZAuASB's overall comment is that the draft guidance runs the risk of growing into a very lengthy document. A lengthy, complex document targeting all types of users in one place may pose a barrier to meeting its objectives.

As further described in the responses to the specific questions posed, the NZAuASB encourages the IAASB to:

- Continue to streamline the guidance to make it more user friendly, with a focus on robust and relevant examples. In addition, reducing the amount of repetition of ISAE 3000 (Revised) may help. Use of technology may be one way to link the guidance to the underlying standard effectively, enabling less repetition of the standard in the guidance.
- Clarify the delineation between the preconditions for an assurance engagement and performing the engagement by setting a clear expectation as to the work effort required at each stage, i.e. how much is enough when determining whether the preconditions have been met. This should also recognise that considerations related to internal control and suitable criteria are iterative and may in some circumstances be informed by procedures performed after accepting the engagement. A flowchart diagram may be useful to emphasise the more iterative nature of this evaluation. (An example of such a flowchart, developed for NZ AS 1, is attached as appendix 1, for illustrative purposes).
- Avoid establishing too high a hurdle that may result in the assurance process becoming a barrier to the development of EER.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk ([sylvia.vandyk@xrb.govt.nz](mailto:sylvia.vandyk@xrb.govt.nz)).

Yours sincerely,



**Robert Buchanan**

**Chairman**

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## Submission of the New Zealand Auditing and Assurance Standards Board

### IAASB Consultation Paper – Extended External Reporting (EER) Assurance

#### I Schedule of Responses to the IAASB's Specific Questions

1. **Does the draft guidance adequately address the challenges for practitioners which have been identified as 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**

#### **Response:**

The NZAuASB's overarching comment is that the guidance is lengthy and could benefit by reducing the amount of repetition of ISAE 3000 (Revised), with a focus on application material and illustrative examples to assist the practitioner apply the concepts. An overarching statement that the guidance is built on the requirements of ISAE 3000 (Revised) may be sufficient, without the need to justify such an approach. Use of technology may also assist to create links between the guidance and ISAE 3000 (Revised) and provide an alternative to repeating the standard. The NZAuASB considers that this may improve the usability of the guidance.

The issues identified below each sub-heading are areas where the NZAuASB considers the guidance would benefit from additional clarification for each identified challenge.

#### Paragraphs 9-15 (scope of draft guidance)

The NZAuASB considers that the following matters are relevant for the scope of the guidance:

- a. Applying appropriate skills in an EER assurance engagement will be considered in phase 2. Under the 'obtaining evidence' heading in Chapter 2, the consultation paper states that use of experts and the work of another practitioner are outside the scope of this guidance. In practice, the need to use experts or the work of another practitioner is a particular challenge where additional guidance and examples would be welcomed.
- b. Other information has been identified as outside the scope of the guidance. Other information that is to be scoped out of an EER assurance engagement may be a particular challenge for practitioners. Additional guidance and examples would be welcomed.
- c. Guidance on how to make the criteria available to intended users would be helpful. This may be addressed in the guidance to be developed on reporting. The requirement in ISAE 3000 (Revised) for the practitioner to evaluate whether the criteria are available to intended users proved to be a challenge when developing NZ AS 1. It is unclear from paragraph 37 of the draft guidance as to whether this will be covered in Phase 2. Adding additional guidance in Chapter 3 and/or when developing guidance on reporting would be useful.

The example of water intake in paragraph 114 of the draft guidance could be used to clarify this point. Is reporting xx litres of water, making the criteria available?

Paragraph 116 of the draft guidance clearly articulates a key issue discussed in developing NZ AS 1 i.e., the multiple layers within criteria. Additional guidance on how to refer to this multiple layering of criteria in the assurance report would be helpful to address in phase 2. In addition, more guidance on how to report will be

helpful, not limited to just a binary yes or no opinion, rather reflecting the reporting recommendations, etc as contemplated by ISAE 3000 (Revised).

Paragraph 25 (preconditions and the system of internal control)

A key area where the NZAuASB considers the draft guidance would benefit from further clarification is the delineation between the preconditions for an assurance engagement and performing the engagement, especially in clarifying how much is enough when determining whether the preconditions have been met. This clarification is needed especially in the way in which the draft guidance links the preconditions, the suitability of the criteria and the system of internal control.

The inter-relationship between chapters 3, 6 and 7, and the actual performance of the assurance engagement once accepted is not clear. For example, the diagram in paragraph 46 of the draft guidance references chapter 7 but parts of chapter 7 appear too advanced for the acceptance phase of an engagement, which is completed based on a preliminary knowledge. A flowchart, similar to the illustrative flowchart attached in the appendix, may assist to emphasise the iterative nature of the evaluation.

The NZAuASB's comments on the evaluation of the system of internal control are covered in more detail in response to question 4 and 5 below.

The NZAuASB considers the draft guidance may imply there is a need for a significant amount of knowledge to determine whether the preconditions for an assurance engagement are met, due to:

- the lack of maturity in many of the EER frameworks;
- the range of frameworks available that are combined by preparers to prepare EER information; and
- the need for some level of maturity in thinking and processes to prepare the EER information.

These challenges almost “require” some kind of assurance readiness assessment as part of the determination as to whether the preconditions have been met. If such an assessment is not performed separately, in many instances it is unclear how, practically, a practitioner would be able to determine whether the preconditions have been met. This may imply that EER engagements are expected to be recurring engagements, which may not be a valid assumption, or that an assurance readiness assessment will lead to an assurance engagement which may not be the case. It may also imply that meeting the preconditions may get easier over time, which again may not be a valid assumption, given that each year the entity may be reporting on variable subject matter. The entity's internal controls may therefore always have some lack of maturity, and the developing draft may imply that an assurance engagement may therefore never be appropriate.

To evaluate whether the engagement has a rational purpose, paragraph 49 of the draft guidance notes it may be appropriate to consider who the intended users are and whether the EER report will be used or distributed more broadly than to identified users. This may be an onerous requirement for the practitioner. The NZAuASB received feedback when developing NZ AS 1, that it is more appropriate for the practitioner to evaluate the entity's process for identifying intended users and whether this is reasonable, rather than expecting the practitioner to identify intended users. The intended users may also be defined by the EER framework that is used and may be narrowly or more broadly defined by these frameworks.

The NZAuASB is supportive of the guidance included on assurance readiness engagements and ‘maturity assessments’. This is reflective of what is happening in

practice in New Zealand. The NZAuASB cautions against implying such an assessment is always needed as a precursor to an assurance engagement.

The NZAuASB agrees the guidance should address the challenge of a lack of maturity in internal controls. However, the NZAuASB cautions that an undue focus on the maturity of the 'controls' at the preconditions phase of an engagement may be too high a bar for accepting the engagement. Given the lack of maturity of many EER reporting frameworks, the assurance practitioner is taken back to first principles. There is a need for the preparer to develop a maturity of thinking to identify what matters to report on (as a first priority rather than on first developing controls) and for the assurance practitioner to work to provide as much assurance as possible..

Practitioners from New Zealand have highlighted that in practice, preparers and users generally have a low understanding of the preconditions for assurance engagements and the need for internal controls. Practitioners are therefore playing an educative role. An undue focus on internal control may have the unintended consequence of focussing the preparer and the auditor on the internal control systems before a preparer has matured its thinking in preparation for EER. Such an approach may contribute to a siloed approach to preparing EER. The NZAuASB considers this need for the preparer to have developed its thinking should also be emphasised in the guidance, alongside the need for controls and processes to implement the entity's thinking. There is also a need to emphasise that the practitioner's evaluation of the entity's materiality process, suitability of the criteria and the appropriateness of the internal controls is an iterative process, not limited to the acceptance phase.<sup>1</sup>

We have identified the following paragraphs of the draft guidance for clarification:

- Consideration of the preparer's thinking and readiness to report, as an overarching consideration prior to the detailed processes described in paragraph 67.
- The type of control activities listed in paragraph 70 could also highlight controls to address management bias in selecting elements to report on, not only the measurement bases selected.
- The governance and oversight process as described in paragraph 71 should not only focus on the process to prepare but include a higher level of governance over what and how best to report. The governance and oversight process listed in paragraphs 71 could also refer to the process around seeking assurance over the EER information. In many instances, assurance is voluntarily sought, and may be for internal purposes only or for a select group of users. Clarification by the preparer as to why assurance is sought may assist the assurance practitioner in evaluating whether the preconditions for assurance have been met. (I.e., the level of assurance sought, what measures have been selected for the scope of the engagement).
- Re-ordering paragraph 71 to bring Governance and Oversight before the paragraphs on reporting system could be another way to reinforce this. Also amending the diagram in paragraph 62 to have the governance and oversight as an overarching component may help to emphasize this point.
- When the assurance practitioner may refer to ISAE 3000 (Revised) in the assurance report, as described in paragraph 77. The distinction between referring to ISAE 3000 (Revised) in paragraph 123 and not doing so as described in paragraph 77 should be clarified. Rather than prohibiting reference to ISAE 3000 (Revised), it may be more useful to highlight that the practitioner may need to perform an assurance readiness type of engagement, instead of an assurance engagement, (i.e., redirect the assurance practitioner to where on the spectrum of services the preliminary

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<sup>1</sup> ISAE 3000 (Revised) requires the practitioner to determine whether the criteria are suitable when planning and performing the engagement (refer to paragraph 41-43)

knowledge is directing the assurance practitioner) rather than just prohibit a reference to ISAE 3000 (Revised).

The NZAuASB's experience in developing NZ AS 1, would indicate that auditors may be required to undertake some types of EER assurance engagements by law or regulation, even where an entity is in an early stage of developing its EER. In some instances, the preparer may be able to produce some information that is able to be assured and some that is not due to a lack of maturity in internal controls, resulting in a situation where the auditor is unable to obtain sufficient evidence to support their conclusion. In this instance, the auditor would modify the conclusion appropriately. Further explanation as to why a reference to ISAE 3000 (Revised) is not appropriate would be useful or clarification as to when such a reference may be made. The example in paragraph 77 seems at odds with the approach taken in NZ AS 1, when there is a statutory requirement for the prepared EER information to be assured or limited ability to scope EER information out of the assurance engagement.

*Paragraph 29 (suitability of criteria)*

The NZAuASB is supportive of the guidance and examples developed to assist practitioners to evaluate the suitability of criteria. Given the wide range of criteria and engagements, even more specific examples would be well received.

In practice, this evaluation is a real challenge. For example, the evaluation of completeness balanced against conciseness for understandability when dealing with highly principles based, non-specific reporting frameworks. Additional practical guidance to illustrate how the practitioner evaluates this balance would be very useful.

The NZAuASB summarised this evaluation as "step 1" in the assurance process, i.e., understanding and evaluating what the entity has selected to report about and how to evaluate that performance.

The NZAuASB considers that the guidance could be clearer on the delineation between the precondition for accepting the assurance engagement and what to do when performing the engagement. Specific examples within the draft guidance include:

- Paragraph 107 implies that underlying data and source information will need to be sufficiently accurate and complete and for it to be collected and processed in a neutral manner may be beyond an evaluation of whether the criteria are reliable. This strays into testing how the preparer has applied the criteria to its circumstances. The NZAuASB considers this may fall into the evidence gathering procedures to be performed by the practitioner. It is important to delineate between an evaluation of the suitability of the criteria (as a precondition for accepting the engagement) based on a preliminary knowledge versus the testing of the application of the criteria by the preparer, which is part of conducting the assurance engagement.
- Paragraph 114 on water intake blurs this further. Concerns related to whether water meters have been expertly calibrated and on what days the readings are taken, appear to blur the line between an assessment of the suitability of the criteria and whether there is a material misstatement in the measures reported. Practically this evaluation would not be performed at the acceptance stage.
- Paragraph 117 could be extended to cover where changes are made to criteria as the entity develops systems and processes to support alternative criteria. This is reflective of the journey that entities may be on in developing the EER report. It may be that ongoing innovation occurs annually as entities refine their EER information, and as priorities and risks to be reported against change over time.

- As mentioned above, the NZAuASB considers the distinction between referring to ISAE 3000 (Revised) in paragraph 123 and not doing so as described in paragraph 77 should be clarified.
- Paragraph 128 references the requirement to consider the process used to prepare the subject matter information or to obtain an understanding of internal control over the preparation of the subject matter information. Clarification around where in the process this consideration or understanding fits would be useful, rather than to start blurring this with the preconditions for an engagement.

The NZAuASB is especially supportive of including guidance as developed in paragraph 116, i.e., the need to evaluate both the overarching criteria AND the detailed entity selected measurement and evaluation criteria. This was a key challenge addressed by the NZAuASB in developing NZ AS 1 domestically. Examples that demonstrate highly principled frameworks that need to be supplemented by entity specific measurement or evaluation criteria would be well received. We encourage the IAASB to extend this guidance when developing addressing the reporting challenge in Phase 2, i.e. how to refer to this dual level of 'criteria' in the assurance report. It may be useful to develop examples that flow through the guidance, using different EER frameworks, to demonstrate the evaluation of this dual level of criteria at the acceptance phase, while performing the engagement and in reporting the criteria in the assurance report.

Paragraph 33 ('materiality processes')

The NZAuASB have identified the following areas that may benefit from further clarification:

- The issue of who the intended users are is an important one as the users of EER may be broader than the traditional intended users of financial statements. On the other hand, there is a caution against extending the net too wide, i.e., it is not possible to cover every and all users, and neither the preparer nor the practitioner should be identifying all stakeholders as intended users. The differing information needs of various users is a key challenge. The guidance clarifies the different types of intended users to think about and we consider helpfully emphasises that the intended users may be defined by the preparer and the EER framework selected. Linking the idea of the intended user as identified by the preparer, to the purpose of the assurance engagement may need to be further emphasized.
- By separating this chapter from the chapter on suitable criteria, it may confuse practitioners as to how this step fits in with ISAE 3000 (Revised). For example, the examples in paragraph 149 of the draft guidance link closely to relevance under the suitability of the criteria. Clarifying where consideration of the materiality process fits in may help to emphasize the iterative nature of the evaluation.
- Where the EER framework has no materiality process requirements or reporting requirements, it may not be appropriate for the practitioner to encourage a preparer to disclose details of the materiality process. (refer to paragraph 164 of the draft guidance). The guidance should caution against the practitioner establishing reporting requirements.

Paragraph 35 (materiality of misstatements)

Indicative feedback highlighted mixed views on whether identification of 'what to report on' is linked to materiality. Separating the terms and highlighting the difference is helpful, however there remains the matter that if a significant matter is omitted, it may result in a material misstatement. This cannot be limited to just a precondition for the engagement but may be a conclusion after performing the assurance procedures.

The guidance in Phase 2 on performance materiality will be challenging. NZ AS 1 identified that it is difficult to conclude on overall service performance information, as well as whether a material misstatement exists within one measure. Significant judgement will be required to determine the implications of this single misstatement (i.e., is the practitioner effectively providing assurance on each measure separately or collectively over the information as a whole). The NZAuASB addressed this with reference to “materiality factors” in developing NZ AS 1.

Paragraph 40 (assertions)

The NZAuASB has discussed the link between suitable criteria and assertions. When developing NZ AS 1, analogy was drawn between suitable criteria and the qualitative characteristics rather than the qualitative characteristics and the assertions. (Refer to paragraph 171 of the draft guidance). The link between the three could be made clearer (Refer to paragraph 174 of the draft guidance).

It is unclear what paragraph 172 of the draft guidance means when it states ‘Assertions are used by the practitioner at the level of the categories into which they fall rather than at the level of detailed assertion about aspects of the subject matter information’. We suggest this sentence could be deleted or clarified.

Paragraph 41 (narrative and future-oriented information)

Indicative feedback highlighted that practitioners may find the idea of assuring future oriented information difficult but were more comfortable to consider whether assumptions seem reasonable and whether the methodology used seems appropriate. This is work they currently perform in the audit of financial statements.

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

**Response:**

*Paragraphs 16-17 (examples, diagrams and terminology)*

The NZAuASB is supportive of the use of relevant examples, diagrams and terminology that are clear and easy to understand. Given this is non-authoritative material, use of robust, relevant EER examples is a useful way to develop guidance for practitioners.

The NZAuASB is supportive of the use of terminology such as:

- ‘preparer’ to mean a responsible party who is also the measurer or evaluator. Within the guidance the NZAuASB recommends that ‘preparer’ is used consistently to avoid switching between the terminology. For example, in paragraph 49 of the draft guidance, the second to last bullet point example refers to responsible party and the measurer or evaluator. This could be simplified and made more consistent by referring to preparer;
- ‘qualities’ – this term is less clear. Does this refer to measurement bases only or also qualitative qualities? This could be made clearer in paragraph 11(b) of the draft guidance.

The NZAuASB considers the examples in the draft guidance will be useful to practitioners, however suggests that the examples could be streamlined. A focus on the practitioners’ role only may also assist as exploring the preparers’ role in the guidance (e.g. in Chapter 8 on the materiality process), starts to blur the role of the practitioner in these matters. We have the following specific suggestions



- Extend the example of water quality to deal with contextual information and/or impacts as described in paragraph 150 of the draft guidance, to illustrate the importance of context in evaluating the suitability of the level of aggregation;
- We find the example following paragraph 77 of the draft guidance related to service performance information confusing and at odds with the guidance on this topic in New Zealand.
- We find the example of the apple in the Background and Contextual Information section unhelpful. An example that is related to EER would be more helpful.

*Paragraph 34 (term ‘materiality process’)*

The NZAuASB had mixed views on the use of the term “materiality process”. There was support for this term, given that some EER frameworks and preparers use this terminology. The opposing minority view was a preference to describe this as the process the preparer applies to determine what to include in the report, i.e., to identify the subject matter.

*Paragraphs 37 and 40 (assertions)*

As highlighted above, the NZAuASB has discussed the link between suitable criteria and assertions. When developing NZ AS 1, analogy was drawn between suitable criteria and the qualitative characteristics rather than the qualitative characteristics and the assertions. (Refer to paragraph 171 of the draft guidance). The link between the three could be made clearer in paragraph 174 of the draft guidance.

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

**Response:**

The NZAuASB considers the draft guidance could be streamlined by removing replication and paraphrasing of ISAE 3000 (Revised). We recognize the importance of ISAE 3000 (Revised) as the standard on which the guidance is based but consider an upfront statement that contextualizes this guidance is built on ISAE 300 (Revised) and that it should be read in conjunction with ISAE 3000 (Revised) is sufficient. Such an approach may reduce the bulk of the document and add more value for the practitioner.

The structure could be improved by clarifying the purpose of the document, i.e., guidance to be used in conjunction with ISAE 3000 (Revised) rather than a replacement for ISAE 3000 (Revised). While the importance of ISAE 3000 (Revised) as the standard has been agreed to, there appears to be justification for this approach in the draft. Once this decision has been made, it may not be useful to justify this approach.

The guidance seems to target many players in a broad eco-system of EER including users, experienced EER practitioners, auditors that may be familiar with the assurance framework but that are new to EER as well as the preparer, and even regulators. It may be more useful to separate out targeted pieces for different audiences (i.e., prepare separate companion guidance for preparers related to how to prepare for assurance) and/or make it clearer what is explanatory context for those less familiar with EER assurance versus what is practical guidance to assist more experienced practitioners apply the requirements. This will also assist in streamlining the guidance.

While the chapters may be useful for locating guidance on specific topics, the NZAuASB considers that the chapters may inadvertently remove the integrated and iterative nature of many of the considerations. As highlighted above, we consider that the guidance would benefit from clarification as to when the practitioner is expected to do what. The

current structure may be exacerbating the concern that the draft guidance blurs the line between the preconditions for an engagement and actually performing the engagement. This may be overcome by including a flowchart (an illustrative flowchart is included in the appendix) upfront to illustrate the iterative nature of these evaluations.

We recommend that the IAASB stand back and reflect on the most appropriate structure for the guidance once all the topics have been considered towards the end of Phase 2.

**4. Do you agree that 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?**

**Response:**

The need for robust systems that are capable of developing information that can be verified is a precondition for an assurance engagement, i.e. one must expect to be able to get the evidence needed to support the conclusion for there to be a valid purpose for the engagement. Therefore, the NZAuASB is supportive of inclusion of this aspect in the guidance and that this is not in conflict with ISAE 3000 (Revised).

However, the NZAuASB is concerned that a focus on the internal control system may not recognise that the practitioner may be able to adopt a purely substantive approach to obtain sufficient, appropriate evidence and that it is unclear how much is expected of the practitioner on acceptance. The evaluation of the suitability of the criteria is based on a preliminary understanding, as opposed to what can be determined based on assurance procedures typically performed as part of a system walk through. This is explored in response to question 5. We suggest clarifying how much is enough when determining whether the preconditions have been met, noting the iterative nature of this evaluation, will assist in addressing this concern.

Overall the NZAuASB is supportive of the inclusion of guidance on the use of assertions, even though ISAE 3000 (Revised) does not deal with assertions. This support is based on consideration that the guidance may give rise to some useful examples to assist practitioners apply professional scepticism.

ISAE 3000 (Revised) is too broad to cover assertions related to all sorts of subject matter information however ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements* addresses assertions. While the NZAuASB does not consider guidance on assertions is contrary to the assurance framework or requirements generally, it does acknowledge that EER still covers a very broad range of subject matter, which does raise challenges in whether the assertions described in the draft guidance are sufficiently broad to remain framework neutral.

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

**Response:**

*Linking preconditions and system of internal controls*

The NZAuASB agrees the guidance should draw a link between the preconditions and the system of internal controls. However, we consider the draft may imply an insurmountable hurdle to accepting an assurance engagement. Rather, a distinction should be drawn between the work effort based on a preliminary knowledge as opposed to performing detailed walk throughs or testing typically performed during the assurance engagement.

The guidance on the preconditions seems to set a very high barrier to accepting an assurance engagement. Practically, we consider the practitioner may be unlikely to be able to reach a final conclusion on the suitability of the criteria, understand the materiality process and identify whether the internal control system is robust enough to be able to provide the evidence needed to conclude, until the practitioner has actually started to gain the understanding and do a system walk through, traditionally performed as part of the assurance engagement.

We consider the guidance may need to recognize even further that preparers may be on a journey to evolve their reporting, and that the assurance practitioner needs to be able to evolve with them. On this journey some of the measures reported may be able to be assured and some may not. It may however not be as black and white as accepting and scoping the engagement accordingly, but rather may be more appropriate to report on this journey. This is something that the NZAuASB recognized in developing NZ AS 1, i.e., by encouraging the assurance practitioner to include recommendations in the assurance report.

The NZAuASB recommends that Phase 2 should capture a more flexible way to report, not just a binary yes or no conclusion. Such flexibility may impact on the preconditions for accepting the engagement and “how much is enough” to enable a practitioner to accept an assurance engagement. More flexibility in reporting is appropriate given preparers may be on a reporting journey and the assurance practitioner should be aiming at providing as much assurance as possible along that journey.

In terms of structuring the guidance, this emphasis on the iterative nature of these evaluations and assessments on suitability of criteria, the appropriateness of the internal controls and the consideration of the materiality process could be further emphasized.

We have heard from stakeholder outreach that there is a lack of understanding by preparers around controls and the preconditions for assurance. Where an entity voluntarily seeks assurance, there may be surprise at the need for robust controls and processes to support the EER. In practice, we understand that currently many assurance practitioners are playing an educative role with more work at the “assurance readiness” phase, working with clients as they develop their EER, to assist them focus on developing systems that will be “assurable” in the longer term as well as provide better quality information.

The focus on the ‘assurance readiness’ work is therefore a useful addition to the guidance since the previous drafts discussed by the NZAuASB. However, it is not as clear cut where there is mandatory assurance required, or where no assurance readiness work is performed, as in the area of service performance information. We suggest this delineation could be clarified in the guidance, to cater for types of EER where this ‘assurance readiness’ type of work is not practicable.

This is a costly exercise and may actually be a barrier for preparers when faced with voluntary reporting of EER. There may not be a declining cost over time either as reporting continuously evolves.

A key message that the NZAuASB has previously stressed is that the assurance process should not be a barrier to innovation and should encourage preparers on the journey rather than stunt innovation in this space.

#### *Preparer’s role and materiality process*

The NZAuASB is supportive of the inclusion of references to the preparer’s role and the materiality process. The NZAuASB cautions against trying to cover too much in one document. Whilst guidance on the preparer’s role is important, the guidance should not blur the role of the practitioner with that of the preparer.

### *Assertions*

On balance, the NZAuASB is supportive of referencing possible assertions. As mentioned in response to Q1, the link between the qualitative characteristics described in a reporting framework, the practitioner's evaluation of the suitability of criteria and the assertions could be clarified further.

**6. Do you agree that the additional papers contain further helpful information and that they should be published alongside the final guidance?**

**Response:**

The NZAuASB found the information in the Four Key Factor Model for Credibility on page 77 useful and would support its publication alongside the guidance.

The NZAuASB found the material in the Background and contextual information section on page 72 of the consultation paper confusing. It is unclear who this is for and how this information will assist. If this material is published we would recommend that the examples are changed and that it is clear how this guidance will assist. Areas we found especially confusing include:

- A distinction drawn between criteria and benchmarks (two separate bullet points in paragraph 6 on page 72 of the consultation paper). ISAE 3000 (Revised) defines criteria as benchmarks so separating these two is confusing. We understand that the measurement, recognition, presentation and disclosure bases are a part of the criteria.
- We do not find the example of the apple to illustrate the idea of "elements" and "qualities" helpful. We consider the examples in the guidance to describe an element and its qualities, e.g. water quality will be more helpful for a broad stakeholder group as they relate to actual EER information. The apple example does not seem to clarify or assist.

**Appendix: Indicative flowchart to highlight the iterative nature of the evaluations**  
 (extract from NZ AS 1. Consider a similar flowchart for EER)

