

8 July 2020

Willie Botha  
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International Auditing and Assurance Standards Board  
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USA

Dear Willie,

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

Thank you for the opportunity to comment on this Consultation Paper (CP). We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB).

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 NZAuASB commends the IAASB's initiative to issue non-authoritative guidance. This is an important and evolving area, and it is timely for the guidance to be released to promote consistency in practice around the world.

*New Zealand perspective*

New Zealand's EER reporting landscape is rapidly evolving. Proxima's recently released research into EER reporting practices in New Zealand, [Towards Transparency](#), reflects a large increase in the number of sustainability-related reports published in New Zealand (54 in 2018 up to 112 in 2019). As reporting is increasing, so are the number of assured reports, however, as a percentage assurance of reports is lagging behind reporting. Assurance may become more prevalent as such reporting continues to increase.

The XRB sees EER as a key strategic objective, acknowledging the role that both reporting, and assurance play in enhancing credibility and trust.

The XRB has created an EER webpage, including a [navigational resource](#) to help identify prominent EER resources and assist preparers make informed decisions. Our website also includes information on the EER assurance implications, drawing from the four key factors for credibility described in supplement A of the CP.

In conjunction with the AUASB, the NZAuASB undertook a survey of assurance practitioners to gather views on:

- The types of credibility enhancing techniques being utilised for EER in the marketplace; and
- To understand how innovation is being applied by practitioners.

The Big 4 audit firms have reported a limited number of clients who are undertaking assurance. The majority of EER assurance engagements, excluding assurance over service performance information which is undertaken as part of public sector and not-for-profit sector audits in New Zealand, are voluntary and 93% provide limited assurance. In response to the survey, New Zealand practitioners indicated that more than 60% are performing assurance readiness or maturity assessments at this stage.

In formulating this response, the NZAuASB undertook a virtual outreach event, in conjunction with the AUASB, Deakin University and the Business Reporting Leaders Forum (BRLF) seeking feedback from assurance practitioners, preparers, regulators, academics and investors.

#### *Overarching comments*

The NZAuASB is very supportive of the release of the EER assurance guidance in the near future to promote consistency in practice. We commend the IAASB's efforts for recognising its key role in developing this guidance. Our outreach confirmed that the draft guidance is expected to be very useful in practice, and many stakeholders highlighted the usefulness of the examples that have been included in both the guidance and in the supplementary material. Our responses are suggestions to refine and improve the draft. The key areas identified for enhancement are summarised here and we expand on each of these matters in the detailed responses to the questions:

#### Structure

The overall concern remains that the document is lengthy, dense and complex. Use of navigational links, etc, as explored by the IAASB will help, but the NZAuASB further encourages the IAASB to re-organise and streamline the document, with a focus on EER specific examples and guidance.

We recommend the introduction of colour to distinguish cross references to the standard, or supplementary material to visually assist and simplify the numerous cross references that are built into the draft document.

In order to engage stakeholders with the content of the draft guidance, we found chapter 6 to be the most useful starting point. We strongly recommend that Chapter 6, together with diagram 8, be moved to the front of the guidance. This recommendation was also identified by a number of stakeholders during our outreach. This chapter usefully sets out the context that is necessary in order to undertake assurance, reinforcing the preparer's role in preparing for assurance. The entity needs to have performed the necessary thinking on the EER subject matter and have considered and advanced other credibility enhancing steps within the entity first, before seeking to engage an independent practitioner to opine on the EER report. In practice, this is the first step however as currently positioned this material tends to be lost in the middle of the guidance on the assurance process.

In addition, we encourage the IAASB to reconsider the need for a separate chapter (chapter 11) on addressing qualitative EER. Most EER information will include narrative information. This key challenge may be better highlighted and connected to relevant examples at appropriate stages in the assurance process (e.g., at the precondition stage, in determining the suitability of criteria, in gathering evidence and in assessing the materiality of any misstatement). We therefore recommend that the IAASB consider weaving this chapter through the assurance process rather than leaving it to the end.

Where relevant, the differences between limited and reasonable assurance could be further clarified. This was identified as an area that remains confusing for practitioners, as well as users. Specifically, we would hope to see more guidance on whether or not there is an expected difference in work effort when determining the suitability of criteria (Chapter 4), considering the system of internal control (Chapter 5) as well as risk assessment in planning for the work to be performed and in obtaining evidence for both limited and reasonable assurance engagements (Chapter 8).

## Terminology

The terminology used in the guidance is somewhat complex. Using language that is simpler and more specific to EER reports and preparers would go a long way to making the guidance more accessible and user friendly. Experienced EER practitioners and preparers may understand the terminology, however, use of plain English that both the preparer of EER information and the assurance practitioner can relate to is encouraged.

Overall, the NZAuASB continues to encourage the IAASB to avoid establishing too high a hurdle, with a focus on providing as much assurance as possible, without 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,



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**Chairman**

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

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

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

#### **Response:**

The NZAuASB is supportive of finalising the Non-Authoritative Guidance as a priority and considers that issuing the guidance serves the public interest, by promoting consistent and high-quality application of ISAE 3000 (Revised). The guidance will position the IAASB well to continue to monitor, and where relevant influence the development of EER frameworks.

While the NZAuASB has suggestions, as identified below, the NZAuASB is supportive of finalising the guidance, recognising that this is an evolving area which will be well informed by a post implementation review as reporting and assurance practices continue to evolve.

The NZAuASB considers that the draft guidance is framework neutral and identifies the principles and concepts that can be applied to the wide range of EER subject matter. We encourage the IAASB to consider adding TCFD type scenario examples (small or large) to emphasize that such reporting is within the scope of the guidance. In New Zealand, mandatory reporting using the TCFD recommendations is currently being explored.

Some stakeholders suggested that clarifying the scope of the guidance with reference to what other assurance engagements are within the scope of ISAE 3000 (Revised) but are not within the scope of the guidance may also be helpful.

#### **Chapter 1: Applying Appropriate Competence and Capabilities**

##### **Response:**

This chapter serves the public interest by recognising the practical need to combine assurance expertise with a subject matter expert to effectively challenge management. Multi-disciplinary assurance teams are becoming more common. On complex EER engagements, there may be a need for multidisciplinary teams as well as an increased use of the work of experts.

There is an opportunity to streamline this chapter by deleting generic assurance material, to improve the focus on how to address the challenge. We consider Diagram 2 is an example of generic material which could be omitted.

We recommend that additional guidance to explain what a practitioner expert is and is not would be useful. Use of plain English terminology may help. In particular, we recommend using simpler terms to explain who team members are and who experts are, and avoiding switching between terms such as “practitioner expert” and “subject matter expert”.

We also consider that use of terminology such as “engagement partner” is too narrow. We recommend use of a more encompassing term such as “engagement leader”, which may better reflect how other assurance practitioners structure their businesses, i.e. not limited to the traditional auditing and accounting firm structures.

The guidance highlights useful factors to determine the extent of use of an expert and how an expert is used, together with practical examples of consideration of a team’s collective competence. A key

challenge for the practitioner will be to navigate who the appropriate experts to consult will be. Additional examples of the factors to consider to navigate and find the relevant expert would be especially helpful.

The NZAuASB considers that paragraph 36 highlights the challenges related to the competence and responsibilities of the engagement partner, but observes that this is setting a high bar. This is especially so due to the wide range of expert knowledge likely to be required in an EER engagement.

In practice, assurance practitioners who are not professional accountants may not be familiar with ISQC 1. There is a need to assist broader assurance practitioners to know whether their own quality control requirements are at least as demanding as ISQC 1.

## **Chapter 2: Exercising Professional Scepticism and Professional Judgement Response:**

The NZAuASB considers that the exercise of professional scepticism and professional judgement are especially important however considers that much of the material in draft Chapter 2 is not EER specific guidance. While the chapter includes useful considerations relating to:

- the attributes and behaviours needed to exercise professional scepticism (PS),
- possible impediments,
- factors that can help practitioners avoid or mitigate their impact,
- how competence in the exercise of PJ may be acquired,

we consider that this is more contextual information. The guidance states that EER assurance engagements can be complex, and cover subject matters whose measurement or evaluation may be subject to considerable subjectivity, management bias, estimation and evaluation uncertainty. We consider that this is true of most assurance engagements. The NZAuASB considers that this is helpful contextual information rather than guidance on EER engagements, which may be better included in Supplement A.

The NZAuASB recommends reconsidering the content of this chapter with a specific focus on EER associated challenges and examples. The factors in paragraph 49 could be tailored to EER more specifically, with reference to (a) the needs of intended users, who will likely be a larger, more diverse group, (b) inter-relationships given the potential for a wider range of matters and connections between them (an example to illustrate this may be useful) and (c) the wider range of methods and frameworks used by the preparer. Paragraphs 50, 53 and 56 are helpful in linking more specifically to the EER context.

For the guidance to be useful to assurance practitioners that are not professional accountants, further explanation about what professional scepticism and professional judgement mean in the context of ISAE 3000 (Revised) may be helpful, as this may differ from how other professions use these terms.

The NZAuASB considers that the most valuable guidance on the exercise of professional scepticism and professional judgement is made throughout the guidance through use of the PS and PJ icons. This is useful guidance to demonstrate where or why PS and PJ is more challenging in an EER specific context. The NZAuASB considers that further use of the icons may be useful (there are references to PJ and PS but no icons in a number of paragraphs).

We consider that diagram 4 (on page 70) highlights factors that apply to any and all assurance engagements. Is there a way to make this more EER specific? If not, we suggest that this material is useful in a generic way, and could be cross referenced rather than included in this EER guidance.

### Chapter 3: Determining Preconditions and Agreeing the Scope

#### Response:

The NZAuASB has previously commented on and continues to believe that chapter 3, together with the detailed examples in the supplementary material on the preconditions will be very useful in practice. This material reflects many of the ideas that the NZAuASB explored in the development of the domestic standard on service performance information, NZ AS 1<sup>1</sup>.

The NZAuASB considers that the guidance related to the work effort required, independence considerations and responses where the preconditions are not met will be helpful.

A lack of maturity in the EER reporting frameworks and/or in a preparer's journey to prepare an EER report may be a key challenge for an assurance practitioner. We recommend relocating Chapter 6 to the front of the document, as Chapter 1, with some amendments for context, to more appropriately reflect the balance of responsibility between a preparer and the assurance practitioner in determining the scope and ensuring that the preconditions for assurance are met. There may be other assurance readiness work that could assist preparers develop their own internal credibility enhancing techniques before seeking an assurance engagement. As currently ordered, the guidance may imply a higher threshold or work effort for a practitioner than that required for an audit of financial statements and might create a barrier to assurance. Reordering the guidance as suggested might more appropriately shift the weight of getting ready back on the preparer and not imply that the assurance practitioner's role is to get the preparer ready for assurance.

The NZAuASB considers that Diagram 5 *Acceptance and Continuance Considerations* is overly complex. A flowchart may help to simplify the diagram. Such a flowchart may be more usefully illustrated alongside the questions on pages 75 and 76, as a visual walk through of the process.

The NZAuASB considers the sentence in paragraph 65, that reads "In addition, the criteria used to measure or evaluate the underlying subject matter may include a significant element of entity-developed criteria" is an especially useful statement. The questions posed to the practitioner under paragraph 71 usefully demonstrate some of the professional judgements that are involved. The NZAuASB recommends that the IAASB add a question under C to recognise that the preparer has the responsibility to identify (and if necessary develop) suitable criteria. The NZAuASB identified that this was an important step that should be acknowledged when agreeing the terms of the engagement.

We recommend the following editorial clarifications:

- paragraph 70 refers to the diagram below, however the diagram is above.
- to the example in paragraph 74: "The greenhouse gas emissions of an entity would generally might be identifiable underlying subject matter...".
- in paragraph 89, it may be helpful to highlight that GHG emissions are a common example of EER information reported and assured on a standalone basis.
- a stakeholder queried whether the example in paragraph 99 should refer to the materiality of the sites that may be excluded.

It may be helpful to add an example to clarify what is meant by paragraphs 100 and 101, considering the proposed level of assurance to be obtained.

In practice, assurance practitioners who are not professional accountants may not be familiar with the IESBA Code of Ethics and therefore not be able to know whether their Code or professional

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<sup>1</sup> NZ AS 1 The Audit of Service Performance Information

requirements are at least as demanding. It would be useful for the guidance to signal the conceptual basis for independence to assist non-accountants.

While the NZAuASB agrees that the considerations for determining whether there is a rational purpose are helpful, the NZAuASB continues to caution against setting the assurance “bar” too high, recognising that this is an iterative process, whereby the preparer is on a journey and the practitioner’s aim should be to provide as much assurance as possible, to the extent that the preparer is ready for assurance, to enhance the degree of confidence of the intended users. For example, an entity may exclude some aspects of the subject matter information on the basis that it is still evolving and does not yet meet all the preconditions for engagement acceptance, but there may be some aspects that do. Further flexibility in the assurance report, to explain this, may be an appropriate response in an area that continues to evolve, rather than an inability to accept the engagement at all. A reference or link to acknowledge more flexibility in the assurance report might assist (for example, in paragraph 93).

The NZAuASB agrees the references to other information will be a useful addition in practice, for example, in considerations related to a rolling program of assurance.

#### **Chapter 4: Determining the Suitability and Availability of Criteria Response:**

The NZAuASB considers that this chapter will serve the public interest by promoting consistency in practice. The NZAuASB has previously indicated suitability and availability of criteria as a top priority and therefore considers that this chapter will be very helpful in a challenging area. The use of examples is especially helpful. Paragraphs 124, 142- 43, 165 and 179 were also considered to be especially helpful paragraphs.

However, the NZAuASB considers that this chapter should be positioned after chapter 6 (noting also our submission that chapter 6 be moved to the front of the document). Determining the suitability of the criteria and considering the entity’s process to identify reporting topics is a precondition for acceptance. Therefore, Diagram 1 should reflect that both chapters 4 and 6 are a part of the acceptance and continuance phase.

Based on our experience in developing NZ AS 1, we consider that the phrase “suitable criteria” may pose a barrier to a practitioner’s understanding and use of the guidance. Even the most experienced practitioner, based our work in developing NZ AS 1, does not engage with this phrase. It may be helpful to define upfront that in an EER engagement the term “criteria” as described in the applicable standard encompasses many layers, firstly the identification of the reporting topics, and then more granularly to include in some detail the most appropriate techniques to measure or evaluate those topics and also to present and disclose the outcome of the evaluation. Some reporting frameworks address all of these layers, specifically and more granularly (as is typical in financial reporting frameworks), whereas many EER frameworks only address these elements at the high principled level, necessitating the entity to develop their own specific basis of reporting, applicable to them. These layers could be referenced at appropriate times, to overcome the barrier that the phrase “criteria” might create. An onion analogy was used, to describe the layers that form the overarching “criteria”. One progressively peels the layers of an onion to get further into it. Simpler language that references the specific layer of the “onion” at the appropriate time in the guidance may promote a better understanding of this term.

The additional material on considering whether criteria will be made available in a suitable manner is also useful and responds to the request raised by the NZAuASB in response to the first exposure draft.

The most difficult challenge remains completeness. The NZAuASB encourages the IAASB to consider the addition of an example to demonstrate the determination of completeness as discussed in paragraphs 149-151. (Perhaps a cross reference to para 251 here too.)

In addition, the NZAuASB recommends that relevance should also be clearly linked back to the rational purpose of the report as a whole. This step comes after the consideration of the process for determining the reporting topics.

If an entity is developing their own criteria, the practitioner might also consider how these relate to the entity's own decision making together with input from external stakeholders.

Diagram 6 *Considering Suitability and Availability of Criteria* is a useful diagram however we recommend consideration as to whether this appears overly prescriptive. In our discussions, as an entity's journey to develop its EER report, the criteria are in most instances more likely to be "somewhat suitable", and will continue to evolve with time. This has implications for the perimeter of the engagement and scope to factor in. The paragraphs on the characteristics of suitable criteria recognise a scale of suitability but this diagram seems overly binary i.e. either a pass or fail. We recommend linking this with the concepts expressed in paragraphs 279-281. A more flexible reporting approach, including more long form reporting about the balance that is achieved between the qualitative characteristics may overcome this perceived rigidity. E.g., In the first year the EER report may lack comparability but this might be achieved over time.

Some of the language in this chapter is very dense and complex. This may be unavoidable given the complex nature of the challenge. Refer to our comments on terminology in response to question 2.

## **Chapter 5: Considering the System of Internal Control Response:**

The NZAuASB considers that the guidance in this chapter will serve the public interest by highlighting the challenges where governance and internal control lack maturity. i.e., acceptance issues or barriers to the practitioner obtaining sufficient appropriate evidence. However, the NZAuASB considers that the chapter may be overly detailed and could be streamlined.

Footnote 7 before Diagram 7 *Components of System of Internal Control* should be updated to reflect that ISA 315 (Revised 2019) has been issued. This diagram provides a useful visual reminder of the overarching role of governance and management oversight which sits above the triangle and the detailed components of the system of internal control.

The chapter itself seems overly focussed on the details of the components in the triangle, whereas we recommend that more emphasis is placed on the need for the overarching role that is played by governance and management oversight. Re-ordering Chapter 6 to the front of the guidance and linking the need for governance and management oversight over the entity's process to identify reporting topics may be a useful way to emphasize this challenge in EER assurance.

The content of the chapter seems narrowly focussed on the system of internal controls rather than the broader need for maturity of thinking. The NZAuASB is concerned at the over emphasis of the processes and system of internal controls above the importance for a broader concept of maturity of thinking in preparing to report (we refer to this as "integrated thinking", a concept drawn from integrated reporting; however this broader readiness to report is not limited to integrated reporting, but will extend to many forms of EER). Maturity of thinking is a key aspect to be addressed by the governance and management oversight piece, as it would be expected that those charged with governance would take a readiness approach that is not limited to considering the internal control environment.



In paragraph 186, the draft guidance highlights that in a limited assurance engagement, the practitioner *considers* the entity's reporting process whereas in a reasonable assurance engagement the practitioner *obtains an understanding of internal control* and evaluates the design and implementation. Paragraphs 195 to 208 fall under a heading of "Understanding the entity's system on internal control", which follows on from the highlighted requirements for a reasonable assurance engagement. Practitioners requested additional guidance on the expected difference in work effort for a limited assurance engagement, especially given that the majority of EER engagements, other than engagements that include service performance information in New Zealand, are limited assurance engagements.

Paragraphs 195-199 are not EER specific and could possibly be condensed into two paragraphs to list the components and summarise the idea that the level of sophistication may vary with the size and complexity. (In fact, may already be done in paragraph 209 on).

The paragraphs on information from an external source are useful; however, we recommend that paragraphs 204-206 could be clarified to make it clearer why this section includes third parties. It may also be a useful place to clarify and provide examples of the expected differences between limited and reasonable assurance engagements.

We recommend that paragraph 208 (heading Governance and Oversight) should precede paragraph 207 on Control Activities. We also recommend that the approval of the criteria be included in the list of considerations in paragraph 208.

## **Chapter 6: Considering the Entity's Process to Identify Reporting Topics**

### **Response:**

In order to engage stakeholders with the content of the draft guidance, we found chapter 6, together with diagram 8, to be the most useful starting point to assist users to navigate the guidance and deeper dive into other relevant chapters as appropriate. Stakeholders agreed that this was a useful starting place, reflecting where both preparers and practitioners start the process from.

We strongly recommend that Chapter 6 be moved to the front of the guidance. This chapter usefully sets out the context that is necessary in order to undertake assurance, reinforcing the preparer's role in preparing for assurance and that assurance is not the only solution in enhancing credibility, e.g. paragraph 107 highlights that assurance readiness work may be a more appropriate alternative. In practice credibility is built up over time, requiring lots of process work by the preparer to engage with its stakeholders, collate feedback and develop data points and controls before seeking independent assurance. The entity needs to have performed the necessary thinking on the EER subject matter and have considered and advanced other credibility enhancing steps within the entity first, before seeking to engage an independent practitioner to opine on the EER report. Re-ordering Chapter 6 may help to overcome the real challenge that practitioners face, playing the role of educator to the preparer.

In our experience, Diagram 8 is a key diagram. During our outreach, we introduced the guidance using this diagram to more effectively engage with a broader stakeholder group, for all stakeholders to understand the roadmap and demonstrate the key role of the preparer in getting ready for an assurance engagement.

In New Zealand preparers are grappling with the vast number of EER frameworks which raises the challenge of identifying what topics to report on and then how to report on those topics. This is the necessary first step, prior to any assurance being sought.

Preparers need this type of information as much as practitioners do. If the entity is not ready for assurance, it may be that the practitioner can assist with other services, as explored in paragraph 107.

These options however are buried too deep in the guidance and would more usefully be positioned up front and considered before, not within, the assurance process.

The NZAuASB is supportive of the terminology “the entity’s process to identify reporting topics” in lieu of the entity’s “materiality process”. We consider that it is in the public interest to use a different term to avoid unnecessary confusion with the way in which assurance practitioners think about the term “materiality”. This new language was also broadly supported by the stakeholders we engaged with.

The NZAuASB considers that the language used in this chapter remains overly complex and confusing, especially when referring to the “entity’s development of criteria to identify reporting topics”. Stakeholders also raised this as confusing, highlighting confusion in the examples in paragraph 221, which seem to mix criteria around reporting topics (including relevance to stakeholders and material risks with more specific indicators in example 2). We consider that this is better articulated in the covering memo, where it is clearer that the process to identify reporting topics may be needed where the EER framework in itself does not result in suitable criteria i.e. the “process to identify reporting topics” is how the preparer goes about developing the criteria further. The idea that all of these layers form part of the criteria may assist. We found the use of “criteria to identify reporting topics” confusing as it is unclear how the process differs from the criteria. It implies that there is a need for “separate” criteria to identify reporting topics where we understand that this is only one part of whether the criteria are suitable.

We think this concept is described clearly in the first sentence of paragraph 220 but encourage the IAASB to consider a different way to describe the “criteria to identify reporting topics” in the last sentence. E.g. paragraph 220 “In undertaking a process to identify reporting topics, the preparer is effectively extending or developing, ~~and then applying, the criteria for identifying reporting topics ...~~”

Paragraphs 217 and 221 refer to the practitioner considering “their appropriateness”. The practitioner is required to determine the “suitability” of criteria. It is unclear how “appropriateness” differs from “suitability” and/or how a practitioner would consider the criteria’s “appropriateness”. “Appropriateness” seems to be used in relation to the judgements made by the preparer. If the practitioner is using the same factors to consider appropriateness as they would to determine suitability, we recommend using the same term. If not, we urge the IAASB to add guidance on how a practitioner would consider appropriateness, where it relates to the criteria.

The NZAuASB considers that the examples in this chapter will be extremely helpful in practice.

It is unclear what the practitioner would do where the preparer has not undertaken a process to identify the reporting topics as this is where the assurance process starts.

Paragraph 222 appears to draw a distinction between a limited assurance engagement and a reasonable assurance engagement. This gives rise to a question around suitable criteria. For all assurance engagements, a practitioner is required to determine that the criteria are suitable (as a precondition). We understand that there is no difference at the precondition stage between a limited and reasonable assurance engagement, but this paragraph implies that there is a difference when it gets to the planning phase. This goes to comments in our previous submission to the IAASB over the work effort required at the precondition stage to determine whether the preconditions are met. We suggest that the guidance needs to be clearer as to whether there is an expected difference in work effort between a limited assurance engagement and a reasonable assurance engagement to determine whether the criteria are suitable or not.

The need to better distinguish between reasonable and limited assurance engagements was also raised during outreach with our stakeholders.

## **Chapter 7: Using Assertions**

### **Response**

New Zealand practitioners responded to our survey indicating that building assertions is the third highest ranking challenge. Although use of assertions is not required by the standard, the NZAuASB, together with the stakeholders we consulted, considers that it is useful to provide guidance on how assertions may be helpful as a tool to consider the different types of misstatements that may occur in EER information and to design assurance procedures accordingly.

Assertions are a critical concept to understand and apply. We encourage the IAASB to consider the addition of short practical examples in this chapter, together with examples that demonstrate what it means for both reasonable and limited assurance.

Paragraph 260 would benefit from the use of plainer English, for example reference to “identifying and assessing the risk of material misstatement” as more direct language to help with context.

## **Chapter 8: Obtaining Evidence**

### **Response**

Chapter 8 sets out considerations that may be used by a practitioner when considering what evidence is needed and how to obtain it for any assurance engagement. The explanation for inclusion of this generic material is that this provides context to the later chapters on qualitative and future-oriented information.

The NZAuASB considers that in order to shorten and engage more directly with the user, that this more contextual material may be better dealt with in supplementary material. The NZAuASB encourages the IAASB to include EER specific context and examples within this guidance. (i.e. there is no specific public interest that is served by including generic contextual information in this location).

Examples that focus on risk assessment as the determination for the level of work to be performed together with further clarification or examples on what this means for evidence for both limited and reasonable assurance engagements would be most useful.

Paragraphs 279-281 are particularly helpful in addressing the challenge of considering the concepts of limited and reasonable assurance in EER engagements. This may also need to be supported by longer form reporting to help users understand what the differences are and what the assurance engagement covered.

We suggest restructuring the considerations in paragraph 284 under the concept of risk assessment to help with the design of the assurance procedures to obtain sufficient appropriate evidence. Obtaining evidence to support narrative reporting is a key challenge in EER engagements. The NZAuASB considers that highlighting this challenge at appropriate stages in the EER engagement, and in particular in this chapter, may be more useful than having a separate chapter (as is currently located in Chapter 11). The example on page 149 would work better in the evidence chapter.

The NZAuASB also recommends the addition of examples from paragraph 287 onwards to demonstrate addressing aggregation risk in an EER Assurance engagement

Paragraphs 294-298 referencing performance materiality are important aspects to cover in the context of an EER engagement and may be better positioned in Chapter 9: Considering the Materiality of Misstatements.

## **Chapter 9: Considering the Materiality of Misstatements**

### **Response**

The NZAuASB considers that this chapter, together with the detailed examples in the supplementary material, will serve the public interest and will be very useful in practice to guide practitioners in their responsibilities when misstatements are identified. New Zealand practitioners ranked materiality as the highest ranking challenge on EER engagements. This may be linked to both report content decisions together with materiality in the context of narrative information and the need for guidance on how to consider identified misstatements both individually and in combination.

This chapter reflects many of the ideas that the NZAuASB explored in the development of the domestic standard on service performance information, and will be an area of significant challenge in practice. The use of examples is also very helpful.

The NZAuASB recommends adding a sub-heading into this chapter to address “Misstatement by Omission” and to link this to the chapter on appropriate reporting topics. In its project to develop NZ AS 1, the NZAuASB thought it important to remind practitioners to iteratively consider whether there are missing reporting topics as this could result in a material misstatement (i.e. not to only focus on what is there but to consider whether there is something missing altogether).

The NZAuASB also considers that it would be especially useful to include aspects related to addressing qualitative EER information in this chapter, rather than having a separate chapter (as is currently located in Chapter 11).

Diagram 10 Practitioner responsibilities in relation to identified misstatements is a helpful visual reminder of the practitioner’s responsibilities.

## **Chapter 10: Preparing the Assurance Report**

### **Response**

The NZAuASB together with stakeholders noted the importance of this chapter.

Communicating clearly in the assurance report was a key consideration when the NZAuASB developed its domestic standard on service performance information. The NZAuASB considers that a more flexible reporting approach is especially important for EER assurance engagements that give rise to many communication challenges. Tailoring the report to the circumstances is likely to be especially helpful. The NZAuASB regards the guidance material in paragraphs 332 – 338 and 343-346 to be particularly useful in the context of EER and agrees strongly with the statement in paragraph 335.

We have heard from users that the “negative form” of language in a limited assurance report is especially unhelpful. While this is a requirement of the standard, from a user’s perspective it is not especially well understood. Guidance that encourages more long form reporting, which is permitted by ISAE 3000 (Revised), may be the best way to overcome this criticism by users of assurance reports. Describing what the practitioner has done, why the focus was on these areas and what was the outcome may be more useful than the limited assurance conclusion itself. It may be useful to promote this more flexible reporting approach that is permitted by ISAE (3000) (Revised). Such an approach may be unfamiliar to traditional financial statement auditors but might result in more useful, relevant assurance for EER.

New Zealand practitioners indicated that they were most likely to provide a separate assurance report conveying findings and recommendations for an EER assurance engagement. There is one example

of a combined assurance report, covering the audit of the financial statements and the limited EER assurance.

The illustrative examples included in this chapter are expected to be very helpful and will serve the public interest well. The examples following paragraph 349 are expected to be especially helpful. The NZAuASB encourages the IAASB to consider adding an additional example of reporting where experts are referred to in an assurance report.

The NZAuASB also considers the example of the director's responsibilities following paragraph 362 will be helpful in practice.

Paragraph 373 is an example where the guidance is dense and may benefit from simpler, plainer English.

We note an edit to paragraph 315 "may not be materiality misstated" should read "materially misstated".

## **Chapter 11: Addressing Qualitative EER Information**

### **Response**

Many forms of EER information include qualitative information. Given the pervasive nature of this challenge, from the suitability of the criteria, through to obtaining evidence and considering the materiality of any misstatement, the NZAuASB recommends that this chapter may be more usefully covered throughout the guidance, at each stage of the assurance process, rather than in a separate chapter at the end. In particular, the example on page 149 would go well in the evidence chapter.

Paragraph 377 usefully introduces the concept of uncertainty associated with measurement of underlying subject matters. It is important to also observe that many underlying subject matters have inherent uncertainty that is not just related to their measurement or evaluation. Clear disclosure about the nature of uncertainties (and any assumptions being made in relation to these) is an important means to avoid or reduce subjectivity in reporting. For example, there is inherent uncertainty about the effects of GHG emissions on global temperatures and in turn on changes to climatic conditions or sea levels that may result. This concept is addressed in paragraph 419, but does not only apply to future information.

We consider that the examples in this chapter will be very helpful in practice. Addressing the need to scope out promotional "PR" material is very relevant to EER information. Highlighting that the entity has "minimal" impact on the environment is very different from reporting on the positive impact that the entity is making.

Additional emphasis on considering balance or bias may also be useful.

## **Chapter 12: Addressing Future-Oriented EER Information**

### **Response**

The NZAuASB finds it especially helpful to distinguish between a forecast and a projection. The NZAuASB recommends the inclusion of examples (a TCFD scenario analysis example would fit well in this chapter).

As highlighted above, the NZAuASB recommends spreading guidance related to qualitative information (from chapter 11) throughout the guidance. In addition, we encourage the IAASB to consider merging any remaining pieces of chapter 11 with chapter 12.

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

**Response:**

*Length and navigation*

The NZAuASB remains concerned by the length and density of the document which may deter practitioners from understanding or using the guidance. This may be somewhat mitigated by the use of hyperlinks to be included in the finalised guidance and possible use of pop-up boxes. Diagram 1 should also assist, especially if the diagram includes hyperlinks.

We recommend the introduction of colour to distinguish cross references to the standard, and other supplementary material etc, to visually assist and simplify the numerous cross references that are built into the draft document. The number and different types of cross referencing is somewhat intimidating and/or distracting and we consider that colour coding could assist the user to navigate these.

The NZAuASB is supportive of only including shorter examples within the guidance, leaving longer examples to supplementary documents.

The NZAuASB encourages the IAASB to continue to explore ways to succinctly point to key guidance to help the practitioner overcome the challenges identified. More information about why the challenge arises, etc can be read as context to those key messages.

The NZAuASB would encourage the IAASB to keep the guidance as specific to EER as possible. Any material that is generic to all assurance engagements could be cross referenced rather than being included in full in the document.

*Terminology*

The terminology used in the guidance is complex. Our experience, in developing NZ AS 1, the domestic standard on the audit of service performance information, is that even the most experienced assurance practitioner does not or/and finds it difficult to engage, in a meaningful way, with terminology such as: subject matter, subject matter information and criteria. Using language that is simpler and more specific to EER reports and preparers would go a long way to making the guidance more practical and user friendly. E.g. referring to the EER information that is reported in lieu of subject matter information may make it easier to engage with the guidance.

*Structure and order*

The NZAuASB is supportive of structuring the guidance to address the key stages of performance of an EER assurance engagement, following the flow of the performance of the engagement, rather than around the 10 challenges.

However, the NZAuASB strongly recommends moving Chapter 6 to the front of the guidance. This chapter usefully sets out the context that is necessary in order to undertake assurance, highlighting that the entity needs to be at a point that it is ready for assurance, i.e. that there is a rationale purpose for the engagement, it is clear who the intended users are, the reporting topics have been identified by the entity, the entity's reporting process is able to produce evidence to support its reporting. The entity itself needs to have performed the necessary thinking on the EER subject matter and have considered and advanced other credibility enhancing steps within the entity first, before seeking to engage an independent practitioner to opine on the EER report.

In our experience, Diagram 8 was the most useful diagram to start to engage with the guidance. We introduced the guidance at our outreach using this diagram to more effectively engage with the broader stakeholder group, for all stakeholders to understand the roadmap and demonstrate the key role of the preparer in getting ready for an assurance engagement. If the entity is not ready for assurance, it may be that the practitioner can assist with other services, as explored in paragraph 107. These options however are buried too deep in the guidance and would more usefully be positioned up front and considered before not within the assurance process.

The NZAuASB would be supportive of further grouping the chapters into the three parts as suggested, however, in line with our recommendation to move Chapter 6 would include a new Part before these addressing the entity's process to identify reporting topics, which would be followed by:

- Part A – Behavioural aspects, however we recommend that this section should be condensed and recommend that draft Chapter 1 and Chapter 2 might be combined.
- Part B – Process of an EER engagement
- Part C – Specific considerations on qualitative and future-oriented information, could be combined after integrating the considerations on qualitative information throughout the assurance process.

The NZAuASB reflected on whether it was necessary to separate out the last two chapters (11 & 12), given that the challenges presented by qualitative and future oriented information are pervasive to an EER assurance engagement. The NZAuASB strongly recommends that guidance on qualitative information should be more fully integrated through each step of the assurance process. On balance the NZAuASB considers that future-oriented information is appropriately addressed in its own chapter.

### **3) Comments on Supplement A: Credibility and Trust Model and Background and Contextual Information**

The NZAuASB considers the four key factor model for credibility and trust will be useful and supports the publication separately from the guidance document. Our outreach with a broader range of stakeholders, including preparers and investors, supported the issue of supplement A.

The need to assist all stakeholders, including practitioners, to engage with difficult technical terms such as “subject matter”, “subject matter information” and “criteria” is especially important. We consider that this material would benefit from being streamlined and simplified even further. Understanding these terms is a key part of engaging with the challenges. A one-page overview with examples may be more accessible than the current approach.

The gender example in Supplement A was found to be especially helpful. As highlighted above, based on our experience in developing NZ AS 1, we consider that the phrase “suitable criteria” may pose a barrier to a practitioner's understanding and use of the guidance. Even the most experienced practitioner in our experience, does not engage with this phrase. It may be helpful to define upfront that in an EER engagement the term “criteria” as described in the applicable standard encompasses many layers, firstly the identification of the reporting topics, and then more granularly to include in some detail the most appropriate techniques to measure or evaluate those topics and also to present and disclose the outcome of the evaluation. Some reporting frameworks address all of these layers, specifically and more granularly (as is typical in financial reporting frameworks), whereas many EER frameworks only address these elements at a high level principled level, necessitating the entity to develop their own specific basis of reporting, applicable to them. These layers could be referenced at appropriate times, to overcome the barrier that the phrase “criteria” might create. An onion analogy was used, to describe the layers that form the overarching “criteria”. Simpler language that references

the specific layer of the “onion” at the appropriate time in the guidance may promote a better understanding of this term.

#### **4) Comments on Supplement B: Illustrative Examples**

The NZAuASB considers that these examples will be very useful in practice. We also find that separating these from the guidance may be a useful way of providing the examples without bulking up the guidance document.

During our outreach, our constituents identified the examples as the most useful part of the guidance and we commend the IAASB on the development of these mini case studies to illustrate the guidance.

During our outreach, our stakeholders did identify the need for further examples, including TCFD disclosure examples.