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## **Stellungnahme im Rahmen der IAASB-Konsultation *Extended External Reporting Assurance***

Die WPK hat mit Schreiben vom 12. Juni 2019 gegenüber dem International Auditing and Assurance Standards Board (IAASB) im Rahmen der Konsultation zu den Leitlinien des IAASB zur Anwendung des ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* bei erweiterter externer Berichterstattung (*Extended External Reporting – EER*) wie nachfolgend wiedergegeben Stellung genommen.

We would like to thank you for the opportunity to provide you with our comments on the Consultation Paper “Extended External Reporting (EER) Assurance”, hereinafter referred to as “CP”.

### **General Comments**

- We welcome the proposed first part of guidance for practitioners applying ISAE 3000 (Revised) to EER assurance engagements. The demand for Extended External Reporting (EER) Assurance Services will undoubtedly increase in the future. ISAE 3000 is the only standard supporting the practitioners in performing these services. Therefore it is very important for the practitioners to have detailed and profound guidance on this topic.
- It is evident that the IAASB has been working intensively on the key-challenges of the profession and that the IAASB has presented a splendid draft.
- We want to emphasize that a holistic comment is not yet possible because the guidelines are only partially available (Phase 1). Therefore we cannot assess the areas “Scope” (Chapter 3), “Skills” (Chapter 4), “Professional Skepticism” (Chapter 5) and “Report” (Chapter 13).

- Partially, however, we perceive that the proposed guidelines will impose additional requirements (esp. regarding the issues preconditions, use of external expert and the determination of assertions). We urge the IAASB to avoid the introduction of requirements via guidelines.
- In addition, we believe that the guidelines could be made more user-friendly, especially for “Small and Medium-Sized Practices” (SMP). A further increase of complexity when using the ISAE 3000 should be avoided.
- Moreover, we recommend the IAASB to focus more on **specific subject matters**, i.e. orientation and formulation of individual concrete assurance engagements. With ISAE 3410, IAASB has presented very useful standards for Assurance Engagements on Greenhouse Gas Statements. Comparable assistance (e.g. for Non-financial information and Non-financial reporting) could be included in the proposed guidelines.

Please find our comments to the specific questions posed in the Consultation Paper below:

### **Specific Comments**

**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?**

Overall, we believe that the draft guidance adequately address the challenges for practitioners that have been identified within the scope of the draft guidance developed in phase 1.

The instructions in Chapter 10 (“Assuring Narrative Information”) and 11 (“Assuring Future-Oriented Information”) are accurate but partially a bit general and superficial in our view and could convey even more additional examples.

It is explained in Para. 210:

*“Similarly, where criteria require information about future risks and opportunities to be reported, the assertions to be tested will likely include that the risks and opportunities exist (existence assertion) and that the list of risks and opportunities is complete (completeness assertion) with respect to the risks and opportunities which would assist intended users' decision-making. The completeness assertion may be tested by reference to the entity's risk register or records of discussions of those charged with governance...”*

This is in our view a matter of course. How should the practitioner respond if the company's "risk register" is not complete? Are there alternative procedures to obtain evidence on the completeness of risks? The implementation of an independent risk research using external sources could be mentioned additionally for example. Here we recommend clarifications.

**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?**

We basically agree with the proposed draft guidance. The Guidance is basically clear and largely understandable.

The guidance is intended to provide support in using the ISAE 3000. Against that background it is not evident why numerous passages of ISAE 3000 are repeated in the guidelines without providing additional insight (e.g., Para 57, 60, 61, 64). We suggest making the guidelines more user-friendly, especially for Small and Medium-Sized Practices (SMP). A further increase of complexity when using the ISAE 3000 should be avoided.

Moreover there are some paragraphs that could be smoothed:

The term "*Subject matter Element*" is defined in Para. 11 but not the term "**Subject matter information**". The definition of "*Subject matter information*" according to ISAE 3000 Para. 12 (x) should be added in order to distinguish both terms.

Para. 11b of the Guidelines appears incomprehensible to us:

*"The qualities of elements measured or evaluated using measurement or evaluation bases specified in the criteria for an EER report may be very diverse, depending on the nature of the elements. They might include, for example, when the underlying subject matter is water, the entity's 'intake volume' or 'discharge volume' of water".*

How can an "intake volume" be a "quality of elements"? Logically, we would expect a "Quantity of Elements". Maybe additional explanations would be helpful.

We fear that the Para. 21 introduces additional requirements and recommend an alignment to the wording of ISAE 3000:

*"Carrying out EER assurance engagements **typically** requires **significant** professional judgment and the broad range of matters being reported on in EER reports may mean specialized skills and experience are required."*

ISAE 3000 Para, 37 requires only *normal* professional judgment. **Significant** professional judgment is only required on significant matters arising during the engagement (ISAE 3000 Para. 94(c)), but not typically:

*“The practitioner shall plan and perform an engagement with professional skepticism, recognizing that circumstances may exist that cause the subject matter information to be materiality misstated.”*

*“Significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.”*

Similar in Para. 84, which introduces “**considerable** professional judgment”.

*“The practitioner may need to exercise considerable professional judgment and professional skepticism in determining the suitability of criteria in an EER assurance engagement.”*

**Considerable** professional judgment is not used in ISAE 3000. It is moreover unclear what the difference between “**Significant** professional judgment” and “**considerable** professional judgment” is. Therefore we recommend deleting the words “Significant” and “Considerable” as it causes only confusion.

Otherwise the perception of additional and more stringent requirements cannot be excluded.

According to Para 22 of the guidelines

*“It is acknowledged that it may be **necessary** for a practitioner to involve experts in the engagement, and in some cases for the firm providing assurance services to appoint an engagement quality [control] reviewer.”*

In our view “*appropriate*” would be the better adjective. ISAE 3000 Para. 52 ff. does not contain such a requirement for the use of an external expert. Therefore, a more flexible wording should be chosen in the guidelines.

Regarding the Planning and Performing the Engagement we recommend additional explanations in Para. 25:

*“...This includes the entity's process to prepare the EER report to the extent required by paragraphs 47L and 47R of the standard for limited and reasonable assurance engagements respectively....”*

In our view the difference between “limited” und “reasonable assurance” engagements could be already explained.

We recommend substituting the verb “*may*” by “*should*” in Para. 26

*“What the practitioner is required to do **may** be determined by the scope of the assurance engagement.”*

There are some instances where we have identified **inconsistencies** between ISAE 3000 and guidelines: For example Para. 75 of the Guidelines

*“Where the practitioner establishes that the preconditions for an assurance engagement are not present, they **may** discuss this with the potential engaging party (management or those charged with governance). If changes cannot be made to meet the preconditions, the practitioner is **not permitted** to accept the engagement as an assurance engagement”.*

Compared to Para. 25 of ISAE 3000:

*“If the preconditions for an assurance engagement are not present, the practitioner **shall** discuss the matter with the engaging party. If changes cannot be made to meet the preconditions, the practitioner **shall not** accept the engagement as an assurance engagement unless required by law or regulation to do so.”.*

These inconsistencies should be avoided due to the fact that the “*may*” and “*shall*” are differently interpreted and translates in different jurisdictions. “*Not permitted*” does not correspond to “*shall not*”.

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

We support the proposed structure of the draft guidance.

The structure of the guidance is fundamentally recognizable. There may be an adoption phase when the practitioner has to comply with both the requirements and application material of ISAE 3000 on the one hand and the guidance (currently only Phase 1) on the other hand.

We have the impression that the practitioner must have read the entire wide guidance to be able to perform an EER engagement. Against that background it would be very helpful if the practi-

tioner could use problem-oriented single chapters comprising guidance on specific subject matters.

With ISAE 3410, IAASB has presented very useful standards for Assurance Engagements on Greenhouse Gas Statements. Comparable assistance (e.g. for Non-financial information, Non-financial reporting or Human Rights Issues) could be included in the proposed guidelines.

**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?**

We agree with the way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised). It must be ensured that **no new requirements** are created.

The Explanatory Memorandum of the Consultation Paper states that the draft guidance does not introduce any further requirements beyond those in ISAE 3000 (Revised) and does not remove or change any of the requirements or application material in ISAE 3000 (Revised).

Para. 7 of the Guidelines states

*“as it is non-authoritative, this guidance does not introduce any further requirements beyond those in ISAE 3000 (Revised). Similarly, none of the contents of this guidance remove or change any of the requirements or application material in ISAE 3000 (Revised).”*

To emphasize that this guidelines does not introduce new requirements and to avoid that new requirements will be introduced in the future, IAASB should clarify that it is **not intended** to introduce any further requirements beyond those in ISAE 3000. In the contrast: IAASB intends to help the practitioner in applying ISAE 3000 and to enhance the degree of confidence of the intended users in such services.

However, the wording of the Guidelines sometimes suggests that new requirements should be created. With regard to **assertions** it is stated in Para. 29 of the guidelines

*“In designing procedures, the practitioner may find it helpful to use assertions to consider the different types of potential misstatements of the information that may occur ...”.*

Para. 165 of the guidelines adds that

*"Assertions are a tool that may be used by a practitioner in performing risk assessment procedures and to assist in designing assurance procedures to obtain evidence about whether the subject matter information has been prepared in accordance with the criteria, or is misstated".*

We admit that assertions are a widely-used tool in assurance engagements and agree that 'building' assertions was a key challenge for practitioners in relation to EER. However, this is not required in ISAE 3000. This should be made clearer.

**We suggest that all extant requirements derived from ISAE 3000 are designated as such with reference to the relevant text number of the ISAE 3000. All other statements in the Guidelines are only assistance, examples or interpretations.**

The guidelines comprise exhaustive explanations whether the **preconditions** for an assurance engagement are present (e.g. Para. 16-18, 46, 65 and 132). In our view these explanations are too far reaching due to the fact that the requirements in ISAE 3000 Para 24 regarding the *Preconditions for the Assurance Engagement* are sufficient.

We fear that additional barriers will be created before accepting the EER engagement and doubt this approach.

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

Some of the guidelines go beyond the extant ISAE 3000. This may - in some jurisdictions - initially be considered as a soft law but is considered a new tough requirement after some time.

Therefore, we would like to repeat our concern and point out that the explanations especially regarding to the

- Preconditions
- Assertions
- External expert

are not formulated as requirements but only as an assistance, example or interpretation.

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

We reject the two additional documents "*Background and Contextual Information on Understanding How Subject Matter Information Results from Measuring or Evaluating Subject Matter Elements Against the Criteria*" and "*Four Key Factor Model for Credibility and Trust*" as it would introduce a further regulatory hierarchy, which might contribute to further uncertainty in the application.

Instead we would suggest including the relevant "helpful information" into the Guidelines in order to have **one** "Single Guideline" which is meaningful without any additional supplements.

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