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Dear Tom,

Response to the IAASB's Consultation Paper, *Extended External Reporting Assurance*

EFAA appreciates the opportunity to provide our comments to the IAASB Consultation Paper, [Extended External Reporting \(EER\) Assurance](#), including the first part of draft guidance for practitioners applying International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, to EER assurance engagements. Our response has been prepared with input from our Assurance Expert Group.

EFAA believes the IAASB's EER Consultation Paper and draft guidance to be well written, nicely presented, clear and concise. However, we have some general remarks to share below. At present EER assurance for large public interest entities (PIEs) seems to be growing fast but for the foreseeable future we do not anticipate much demand from small and medium-sized entities (SMEs) and non-PIEs. Nevertheless in time we expect demand for some sort of third party verification of EER by SMEs and non-PIEs to emerge. Hence this project needs to anticipate this.

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to SMEs both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs. EFAA represents 13 national accounting, auditing and tax advisor organisations with more than 370 000 individual members.

GENERAL OBSERVATIONS

We support the IAASB's efforts in relation to EER assurance, not least to build public trust and confidence in the various forms of extended external reporting. We have some general remarks which can also be taken as our response to Question 7 of the Consultation Paper that seeks comments from respondents representing stakeholders including preparers of EER reports of smaller entities.

Scalability

In [our response](#) to the IAASB's *Proposed Strategy for 2020–2023 and Work Plan for 2020–2021* EFAA urged the Board to place a high priority on addressing the interests of SMEs and non-PIEs. We expressed concern at the lack of scalability of the ISAs. We harbor similar concerns in relation to assurance and related-services standards in general. Ideally all IAASB standards need to be truly scalable and developed on a “think simple first” basis. This will help ensure that standards and guidance that will primarily be used in the foreseeable future on engagements for larger listed companies and other PIEs will be suitable for SMEs and non-PIE as and when they seek similar engagements.

Nature of Guidance

We fear that the proposed guidance will impose additional requirements especially regarding preconditions, use of external experts and the determination of assertions. We urge the IAASB to avoid the introduction of additional requirements via guidance. The guidance would also benefit from additional illustrative examples. Finally, we suggest the Board emulate ISAE 3410, Assurance Engagements on Greenhouse Gas Statements by considering adding guidance on specific subject matters, for example on certain types or categories of non-financial information (NFI).

Project Scope

In [our response](#) to the IAASB's *Proposed Strategy for 2020–2023 and Work Plan for 2020–2021* we also encouraged the Board to be alert to the importance of its non-audit standards, especially for SMEs and non-PIEs. We have consistently urged the Board to expedite the revision of ISRS 4400 (Revised), *Agreed-Upon Procedures (AUP) Engagements* and in our response encouraged the Board to adhere as far as possible to its plan to finalize the standard in 2019. EFAA believes that there is a significant need for AUP engagements, especially in terms of SMPs performing such engagements for SMEs and their stakeholders. In relation to EER we suggested the Board carefully consider broadening the project scope beyond assurance engagements as SMEs may seek simpler and, therefore, less costly related service engagements rather than limited or reasonable assurance. Accordingly, we see a case for guidance for practitioners applying ISRS 4400 to EER related service engagements.

QUESTIONS

We have a few comments to make on the specific questions posed in the Consultation Paper.

Q1) 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?

The draft guidance adequately addresses the challenges for practitioners that have been identified within the scope of the draft guidance developed in phase 1.

As noted above we expect EER, and assurance thereon, to grow fast and evolve rapidly. Hence, it is vital that guidance anticipates significant developments in technology as well as in the integration and connectivity of information.

In EER engagements reliance on the work of others is common. However, there is limited or no guidance on how to use the work of others. We wonder whether there should be.

The guidance on the issue of materiality is helpful but we suggest the guidance more clearly distinguish reporting materiality for preparers from the materiality concept relevant for those performing an assurance engagement. In addition, we suggest that the assessment of materiality be described more explicitly for example, to explain what work needs to be performed to take qualitative aspects into account.

Q2) 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?

The draft guidance is generally clear and easy to understand. The diagrams and figures are useful.

The guidance is intended to support the use of ISAE 3000. The guidance relies on examples from practice, although some do not provide sufficiently practical solutions. ISAE 3000 is sometimes simply repeated without additional explanation and illustrative examples. As a result, the guidance has become quite lengthy and may, therefore, become less accessible. We encourage the Board to address this and consider whether better to place the examples in an appendix so that they are easier accessible and might be more easily updated over time. Notwithstanding and as mentioned earlier, the guidance would benefit from additional illustrative examples.

The guidance introduces terms not used in ISAE 3000 for example, 'considerable' and 'significant' professional judgment. We suggest these be eliminated.

Q3) Do you support the proposed structure of the draft guidance? If not, how could it be better structured?

The structure of the guidance, which follows the key challenges in the EER research report, is clear but we wonder whether it better to follow the structure of ISAE 3000 for consistency and ease of reference.

We welcome the guidance for preparers of EER. This will prove useful to SMEs and SMPs preparing EER for their SME clients. However, we suggest the Board consider clearer distinction between guidance for preparers and guidance for assurance providers.

We wonder whether the guidance should emulate ISAE 3410 by providing guidance on specific subject matters such as specific aspects of NFI.

Q4) 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?

The guidance should not introduce new requirements but at times gives that impression. Hence, there is merit in the guidance clarifying that it is not intended to introduce any further requirements beyond those in ISAE 3000. All extant requirements derived from ISAE 3000 could be designated as such with reference to the relevant paragraph of ISAE 3000. Additional requirements might create additional and unnecessary barriers to accepting the EER engagement.

The guidance includes detailed explanations whether the preconditions for an assurance engagement are present, for example on the suitability of criteria. These seem to go beyond the requirements in ISAE 3000. Similarly, the explanations for assertions and use of external experts are articulated as though requirements. Therefore, we suggest reformulating the text to be clear they are simply explanatory rather than a (new) requirement.

Q5) Do you agree with the way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised)?

Please see our response to Q4 above.

Q6) Do you agree that the additional papers contain further helpful information and that they should be published alongside the non-authoritative guidance document?

The content of the additional papers is helpful, especially for those that are not experienced in this field of activity as well as for communication with clients and for preparers. In order to avoid any confusion about the authority of these papers relative to the guidance, we recommend these be integrated into the guidance so that all guidance is included in one single document.

7c) Translation—Recognizing that many respondents may intend to translate the final guidance for adoption in their own environments, the IAASB welcomes comments on potential translation issues.

We suspect that some of the new terminology, which we recommend be eliminated, will prove difficult to translate.

CONCLUDING COMMENTS

We trust that the above is clear, but should you have any questions on our comments, please do not hesitate to contact us.

Yours faithfully,

Bodo Richardt
President

Paul Thompson
Director