



Our Ref.: C/AASC

21 June 2019

International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor,
New York
NY 10017
USA

Dear Sirs,

**IAASB CONSULTATION PAPER, *EXTENDED EXTERNAL REPORTING (EER)*
ASSURANCE**

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to set and promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We are grateful for the opportunity to provide you with our comments on this Consultation Paper (CP).

Given the increasing demand for assurance on EER engagements, we welcome IAASB's efforts in developing the guidance. This would promote a more standardised and robust process in EER assurance engagements under ISAE 3000 (Revised).

EER encapsulates many different forms of reporting. However, we note that most of the principles and illustrations in the draft guidance focus on sustainability information. We encourage the IAASB to revisit the applicability of the draft guidance to other EER and provide application examples on specific industries and other form of EER to better illustrate the principles in the draft guidance.

Our responses to the specific questions are included in the attachment. We trust that our comments are of assistance to the IAASB in developing the final guidance. If you have any questions regarding the matters raised above, please contact Selene Ho, Deputy Director of the Standard Setting Department (selene@hki CPA.org.hk).

Yours faithfully,

Chris Joy
Executive Director

CJ/SH

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS'
COMMENTS ON THE IAASB'S CONSULTATION PAPER
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1) Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1? If not, where and how should it be improved?

In general we welcome the draft guidance which addresses an EER assurance engagement under ISAE 3000 (Revised). We agree that the draft guidance has adequately addressed the challenges for practitioners that have been identified within the scope of phase 1.

Specifically, we suggest expanding or clarifying several examples to adequately address the identified challenges (as mentioned in our response to Question 2).

We also consider additional clarity is needed for certain factors or procedures that practitioners should consider/perform. For example, under paragraph 172, further example or scenario can be included to illustrate the concepts of "assertions at the level of categories" and "level of detailed assertions".

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 agree that the draft guidance is clear and easy to understand and likely to promote a more standardised and robust process in EER assurance engagements under ISAE 3000 (Revised). The examples are helpful in explaining assurance terms which have seldom been applied to non-financial information, such as criteria; the five characteristics of criteria; materiality; assertion; narrative information etc. For ease of reference we suggest adding a glossary in the draft guidance to properly define the terminology.

EER assurance reports encapsulate many different forms. However, most of the principles and illustrations in the draft guidance focus on sustainability information. We encourage the IAASB to revisit the applicability of the draft guidance to other EER, e.g. integrated reporting and provide application examples on specific industries and other form of EER to illustrate the principles in the draft guidance.

We consider the length of the draft guidance a barrier to readability particularly to small and medium sized practitioners when performing small-scale EER assurance engagements. We encourage the IAASB to revisit the draft guidance in light of scalability. For example, ISA 540 (Revised) addresses scalability in paragraphs 3, A20-A22, A63, A67 and A84 when auditing accounting estimates of simple businesses or smaller entities. Similarly we suggest the guidance to address scalability and provide clarity and practical examples on what may be appropriate for small-scale EER assurance engagements in a separate section in Chapter 2.

To enhance understandability, we suggest merging flowcharts in different chapters (e.g. flowcharts under paragraph 46 of Chapter 3; paragraph 130 of Chapter 8; paragraph 215 of Chapter 12) and include it in the document to provide an overview of the recommended procedures. Also, it is not easy for practitioners to

follow certain examples and diagrams, such as those under paragraphs 108, 117 and 127, which require additional context or judgment to visualise the example scenarios. It would be helpful if further illustration is provided on what a practitioner should consider or perform in those scenarios.

As explained in paragraph 21 of the explanatory memorandum, some areas of the guidance include details about the preparer's role in an assurance engagement because such an understanding is likely to assist practitioners in performing effective EER assurance engagements. However, extensive references to what the preparer may do or provide in the guidance might create confusion against practitioner's responsibilities in an EER assurance reporting. If there are additional requirements to the preparer, we believe these requirements should come from the relevant preparation framework but not the guidance. Should preparer's role be included, we recommend the details separately be summarised in an annex to the guidance to avoid confusion in an EER assurance engagement.

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

Overall, we support the proposed structure of the draft guidance by chapters.

In Chapter 2, some contents are requirements from ISAE 3000 (Revised) while some are guidelines or interpretation to ISAE 3000 (Revised). We suggest using notations or footnotes to differentiate these contents to avoid confusion.

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 that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised) and does not introduce any new requirements.

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

Overall, the draft guidance has covered matters in an EER assurance engagement not addressed in ISAE 3000 (Revised).

However, we believe the contents to be introduced in Phase 2 could greatly affect our stance for the above, particularly the following matters that we consider are more critical in an EER assurance engagement.

Understanding the Engagement Circumstances

- As interest in sustainability reporting grows, there is a growing demand for external assurance on sustainability disclosures. Yet, the lack of a single reporting framework to sustainability reporting has been an obstacle to preparers and practitioners. For example, companies listed in more than one stock exchange or operate in multiple jurisdictions are obliged to comply with the sustainability reporting rules of respective exchanges and local regulatory bodies. In practice, it is common that a company prepares its sustainability information with reference to multiple reporting frameworks. We recommend the guidance be expanded on practitioner's considerations when assuring on non-financial information prepared using multiple bases.

- Chapter 6 of the draft guidance elaborates how the practitioner should consider the entity's system of internal control in an EER assurance engagement. In paragraph 60, it would be helpful if the guidance could explain the extent of consideration required in the acceptance procedures for a new engagement in order for the practitioner to establish whether the preconditions for an assurance engagement are present.

Preparing the Assurance Report

- Practitioners may be engaged to provide assurance on a single set of non-financial information using multiple assurance standards issued by different standard setters and opine in the same practitioner's report, e.g. ISAE 3000 (Revised) issued by the IAASB and AA1000 Assurance Standard issued by Accountability. We suggest that guidance to be given when the practitioner is engaged to do so.

Quality Control

- Currently, a range of providers including professional accountants and specialist consultants are providing external assurance or verification of sustainability information. Meanwhile, there is no globally agreed standard for the assurance of sustainability related information.

In Hong Kong, some of the non-accountants assuring on sustainability reports performed the engagements "based on", "with reference to" or "against the criteria of" ISAE 3000 (Revised), but the reports were not properly structured according to ISAE 3000 (Revised) requirements and did not state which independence, ethical and quality control frameworks they have complied with when performing the engagement. This gives rise to credibility issue of such ISAE 3000 (Revised) reports prepared by non-accountants who are outside the monitoring regime of the local CPA regulatory body; users of the reports may be misled to believe that non-accountants have properly applied and complied with ISAE 3000 (Revised) in the reporting as professional accountants do. We suggest the guidance to be strengthened when non-accountants perform EER assurance reporting under ISAE 3000 (Revised), for example, requiring non-accountants to perform additional procedures to enable them to state in their reports that the engagement is conducted in accordance with ISAE 3000 (Revised).

- Under paragraphs 69(i) and 69(j) of ISAE 3000 (Revised), if the practitioner is not a professional accountant, the report shall identify the professional requirements that the practitioner applies in respect of quality control, independence and ethics that are at least as demanding as ISQC 1 and the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants. We believe the draft guidance should expand the documentation requirements on how the practitioner satisfies the quality control, ethical and independence requirements in the EER assurance engagement as stated in the report.
- In case the practitioner is not a professional accountant, we also propose including a statement in the report to state whether he/she is subject to any monitoring regime in his/her jurisdiction. Such disclosure would distinguish the reporting between professional accountant and non-accountant and enable users of the report to assess the objectivity, professional competence etc. of the practitioner.

- The practitioner of an EER engagement may not be the same as the statutory auditor of the entity's financial statements. In general, statutory auditors are governed by specific regulatory requirements. While it would be useful for the IAASB to clarify if the practitioner, particularly a non-accountant, conducting an EER assurance engagement under ISAE 3000 (Revised) is expected to have the same level of qualifications as the statutory auditor does, it is probably up to individual standard setters or stock exchanges to get this into their local regulations, e.g. by way of licensing requirements or mandating assurance-providers fulfilling certain qualifications. In addition, as noted in the response to Question 2, an annex to the guidance can be prepared to summarise preparer's role in an EER assurance engagement. In this annex, recommendations can be provided to preparers and even intended users on the required/expected qualification of practitioners, particularly a non-accountant.

Some of the suggestions above would require introducing new requirements to ISAE 3000 (Revised). We encourage the IAASB to review the extant ISAE 3000 (Revised) in light of EER assurance reporting and consider necessary amendments.

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 suggest including clear links between the additional papers and the applicable draft guidance.

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