



**The Japanese Institute of
Certified Public Accountants**

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July 2, 2019
Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, NY 10017 USA

Dear Mr. Botha,

Re: JICPA Response to the Consultation Paper, Extended External Reporting Assurance

The Japanese Institute of Certified Public Accountants (JICPA) sincerely appreciates the opportunity to comment on the IAASB Consultation Paper, Extended External Reporting (EER) Assurance (the Consultation Paper).

Both preparation and assurance of EER differ from the auditing of financial statements in that practice is still evolving and expectations with regard to innovative services are growing. Within this context, the JICPA welcomes the IAASB's provision of specific guidance on EER-related assurance engagements to facilitate further developments in practice without imposing excessive restraints. The JICPA understands that, under these circumstances in which practice is not yet fully developed, the guidance produced will inevitably emphasize conceptual issues. However, we sincerely hope that the IAASB will continuously review its guidance in line with future developments in practice and expand content including examples and procedures relating to assurance engagements, as well as specific considerations with regard to readiness engagements. Meanwhile, given that, for the time being, agreed-upon procedures engagements might also be conducted for EER, we welcome the fact that, in the IAASB's separate project to revise ISRS 4400, *Agreed-Upon Procedures Engagements*, the IAASB intends to make it clear that ISRS 4400 also applies to non-financial information. We hope, moreover, that the ISRS 4400 project will be completed as soon as possible.

Please find below our comments in response to the request for comments in the Consultation Paper.

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| 1) Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1?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? |
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Comment:

We believe that the points below should be reconsidered and improved in order to adequately address the challenges for practitioners.

1. Determining Preconditions and Agreeing the Scope

We agree that, when planning the form that assurance engagements for EER should take, it is important that everybody should share the same fundamental approach of seeking to improve the credibility of entire reports. Users of EER employ EER to deepen their understanding of a reporting organization as a whole, including its capacity to create value, its business performance, and its sustainability, and they reflect that understanding in their decision-making. The expectations of information users would not be met if the approach of assurance practitioners was to provide assurance for one extremely limited part of an EER report, while being unconcerned with the remainder of the information.

On the other hand, partial assurance targeting specific indicators, etc., is currently the most common form of EER-related assurance, while assurance of entire reports is not seen in practice. One reason why assurance of entire reports has not become common in practice could be the pragmatic need among preparers and assurance practitioners to limit the scope of assurance for reasons of cost benefit. More often than not, practitioners may decide it is inappropriate to assure an entire EER report because (from an assurance perspective) no appropriate criteria exist with regard to narrative and future-oriented information indicating the perceptions and views of senior management within EER reports, and this presents significant challenges in terms of assurance.

Accordingly, we understand that the intention of the IAASB in drawing up this draft guidance is to provide specific guidance on EER-related assurance engagements to facilitate further developments in practice without imposing excessive restraints, given that assurance of EER is still evolving. However, we believe that the text of the draft guidance itself could fail to convey this intention. This is because the draft guidance is written specifically to address assurance relating to EER reports. In Paragraph 3, for example, it contrasts EER reports with the financial statements that are subject to audits, stating that “EER tends to be more diverse than financial statement reporting.” The Consultation Paper also regards assurance of the entire EER report as the norm and, while not precluding “partial assurance,” it appears to treat such partial assurance as the exception rather than the rule. Paragraph 56, for example, states, “In circumstances where the proposed scope of the engagement is not an entire EER report...” Another issue that must be considered is the relationship between financial statements and annual reporting (or annual reports). It is unusual for financial statements to be disclosed on their own; in most cases they are disclosed as part of a more comprehensive report, such as an annual report. Accordingly, auditing standards do not designate the entire annual report as subject to assurance. It is possible, therefore, that the relationship between annual reports and financial statements could also apply to EER reports.

Based on this understanding, we think the best approach would be to address the variety of types of information and user needs associated with EER by providing combinations of assurances covering clearly defined subject matter, while at the same time aiming to improve the credibility of EER as a whole. We believe that guidance based on such an approach would

bring consistency to EER-related assurance engagements performed in accordance with ISAE 3000 and contribute to such assurance engagements becoming established practice.

In line with the above perception, we propose changing the structure of the guidance as indicated below.

First, change the overall subject of the guidance from assurance of “EER reports” to assurance of “EER information” (or “EER statements”), or alternatively, to assurance of “information included in EER reports.” In addition, the EER information that serves as the subject matter information should itself have some form of subject matter. For example, if the EER information comprises an entity’s KPIs, the entity’s strategic progress and past results relating to financial condition could be designated as the subject matter. If the information subject to assurance is the corporate governance statement included in EER, the entity’s development and use of corporate governance could be designated as the subject matter.

These changes would eliminate the risk of vaguely defined subject matter that arises when an entire EER report is regarded as information subject to assurance. It would also eliminate the resultant risk of compromise with regard to scope, criteria, and internal controls. Thus, an assurance practitioner could confidently provide assurance for a clearly defined subject matter, covering the key assurance requirements of subject matter information, scope of assurance, criteria, and internal controls.

2. Determining Preconditions and Agreeing the Scope

If “EER information” is to be designated as the subject of assurance, the following points will have to be considered.

- (1) The EER information subject to assurance needs to be in a coherent form and clearly identifiable to users of the information. Ideally, the information to be assured should be differentiated as a clearly separate section within the EER report, like financial statements within annual reports (or financial reports), and all information within such a section should be subject to assurance. The preparer might be able to reorganize information subject to assurance into a coherent form, switching sections by cross-referencing with other sections in the report. In any case, it is important that the guidance avoids any risk of misunderstanding by ensuring that information users can clearly identify the scope of information assured. This remains a key consideration even if the structure of the current draft is not changed.
- (2) The guidance must be clear that it does not preclude the case where EER information to be assured turns out to be the entire EER report. This is because a practitioner might still give blanket assurance for an entire EER report, depending on how an assurance engagement proceeds in practice. Moreover, specific situations may arise, such as the EER report itself containing only information about the past. We therefore hope that the IAASB will design flexible guidance that is applicable to a broad range of practical situations.

Even when “EER information” is designated as the subject of assurance, consideration of materiality will be important. For example, if the information to be assured comprises KPIs, the decision regarding which KPIs to choose will be crucial. If, however, as described in Paragraph 55, the EER information subject to assurance is too narrow in scope compared with the subject matter of the EER report as a whole, the inclusion of an assurance report in the EER report could mislead information users. For that reason, we believe it would also be advisable to consider the relationship between the subject matter of the EER report as a

whole and that of the EER information to be assured.

3. Determining Preconditions and Agreeing the Scope

Within the guidance, the following three chapters are interrelated: Chapter 3, “Determining Preconditions and Agreeing the Scope;” Chapter 6, “Considering the System of Internal Control;” and Chapter 7, “Determining the Suitability of Criteria.” Accordingly, we believe that users of the guidance need to understand it as a structural whole in terms of these interrelations.

However, the relationship to Chapter 3 and the related provisions for comparison are not necessarily always clearly indicated. For example, the provisions relating to decisions on acceptance of an engagement in Paragraphs 122 and 123 of Chapter 7, “Determining the Suitability of Criteria,” relate to Chapter 3, “Determining Preconditions and Agreeing the Scope.” In this case, as in other cases, the extent to which the suitability of criteria needs to be determined at the stage of determining preconditions and agreeing the scope is not explained.

To enable this guidance to be understood as a structural whole, we believe it is necessary to take steps to that end, such as making the interrelationships among Chapters 3, 6, and 7 clear, and adding plenty of cross-references to comparable provisions.

4. Considering the Entity’s “Materiality Process”

We understand that the diagram illustrating likelihood of occurrence and magnitude of effect in Paragraph 153 uses likelihood of occurrence and magnitude of effect only as examples of what a practitioner might take into consideration when judging an entity’s process of determining materiality. However, the inclusion of such a diagram could be misunderstood to indicate that a standard approach is required, raising the concern that a practitioner may in practice fail to make a judgement aligned with the preparer’s own process of determining materiality. We agree with the inclusion of wording stating that likelihood of occurrence and magnitude of effect should be taken into consideration to understand an entity’s process of determining materiality and to determine the appropriateness of that process, but we believe it would be advisable to omit the diagram.

5. Considering the Entity’s “Materiality Process”

Chapter 8 explains that materiality should be determined from the perspective of intended users. In practice, however, when determining material issues to include in EER, preparers are likely to consider not only whether certain information would assist intended users in their decision-making, but also how the preparer itself should fulfill its duty of accountability with regard to the subject matter, and which matters it ought to communicate to intended users. Accordingly, we consider it advisable to mention that for those performing assurance engagements, likewise, it is worthwhile when considering an entity’s process of determining materiality to take into account not only whether certain information would assist intended users in their decision-making, but also whether information relates to matters that the preparer believes it is required to communicate.

6. Chapter 7, “Determining the Suitability of Criteria,” and Chapter 8, “Considering the Entity’s ‘Materiality Process’”

An entity’s process of determining materiality as indicated in Paragraphs 147 to 154 is related to whether or not the scope of EER preparation as specified in the criteria is appropriate, as

well as to the steps to be undertaken in accordance with Chapter 7, “Determining the Suitability of Criteria.” However, the guidance does not make these interrelations clear. To enable this guidance to be understood as a structural whole, we believe it is necessary to clearly indicate the connections between Chapter 7, “Determining the Suitability of Criteria” and Chapter 8, “Considering the Entity’s ‘Materiality Process’” by, for instance, adding cross-references to related provisions.

7. Assuring Narrative Information

Paragraph 197 explains about neutrality of narrative information, and it is assumed that it will often be impossible to undertake an assurance engagement in cases where clear criteria regarding the neutrality of narrative information have not been established. We believe this point needs to be made clear in Chapter 10.

8. Considering the Materiality of Misstatements

In connection with the materiality of misstatements, Paragraph 219 (b) gives the example of a fine, but the wording appears to refer to determining the materiality of the regulatory non-compliance itself, rather than the materiality of a related misstatement. We believe the wording should be changed to make it clear that this refers to an example of misstatement during disclosure related to regulatory compliance by, for example, starting with the phrase, “Misstated information regarding an instance...”

- 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?

Comment:

We believe that the points below should be improved.

1. Terminology: “Subject Matter Elements” (or “Elements”) and Their “Qualities”

Paragraph 11 states “This guidance refers to ‘subject matter elements’ (or ‘elements’) and their ‘qualities’ in the context of an EER report,” and item b) describes “qualities” as being analogous to the financial “value” of elements of the financial statements, but this explanation alone does not make clear what the “qualities” of subject matter elements are. In particular, the example given in b) states that where the subject matter is water, the “qualities” of subject matter elements might include “intake volume” or “discharge volume.” However, it is not clear why these quantitative concepts denote not only elements of the subject matter, but also their “qualities,” raising the concern that readers may be confused.

We believe that the content of Paragraph 11 should be reconsidered, and this process should include reexamining whether water is an appropriate example to use for the underlying subject matter.

Moreover, as an example of a “subject matter element” (or “element”) in an integrated report, for example, we suggest that “capital” or something similar could be used for explanatory purposes.

2. Diagram: Steps for Determining the Suitability of Criteria

With regard to the diagram in Paragraph 89 showing steps for determining the suitability of criteria, we believe it should be made clear that these steps are not necessarily to be followed

in a linear manner, but may instead be followed in an interconnected or iterative manner.

3. Terminology: Materiality

Chapter 8 discusses materiality, but it is unclear whether this relates to guidance for determining the scope of EER, or to assessing the materiality of misstatements. As it can be assumed that many IFAC members who are the intended users of this guidance will have the auditing of financial statements in mind as they use it, we believe it should be made clear that the term “materiality” relates to determining the scope of EER. The draft’s Chapter 2:” Overview of an EER Assurance Engagement“ provides some relevant explanation, but we believe it is insufficient, and further explanation and enhancement is required.

4. Diagrams

We believe it would be advisable to add titles to diagrams, enhancing clarity by indicating what each diagram depicts so that the content is understandable.

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

Comment:

Other than the points discussed in our response to Q1, we support the proposed structure of the draft guidance.

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?

Comment:

We 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.

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

Comment:

We understand that the draft guidance will not introduce any new requirements, but we believe that the content and wording of the following matters not stipulated in ISAE 3000 should be reconsidered.

1. Treatment of Trivial Misstatements

Paragraph 216 states “Where the misstatement is not clearly trivial...the practitioner may present it to...,” indicating that the practitioner “may” present a non-trivial misstatement to the EER preparer who then has the opportunity to correct the misstated information. However, in such cases it would be usual for a practitioner to present a misstatement to the EER preparer, so we believe it would be appropriate to replace “may present” with “generally/normally presents.”

2. Assertions

Paragraph 166 states that assertions are sometimes used and sometimes not used, but this

statement refers only to use of assertions in general and does not make clear that assertions are sometimes not employed in EER-related assurance engagements specifically. If Paragraph 166 is followed by detailed assertion-related guidance, there is a risk of failing to adequately communicate the occasional non-use of assertions in EER-related assurance engagements. We believe that Paragraph 166 should clearly state that assertions are sometimes not employed in EER-related assurance engagements.

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

Comment:

We believe it would be helpful if the additional papers were published alongside the non-authoritative guidance document. However, we believe that the following should be reconsidered in relation to the method of publication and the specific content to be published.

Contextual Information: Explanation of Subject Matter Elements and “Qualities”

The example of an apple used in Paragraph 13 of the Contextual Information section is difficult to understand as an explanation of subject matter elements and “qualities.” It is not clear whether the purpose of the example is to suggest that we should understand the “qualities” of the subject matter elements as topics to be addressed in an assurance engagement, or not.

Additionally, the subject used in this example (an apple) is different from the subject indicated in Paragraph 11 of the guidance (water), making a coherent understanding difficult.

We believe that reconsideration is necessary to connect the example in Paragraph 13 of the Contextual Information section to a subject matter or subject matter element that might be addressed in an actual assurance engagement.

We hope that our views will be of assistance to the IAASB.

Sincerely yours,

Masahiko Tezuka
Executive Board Member – Auditing, Assurance Practice and IT
The Japanese Institute of Certified Public Accountants