

Ref#658475

29 March 2018

**Independent Regulatory Board for Auditors (IRBA)**

Email: [standards@irba.co.za](mailto:standards@irba.co.za)

Dear Sir

**SUBMISSION ON THE IRBA'S PROPOSED SOUTH AFRICAN ASSURANCE ENGAGEMENTS PRACTICE STATEMENT (SAAEPS 1): SUSTAINABILITY ASSURANCE ENGAGEMENT CONCEPTS: EVALUATING THE RATIONAL PURPOSE, THE APPROPRIATENESS OF THE UNDERLYING SUBJECT MATTER AND THE SUITABILITY OF CRITERIA**

In response to your request for comments on the **Proposed SAAEPS 1: Sustainability Assurance Engagement Concepts: Evaluating the Rational Purpose, the Appropriateness of the Underlying Subject Matter and the Suitability of Criteria (Proposed SAAEPS)**, please find attached comments prepared by The South African Institute of Chartered Accountants (SAICA).

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

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## **INTRODUCTION**

1. The IRBA has recognised the need to provide guidance to registered auditors (RAs) on the application of International Standard on Assurance Engagement (ISAE) 3000 (Revised)<sup>1</sup> in relation to certain aspects when undertaking an assurance engagement on reported sustainability information. The development of the Proposed SAAEPS takes place at a time when there is increased focus internationally on enhancing credibility and trust in emerging forms of external reporting, including the related project of the International Auditing and Assurance Standards Board (IAASB).
2. We appreciate the difficulty of providing guidance in relation to assuring reported sustainability information due to the numerous challenges that present themselves in these assurance engagements and as such, we applaud the IRBA for being global leaders in developing this guidance.
3. SAICA welcomes and supports the initiative and efforts of the IRBA to provide practical guidance with respect to certain aspects relevant to the *Acceptance and Continuance – Preconditions for the Assurance Engagement* phase of a sustainability assurance engagement.

## **SAICA'S APPROACH TO RESPOND**

4. The SAICA Assurance & Practice team studied the Proposed SAAEPS in preparing initial thoughts pertaining to the fundamental principles around the preconditions of an assurance engagement, the approach taken in the Proposed SAAEPS to provide practical assistance on the application of identified requirements and application material of ISAE 3000 (Revised) and the specific questions posed in the exposure draft. These thoughts were debated, refined and clarified in compiling our comment letter.
5. A Working Group of SAICA's Assurance Guidance Committee (Working Group) met to provide their views and comments in finalising the SAICA comment letter. This Working Group was intentionally constituted to comprise solely of members that were not involved in the drafting process through the relevant CFAS Task Group of the Sustainability Standing Committee, with the aim of obtaining external, independent comments, views and perspectives to inform our comment letter.
6. Included in this comment letter are the details of the discussions held by the Working Group. The purpose of including such detail is not to provide a definitive conclusion on the matters noted but rather to point out areas of concern for further consideration by the CFAS Task Group.

## **THE SAICA COMMENT LETTER IS ORGANISED INTO TWO SECTIONS, AS FOLLOWS:**

Section 1: Response to Request for Specific Comments; and  
Section 2: Response to Request for General Comments.

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<sup>1</sup> ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information

## **SECTION 1: RESPONSE TO REQUEST FOR SPECIFIC COMMENTS**

1. Does the recommended effective date permit sufficient time for the implementation of the guidance contained herein by practitioners performing such engagements?
7. As indicated in the introduction to the explanatory memorandum, this Proposed SAAEPS does not establish new requirements or contain exemptions from the requirements of ISAE 3000 (Revised). At face value it would appear that the recommended effective date would permit sufficient time for the implementation of the guidance in performing such engagements.
8. However, the Working Group expressed the view that the preparers of sustainability information should also be provided with at least one financial year to implement any required changes to their reporting systems and processes, for the reasons highlighted below.
9. Although the aim of the Proposed SAAEPS is not to establish new requirements, ISAE 3000 (Revised) is an umbrella standard and, in its design, anticipates application in a wide range of possible engagements<sup>2</sup>. The IAASB Discussion Paper<sup>3</sup> recognises that the current experience is that when external assurance is sought on emerging forms of external reporting (EER), which includes sustainability reports, ISAE 3000 (Revised) is *typically* the applicable standard.
10. The Proposed SAAEPS is an important document in that it is the first of its kind in providing guidance in relation to assuring reported sustainability information. It is therefore important for this to be understood, embraced and accepted in the industry, both on the side of preparers and assurance practitioners for this to achieve the objective and not adversely affect the reporting of sustainability information.
11. Although the Proposed SAAEPS is aimed at the practitioner performing the assurance engagement, it may have indirect consequences for the preparers of sustainability reports. The Working Group cautioned against underestimating the potential impact of the proposed SAAEPS on the preparers of sustainability information in considering an appropriate effective date. There was also a suggestion that the need for the performance of an impact analysis be considered.
12. With specific reference to the scope of the Proposed SAAEPS where guidance is provided on determining whether certain aspects of the preconditions for an assurance engagement are present, practitioners are currently making the relevant determination. However, the Proposed SAAEPS introduces a specific way of approaching and evaluating these requirements. This may give rise to practical difficulties in that the engagement was accepted in prior years but in applying the guidance contained in the Proposed SAAEPS, the practitioner may be in a position where certain preconditions may be questioned and is now required to alert the preparer to these shortcomings. This practical challenge needs to be handled delicately so as to prevent any resistance from preparers of sustainability information.

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<sup>2</sup> IAASB, 2016. *Discussion Paper: Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*. <http://www.ifac.org/publications-resources/discussion-paper-supporting-credibility-and-trust-emerging-forms-external>. Accessed 8 March 2018.

<sup>3</sup> Discussion Paper: Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements.

13. The view of the Working Group was that a minimum implementation period should be at least a full year, before the sustainability information reported in relation to this implementation year could be subject to assurance in accordance with ISAE 3000 (Revised), applied together with the Proposed SAAEPS. During this year, interaction between assurance practitioners and preparers will also focus on awareness and education in terms of the application of the minimum requirements of ISAE 3000 (Revised) in the context of the Proposed SAAEPS and the impact on reporting entities in terms of their sustainability reporting infrastructure.

2. Is the approach taken in setting out the process in addressing certain aspects of the preconditions for sustainability assurance engagements dealt with in this proposed SAAEPS consistent with the requirements, application and other explanatory material contained in ISAE 3000 (Revised)? If not, why? Can you suggest an alternative approach?

14. In understanding the approach taken in the Proposed SAAEPS in setting out the process in addressing certain aspects of the preconditions for sustainability assurance engagements, it is important that the concepts relevant to the guidance be understood. In responding to this question, we have included our comments on these relevant concepts under separate subheadings (Intended users; Sustainability information; Sound reporting infrastructure), below.
15. Overall, it is appropriate to refer to the *Acceptance and Continuance – Preconditions for the Assurance Engagement* phase of a sustainability assurance engagement, which is consistent with how this is addressed under the relevant heading and subheading in ISAE 3000 (Revised), and the requirements in paragraphs 24 to 25, together with the related application material, in ISAE 3000 (Revised). We believe that the Proposed SAAEPS clearly describes its scope in terms of only addressing certain aspects of the preconditions for an assurance engagement, while also emphasising that the practitioner is required to determine whether all of the preconditions as required in terms of ISAE 3000 (Revised) are present in the case of a particular engagement, before deciding whether to accept or continue an engagement.

#### *Intended users*

16. The question that was raised by the Working Group is whether the intended users relating to reported sustainability information equate to a wide range of users as is the case with general purpose reporting or specific users as is the case with special purpose reporting. It is our understanding that it could be either a wide range of users or specific users. When the intended users are specific, they are usually identified in the engagement letter and the assurance report would include a paragraph that the report is prepared to satisfy the information needs of the specific users and that it may not be suitable for another purpose.
17. To an extent, this matter is addressed in paragraph 21 of the Proposed SAAEPS and we agree that this is an important point to highlight. We noted the reference to ISAE 3000 (Revised), paragraph A16 but also noted that the last sentence of this paragraph has been omitted<sup>4</sup>. It is our view that this paragraph should be expanded to include this last sentence.

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<sup>4</sup> Intended users may be identified in different ways, for example, by agreement between the practitioner and the responsible party or engaging party, or by law or regulation.

18. In the interest of achieving consistency, it is our view that the Proposed SAAEPS should be expanded to explain that reported sustainability information may be considered to be for general purpose, where it is prepared to meet the common information needs of a wide range of users, or special purpose, where it is prepared to meet the information needs of specific users. With reference to special purpose sustainability reports, the Proposed SAAEPS should highlight the requirement for the assurance report to alert readers to the fact that the subject matter information is prepared in accordance with special purpose criteria, and as such may not be suitable for another purpose<sup>5</sup>.
19. Included in paragraph 22 of the Proposed SAAEPS is the definition of a *stakeholder* as contained in the GRI Standards Glossary, 2016. We observed that King IV<sup>6</sup> includes a different stakeholder definition and the question arose as to why reference has been made to the definition contained in the GRI Standards Glossary and not King IV in a South African context. The Working Group suggested that the definition of a *stakeholder* be revised or expanded in order to encapsulate both of these sources.
20. Paragraph 23 of the Proposed SAAEPS and its intended meaning was debated. In the view of the Working Group, it is not clear whether the Proposed SAAEPS is concluding that the intended users is a wide range of users, regardless of the intention of the preparer or whether they are the users that are specified as the intended users of the reported sustainability information. The Working Group concluded that if the Proposed SAAEPS was amended to take into account the recommendations contained in paragraphs 16 to 19 of this comment letter, then paragraph 23 may no longer be required.

#### *Sustainability information*

21. With reference to paragraph 25 of the Proposed SAAEPS, there was a concern noted with only making reference to *performance information*. Although the condition is noted that this is only applicable *for the purposes of this SAAEPS*<sup>7</sup>, there is a concern that this may be limiting in creating the impression that the Proposed SAAEPS is only applicable to assurance engagements where the underlying subject matter relates to performance, or that sustainability information may only include performance information.
22. A view was expressed that sustainability information is not necessarily limited to performance information and also includes information on impacts and outcomes, to name a few. It is unclear whether, for example, information on impacts and outcomes will also be encapsulated in *performance information*. It is recommended that the Proposed SAAEPS make reference here to *sustainability performance information* and clarify the meaning of this term by including a definition thereof and explaining whether this term is meant to be all inclusive or limiting. This will contextualise the use of the term *sustainability information* in the remainder of the document.
23. To this end, it may be useful for the Proposed SAAEPS to define *sustainability*. It may also be useful to include definitions of the four aspects of sustainability information, namely environmental, social, economic and governance that are included in paragraph 25 of the Proposed SAAEPS, indicating the link between sustainability and these four concepts, and provide guidance of what and how these are generally included in the scope of sustainability reporting.

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<sup>5</sup> ISAE 3000 (Revised), paragraph 69(f)

<sup>6</sup> The King IV Report on Corporate Governance for South Africa, 2016.

<sup>7</sup> Proposed SAAEPS, paragraph 25

24. We acknowledge that these four aspects of sustainability information, namely social, environmental, governance and economic are identified and addressed in the GRI Standards. However, to illustrate the need for further clarification as indicated above, a concern was raised during the Working Group discussions around whether the reference to economic aspects also draws the entity's financial statements or aspects of the financial statements into the scope of the reported sustainability information on which assurance has been requested. Although there were different interpretations around this in the Working Group, it does highlight the importance of clarifying the meaning of these aspects and the general nature and scope of sustainability performance information.
25. With reference to the first bullet point included in paragraph 29 and the use of the phrase *aimed at*. The preparer considers the information needs of users rather than aiming the report at them. We suggest that this sentence be reworded to state: *The reporting entity's purpose for reporting sustainability information will often consider the information needs of a significantly wider and less homogenous group of users than financial statements; in particular when the sustainability information is general purpose.*
26. In reading paragraph 29, two further differences between the nature of reported sustainability information and financial statements are as follows:

- Sustainability reporting is inherently prone to higher levels of management bias owing to more extensive use of internally developed criteria. To this end, we suggest that the following be added in as a bullet point: *Sustainability reporting is inherently prone to higher levels of management bias owing to more extensive use of internally developed criteria;*

The following should be added into the guidance that is being provided in order to properly contextualise the presence of management bias, either in this part or another appropriate part of the Proposed SAAEPS: *In the current environment, taking into account that there are generally no formal legal or statutory requirements relating to the preparation and presentation of sustainability information, higher levels of management bias is a reality, although it may not necessarily be a limiting factor in producing or assuring sustainability information. Management and those charged with governance of the reporting entity owns the information, identifies the intended users and determines the purpose of its reporting of sustainability information. The presence of management bias should be recognised and evaluated as having been applied within acceptable limits. For example, considerations around whether the reporting of identified information has been properly informed by the needs of the intended users and that the reported information is not misleading to the intended users are important, together with other factors as expanded on in this practice statement.*

- In the process for preparing financial statements, there is a natural check in the form of the double entry recording system. To this end, we suggest that the following be added in as a bullet point: *Sustainability information is not recorded by way of a system that provides a natural/logical check to the balancing, reconciliation and summary of information for purposes of preparing and presenting it in an appropriate report as is the case of a set of financial statements that would tie-in to a trial balance and general ledger, based on double-entry accounting.*
27. Included in paragraph 31 of the Proposed SAAEPS are examples of reporting frameworks/guidance/codes. Since this is not an exhaustive list, it is recommend that the sentence be expanded to indicate that.

### *Sound reporting infrastructure*

28. A concern was raised with respect to the inclusion of the concept of *sound reporting infrastructure*. It is our understanding that the origin of this term was the IAASB Discussion Paper, where *sound reporting framework* is identified as one of the key factors that enhance credibility of EER reports. For example, the users perception of the credibility of EER reports can be influenced by the qualities and transparency of the reporting framework used for its preparation<sup>8</sup>.
29. The concern is that the Proposed SAAEPS introduces a concept that is not contained in ISAE 3000 (Revised) and as a result could be misinterpreted as establishing a new requirement, or suggesting that this may be a precondition in itself. In particular, the use of the term *sound* may be creating the confusion in that it qualifies the *reporting infrastructure*, thereby exacerbating the concern that this may be misinterpreted as a requirement or precondition.
30. It is our recommendation that the Proposed SAAEPS refers to *reporting infrastructure* and not *sound reporting infrastructure*. Then, it should clearly indicate that although reporting infrastructure is an inherent element in producing subject matter information, it is not in itself a precondition for the assurance engagement. Any entity producing subject matter information of any kind will have a reporting infrastructure, which may be simple or complex; formal or informal. For example, an entity preparing sustainability information will have a reporting infrastructure. It is important to understand the elements of that infrastructure in terms of generating the entity's reporting content. Its nature and the manner of its application will provide input in determining whether the preconditions for an assurance engagement are present, rather than being a precondition in itself.
31. Also, consider the following as it was debated by the Working Group. This may provide the CFAS Task Group with additional information and perspective in terms of clarifying the concept of *reporting infrastructure* in the Proposed SAAEPS, thereby ensuring that it is not misinterpreted or misunderstood in relation to the preparation or assurance of sustainability information.
- The preconditions contained in ISA 210<sup>9</sup> require, among others, obtaining the agreement of management that it acknowledges and understands its responsibility for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement<sup>10</sup>. ISAE 3000 (Revised) does not include this as a specific precondition but rather expands on this in the application and other explanatory material. ISAE 3000 (Revised) indicates that the preparer is responsible for having a reasonable basis for the subject matter information and what constitutes a reasonable basis will depend on the nature of the underlying subject matter and may, in some cases require a formal process with extensive internal controls<sup>11</sup>.
  - As is evident from paragraph 34 of the Proposed SAAEPS, reporting systems and controls is an element of the entity's reporting infrastructure. It is our view that a sustainability assurance engagement is not considered to be one of those cases where a formal process with extensive internal controls is necessarily required.

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<sup>8</sup> IAASB, 2016.

<sup>9</sup> ISA 210, Agreeing the Terms of Audit Engagements

<sup>10</sup> ISA 210, paragraph 6 (extract)

<sup>11</sup> ISAE 3000 (Revised), paragraph A39

Rather, it is the measurer or evaluator (i.e. the reporting entity) that establishes the internal controls that it considers are necessary to constitute a reasonable basis for the subject matter information. The assurance practitioner's preliminary understanding of the entity's reporting infrastructure and its elements provides input in determining whether the relevant preconditions for an assurance engagement are present, which would normally be closely related to the entity's reasons for scoping its reporting content in a certain manner.

32. With the uniqueness of each sustainability report, it is challenging to establish consistency in terms of reporting frameworks; reporting policies and procedures; reporting systems and controls and governance and oversight. It is our understanding that the intention is not for the preparer to implement a complex reporting system and that, for example, a system based on spreadsheets and some level of supporting records may suffice. This perspective around the reality in the current environment of entities' reporting infrastructures as it pertains to the preparation and reporting of sustainability information should be recognised and clarified in the Proposed SAAEPS.
33. In conclusion, the Proposed SAAEPS could be clearer on how the concept of reporting infrastructure is related to the practitioner determining whether the preconditions for an assurance engagement are present. Expanding on the concept of reporting infrastructure in the context of the role and responsibilities of the reporting entity and clarifying that the existence of a reporting infrastructure is not a precondition in itself, will contribute to addressing the concerns as noted above. It should be clear that a preliminary understanding of the reporting infrastructure assists the practitioner in establishing whether the relevant preconditions for a particular assurance engagement are present, as elaborated later in the practice statement. Also refer to our response to questions 6 and 7, below, which relate more specifically to the practitioner's evaluation of the entity's reporting infrastructure as part of determining whether a proposed assurance engagement has a rational purpose.

3. Is the content of this proposed SAAEPS within the requirements of the preconditions for sustainability assurance engagements?

34. From a technical point of view, we are satisfied that the content of the Proposed SAAEPS is within the requirements of the preconditions for sustainability assurance engagements.
35. As indicated in relation to question 2, above, we believe that the proposed SAAEPS clearly describes its scope in terms of only addressing certain aspects of the preconditions for an assurance engagement, while also emphasising throughout that the practitioner is required to determine whether all of the preconditions as required in terms of ISAE 3000 (Revised) are present.

4. Do any of the other relevant considerations contained in paragraphs A56 of ISAE 3000 (Revised) in determining whether the sustainability engagement has a rational purpose need to be considered in this proposed SAAEPS?

36. The relevant considerations in assessing whether the assurance engagement has a rational purpose are pooled together in the same application and other explanatory



material paragraph of ISAE 3000 (Revised)<sup>12</sup>. As indicated in paragraph 12 of the Proposed SAAEPS, the process to establish whether the preconditions for an assurance engagement are present is not linear. An individual consideration cannot necessarily be singled out; each of the matters addressed in paragraph A56 of ISAE 3000 (Revised) must be considered both individually and collectively in determining whether the engagement has a rational purpose.

37. In the deliberations of the Working Group, the concern was raised whether the exclusion of certain considerations dilute the considerations contained in paragraph A56 of ISAE 3000 (Revised) being assessed individually and collectively in forming a conclusion regarding rational purpose.
38. On the other hand, another important matter to consider is the fact that the relevant considerations included in ISAE 3000 (Revised) relating to the assessment of whether the engagement has a rational purpose or not is not an exhaustive list<sup>13</sup>. This could support the decision to only address certain of the considerations which are perceived to be relevant in providing practical assistance to practitioners.
39. In conclusion, it is our view that practitioner's overall understanding of the rational purpose precondition may be enhanced if all of the considerations contained in ISAE 3000 (Revised)<sup>14</sup> in determining whether the sustainability assurance engagement has a rational purpose at least be mentioned in the Proposed SAAEPS. Our suggested structure to clarify the interaction between paragraph A56 of ISAE 3000 (Revised) and the Proposed SAAEPS is as follows:
- Include a paragraph highlighting that although paragraph A56 of ISAE 3000 (Revised) includes a list of relevant considerations for the practitioner to consider in determining whether the assurance engagement has a rational purpose, this is not an exhaustive list. These matters should be considered individually and collectively; no individual consideration may necessarily indicate that the engagement has or does not have a rational purpose. The practitioner should apply professional judgement in evaluating the impact of the relevant considerations in the circumstances of a proposed assurance engagement;
  - Include the six relevant considerations contained in paragraph A56 of ISAE 3000 (Revised) as preamble to the detailed guidance, highlighting that these are the suggested considerations, individually and collectively, that assist the practitioner to determine whether the assurance engagement has a rational purpose;
  - Include a paragraph that explains that in practice the evaluation of two of these considerations are particularly challenging, namely whether aspects of the subject matter information are expected to be excluded from the assurance engagement and the reason for their exclusion, and who selected the criteria to be applied to measure or evaluate the underlying subject matter;
  - The Proposed SAAEPS is therefore aimed at providing practitioners with guidance on these two particular considerations;
  - The CFAS Task Group could also consider contextualising the six considerations upfront by briefly expanding on each in the context of reported sustainability information, before continuing with the detailed guidance on the two particular

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<sup>12</sup> ISAE 3000 (Revised), paragraph A56

<sup>13</sup> ISAE 3000 (Revised), paragraph A56 (extract): In determining whether the engagement has a rational purpose, relevant considerations may include the following: ...

<sup>14</sup> ISAE 3000 (Revised), paragraph A56

considerations as identified. For example, how each of the six considerations may be encountered in a sustainability reporting context and how it may either positively or negatively impact the rational purpose evaluation.

5. Considering the scope of this proposed SAAEPS, the requirements, application and other explanatory material contained in ISAE 3000 (Revised) concerning this scope, has anything relevant been omitted from this proposed SAAEPS?

40. Other than the comments included in response to question 4 above, no other requirements pertaining to the preconditions for an assurance engagement as contained in ISAE 3000 (Revised) were identified as having been omitted from the Proposed SAAEPS.

6. Do you agree with the approach taken in the guidance contained in this proposed SAAEPS with regards to evaluating whether an engagement has a rational purpose?

7. Can you suggest an alternative approach that recognises – but still complies with ISAE 3000 (Revised) – that reporting entities are in varying stages of maturity in respect of generating/preparing sustainability information?

41. In this comment letter, we have combined our response to question six and question seven in the paragraphs that follow.

42. It is recommended that the Proposed SAAEPS clarify that the three areas included in paragraph 53 of the Proposed SAAEPS<sup>15</sup> do not represent preconditions in themselves, but rather provides the context in terms of which the practitioner would understand how the reporting entity generates reporting content and decides on the external assurance that is required. These areas would normally be closely related to the reasons for defining the subject matter at a certain level, why aspects may be excluded for reporting purposes and why certain aspects of the subject matter information may be excluded from the assurance engagement. Professional judgement is required in relation to the reasons provided by the reporting entity; the mere fact that an aspect has been excluded does not necessarily prevent the engagement from having a rational purpose.

43. It is further recommended that the Proposed SAAEPS clarify that the items included in paragraph 53 of the Proposed SAAEPS represent three common areas around which a practitioner would obtain a preliminary understanding, but that this is not an exhaustive list.

*Exclusion of aspects of the subject matter information from the assurance engagement and the reason for their exclusion*

44. The reporting entity, specifically management and, where appropriate, those charged with governance are responsible for the selection, preparation and presentation of the sustainability information in accordance with the identified measurement or evaluation criteria that have also been selected or developed by them. In the current environment, there are generally no formal legal or statutory requirements relating to the preparation and presentation of sustainability information and therefore, the sustainability report content is at the discretion of the reporting entity. Similarly, management and, where

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<sup>15</sup> This include underlying subject matter; entity context and sound reporting infrastructure.

appropriate, those charged with governance will determine the need to obtain external assurance on the reported sustainability information or aspects thereof.

45. The question that was raised is whether the proposed assurance engagement falls short in satisfying the rational purpose characteristic if the preparer is only seeking assurance of certain aspects of the reported sustainability information. It is our view that this is not necessarily the case. The preparer may have good reason for excluding certain aspects from the scope of the assurance engagement, which may be related to the maturity of its reporting infrastructure and the availability of certain information; or the use of a combined assurance model<sup>16</sup> where the reporting entity obtains internal assurance on certain aspects of the sustainability information and may not wish to duplicate effort and cost in this regard. Nevertheless, such an assurance engagement may still have a rational purpose.
46. To this end, the pertinent issue is that the practitioner must be satisfied with the reasons of the reporting entity for excluding certain aspects of the subject matter information from the scope of the assurance engagement. If the practitioner, in applying professional judgement concludes that the reasons for excluding certain aspects of the subject matter information are sound in the circumstances and that the sustainability report is not misleading to the intended users with regard to the sustainability activities relevant to the entity, this consideration in relation to establishing whether the assurance engagement has a rational purpose is likely to be satisfied. It is recommended that the Proposed SAAEPS clarify this.
47. The CFAS Task Group may also wish to consider how more emphasis could be placed on the reasons for excluding certain aspects of the subject matter information from the assurance engagement (if applicable) as part of the “Questions to consider” in this section of the Proposed SAAEPS.

*Who selected the criteria to be applied to measure or evaluate the underlying subject matter*

48. With respect to the selection of the criteria to be applied to measure or evaluate the underlying subject matter, ISAE 3000 (Revised)<sup>17</sup> indicates that the assurance engagement is more likely to have a rational purpose if the intended users selected or were involved in selecting the criteria.
49. An important point that needs to be highlighted is that this consideration is not about the involvement or non-involvement of intended users per se, but rather about the nature and level of their involvement in the selection of the criteria to be applied, or the manner and extent to which the needs of the intended users were taken into account in the selection or development of the criteria. We do, however acknowledge that the less involvement of the intended users in this process, the more relevant the application of the practitioner’s professional judgement in relation to the degree and impact of management bias on considering the rational purpose becomes.

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<sup>16</sup> King IV includes recommended practices with respect to the governing body of an entity being satisfied that a combined assurance model is applied to cover effectively the entity’s significant risks and material matters through a combination of assurance service providers and functions as appropriate for the entity’s circumstances (King IV, Governance Principles 15). Therefore, a reason for excluding certain aspects of the subject matter information from the assurance engagement may relate to the reporting entity’s evaluation that these aspects are sufficiently covered by other elements of its combined assurance model.

<sup>17</sup> ISAE 3000 (Revised), paragraph A56

50. To this end, it is recommended that the following wording be included into paragraph 52 of the Proposed SAAEPS:

*In the case of reporting sustainability information in the current environment, management would normally select the criteria but this would not preclude the rational purpose characteristic from being satisfied because it depends on how this criteria was selected. However, the less involvement of the intended users in this process, including considering the manner and extent to which the needs of the intended users were taken into account in the selection or development of the criteria, the more relevant the application of the practitioner's professional judgement in relation to the degree and impact of management bias on considering the rational purpose becomes.*

51. In order to ensure alignment and consistency, paragraph 67 should be updated to include the following:

“... It follows that a reporting policy and procedure with high level involvement from the intended users, and with a transparent due process, will provide higher levels of certainty to the practitioner that such a reporting policy and procedure has the potential to generate relevant and reliable-complete reported information. Conversely, the lower the level of involvement from the intended users, the more relevant and the higher the focus would be on considering the degree and impact of management bias on a reporting policy and procedure. These reporting policies and procedures will also need to ...”

52. There may be a misconception that in the case of general purpose sustainability reporting, unless there is a formal standard setting process that is followed in the development of a general purpose reporting framework, where an organisation that is authorised or recognised to promulgate standards, develop a reporting standard by following an established and transparent due process involving deliberation and consideration of the views of a wide range of stakeholders<sup>18</sup>, it is unlikely that the intended users will be involved in selecting the criteria. It is easier to understand that in the case of special purpose sustainability reporting, it is more likely that the intended users would or could be more directly involved in the selection or development of the criteria.
53. It is our understanding that although the intended users of general purpose sustainability reports may not be involved in the actual selection of the measurement or evaluation criteria, reporting entities undertake outreach activities and stakeholder engagements to identify matters relating to sustainability that are relevant to these stakeholders (i.e. decision-useful). The information obtained from such outreach activities and engagements is then used to inform the selection or development of criteria to be applied in measuring or evaluating the underlying subject matter.
54. The manner and extent to which the reporting entity has followed a process to engage with stakeholders in obtaining information that informs the selection or development of the measurement or evaluation criteria applied, is relevant to this consideration in paragraph A56 of ISAE 3000 (Revised) in relation to establishing whether the assurance engagement has a rational purpose.

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<sup>18</sup> ISAE 3000 (Revised), paragraph A49

*Concluding on rational purpose*

55. The following suggestions were made with respects to paragraph 73 of the Proposed SAAEPS:

- The first sentence makes reference to *the three areas above*. Although reference is made to paragraphs 54 to 72, at face value it is not clear whether the three matters being referred to are underlying subject matter, entity context and sound reporting infrastructure, or rational purpose, underlying subject matter and suitability of criteria. It is recommended that the three areas be listed in this paragraph to eliminate any uncertainty;
- The use of the word *required* creates the impression that this is a requirement and as indicated in the introduction to the explanatory memorandum, this Proposed SAAEPS does not establish new requirements or contain exemptions from the requirements of ISAE 3000 (Revised). It is recommended that this paragraph be linked to the requirement as it is contained in paragraph 24 of ISAE 3000 (Revised); and
- It is also recommended that the information contained in footnote 30 be included in the body of the Proposed SAAEPS to provide further clarity.

56. With respect to paragraph 76 of the Proposed SAAEPS, some members of the Working Group expressed the view that there seems to be a step missing between the practitioner concluding that certain aspects of the subject matter information are excluded from the scope of the assurance engagement and concluding on whether the assurance engagement has a rational purpose, namely that the practitioner should establish the reasons for their exclusion. This is closely related to our comments under the heading “*Exclusion of aspects of the subject matter information from the assurance engagement and the reason for their exclusion*”, above. We propose that the CFAS Task Group consider how paragraph 76 of the Proposed SAAEPS could be reworded to convey that the key principle in this regard is not whether or not certain aspects of the subject matter information have been excluded per se, but rather that the practitioner applies professional judgement in determining whether the reasons for excluding certain aspects of the subject matter information are sound in the circumstances and that the sustainability report is not misleading to the intended users with regard to the sustainability activities relevant to the entity.

57. Paragraph 77 of the Proposed SAAEPS was also subject to debate at the Working Group meeting. The reference to *reporting on a particular operation* was not clear. The two views of the Working Group were:

- This includes specific information relating to the underlying subject matter, for example the preparer and the related reporting systems are up to speed with reporting on environmental matters but are nowhere in terms of social matters. They would therefore report on environmental matters but exclude social matters; or
- This relates to sites/locations included or excluded in producing specific subject matter information.

It is suggested that the Proposed SAAEPS clarify this.

58. To the extent that this relates to sites/locations included or excluded in producing specific subject matter information, the relevance of this paragraph was questioned. It was the view of the Working Group that a KPI, for example, must be measured as a whole and therefore sites/locations cannot be excluded from the relevant subject matter information. There may be exceptions to this general rule, which would also need to be highlighted. An example of such exception would include when the preparer has been reporting on specific subject matter information for many years and now they acquire a new operation that does not have the reporting systems capable of generating relevant and reliable information.
59. Paragraph 77 of the Proposed SAAEPS in essence introduces a principle of “exclude, but disclose”. That is, if certain aspects of the subject matter information have been excluded from the reported sustainability information, then there should be clear disclosure of the facts and the reasons surrounding this decision. The question is whether this does not impose a requirement that would otherwise not be present. For example, if a reporting entity indeed excluded certain aspects of the subject matter information, with sound reasons, but does not disclose such reasons in the sustainability report, would this preclude the rational purpose characteristic from being satisfied? Although disclosure would clearly represent good practice and enhance transparency, is it a requirement? It is also not clear whether this may be linked to the reporting entity’s disclosure of its measurement or evaluation criteria. As mentioned above, there are a number of uncertainties around the intention and message of paragraph 77. It is important that the CFAS Task Group reflect on the questions that have been raised and provide clarification as may be required.

8. Does the practical example (paragraphs 40-48 of this proposed SAAEPS) provide sufficient appropriate guidance on the terms underlying subject matter and subject matter information, so that the use of the terms throughout this proposed SAAEPS is understandable?

60. The Working Group noted that the information included in paragraphs 40 to 48 of the Proposed SAAEPS omits a discussion of the purpose of sustainability reporting. If the purpose for sustainability reporting is understood, the practitioner and intended users will readily be able to identify the underlying subject matter, will understand the measurement or evaluation criteria that are applied in generating the subject matter information, the intended users will be clearly identifiable and the format of reporting will be clear.
61. It is recommended that the Proposed SAAEPS be expanded to include the purpose for sustainability reporting. In this regard there are two perspectives that should be covered, namely the purpose of sustainability reporting in general, linked to the definition of sustainability and why reporting entities prepare and report sustainability information, as well as the a specific reporting entity’s purpose for reporting identified sustainability information in the context of its external reporting of information to stakeholders, either for general purpose or special purpose.
62. The description of the nature of sustainability information as contained in paragraphs 25 to 33 of the Proposed SAAEPS provides the context for properly understanding the examples in paragraphs 40 to 48 of the Proposed SAAEPS. Our comments relating to question 2, included in paragraphs 14 to 33 of this comment letter, are also of relevance here.

63. In this context, there was also a concern around the use of the term *generally* in paragraph 41 of the Proposed SAAEPS.
64. With respect to the question on whether the practical examples provide sufficient clarity on the terms underlying subject matter and subject matter information, it is our recommendation that Figure 1 of the Proposed SAAEPS be expanded to include examples of each of the levels in the actual diagram. These examples should be contextualised in relation to sustainability reporting and it should be clarified that sustainability information encapsulates both quantitative and qualitative information.
65. Another recommendation made at the Working Group was to include examples throughout the Proposed SAAEPS where they are relevant so that the reader does not need to page back to be reminded of the examples that were mentioned in earlier sections. This may also enhance a general sense that the Proposed SAAEPS is providing practical guidance in applying ISAE 3000 (Revised) in the specific context of sustainability information included in an entity's sustainability report.

9. Do the definitions and explanations provided for scoping and measurement or evaluation criteria support or contradict your current understanding of their application in ISAE 3000 (Revised)?

66. The term measurement or evaluation criteria is used in the definition of *engagement circumstances*<sup>19</sup>. This is also appropriate in the context of *criteria* and *measure or evaluate* as used throughout ISAE 3000 (Revised).
67. The term *scoping criteria* is not used in ISAE 3000 (Revised). However, it is consistent with our understanding of the relevant requirements and application material in ISAE 3000 (Revised), taking cognisance of the purpose for its introduction in the Proposed SAAEPS, namely to emphasise the distinction between determining the reporting content and the aspects of the subject matter information to be assured, and the measurement or evaluation of these aspects of the underlying subject matter, as well as the acknowledgement through discussion in various instances in ISAE 3000 (Revised)<sup>20</sup> of *aspects* of the underlying subject matter or subject matter information. We are also aware that the concept of *scoping* the assurance engagement and the criteria in relation thereto are used in the public sector environment in South Africa in terms of the audits of reported information on predetermined objectives performed by the Auditor General.
68. We are therefore satisfied that the definitions and explanations provided for scoping criteria and measurement or evaluation criteria support our understanding of their application in ISAE 3000 (Revised).

10. Does this proposed SAAEPS provide sufficient appropriate guidance of the term criteria so that the use of the term throughout this proposed SAAEPS is understandable?

69. In paragraph 44 of the Proposed SAAEPS, reference is made to measurement or evaluation criteria. During the Working Group discussions, a question around measurement or evaluation criteria relating to presentation and disclosure was raised.

<sup>19</sup> ISAE 3000 (Revised), paragraph 12(d)

<sup>20</sup> For example, refer to ISAE 3000 (Revised), paragraphs A2, A19, A36, A44 and A56.

70. Based on the application and other explanatory material included in ISAE 3000 (Revised)<sup>21</sup>, suitable criteria include, when relevant, criteria for presentation and disclosure. It is our recommendation that the Proposed SAAEPS clarify this in its definition of measurement or evaluation criteria.

11. Do the practical examples, questions to consider and the flowchart provide sufficient assistance to the practitioner in meeting the objective of this proposed SAAEPS?

#### *Practical examples*

71. There was a recommendation that the examples included in the Proposed SAAEPS should also recognise that the sustainability information as presented, for example, in relation to a selected KPI, would (or could) include both quantitative and qualitative information. Please refer to our response to question 8 included in paragraphs 60 to 65 above for additional comments relating to the practical examples.

#### *Questions to consider*

72. In relation to the questions included for the practitioner to consider, our understanding is that the purpose of the questions is to merely prompt the practitioner's thinking and illustrate application. During the Working Group discussion it was observed that there is a risk of misinterpretation or misunderstanding in this regard. The two main concerns in this regard are indicated below.
73. The first concern is whether these questions are intended or considered to be complete. It was the view of the Working Group that these questions are not exhaustive.
74. The second concern is whether the inclusion of a set of questions in a practice statement, that is authoritative in nature, may create the impression that these are compulsory and effectively impose additional requirements. The emphasis of the *NO answers* in paragraph 11 of the proposed SAAEPS may be exacerbating such perception. For example, the interpretation may be that a majority of *NO answers* necessarily lead to a conclusion that the preconditions for an assurance engagement are not present, whereas it is clear from some of the questions that the reasons for either a YES or a NO answer would have to be considered in the circumstances.
75. It is recommended that the Proposed SAAEPS provide clarity with respect to these matters, thereby preventing any misconceptions relating to the intention behind including the questions. The CFAS Task group should also consider whether it is necessary to formulate all of the questions in such a way to require either a YES or a NO answer; for example, where the reporting entity does not have a formal process for the selection or development of reporting policies and procedures (questions 12 to 20 in the Proposed SAAEPS), the follow-up question may be *What processes or practices have management implemented to achieve the requirements of effective reporting policies and procedures?*

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<sup>21</sup> ISAE 3000 (Revised), paragraph A10; A45.



### Flowcharts

76. We have no specific comments on the flowchart included in Appendix B of the Proposed SAAEPS.

12. Do you agree with the guidance provided on documentation in this SAAEPS? If not, why? Can you suggest an alternative approach?

77. The purpose of the Proposed SAAEPS is to provide practical assistance to practitioners in applying the concepts of an umbrella standard, i.e. ISAE 3000 (Revised) to a specific type of engagement, i.e. a sustainability assurance engagement. The scope of the Proposed SAAEPS relates to assisting the practitioner in understanding the rational purpose, the appropriateness of the underlying subject matter and the suitability of criteria. A question posed during the Working Group meeting was, why additional guidance on preparing appropriate documentation is required because this is included in ISAE 3000 (Revised) already and is not considered to be complex. The reason for such question may be related to how this section has been worded in the Proposed SAAEPS, which is addressed in the paragraphs that follow.

78. As indicated in the introduction to the explanatory memorandum, this Proposed SAAEPS does not establish new requirements or contain exemptions from the requirements of ISAE 3000 (Revised). However it may be interpreted differently, as follows:

- Paragraph 107 of the Proposed SAAEPS includes an adaption of the requirements contained in paragraph 79(a) of ISAE 3000 (Revised) in that it replaces the requirement for the nature, timing and extent of the procedures performed to comply with *relevant ISAEs and applicable legal and regulatory requirements* with a requirement to comply with the *Proposed SAAEPS*. This could create the impression that the Proposed SAAEPS is introducing its own requirement. It is recommended that the Proposed SAAEPS does not adapt requirements of ISAE 3000 (Revised) but rather includes this as presented in the standard and/or provide practical assistance in terms of how the requirement would be applied;
- Paragraph 108 of the Proposed SAAEPS, in our view does introduce new requirements in that it states that documentation includes a record of the considerations and conclusions made by the practitioner, *supplemented by the practitioner's collective responses to the series of questions discussed in paragraph 11 above*. It is our understanding that the purpose for including the questions is to merely prompt the practitioner's thinking and illustrate application and not to serve as a checklist that the practitioner is required to complete. It is recommended that this part of the sentence is deleted from paragraph 108.

79. With the exception of the matters noted in paragraph 78 above, the remaining paragraphs included under documentation<sup>22</sup> are merely extracts from ISAE 3000 (Revised), which raises a question around the need for this section.

80. Having said that, paragraph 109 of the Proposed SAAEPS highlights that documentation includes a record of the practitioner's reasoning on all significant matters that require the exercise of professional judgement. It is our view that it will be useful for the Proposed SAAEPS to expand on the meaning of *significant matters that require professional judgement*. The application and other explanatory material contained in ISAE 3000

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<sup>22</sup> Proposed SAAEPS, paragraphs 109 to 111

(Revised), where it indicates that documentation may include a record of, for example conclusions reached regarding the acceptance and continuance of client relationships and assurance engagements can be referred to here<sup>23</sup>.

## **SECTION 2: RESPONSE TO REQUEST FOR GENERAL COMMENTS**

### **Level of Authority**

81. In terms of Section 1 of the Auditing Profession Act, No. 26 of 2005 (the Act), a South African Practice Statement is included in the definition of “auditing pronouncements” and in terms of the Act, the auditor must, in the performance of an audit as defined, comply with those standards, practice statements, guidelines and circulars developed, adopted, issued or prescribed by the Regulatory Board.
82. The level of authority of the Proposed SAAEPS was debated at length during the Working Group meeting. With respect to sustainability assurance engagements, some members of the Working Group expressed a concern in issuing authoritative guidance because there are too many variables and interpretations within the current environment of preparing and assuring sustainability information to enable the issue of anything other than non-authoritative guidance. This relates to aspects such as the availability of sound reporting frameworks, the maturity of reporting systems and processes, the information needs of intended users and materiality considerations, to name a few.
83. It was also noted that based on the IAASB’s project proposal: Guidance on Key Challenges in Assurance Engagements Over EER, the guidance issued in relation to EER will be non-authoritative.
84. SAICA appreciates the challenge that the Proposed SAAEPS is aiming to address as it has been articulated in the explanatory memorandum to the exposure draft, namely that the *Acceptance and Continuance – Preconditions for the Assurance Engagement* phase of the assurance engagement is challenging and is applied inconsistently in practice. This is the reason why we have supported the development of a practice statement as this project has progressed and where we have had occasion to provide input. However, it would be remiss from us not to draw attention to the concern that has been raised during the Working Group meeting.
85. An alternative that was mentioned is that the Proposed SAAEPS initially be issued as non-authoritative to test the practical application of the guidance. Once the market has become familiar with the guidance, tested the practical application thereof and the market has time to mature, the IRBA can reconsider the issue of this guidance in the form of a practice statement.

### **Other suggested changes**

Reference	Extract from the Proposed SAAEPS	Comment/Suggested change
1	As appropriate in the entire text of the Proposed SAAEPS	There are various references throughout to “accurate, relevant and complete”, as well as “relevant and complete”.  We propose that this should change to “relevant and reliable” throughout the Proposed SAAEPS because reliable encapsulates validity, accuracy and completeness.

<sup>23</sup> ISAE 3000 (Revised), paragraph A197 (extract)

Reference	Extract from the Proposed SAAEPS	Comment/Suggested change
2	Paragraph 5	<p>The evaluation referred to in paragraph 1 above forms part of the <i>Acceptance and Continuance – Preconditions for the Assurance Engagement</i> phase of the assurance engagement. On the basis of a preliminary knowledge of the engagement circumstances, the practitioner is required to establish whether the preconditions for an assurance engagement set out in paragraphs 24-26 of ISAE 3000 (Revised) are present.</p> <p>In the interest of ensuring that the Proposed SAAEPS remains closely aligned to ISAE 3000(Revised), it is suggested that paragraph 5 be reworded as follows:</p> <p>As part of the <i>Acceptance and Continuance – Preconditions for the Assurance Engagement</i> phase of an assurance engagement, ISAE 3000 (Revised) requires the practitioner to establish whether the preconditions for an assurance engagement are present, on the basis of a preliminary knowledge of the engagement circumstances and discussion with appropriate parties. The three characteristics referred to in paragraph 1 above are some of the characteristics that the engagement needs to exhibit in determining whether the preconditions set out in ISAE 3000 (Revised) are met.</p> <p>Include a footnote for the reference, being to ISAE 3000 (Revised), paragraphs 24 to 25.</p>
3	Paragraph 6	<p>First sentence:  However, this SAAEPS deals with only certain aspects of this phase in determining whether the engagement exhibits, among others, the following characteristics:</p> <p>Suggested wording to replace the first sentence of paragraph 6 is as follows:</p> <p>This SAAEPS only deals with the following characteristics that are considered during this phase in determining whether the preconditions for an assurance engagement set out in ISAE 3000 (Revised) are present:</p>
4	Paragraph 11	<p>Furthermore, a NO answer or lack of information may mean that certain aspects of the preconditions of the sustainability assurance engagement dealt with in this SAAEPS, together with consideration of the other preconditions outside of the scope of this SAAEPS, are not present.</p> <p>Suggested correction to this sentence of paragraph 11:</p> <p>Furthermore, a NO answer or lack of information may <del>mean</del> <u>indicate</u> that certain aspects of the preconditions of the sustainability assurance engagement dealt with in this SAAEPS, together with consideration of the other preconditions outside of the scope of this SAAEPS, are not present.</p>
5	Paragraph 14	<p>In exceptional circumstances, the practitioner may judge it necessary to depart from certain aspects of this</p> <p>It is suggested that paragraph 14 of the Proposed SAAEPS be expanded to include the information contained in ISAE 3000 (Revised), paragraph</p>

Reference		Extract from the Proposed SAAEPS	Comment/Suggested change
		SAAEPS. In such circumstances, the practitioner is required to perform alternative procedures to achieve the aim of those aspects of this SAAEPS	<p>18, which indicates that the need for the practitioner to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and in the specific circumstances of the engagement, that procedure would be ineffective in achieving the aim of the requirement.</p> <p>The “adaptation” of a requirement of the standard may be misinterpreted as implying that new requirements have been established and this is not the objective of the Proposed SAAEPS. Reconsider the need for this paragraph in the SAAEPS or, alternatively, the manner in which it is worded.</p>
6	Paragraph 16	... of the assurance engagement for periods beginning on or after 15 December 2018.	<p>Suggested wording to be added to the end of this sentence of paragraph 16:</p> <p>... of the assurance engagement for <u>reporting</u> periods beginning on or after 15 December 2018.</p>
7	Paragraph 19, introductory sentence	The following concepts are relevant to the guidance provided in this SAAPS:	<p>Suggested wording to be added to the end of this sentence of paragraph 19:</p> <p>, and are each elaborated in paragraphs 20 to 48 below:</p>
8	Paragraph 27	Monetary information may be instances where that type of information is...	<p>Suggested wording to improve this sentence of paragraph 27:</p> <p>Monetary information may be instances where <u>that type of information in monetary terms</u> is...</p>
9	Paragraph 27	...key performance indicators (KPI) on training spend or rehabilitation costs.	<p>Suggested wording to add to paragraph 27:</p> <p>...key performance indicators (KPI) on training spend or rehabilitation costs <u>and any narrative disclosures related thereto.</u></p>
10	Paragraph 36	Reporting policies and procedures are developed by management to implement...	As discussed in paragraph 65, reporting policies and procedures generate the applicable criteria, with which we agree. ISAE 3000 (Revised) refers to the <i>selection or development</i> of criteria. Suggested

Reference		Extract from the Proposed SAAEPS	Comment/Suggested change
			<p>wording to add to this sentence of paragraph 36:</p> <p>Reporting policies and procedures are <u>selected or</u> developed by management to implement...</p>
11	Paragraph 44, bullet on scoping criteria	...This will typically be considered as part of the rational purpose assessment.	<p>Suggested change to wording of this sentence of paragraph 44:</p> <p>...This will <del>typically</del> <u>generally</u> be considered as part of the rational purpose assessment.</p>
12	Paragraph 44, bullet on measurement or evaluation criteria	...This will typically be considered as part of the suitability of criteria assessment.	<p>Suggested change to wording of this sentence of paragraph 44:</p> <p>...This will <del>typically</del> <u>generally</u> be considered as part of the suitability of criteria assessment.</p>
13	Paragraph 47	n/a	<p>This paragraphs refers to criteria. The question that was raised is whether the criteria being referred to here is the same as the reporting policies and procedures that is referred to in paragraphs 65 to 67. It is our view that these are one in the same thing.</p> <p>It is suggested that the Proposed SAAEPS provide clarity on this.</p>
14	Paragraph 51	... that the practitioner needs to consider in the generation of reporting content...	<p>Suggested wording to add into this sentence of paragraph 51:</p> <p>... that the practitioner needs to consider in <u>relation to the reporting entity's</u> the generation of reporting content...</p>
15	Paragraph 53	...these two considerations...	<p>It is not clear what <i>two considerations</i> are being referred to here. Reference is made to paragraph 6, where there are three matters listed, namely:</p> <ul style="list-style-type: none"> <li>• rational purpose;</li> <li>• the appropriateness of the underlying subject matter; and</li> <li>• the suitability of criteria;</li> </ul> <p>and 52, where there are two matters listed, namely:</p> <ul style="list-style-type: none"> <li>• whether aspects of the subject matter information are expected to be excluded from the assurance engagement ...; and</li> </ul>

Reference		Extract from the Proposed SAAEPS	Comment/Suggested change
			<ul style="list-style-type: none"> <li>who selected the criteria to be applied to measure or evaluate the underlying subject matter ...</li> </ul> <p>It would appear that the intension is to refer to the two considerations in paragraph 52. This should be clarified.</p>
16	Paragraph 54	n/a	We suggest that a reference to ISAE 3000 (Revised), paragraph A56 be added in here.
17	Paragraph 55	The underlying subject matter is the phenomenon that is measured or evaluated by applying criteria and may be one...	<p>Suggested wording to add into this sentence of paragraph 55:</p> <p>The underlying subject matter is the phenomenon that is measured or evaluated by applying criteria <u>(resulting in the subject matter information)</u> and may be one ...</p>
18	Paragraph 57	Without a clearly defined underlying subject matter, the selection of criteria...	<p>Suggested wording to add into this sentence of paragraph 57:</p> <p>Without a clearly defined underlying subject matter, the <u>selection or development</u> of criteria...</p>
19	Paragraph 58	n/a	<p>The purpose for the inclusion of this paragraph is not clear. The manner in which this is written can easily be misunderstood to align with risk assessment procedures, which is part of the planning stage of the audit and not a precondition for an assurance engagement.</p> <p>We appreciate that a general or basic understanding (i.e. preliminary knowledge) of the entity context is relevant for purposes of determining whether the preconditions for an assurance engagement are present, but this paragraph should not be misinterpreted as creating additional requirements. Therefore, it needs to be clear on the actual level of understanding that is required.</p>
20	Paragraph 62	, it is largely up to the reporting entity to develop reporting policies and procedures...	<p>Suggested wording to add into this sentence of paragraph 62:</p> <p>, it is largely up to the reporting entity to <u>select or</u> develop reporting policies and procedures...</p>

Reference	Extract from the Proposed SAAEPS	Comment/Suggested change
21 Paragraph 64	Defining processes to measure certain areas of performance.	Suggested wording to add into this sentence of paragraph 64:  Defining processes to measure <u>or evaluate</u> certain areas of performance.
22 Question 11, first bullet point	Are the following areas embedded in the reporting framework(s):  <ul style="list-style-type: none"> <li>Engagement of stakeholders to determine their information needs?</li> </ul>	It is our view that this is a step undertaken in establishing a reporting framework and not an area that should be embedded in the framework.  It is suggested that this be included as a question on its own.
23 Question 11, last bullet point	Defining processes to measure certain areas of performance?	Suggested wording to add into this sentence of question 11:  Defining processes to measure <u>or evaluate</u> certain areas of performance?
24 Paragraph 65	...reporting policies and procedures are developed by management to implement a reporting framework...	Suggested wording to add into this sentence of paragraph 65:  ...reporting policies and procedures are <u>selected or</u> developed by management to implement a reporting framework...
25 Paragraph 65	... also generate the necessary criteria that the practitioner will use to consider whether the reporting information is relevant and complete.	Please consider the factual accuracy of this statement, because the measurer or evaluator first and foremost uses the criteria.
26 Paragraph 67	The level of potential management bias in selecting reporting policies and procedures...	Suggested wording to add into this sentence of paragraph 67:  The level of potential management bias in selecting <u>or developing</u> reporting policies and procedures...  Please note the comments included in paragraph 51 of this comment letter that relate to paragraph 67 of the Proposed SAAEPS.
27 Question 12	Does the reporting entity have formal reporting policies and procedures around ...	Suggested wording to add into this sentence of question 12:  Does the reporting entity have <u>a formal process for the selection or development of reporting policies and procedures around:</u> <del>formal reporting policies and procedures</del>



Reference		Extract from the Proposed SAAEPS	Comment/Suggested change
			<del>around</del>
28	Introductory sentence to questions 13 to 20	For each of the reporting policies and procedures identified...	Suggested amended wording to this introductory sentence:  For each of the <del>reporting policies and procedures</del> <u>aspects</u> identified...
29	Question 14 and 15	Both these questions refer to “the development of the reporting policy”	Suggested wording to add into the relevant sentences of questions 14 and 15:  ... in the <u>selection or</u> development of the reporting policy?
30	Introductory sentence to questions 21 and 22	In the absence of a formal reporting policy, consider the following:	Suggested amended wording for this introductory sentence:  In the absence of a formal <del>reporting policy</del> <u>process as referred to above</u> , consider the following:
31	Question 21	Do management explanations satisfy the requirements of an effective reporting policy?	Suggested amended wording for this sentence of question 21:  Do management explanations satisfy the requirements of <del>an effective reporting policy</del> policies and procedures?
32	Question 22	Are there processes that management has implemented?	Suggested wording to replace this sentence of question 22:  What processes or practices have management implemented to achieve the requirements of effective reporting policies and procedures?
33	Paragraph 68	...controls are used to gather, process and report sustainability information.	Suggested wording to add into this sentence of paragraph 68:  ...controls are used to gather, process, <u>record</u> and report sustainability information.  Paragraph 37 would need to be updated accordingly.
34	Paragraph 70	... The practitioner’s consideration of the effectiveness of less robust or less mature reporting systems and controls may prove challenging and require higher levels of professional judgment.	A question was raised as to how this impact on client acceptance? A statement is made but no practical guidance is given on how this impacts the practitioner. It is suggested that this paragraph be expanded to include the implications to the practitioner.



Reference	Extract from the Proposed SAAEPS	Comment/Suggested change
35 Paragraph 72	The governing body and management should formalise their responsibilities by developing practices to be adopted in regard to approving reporting frameworks to be used ...	<p>Suggested correction to the wording of this sentence of paragraph 72:</p> <p>The governing body <u>or board of the entity</u> <del>and management</del> should formalise their responsibilities by <u>establishing the reporting purpose</u>; developing practices to be adopted in regard to approving reporting frameworks to be used; ...</p> <p>This equates to principle 5 of King IV which relates to the governing body or the board of the entity and not management.</p> <p>Furthermore, it is not just about developing practices, it is also about developing the purpose for reporting and whose information needs sustainability reporting intends to satisfy.</p>
36 Paragraph 72	...external reports meet the information needs of material stakeholders.	It is our suggestion that the reference to <i>stakeholders</i> should be consistent throughout. For example, the term <i>major stakeholders</i> is used in paragraph 21.
37 Paragraph 72, Footnote 29	King IV Report on Corporate Governance for South Africa 2016, Part 5.2, Strategy, Performance and Reporting, Principle 5 Reporting Recommended Practices.	<p>Suggested wording to add into footnote 29:</p> <p>King IV Report on Corporate Governance for South Africa 2016, Part 5.2, Strategy, Performance and Reporting, Principle 5 Reporting Recommended Practices. <u>This would include where certain aspects are covered by other elements of the combined assurance model.</u></p>
38 Paragraph 74	..., and the reporting entity's reasons for excluding the information.	<p>Suggested wording to add into this sentence of paragraph 74:</p> <p>..., and the reporting entity's reasons for excluding <del>the information</del> <u>any aspects of the subject matter information from the scope of the assurance engagement.</u></p>
39 Paragraph 77	<p>... The assurance engagement may have a rational purpose if there are:</p> <ul style="list-style-type: none"> <li>• Clear disclosures in the sustainability report ...</li> </ul>	<p>Suggested correction to this sentence of paragraph 77:</p> <p>The assurance engagement may have a rational purpose if <del>there are</del>:</p> <ul style="list-style-type: none"> <li>• <u>There are</u> clear disclosures in</li> </ul>

Reference		Extract from the Proposed SAAEPS	Comment/Suggested change
			the sustainability report ...
40	Paragraph 79	The process of establishing whether the sustainability assurance engagement has a rational purpose provides the context within which the practitioner evaluates the appropriateness of the underlying subject matter and the suitability of the criteria applied in the preparation of the subject matter information included in a reporting entity's sustainability report, and on which the practitioner has been requested to conduct an assurance engagement (within the assurance scope).	<p>The meaning and purpose of this paragraph is not clear. It is recommended that this paragraph be restructured to more closely align with and reinforce the message in paragraph 12 of the Proposed SAAEPS, as follows:</p> <p>Rational purpose of the assurance engagement (addressed in paragraphs 50 to 72 above), the appropriateness of the underlying subject matter (addressed in paragraphs 81 to 84 below) and the suitability of criteria (addressed in paragraphs 85 to 99 below) are considered individually and collectively as part of the preconditions for a particular sustainability assurance engagement (together with the other preconditions for an assurance engagement that are beyond the scope of this SAAEPS). The practitioner's consideration of every precondition contributes to the context for the consideration of the others.</p>
41	Paragraph 84	...In applying the two requirements to this example, the illustration is as follows:	<p>Suggested wording to add into this sentence of paragraph 84:</p> <p>...In applying <del>the</del> <u>these two interrelated</u> requirements to this example, the illustration is as follows:</p>
42	Paragraph 84, 1 <sup>st</sup> bullet point	... However, if the reporting entity requests the practitioner to, for example, assure a statement that reporting entity X has the highest level of customer satisfaction in its industry, the identifiability of the underlying subject matter is challenging. In this case, the practitioner does not have enough information to identify the actual underlying subject matter. The practitioner will have trouble identifying the specific aspect of customer satisfaction that can be said to be better than reporting entity X's competitors.	<p>Suggested changes to the wording of this sentence of paragraph 84:</p> <p>... However, if the reporting entity requests the practitioner to, for example, assure a statement that reporting entity X has the highest level of customer satisfaction in its industry, the identifiability of the underlying subject matter <del>is</del> <u>may be</u> challenging. In this case, the practitioner <del>does</del> <u>may</u> not have enough information to identify the actual underlying subject matter. The practitioner <del>will</del> <u>could have trouble difficulty in</u> identifying the specific aspect of customer satisfaction that can be said to be better than</p>

Reference	Extract from the Proposed SAAEPS	Comment/Suggested change
		reporting entity X's competitors <u>(i.e. one entity's definition of customer satisfaction compared to that of another entity)</u> .
43	Question 26	<p>Is there an appropriate methodology or basis to measure or evaluate the underlying subject matter, or is it disputed (i.e. resulting in subject matter information that can be subjected to procedures to obtain sufficient appropriate evidence to support the assurance conclusion)?</p> <p>Suggested wording to replace this sentence of question 26:</p> <p>Is there an appropriate methodology or basis to measure or evaluate the underlying subject matter, resulting in subject matter information that can be subjected to procedures to obtain sufficient appropriate evidence to support the assurance conclusion, or is it disputed?</p>
44	Question 26	<p>Are there qualitative versus quantitative, objective versus subjective, historical versus prospective, and do they relate to a point in time or cover a period aspect of the subject matter information?</p> <p>Suggested changes to the wording of this sentence of question 26:</p> <p>Are there qualitative versus quantitative, objective versus subjective, historical versus prospective <u>aspects to the subject matter information</u> and do they relate to a point in time or cover a period <del>aspect of the subject matter</del> information?</p>
45	Paragraph 89	<p>Sustainability information can be used in a variety of reporting formats, ...</p> <p>Suggested wording to correct this sentence of paragraph 89:</p> <p>Sustainability information can be <del>used</del> presented in a variety of reporting formats, ...</p>
46	Paragraph 91, 2 <sup>nd</sup> bullet point	<p>Is the prescribed format of the reporting framework similar to the format of the intended subject matter information?</p> <p>This can be confusing, since it is not clear what "format of the reporting framework" refers to. Suggested wording to clarify this sentence of paragraph 91:</p> <p>Is the prescribed format of subject matter information prepared in accordance with the reporting framework similar to the format of the reporting entity's intended subject matter information?</p> <p>It would also be necessary to update question 30 (the questions included after paragraph 97) to align with this wording.</p>
47	Paragraph 94	<p>The considerations made in the rational purpose assessment on the stakeholder</p> <p>Suggested amendments to paragraph 94:</p>

Reference		Extract from the Proposed SAAEPS	Comment/Suggested change
		engagement, reporting materiality determination, scope of what could be reported on and reporting policy (refer to paragraphs 50-72 above) assist the practitioner in assessing whether the reporting policy on measurement or evaluation is sufficiently robust to produce suitable internally developed criteria.	The considerations made in the rational purpose assessment <del>on the stakeholder engagement, reporting materiality determination, scope of what could be reported on and reporting policy</del> (refer to paragraphs 50-72 above) assist the practitioner in assessing whether the reporting <del>policy on measurement or evaluation</del> <u>is policies and procedures are</u> sufficiently robust to produce suitable internally developed criteria.
48	Paragraph 95	A well-designed due process in developing a reporting policy with the involvement of intended users should consider these characteristics. Ideally, the reporting policy for measurement or evaluation of the underlying subject matter should illustrate how each of the characteristics of suitable criteria are satisfied for each individual piece of underlying subject matter (e.g. related to the selected KPIs) that contains internally developed (or adapted) criteria.	Suggestion to improve the wording in paragraph 95:  A well-designed due process in developing <del>a reporting policy</del> <u>reporting policies and procedures</u> with the involvement of intended users should consider these characteristics. Ideally, the reporting <del>policy</del> <u>policies and procedures</u> for measurement or evaluation of the underlying subject matter should illustrate how each of the characteristics of suitable criteria are satisfied for each <del>individual piece</del> <u>aspect of the</u> underlying subject matter (e.g. related to the selected KPIs) that contains internally developed (or adapted) criteria.
49	Question 34	Are the criteria available to the intended user?	Suggested wording to add into question 34:  Are the <u>measurement or evaluation</u> criteria available to the intended user?
50	Question 35	Is the design of the criteria described sufficiently to produce relevant and complete subject matter information?	Suggested wording to add into question 35:  Is the design of the <u>measurement or evaluation</u> criteria described sufficiently to produce relevant and <del>complete</del> <u>reliable</u> subject matter information?
51	Paragraph 98	In assessing the suitability of measurement or evaluation criteria, the characteristics of relevance, completeness, reliability, neutrality and understandability need to be considered ...	Suggested wording to add into paragraph 98:  In assessing the suitability of measurement or evaluation criteria, the characteristics of relevance, completeness, reliability, neutrality and understandability need to be

Reference	Extract from the Proposed SAAEPS	Comment/Suggested change
		considered <u>(refer to paragraph 86 above)</u> ...
52	Paragraph 99, first bullet on relevance	<p>In this example, the relevant measure or evaluation is the resolution of the complaints to the acknowledged satisfaction of the customer, which is relevant since it measures or evaluates the resolution of the complaints to the acknowledged satisfaction of the customer. ...</p> <p>Suggestion to improve the wording of this sentence in paragraph 95. Replace with the following:</p> <p>In this example, it would be relevant to measure or evaluate customer satisfaction by way of the resolution of complaints to the acknowledged satisfaction of the customer, since it provides decision-useful information about customer satisfaction. ...</p>
53	Paragraph 99, first bullet on relevance	<p>... However, if the measure or evaluation was the number of returned calls to aggrieved customers, this is unlikely to be a relevant measure or evaluation because a return call may not have completely resolved the complaint.</p> <p>Suggested wording to add into this sentence of paragraph 98:</p> <p>... However, if the measure or evaluation was the number of returned calls to aggrieved customers, this is unlikely to be a relevant measure or evaluation because a return call may not have completely resolved the complaint <u>and would therefore not provide decision-useful information about customer satisfaction.</u></p>
54	Paragraph 99, fifth bullet on understandability	<p>To reach a conclusion on the understandability characteristic, the practitioner needs to match the information needs of intended users to the complexity of the measurement or evaluation. ...</p> <p>Suggested wording to add into this sentence of paragraph 99:</p> <p>To reach a conclusion on the understandability characteristic, the practitioner needs to match the information needs of intended users to the complexity of the measurement or evaluation; <u>i.e. whether the resulting subject matter information can be understood by users, including that it is not presented and disclosed in such a way that it could adversely affect the user's interpretation and understanding of the message being communicated. ...</u></p>
55	Introductory sentence to questions 36 to 40	<p>With reference to the reporting entity's reporting policies (or equivalent): ...</p> <p>Suggested correction to this introductory sentence:</p> <p>With reference to the reporting entity's <u>reporting policies (or equivalent) measurement or evaluation criteria</u>: ...</p>
56	Question 36	<p>Are the criteria relevant in relation to the underlying</p> <p>Suggested wording to add to question 36:</p>

Reference		Extract from the Proposed SAAEPS	Comment/Suggested change
		subject matter?	Are the criteria relevant in relation to the underlying subject matter in <u>providing subject matter information that assists decision making by intended users?</u>
57	Question 38	Is the design of the criteria highly likely to result in consistent measurement?	Suggested wording to add to question 38:  Is the design of the criteria highly likely to result in consistent measurement <u>or evaluation of the underlying subject matter?</u>
58	Question 40	Are the criteria communicated clearly and not subject to significantly different interpretations by users?	Suggested wording to add to question 40:  Are the criteria communicated clearly and not subject to significantly different interpretations by users <u>and do the criteria result in subject matter information that can be understood by users?</u>
59	Paragraph 100	Based on the practitioner's understanding obtained of the appropriateness of underlying subject matter and suitability of criteria applied assessment above (paragraphs 79-99), ...	Suggestion to improve the wording of this sentence of paragraph 100:  Based on the practitioner's understanding obtained <u>during step 1, appropriateness of underlying subject matter and step 2, suitability of criteria, above, of the appropriateness of underlying subject matter and suitability of criteria applied assessment above</u> (paragraphs 79-99), ...
60	Paragraph 103	..., the practitioner can accept or continue the sustainability assurance engagement.	Suggested wording to add to this sentence of paragraph 103:  ..., the practitioner can accept or continue the sustainability assurance engagement, <u>subject to any other acceptance and continuance considerations applied in accordance with the practitioner's or firm's quality control policies and procedures, and as required in terms of ISAE 3000 (Revised) paragraphs 21 to 30.</u>  The bottom left block of the flowchart in Appendix B of the Proposed SAAEPS would have to be updated accordingly.

	Reference	Extract from the Proposed SAAEPS	Comment/Suggested change
61	Paragraph 105	However, the practitioner could assess a new assurance scope provided by the reporting entity ...	Suggested wording to clarify this sentence of paragraph 105:  However, the practitioner could assess a new assurance <del>scope</del> <u>engagement (with a new scope)</u> provided by the reporting entity ...
62	Paragraph 106	n/a	It is suggested that reference to ISAE 3000 (Revised) paragraphs 79-83; A193-A200 be included here.