



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 6

Meeting Date: 16 April 2019

Subject: EER Assurance – Issuance of Phase 1 EER Consultation Paper – IAASB
Seeking comments by 21 June 2019

Date Prepared: 8 April 2019

Prepared By: Marina Michaelides

Action Required

For Information Purposes Only

Agenda Item Objectives	AUASB SMEs
<p>The objectives of this Agenda Item on the EER Phase 1 guidance:</p> <ol style="list-style-type: none">1. Highlight some key areas in the guidance for consideration by the AUASB2. AUASB to provide feedback on the questions raised by the ATG, the IAASB and overall comments/observations on the Phase 1 draft to inform the AUASB submission.	Marina
<p>1. Update on IAASB EER Task Force Work</p> <p>The IAASB EER Task Force, with input from the Project Advisory Panel (PAP), issued the Phase 1 consultation paper on 1st March on 6 of the assurance challenges identified below:</p> <ul style="list-style-type: none">• Materiality (Challenge 3)• Assertions (Challenge 4)• Criteria (Challenge 2)• Maturity of Governance (Challenge 5)• Narrative Information (Challenge 6); and• Addressing Narrative and Forward-looking information (Challenge 7). <p>The Phase 1 guidance was approved at the IAASB Board meeting held by teleconference on 31 January 2019, and issued on 8 February 2019.</p> <p>Stakeholders are being asked to provide their feedback to the IAASB by 21 June 2019 which will allow a summary of comments to be completed for the July EER Taskforce meeting with the view to a more detailed analysis of comments coming back to the IAASB September 2019 meeting.</p> <p>This is an interim consultation on draft guidance to assist the IAASB in updating and completing the non-authoritative guidance in Phase 2. An exposure draft of the completed document will be published for public comment in early 2020 with the aim to publish the final guidance in late 2020.</p> <p>The AUASB has previously submitted to the IAASB in February 2017 in response to the</p>	

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Discussion Paper <i>Supporting Credibility and Trust in Emerging Forms of External Reporting</i> .	
<p>2. Proposed AUASB plan and Outreach for submission on EER CP Phase 1:</p>	
<p>The ATG have prepared an issues paper for the AUASB April meeting (see below) and a draft submission will come to the AUASB June meeting for approval.</p>	
<p>Proposed Outreach</p>	
<p>Outreach on the EER Phase 1 CP is to be targeted (invite only) discussion groups (Melbourne and Sydney) made up of key practitioners/stakeholders that are undertaking engagements in the EER space. Jo Cain as a member of the IAASB EER PAP and our Board member sponsor for EER will be involved in any outreach coupled with Nick Ridehalgh – KPMG who is also a member of the EER PAP.</p>	
<p>The suggested approach above for feedback on the Phase 1 EER guidance is consistent with the approach taken by the NZAuASB. The main difference being that the NZAuASB are not planning to undertake any formal planned outreach at this stage, other than communicating to stakeholders via the website that the guidance is open for comment and referencing feedback received at the IAASB EER roundtables held in November 2018. NZAuASB and AUASB will review any feedback received from the IAASB outreach sessions.</p>	
<p>AUASB and NZAuASB staff held initial discussions about key areas to discuss with the respective Boards on the 25th March 2019.</p>	
<p>3. Phase 1 EER Non Authoritative Guidance – Consultation Paper</p>	
<p>Key Issues to consider:</p>	
<p>Overall Comments</p>	
<p>3.1 The guidance is quite lengthy. To make the guidance more useful, we would suggest limiting where possible, repetition of ISAE 3000 but rather concentrating on the examples and practical guidance on how to actually apply ISAE 3000 to EER. We recognise the importance of ISAE 3000 as the standard on which the guidance is based, but consider that an upfront statement that contextualises that this guidance is built on ISAE 3000 and should be read in conjunction with ISAE 3000 rather than repeating the standard throughout may reduce the length of the document and provide the most value for the practitioner. (Qn 2 in CP refer below)</p>	
<p>3.2 We fully support the use of examples and understand that these have improved over time, although consider that some of the examples could be strengthened, possibly by flowing one example throughout the document to provide a clear application of the concepts to EER. (For particular, the apple example in the supplementary material does not appear to relate to or assist in the application to EER.)</p>	
<p>It may also be useful to see financial reporting examples alongside non-financial reporting examples throughout the guidance to cater for the different background of assurance practitioners in the EER space and to explain the ISAE 3000 concepts in a more relatable form.</p>	
<p>Further areas in the guidance where more examples could be useful:</p>	
<ul style="list-style-type: none"> ○ Considering the System of Internal Control: <ul style="list-style-type: none"> ▪ Procedures and resources, for a)-f) in para 67. ▪ Different types of control activities listed in a)-d) of para 70. 	

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<ul style="list-style-type: none"> ▪ Governance oversight activities listed in a)-h) of para 71. ○ Determining Preconditions and Agreeing the Scope: Do we need para 47 a)-g) in addition to the diagram, or can the content in para 47 be integrated into the diagram? If para 47 remains, it could be enhanced with an example flowing through the stages. Could the greenhouse gas emissions of the entity be considered in terms of the contribution to climate change in comparison to peers in the sector? ○ Considering the Entity’s Materiality Process: Paragraph 164 would benefit from a couple of published examples, perhaps a best practice <IR> and a best practice Sustainability Report, showing how entities report their materiality process and the charts used to present their materiality results. <p>3.3 The guidance should only focus on the assurance practitioner’s role in an EER engagement. Exploring the preparers role in the guidance (e.g Chapter 8 – Diagram page 47, para 136-139), starts to blur the role of the assurance practitioner in these matters. It may be more useful if this information is also moved to the Appendix on contextual information.</p> <p>We have identified the following key areas to explore further:</p> <p>3.4 Is linking the preconditions and the system of internal control contradicting or conflicting with the requirements of ISAE 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information? Is the bar to meet the preconditions too high for EER engagements? (Qn 1, Qn 3 and Qn 4 in CP refer below)</p> <p>We have heard from IAASB roundtables in November 2018 that there is a general lack of understanding in the preparer community around controls and the preconditions for assurance. Where an entity voluntarily seeks assurance, they may be unsure of the need for controls and processes to support the EER, and therefore in practice, we understand that the current focus from assurance practitioners is in part the “assurance readiness” phase, working with clients as they develop their EER, to assist them to focus on developing systems that will be “assurable” in the longer term as well as provide better quality information.</p> <p>This is a costly exercise and may actually be a barrier for preparers when faced with voluntary reporting of EER. There may not be a declining cost over time either as reporting continuously evolves.</p> <p>In Australia the other areas of focus is primarily limited assurance engagements on tightly scoped metrics i.e. GRI metrics or sustainability reports.</p> <p>A key message that the IAASB have previously reiterated is that the assurance process should not be a barrier to innovation and should encourage preparers on the journey of EER rather than inhibit innovation in this space.</p> <p>The assurance practitioner is required to determine that they expect to be able to obtain sufficient evidence and whether the preconditions are present may depend on the extent to which the entity’s system of internal control is adequate and capable of developing information that can be verified, i.e. one must expect to be able to obtain the evidence needed to support the conclusion and there to be a rational purpose for the engagement. Therefore, we would support that this be included in the guidance and that this is not in conflict with ISAE 3000 (Revised).</p> <p>It will be a challenge to meet the preconditions for many EER assurance engagements due to the immaturity of data collation processes and reporting systems, as well as the lack of internal controls. The draft guidance provides some useful context on the performance of assurance</p>	

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<p>readiness engagements in paragraphs 50-53. If a practitioner undertakes an assurance readiness engagement, they are typically moving into a developmental role and the issue of independence may be raised. Hence, their ability to continue in the role of assurance provider once assurance is sort may be questioned.</p> <p>3.5 Is the delineation between the preconditions for an assurance engagement and performing the engagement clear? (Qn1 and Qn 2 in CP refer below)</p> <p>The distinction between what falls within assessing the “precondition” based on preliminary knowledge as opposed to performing detailed walk throughs or testing (i.e., the knowledge needed to make a complete assessment) is unlikely to be able to be made without starting to perform some detailed work which is a practical challenge. Performing work to understand the control systems (walk through procedures) is not typically done as part of the acceptance of an engagement in practice. This is part of performing the assurance engagement.</p> <p>The focus on the ‘assurance readiness’ work is therefore a useful addition to the guidance (para 50-53) since the previous drafts discussed by the AUASB. However, it is not clear where no assurance readiness work is performed, as to when this work would be performed i.e. on ‘preconditions’ or ‘engagement performance and testing’. We suggest that this delineation could be clarified in the guidance, to cater for types of EER where the ‘assurance readiness’ type of engagement are not practicable.</p> <p>An overarching comment would be that the guidance on the preconditions seems to set a very high barrier to accepting an assurance engagement. Practically, when we consider that the practitioner may be unlikely to be able to reach a final conclusion on the suitability of the criteria, understand the materiality process and identify whether the internal control system is robust enough to be able to provide the evidence needed to conclude, until the practitioner has actually started to gain the understanding and do a system walk through that is traditionally performed as part of the assurance engagement.</p> <p>We consider that the guidance may need to recognise even further that preparers are on a journey to evolve their reporting, and that the assurance practitioner needs to be able to evolve their methodology and procedures alongside them. As an entity moves from ‘readiness’ to ‘assurance’ some of the measures reported may not be assurable and some may not. It may however not be as clear as accepting and scoping the engagement accordingly, but rather may be more appropriate to report on this journey. This is something that may be best dealt with under the ‘Preparing the Assurance Report’ in Phase 2, i.e., by encouraging the assurance practitioner to include recommendations and findings in the assurance report.</p> <p>If a readiness assessment is not performed separately, in many instances it is unclear how a practitioner would practically be able to determine whether the preconditions have been met, based only on a preliminary knowledge. Examples of where we consider that the delineation between ‘precondition’ and ‘the work performed as part of the assurance engagement’ could be made clearer are in the following paragraphs in the consultation paper:</p> <ul style="list-style-type: none"> • Response where the Preconditions are not Present para 75-78 • Reliability of underlying data and source information – para 107 • Changes to criteria – para 117 • Consider process to prepare subject matter information – para 128 	

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3.6 Is the distinction between materiality and materiality process clear and do you consider that it is useful to have a separate chapter on the suitability of the criteria and the materiality process? (Qn1, Qn 2, Qn 3 and Qn 5 in CP refer below)

Indicative feedback at the IAASB EER roundtable discussions in November 2018 highlighted mixed views on whether identification of ‘what to report on’ is linked to materiality. Separating the terms and highlighting the difference between ‘materiality’ and ‘materiality process’ is helpful. The chapter on the ‘materiality process’ aims to provide practitioners through considering an entity’s ‘materiality process’, first by reviewing the context of the process and then reviewing the results of the process. Where this is applicable to the engagement, this would be part of the practitioner determining whether the criteria are suitable.

However there remains the matter that if a significant matter is omitted, then this may result in a material misstatement depending on the scope of the engagement. This cannot be limited to just a precondition for the engagement, but may be a conclusion after performing the assurance procedures.

The guidance in Phase 2 on performance materiality will be challenging for EER. The NZAuASB experience with SPI Information identified that it is difficult to conclude on overall SPI information, as well as whether a material misstatement exists within one measure. These matters are not mutually exclusive. Coverage of financial materiality thresholds may assist, relating to percentage error may help assurance practitioners to understand this area.

3.7 Do you agree that the additional papers contain further helpful information and that they should be published alongside the final guidance? (Qn 6 in CP refer below)

The ATG found the information in the Four Key Factor Model for Credibility on page 77 very useful and would support its publication alongside the guidance.

The ATG found the material in the Background and contextual information section on page 72 to be confusing. It is unclear how much of this information will assist a preparer. If this material is published we would recommend that the examples are changed and that it is very clearly articulated how this guidance will assist them.

- The AUASB is asked for views on:**
- a. the emphasis on internal controls in the guidance and whether you consider this to be consistent or contrary to ISAE 3000;**
 - b. the delineation between preconditions and performing the assurance engagement;**
 - c. the distinction between materiality and materiality process**
 - d. the helpfulness of additional papers in Appendix 1 – Background and Contextual Information and Four Key Factor Model for Credibility and Trust in relation to EER**
 - e. any specific comments on IAASB questions as noted below; and**
 - f. any general comments / observations on the Phase 1 guidance to inform the AUASB submission.**

IAASB Questions to Respondents

Questions to Respondents Question	Specific ‘Significant Matters’ Highlighted for Respondent Consideration
Q1) Does the draft guidance adequately address the challenges for practitioners that have been	Paragraphs 9-15 (scope of draft guidance) Paragraph 25 (preconditions and the system of internal control)

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identified as within the scope of the draft guidance developed in phase 1? If not, where and how should it be improved?	Paragraph 29 (suitability of criteria) Paragraph 33 ('materiality processes') Paragraph 35 (materiality of misstatements) Paragraph 40 (assertions) Paragraph 41 (narrative and future-oriented information)
Q2) Is the draft guidance clear and easy to understand, including through the use of examples and diagrams, and the way terminology is used? If not, where and how should it be improved?	Paragraphs 16-17 (examples, diagrams and terminology) Paragraph 34 (term 'materiality process') Paragraphs 37 and 40 (assertions)
Q3) Do you support the proposed structure of the draft guidance? If not, how could it be better structured?	Paragraph 18 (structure)
Q4) Do you agree that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised), and that the draft guidance does not introduce any new requirements?	Paragraphs 19-21 (relationship with ISAE 3000 (Revised)) Paragraphs 24 and 26 (linking preconditions and the system of internal control) Paragraph 36 (assertions)
Q5) Do you agree with the way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised)?	Paragraphs 19-21 (matters not addressed in ISAE 3000 (Revised) and including details on the preparer's role and 'materiality processes') Paragraphs 24 and 26 (linking preconditions and the system of internal control) Paragraph 36 (assertions)
Q6) Do you agree that the additional papers contain further helpful information and that they should be published alongside the non-authoritative guidance document?	Paragraphs 42-45 (additional papers)
AUASB influencing activities	
<ul style="list-style-type: none"> • AUASB Board Member contributing directly as a member of the IAASB EER PAP (Jo Cain). • NZAuASB Board Member contributing directly as a member of the IAASB EER Task Force (Lyn Provost). • AUASB Chair and IAASB Board member and Technical Director to attend all IAASB meetings and participate in the ongoing discussions about Phase 2 and Phase 1 submissions when these are presented at the September IAASB meeting. • AUASB will conduct two targeted outreach sessions in Melbourne and Sydney in May 2019 to provide feedback to the AUASB to inform the response to the EER Phase 1 CP. 	
Next steps / milestones for this project	
<ul style="list-style-type: none"> • Phase 2 drafting and discussion will continue with meetings of the Task Force scheduled throughout 2019. • Task force are hoping to incorporate comments from submissions on the EER Phase 1 CP for their Taskforce meeting in July 2019 with a view to bringing the revised guidance back to the September IAASB meeting. 	

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Material Presented

- Agenda Item 6 AUASB Board Meeting Summary Paper
- Agenda Item 6.1 [EER Assurance – IAASB Consultation Paper \(Feb 2019\)](#)
- Agenda Item 6.2 Attachment: Comments received on each chapter (Jo Cain)

Action Required

No.	Action Item	Responsibility	Due Date
1.	Provide feedback to ATG on key areas raised, IAASB Questions and overall comments on EER Phase 1 guidance.	AUASB	16 April 2019
