AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	**3(b)**
Meeting Date:	13 June 2018
Subject:	EER Assurance Project Update
Date Prepared:	6 June 2018

[X] **Action Required**   [ ] **For Information Purposes Only**

Agenda Item Objectives	AUASB SMEs

1. Update on the work of the IAASB EER Task Force on the ten key EER assurance challenges.
2. Draft AUASB feedback (for comment) on IAASB Board Papers on the EER assurance challenges tackled thus far:
   o Issues Paper (IAASB Agenda Item 4).
   o Materiality Framework (IAASB Agenda Item 4A).
   o Criteria & Assertions Guidance Skeleton (IAASB Agenda Item 4B).
3. Update on other AUASB work on EER assurance.
	Jo / Marina

1. Update on IAASB EER Task Force Work

The IAASB EER Task Force, with input from the Project Advisory Panel (PAP), has begun work on the assurance challenges listed below, constituting Phase 1 of the project:
- 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).

Most progress has been made with the first 3 assurance challenges listed above, namely materiality, criteria and assertions, via an Issues Paper (IAASB Agenda Item 4), Materiality Framework (Agenda Item 4A) and Criteria & Assertions Guidance Skeleton (Agenda Item 4B). Included in the papers are extracts from early drafts of the non-authoritative guidance which the TF is developing (Agenda Item 4A and 4B).

The final form of the guidance has not yet been decided but one option is an international practice note, which may be divided into two sections, namely practical application guidance for practitioners; and other relevant background information.

Auditing and Assurance Standards Board, Podium Level 14, 530 Collins Street, Melbourne, VIC, 3000
Telephone: +61 3 8080 7400, E-mail: enquiries@auasb.gov.au, Web site: www.auasb.gov.au

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2.   Draft AUASB Feedback (for comment)

Overall comments

- Rather than developing one draft Guidance on EER Assurance Challenges, the current approach of developing an Issues Paper, a Framework and a Guidance Skeleton is potentially confusing and inefficient. Instead, it is envisaged that draft Guidance would evolve over time as a work in progress as the EER assurance challenges are progressively addressed.
- The current draft documents stray into guidance relevant to Report preparers, rather than assurance practitioners. Hence, regularly ensuring that the drafting process is focused on the intended end user of the guidance is important. For example, the Issues Paper starts with content on EER users and content, when perhaps succinct background on what represents EER, EER Frameworks and the progress with EER assurance to-date would be sufficient?

Terminology

- *Consistent terminology:* Use of consistent terminology.
- *Avoid new terminology:* Avoid introducing new terminology (e.g. "subject matter elements") – as there is already potentially too much jargon in this field.
- *Use ISAE 3000 terminology:* Where possible – this is familiar to many assurance practitioners and the guidance is being anchored to this standard – connectivity to ISAE 3000 comes through (e.g. paras 8 and 73 in the Issues Paper and para 3 in the Guidance Skeleton).

Connectivity between challenges

- *Connectivity between the challenges:* For example, linkage between the EER assurance challenges, criteria and assertions, and materiality is limited. One such example is provided below.
- *Materiality basis for Report subject matter:* This fundamental principle is important for any guidance on criteria. A robust materiality process determines the reporting entity's material issues, which are then core to the basis of their EER. Material issues are also then fundamental in assurance scope determination. There needs to be a link to the materiality process and material issues early in the Guidance Skeleton (paras1-2).

Framework neutrality

- *Framework neutrality is important:* Or at least inclusion of multiple examples of potentially applicable reporting frameworks – e.g. para 76 of the Issues Paper references GRI and SASB and could also reference the IIRC's <IR> Framework and the AccountAbility Standards. Again, in the chart in para 10 of the Issues Paper, the Capitals (<IR> Framework) could be referenced as well as Categories and Issues as well as Topics.

Use of examples to aid practitioners

- *Frequent presentation of examples – financial and EER:* Financial reporting is robust, hence presenting financial reporting examples alongside EER examples will add value for assurance practitioners. The Issues Paper starts in this direction with the chart on underlying subject matter, criteria and subject matter information (para 9). This chart could include the financial reporting examples and a similar diagram be presented below it with EER examples. This type of approach would add clarity in any subsequent guidance. Tabular presentation could also assist, such as:

Type of Reporting	Underlying Subject Matter Definition	Underlying Subject Matter Examples	Criteria Definition	Criteria Examples	Subject Matter Information Definition	Subject Matter Information Examples
Financial						
EER						

- *Work through EER examples:* This is exactly what assurance practitioners need, for example para 68 in the Issues Paper is a good start – however, this would represent a good opportunity to work through an EER example. Such as Intellectual Capital and Training within that.

- *Build assertions using ISAE 3000:* Paras 80 and 81 in the Issues Paper, in particular the diagram in para 81, and paras 19-21 in the Guidance Skeleton are on the right track by providing EER examples based on ISAE 3000 (*reliability, completeness, understandability, relevance* and *neutrality*). This could be taken further by:
  - Working through EER examples for capitals, such as natural/environment, social, human, intellectual, manufactured and financial. Additional assertions for the diagram in para 81 of the Issues Paper could include *Omissions* under *Completeness* (i.e. the assurance practitioner identifies a lack of completeness in the form of gaps in datasets or information omitted) and *Material Issues* under *Relevance* (a primary objective of a Report is to communicate to key stakeholders on the material issues).

Balance in reporting

- *Be explicit on neutrality:* Highlighting the need for balance through transparency and openness in reporting. Assurance practitioners will consider - is the bad news reported alongside the good? Are challenges presented as well as highlights? This is often not the case in EER (para 83 in the Issues Paper and para 20 in the Guidance Skeleton).

Specific comments on the Materiality Framework

Comments on the draft criteria and assertions content in the Issues Paper and Guidance Skeleton are incorporate above. The following comments relate specifically to the Materiality Framework:

- *Materiality has 3 Parts not 2 – include Assurance Scoping – this guidance is intended for the assurance practitioner, not the Report preparer:*
  - *Part 1: Materiality Process:* and how it feeds into Report content (subject matter).
  - *Part 2: Assurance Scoping:* based on materiality results.
  - *Part 3: Evaluation of Material Misstatements:* (in subject matter), omissions (completeness) and balance (transparency).
- *Part 1 diagram areas for improvement:*
  - This diagram has been improved in the latest draft. However, the assurance practitioner needs to review the preparer's materiality process and resultant material issues to determine the assurance scope, hence these two stages would be more logical in that order.
  - Reflect the 3 parts outlined above.
  - Focus on the role of the assurance provider – not the Report preparer.
  - The assurance provider performs 4 key roles in this order:
    1. *Review the Materiality Process:* undertaken by the Report preparer, alongside the outputs, to ensure that it is a robust process.
    2. *High Level Review of the Report Structure and Content:* at a high level, to ensure that the materiality results have formed the basis of the Report.
    3. *Establish the Assurance Scope:* based on the materiality results.
    4. *Evaluate Material Misstatements:* (subject matter), omissions (completeness) and balance (transparency). Review internal controls as part of this assurance process, including internal audit and governance processes.
- Order the main body of the guidance on materiality using the headings from the diagram in para 5.
- *Place context on Report purpose, users and content in an appendix:* as this is primarily the responsibility of the Report preparer, not the assurance provider. The assurance provider needs to have confidence that a robust materiality process has been undertaken and that the Report is based on the material issues. They can then establish the assurance scope based on the material issues and proceed to the evaluation of misstatements, omissions (completeness) and balance (transparency).

- *'Impact' and 'significance' are associated with sustainability reporting and the GRI:* can we find a word that is Reporting Framework neutral? Such as 'importance' to stakeholders in relation to:
    - Impact on environment, society or governance.
    - Value creation with respect to the six capitals, which include…..
  thus influencing their decisions in relation to the reporting entity.
- *Include examples of materiality content from Reports – materiality processes and matrices:* Given the potential confusion, would it be useful to provide examples of reported materiality processes and their outputs, typically materiality matrices? An example could be provided from a Sustainability Report, an Integrated Report, a Strategic Report and any other EER.

3. Update on Other AUASB Work on EER Assurance

- *Work with the Business Reporting Leaders Forum (BRLF):* Jo Cain presented at the recent BRLF meeting in Melbourne on IAASB EER Assurance work to-date and explored further engagement of a representative sample of stakeholders involved in EER via the BRLF. A session is planned prior to the IAASB EER Assurance Roundtable scheduled to take place in Sydney on 2 Nov 2018.
- *Work with other NSS on EER Assurance:* Roger Simnett to provide an update on recent meetings.

AUASB influencing activities

- AUASB Board Member contributing directly as a member of the IAASB EER PAP (Jo Cain).
- AUASB Technical Director to prepare briefing notes for distribution to Australasian IAASB members and AUASB Chair.
- NZAuASB Board Member contributing directly as a member of the IAASB EER Task Force (Lyn Provost) and feeding back to the AUASB.
- Also refer to the EER Strategic Project Outline.

Next steps / milestones for this project

- Feedback by IAASB EER PAP members at next scheduled PAP meeting.
- September IAASB Meeting – presentation of issues for remaining Phase 1 EER assurance challenges (5, 6 and 7) and review of draft guidance on all Phase 1 challenges.
- Regional Roundtables to be held around the world between October and November 2018. Sydney Roundtable scheduled for November 2nd 2018.

Action Required

No.	Action Item	Responsibility
1	Comments on the draft AUASB feedback provided above.	AUASB

Material Presented

Agenda Item 3(b)   AUASB Board Meeting Summary Paper

Agenda Item 3(b)(i)   EER Assurance – Issues Paper (IAASB Agenda Item 4)

                                       Materiality Framework (IAASB Agenda Item 4A)

                                       Criteria & Assertions Guidance Skeleton (IAASB Agenda Item 4B)