

**Meeting:** IAASB  
**Meeting Location:** New York, USA  
**Meeting Date:** September 17-21, 2018

## EER Assurance – Issues Paper

### Objectives of Agenda Item

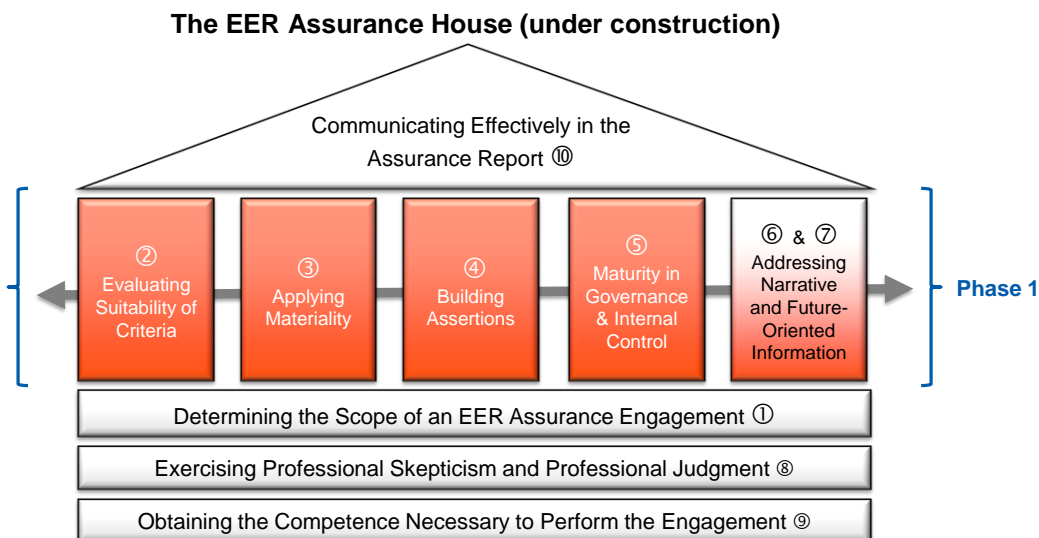
The objectives of this Agenda Item are to:

- Present the IAASB with the work of the EER Task Force to tackle the issues relating to the remaining phase 1 ‘challenges’ which were not discussed at the June 2018 meeting.
- Present a first draft of the phase 1 guidance under development by the EER Task Force.
- Receive feedback from the IAASB on the draft guidance prior to it being prepared as an exposure draft.

### Introduction and Overview of the Agenda Items

1. Since the June 2018 IAASB meeting, the Task Force has held a three-day meeting and developed a first draft of guidance addressing all the issues relating to the Key Challenges allocated to phase 1 of the project.

The Key Challenges are visualized in the EER Assurance House:



The challenges highlighted orange are those allocated to phase 1.

2. The issues relating to challenges 2, 3 and 4 were presented to the IAASB in June 2018. This issues paper summarizes the feedback received from the IAASB and explains how the Task Force has addressed the points raised. It then summarizes the issues which the Task Force has considered relating to challenge 5 and the aspects of challenges 6 and 7 which are allocated to phase 1 (those aspects of challenges 6 and 7 that are related to the other phase 1 issues).
3. In addition to this issues paper, Agenda item 7-A is the phase 1 draft guidance which the Task Force has developed to date. Following discussion at the June 2018 IAASB meeting, this has been prepared in the form of an International Assurance Engagement Practice Note (IAEPN) with two sections.
4. The board meeting discussions will follow the structure of the draft guidance (Agenda Item 7-A), addressing the questions presented to the IAASB set out below.
5. The Task Force is looking for the Board's input and feedback on the draft guidance. This will then be considered by the Task Force along with feedback from the Project Advisory Panel and participants at the Global Discussion Events. An updated draft will be presented at the December IAASB meeting in the format of an exposure draft. Following any revisions as a result of further Board feedback, the Task Force hopes to publish the exposure draft in January 2019.

#### **Matters for IAASB Consideration**

For each of the sections of draft guidance in Agenda Item 7-A, the IAASB is asked for its views on:

- Q1. Whether the Task Force has addressed issues related to the challenges allocated to phase 1 appropriately and sufficiently; and
- Q2. Whether the draft guidance is effective in assisting practitioners to address the issues related each of the challenges that were allocated to phase 1.

The IAASB is also asked for its views on:

- Q3. The structure of the draft guidance, including the use of two sections, diagrams and examples, and whether further examples may be needed and if so where in the guidance they would be most helpful; and
- Q4. What a suitable alternative term for 'Emerging forms of External Reporting' (EER) might be, considering that in future these forms of reporting will no longer be emerging. Some suggestions already received are listed on page 3.

## Summary of feedback received on issues presented in June 2018 and Task Force responses

### Generalized construct of an EER report and its relationship to assurance concepts

Feedback / issue raised at June 2018 IAASB meeting	Task Force response
How to show more clearly in the guidance how the concepts and terminology reconcile to widely used reporting frameworks, including traditional financial reporting, in order for practitioners to be able to apply the guidance easily to their circumstances.	The Task Force has attempted to improve this through using a wide range of examples in the guidance and explanatory material in Section II.
Whether there is a better alternative to the term ‘resources’ as proposed by the EER Task Force to describe underlying subject matter elements, especially given that it is intended to include elements such as an entity’s strategy or governance.	The PAP generally agreed with views expressed by the Board that the term ‘resources’ was not particularly helpful. The Task Force has reverted to the term ‘subject matter elements’, shortened to ‘elements’. This revision has received strong support from members of the PAP.
Whether use of the term ‘EER report’ will continue to be appropriate in the guidance when it would apply to forms of reporting that are established and no longer emerging.	<p>The Task Force agrees that the term ‘EER’ meaning ‘Emerging forms of External Reporting’ will cease to be appropriate at some point; a view shared by the PAP. The Task Force would welcome the Board’s views on an alternative term. Suggestions include (with [variants]):</p> <ul style="list-style-type: none"> <li>• external reporting</li> <li>• extended external reporting</li> <li>• broader [external] reporting</li> <li>• comprehensive reporting</li> <li>• non-financial statement reporting</li> <li>• environmental, social, governance and financial reporting</li> <li>• [external] accountability reporting</li> <li>• comprehensive accountability information</li> <li>• beyond financial reporting</li> <li>• overall picture reporting</li> </ul>

### Addressing Materiality for Diverse Information with Little Guidance in EER Frameworks (Challenge 3)

Feedback / issue raised at June 2018 IAASB meeting	Task Force response
To clarify the roles of criteria and materiality considerations in determining what is included in the report, and to explain the link between criteria and materiality.	The draft guidance explains the link between criteria and materiality – refer to paragraph 76.

Support for a clear separation of contextual information about the role of the report preparer from guidance for the assurance practitioner in applying ISAE 3000 (Revised), and to focus only on the latter in the practitioner guidance section of the IAEPN.	The IAEPN is being drafted in two sections, with the focus of Section I on practical application guidance for practitioners and contextual information in Section II. The guidance has also been updated in a number of places to make the roles of preparers and practitioners clearer.
To explain further how something could be considered material in some circumstances even though there is little evidence of interest by the intended users of the report, in the context of the diagram in paragraph 44 of the June 2018 issues paper.	This has been explained in paragraph 137 of the guidance.
That further detail is required as to whether accumulated misstatements would be material in the context of the report as a whole.	The Task Force has prepared further guidance on this topic and would welcome the IAASB's views on this – refer to paragraphs 207 to 212.

### Evaluating the Suitability of Criteria in a Consistent Manner (Challenge 2)

<b>Feedback / issue raised at June 2018 IAASB meeting</b>	<b>Task Force response</b>
Whether there is a need to explain further how criteria can be suitable, including displaying the characteristics required by ISAE 3000 (Revised), without stifling innovation in EER.	The Task Force has sought to address this concern in further developing the guidance in relation to the suitability of criteria. Further feedback on how successfully this has been achieved is welcomed.
Whether to include a brief introduction to each of the key challenges being addressed, as this would be a valuable addition to the guidance, and that the EER Task Force could also consider use of 'Q&A' in the guidance to address common concerns of practitioners.	The Task Force has adopted the suggestion of including an introduction at the start of each challenge. Further use of 'key questions' for practitioners to consider has also been adopted in some parts.
Whether further guidance is needed to address the challenges associated with the scope of an assurance engagement covering only part of an EER report, including the risk that information not subject to assurance may obscure material information which has been subject to assurance.	The Task Force acknowledges that this scenario creates challenges and plans to address this issue further as part of the 'Determining the Scope of an EER Assurance Engagement' which has been allocated to phase 2.
Whether more was needed in light of the importance of a practitioner applying professional skepticism when assessing the suitability of criteria, as well as wider ethical considerations relating to EER assurance engagements including the need for practitioners to have the appropriate skills.	The Task Force agrees with the importance of this and, in finalizing the phase 1 guidance, plans to develop some initial further guidance relating to this aspect of professional judgment and professional skepticism, which is one of the challenges allocated to phase 2.

**Building Assertions for Subject Matter Information of a Diverse Nature (Challenge 4)**

<b>Feedback / issue raised at June 2018 IAASB meeting</b>	<b>Task Force response</b>
The guidance should be clearer about what is meant by assertions, to avoid confusion with written representations by management, and more clearly describe the challenge that the guidance is seeking to address.	The latest draft of the guidance addresses this confusion – see paragraphs 149-150.
Further consideration of reporting under compliance frameworks is required.	The considerations of the Task Force to date on this topic are included in paragraphs 96 to 99 although the Task Force acknowledges further work is necessary in this area.

## **Lack of Maturity in Governance and Internal Control over EER Reporting Processes (Challenge 5)**

6. A lack of maturity in governance and internal control is primarily an issue for the practitioner to address when assessing whether they can accept or continue the engagement. If the engagement is accepted or continued, the practitioner's assessment may also have implications the practitioner's strategy for performing the assurance engagement.
7. ISAE 3000 (Revised) sets out seven preconditions for an assurance engagement in paragraph 24. Two relate to the suitability and availability of the criteria which are addressed in a separate section of the IAEPN. Paragraphs 20 to 48 of the draft guidance focus on three aspects of the remaining preconditions which are most affected by the level of maturity of governance and internal control:
  - a) The underlying subject matter is appropriate;
  - b) The roles and responsibilities are appropriate, in particular that the preparer is responsible for having a reasonable basis for the subject matter information; and
  - c) The practitioner expects to be able to perform procedures to obtain sufficient evidence to support their assurance conclusion.
8. In doing so, the IAEPN provides guidance bringing together the requirements relating to preconditions for assurance and relevant parts of existing application material from ISAE 3000 (Revised) in a way which the Task Force considers to be helpful for practitioners.
9. Practitioners are then encouraged to make a preliminary assessment of the entity's system of internal control following a structure which is broadly consistent with the ISA 315 (Revised) Exposure Draft, adapted to the circumstances of preparing and controlling the preparation of an EER report.
10. The draft guidance explains how an entity's reporting system, controls and oversight need to have developed to such a level which is appropriate in the circumstances of the entity in order to support an assurance engagement. Examples of each component of a system of internal control are provided to help practitioners assess whether the reporting system, controls and oversight are sufficiently mature such that the preconditions for assurance are present.
11. The Task Force acknowledges that the maturity of governance and internal control in relation to EER are generally considered to be low compared with financial reporting, and therefore wants to encourage an approach by practitioners that may drive efforts by preparers to improve and

strengthen these beyond simply what may be required to accept an assurance engagement. Practitioners can have a key role in this area through providing feedback to preparers. The Task Force has aimed to balance emphasizing the non-negotiable preconditions included in ISAE 3000 (Revised) with the present reality that EER is new and evolving for many entities such that reporting systems, controls and oversight may lack sophistication and formality. Further, the guidance has been drafted to acknowledge that experimentation and innovation by entities is to be encouraged as EER continues to evolve, so long as this does not undermine the quality of reports they issue.

12. The draft guidance in relation to this challenge is set out in paragraphs 20 to 48 of Agenda Item 7-A.

## **Obtaining Assurance of Narrative Information (Challenge 6) & Obtaining Assurance of Future-Oriented Information (Challenge 7)**

13. The guidance developed to address challenges 6 and 7 builds on the guidance to address other challenges allocated to phase 1 of the project. It is intended to assist practitioners in dealing with issues relating to narrative and future-oriented information when assessing the suitability of criteria, applying the concept of materiality and building assertions. It is therefore mainly structured to address considerations in doing so.
14. For both of these challenges, only the issues relating to other phase 1 challenges have been allocated to phase 1 of the project. Other issues for challenges 6 and 7, for example those relating to obtaining evidence, are to be addressed in phase 2.
15. Some of the issues relating to both narrative and future-oriented information are similar and overlap. The basic concept of an EER report apply equally to both these specific types of subject matter information. Narrative information and future-oriented information are also not mutually exclusive; narrative information may be either future-oriented or historically-oriented, and future-oriented information may be presented either in narrative or quantitative form.
16. A further example of the overlap is that both future-oriented and narrative subject matter information can relate to qualities of elements that may be directly observable or not. Factors such as this are likely to be as relevant as whether the information is narrative/numerical or historically/future-oriented. The Task Force's view is that the basic concepts presented in the draft guidance regarding assessing the suitability of criteria, reviewing and making materiality judgments, and building assertions are equally applicable for all types of subject matter information.

### *Narrative information*

17. The Task Force has explained in the guidance how narrative information may be either factual in nature or inherently subjective.
18. A key challenge in addressing both these types of narrative information is that there may be greater risk of ambiguity in the information presented, primarily due to the potential to use language that may not be sufficiently precise to unambiguously convey the outcome of an evaluation of a quality. As a result, it is particularly important for the practitioner to assess whether criteria that are to be used to develop narrative information are sufficiently reliable and understandable.



19. When narrative information results from a subjective evaluation or measurement, there is an increased risk of management bias in preparing subjective narrative information. As a result, considering whether the subject matter information is neutral and free from bias becomes a greater area of focus for an assurance practitioner.
20. The draft guidance in relation to this challenge is set out in paragraphs 160 to 174 of Agenda Item 7-A.

*Future-oriented information*

21. Despite earlier feedback that EER reports generally contain significantly more future-oriented information than financial statements, further research by the Task Force suggests that relatively limited future-oriented information is included in reports being produced today and is restricted to specific areas such as an entity's strategy, performance outlook and future risks/opportunities.
22. The draft guidance suggests two principal categories of future-oriented information; information which 'predicts' the future and information that communicates the entity's intended future actions or strategy. Following this, guidance is given for the practitioner working with future-oriented information in addressing issues relating to challenges 2, 3 and 4, as for narrative information.
23. A common area of concern of practitioners is that future-oriented information (particularly that type which predicts the future) is subject to significant levels of inherent measurement or evaluation uncertainty. While this is true, the nature of such uncertainty is not particularly different to measurement or evaluation uncertainty encountered in certain types of historically-oriented subject matter information, or that encountered in measuring accounting estimates of unobservable accounting values in financial reporting.
24. The draft guidance in relation to this challenge is set out in paragraphs 175 to 192 of Agenda Item 7-A.

## Appendix 1 – Project update and future meeting agenda topics

### Task Force

1. The Task Force members are listed on the [project page](#) on the IAASB website.
2. Three observers to Task Force meetings have been appointed; representatives from the World Business Council for Sustainable Development, the Corporate Reporting Dialogue, and Principles for Responsible Investment.
3. The Project Advisory Panel has 26 members, with good representation across stakeholder groups and global regions. It has met twice via web conference since the June 2018 IAASB meeting, providing very valuable feedback and input on the Task Force's work to date, both through member participation in the calls and off-line written comments.

### Plan for remaining Board Meeting in 2018

December 2018

- Feedback from global outreach events and updates to draft guidance
- Presentation of guidance in format for exposure draft

### Plan for remaining Task Force Meetings in 2018

October 9-10, 2018 (Tokyo)

- Respond to September 2018 Board feedback
- Preparation for global outreach events

November 13, 2018 (Conference Call)

- Discussion of feedback from outreach events

## Appendix 2 – Outreach

### Global Discussion Events

The Task Force is holding a series of global discussion (outreach) events in October and November 2018. The purpose is to obtain stakeholder feedback and input on the draft guidance produced, and to promote the work of the IAASB in this area ahead of issuing an exposure draft of the phase 1 guidance. All interested parties are invited and encouraged to attend an event most convenient to them. The locations and dates of the events are:

- New York (October 15, 2018)
- São Paulo (October 18, 2018)
- Johannesburg (October 23, 2018)
- Singapore (October 26, 2018)
- Auckland (October 30, 2018)
- Sydney (November 2, 2018)
- Brussels (November 8, 2018)

Full details are available on the [EER Project Page](#). In addition to the events listed above, members of the Task Force are meeting stakeholders in Tokyo during a number of private meetings.

### Outreach Activities to date

The Task Force and IAASB Staff have undertaken the following outreach activities since those previously reported at the June 2018 board meeting:

- Two web-conferences with the Project Advisory Panel (PAP) – to discuss the materials from the June 2018 board meeting and a draft of the guidance.
- Vancity – meeting with Tamara Vrooman, President & Chief Executive Officer, to discuss Vancity's approach to external reporting. Separate meeting held with representatives from the KPMG team providing assurance on Vancity's reporting.
- World Business Council for Sustainable Development (WBCSD) Assurance Working Group – provided an update on the project.
- International Integrated Reporting Council (IIRC) – discussion with Neil Stevenson regarding the draft guidance developed to date and further opportunities for collaboration.
- Global Reporting Initiative (GRI) – teleconference with Bastian Buck, Director Reporting Standard, regarding materiality and the draft guidance.
- IASB Management Commentary Practice Statement project – appointment of Marek Grabowski as IAASB's observer on the Consultative Group, and introductory call of the Consultative Group.

- New Zealand External Reporting Board – teleconference with Misha Pieters and Sylvia van Dyk to discuss the exposure draft of their ‘audit of service performance information’ standard.
- Australian Auditing and Assurance Standards Board – meeting with Roger Simnett, Chair, to discuss the project.
- Email correspondence and conference calls with various organizations and contacts to arrange the series of global discussion events.