AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	**4.7**
Meeting Date:	11 September 2019
Subject:	EER Assurance – Issues and Recommendations Phase 1 draft guidance. Phase 2 draft guidance.
Date Prepared:	3 September 2019
Prepared By:	Marina Michaelides

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

Agenda Item Objectives	AUASB SMEs
The objectives of this Agenda Item on EER are to provide an update on: 1. Issues and Recommendations from Phase 1 draft guidance CP 2. Phase 2 draft guidance	Marina & Jo

1.   Update on IAASB EER Task Force

> ➤ Submissions to the IAASB on EER CP closed on 21 June 2019.
> ➤ 52 Submissions were received by the IAASB

Phase 1 EER Non Authoritative Guidance – Consultation Paper

Key Issues noted in AUASB submission:

1. **Gain Momentum:** Move quickly in line with the evolving nature of EER and to harness its current momentum.
   > ➤ Phase 2 of IAPN is well underway with the remaining challenges: Scope, Narrative Information, Future Oriented Information and Preparing the Assurance Report in development and feedback being sought at Sept IAASB meeting.
   > ➤ EER TF to present combined Phase 1 and Phase 2 guidance to IAASB December meeting.

2. **Reporting Frameworks:** Whilst the guidance purports to be reporting framework-neutral, there is an overriding Sustainability Reporting and Global Reporting Initiative (GRI) theme. This manifests itself in significant gaps emerging with respect to relevant examples for other types of reporting, such as Integrated Reporting <IR>. No examples are provided throughout the guidance in relation to the fundamental subject matter of an <IR>, such as the business model, strategy or value creation.

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Page 1 of 5

> Several respondents noted that the draft guidance was overly focused on GRI/sustainability reporting, and that this may limit its value to practitioners addressing EER reports under other frameworks. Recommendations included taking examples from a broader range of EER reports, such as management commentary or integrated reports. However, other respondents noted that attempting to make the guidance applicable to all types of EER reports could result in it being overly complicated and difficult to apply.

> The guidance could address the different implications of the non-prescriptive nature of some EER frameworks, such as the Integrated Reporting Framework, the IASB's Management Commentary Practice Statement and the UK Strategic Report:

The TF proposes to draw out, through the use of examples in the guidance, the different considerations that may apply when frameworks include criteria that are relatively more or less prescriptive.

Refer **TF proposals** at 3 as well.

3. **Examples:** Further work is needed on the examples provided throughout the guidance, including:
   a. *Themed Examples:* Flow an example EER assurance process through the challenges, i.e. work through an example EER assurance engagement from start-to-finish, anchoring on an example relevant to each challenge. This may work well in an appendix.
   b. *Financial Examples:* Acknowledge that EER assurance practitioners will come from a wide range of backgrounds, some financial, some non-financial. With this in mind, include financial examples with non-financial examples, where possible.

> The phase 1 guidance is already long and complex and, with the addition of the phase 2 material, it could be seen to lack practical usefulness and could be difficult to use. Respondents suggested a closer focus on providing practical guidance in the specific context of EER engagements, and avoiding excessive background material, conceptual content or repetition of material in ISAE 3000 (Revised).

The TF proposes to enhance the guidance by providing a broader range of examples to illustrate the application of the guidance in the context of different frameworks, and to show scalability. Consideration has been given to an end-to-end case study, but the development of such case studies is complex and time-consuming and may be disproportionate to the benefit to be derived. T**he TF proposes** to develop a number of longer, more complex examples to illustrate the various concepts discussed in the guidance. In order to balance the length of the guidance with usefulness, to include shorter examples in the main body of the guidance, alongside the topic to which they relate, but to include longer examples in an Appendix to the guidance, cross referenced from the main body of the guidance.

4. **Reasonable versus Limited Assurance:** Remains a "grey area" for EER assurance practitioners, with guidance needed in terms of scope, work effort, output and value. Although practitioners acknowledge coverage of these areas in ISAE 3000 (Revised), they acknowledged the guidance could provide more in addressing the differences between the two engagements. Given the objectives of this guidance, this represents an opportunity to build greater understanding and consistency and a more robust approach to EER assurance engagements.

> Several noted that additional guidance would be helpful in applying differential requirements for limited and reasonable assurance engagements (e.g., for engagement

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Page 2 of 5

acceptance, understanding the system of internal control, risk assessment procedures, nature and extent of procedures to obtain sufficient appropriate evidence) as these present challenges to practitioners. Examples that compare and contrast such engagements would be helpful.

The TF is proposing to provide this compare and contrast through the detailed examples throughout the guidance.

5. **Boundaries of an EER engagement**: the potential blurring of the lines between what the role of the assurance practitioner vs preparer, with regard to materiality, materiality process, subject matter and suitable criteria.

This issue is not specifically dealt with in the issues paper but may be addressed further in the proposed changes to the preconditions chapter 3.

6. **Materiality:** Materiality in scoping an EER assurance engagement is widely accepted as a core component and is therefore suggested for inclusion in the guidance. There is a need to encompass more than just the impact in a materiality determination, for example, <IR> relates to strategy, business model and short, medium and long term value creation for an entity. The needs of the users of EER is crucial to the materiality determination. Links to examples of materiality disclosure from publicly available EER assurance reports would add value.

The TF proposes to: update the guidance for the new terminology; include in the guidance a number of examples to illustrate how criteria are further developed and applied to determine outcomes that are relevant to user decision-making; to make clearer in the guidance the linkage between the preconditions in Chapter 3 and the process the entity uses to develop the criteria and apply them; and to further consider whether determining the users of the EER report is a criterion used by the entity in developing further criteria as part of the materiality process, and therefore should be made available to the intended users.

The TF proposes to further clarify the relevance to the practitioner of considering the entity's materiality process, using such an analogy, whilst clarifying that the practitioner is not required to do so but is required to determine whether the resulting criteria are suitable.

7. **Subjective Statements:** EER assurance practitioners highlighted a strong need for guidance in relation to the assurance of qualitative statements, i.e. narrative, where evidence requirements may prove challenging for the assurance practitioner to meet.

TF has commenced work on this area under Phase 2 Chapter 11 and 12.

Chapters 11 and 12 include draft phase 2 guidance developed to date on narrative and future-oriented information, which includes guidance to address:

• The need for the preconditions to be met, including the need for processes and controls that provide a reasonable basis for the subject matter information;

• How subjective statements may be revised to be more factual in nature and possible courses of action if they are not revised;

• What constitutes 'other information'.

Any comments to the ATG on the draft would be appreciated.

8. **Sequence of EER Assurance Challenges:** The sequence in which EER assurance challenges are presented warrants further attention, such as bringing materiality further forward.

    The TF proposes to give further consideration to the structure and order of the guidance during the drafting of phase 2 materials for presentation at the December 2019 IAASB meeting, which will involve integrating the guidance developed in both phases of the project.

9. **Flow Charts:** A flow chart of a typical EER assurance engagement would enhance the guidance at the start of Chapter 2: Overview of an EER Assurance Engagement. Then throughout the guidance, at the start of each chapter, a flow chart would assist to summarise what is covered in that chapter, with hyperlinks to each subsection from the flow chart for accessibility.

    The TF has considered ways in which to make the guidance more user-friendly and easier to navigate, and **the TF proposes** to include a flow diagram at the beginning of each chapter to show the stage of the engagement and the practitioner's considerations at each stage. This would assist in navigating the material, making linkages to the Standard and showing the iterative nature of an assurance engagement.

10. **Hyperlinks:** To try to reduce the amount of repetition of ISAE 3000 (Revised) through a suitable technology solution, maintaining the linkage to ISAE 3000 (Revised) so that the guidance is accessible to all assurance practitioners.

    ➢   Several respondents encouraged the use of innovative ways of presenting the guidance, to enhance its navigability and usefulness, including the use of hyperlinks to material in the Standard and of cross-references within the guidance.

    Refer TF proposal at para 9. TF has not specifically addressed the area of hyperlinks or a smarter technology solution in their proposals.

11. **IASB Links:** Stronger links to the International Accounting Standards Board (IASB) project to update its IFRS Practice Statement 1 *Management Commentary* to ensure that the EER guidance will be fit for purpose across the broader corporate reporting suite.

    ➢   The guidance could address the different implications of the non-prescriptive nature of some EER frameworks, such as the Integrated Reporting Framework, the IASB's Management Commentary Practice Statement and the UK Strategic Report.

    The TF proposes developing a number of further examples to illustrate the thought process a practitioner may go through in evaluating the suitability of criteria, the work effort that may be needed pre- and post- acceptance in different engagement circumstances, the need for the practitioner to understand the process the preparer has gone through to identify the intended users and their needs and the importance of monitoring and considering the reasons for changes in criteria from one period to another.

    The TF proposes to draw out, through the use of examples in the guidance, the different considerations that may apply when frameworks include criteria that are relatively more or less prescriptive.

12. **Preconditions:** Avoid establishing too high a hurdle e.g. preconditions and the interplay between suitable criteria and internal controls which are iterative in nature, may result in the assurance process becoming a barrier to the development of EER.

The TF proposes to illustrate these considerations through the use of additional examples in Chapter 3; one for a relatively straightforward engagement such as an entity's GHG emissions reporting; the other for a more complex engagement such as a whole EER report where there may be a complex set of criteria.

ATG Overall Views:

The ATG are satisfied that the EER TF has addressed the key issues raised in the AUASB submission except for hyperlinks/technology solution and we acknowledge that they have made significant progress with the Phase 2 guidance. A further detailed review of the combined Phase 1 and Phase 2 guidance will be undertaken prior to finalisation by the TF in December.

Matters for IAASB Consideration
The IAASB is asked:
Q1. For its views on whether the Task Force proposals respond appropriately to the CP responses
Q2. Whether there are any other matters identified in the CP responses that the Task Force should consider

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Material Presented

Agenda Item 4.7   AUASB Board Meeting Summary Paper

Action Required

No.	Action Item	Responsibility	Due Date
1.	Provide feedback to ATG on key TF proposals, and overall comments on EER Phase 2 guidance.	AUASB	11 Sept 2019