# EER Assurance

Project Update to the CAG
September 2018

September 11, 2018

IAASB International Auditing and Assurance Standards Board
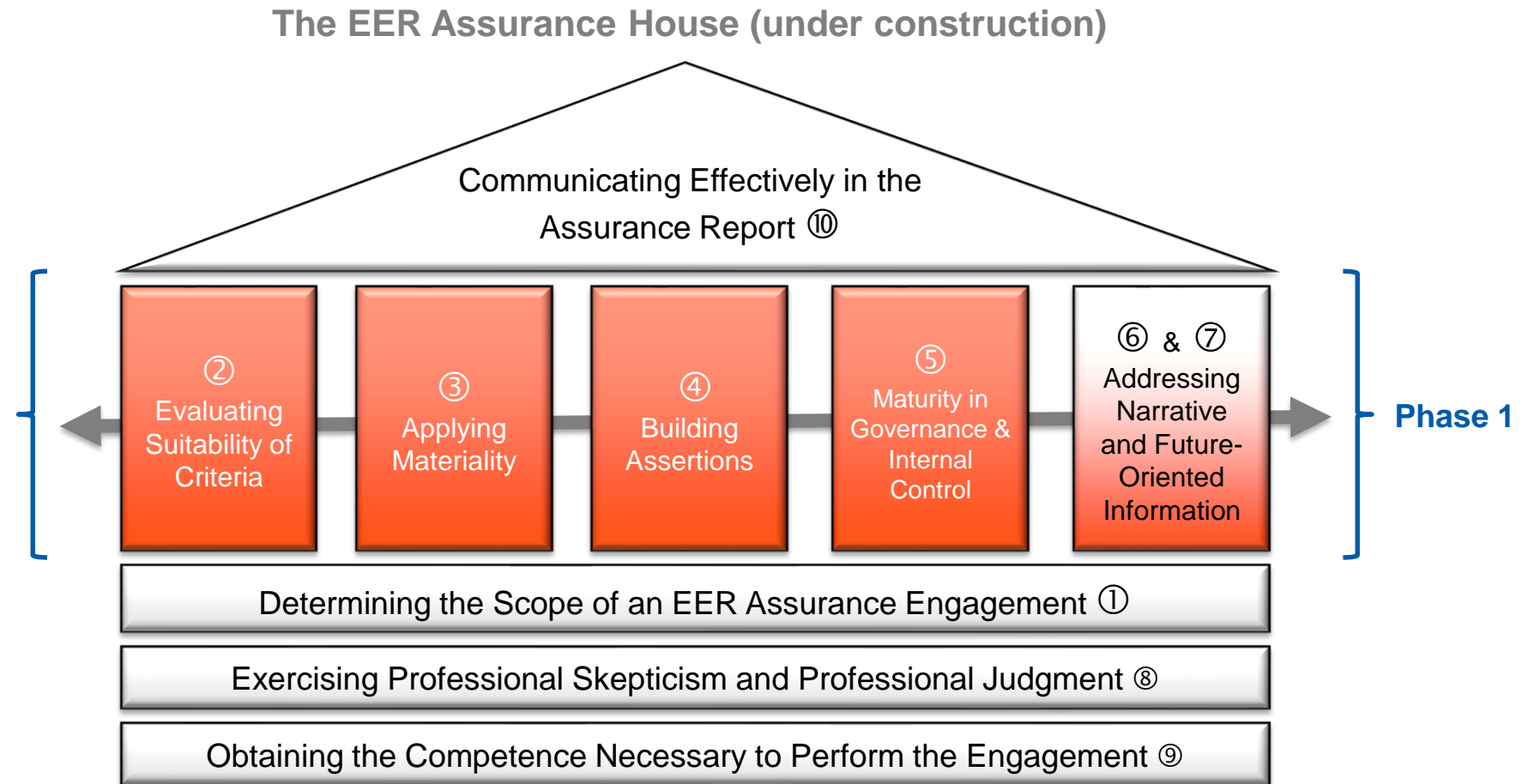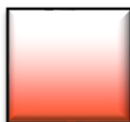
- Introduction to the EER project

- Understanding contextual background of reporting frameworks

- Introduction to work begun on Challenge 3 (Materiality)

- Overview of project planning, research and outreach

- Refer to 'report back' document for summary of points raised and Task Force responses
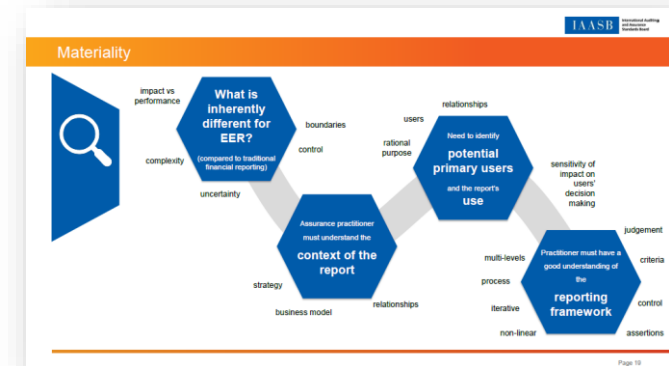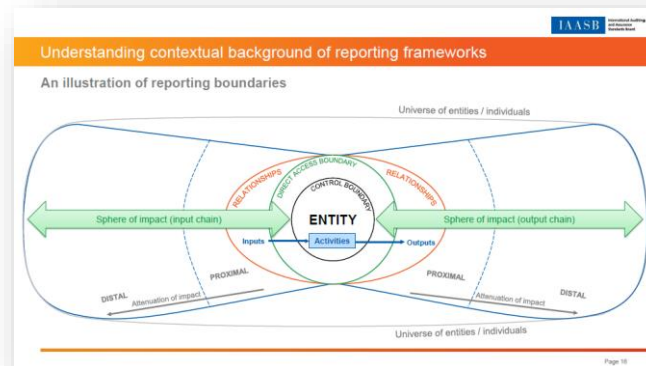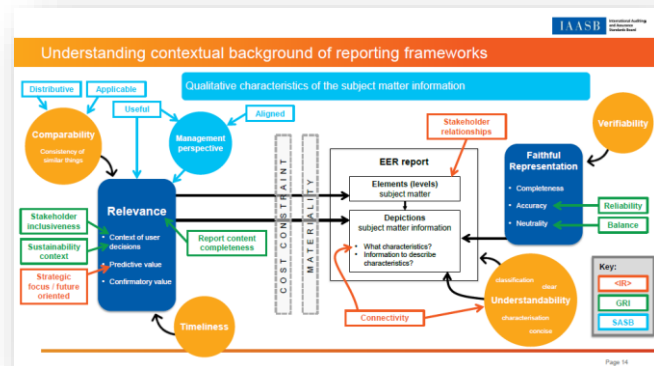
Agenda

- Presentation of the draft guidance under development to address issues relating to the Ten Key Challenges allocated to phase 1

The EER Assurance House (under construction)

Communicating Effectively in the Assurance Report ⑩

| ② Evaluating Suitability of Criteria | ③ Applying Materiality | ④ Building Assertions | ⑤ Maturity in Governance & Internal Control | ⑥ & ⑦ Addressing Narrative and Future-Oriented Information |

Phase 1

Determining the Scope of an EER Assurance Engagement ①

Exercising Professional Skepticism and Professional Judgment ⑧

Obtaining the Competence Necessary to Perform the Engagement ⑨

Challenges allocated to phase 1

Challenges split between phase 1 and phase 2

Structure of the guidance

- Non-authoritative guidance is to be an International Assurance Engagements Practice Note (IAEPN)

- Structured around the Ten Key Challenges but closely aligned with the requirements and stages of an engagement as set out in ISAE 3000 (Revised)

- Section I is practical application material for assurance practitioners

- Section II contains background, explanatory and contextual material

Non-authoritative guidance

Application guidance for practitioners

Background information
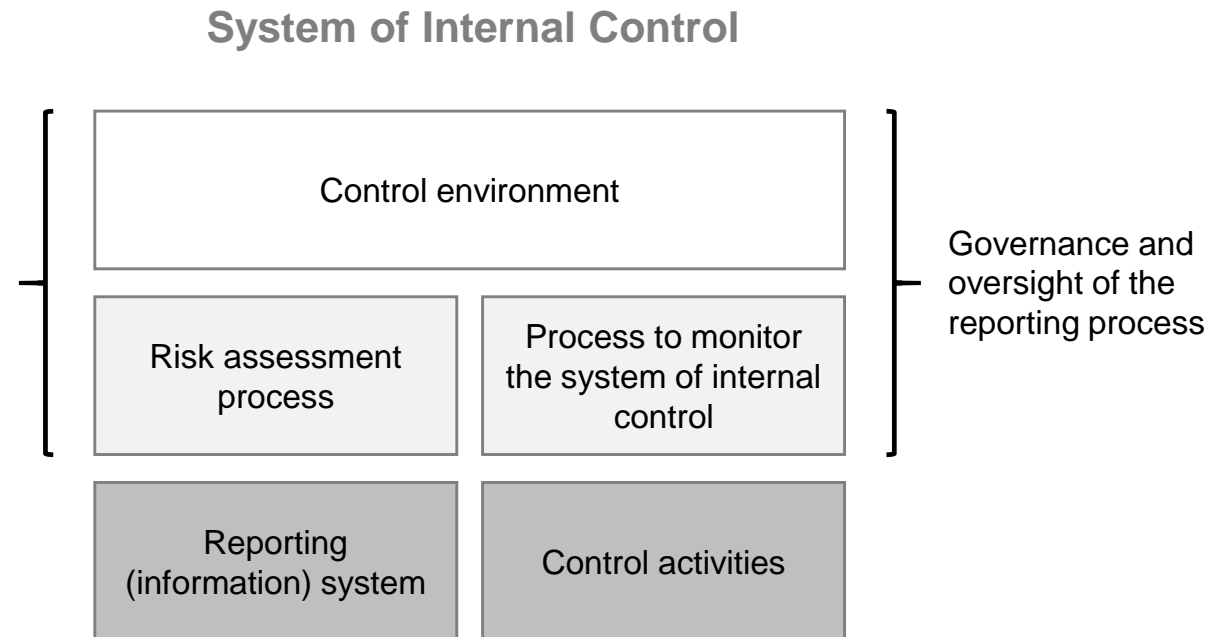
Challenge 5: Maturity in Governance & Internal Control

- Many entities may have a reporting system, controls and oversight in place for EER which are not yet very robust.

- A lack of maturity and formality may mean it is challenging for the practitioner to conclude whether the preconditions for an assurance engagement are present or not.

- An important consideration in evaluating whether the preconditions for an assurance engagement are present

- Guidance includes examples of aspects of the components of an entity's system of internal control for practitioners to consider

- The level of formality and complexity should reflect the entity's size and nature

System of Internal Control

Control environment

Risk assessment process	Process to monitor the system of internal control

Governance and oversight of the reporting process

Reporting (information) system	Control activities

Questions to the CAG

1) Is the form and structure of the draft guidance appropriate and helpful for practitioners?

2) Has the Task Force sufficiently addressed the relevant issues relating to the 'Maturity in Governance & Internal Control' challenge?

3) Do you have any other feedback on the draft guidance in relation to this challenge?

Summary of the challenges

Challenge 2: Evaluating the Suitability of Criteria in a Consistent Manner

- EER frameworks are often less prescriptive about the content of a report than more established financial reporting frameworks, meaning there is considerable opportunity for management bias.

- Much professional judgment and skepticism is required to determine the suitability of criteria.

Challenge 3: Applying Materiality

- How to assess what topics and related elements would be material for an EER report is often challenging when both the users and their information needs can be diverse or unknown.

- Evaluating misstatements in a diverse range of types of subject matter information is more complex than in audits of financial reporting.
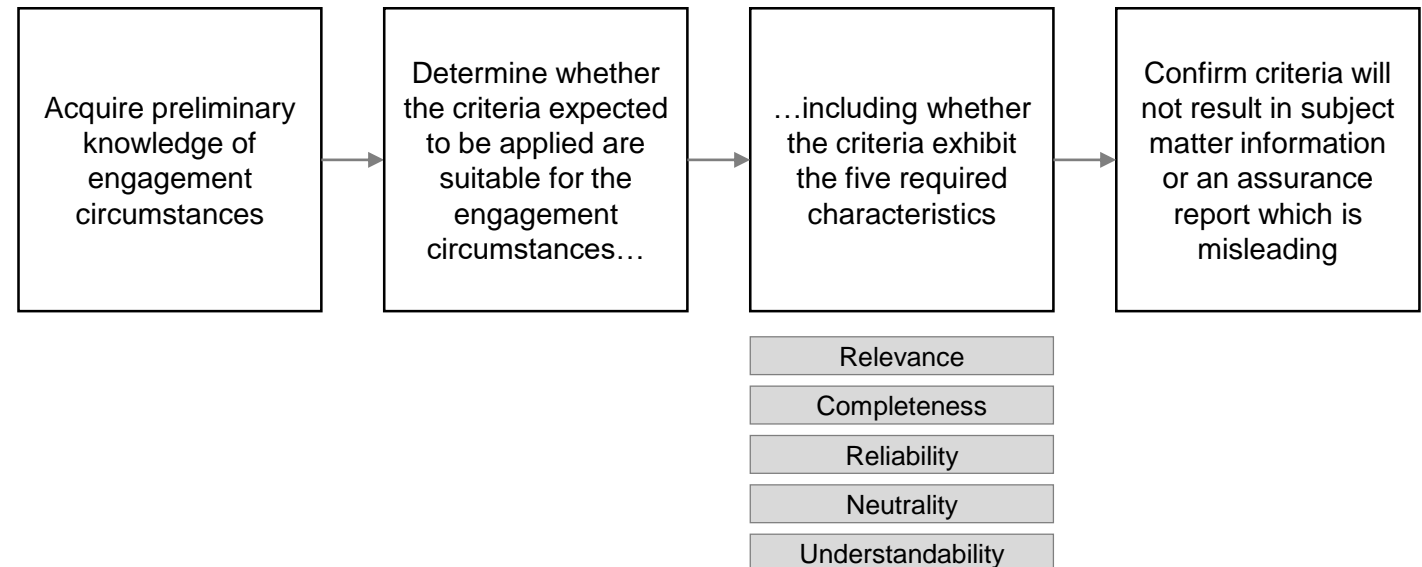
Challenge 4: Building Assertions

- The diverse nature of EER subject matter information compared with that contained in financial statements makes it more challenging to develop appropriate assertions.

- A further precondition for assurance engagements is that the criteria are suitable for the engagement circumstances

- Guidance details meaning of suitability, including how the five required characteristics are to be understood

- Criteria may be taken from a reporting framework or be developed by the entity itself

- Guidance then sets out what a practitioner should do if the criteria are not suitable

| Acquire preliminary knowledge of engagement circumstances | → | Determine whether the criteria expected to be applied are suitable for the engagement circumstances… | → | …including whether the criteria exhibit the five required characteristics | → | Confirm criteria will not result in subject matter information or an assurance report which is misleading |

Relevance

Completeness

Reliability

Neutrality

Understandability

Applying Materiality (Challenge 3)

- Divided into three parts of the guidance:
  - Using materiality to evaluate what is to be included in the report

  - Performance materiality when obtaining evidence

  - Evaluating whether subject matter information is free from material misstatement

- Guidance suggests a framework for practitioners to review a preparer's materiality process
  - Understanding the purpose of the report and identifying the intended users are important context

  - Consideration of 'impact' and 'interest to intended users'

- Misstatements in subject matter information can be evaluated using a suggested set of materiality considerations

Building Assertions (Challenge 4)

- Assertions are a tool that can be used by practitioners to consider the different types of misstatements that can occur and to design appropriate procedures

- Guidance encourages practitioners to build relevant assertions beginning with the required characteristics for suitable criteria as a starting point

- Examples are then provided for practitioners to consider if additional assertions are appropriate:

Free from error	Completeness	Understandability	Relevance
Neutrality	Occurrence	Presentation	Existence
Accuracy	Cutoff	Comparability	Classification

4) Has the Task Force sufficiently addressed the relevant issues relating to these challenges?

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

– Applying Materiality (Challenge 3)

– Building Assertions (Challenge 4)

5) Is the draft guidance an effective resource to assist practitioners in relation to these challenges?

Challenge 6: Obtaining Assurance of Narrative Information

- Narrative information that is not factual is subject to management judgment and may be more susceptible to management bias.

- The key challenge how to address the inherent subjectivity and increased risk of management bias and to manage potentially unrealistic expectations that the practitioner can reduce the degree to which the subject matter information is affected by inherent subjectivity.

Challenge 7: Obtaining Assurance of Future-Oriented Information

- Future-oriented information is found in some EER reports in a few different forms and there is generally greater measurement or evaluation inherent uncertainty.

- This may make the process of assessing whether the criteria are suitable more complex.

Obtaining Assurance of Narrative Information (Challenge 6)

- Narrative information may be:
  - factual; or
  - inherently subjective

- Narrative information is at higher risk of being ambiguous than numerical information where language used is not subject to precise or specific enough definitions

- Very important for criteria to be reliable and understandable

- Increased risk of management bias in preparing subjective narrative information – considering whether it is neutral and free from bias therefore becomes a greater area of focus for the practitioner

Obtaining Assurance of Future-Oriented Information (Challenge 7)

- Inclusion of future-oriented information in most reports today tends to be relatively limited and restricted to specific areas such as an entity's strategy, performance outlook and future risks/opportunities

- Draft guidance suggests two categories of future-oriented information:
  - information which 'predicts' the future; and
  - information about the entity's intentions or strategy

- Future-oriented information contains significant levels of measurement or evaluation uncertainty, although this is similar to uncertainty in historically-oriented information, and in making accounting estimates in financial reporting

6) Has the Task Force sufficiently addressed the relevant issues relating to the challenges of obtaining assurance of narrative and future-oriented information (that relate to phase 1)?

7) Is the draft guidance an effective resource to assist practitioners in relation to these challenges?

8) Do you have any further feedback on any other parts of the draft guidance (including Section II)?

Next steps

- Series of global discussion events in October and November

- Plan to issue phase 1 guidance as an exposure draft in January 2019 for public comment

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