



Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: New York, United States of America
Meeting Date: September 10–11, 2019

Agenda Item F

Extended External Reporting (EER) Assurance – Report Back and Cover

Objectives of Agenda Item

1. The objectives of this agenda item are to:
 - (a) Provide a report back on comments of the CAG Representatives on this project as discussed at the March 2019 meeting.
 - (b) Receive a presentation on the responses received on the *Extended External Reporting (EER) Assurance* Consultation Paper, and on progress to date on the development of the phase 2 guidance.

Project Status – What Have We Done Since We Last Met?

2. Since the March 2019 IAASB CAG meeting, the EER Task Force met in May to analyze the remaining challenges that were allocated to phase 2 of the project (the 'phase 2 challenges') and to develop proposals for addressing them and for drafting the related guidance (the 'phase 2 guidance'). At its June 2019 Board meeting, the IAASB considered the detailed proposals developed by the Task Force for addressing the phase 2 challenges and drafting the phase 2 guidance.
3. Since the June 2019 Board meeting, the IAASB has received and analyzed fifty-two responses to its *Extended External Reporting (EER) Assurance* Consultation Paper (the 'CP'), which included the draft guidance relating to the challenges allocated to phase 1 of the project (the 'phase 1 guidance') and two additional documents – a Supplement to the guidance containing Background and Contextual Information and the Four Key Factor Model for Credibility and Trust in Relation to EER.
4. In July 2019, the EER Task Force met to consider the various responses to the Consultation Paper, to develop proposals for changes to the phase 1 guidance to address the feedback received, and to further develop its proposals for drafting the phase 2 guidance, taking account of feedback from the IAASB and other stakeholders.
5. The EER Task Force has subsequently drafted its proposed responses to the feedback received on the phase 1 guidance and other material included in the CP, as well as the phase 2 guidance, for consideration by the IAASB at its September 2019 Board meeting.
6. Outreach included:

- (a) IASB Management Commentary Consultative Group Meeting – April 3, 2019
- (b) Participant in Shift Round Table Measuring Human Rights Performance: What Role Can Accountants Play? – April 24, 2019
- (c) Presentation to WBCSD Assurance Working Group (Conference Call) – April 25, 2019
- (d) Presentation and participation in panel discussion at Workshop on Assurance and Integrated Reporting – IIRC Global Conference – May 16, 2019
- (e) IAASB Webcast Introduction of the Extended External Reporting (EER) Assurance Consultation Paper – June 13, 2019
- (f) Project Advisory Panel Call – July 5, 2019
- (g) AIPS conference call – July 29, 2019

7. **Appendix A** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on EER, including links to the relevant IAASB CAG documentation.

Feedback - What Did We Hear Last Time We Met?

8. Extracts from the draft minutes of the March 2019 IAASB CAG meeting, as well as an indication of how the Task Force or IAASB has responded to the Representatives' comments, are included in the table below.

Representatives' Comments	Task Force/IAASB Response
NATURE OF THE GUIDANCE	
Mr. Dalkin expressed the CAG's support for the project. He asked about the nature of the guidance, which is non-authoritative guidance on applying ISAE 3000 (Revised) in EER assurance engagements, and whether, given its importance, the material should be a standard.	Mr. Grabowski noted that the decision not to develop a standard at this stage was made when the project was approved, with strong stakeholder feedback to that effect, because these types of reporting are still in the early stages, and that a standard, at this time, might discourage experimentation, which would not be in public interest. Non-authoritative guidance, on the other hand, would still allow practitioners to experiment in exploring the challenges in assurance engagements over EER reports, but in a more structured way.
SCOPE OF AN EER ASSURANCE ENGAGEMENT	
Mr. Dalkin expressed concern that if EER assurance engagements were permitted that only covered selective elements of the EER report and that could be either reasonable or limited assurance engagements, stakeholders may be confused about	Mr. Grabowski responded that the Task Force recognized these as significant public interest issues, and that they were being addressed in phase 2. He expressed the view that guidance on challenges in agreeing the scope of the

Representatives' Comments	Task Force/IAASB Response
<p>the type of assurance provided in individual EER engagements, which would not be in the public interest.</p>	<p>engagement would focus on considering these matters in the context of determining whether there is a rational purpose for the engagement, a key pre-condition to acceptance of an EER assurance engagement. The user perspective is an important factor in this determination, something that the phase 1 draft guidance already emphasized. He noted, for example, that if it isn't evident how the EER engagement enhances user trust and confidence in the EER report, there may not be a rational purpose for the engagement. He also noted that the issues raised would have implications for the practitioner's report and that the challenges in this area would also be addressed in phase 2.</p>
<p>MATERIALITY</p>	
<p>Representatives and Observers commented as follows:</p> <ul style="list-style-type: none"> • Mr. van der Ende asked for elaboration on what is in phase 1 and phase 2 regarding materiality. • Mr. Kocktvedgaard asked whether the practitioner needed to address materiality explicitly if the entity is not engaging with users of the EER report to determine materiality. 	<p>In response, Mr. Grabowski noted that both the IAASB concepts of relevance and materiality have a primary focus on the user perspective. Relevance is addressed in evaluating suitability of criteria and materiality in planning and performing assurance procedures to identify misstatements and in evaluating identified misstatements. In Phase 1, the task force developed guidance on applying relevance to evaluate criteria, both in general terms for an EER assurance engagement and in relation to what is called a "materiality process" – in which a preparer develops and applies criteria in addition to those in a reporting framework to determine the matters to be addressed in the EER report. In Phase 1, the Task Force also developed guidance on applying the concept of materiality in evaluating whether misstatements – individually or taken together with other misstatements – rise to the level of a material misstatement. In Phase 2, the task force will develop guidance in applying the concept of "performance materiality" in designing procedures to obtain sufficient appropriate evidence.</p>

Representatives' Comments	Task Force/IAASB Response
	<p>Mr. Grabowski also indicated that many companies have specific processes to identify and engage with users on matters relating to relevance and materiality. In other cases, companies may in addition or alternately consider relevance and materiality by evaluating, in a logical manner, the significance of the known impacts of the business on its externalities or value creation as appropriate, given the nature and circumstances of their business, to identify what they would expect to be relevant or material to users.</p>
ISSUES RELATED TO THE AUDIT OF FINANCIAL STATEMENTS AND THE EER ENGAGEMENT	
<p>Representatives and Observers had the following comments:</p> <ul style="list-style-type: none"> • Mr. Dalkin noted that the IESBA CAG was considering non-audit services and questioned whether there were threats to independence because in practice the practitioner was both preparing the report and providing assurance on it. • Mr. Cela questioned whether it would be appropriate for the same practitioner to perform both an EER assurance engagement and an audit of financial statements for the same entity. • Mr. Pavas noted that, in many jurisdictions, EER reports and related assurance engagements may become mandatory and that it may be impossible to avoid the financial statement auditor also performing an EER assurance engagement for an entity. 	<p>Mr. Grabowski indicated that the IAASB's research had not identified the self-review threat as a major challenge or issue to be addressed in the project. He noted that such an issue could arise if the preparer has not done a good job in preparing the EER report such that the practitioner does extensive work in developing corrections to be made to the report and subsequently self-reviews that work. He also indicated that the task force would consider the need to consult with the IESBA on such issues if they are to be addressed in the guidance.</p> <p>Mr. Grabowski also agreed that practitioners may be called on to do both the financial statement audit and an EER assurance engagement for the same entity. He also noted that there may be good reason to have the same practitioner do so, even if the EER report is not an integrated report, given that investors use information in EER reports together with information in the audited financial statements to support their decision-making. One challenge that may arise, if financial statement auditors are also asked to do the EER assurance engagement, is whether they have the</p>

Representatives' Comments	Task Force/IAASB Response
	necessary competence to do so. He also pointed out that phase 2 would address challenges related to obtaining the necessary competence to accept and perform an EER assurance engagement.
NEXT STEPS	
Mr. Thompson asked whether there would be a separate consultation on the guidance on new matters developed in phase 2, or whether it would simply be included in an exposure draft of the combined guidance during phase 2.	Mr. Grabowski confirmed that a combined exposure draft of the guidance would be exposed for comment in phase 2. This would include both the guidance developed in phase 1, updated to reflect comments resulting from the present consultation, and the guidance on new matters developed in phase 2.
PIOB REMARKS	
Ms. Petterson noted that the issues discussed should be raised with the IAASB for its consideration and that she would report back to the PIOB on the public interest issues.	Noted.

What Does the EER Task Force Want Your Views On?

9. The EER Task Force Chair will give a presentation (**Agenda Item F-1**) at the CAG meeting giving an update on feedback received on the phase 1 guidance and other documents in the CP and on the EER Task Force proposals for addressing the phase 2 challenges and the phase 2 guidance developed to date.

Further background on these is provided in **Agenda Item F-2** (Issues Paper for September IAASB Board Meeting), which includes questions posed by the EER Task Force for the IAASB's consideration and **Agenda Item F-3** (Draft phase 2 material developed to date).

CAG Representatives will be asked:

- a) Whether they have comments on the proposal to restructure the combined phase 1 and 2 guidance to comprise:
 - The main body of the guidance, to contain only practical application guidance in the specific context of EER and shorter less complex examples – the phase 1 guidance to be made more concise and any background and contextual material taken out
 - An Appendix to the guidance, with longer more complex examples, cross-referred to from the main body of the guidance
 - The Supplement from phase 1, with background and contextual information relating to

both phase 1 guidance (including as moved out of the guidance) and phase 2 guidance

- b) Whether they have comments on the other proposals set out for the IAASB's consideration to respond to the feedback on the phase 1 Consultation Paper
- c) Whether they have comments on the first draft of the phase 2 guidance and examples.

Material Presented – IAASB CAG Papers

Agenda Item F-1	Presentation
Agenda Item F-2	IAASB Issues Paper
Agenda Item F-3	Phase 2 Draft Guidance

Appendix A

Project Details and History

Project: Extended External Reporting (EER)

Link to IAASB Project Page: [EER Project Page](#)

Task Force Members

The IAASB's EER Task Force comprises:

- Marek Grabowski IAASB Member and Task Force Chair
- Sachiko Kai IAASB Member
- Paul Penler Executive Director, EY
- Lyn Provost IAASB Member
- Fernando Ruiz Monroy IAASB Member

Observers have been appointed from the World Business Council for Sustainable Development (WBCSD), the Corporate Reporting Dialogue (CRD) and Principles for Responsible Investment (PRI).

Summary

	IAASB CAG Meeting	IAASB Meeting
Integrated Reporting Working Group (IRWG) – pre EER project. Issued a discussion paper in August 2016.	March 2015 September 2015 March 2016	December 2014 March 2015 June 2015 September 2015 March 2016 June 2016 June 2017
Pre-project approval	September 2017	September 2017 October 2017
Project commencement and phase 1	March 2018 September 2018	December 2017 March 2018 June 2018 September 2018 December 2018 January 2019

Commencement of phase 2 of the project and feedback on the phase 1 Consultation Paper	March 2019	March 2019 June 2019
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IAASB CAG Discussions: Detailed References

Information gathering by the Integrated Reporting Working Group (pre EER project)	<p><u>March 2015</u></p> <p>See IAASB CAG meeting material and meeting minutes (Agenda Item E): https://www.ifac.org/meetings/new-york-usa-5</p> <p><u>September 2015</u></p> <p>See IAASB CAG meeting material and meeting minutes (Agenda Item M): https://www.iaasb.org/cag/meetings/new-york-usa-0</p> <p><u>March 2016</u></p> <p>See IAASB CAG meeting material and meeting minutes (Agenda Item K): http://www.iaasb.org/cag/meetings/paris-france</p>
Pre-project approval	<p><u>September 2017</u></p> <p>See IAASB CAG meeting material (Agenda Item L) – presentation on the responses to the discussion paper and meeting minutes</p> <p>http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-madrid-spain</p>
Project commencement and phase 1	<p><u>March 2018</u></p> <p>See IAASB CAG meeting material (Agenda Item F) – initial project update and meeting minutes (Agenda Item A)</p> <p>http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny</p> <p><u>September 2018</u></p> <p>See IAASB CAG meeting material (Agenda Item E) and meeting minutes (Agenda Item A)</p> <p>http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-0</p> <p><u>March 2019</u></p> <p>See IAASB CAG meeting material (Agenda Item K) and meeting minutes (Agenda Item A)</p> <p>https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-1</p>