



Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: New York, United States of America
Meeting Date: March 10–11, 2020

Agenda Item **C**

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 September 2019 meeting.
 - (b) Receive a presentation on the progress and status of the Extended External Reporting (EER) Assurance project.

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

2. Since the September 2019 IAASB CAG meeting, the Task Force presented a first draft of the phase 2 guidance to the IAASB at its September 2019 meeting, and a combined draft of the phase 1 and phase 2 guidance to the IAASB for consideration during the Board's meeting in December 2019. The Board identified several matters for further development, which the Task Force addressed during the meeting, and the Board approved a final draft of the Guidance, as updated by the Task Force, for public consultation.
3. The Task Force has also developed two supplements to the Guidance. Supplement A includes the previously consulted upon Four Factor Model for credibility and trust in EER reports, and provides background and contextual information that may assist practitioners in applying the Guidance. Supplement B provides a suite of more comprehensive practical examples, to supplement the simpler examples in the draft Guidance, which may also assist practitioners in applying the Guidance. Both supplements are due to be published alongside the draft Guidance when it is issued for public comment in March 2020.
4. Outreach during this period was more limited than previously but included:
 - (a) IASB Management Commentary Consultative Group Meeting – December 13, 2019
 - (b) WICI Europe International Policy Conference – November 7, 2019
5. **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?

6. Extracts from the draft minutes of the September 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 queried the relationship of the draft EER guidance with ISAE 3000 (Revised), ¹ and the reason the guidance had been drafted as non-authoritative, rather than as a standard, noting that there may be some confusion among readers about its status.	Mr. Grabowski noted that the draft guidance is intended to address the application of ISAE 3000 (Revised). The decision not to develop a standard during the project was explicitly made when the project was approved, with strong stakeholder feedback to that effect. It has been clarified in the guidance that ISAE 3000 (Revised) is the IAASB's authoritative pronouncement that governs the performance of assurance engagements (including EER assurance engagements) other than audits or reviews of historical financial information. There is no requirement to refer to the EER guidance in performing an EER assurance engagement, but the guidance may be used as a reference document. The guidance does not introduce any further requirements to, or override or change any of the requirements or application material in, ISAE 3000 (Revised). Mr. Grabowski also noted that, as ISAE 3000 (Revised) is a generic rather than subject-matter specific standard, the two possible approaches when approving the project proposal had been to: (i) write a new subject-matter specific standard; or (ii) develop non-authoritative guidance on how to apply the generic standard. The latter position had been further supported by a number of respondents to the phase 1 Consultation Paper who broadly agreed with the proposed guidance but advised further caution to avoid inadvertently implying new requirements.

¹ International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

Representatives' Comments	Task Force/IAASB Response
<p>Mr. Cela noted that small- and medium-sized entities (SME) are not as involved in this type of reporting as they would like to be. He noted that the European Federation of Accountants and Auditors (EFAA) had presented its suggestions and had encouraged the IAASB to work on developing standards for non-assurance engagements in relation to EER reporting by entities that are SMEs, rather than public interest entities. He asked whether there was a plan to extend the guidance so that it could be applied to non-assurance services such as agreed-upon-procedures. This could be useful in the context of SMEs to assist them in providing non-assurance engagements related to EER reporting. Unlike larger companies, SME's usually cannot cover the cost of assurance services.</p>	<p>Mr. Grabowski noted that the draft guidance does not distinguish between large or small entities, but rather on how the identified challenges are addressed by the practitioner. Addressing CP respondents' comments that the guidance could be shorter and simpler should help make it easier to apply in a less complex environment. Each chapter in the guidance is now structured to answer the 'What', 'Why' and 'How' of the guidance so that it is clear what is included in that chapter, the circumstances in which the guidance may be useful to practitioners (the 'Why'), and a thought process for how the challenges identified in the 'Why' might be addressed by practitioners. The examples included in the guidance are generally short examples that illustrate the concepts being discussed in the context of less complex circumstances; longer, more comprehensive examples intended to assist practitioners applying the guidance in more complex engagements, have been moved to a supplement (Supplement B). Regarding agreed-upon-procedures, the project proposal was clear that this guidance was on the application of ISAE 3000 (Revised); in approaching other types of service, the guidance may be helpful, but it has not been designed to provide guidance in applying the IAASB standards relating to such other services, as that is outside of the scope of the project proposal. The guidance should enable any practitioner to understand the principles and how to address the challenges in the circumstances of the engagement.</p>
<p>Mr. Rees welcomed the Task Force's proposal to broaden and balance the range of examples in the guidance, noting that the IASB was in the process of updating its <i>Management Commentary</i> Practice Statement at present. Questions arise about the verifiability of management commentary, and it would be useful to have some examples of how to obtain</p>	<p>The Task Force has developed a number of additional practical examples (in Supplement B to the guidance) to illustrate the concepts discussed in the guidance in the context of more complex engagement circumstances, and a range of reporting frameworks. Mr. Grabowski noted that some of these matters may be</p>

Representatives' Comments	Task Force/IAASB Response
assurance over items such as non-financial performance measures and descriptions of business models.	addressed not only in EER reporting primarily intended for the use of financial stakeholders (such as integrated reporting and reporting under the IASB's Management Commentary Practice Statement) but also in sustainability reports (such as those prepared using the standards established by the GRI), which are usually intended for use by wider stakeholders.
STRUCTURE OF THE GUIDANCE	
Ms. Robert questioned whether it would be clarified who the intended users are of the guidance, noting that part of the guidance is intended for practitioners, but other parts may be useful to both practitioners and preparers of EER information.	It has been clarified in the guidance that the guidance is written for practitioners in applying the requirements of ISAE 3000 (Revised). That is the intended audience of the main body of the guidance and the appendices. Some of the material in the supplementary document may be of interest to other readers of the document (especially the Four Factor Model for credibility and trust in EER reports in Section I of Supplement A and some of the contextual information in Part II of that Supplement). Although such other users may find those aspects of the guidance useful, they are not the intended users, and the guidance and supplementary documents were not developed with the needs of such other readers in mind.
PRECONDITIONS FOR ASSURANCE	
Ms. Robert noted that the guidance on the preconditions was valuable as it was an area where misunderstandings had arisen. She further queried whether the concept of the "materiality process" was being retained in the draft guidance as it was a newly introduced concept in phase 1.	In response, Mr. Grabowski noted that additional guidance on the preconditions had been developed during phase 2 to further clarify some of the potential misunderstandings. Feedback from respondents to the CP on the 'materiality process' was that it was an important area to address and the guidance relating to it was broadly supported, but respondents found the terminology confusing. The EER Task Force replaced the term 'materiality process' with the term 'the entity's process to identify reporting topics' to better reflect the process as it is performed to develop and apply the criteria, and to avoid confusion with the concept of

Representatives' Comments	Task Force/IAASB Response
	materiality as it is generally understood by practitioners.
<p>Mr. Rees noted that, in relation to the 'materiality process,' an area of the IASB's focus in its project to revise its Management Commentary Practice Statement is to develop guidance for preparers, to assist them in considering the qualitative characteristics of useful information identified in the IASB's Conceptual Framework, in preparing their management commentary.</p>	<p>Mr. Grabowski welcomed this and noted that guidance on such considerations by preparers, in developing entity-specific criteria in the 'entity's process to identify reporting topics', would provide an important link with the guidance being developed by the Task Force. EER frameworks usually do not include reporting criteria to a high degree of precision, and there is likely to be a need for further development of more precise entity-specific criteria in order to meet the precondition for suitable criteria as envisaged by ISAE 3000 (Revised). High level principles, such as the qualitative characteristics, can assist preparers in developing entity-specific criteria that are suitable, and this is likely to be enhanced if the framework, itself, provides guidance on how to apply those principles in the development of such criteria. The guidance in Chapter 4 on Determining the Suitability and Availability of Criteria includes guidance that when an entity has selected criteria from a framework, or developed its own criteria, to supplement criteria from a (another) framework, it may be helpful for the practitioner to consider how any high-level principles of the framework were applied in the entity's process. In addition, more comprehensive examples have been included in Supplement B to the guidance to illustrate the application of the guidance when a number of different principles-based frameworks are supplemented by entity-developed criteria.</p>
ETHICAL CONSIDERATIONS RELATING TO EER ENGAGEMENTS	
<p>Mr. Thompson queried whether the guidance would address whether ethical considerations that may arise as a result of a practitioner performing an EER engagement for an entity that may preclude them from being the financial statement auditor of the entity. An example might be assurance over an entity's reported</p>	<p>Mr. Grabowski acknowledged that there may be relevant ethical considerations and noted that the example could raise questions about a self-review threat. He noted that the guidance does not make the presumption that the assurance practitioner delivering the EER assurance</p>

Representatives' Comments	Task Force/IAASB Response
<p>customer retention data, given that such data may be used in assessing goodwill impairment in the financial statements and may therefore need to be considered by the financial statement auditor.</p>	<p>engagement is also the financial statement auditor. However, if they are, ethical considerations may arise. There may be a link to the current considerations by the International Ethics Standards Board for Accountants (IESBA) in relation to self-review threats in non-assurance services, but the question raised by Mr. Thompson may extend those considerations into a broader area. Mr. Grabowski also indicated that, although this had not been identified as a specific challenge, the EER Task Force would give further consideration to whether it should be addressed, as compliance with relevant ethical requirements is an important requirement of ISAE 3000 (Revised). It may be possible to draw attention relevant considerations for the practitioner in this context.</p> <p>In updating the draft guidance, the EER Task Force has, subsequently, included guidance to emphasize the need for the practitioner to comply with the requirements of the IESBA Code of Ethics for Professional Accountants or other professional requirements, or requirements in law or regulation, that are at least as demanding. The Task Force also coordinated with IESBA to obtain their review of the proposed guidance to be included in the EER Guidance in relation to a practitioner performing a 'readiness assessment' or similar engagement when determining whether the preconditions for an assurance engagement are present. The Guidance in this area discusses that self-review, self-interest or advocacy threats to the practitioner's independence in relation to a proposed EER assurance engagement may arise, in performing such assurance readiness engagements or other services in these circumstances, if the EER assurance engagement were later to be accepted.</p>

Representatives' Comments	Task Force/IAASB Response
PIOB REMARKS	
<p>Ms. Pettersson indicated that the PIOB supported the work on the project to date, as it was in the public interest to develop some guidance on extended reporting. However, one aspect that was of relevance and not yet addressed by the guidance is the impact of developments in the use of technology in relation to the preparation and assurance of non-financial information. As the financial statement audit moves towards more extended use of data analytics, there is a need for external information to perform certain types of data analytics. There may be an intersection between such developments in audit with this project. For example, guidance may be useful in EER assurance engagements on what is regarded as internal or external information, on how to use the information, and on addressing questions about the reliability of the information. There are a number of issues relating to non-financial information that may become very relevant for the extended use of data analytics.</p>	<p>Mr. Grabowski noted that the EER Task Force had considered this question primarily in relation to the challenges of obtaining evidence in the context of narrative and future-oriented information. He noted that the draft phase 2 guidance now includes an additional chapter to address evidence-gathering more generally before focusing on the specific challenges of qualitative and future-oriented EER information. The IAASB's work on these matters in the context of an audit is likely to be broadly applicable to assurance over EER reporting, but the Task Force does not believe it is likely to be practical to address these issues directly within the scope of this project. The guidance does, however, address the different sources of evidence, which may assist practitioners in identifying where in an EER assurance engagement more general guidance on the impact of technology may be relevant, as and when it becomes available.</p>

What Does the EER Task Force Want Your Views On?

7. CAG Representatives are asked for their views and comments on the information provided in this note and in the presentation (Agenda Item C-1).

Material Presented – IAASB CAG Papers

Agenda Item C-1 Presentation

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 Former IAASB Member and Task Force Chair
- Sachiko Kai IAASB Member
- Paul Penler Executive Director, EY
- Lyn Provost IAASB Member (Task Force Chair pending)
- 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
Development of phase 2 Guidance and the combined phase 1 and phase 2 Guidance for public consultation	September 2019	September 2019 December 2019

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>
Development of phase 2 Guidance and the	<u>September 2019</u>

combined phase 1 and phase 2 guidance for public consultation	See IAASB Agenda meeting material (Agenda Item F) and meeting minutes https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-2
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