

**Please note: This is the Issues Paper presented to and discussed by the IAASB in December 2020 (Agenda Item 5 of that meeting) which is provided to the CAG Representatives in March 2021 for reference purposes.**

### Objectives of Agenda Item

The objectives of this Agenda Item are to:

- Set out what the Task Force:
  - Proposed in response to feedback received on the March 2020 Public Consultation on the Proposed Non-Authoritative Guidance – *Extended External Reporting (EER) Assurance*; and
  - Has done to implement those proposals, and to respond to written feedback from Board members on redrafted Chapter 2 and Chapter 12 (previously 10).
- Obtain IAASB views about the enhancements made to the draft EER guidance and to Supplement B.

### Introduction and Board Discussion

1. At the IAASB September 2020 meeting, the Task Force presented (see [Agenda Item 5](#) of that meeting):
  - The feedback from respondents to the March 2020 Public Consultation on the Proposed Non-Authoritative Guidance – *Extended External Reporting (EER) Assurance*, and
  - The EER Task Force's proposals to address the comments received.
2. The Board was generally supportive of the Task Force's initial proposals.
3. Following the IAASB September 2020 meeting, the Task Force held a series of teleconferences to discuss and agree detailed proposals for enhancing the proposed non-authoritative guidance – *Extended External Reporting (EER) Assurance* ('the Guidance').
4. Since then, the Task Force has redrafted Chapter 2 and Chapter 10 (now reordered as Chapter 12, and referred to as Chapter 12 in the remainder of this paper). During October 2020, the Task Force sought written feedback from Board members on those two chapters, as they were the chapters with the greatest change. Feedback was received from nine Board members, who were largely supportive of the enhancements the Task Force had made to those two chapters. Board members also made helpful suggestions to further enhance the guidance in those chapters.
5. A summary of Board member feedback is set out below in Section I - *Summary of Written Responses from Board Members on Chapter 2 and Chapter 12 and Task Force Responses*. The Task Force has taken this feedback into account in the Guidance presented as **Agenda Item 5-A** to this Issues Paper.
6. The Task Force has also completed the enhancements to the Introduction and Chapters 1 and 3-11 of the Guidance, and to the examples in Supplement B. In updating the Guidance and Supplement B, the Task Force has:
  - Implemented the Task Force restructuring proposals, as set out in the September 2020 Issues Paper (Agenda Item 5 September 2020)

- Addressed the comments and editorials received on the content of the Guidance and on Supplement B from respondents to the March 2020 Public Consultation *Extended External Reporting (EER) Assurance* ('the CP')
  - Addressed comments received on the Guidance from Board members at the IAASB September 2020 meeting
  - Addressed written comments received from Board members and from Project Advisory Panel members, following the IAASB September 2020 meeting, on the Task Force's initial proposals
  - Addressed written comments received from the Board on redrafted Chapters 2 and 12.
7. As the Task Force has focused on updating the Guidance and Supplement B at this stage, Supplement A *Credibility and Trust Model and Background and Contextual Information* is not presented for discussion at the IAASB December 2020 meeting.
  8. The remainder of this Issues Paper is divided into the following sections and appendices:
    - Section I:** Summary of Written Responses from Board Members on Chapter 2 and Chapter 12 and Task Force Responses
    - Section II:** Approach Taken on the Structure of the Guidance and Proposed Appendix to the Guidance *Limited and Reasonable Assurance – EER Illustrative Table*
    - Section III:** Approach Taken on the Content of the Guidance on a Chapter-by-Chapter Basis, Including the Introduction to the Guidance
    - Section IV:** Summary of Enhancements to Supplement B
    - Appendix 1:** Draft Minutes of Agenda Item 5 – Extended External Reporting (EER) Assurance on September 16 – 17, 2020
    - Appendix 2:** Task Force, Project Update and Outreach
    - Appendix 3:** Proposed Guidance on 'Double' and 'Dynamic' Materiality.
  9. A marked-up copy of the restructured and updated Guidance is attached as **Agenda Item 5-A** and a marked-up copy of 'Supplement B: Illustrative Examples' is attached as **Agenda Item 5-B**. **Supplement 1 to Agenda 5** and **Supplement 2 to Agenda Item 5** to this Agenda Item are clean versions of the same documents (respectively), which are provided for reference purposes. **Agenda Item 5-C** is an updated version of the proposed appendix to the Guidance *Limited and Reasonable Assurance – EER Illustrative Table*, which was presented as an initial draft at the IAASB September 2020 meeting (see also paragraphs 35-36 below).
  10. Original paragraph numbering has been retained in **Agenda Item 5-A** at this stage so that, when paragraphs have been moved, their numbering has moved with them. New paragraphs of text inserted into the Guidance are currently numbered to follow the immediately preceding paragraph of the Guidance, with the addition of capital letters alongside them. The paragraphs will be renumbered on finalizing the Guidance.
  11. The Board meeting discussions will follow the structure of the Guidance (**Agenda Item 5-A**) and Supplement B (**Agenda Item 5-B**). During the IAASB December 2020 meeting, the EER Task Force Chair will pause to receive the Board's feedback after each of the following sections:

- Section II – Structure of the Guidance and Proposed Appendix to the Guidance *Limited and Reasonable Assurance – EER Illustrative Table*
- Section III – on the Introduction and Chapters 1 – 6, including for Task Force responses (see paragraphs 17-20 below) to written feedback from Board members on Chapter 2
- Section III – on chapters 7-12, including for Task Force responses (see paragraphs 25-28 below) to written feedback from Board members on Chapter 12
- Section IV – Supplement B

## **Section I – Summary of Written Responses from Board Members on Chapters 2 and 12 and Task Force Responses**

12. This section summarizes Board members' responses to the Task Force's request of the 24<sup>th</sup> October for written feedback on redrafted Chapter 2 and Chapter 12. It also indicates the changes that the Task Force has made to address the feedback received. Section III below includes other changes made to these chapters for respondent feedback to the CP. Those changes had already been made when feedback was sought from Board members on the 24<sup>th</sup> October.

### **Feedback on Chapter 2**

13. Board members who provided written feedback were generally supportive of the approach taken by the Task Force in redrafting this chapter, noting that the separation of the diagram into two parts, and the practical EER examples were very helpful. The guidance in this chapter is now much clearer. Board members offered suggestions for further enhancement of the Guidance as set out in paragraphs 14 to 16 below, which address issues raised by more than one person.
14. Several Board members noted that the Guidance should not imply that professional skepticism is particularly important in EER engagements; its exercise is important on any assurance engagement.
15. In relation to the diagrams:
- A few Board members questioned the removal of some of the boxes from the 'impediments' diagram, including the dotted boxes from the left-hand side of the diagram
  - A few Board members noted that the terms 'internal' and 'external' needed clarification.
16. A number of Board members noted that the examples were helpful, particularly the example in paragraph 55D. However, several Board members commented adversely on the 'groupthink' example.

### **Task Force Response**

17. The Task Force has updated the guidance in this chapter to avoid the implication that the exercise of professional skepticism is more important for an EER engagement than for other assurance engagements.
18. The Task Force proposes retaining the current 'impediments' diagram, which better reflects the factors or impediments that may arise on an EER engagement, but which would not in themselves prevent acceptance of the engagement. The boxes 'lack of assurance or subject matter competence', 'resource constraints' and 'familiarity and bias' were removed to respond to feedback to the CP that, rather than being matters to be taken into account when performing an assurance engagement, a lack of competence or independence would prevent acceptance of the

engagement due to non-compliance with fundamental ethical principles. 'Individual response to stress or conflict' was not considered to be EER-specific.

19. The Task Force has reinstated a dotted box on the left-hand side of the diagram in paragraph 55A of the Guidance, and has clarified the references to 'external' and 'internal' in the text of paragraphs 55B and 55C, respectively, of the Guidance.
20. The Task Force has deleted the 'groupthink' example. Where possible, Board members' suggested editorials have been taken into account in updating the other examples, which have been retained.

### **Feedback on Chapter 12**

21. Board members who provided written comments strongly supported the redrafted chapter, including the two illustrative assurance reports to replace some of the paragraphs of text. The illustrations provide a simpler way for users of the Guidance to visualize the elements of the assurance report. However, several Board members were of the view that, within the illustrative reports, it would be better to follow the order of an ISA 700 report. One Board member specifically noted that the first paragraph of the assurance report should identify the subject matter information subject to the assurance engagement, rather than having the identification of the subject matter information 'buried' elsewhere in the report, as the purpose is to clearly identify what is subject to the assurance engagement and what is not.
22. Several Board members questioned the value of including an additional paragraph on intended users as it was confusing, and may raise liability issues in some jurisdictions.
23. Several suggestions were made to move the illustrative reports to the end of the chapter to avoid interrupting the flow of the paragraphs of text in the chapter.
24. A few Board members considered that the guidance in paragraph 360 of this chapter, which had addressed paragraph 69(f) of the Standard, should be reinstated.

### **Task Force Response**

25. To address comments noted in paragraphs 21 above, the Task Force has reordered the content of the illustrative report so that the first paragraph identifies the subject matter information subject to the assurance engagement, and the criteria used. The Task Force is of the view that it is important to recognize the flexibility that the Standard permits and therefore does not propose to follow the ordering of an ISA 700 report in all respects to avoid suggesting that the ISA 700 ordering is the only option.
26. The Task Force has deleted the additional illustrative paragraph on intended users from the illustrative reports (see paragraph 22 above).
27. To address the comments noted in paragraph 23 above, the Task Force has moved the illustrative reports to the end of the chapter so as to maintain the flow of the text of the chapter.
28. The Task Force has reinstated paragraph 360 of the Guidance that addresses paragraph 69 (f) of the Standard (see paragraph 24 above).

## **Section II – Approach Taken on the Structure of the Guidance and Proposed Appendix to the Guidance *Limited and Reasonable Assurance – EER Illustrative Table***

29. As proposed at the IAASB September 2020 meeting, to address respondent comments to the CP, the Task Force has repositioned:
- The chapter that was previously Chapter 6 to after Chapter 3, on the basis that considerations on the entity's process to identify reporting topics flow logically from the guidance on preconditions. The placement reinforces the preparer's role in preparing for assurance. This chapter is now positioned as Chapter 4, and the subsequent two chapters have been renumbered accordingly
  - Chapter 10 to the end of the Guidance, because reporting is the last stage in an assurance engagement. This chapter is now numbered as Chapter 12, with consequent renumbering of the chapters on qualitative EER information and future-oriented EER information as Chapter 10 and Chapter 11, respectively.
30. The Task Force has simplified the language, used short practical examples to replace theoretical discussion where possible, and has removed material that repeated material from the Standard, to address suggestions by respondents to streamline the Guidance and to focus on:
- EER-specific considerations
  - Eliminating repetition of material from the Standard
  - Using 'plain English' to help make the Guidance more accessible.
31. In finalizing the Guidance, it is proposed to hyperlink from the Guidance to the requirement(s) or application material of the Standard.
32. To address comments from the Board during the IAASB September 2020 meeting, the Task Force has removed references to Supplement A and Supplement B from the Guidance, but has retained references to the Guidance in Supplement B; the Task Force proposes to do the same in Supplement A when that supplement is finalized.
33. As noted in the September 2020 Issues Paper, in response to comments on the length of the Guidance, the Task Force is of the view that that the perceived length is inextricably linked with the format in which the Guidance is to be published. Presenting the Guidance in an innovative, easily accessible manner will, to a large extent, overcome possible barriers to its use as a result of its length. The Task Force is continuing to explore ways in which this might be done, with IFAC and IAASB staff. Ideally the digital version will be in place by early 2021. At this stage, the Task Force is of the view that the focus should be on the content of the Guidance, rather than on how it might be presented.
34. To respond to a number of calls for further guidance and practical examples on applying differential requirements for limited and reasonable assurance engagements – from pre-acceptance through to reporting – and recognizing the challenges practitioners face in knowing 'how much is enough' in applying those requirements, the Task Force proposed including, in a table, example considerations and procedures for each of limited and reasonable assurance to illustrate the key differences:
- Using the material in ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements* ('ISAE 3410') as a basis;
  - Making it clear that the illustrative procedures do not suggest requirements or best practice, but are included for illustrative purposes only; and
  - Positioning the table as an appendix to the Guidance.

35. An initial draft of a table illustrating the differences between limited and reasonable assurance was presented at the IAASB September 2020 meeting. It has been updated to address feedback received from Board members, including that there was a need to illustrate at least two different levels for limited assurance – one for just above assurance that is likely to enhance intended users' confidence to a degree that is clearly more than inconsequential, and one for just below reasonable assurance. The Task Force's intention is to include the table as an appendix to the Guidance but, as the Task Force had mixed views, the Task Force is looking for the Board's guidance on whether the table should include two levels of assurance for limited assurance or only one. If only one is retained, it is the Task Force's preference to retain 'just below reasonable assurance' (the blue column in the table). The updated table is presented as **Agenda Item 5-C**.
36. The Task Force intends to ask the Project Advisory Panel members, during the next Project Advisory Panel call on the 2<sup>nd</sup> December, for their feedback on the table referred to in paragraph 35 above to obtain their views on its usefulness to practitioners. The Task Force will brief the Board on the Project Advisory Panel responses during the IAASB December 2020 meeting.
37. Respondent calls for further guidance and practical examples on applying the differential requirements for limited and reasonable assurance related to several of the chapters in the Guidance. As the table of illustrative procedures addresses considerations from pre-acceptance of an assurance engagement through to reporting, discussion on this matter is not repeated in Section III below on the approach taken on the content of the Guidance on a chapter-by-chapter basis.
38. Although not a strong theme, it was also noted that several respondents had called for guidance on multi-location engagements. Rather than including considerations for the practitioner on multi-location engagements in the table to illustrate the difference between limited and reasonable assurance, as was proposed at the IAASB September 2020 meeting, the Task Force has included some multi-location considerations within a short example in Chapter 1 of the Guidance, and in longer Example 13 of Supplement B.

#### Matters for IAASB Consideration:

- Q1. The IAASB is asked for any high-level comments on the changes made to the Guidance since September 2020.
- Q2. In relation to the structure of the of the Guidance in **Agenda Item 5-A**, and the proposed appendix *Limited and Reasonable Assurance – EER Illustrative Table* in **Agenda Item 5-C**, the IAASB is asked whether the Task Force has appropriately responded to the public consultation, and the feedback given at the September 2020 IAASB meeting.
- Q3. In relation to the proposed appendix *Limited and Reasonable Assurance – EER Illustrative Table*, the IAASB is asked:
  - (a) Whether it would be preferable to have two illustrations for limited assurance or only one and, if one,
  - (b) Which level of assurance should be retained; and
  - (c) Whether further revisions are needed to the proposed appendix *Limited and Reasonable Assurance – EER Illustrative Table*

## Section III – Approach Taken on the Content of the Guidance on a Chapter-by-Chapter Basis, Including the Introduction to the Guidance

39. The Task Force presents, in **Agenda Item 5-A**, the Introduction, Chapters 1 to 12 of, and Appendices 1 and 2 to, the Guidance, enhanced and updated as proposed at the IAASB September 2020 meeting. This section of the Issues Paper is organized on a chapter-by-chapter basis, setting out what the Task Force said it would do, what the Task Force has done, and asking specific questions of the Board.

### Introduction

#### *What We Said We Would Do:*

40. In response to feedback received from respondents to the CP, at the IAASB September 2020 meeting the Task Force proposed:
- Amending the title of the Guidance to reflect that the Guidance is about applying the requirements of ISAE 3000 (Revised);
  - Retaining references to ‘the Standard’, rather than referring to ISAE 3000 (Revised) throughout the Guidance, on the basis that ISAE 3000 (Revised) (‘the Standard’) will be referenced in the title of the document;
  - On the basis that the Guidance is not intended to be read from cover to cover and, as the use of these abbreviations is not intuitive, and readers may not have read the Introduction, replacing references to S. and G. with ‘paragraph’ throughout the Guidance; and
  - Checking the consistency of referencing, format and terminology throughout the Guidance.

#### *What We Have Done:*

41. The Task Force has amended the title of the Guidance to read ‘*Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Extended External Reporting (EER) Assurance Engagements*’, and has updated the Guidance in line with the proposals set out in paragraph 40 above. In doing so, the Task Force has included references to the relevant paragraphs of the Standard at the start of each chapter in a consistent manner.
42. The Task Force has also:
- Clarified that, in explaining the principles and requirements of the Standard, the Guidance presumes that practitioners have an understanding of the Standard
  - Updated Diagram 1 to reflect the revised ordering of the chapters (see paragraph 29 above).

### Chapter 1: Applying Appropriate Competence and Capabilities

#### *What We Said We Would Do:*

43. In response to feedback received, the Task Force proposed clarifying in the Guidance that:
- Use of the work of experts is not determined by the level of assurance or by whether the subject matter information is financial or non-financial information, but by factors such as the nature, inherent uncertainty or complexity of, and the specialist training or skills needed to measure or evaluate, the underlying subject matter; and

- As the particular circumstances of each engagement could differ significantly, it is a matter of the engagement partner's professional judgment as to whether the engagement team has sufficient subject matter competence to be able perform the engagement or whether to use the work of a practitioner's expert.
44. The Task Force also proposed including, in one of the additional Supplement B examples to be developed, the illustration of the exercise of such judgment, and considerations for practitioners in assessing the competence and objectivity of experts.
45. The Task Force undertook to further consider the feedback that:
- Competence evolves over time on a continuum, rather than being at a 'high' or 'low' level, and that a variety of factors influences the appropriate assurance competence and subject matter expertise to perform an EER assurance engagement
  - EER engagements require a high level of education in, and practical experience with, a broad range of subject matters; practitioners therefore need a deep understanding of the sector, strategy, risks and opportunities, governance, economic, financial and reporting issues of an entity to be able to assess its business as a whole, to integrate the work of practitioner's experts, and to form the assurance conclusion.

*What We Have Done:*

46. The Task Force has clarified the guidance in this chapter as proposed in paragraph 43 above.
47. The Task Force has also:
- Included a short example within the chapter to illustrate practitioner considerations on whether to use the work of a practitioner's expert or another practitioner;
  - Included in the proposed appendix *Limited and Reasonable Assurance – EER Illustrative Table (Agenda Item 5-C)* considerations for the practitioner in the assessing and evaluating the competence and objectivity of experts;
  - Updated Diagram 2 to refer to 'more' or 'less' extensive assurance competence, rather than to 'high' or 'low' 'levels' of assurance competence (see first bullet of paragraph 45 above); and
  - Through the illustration, in Supplement B, of a range of subject matters and sectors practitioners may encounter, addressed the second bullet in paragraph 45 above.
48. In addition, the Task Force has enhanced the guidance in this chapter by noting that there may be similar considerations for the practitioner when using the work of internal audit as when using the work of a practitioner's expert, as contemplated by paragraph A135 of the Standard.

## **Chapter 2: Exercising Professional Skepticism and Professional Judgment**

*What We Said We Would Do:*

49. The Task Force proposed that it was important to retain the guidance in this chapter, but to focus on its practical application in an EER-specific context, as:
- Those respondents who commented on Chapter 2 recognized the critical importance of being able to exercise professional skepticism and professional judgment in an engagement to assure EER subject matter information, and



- The exercise of professional skepticism and professional judgment was identified in the IAASB's 2016 discussion paper as one of the ten key challenges.

*What We Have Done:*

50. Before requesting written feedback from Board members on this chapter (see paragraph 4 above), in order to address the proposal in paragraph 49 above the Task Force streamlined the guidance in Chapter 2 by focusing on:
  - Why the exercise of professional skepticism and professional judgment are important in an EER engagement;
  - Impediments that are more likely to arise in such engagements, together with some practical examples of how such impediments might arise in EER engagements; and
  - Including an EER-specific example within the chapter to illustrate the exercise of professional skepticism and professional judgment in an EER context.
51. In doing so, the Task Force split Diagram 4 into two parts, and enhanced the discussion in the text of the paragraphs to refer to matters included in each of the diagrams.
52. As discussed in paragraphs 17-20 above, the Task Force has subsequently updated this chapter for written feedback received from Board members in response to the Task Force's request of 24<sup>th</sup> October 2020, including for some editorial suggestions received by the response deadline of 6<sup>th</sup> November. The Task Force will consider editorial suggestions received after this date during the finalization of the Guidance.

### **Chapter 3: Determining Preconditions and Agreeing the Scope of an EER Assurance Engagement**

*What We Said We Would Do:*

53. In response to calls for further practical guidance on how to structure assurance 'readiness' engagements, and the need to maintain a work effort consistent with the expectations of the Standard, the Task Force:
  - Acknowledged that it would be helpful to enhance the guidance in this chapter by including one or two short examples to illustrate practitioner considerations in structuring and conducting readiness assessments; and
  - Proposed carefully considering the wording of the guidance in this chapter and other chapters to avoid any suggestion of requirements beyond those set out in the Standard.
54. To respond to calls for greater clarity on the proposed perimeter of the subject matter information, the Task Force proposed clarifying that:
  - The rationale for a 'rolling program' of assurance should be user needs, rather than only cost considerations; while cost might be a factor, it should not negate the need to consider whether there is a rational purpose;
  - Subject matter information changes over time and completeness is considered in relation to what is within the agreed boundary for assurance; a short example to illustrate this point was also proposed;
  - The primary test, irrespective of how broad or narrow the scope is, should be whether the scope of the engagement has a rational purpose, or could be misleading to intended users;

if the entity is falling behind in plans to increase subject matter information to be assured, it may call into question whether there is a rational purpose.

55. The Task Force also undertook to give further consideration to the suggestion for guidance on a stand back by the practitioner before making the acceptance or continuance decision.
56. In responding to calls for Diagram 5 to be simplified or deleted, the Task Force:
- Noted that visual representation had been included to respond to calls, in the consultation on Phase 1 of the project, for the interrelationships between the preconditions to be emphasized; and
  - Asked for Board guidance on how the concepts and interrelationships might be illustrated in a simpler way; or
  - Proposed deleting Diagram 5 if it was not possible to find a simpler solution.

*What We Have Done:*

57. The Task Force has updated the guidance on readiness assessments to clarify that a separate readiness engagement would not be an assurance engagement performed under the Standard (see paragraph 53 above). An example of practitioner considerations when contemplating a separate readiness engagement is included as Part A to Example 10 in Supplement B in the context of a complex assurance engagement. Mindful of the need to avoid suggesting requirements beyond those set out in the Standard, the Task Force has not included an example on readiness assessments within the chapter, to avoid suggesting that such engagements might be 'best practice'.
58. The Task Force has clarified the matters discussed in paragraph 54 above, as proposed, and has added two short examples on considering the rational purpose when the scope of the assurance engagement changes in successive periods.
59. The Task Force has given further consideration to the call for a stand back, but does not propose including guidance on this matter as a stand back is not required by the Standard.
60. The Task Force has replaced Diagram 5 with a simpler diagram, based on suggestions received from a respondent to the CP, and from a member of the Project Advisory Panel. The new diagram focuses on determining whether the preconditions for assurance are present in light of the engagement circumstances. The text in the chapter has been linked more directly to the diagram. The text has also been simplified and duplication of material from the Standard has been removed. The Task Force is aware that the diagram, subsequent text and the table are repetitive but hope it is helpful to reorder the table as a summary at the end of the chapter.

**Chapter 4 (previously 6): Considering the Entity's Process to Identify Reporting Topics**

*What We Said We Would Do:*

61. Having considered respondent feedback to the CP, the Task Force proposed:
- Clarifying when the chapter might be useful to practitioners,
    - Retaining the preparer and practitioner considerations, which received positive feedback to the Phase 1 consultation; but

- Emphasizing that, although the preparer is responsible for identifying reporting topics, the chapter is intended to guide the practitioner in evaluating the process the entity has used to prepare the EER information;
- In order to avoid confusion, using the term ‘criteria’ consistently in the Guidance, aligning it to the definition in the Standard, and referring to the ‘the entity’s process to identify reporting topics’, rather than to criteria, in the context of identifying reporting topics;
- Clarifying that the practitioner is required to consider the entity’s process to prepare the subject matter information – which may include the process to identify reporting topics – but avoiding the suggestion that the practitioner is responsible for reviewing the process to identify reporting topics or determining its ‘appropriateness’;
- Improving the linkage between the diagram in this chapter and the chapter content, and from Chapter 4 to other chapters, where relevant, and removing reference to how ‘effective’ the entity’s process to identify reporting topics is from the diagram;
- Giving further consideration to the concept of ‘double’ materiality described in the European Commission’s recent consultation on the EU Non-financial Reporting Directive (NFRD).<sup>1</sup>

*What We Have Done:*

- 62. The Task Force has redrafted the guidance in this chapter to address the proposals set out in the first three bullet points in paragraph 61 above, streamlining the guidance where possible, and simplifying the language in this chapter.
- 63. To address the fourth bullet in paragraph 61 above, the Task Force has removed the reference to the ‘effectiveness’ of the entity’s process from the diagram and has enhanced the linkage between the diagram and the text of this chapter - including by adding paragraph references to the diagram - and between this chapter and other chapters.
- 64. The Task Force has given further consideration to the concept of ‘double’ materiality. This is discussed further in the context of Chapter 9 *Considering the Materiality of Misstatements*.

**Chapter 5 (previously 4): Determining the Suitability and Availability of Criteria**

*What We Said We Would Do:*

- 65. To respond to the suggestion that ‘criteria’ is not a term that practitioners readily engage with, and may pose a barrier to a practitioner’s understanding and use of the Guidance, the Task Force proposed that, throughout the Guidance, the term ‘criteria’ be used as it is in the Standard (see also the second bullet in paragraph 61 above). The Task Force also proposed explaining the concept of criteria using a simple analogy.
- 66. The Task Force considered that it would be helpful to enhance the guidance in this chapter to:
  - Emphasize the need for suitable criteria for disclosure and presentation, including when the criteria have changed from previous periods;
  - Clarify that, if the criteria are still to be developed in the context of a particular engagement, the preconditions will not have been met; and

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<sup>1</sup> [European Commission Consultation EU Non-Financial Reporting Directive](#)

- Include a short example on incomplete criteria.

*What We Have Done:*

67. In updating this chapter, the Task Force has, to address the matters discussed in paragraphs 65 and 66 above:
- Included a simple analogy to explain the concept of suitable criteria and their availability;
  - Included a short paragraph to emphasize the need for criteria to address disclosure and presentation;
  - Clarified that, if the criteria are still to be developed for a particular engagement, the preconditions will not have been met for that engagement; linkage has also been made to Chapter 3;
  - Included, in the chapter, three short examples on completeness of criteria, including one in the context of criteria that have been established by law or regulation but which may, nevertheless, not be suitable.
68. The Task Force has also, in line with the proposal, generally, to simplify the Guidance (see also paragraph 30 above):
- Simplified the guidance by eliminating repetition of material from the Standard, and using simpler language; and
  - Simplified the diagram in this chapter.

**Chapter 6 (previously 5): Considering the Process Used to Prepare, or Internal Control Over the Preparation of, the Subject Matter Information**

*What We Said We Would Do:*

69. The Task Force undertook to carefully consider the wording in this chapter, and in other chapters (as noted in paragraph 53 above), during finalization of the Guidance to avoid suggesting requirements beyond those set out in the Standard either:
- When determining the presence of the preconditions; or
  - For limited assurance engagements.
70. The Task Force proposed, in light of the increasing use of IT systems to record and process non-financial information, including a paragraph to address the point that, when there are complex IT systems in place, there may be a need for the practitioner to give greater focus to IT controls. If the practitioner intends to place reliance on internal controls, there may be a need to use the work of an IT expert. However, the Task also proposed making it clearer in this chapter that a mature system of internal control is not a prerequisite for assurance, and that, even when controls are immature, there may be a simple process that the preparer follows to prepare the subject matter information. The practitioner obtains an understanding of that process to consider whether it provides a reasonable basis for designing and performing their substantive procedures.
71. To respond to comments that overarching oversight by management is important, the Task Force proposed making the discussion on governance and oversight more prominent in this chapter.
72. To respond to feedback that external sources of information are often used by preparers of EER information, and the need for guidance in this area, the Task Force agreed to strengthen the

guidance in this area by providing considerations for the practitioner when data or information from a third party (external information source) is used by the preparer. The Task Force further proposed replacing the example of a service organization in para 205 of the Guidance with a different example of an external information source, in light of the revisions to ISA 540 and related conforming amendment to ISA 500.

*What We Have Done:*

73. The Task Force has simplified and streamlined the guidance in this chapter and, in order to avoid suggesting requirements beyond those set out in the Standard, the title of the chapter has been amended from '*Considering the System of Internal Control*' to '*Considering the Process Used to Prepare, or Internal Control Over the Preparation of, the Subject Matter Information*', with consequent amendments made in the body of the chapter to reflect that there are different requirements for limited and reasonable assurance.
74. Paragraph 201 of the Guidance has been enhanced to give guidance that, when the entity uses complex IT systems, the practitioner may need to consider whether to use the work of an IT expert (practitioner's expert). The Task Force has also enhanced paragraph 202 of the Guidance to clarify that a mature system of internal control is not a prerequisite for assurance, and that, even when controls are immature, there may be a simple process that the preparer follows to prepare the subject matter information.
75. To address the proposal noted in paragraph 71 above, the Task Force has reordered the material under the heading 'Governance and Oversight of the Process to Prepare the EER Information' in this chapter to earlier in the chapter to give it greater prominence and to better align it with the diagram in this chapter.
76. The reference in paragraph 205 to a service organization has been amended, and further guidance has been included in Chapter 8, with cross-references between this Chapter 6 and Chapter 8, on considerations when a preparer uses data or information from an external information source to prepare the EER information.

**Matters for IAASB Consideration:**

In relation to the draft Guidance in the Introduction and Chapters 1 – 6 of **Agenda Item 5-A**, the IAASB is asked for its views on:

- Q4. Whether the Task Force has appropriately responded to the public consultation, and the feedback given at the IAASB September 2020 meeting on the Introduction and chapters 1 – 6 and if any further revisions are required; and
- Q5. Specifically, in relation to the diagram and the table in Chapter 3, whether the Board supports the inclusion of the simplified diagram, and whether the table should be retained as a summary at the end of the chapter or deleted.

**Chapter 7: Using Assertions**

*What We Said We Would Do:*

77. The Task Force proposed retaining Chapter 7 within the Guidance, despite calls for it to be moved to Supplement A, on the grounds that:

- Using assertions was identified as one of the ten key challenges to be addressed by the Guidance; and
  - The guidance in the chapter is consistent with ISA 315 (Revised 2019) for those with an audit background, and useful for those without an audit background.
78. However, the Task Force proposed simplifying the language, and including a few short EER-specific examples to address respondent comments that the guidance in this chapter would benefit from being more practical and by using less complex language consistent with the language used in the rest of the Guidance.
79. In considering the calls for:
- The guidance in this chapter to align the definition of assertions with those used in other IAASB standards, and
  - The Guidance not to provide other options as to which assertions might be used,
- the Task Force was of the view that the discussion in paragraph 262 of the Guidance already aligns the assertions with ISAE 3410 and ISA 315 (Revised 2019), but that it is important to retain flexibility in how a practitioner considers the way in which a misstatement might arise. The Task Force therefore proposed retaining the guidance in paragraph 270 that recognizes that there may be other ways in which the practitioner considers how misstatements might arise.
80. The Task Force also proposed enhancing the Guidance to:
- Refer to potential causes of misstatement, including human error, process flaws, management bias, or fraud;
  - Give examples of types of misstatement that might arise in an EER context, addressing each of the assertions, including the 'rights and obligations' assertion, for which no example was given in the guidance in this chapter; and
  - Change the subsection title to 'Types of potential misstatements and possible causes' to better reflect the content of the subsection.

*What We Have Done:*

81. The Task Force has made the proposed changes discussed in paragraphs 78-80 above and has replaced theoretical discussion with a more practical EER-specific example in paragraph 267 of the Guidance.
82. The Task Force has also:
- Included a definition of assertions, consistent with that in ISAE 3410, to replace the discussion on what assertions were not, and has included the definition in Appendix 1 to the Guidance.
  - Clarified that assertions are not required to be used and, that if they are used in a limited assurance engagement, they are used in a different way to when they are used in a reasonable assurance engagement, so as not to suggest requirements that go beyond the requirements of the Standard.

## Chapter 8: Obtaining Evidence

### *What We Said We Would Do:*

83. The Task Force proposed retaining the guidance in paragraph 284 of the Guidance:
- Giving greater focus to obtaining evidence as a response to the practitioner's assessment of risk, and to EER-specific considerations; and
  - Breaking up the table into three separate sets of considerations for each of planning, execution and completion, with explanatory text between them, making the content easier to read, and addressing the comment that, while the table was valuable, it contained a great deal of information, and it would be helpful to break it down by sub-theme or goal.
84. Data or information from third party sources (external information sources) is often used in preparing EER information. The Task Force proposed responding to feedback that further guidance in this area would be helpful by including further guidance and considerations for the practitioner when such information from external information sources is used by the preparer to prepare the EER information (see also paragraph 72 above).
85. The Task Force also considered respondent comments that the guidance on performance materiality may be better positioned in Chapter 9. However, the Task Force is of the view that, as performance materiality is designed to address aggregation risk and is considered before designing procedures to obtain evidence, it is appropriate to retain the guidance within Chapter 8. To improve the flow of the Guidance, the Task Force proposed noting in Chapter 8 that the materiality of misstatements is considered in Chapter 9.

### *What We Have Done:*

86. The redrafting in this chapter simplifies the language and breaks up the table in paragraph 284 of the Guidance into separate sets of considerations. The Task Force has split the table into four, rather than the three proposed (see paragraph 83 above) sets of considerations, focusing on:
- Risk considerations, and considerations when determining what evidence is needed to respond to risks;
  - Considerations when determining what evidence is available;
  - Considerations when designing and performing procedures to obtain evidence; and
  - Considerations when evaluating the sufficiency and appropriateness of evidence obtained.
87. To provide EER-specific context for the more generic considerations set out in paragraphs 284-284D of the Guidance, the Task Force has developed an additional example (Example 13) for Supplement B. The example sets out, in columnar format, the considerations contained in paragraphs 284-284D of Chapter 8 and, alongside, an EER-specific example of how each consideration has been addressed. The example also addresses some multi-location considerations (see paragraph 38 above).
88. To address the proposals noted in paragraph 84 above, the Task Force has enhanced the guidance on external information sources and, as noted in paragraph 76 above, has included cross-references between this chapter and Chapter 6.
89. The Task Force has replaced some of the theoretical discussion on aggregation risk with a more practical EER-specific example in paragraph 267 of the Guidance, and has made the change proposed in paragraph 85 above to improve the flow between this chapter and Chapter 9.

## Chapter 9: Considering the Materiality of Misstatements

### *What We Said We Would Do:*

90. To address respondent comments on the importance of the practitioner having sufficient understanding of the intended users and their intended use of the assurance report, the Task Force proposed explicitly linking the guidance in this chapter to the discussion on rational purpose and the needs of intended users in Chapter 3, emphasizing the importance of the preparer identifying the intended users and purpose of the report at the outset of the engagement. In addition, the Task Force proposed including a reference to paragraph A56 of the Standard to guide the practitioner's understanding of the intended users.
91. The Task Force also proposed adding a paragraph to explicitly address 'misstatement by omission' of reporting topics and linking that paragraph to the guidance on the entity's process to identify reporting topics in Chapter 4.
92. The Task Force agreed that it would be helpful to include guidance on identifying misstatements, as well as evaluating misstatements, and proposed:
  - Adding brief guidance in Chapter 9 on factors to consider in identifying misstatements; and
  - Illustrating in one of the proposed additional examples to be developed for Supplement B how both quantitative and qualitative misstatements in EER information might be identified, accumulated and evaluated.
93. It was also proposed to make an explicit link between the consideration of the 'presentation and disclosure' assertion in Chapter 7 and the guidance in this chapter to assist practitioners when considering whether there may be material misstatements of qualitative information and future-oriented information. The Task Force also proposed clarifying that presentational misstatement includes misstatement related to the priority with which subject matter information is presented, and the relative emphasis given to particular aspects of the subject matter information.
94. The Task Force also proposed enhancing the guidance in this chapter by including guidance that the practitioner should evaluate not only the materiality of uncorrected misstatements, but also their pervasiveness.
95. Having considered respondent comments on the diagram in this chapter (previously Diagram 10), the Task Force acknowledged that the process is more complex than was represented in the diagram. As the evaluation of misstatements can be challenging, the Task Force proposed enhancing the diagram to better depict the practitioner's considerations in identifying and evaluating misstatements.
96. As noted in paragraph 64 above, the Task Force undertook to give further consideration to the concept of 'double' materiality, which is required to be considered under some frameworks, such as GRI. As financial and non-financial reporting converge (for example to report on the Recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD')), it is likely that this concept may become more important.
97. By way of context, the European Commission earlier this year launched a consultation on potential changes to the EU Non-Financial Reporting Directive, in which the concept of 'double' materiality is described. The first perspective of this materiality concept concerns the potential or actual impacts on the 'performance, development and position' of the company (financial-type materiality, with investors as intended users). The second perspective refers to the 'external impacts of the company's activities' and is concerned with environmental and social materiality



(with users that include consumers, civil society, employees, and also investors). Aside from the definition and introduction of two perspectives, the concept does not introduce new elements to the concept of materiality.

98. The new alliance of five framework- and standard-setting institutions – the CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) – acknowledge these perspectives, and the concept of ‘dynamic’ materiality (see following paragraph).
99. Related to the concept of ‘double’ materiality is that of ‘dynamic’ materiality, which recognizes materiality as a continuum along which different issues, impacts, and information may evolve over time.

*What We Have Done:*

100. The Task Force has made the changes discussed in paragraphs 90 to 95 above. In doing so, the Task Force has:
- Emphasized the consideration of materiality from the perspective of the intended users of the assurance report;
  - Replaced Diagram 10, and has improved linkage from the diagram to the relevant paragraphs in this chapter; and
  - Developed Example 17 in Supplement B to illustrate how both quantitative and qualitative misstatements in EER information might be identified, accumulated and evaluated.
101. In addition, the Task Force has included two short examples to illustrate the difference between measurement and evaluation uncertainty to address respondent requests for such clarification.
102. On the concepts of ‘double’ and ‘dynamic’ materiality (see paragraphs 96-99 above), the Task Force has drafted guidance and an example, which have not been included in Chapter 9 of **Agenda Item 5-A**, but are included in Appendix 3 to this Issues Paper. The Task Force is of the view that the additional guidance and example could be positioned in Chapter 9 after paragraphs 304A-304D on ‘Materiality is considered from the user’s perspective’, should it be considered appropriate to include it in the Guidance. The Task Force is divided on whether to include this concept or not, noting the:
- Increasing convergence of non-financial and financial reporting;
  - The direction in which regulation appears to be moving; and
  - The support shown for the concept by the new alliance of standard setters<sup>2</sup>.
103. The Task Force is looking for Board guidance about the consistency of the concept of double materiality with materiality as used in the Standard, and on whether or not to include material on the concept in the Guidance.

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<sup>2</sup> CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB)

## **Chapter 10 (previously 11): Addressing Qualitative EER Information**

### *What We Said We Would Do:*

104. To respond to feedback that, while there are challenges in assuring qualitative information, the chapter should not suggest that assuring such information is problematic, the Task Force proposed enhancing the guidance in paragraphs 377 to 380 of the chapter to simplify it and to clarify when the chapter would be of assistance to practitioners.
105. To address respondent requests for further guidance and practical examples on obtaining evidence the Task Force proposed developing two further examples for inclusion in Supplement B, focusing on some of the following considerations when obtaining evidence:
  - When preparers rely on external information sources for information that is not recorded within preparers' own systems
  - Through tests of internal controls
  - Using 'evaluation' rather than 'measurement' techniques
  - In relation to estimates and qualitative prior period errors
  - On identifying and evaluating misstatements in qualitative subject matter information.
106. To address respondent calls for clarification and practical examples on distinguishing between subject matter information and 'other information', the Task Force also proposed:
  - Revisiting the guidance on 'other information' in finalizing the Guidance; and
  - Illustrating, through the use of an example, how 'other information' might be separately identified.

### *What We Have Done:*

107. The Task Force has made the proposed changes (as set out in paragraph 104 above) to paragraphs 377-380 of the Guidance.
108. The Task Force has also developed five additional examples for inclusion in Supplement B. These additions and enhancements include practitioner considerations when:
  - Obtaining evidence when preparers have relied on external and multi-location information sources in preparing EER information (Example 13)
  - Obtaining evidence through tests of internal controls (Examples 15 and 16); and
  - Identifying, accumulating and evaluating qualitative misstatements (Examples 14, 16 and 17).
109. The Task Force has also developed two short in-chapter examples to illustrate considerations for the practitioner on the entity's processes and internal controls, and on 'other information'.
110. Examples on obtaining evidence for estimates are discussed in paragraph 114 below.

## **Chapter 11 (previously 12): Addressing Future-Oriented EER Information**

### *What We Said We Would Do:*

111. To respond to calls for further practical examples and guidance on assuring future-oriented information the Task Force proposed developing two further examples for Supplement B, to

include future-oriented information, the consideration of the matters identified in paragraph 105 above, and to address:

- The factors that make it suitable to accept these types of engagements;
- The elements of future-oriented information on which assurance is possible;
- The inclusion of examples of statements that can be subject to assurance and the reasons why, as well as some that cannot be assured and why they cannot be assured; and
- When the practitioner might consider declining the engagement if a meaningful level of assurance cannot be obtained.

112. In addition, the Task Force proposed setting the scene in the introduction to this chapter by explaining that forward-looking information may be increasingly important, for example in the transition to a sustainable economy compatible with an IPCC<sup>3</sup> '2°C scenario', and as entities assess the risks and potential impacts of uncertain future climate-related scenarios.

*What We Have Done:*

113. As discussed in paragraph 108 above, the Task Force has developed five additional examples for inclusion in Supplement B. These examples address some of the matters discussed in paragraph 111 above.
114. Illustrative material has been included on obtaining evidence for estimates in the proposed appendix *Limited and Reasonable Assurance – EER Illustrative Table (Agenda Item 5-C)*.
115. The Task Force has also developed a short in-chapter example for Chapter 12 on the types of evidence the practitioner may obtain when evaluating future-oriented information.
116. The introduction to this chapter has been updated for the proposal set out in paragraph 112 above.

## **Chapter 12 (previously 10): Communicating Effectively in the Assurance Report**

*What We Said We Would Do:*

117. Having given consideration to respondents' general calls for practical examples, and the specific call for a typical illustrative assurance report, the Task Force proposed including in this chapter an illustrative assurance report, which would place each element of the report in context and allow the text in this chapter to be more succinctly presented. The Task Force proposed annotating the illustrative report to:
- Identify the basic elements of the assurance report required by paragraph 69 of the Standard; and
  - Include some of the text, set out in paragraphs 340-375 of the Guidance, in annotations on the illustrative report instead, to explain how the practitioner may use the basic elements to communicate effectively in the assurance report.
118. The Task Force also proposed responding to comments that:
- The guidance on addressee and intended users was confusing

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<sup>3</sup> Intergovernmental Panel on Climate Change

- It would be helpful for the guidance to differentiate between inherent limitations and emphasis of matter paragraphs
- An example of how to differentiate information subject to assurance and ‘other information’ in an EER report would be helpful.

*What We Have Done:*

119. Before requesting written feedback from Board members on this chapter (see paragraph 4 above), the Task Force:
- Included two illustrative example reports – one for reasonable assurance and one for limited assurance – annotated to identify the basic elements required by paragraph 69 of the Standard and to explain how the practitioner may use additional elements to communicate effectively in the assurance report;
  - Removed some of the text from paragraphs 340-375 that described those matters that are now illustrated in the example reports; and
  - Retained text from paragraphs 340-375 when it was considered necessary to include explanation beyond the annotations in the illustrative report.
120. The Task Force has also amended the title of this chapter to read ‘*Communicating Effectively in the Assurance Report*’ instead of ‘*Preparing the Assurance Report*’ to better reflect what the guidance in this chapter addresses.
121. The Task Force has also addressed the matters noted in paragraph 118 above, and Board member written comments to the Task Force request of the 24<sup>th</sup> October 2020 (see also paragraphs 25 to 28).

**Matters for IAASB Consideration:**

For Chapters 7–12 of **Agenda Item 5–A**, the IAASB is asked for its views on:

- Q6. Whether the Task Force has appropriately responded to the public consultation and the feedback given at the IAASB September 2020 meeting for chapters 7–11 and whether any further revisions are needed to the draft Guidance;
- Q7. Whether the Task Force has appropriately responded to the public consultation, the feedback given at the IAASB September 2020 meeting and written feedback received from Board members on Chapter 12; and
- Q8. For Chapter 9
- a. Whether the inclusion of the diagram to replace previous Diagram 10, is supported.
  - b. Whether the guidance on ‘double’ and ‘dynamic’ material, as set out in **Appendix 3** to this Issues Paper should be included in Chapter 9.

## Section IV – Summary of Enhancements to Supplement B

### *What We Said We Would Do:*

122. In light of the calls for further examples, generally, and to illustrate additional frameworks, from respondents who commented on Supplement B, the Task Force proposed retaining Supplement B. In addition, the Task Force proposed:
- Developing two further examples to illustrate a number of concepts in the context of applying the SASB standards, and the assurance of disclosures made by an entity reporting in line with the TCFD recommendations; and
  - Considering and, where necessary, enhancing the other examples for detailed suggestions and editorials received, when finalizing the Guidance and Supplement.

### *What We Have Done:*

123. The Task Force has included the following new examples in Supplement B (note, these are not included in mark up in Supplement B as the entirety of the examples is new):
- Example 13: *Illustrating practitioner considerations when obtaining evidence, including for information used by the preparer from external and multi-location information sources*
  - Example 14: *Illustrating qualitative information that does not result from applying suitable criteria, or results from misapplying the criteria, and practitioner considerations about 'other information'*
  - Example 15: *Illustrating considerations related to future-oriented, qualitative, and 'other information' using SASB Standards as criteria*
  - Example 16: *Illustrating considerations for the practitioner in the context of an engagement related to an entity's disclosures to address the Recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD')*
  - Example 17: *Illustrating practitioner considerations when evaluating quantitative and qualitative misstatements in EER subject matter information.*
124. In addition, as noted in paragraph 57 above, the Task Force has added Part A to Example 10 to respond to calls for guidance on readiness assessments and to specific calls for this example to include a focus on determining the presence of preconditions for assurance.
125. Other examples (1 – 12) have been marked up for editorial and other suggestions received from respondents to the CP.
126. The Task Force would like to thank the following individuals and organizations for their assistance in developing certain of the examples in Supplement B, and the guidance and example in Appendix 3 to this Issues Paper:
- Breanne Anderson, EY
  - Luke Blower, WBCSD
  - Ben Carpenter, Social Value International
  - Michael Bray, KPMG
  - Rommie Johnson, SASB

- Jeremy Nicholls, Social Value International
- Nick Ridehalgh, KPMG
- Tom Riesenbergh, SASB

**Matters for IAASB Consideration:**

For Supplement B (**Agenda Item 5-B**), the IAASB is asked for its views on:

- Q9. Whether the Task Force has appropriately responded to the public consultation in Examples 1 – 12.
- Q10. Whether the addition of Part A to Example 10, and the additional examples 13 – 17 are effective in assisting practitioners to address the issues related to each of the ten key challenges identified.

## Appendix 1

### **Draft Minutes of Agenda Item 5 – Extended External Reporting (EER) Assurance on September 16 – 17, 2020**

#### BACKGROUND

Mrs. Provost provided an overview of the responses to the Consultation Paper [Extended External Reporting \(EER\) Assurance](#), noting the generally positive feedback received on the draft EER guidance (the Guidance), and a recognition of its importance.

In response to comments received from respondents to the Consultation Paper and to the EER Task Force's initial proposals to address those comments, the Board provided input on a number of matters – see headings, below.

#### CONTENT OF THE EER NON-AUTHORITATIVE GUIDANCE

- Illustrating the differences between limited and reasonable assurance would be useful in terms of applying the Guidance in practice. However, the proposed additional illustrative material should not detract the Task Force's focus from the main deliverable, being the Guidance. There may also be a risk that such illustrative procedures might end up being used more broadly, e.g., for other types of assurance, including those related to financial statements. In proceeding, as limited assurance covers a broad spectrum, the Task Force may want to consider developing two examples – one to illustrate assurance that is 'just above clearly inconsequential' and another example that is 'just below' reasonable assurance.
- It was noted that it would be helpful to address the call for guidance on a 'stand back' by the practitioner before making the acceptance or continuance decision, which may be particularly important in the context of EER assurance engagements.
- It would be helpful to retain a diagram in Chapter 3 to illustrate the interrelationships between the preconditions for assurance. However, it was suggested that Diagram 5 should be deleted if it cannot be made more readily understandable, whether by simplifying or replacing it.
- The Guidance should not imply requirements that go beyond ISAE 3000 (Revised).<sup>4</sup> Attention was drawn to aspects of the Guidance where there was a need to more carefully align the Guidance with ISAE 3000 (Revised).
- It was suggested that the Task Force revisit their view on controls in Chapter 5 that the testing of controls, IT or otherwise, is no different in principle for EER subject matter information compared to any other subject matter information. Matters to consider may include that controls for the former may be less developed and that the skills or expertise in testing some EER controls may be different to the skills or expertise needed in testing financial controls.
- It was noted that the guidance in Chapter 6 needs to be clear and consistent in its treatment of the practitioner's consideration of the process to develop the criteria and the practitioner's consideration of whether the resulting criteria are appropriately applied to identify reporting topics.

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<sup>4</sup> International Standards on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

- It was noted that the (foundational) considerations related to evidence in an EER engagement are similar to those in a financial statement audit. As a project proposal to revise ISA 500<sup>5</sup> is underway, keeping the guidance in this chapter at a relatively high level would avoid the need to revise it as a result of the ISA 500 project.
- It would be appropriate to clarify the distinction between including in the assurance report a description of an inherent limitation associated with the measurement or evaluation of the underlying subject matter, and using an emphasis of matter paragraph to draw attention to a matter relating to measurement uncertainty that is presented or disclosed in the subject matter information.

#### FORM AND STRUCTURE OF THE EER NON-AUTHORITATIVE GUIDANCE

- In relation to the ordering of the chapters, one Board member suggested that a more logical order for Chapters 5 to 7, would be 3, 4, 6, 7, 5 (noting that the Task Force had suggested 3, 6, 4, 5, 7). Another Board member noted that, although there had been calls to reorder Chapter 6, there were other respondents who had supported the current ordering of the chapters, suggesting that no change may be needed.
- In relation to publishing the Guidance in an enhanced digital format, it was noted that:
  - Doing so would not alleviate the need to reduce the length of the Guidance; and
  - It would be important to place Diagram 1 as the 'entrance gate' to a digitized document, rather than positioning it within a chapter or as an appendix so that the interrelationships between different parts of the Guidance, and the relationship to ISAE 3000 (Revised), could be clearly seen.

#### SUPPLEMENTS A AND B

- The Board broadly supported retaining both parts of Supplement A but noted that work on the Supplement should not impact the ability to publish the Guidance within the planned project timeline. If necessary, the Supplement (or parts thereof) could be issued at a later stage.
  - Mrs. Provost clarified that after the Issues Paper had been posted, and having had an opportunity to again go over the responses received, there are substantive comments relating to Supplement A which would require more attention than previously thought.
  - One Board member noted that for many of the reasons mentioned in the Issues Paper, Supplement A should not be issued at this time; another was in favor of deleting Part II, but retaining Part I of Supplement A.
- The Board noted the positive feedback from respondents regarding Supplement B and supported the Task Force's view to retain Supplement B, including development of two further examples, subject to it not delaying finalization of the main deliverable, being the Guidance.
  - One Board member noted that by attempting to cover a range of different frameworks, there may be a risk that if a framework is not illustrated, it could suggest that it is not covered by the Guidance.

#### OTHER MATTERS

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<sup>5</sup> ISA 500, *Audit Evidence*



- It was noted that there is a high level of interest in this project, and a need to publish the Guidance as soon as possible, especially given recent developments, such as the Statement of Intent to Work Together Towards Comprehensive Corporate Reporting by CDP, the Climate Disclosure Standards Board, the Global Reporting Initiative, the International Integrated Reporting Council, and the Sustainability Accounting Standards Board. There was also the call from the International Federation of Accountants' for the establishment of an International Sustainability Standards Board. The Board expressed the view that these developments underline the importance of keeping to the project timeline to finalize the Guidance by March 2021. A suggestion was made that the materials could be released in phases, with the Guidance being first, followed by any additional materials such as supplements.
- It was also noted that because the focus of the Guidance is on the practitioner, further consideration may be needed going forward regarding a broader objective relating non-financial reporting and the IAASB's role in relation to other stakeholders (i.e., other than practitioners). In addition to the need to evolve EER support for practitioners, there is a need for wider consideration to promote the value of EER assurance engagements to preparers, investors and other stakeholders.

#### IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted that additional examples and appendices could impact both the volume of the Guidance and the timing of its publication. He recommended undertaking a separate project to develop illustrative material on the difference between limited and reasonable assurance. Mr. Dalkin also suggested deleting Diagram 5 as it is complex and difficult to understand.

#### PIOB OBSERVER REMARKS

Mr. Grund noted that if Diagram 5 could be improved, he would support retaining it. However, if a graphic is not clear, he suggested to delete it.

#### WAY FORWARD

Mrs. Provost thanked the Board for the feedback received and noted that the EER Task Force will consider the matters raised by Board members during the meeting and the detailed additional written comments received offline. Mrs. Provost noted that the Task Force will continue to engage with the project advisory panel, and that some of the panel members had offered to assist with the additional examples for Supplement B.

The EER Task Force will prepare a revised draft of the Guidance for consideration by the Board at its December 2020 meeting, with a view to approve the publication in March 2021.

## Appendix 2

### Task Force, Project Update and Outreach

#### Task Force

1. The Task Force members are listed on the [Project Page](#) on the IAASB website.
2. There are three observers to Task Force meetings; representatives from the World Business Council for Sustainable Development, the Corporate Reporting Dialogue, and Principles for Responsible Investment.
3. The Project Advisory Panel now has 27 members, with good representation across stakeholder groups and global regions. It last met via conference call on the September 22, 2020; and is due to meet again on the 2<sup>nd</sup> December 2020 to consider the updated EER Guidance, and the matters raised in this Issues Paper.

#### Project Update - Plan for Board Meetings in 2021

*March 2021:* Seek approval of final EER Guidance and supplements

#### Outreach Since September 2020

The Task Force Members and IAASB Staff have undertaken the following outreach activities since the IAASB September 2020 meeting:

- Best Practice in ESG Disclosure and Reporting Virtual Summit 15 October 2020
- [EER Component in] External Reporting Board New Zealand 21 October 2020
- Update on IAASB Initiatives on Assurance Engagements when Applying ISAE 3000 and the business case for assurance UNCTAD-ISAR Webinar Geneva 30 October 2020
- [EER Component in] Developments in Auditing – The role of academic research International Association for Accounting Education and Research (IAAER) Indonesia Webinar 30 October 2020
- [EER Component in] Maintaining Confidence in Audit in a Changing World CPA Australia Congress, The Annual Allan Barton Memorial Research Lecture, Canberra Australia October 2020
- [EER Component in] NZ Audit Roundtable 10 November 2020
- [EER Component in] Chartered Accountants Australia and New Zealand Audit Conference 18 November 2020

## Appendix 3

### Proposed Guidance on ‘Double’ and ‘Dynamic’ Materiality

#### *‘Double’ and ‘Dynamic’ Materiality*

1. Some frameworks may require consideration of EER information necessary for an understanding of the company’s development, performance, position and impact of its activities. This principle implies that entities are required to disclose:
  - (a) what is material to the business in creating financial value, and also
  - (b) what is material to the well-being of society and the environment.
2. Although there may be considerable overlap, the difference may be less about the actual impacts than about the assessment of risk to the entity’s business (i.e. the risk that those impacts that are material to society are also material to the business). This principle is often referred to as ‘double’ materiality.
3. What is material to society and the environment also changes over time, and consequently what is material to a business and the intended users of its reporting may change over time. This concept is sometimes referred to as ‘dynamic materiality’.
4. In practical terms, this means that it may be particularly important for the practitioner to have a good knowledge of the business, industry and other engagement circumstances to be able to exercise professional skepticism and professional judgment in the context of materiality considerations.
5. The principles discussed in the guidance below [paragraphs 304A-304D of the Guidance] may be helpful to practitioners in identifying, accumulating and evaluating the materiality of misstatements, whether in relation to impacts on the entity only, or also to impacts on society and the environment.

#### EXAMPLE

A mining company is considering acquiring land to expand its operations. The land includes an indigenous community’s important ancient heritage and religious site. Destruction of those sites would affect people’s well-being. The mining company may not have been aware of the importance of the land to the community, or may have been aware, but assessed the risk to the entity’s business to be low and, consequently, that it was not material to the business or to the intended users of its reporting. However, changing social norms or changes in legislation may in future result in such considerations being material to intended users of both the entity’s EER reporting and its financial reporting.

Even if an entity decides that some impacts are not material, in the interests of transparency, it may consider disclosing the reasons for those impacts being excluded.