

Supporting Credibility and Trust in Emerging Forms of External Reporting (EER):

Additional Tables Referenced in the Draft Discussion Paper (DP)

This paper includes the two tables referred to in the Draft DP (See **Agenda Item 11-A** – see Table 3 and Table 4 below)

A. **Table 3: Challenges for Assurance Engagements in the EER Environment**

Column 1 of Table 3 summarizes key differences between financial reporting and EER frameworks (shown in *pink background*), and how the resulting characteristics of EER reporting give rise to challenges in establishing sound governance (shown in *green background*). Column 2 (shown in *blue background*) summarizes how these differences and challenges give rise to challenges in performing EER assurance engagements (AE).

Differences between financial reporting and EER Frameworks:	As a result, challenges in performing EER AE, as compared with financial statement audits, may include:
How EER reporting may give rise to challenges in establishing sound governance:	
The objectives of the framework are often broader.	1. The scope of an EER AE may be broader and more diverse with respect to the intended users and the subject matter .
The scope of the reporting processes, controls and oversight will need to be broader.	
The users and their expected use , and the scope and content elements , of the EER report are often broader and more diverse in nature.	2. Considering the perspective of a wider range of users in applying the concept of materiality.

<p>Differences between financial reporting and EER Frameworks:</p>	<p>As a result, challenges in performing EER AE, as compared with financial statement audits, may include:</p>
<p>How EER reporting may give rise to challenges in establishing sound governance:</p>	
<p>Broader subject matter competence and use of experts needed in designing and operating EER reporting systems.</p>	<ol style="list-style-type: none"> 3. Need for broader subject matter competence, including the use of experts. 4. The practitioner’s need for broader skills, experience and knowledge to integrate, and to evaluate and assess the implications of, the work of potentially multiple experts. 5. Assurance reports will need to reflect the diversity in AE scope, users and subject matter. Their nature will be more judgmental and require more flexibility and less standardization than in relation to auditor’s reports, given few jurisdictional requirements for EER AEs.
<p>The scope and content elements often address issues that may be less formally embedded in the entity’s business processes.</p>	<ol style="list-style-type: none"> 6. There may be higher control risks (control environment) that may be challenging in terms of AE acceptance.
<p>Issues may be less well integrated in the entity’s strategic planning, risk management and internal control processes.</p>	<ol style="list-style-type: none"> 7. Higher levels of control risk may also be relevant to acceptance if, as a result, the entity does not have a reasonable basis for preparing the EER report.
<p>Management and those charged with governance may be less experienced in EER reporting.</p>	<ol style="list-style-type: none"> 8. Higher levels of control risk may have significant cost implications for the AE, which may outweigh the benefits.
<p>Reporting processes (including information systems), controls and oversight are often less mature in terms of design that is suitable for the purpose and the level of rigor needed to provide internal assurance over the EER report.</p>	
<p>There may be greater dependence on ‘work arounds’ to gather and re-work information retrospectively, from systems designed for other purposes.</p>	

<p>Differences between financial reporting and EER Frameworks:</p>	<p>As a result, challenges in performing EER AE, as compared with financial statement audits, may include:</p>
<p>How EER reporting may give rise to challenges in establishing sound governance:</p>	
<p>The users and their expected use, and the scope and content elements are often less comprehensively specified in the EER framework.</p>	<p>9. The practitioner will need to apply significant professional judgment in more areas - assessing the appropriateness of preparer materiality judgments.</p>
<p>The boundaries of the subject matter in the EER report will often be highly judgmental and what is relevant to users will vary with the nature of the entity’s activities as well as the nature of the users.</p> <p>There will likely be a need for a materiality process to ensure these judgments reflect the User perspective.</p>	<p>10. Since many of these judgments will be subjective there will be a greater risk of management bias and more areas where professional skepticism will need to be applied.</p> <p>11. In the absence of an effective materiality process it may be difficult for the practitioner to obtain sufficient appropriate evidence about the completeness and relevance of the information in the EER Report – there could be AE acceptance issues.</p>
<p>Depiction methods and principles for communicating often are less comprehensively specified in the framework.</p>	<p>12. The practitioner will need to apply significant professional judgment in more areas - assessing the appropriateness of preparer judgments about the selection of</p>

<p>Differences between financial reporting and EER Frameworks:</p>	<p>As a result, challenges in performing EER AE, as compared with financial statement audits, may include:</p>
<p>How EER reporting may give rise to challenges in establishing sound governance:</p>	
<p>Determining what are appropriate depiction methods and principles for communicating will often be highly judgmental and what is relevant to users will vary with the nature of the entity's activities as well as the nature of the users.</p> <p>There will likely be a need for a materiality process to ensure these judgments reflect the user perspective.</p>	<p>appropriate depiction methods and principles for communicating.</p> <p>13. Since many of these judgments will be subjective there will be a greater risk of management bias and more areas where professional skepticism will need to be applied.</p> <p>14. Without an effective materiality process it may be difficult to obtain sufficient appropriate evidence about the relevance and completeness of the information in the EER report.</p> <p>15. There could be AE acceptance issues in that case or if the selected depiction methods do not provide an appropriate basis for suitable criteria, for example because they are not sufficiently reliable.</p> <p>16. If criteria are not suitable, another type of AE may be possible. In this respect, the assurance report will need to be less standardized and more flexible than in the case of auditor's reports on financial statements.</p>

<p>Differences between financial reporting and EER Frameworks:</p>	<p>As a result, challenges in performing EER AE, as compared with financial statement audits, may include:</p>
<p>How EER reporting may give rise to challenges in establishing sound governance:</p>	
<p>Depiction methods need to be capable of reasonably consistent measurement or evaluation of content elements of diverse nature. They are often more difficult to measure or evaluate. Depiction methods may, for example, need to address the past, present or future condition of an item, whether within or outside the control of the entity, or changes therein (performance or impact) that result from the entity’s activities. As a result:</p> <ul style="list-style-type: none"> - Those available are often less well developed or accepted and there is often a wide variety of possible ways to depict a content element - More than one may be needed to provide a complete depiction of a content element - They may be less precise in measuring or evaluating the content element. 	<p>17. Appropriate systems, controls and oversight are necessary for the subject matter information to be ‘assurable’, and is a precondition for AE acceptance.</p> <p>18. Many entities may not yet have sufficiently robust EER reporting systems, controls and oversight in place. Even when engagements can be accepted, the risks of material misstatement may be assessed as higher and could result in costs of an AE that outweigh the benefits.</p> <p>19. Availability of alternative assurance procedures may be limited if the necessary information to prepare the EER report has not been systematically recorded and controlled. It may be difficult to design and perform assurance procedures to obtain sufficient appropriate evidence about all relevant assertions, in these circumstances.</p>

<p>Differences between financial reporting and EER Frameworks:</p>	<p>As a result, challenges in performing EER AE, as compared with financial statement audits, may include:</p>
<p>How EER reporting may give rise to challenges in establishing sound governance:</p>	
<p>The resulting subject matter information (SMI) is likely to be more varied in nature and, in general, is more likely to include information that is more qualitative (descriptive or evaluative), subjective, future oriented, predictive and hypothetical.</p> <p>Judgments about the whether it is possible to have a reasonable basis for preparing such SMI, given the nature, sources and quality of that information, are likely to be more subjective and pose challenges in developing effective reporting systems, controls and oversight.</p>	<p>20. The different nature of SMI in EER AE may also make it more challenging to determine what is material and to design effective assurance procedures, particularly when such information is more subjective or more future orientated.</p> <p>21. Given the nature of EER SMI and the immaturity of systems, controls and oversight over EER processes, it may be more difficult for the practitioner to conclude whether the required reasonable or limited level of assurance has been obtained.</p> <p>22. The practitioner may need to adapt the structure and content of the assurance report depending on the nature of the SMI (particularly when these give rise to factors that affect the inherent precision of the measurement or evaluation of the SM or the inherent ability to obtain sufficient appropriate evidence).</p>

B. Table 4: Topics and related linkages

Table 4 is an illustration of a navigation tool that could be used to show the topics that are discussed in Section IV of the DP and related linkages to:

- (a) The challenges in column 2 of Table 3, which are addressed under Topic and referenced according to the corresponding number in column 2 of Table 3;
- (b) Whether these topics were also raised in the earlier consultation on assurance on integrated reporting by the IIRC and if so what particular issues were raised; and
- (c) Relevant paragraphs in the DP (Sections III and IV) that address related requirements of ISAE 3000 (Revised).¹

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

Integrated Reporting – Additional Tables
 IAASB Main Agenda (June 2016)

Topic	Numbered challenges in column 2 of Table 3	Whether Topic was raised by IIRC and if so what issues were raised	Paragraphs of this DP that address related requirements of ISAE 3000 (Revised)
A. Variety of Subject Matters	1, 2, 5, 6, 7, 8, 15, 18	Reporting Boundary	110
B. Suitability of Criteria	9, 10, 11,13, 14, 15, 16	No	120–123
C. Materiality	2, 9, 11, 14, 15	Yes	133–135
D. Building Assertions	19	Connectivity matters Assessing completeness	138–141
E. Maturity of Governance	6, 7, 8, 17, 18, 19	Internal Control Considerations	149–150
F. Narrative Information	20, 21, 22	Connectivity matters	157–158
G. Future Oriented Information	20, 21, 22	Yes	164–166
H. Professional Judgment and Professional Skepticism	9, 10, 12, 13	No	170
I. Competence	3, 4	Using the work of others	176–178
J. Form of Assurance Report	5, 16, 22	Yes	184–185