

Meeting: IAASB  
Teleconference Date: January 31, 2019

## EER Assurance – Issues Paper

### Objectives of Agenda Item

The objectives of this Agenda Item are to:

- Present an updated draft of the phase 1 guidance developed by the EER Task Force.
- Present two supporting papers which the Task Force plans to include in the consultation paper.
- Receive any final feedback from the International Auditing and Assurance Standards Board (IAASB) on the draft guidance prior to it being published in a consultation paper.
- Seek approval for phase 2 of the project.

### Introduction and Overview of the Agenda Items

1. Since the December 2018 IAASB meeting, the Task Force has held a three-day meeting and updated the draft phase 1 guidance to reflect feedback received from the Board.
2. **Agenda Item 1-A** is the updated draft guidance, and **Agenda Item 1-B** is a version marked from December 2018. The remainder of this issues paper summarizes the changes.
3. Also presented are two documents which the Task Force plans to include in the consultation paper alongside the draft guidance:
  - a) **Agenda Item 1-C** is an updated version of the 'Background & Contextual Information'. This information is derived from the material previously included in 'Section II' of the draft guidance. A version of this document was presented as Agenda Item 8-C at the December 2018 IAASB meeting, although it was not discussed. This document contains material which is mainly of an educational nature relating to aspects of how an EER report may be prepared.
  - b) **Agenda Item 1-D** contains an updated version of the Four Key Factor model for Credibility and Trust, explored in Section III of the discussion paper issued in 2016<sup>1</sup>. It introduces and explains a model developed by the IAASB explaining factors which may enhance the credibility of EER reports. The project proposal confirmed that an updated version of this model would be published as a standalone resource by the IAASB as part of its initiative to provide thought leadership on assurance issues in relation to EER.
4. Finally, **Agenda Item 1-E** is the project proposal which has been updated for phase 2.
5. The Task Force is asking the Board whether they consider any major revisions are required to the draft guidance prior to it being published as part of a consultation paper. The Task Force notes that this will be the first of two exposure drafts planned for the project. It is intended that the draft guidance will be re-issued for exposure as a complete draft IAEPN, reflecting responses to feedback received

<sup>1</sup> Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements

on the first phase draft and including further guidance developed on the challenges allocated to the second phase. The IAEPN is planned to be finalized in Q3 2020.

6. On the teleconference, the IAASB will be invited to answer the questions below.

#### **Matters for IAASB Consideration**

The IAASB is asked for its views on:

- Q1. Whether the Task Force has appropriately responded to feedback given at the December 2018 meeting;
- Q2. Whether the draft guidance in **Agenda Item 1-A** and the additional papers (**Agenda Item 1-C** and **Agenda Item 1-D**) are ready to be published for public comment as part of a consultation paper;
- Q3. Whether it agrees with the Task Force proceeding with phase 2 of the project in line with the updated project proposal (**Agenda Item 1-E**); and
- Q4. Whether there are particular matters beyond those listed below that should be addressed in the consultation paper.

### **Summary of Changes to the Draft Guidance**

7. This summary is presented to assist the IAASB in understanding the main areas where changes to the draft guidance have been made and the reasons for these. The Task Force received a significant number of drafting suggestions, and the majority of these are reflected in the updated guidance (**Agenda Item 1-A**). Some of the more significant drafting changes that have been made (particularly in chapters 7, 8 and 9) resulted from further consideration by the Task Force of matters raised by some of the written comments received. In making the drafting changes, the Task Force has sought to further improve the readability of the guidance.

#### **Chapter 1**

8. Drafting improvements only in response to written comments received.

#### **Chapter 2**

9. Drafting improvements only in response to written comments received.

#### **Chapter 3**

10. The ordering of the paragraphs in this chapter has been revised to improve its readability and flow.
11. The chapter now refers to all the preconditions rather than focusing on selected preconditions only.
12. The diagram showing some of the links between the preconditions (now in paragraph 44) has been updated to improve its clarity in response to feedback.
13. Further guidance has been included in relation to the precondition that the engagement has a rational purpose (paragraph 48).

## Chapter 6

14. The drafting of the Introduction has been improved to clarify further how understanding the entity's system of internal control may relate to practitioner establishing whether the preconditions for an assurance engagement are present.
15. Various drafting improvements and clarifications throughout the chapter.
16. The section on 'assurance readiness engagements and maturity assessments' has been moved to Chapter 3 where it more naturally fits.

## Chapter 7

17. Updates have been made to the guidance surrounding the meaning of each of the characteristics of suitable criteria in response to feedback received. This includes clarification on the concepts of 'relevance' and 'materiality'.
18. Further examples have been added, including a worked example of how a practitioner could approach determining the suitability of criteria (paragraph 113A).
19. Various other drafting improvements and clarifications.

## Chapter 8

20. Revised introduction to clarify what is meant by a 'materiality process' and how this is part of a preparer developing criteria that are suitable, as discussed during the December 2018 IAASB meeting. It has been made more explicit that where criteria from a reporting framework do not specify in sufficient detail what items are relevant in the context of a specific entity, the preparer may need to develop supplementary criteria and that this process is commonly referred to by preparers in practice as a 'materiality process'.
21. Updated suggested framework for practitioners to bring this in line with the above (merging of steps 2 and 3).
22. Further examples have been added, and other drafting changes made to make the chapter consistent with the rest of the guidance.

## Chapter 9

23. Chapter has been substantially re-written in response to discussion at the December 2018 IAASB meeting and written comments received.
24. The revised chapter reinforces at the beginning that the use of assertions is not included in the ISAE 3000 (Revised)<sup>2</sup> requirements and is therefore optional.
25. The updated drafting also makes the usage of the term 'assertions' consistent with other IAASB standards including ISA 315<sup>3</sup> and ISAE 3410<sup>4</sup>.

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<sup>2</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<sup>3</sup> International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

<sup>4</sup> International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*

26. The diagrams have been removed as these were not considered to be consistent with the updated guidance or help provide practical guidance to practitioners.

#### **Chapter 10**

27. Drafting improvements made in response to written comments received and a further example added.

#### **Chapter 11**

28. Drafting improvements only in response to written comments received.

#### **Chapter 12**

29. Drafting improvements only in response to written comments received.

#### **Appendices**

30. The diagram has been removed from Appendix 1 as this was not considered necessary following the revision to the structure of the guidance (splitting it into chapters) and the introduction of the Chapter 2 overview, which serves to show how the guidance relates to the requirements in ISAE 3000 (Revised).
31. Following the discussion at the December 2018 IAASB meeting, the Task Force decided it was not appropriate to include a separate glossary as the Task Force intends to use terminology consistent with the definitions in ISAE 3000 (Revised) and the IAASB handbook glossary.

#### **Preliminary Matters to be Addressed in the Consultation Paper**

32. The Task Force has prepared a preliminary list of matters to be addressed in the consultation paper and areas where it may be appropriate to ask respondents specific questions. The Task Force plans to develop this further and welcomes any input from the IAASB.
  - a) Is the draft guidance practical and useful for practitioners?
    - i. Does the draft guidance contain anything that is contradictory to ISAE 3000 (Revised)?
    - ii. Is it helpful that the draft guidance addresses matters which are not covered in ISAE 3000 (Revised), for example 'assertions' and reviewing a 'materiality process'?
    - iii. Is the guidance consistent with how practitioners and preparers work in practice today?
    - iv. Are the examples and considerations for the practitioner in the guidance helpful? How could they be improved?
    - v. Are changes required to improve the EER framework-neutral approach of the guidance?
    - vi. Is the guidance well-structured and clear?
  - b) In relation to Chapter 3, does the diagram in paragraph 44 clearly explain the connections between the preconditions for an assurance engagement and the related considerations for a practitioner? If not, how could it be improved?

- i. Is the guidance on establishing whether the engagement has a rational purpose useful? What further guidance could be added?
- c) In relation to Chapter 6, is the suggested approach for practitioners appropriate when an entity has an immature system of internal control?
  - i. Is it helpful to include information in the guidance about the preparer's role?
  - ii. Are there further considerations for the practitioner in relation to the entity's system of internal control further to those in paragraphs 65, 68 and 69?
- d) In relation to Chapter 7, has sufficient practical guidance been developed as to how a practitioner establishes whether criteria (particularly entity-developed criteria) are suitable?
  - i. Are there further practical issues arising in situations where the criteria are not clear or explicit that are not adequately addressed in the guidance?
- e) In relation to Chapter 8, is the concept of a 'materiality process' appropriately described in the context of ISAE 3000 (Revised)?
  - i. Is the guidance broadly applicable for assurance engagements over EER reports prepared under different EER frameworks?
  - ii. Does the guidance adequately explain how information that does not assist decision-making by intended users should be treated by the practitioner?
- f) In relation to Chapter 9, are assertions a useful tool for EER assurance engagements?
  - i. Is the nature of assertions clearly explained?
  - ii. Is sufficient practical guidance provided as to how a practitioner may identify assertions in an EER assurance engagement?
- g) In relation to Chapters 10 and 11, does the draft guidance address the areas which are challenging for practitioners?
- h) In relation to Chapter 12, is adequate guidance provided on how misstatements in narrative information can be considered, and how such misstatements can be accumulated?

## Extracts from Draft December 2018 Minutes<sup>5</sup>

### Extended External Reporting (EER) Assurance

Mr. Grabowski presented an updated draft of the phase 1 guidance (**Agenda Item 8-A**) reflecting much of the feedback received from the IAASB and other stakeholders in September.

The IAASB noted a significant improvement in the draft guidance, particularly in terms of its structure and accessibility. There was support for the way in which the EER Task Force had addressed the issues raised at the September 2018 IAASB meeting, including how the guidance now describes the system of internal control in relation to the preconditions for an assurance engagement.

The IAASB highlighted the following matters for further consideration by the EER Task Force:

- Further clarity is needed in Chapter 8 of the draft guidance that the concept of a ‘materiality process’ is part of a preparer developing suitable criteria. The IAASB suggested making it more explicit that where criteria from a reporting framework do not specify in sufficient detail what items are relevant in the context of a specific entity, the preparer may need to develop supplementary criteria.
- A glossary may be a useful addition, however careful thought is required about how this would exist alongside the definitions in ISAE 3000 (Revised) and the glossary contained within the IAASB Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.
- Drafting improvements to Chapter 9 are needed to emphasize that the use of assertions is not required by ISAE 3000 (Revised), and to explain better the indirect relationship between the characteristics of suitable criteria and assertions.

### IAASB CAG CHAIR’S REMARKS

Mr. Dalkin acknowledged the progress made on the draft guidance and asked the EER Task Force to consider whether issues arose in circumstances where the engaging party is not the responsible party. Mr. Grabowski suggested that such engagements might be possible but that careful consideration of whether the preconditions for an assurance engagement were present would be necessary.

### WAY FORWARD

The EER Task Force will update the draft guidance based on the Board’s feedback, including written comments received by the EER Task Force in advance of the meeting, and will present it to the IAASB for discussion on a teleconference in January 2019, after which it is expected that the draft guidance will be published for comment. The EER Task Force plans to work with IAASB Staff to identify the most appropriate form of document for the draft guidance to be published.

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<sup>5</sup> The draft minutes are still subject to IAASB review and therefore may still change.