IAASB March 2019 Board Meeting Detailed Feedback from EER Breakout Sessions

1. High level points raised in the March Board meeting breakout sessions
   i. Detailed points of discussion in the March Board meeting breakout sessions

Note: Text in grey is included under each challenge where the breakout sessions included discussion on the challenge, but where the point has been dealt with under a different challenge. At the end of each section of the text shown in grey, the challenge under which it has been dealt with is included in brackets.

Challenge 1 – Determining the Scope of an EER Assurance Engagement Can Be Complex

1. The importance of grounding an EER report in its rational purpose, including the need to understand the needs of intended users of the report.

   i. Importance of understanding intended users’ perspective:
      - Users need to drive what’s in the report (but can’t have an absolute say). That drives consideration of the suitability of criteria.
      - To evaluate whether the criteria are suitable you need to do so against the needs of users.
      - Rational purpose is very much the starting point – need to understand the users and what they want.
      - There may be criteria for a whole report, but are the criteria for the information in scope suitable? Why did you choose certain pieces of a report? Are there suitable criteria for those elements, including for both presentation and disclosure, as well as measurement?
      - Can’t exclude related disclosures.
      - Is there an expectation gap that other elements not in scope, but related to what is in scope, are in fact assured.
      - Is it absolutely clear to the reader as to what is being assured?
      - Practitioner needs to be happy with the reasons why the elements of the subject-matter selected have been scoped in. Once agreed, that becomes the subject-matter.
      - Is it reasonable to decide first what can be assured and what cannot and to then determine scope from there?
      - Need dialogue with preparers on how they describe information.
      - Cost considerations can be an aspect of rational purpose – but is that primarily a preparer/user debate?
         - Length of report carries a perception of more assurance even when that is not the case i.e., a limited assurance report often is longer.
         - How can you make sure the person reading the report really understands what has been assured – how can this be made really clear?
      - Strong connection between scoping decision and reporting presentation. (Dealt with under challenge 10: Communicating Effectively in the Assurance Report).

   ii. Intended users:
      - Given that who they are is central to the rational purpose, should their identity be disclosed?
- Depends – if in special purpose that already needs to be addressed by the alert.
- If general purpose, it is a harder decision. Practitioner has to make difficult judgments.

2. Suitable criteria are critical to the scoping decisions, including the appropriateness of the preparer’s reasons for selecting or excluding criteria for measuring or evaluating the subject matter.
   
   i. Impact of existing frameworks:
      
      - There usually are existing frameworks and they provide a starting point.
      - There is a risk of making guidance about this too broad.

3. The expectations gap created by the existence of other parties, who are not assurance providers, who provide products that compete with EERs in the marketplace drives the need to educate preparers about the public interest incentive in commissioning the higher quality provided by an EER assurance engagement.
   
   i. How to respond to expectations gaps?
      
      - May identify what they might be and how communication could maybe help address.
      - Is there a need to disclose something about rational purpose?
      - How is this different from considerations about the suitability of criteria – all the characteristics of suitable criteria need to be met?

4. The importance of liaison and possible collaboration with other participants involved in preparing or reporting on the types of information that could be included in EERs.

5. Rolling program:
   
   i. Relates to cost considerations.
   
   ii. There is a trend to focus on social responsibility/licence to operate. Given the breadth of that topic, can’t do all in one year. Some areas criteria is still evolving. Some areas very challenging such as the purpose of the organisation, which is hard to define criteria.
   
   iii. How does it differ from cyclical? Or is it a “building” evolution.
   
   iv. Is rolling vs a building block approach suitable? How do you deal with changes over time?
   
   v. Also a challenge that user expectations can evolve and change over time.

6. Competition:
   
   i. Challenge of certification boutiques is another issue to be addressed.
   
   ii. Tend to be a lot cheaper than traditional assurance departments.
   
   iii. Preparers will go where costs are lower.
   
   iv. IESBA Code still applies to professional accountants.
   
   v. There are other models out there that are not ISAE 3000.
   
   vi. We have no levers over people offering competing products.
   
   vii. Need to raise awareness of preparers on value of 3000 offering.
viii. More of an IFAC role to promote.

ix. WBCSD recognise that and is why they are supporting making clearer the benefits of an appropriately scoped and performed assurance engagement.

x. Preconditions for an assurance engagement are really important in distinguishing assurance providers from other certification providers – need to promote education on that.

7. Selecting the scope:

i. Can the guidance give examples of reasons of what might be acceptable in terms of what is chosen?

ii. Is there a rational purpose for a limited scope? Really need to challenge the rational purpose – there may be genuine reasons for excluding things but there may also not. Practitioner does need to think about the fact that they will be associated with all the information, not just what they are assuring.

iii. Ethics Code says practitioner should not accept engagements that present misleading information.

8. Number and form of assurance conclusions required, based on determined scope:

i. If there are say, three areas, being assured, then does practitioner give three assurance conclusions or can you give one assurance conclusion?

ii. Are the criteria the same for each area that can be assured?

iii. What is the assurance conclusion going to address?

iv. Practitioner needs to identify the relevant criteria. If that is a subset of a broader set then do those need to be disclosed - yes

v. What is most clear/transparent to users?

vi. In effect that creates sub-engagements.

vii. Practitioner will need to identify boundaries between those engagements.

viii. Feels contradictory to the concept of integrated reporting – what is the importance of linkages and connectivity – how does that affect the practitioner’s acceptance decisions?

ix. There can be inherent limitations but that cannot be confused with weak criteria.

9. Appropriateness of the underlying subject-matter:

i. It is important, but looking at the criteria will help determine if the underlying SM is appropriate.

ii. Then look at characteristic of reliability.

10. Three key things:

i. Rational purpose.

ii. Appropriate and identifiable subject-matter.

iii. Criteria.

11. Do we need to more explicitly describe exactly what we mean by “scoping” the engagement and all that entails? Would also help educate people that are not steeped in assurance.
Challenges 6 & 7: Obtaining Assurance with Respect to Narrative and Future-Oriented Information

12. The importance of determining whether the entity is using the most appropriate framework as it is difficult to evaluate the completeness of information if there is not established framework or if the framework is not sufficiently detailed.

i. Preparers might choose from various frameworks and then claim some degree of overall compliance.

ii. Framework less likely to exist for narrative information:
   - Is it reliable – what is the measuring stick for narrative information? Is it true and fair or something else? Is it reliable enough to provide evidence to support conclusion. We talk about persuasive to support a conclusion. What conclusion are practitioners trying to reach on narrative information?
   - It’s the criteria.
   - It’s a framework issue. Framework underlying narrative info is not clear.
   - Other models – “truth, the whole truth, and nothing but the truth” – the lack of familiarity with narrative might be the reason why people are uncomfortable
   - Jan 18 – ESG reporting petition to SEC. If done, would need to identify the framework – disclosures to be based on a framework. Helps dealing with the superfluous information.

13. With respect to evidence:

i. Whether the basic audit evidence framework is portable to these types of engagements (e.g., sources, risk of bias, reliability):
   - Are there link to audit evidence project.
   - What’s different about getting evidence, and what’s the same, for these types of SMI.

ii. It may be hard to work out what to focus on/what is missing.
   - There are a lot of health and safety example but these have higher consequences than financial errors (life and death). Previous experience in the public sector was to use the same approach as for financials. Looked for material items in the audit. Provided an example of looking for a system, testing the system, etc. over time, the big one that changed was prospective information which is now more common.

iii. Professional skepticism – completeness issue. Contradictory or corroborative work well when management make assertion about compliance with a framework. We have not said that the auditor should look for contradictory information. But in these cases (e.g. safety information), the evidence is all internally generated. Risk of bias associated with this is high so how can you not go searching for contradictory info – to persuade yourself that you have enough information:
   - Where should a practitioner stop looking for evidence?
   - As an auditor of an airline – looked at the company’s system of quality checks – and looked at what others did. These reports are written with rose coloured glasses. Not reporting of a balanced picture. So only looking at one scenario and often only asked to look at certain sections of the report. How much do you do on the rest of the report?
   - Need to decide on contradictory. Auditor needs to have the familiarity to know what to look for, when to stop looking.
   - Can’t ignore contradictory information.
- Can find a lot of contradictory information on Google. Need to explore this question more.
- Can be driven by method of questioning; is there a special skill you need to apply it?
- Can look at laws and regulations that require particular behaviours.

iv. Whether the principles in ISAE 3000 can be used in determining what evidence needs to be gathered in an EER engagement (e.g., in determining when sufficient appropriate evidence has been obtained and it is no longer necessary to seek contradictory evidence).

v. There is often a lack of external sources to corroborate this information:
  - Narrative information will be prepared from something. Might be hard to obtain evidence that corroborates the information from management as it will be mostly internal. Will we be able to obtain evidence in reasonable assurance when we only have the information from which it is prepared?
  - Does that imply limited assurance is better for this?

vi. The same principles ought to apply to diagrams, charts, graphs and pictures included in the report so that the presentation is not misleading (e.g., using a different scale in a graph):
  - Is the picture accurate, complete, is it misleading, is it consistent with written words. Concern would be diagram that doesn’t have narrative – often used to emphasize narrative but divorced from narrative.
  - How to avoid bias in selecting periods with positive trends.
  - Needs to be comparable, avoids being misleading. Links between narrative and diagrams.

vii. Report has to be supported by enough evidence:
  - Management have to have something for us to look at.
  - Proper books and records should be required.
  - Common to keep detailed records in some industries, but not every industry - medicine.
  - Those that prepare integrated reports need to think about preparing the material.

14. Entities should be encouraged to develop good internal controls over the preparation of the information in these reports. That may make it possible to adjust the nature, timing and extent of procedures.

i. Controls matter in EER reporting but there is no overall control that may provide comfort regarding completeness of the statements. By contrast, in a financial statement audit, the practitioner looks for a balanced general ledger and reconciliations:
  - No double entry book keeping in preparing EER reports.

ii. Ease of obtaining evidence is linked to the nature of the system of internal controls:
  - Can’t assume controls exist.
  - There are not many clear boundaries, and can go beyond the entity. Question of how far you go outside of the areas you control.
  - Practitioners may be used to dealing with accounting people, who know how to maintain an information system. Others may not keep the evidence so it may not exist. They may not always
keep records, even for exceptions. Narrative covers so much of a range of the entity operations that it may be hard and frustrating for the preparer to be asked to provide it.

iii. Controls over EER reporting may not be the same as those over financial reporting:
- A big legal case wouldn’t be captured by your system in audit either, so there are some analogies.
- Subjective – there should be controls over accuracy, completeness but there may not be controls over all the assertions made.

15. Documentation in these types of engagements may take different forms, depending on the part of the report on which assurance is provided; however, the principles in ISA 230 may be used as a basis for determining the documentation necessary.

i. Interview techniques – how much would you have to document on critical mindset – may play a bigger role here.

ii. Practitioner often chooses what they will assure as the rest is ‘fluff’. Should we give people examples of what kind of evidence to get. Would it be useful to go down a detailed practical route of what to highlight, or go down 230 route?
- 230 construct seems to work well for the audit.
- Examples may be preferable, as it would make the guidance more practical.
- Hard to keep drawing examples from financial statement audits – need to avoid too many analogies.

16. Entities’ reports may not be balanced in their presentation of the information (e.g., focus on favourable information), therefore, it is important that the report exhibit a rational purpose.

17. With respect to narrative information:

i. Why is this different from financial statements that have many narrative disclosures?
- Some similarities with financial reporting. Auditor looks for whether what is in the report links to what is in the company’s books. Similar to narrative, can look to the company records. How might the preparer hide things from the practitioner successfully – can be done for accounting but hard to do for too long?

ii. Subjective/superfluous information (“fluff”):
- Some of the fluff in these reports is not important, but some may make significant claims. CP says that you ignore fluff as general reader will recognize it for what it is.
- Disclosure of notes to the accounts – some are full of fluff/repetition.
- Some fluff you can get assurance on, others you can’t.
- Can’t be associated with misleading information.
- Some management assertions are hard to prove if very general, for example, a company says it’s going to reduce carbon emissions, how to measure that – have carbon emissions standard. But hard if it’s more general.
- Combine subjective/superfluous with forward looking, and it gets really challenging. If management give a basis for it (e.g. we will measure this by using XX report) may be easier.
- MD&A can be very different, particularly for smaller issuers. Auditors can look at this. How far do you dig down? Can look for reports, but have to understand the entity and industry to find those reports.

18. With respect to future-oriented information:
   i. 3400 might be useful and might be applied/adapted to narrative information — at least the principles.
   ii. Much future orientated information is financial in nature. For example, there is significant information about strategy is significant, but prospective information such as forecasts is not common in EER reports.
      - A lot of forward looking information is already in financial statements, so common issues.
      - Can use analogies to management projections of financial information. Can look at management plans.
   iii. For a report that has some narrative and future information, will practitioners get to the point where they feel equally comfortable about both? There is often some sort of legal safe harbour for practitioners to provide assurance over prospective information developed by management.
      - Concerns might relate to risk.
      - Examples – Company may have a report on the tests/reports they have done to support the conclusion that the planes are safe. What evidence is available to show that the evidence is reliable? Need to understand what was done.
      - At some point, wouldn’t the practitioner have to get comfortable that the testing is robust and accurate and the results were correctly reported?
      - If using emotive language in narrative information, it may be even harder to obtain assurance about the claim being made.
   iv. That’s where experts may be needed e.g. actuaries:
      - Experts may not be much assistance if as they aren’t used to assurance and can’t link their expertise to assurance concepts. Ends up being a general question. Do you need to know how an aircraft engine work?
      - Expert can help a practitioner figure out if the framework/criteria is appropriate.
      - Can always find someone to agree with any statement, so, to be of assistance, experts need a combination of characteristics

   i. Have to be clear on what the report looks like.
   ii. Need to describe the procedures in the report, as required by 3000.
   iii. How would a user understand whether the procedures are the right level:
      - This might contribute to expectations gap. How do we convey inherent limitations to users? Could be done through how the company discloses the information. Explaining procedures helps this.
   iv. How to deal with omissions or misstatements:
      - Example of some significant environmental issue that is not reported?
Challenge 8: Exercising Professional Skepticism and Professional Judgment

20. Many aspects of EER require the exercise of professional judgment and professional skepticism, which are linked to the practitioner’s competence.

   i. When we refer to this specific kind of engagement – we consider these engagements are only performed by experts. In a team performing this type of engagement, competence in assurance and the subject matter. Expect the PJ/PS to come from the assurance competence and less from the individuals with specialist competence.

   ii. Not all experts are accustomed to applying PJ / PS – experts wouldn’t be doing that on their own. Would need to be the person leading the engagement. In the context of guidance, the ultimate responsibility still resides with the engagement partner.

21. Guidance needs to be scalable and should not focus on the most complex engagements:

   i. Need to show spectrum as some engagements are simple.

22. Need for guidance that addresses practitioners who have not come through an assurance environment and how they learn professional skepticism.

   i. Experts working on the engagements, and practitioner unlikely to have expertise with those. Concept of PS is engrained in an auditor. For practitioners who haven’t been in that environment, PS needs to be learnt. Only way to do that is to include examples and case studies and bring it to life to understand what PS looks like in e.g., a performance audit – often have non-auditors doing work in that area – takes a while to learn the PJ / PS skills and knowledge. Need to have good examples of how to apply PS on these engagements. All the more important for non-practitioners

   - Make auditors aware of what types of questions to ask.

   - Examples are a good way of providing guidance. EER is wide range. If don’t have context in guidance, guidance will be unclear as to what to do. Including the situation and providing examples is right way to do so.

   - Provide examples of how to use PS in areas that are different for EER engagements.

   - Also could develop questions for the practitioner to ask themselves.

   ii. Must give as much prominence to the good material in 3000.

      - To give helpful guidance, need to give examples. 3000 has the right support but need to show how it applies in the circumstances.

23. PJ / PS related to quality control – not sure about timing, but there may be an opportunity to link back to the new QM standard, and the QM ED could help.

   i. Can use the EER guidance document to emphasize the new thinking in ISQM 1 and why it relevant. What would the particular QM risks be and what would be the appropriate responses, in performing an EER assurance engagement as compared to an audit?

   ii. Challenge whether EER assurance engagements really require more or less exercise of professional judgment and professional skepticism, as compared to an audit, or whether they are simply exercised differently in such engagements because of the differences in their subject matter and criteria.

   iii. Not necessarily about more or less professional judgment and professional skepticism. Exercising them may just be different because of the nature of the subject matter and criteria.

   iv. Not sure that there is more/less need for PS / judgment than in an audit. Caution not to create different levels of judgment. Rather tie back to nature of subject matter – maybe different type of
judgment or widespread judgment. Different lens depending on what it is. May not be as familiar with the subject matter as a F/S audit.

v. May be more areas that require PR / PS because in an audit some things are not subject to the same level of judgment. 2 key areas where this may be the case are judgments about management bias and the suitability of criteria (latter not ordinarily required in detail in an audit).

vi. Materiality process is a difference from an audit. Materiality process is to decide what to bring into the EER report.

vii. Highlights importance of suitable criteria. Suitable criteria leads you to concept of suitable framework. Generally accepted framework. If such a framework is being used as criteria, less judgment required.

viii. Surprise at how many seem to think an assurance engagement over EER subject matter needs a more careful auditor and more PS / PJ to look for more contradictory evidence. Maybe because the subject matter is new and there is more nervousness about addressing it in an assurance engagement.

ix. People who regarded themselves as specialists in this area might describe some assurance professionals as being inexperienced and not understanding the subject matter. Flip side is the need for guidance for them on PJ/PS. Assurance practitioners are supposed to PS / PJ skills already but need subject matter competence to some degree. Is the ideal to be recognised as an assurance provider on EER?

x. Historically when using a specialist, how do you evaluate the specialist if you have no knowledge/experience as a basis for evaluating their assumptions? When the subject matter is outside the normal experience of the practitioner, the risk in taking on such an engagement increases.

xi. Level of assurance being provided is the same, so question whether EER requires more judgment or skepticism than audit or if they are just exercised in a different context.

24. There are also other important factors, for example, whether the firm has a methodology to support the performance of the engagement.

i. In an audit, methodology sets out performance requirements and expectations, and provides examples to show how to apply the methodology in specific circumstances.

ii. In the EER area there isn’t an abundance of methodology. Are firms thinking about how to establish methodologies? Where there is a gap someone will have to provide methodology.

iii. Other aspects of the system – mentioned methodology which is an intellectual resource.

25. Where in the process, in addition to during engagement performance, do professional skepticism and professional judgment need to be applied (e.g., during engagement acceptance and continuance, determining materiality, performing the risk assessment). Guidance could also address risk of fraud in these engagements, which is closely linked to the need to exercise professional skepticism.

26. Risk identification and assessment

i. Assess risk of material misstatement – could be fraud or error (e.g. competence of preparer could increase error)

- Risk identification – Need to spend more time properly assessing the ROMM. Consider if risk is due to error, or fraud, or both. There could be more risk of error, because the preparer doesn’t have competence to prepare the EER report, than in a financial statement audit.

- Has guidance on risk of fraud in EER reporting been considered? Fraud is linked to the need to exercise professional skepticism.
ii. Is the PS / PJ of the preparer also something that needs attention? Is there a need for considering how other boards are responding to EER?

27. Acceptance

i. First point of application of PS / PJ is about whether the engagement has a rational purpose. Should the practitioner be taking on the engagement in the first place? The guidance should not just focus on PS in the evaluation of evidence, but also in considering acceptance of the engagement.

ii. Is PJ / PS about the acceptance of engagements and whether acceptance is appropriate?

iii. Preconditions for the engagement – how you question that.

iv. Need for professional judgment in determining the appropriate competence and ability to perform the engagement – an overall stand back could be an option.

v. The point at which the engagement partner doesn’t have enough knowledge or ability to be sufficiently involved to accept responsibility for the engagement.

vi. PS is important in acceptance stage and risk assessment stage.


i. Example of supermarket removing palm oil from home-branded products, but couldn’t get it done, so rebranded the products – would that have triggered a negative report?

ii. Can it be linked to KAM – look at this as a reporting model for explaining uncertainties.

iii. KAMs were reported on Auckland Council – Auditor signal of what was important helped users.
Challenge 9: Obtaining the Competence Necessary to Perform the Engagement

(Grey text is dealt with under challenge 8: Exercising Professional Skepticism and Professional Judgment).

29. Many aspects of EER require the exercise of professional judgment and professional skepticism, which are linked to the practitioner’s competence.

30. Guidance needs to be scalable and should not focus on the most complex engagements.

31. Whether more or less exercise of professional judgment and professional skepticism is required in an EER as compared to an audit, or whether the exercise is simply different because of the need to evaluate the subject matter and criteria of the engagement.

32. Where in the process, in addition to during engagement performance, professional skepticism and professional judgment need to be applied (e.g., during engagement acceptance and continuance, determining materiality, performing the risk assessment).

33. With respect to the need for the engagement partner to have overall responsibility for the engagement:
   i. The engagement partner must have a certain level of competence in the subject matter to take overall responsibility for the engagement.
   ii. Emphasizing that the engagement partner is responsible for the engagement, including the direction, supervision and review and the professional judgments and professional skepticism.
      - Adds credibility.
      - Extent to which assurance partner needs knowledge of the underlying subject matter.
      - Analogies that we can compare to a FS audit. Undue reliance on an expert – not much of a different challenge from an audit engagement, e.g. actuaries and insurance industry.
      - Would the DSR be the responsibility of the expert or the team – needs to be clear that it is the responsibility of the team. There may be responsibility of an expert leading a team of experts. Ultimately responsibility lies with the ET and partner to supervise / review.
   iii. Clarify the meaning of “engagement leader” relative to “engagement partner.”
      - Need to stick to with existing terminology, rather than the new term “engagement leader”.
      - Introducing a new concept raised more questions.
   iv. At what point does an engagement partner not take responsibility because there is too great a reliance on the expert. Similar to issues in ISA 600 audits – at what point does that reliance become too much?
      - Taking concepts from our other standards and applying the concepts.
   v. The engagement team needs to collectively have appropriate competence.
      - We have focused a lot on the expert. But it is about the individuals performing the engagement having the competencies and capabilities.
      - Using specialist – some people who have knowledge of assurance, not experts.
      - Competence and capabilities of the EQ reviewer as well.
   vi. Goes back to accepting engagement and having the competence to perform it. If relying completely on experts need to have control over what they do.
Stand back on this question alone – do they genuinely have the competencies to take this on? Experience is at the level of detail, and there is a big gap. In SA had the vote on most important topic. The topic that came up as the most significant was the question of competence.

The 2nd year when doing the same engagement – this challenge is different from a FS audit. E.g. statement about prospect of the business and then a year later see how it compares.

34. Need for guidance that addresses practitioners who have not come through an assurance environment and how they learn professional skepticism.

35. Expert is someone with expertise in something other than accounting, but in the ISAE 3000 engagement it is someone with expertise in something other than assurance. Therefore, clarification is needed of an expert and engagement team member with specialized skills. Is it clear what the difference is between an engagement team member and an expert? Same logic between 500 etc. Not sure that using expert in this paper in the same way as 3000.

i. With respect to certain terminology, clarify whether “expert” is intended to be used in the same context as it is in the ISAs, or means a person with specific knowledge relevant to the subject matter of the engagement.

ii. Important in some of these that the subject matter is going to be so specialized to challenge that expert. If you can’t challenge and ask the right questions then probably have a problem.

iii. Had debate on this in context of AUP engagement. Brought in concept into AUP. Dangerous. – reporting on factual findings. No judgment in what is done – application of specific rule you do not know.

36. The task force needs to approach using the matrix proposed with caution.

i. Introduction of a skills matrix – interesting suggestion. Good idea but maybe don’t know enough of the implications of that. If develop it, good idea, but not sure on the risk.

37. The group questioned how the engagement report could convey the engagement team’s competence and overall responsibility of the engagement partner.

i. Not in favour of having a statement in the report on competence, maybe use other areas of the report.

ii. Comment section can add anything – if the practitioner believes it is important to understanding the engagement. Don’t need KAM in addition to that.

iii. Disclosure somewhere about the competence of the team – sounded a little unreasonable.

iv. Within the body of report commenting on the expertise used to assess the engagement. Turn it into a positive aspect. Assert what brought to the engagement. Keep in mind debate on AUP around disclosures of independence.

v. Would a user understand that statement? People might not understand the statement or the underlying work that went into acceptance.

vi. Looking at it from a positive sense – can be an effective tool to communicate to users of the report an area of experts – adds to the credibility of the report, and that it has been through the necessary QC procedures

vii. ISA 600 has the input on reference to experts

viii. Referring the competence of the ET rather than use of experts. It is different.

ix. Person with the real competence in the subject matter signs jointly with the engagement partner. Prove that people with the relevant competence are involved – way found.
38. Other practitioners use 3000, but because have to use ISQM 1/ethical code, they only use portion of 3000 and don’t represent compliance with 3000 because they don’t apply all of it.

   i. Want to be in a position where promoting standards that are used across the board.

   ii. If the standards could be used by a wider group and not in a firm, how do we marry up the different controls?

   iii. Need to show them how to apply in the different circumstances.

   iv. Have practitioners out there doing the right thing and complying, and other practitioners being reckless.

   v. Level of competition – the people who are good are annoyed by the people who are not

   vi. A firm came back on guidance on fees.

   vii. The solution doesn’t rest with us alone. It is an education matter.

   viii. Proliferation of Masters programs on integrated reporting and EER – suggests need to have something that others don’t have. Have to demonstrate a higher level of thinking when do work in this space. Analyse strategy and engage senior people.
Challenge 10: Communicating Effectively in the Assurance Report

39. There is a need for clear communication in an EER report to meet users’ needs:
   
   i. Clear statement of purpose of EER report and intended users:
      
      - How can you make sure the person reading the report really understands what has been assured – how can this be made really clear?
      
      - Strong connection between scoping decision and reporting presentation.
      
      - Rational purpose of engagement identified.
      
      - Scoping paragraph is linked to rational purpose. If limited scope, the general public won’t understand.
      
      - Distribution restriction – is it necessary? If read by outside users would it cause problems?
   
   ii. Opinion clear and prominent and presented first:
      
      - What has been done and why follow – UK structure well received.
   
   iii. Ordering of the report important.
      
      - Is there a better way to present it – more ordered as for an audit report?
      
      - Can change order of presentation.
      
      - Have to be clear on what the report looks like.
   
   iv. Clarity of what has been assured (subject matter information).

   v. Disclosure of materiality.

   vi. Avoiding ‘boilerplate’.

   vii. Areas for improvement and good practice commentary in reporting – relevant concepts for why not (caution about impact) – undermine, modify or contradict opinion or create expectation gap.

   viii. ‘Other information’ needs to be clearly identified:
      
      - Requirement in 3000 to read all information for internal consistency – may be good to emphasize.

40. The importance of management clearly articulating its purpose in reporting, including understanding whether the users are sophisticated or unsophisticated:

   i. Sophisticated users don’t need the same level of detail; want a conclusion.

   ii. Explain role and responsibilities of other parties versus responsibility of practitioner.

   iii. How to deal with entity-developed criteria.
      
      - If something is missing is it down to the practitioner or preparer to fill that gap?
      
      - Internally developed criteria should be made available to users – there is a requirement.

   iv. Working with management to make sure their reporting is consistent with the messaging in the assurance report.
v. Auditor only needs to confirm existence of report and not provide assurance (EU legislation) – also and EER. No assurance, but only confirmation of existence.
   - Could imply something has been done.
   - Mentioned in audit report.
   - Companies can select where they report this non-financial reporting – MD&A, integrated or can split or report in a separate report. Two tier system – up to supervisory board to “audit” this non-financial information - may choose to engage auditor (may be someone other than f/state auditor). Report is given to supervisory board – all under umbrella of EER.

41. Minimization of the expectations gap related to different levels of assurance, for example when:

i. A different level of assurance is provided on audited financial statements and an EER report included with the financial statements:
   - Need to be very clear of it is a combined report.
   - Explain what limited vs reasonable assurance means.
   - Critical to close expectations gap re level of assurance.
   - Need to describe the procedures in the report, as required by 3000.
   - How would a user understand whether the procedures are the right level
   - This might contribute to expectations gap. How do we convey inherent limitations to users? Could be done through how the company discloses the information. Explaining procedures helps this.

ii. How to deal with omissions or misstatements. Example of some significant environmental issue that is not reported.
   - Example of supermarket removing palm oil from home-branded products, but couldn’t get it done, so rebranded the products – would that have triggered a negative report?

iii. Different levels of assurance are provided on information in different parts of an EER report:
   - Where on the meaningfulness spectrum a limited assurance engagement lies – describing procedures doesn’t do that effectively – how to and whether to communicate beyond the summary of procedures.
   - Length of report carries a perception of more assurance even when that is not the case i.e., a limited assurance report often is longer.
   - Whether KAM may be appropriate in each case – what purpose, how does it relate to describing procedures – strong link to users and what is important to them.
   - Nothing prevents it as long as it’s clearly described.
   - Piecemeal opinion on high-subjectivity vs low subjectivity items; relates to information required by highly sophisticated vs less sophisticated users.

iv. Long reports with lots of information can be less clear and may increase expectation gaps.
   - Long form vs short form – you could balance it.
   - Are we in danger of creating another expectations gap if inconsistent application of the guidance?
- Want to encourage experimentation in reporting while not increasing expectations gap.
- Could identify what would be in section (content) rather than example wording.

42. How to deal with skills and competence of the engagement team; extent of use of experts / what their work was used for:
   i. What is the work of an expert vs what is the work of an assurance practitioner?
   ii. Experience and training when not an assurance practitioner.
   iii. Using the work of another practitioner.

43. The need to look at reporting models in other International Standards of the IAASB (e.g., ISA 700, ISA 701, ISA 720, ISA 2410)
   i. ISAE 3410 addressed the issues – leverage off that standard.
   ii. Consider KAMs
      - Nothing inconsistent with ISAE 3000.
      - Can it be linked to KAM – look at this as a reporting model for explaining uncertainties.
      - KAMs were reported on Auckland Council – Auditor signal of what was important helped users.

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1  International Standard on Auditing (ISA) 700, Forming an Opinion and Reporting o
2  ISA 701, Communicating Key Audit Matters in the Independent Auditor’s Report
3  ISA 720, The Auditor’s Responsibilities Relating to Other Information
4  ISAE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity