Supplement to
Agenda Item 6A-5

EER Assurance: Destination of material from June 2019 IAASB Issues Paper (Agenda Item 8 of June 2019 meeting) in phase 2 drafting

Chapter 14 / Challenge 10: Communicating Effectively in the Assurance Report

Sections of June Board Meeting EER Issues Paper	Suggested destination and treatment of June Issues Paper content
Introduction and context 207. The DP, in paragraphs 130 – 132, noted that, in light of the breadth and diversity of the subject matter information included in EER reports, it is challenging to effectively communicate the practitioner's conclusions about this information in a binary opinion, other than in a general manner that is not tailored to the nature of the different types of information presented (e.g., "has been properly prepared, in all material respects, in accordance with the XYZ criteria"). It is understood that users sometimes view such reports as ambiguous and find them difficult to interpret. 208. The Standard describes the required content elements of an assurance report. It allows for considerable flexibility in preparing and structuring assurance reports. This includes allowing for: a) The depth of an informative summary of the work performed as the basis for the practitioner's conclusion, which forms one of the basic report elements. Since a limited assurance engagement can vary along a range of a level of assurance to be obtained by the practitioner, the procedures performed also may vary in nature and depth. b) The inclusion of additional information in the report, such as terms of the engagement, the criteria, findings relating	Paragraphs 207 to 211 provide a 'trail' of previous discussions and decisions, so are not included, explicitly, in the guidance, but the 'themes' are to be drawn out in the guidance and examples. Suggest also drawing out that: • The assurance report is the only 'tangible' output of all that has gone into the assurance engagement • The assurance report is the 'bridge' between the preparer and the user/s • There are complexities around scope and form/s of preparers', reports; 'angle' presented (partly dependent on framework used); reporting the same information under regulatory requirements of different jurisdictions or under multiple frameworks; whether assurance is over the whole report or selected information; who the users are/whether there are multiple user groups and differing needs and sophistication of different users; different levels of assurance to be conveyed in a single report; assurance under multiple standards.

to particular work performed, the competences of individuals involved, materiality levels, or recommendations;

c) The inclusion of separate conclusions on one or more aspects of the subject matter information; and

d) The wording selected for the assurance conclusion.

209. The Task Force proposed and, taking account of respondent comments on the DP, the Board approved providing guidance to address the challenges experienced by users in interpreting EER assurance reports, including addressing:

a) How reports might address communicating effectively about:

i. Clarifying the scope of the engagement (particularly when it is not over the whole EER report), i.e. identifying the parts of the EER report within the scope of the assurance engagement;
ii. When applicable, the different levels of assurance that have been obtained;
iii. The identity and competence of the engagement partner;
iv. Describing and summarizing the work performed;
v. Communicating about inherent limitations in the assurance that can be obtained; and
vi. Referring to other assurance practitioners;

b) The way the assurance conclusion is expressed;

c) When and how to use long form reports rather than short form reports;

d) Whether there is a need for a more prescriptive standard for EER assurance reports (for example, aimed at fixing the elements and ordering of the assurance report or specifying particular wording to be used in certain circumstances);

e) Drafting a combined report including both the auditor's report on the financial statements and the assurance practitioner's report on the EER report;

f) How to minimize the expectation gap regarding the level of assurance; and

g) Whether and, if so, how, to identify the intended users.

210. The Task Force initially identified the following aspects of guidance as being needed to address this challenge, and discussed these with the Board at the March 2019 Board meeting:

a) Responding to the fact that many users do not find assurance reports easily understandable, particularly clauses that intend to limit the reliance readers should place on them;

b) Transparency is considered very important in communicating the scope and level of assurance;

c) Limited assurance can mean various levels of assurance along a sliding scale – communicating this can be challenging but important;

d) How different levels of assurance over different parts of an EER report, and where the work effort was directed, can be communicated clearly;

e) Long-form reports may be very useful in some circumstances, but may reduce comparability between entities and be more difficult for users to understand what value the assurance has for them;

f) Whether the 'rational purpose' of the assurance engagement should be explicitly identified in the assurance report;

g) Whether it would be best practice to identify explicitly who the intended users are;

h) Implications for the assurance report when the preparer uses entity-developed criteria;

i) Implications for the assurance report when the EER report contains financial statements that are subject to an audit (combined reports);

j) Implications where the engagement involves considerable use of experts – for example, whether or how to identify them

in the assurance report, and how to do so without implying that the practitioner's responsibility for the conclusion expressed in the assurance report is reduced;

k) Whether including an equivalent of 'key audit matters' is compatible with the requirements of ISAE 3000 (Revised); and

l) Examples of assurance reports.

211. The Board generally supported the aspects of guidance initially identified by the Task Force to address this challenge, and additionally emphasized:

a) The need for clear communication in an EER assurance report to meet users' needs – linkage to the rational purpose of the engagement;

b) The importance of recognizing that it is primarily management's responsibility to clearly articulate its purpose in reporting, and to understand whether the intended users are sophisticated or unsophisticated;

c) The need to minimize 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; and
   ii. Different levels of assurance are provided within various sections of an EER report; and

d) The need to look at reporting models in other International Standards of the IAASB (e.g., ISA 700,[1] ISA 701,[2] ISA 720,[3] ISAE 2410[4]).

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[1]   International Standard on Auditing (ISA) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

[2]   ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

[3]   ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

[4]   ISAE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

The approach to developing guidance proposed by the Task Force	
212. In discussing the issues relating to this challenge, the Task Force noted the Board's view (see paragraph 210 a) above) that there is a need for clear communication in the assurance report, to meet users' needs and the linkage to the rational purpose of the engagement. In considering this, the Task Force found it helpful to consider the purpose of the assurance report in the context of the purpose[5] and objectives of an assurance engagement[6], which are set out in the Standard.	See above. The material in paragraphs 212 to 221 has not been included in the draft guidance as these paragraphs are largely conceptual discussion or an indication of the Task Force's proposals, rather than being practical guidance per se. The draft guidance will draw out the suggested approach set out in these paragraphs through either illustrative example/s or FAQs to provide practical guidance.
213. The aim, or purpose, of an assurance engagement is to convey a conclusion designed to enhance the degree of confidence of the intended users about the subject matter information. The preconditions for an assurance engagement emphasise the significance of this purpose. They include that the assurance conclusion is expected to be included in a written report and that engagement has a rational purpose. A key consideration in establishing whether the engagement has a rational purpose is how it will enhance user confidence.	
214. In meeting this purpose, the practitioner's objectives include: obtaining reasonable or limited assurance and forming an assurance conclusion as to whether the subject matter information is free from material misstatement; and conveying their assurance conclusion in the assurance report. The assurance report conveys the assurance conclusion to the individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report (the intended users).	

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[5]   See definition of an assurance engagement – paragraph 12(a) of the standard

[6]   See paragraph 10 of the standard

215. The practitioner's objectives also include communicating further as required by the Standard or any other relevant ISAE, including in the assurance report.

216. The Task Force concluded that the primary purpose of the assurance report is to communicate, to the intended users, information about the assurance conclusion (including its basis) in a manner that is designed to enhance the confidence of those users in the subject matter information.

217. The Task Force noted the intent for the guidance to address the challenges experienced by users in interpreting EER assurance reports and to help minimize expectation gaps. The Task Force concluded that such interpretation challenges and expectation gaps are most likely to be minimized if the assurance report includes the information that would be useful to intended users in determining whether and to what extent their enhanced confidence in the subject matter information would be justified, based on the engagement.

218. The Task Force therefore believes that it is important for the way in which the assurance conclusion is framed and expressed in the assurance report to be considered from the point of view of the intended user's information needs. The Task Force view was that this should be considered from the perspective of the common information needs of the intended users as a group. In this context, the information about the assurance conclusion (and its basis) included in the assurance report would need to adequately convey not only the nature and basis of the conclusion but also their overall significance, and the significance of their key elements.

219. In considering what those common information needs might be, the Task Force considered that it may be helpful to identify what reasonable assumptions the practitioner might make about the characteristics of the intended users, by analogy with the assumptions made in applying the concept of materiality.[7] Subject to the Board's views, the Task Force proposes to explore

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[7] See paragraph A94 of the Standard

these assumptions further but, for example, these could include that the intended users:

a) Have a reasonable knowledge of the nature of assurance engagements, and a willingness to study the assurance report with reasonable diligence;

b) Understand that the assurance report includes only information that could reasonably be expected to influence the relevant decisions of intended users about the assurance they can take from the assurance conclusion, taken on the basis of the assurance report;

c) Understand any inherent limitations involved in performing the assurance engagement; and

d) Make reasonable decisions about the assurance that they can take from the assurance conclusion conveyed in the assurance report, on the basis of the assurance report taken as a whole.

220. The Task Force believes that guidance that focuses on how to consider the needs of the intended users would not only help to address the challenges experienced by users in interpreting EER assurance reports and minimize expectation gaps, but would also assist practitioners in applying, more consistently and appropriately, the considerable flexibility in preparing and structuring assurance reports that the Standard permits.

221. In developing such practitioner reporting principles, the Task Force proposes to:

a) Develop principles that could be applied in considering the common information needs of the intended users in preparing and structuring assurance reports (for this purpose referred to as "practitioner reporting principles")

b) Focus on the perspective of the intended users;

c) Understand practitioner reporting requirements in the international assurance standards; and

d) Understand the impediments to users' understanding of the assurance report.	
Developing practitioner reporting principles 222. The Task Force had an initial discussion about developing practitioner reporting principles. The Task Force considered that, by analogy, the information about the assurance conclusion (and its basis) included in the assurance report corresponds to subject matter information in the same way that the assurance conclusion corresponds to underlying subject matter and practitioner reporting principles might correspond to applicable criteria. 223. Reflecting on this, the Task Force considers that the characteristics of suitable criteria, if suitably adapted, might assist in developing appropriate principles that could assist practitioners in meeting the purpose of an assurance report and in minimizing expectation gaps that could undermine that purpose. 224. For example, practitioner reporting principles might be considered appropriate, by analogy with suitable criteria, if they exhibit each of the following characteristics: a) Relevance – Relevant practitioner reporting principles result in information in the assurance report that assists decision-making by the intended users about their confidence in the subject matter information. b) Completeness – practitioner reporting principles are complete when information in the assurance report is prepared and structured in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users about their confidence in the subject matter information made on the basis of that information. Complete practitioner reporting principles include where relevant benchmarks for presentation of the information and disclosures about the basis for the assurance conclusion. c) Reliability – Reliable practitioner reporting principles allow reasonably consistent preparation and structuring of the information in the assurance report including, where relevant,	Paragraphs 222 to 241 are largely conceptual in nature. The principles are to be addressed in the guidance through the use of practical examples. Paragraph 224 is included in the draft of the phase 2 guidance. The draft guidance currently considers each sub-paragraph of paragraph 69 of the standard, the purpose of the sub-paragraph and how it may be possible to enhance a user's understanding by addressing each element of paragraph 69 in a clear, unambiguous, informative way. Further consideration to be given to practitioner thought process. A wider range of examples is under development, including to address different levels of assurance within one assurance report, EER reporting under multiple frameworks, and providing assurance under more than one assurance standard.

reasonably consistent presentation of the information and reasonably consistent disclosures about the basis for the assurance conclusion, when used in similar circumstances by different practitioners.

d) Neutrality – Neutral practitioner reporting principles result in information in the assurance report that is free from bias as appropriate in the engagement circumstances; and

e) Understandability – Understandable practitioner reporting principles result in information in the assurance report that can be understood by the intended users.

225. In considering what information assists decision-making by the intended users, the Task Force proposes to consider the key elements of the assurance conclusion and the basis for that conclusion that might assist decision-making by the intended users about their confidence in the subject matter information. Many of the issues identified in paragraph 209 above and many of the aspects of guidance identified in paragraph 210 above address these elements. The Task Force will consider how the guidance can address their relevance in developing practitioner reporting principles that could be used in applying the requirements of the Standard.

226. The key elements of the assurance conclusion itself that may be relevant may include, for example:

a) The level of assurance obtained.

b) The identification of the subject matter information (and of the underlying subject matter and applicable criteria from which it is prepared).

c) The nature of misstatements (of the assertions required by the applicable criteria).

d) How the concept of materiality was applied to misstatements.

227. Similarly, the key elements of the basis for the assurance conclusion that may be relevant may include, for example:

a) The scope of the engagement.

b) The identity of the intended users.

c) The 'rational purpose' of the assurance engagement.

d) The use of entity-developed criteria.

e) The identity and competence of the engagement partner.

f) The work performed and where the work effort was directed.

g) The use of other assurance practitioners and their identity.

h) The use of experts and their identity.

i) Inherent limitations in the assurance that could be obtained.

Focusing on the intended users

228. Intended users are the individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report. The responsible party (i.e. the party responsible for the underlying subject matter[8] who may also be the measurer or evaluator, and the engaging party[9]) can be one of the intended users, but not the only one[10].

229. In some cases, there may be intended users other than those to whom the assurance report is addressed. The practitioner may not be able to identify all those who will read the assurance report, particularly where a large number of people will have access to it. In such cases, particularly where possible users have a broad range of interests in the underlying subject matter, users may be limited to major stakeholders with significant and common interests.[11]

230. ISAE 3410[12] notes that intended users and their information needs may include, for example:

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[8]   ISAE 3000 (Revised), paragraph 12(v)

[9]   ISAE 3000 (Revised), paragraph A37

[10]   International Framework for Assurance Engagements, paragraph 35

[11]   ISAE 3000 (Revised), paragraph A16

[12]   ISAE 3410, paragraph A47

a) Investors and other stakeholders such as suppliers, customers, employees, and the broader community, whose information needs may relate to decisions to buy or sell equity in the entity; lend to, trade with, or be employed by the entity; or make representations to the entity or others, for example, politicians.

b) Market participants, whose information needs may relate to decisions to trade negotiable instruments (such as permits, credits or allowances) created by a trading scheme.

c) Regulators and policy makers in the case of a regulatory disclosure regime to monitor compliance with the disclosure regime.

d) Management and those charged with governance of the entity who use information for strategic and operational decisions.

231. In some cases, intended users, such as regulators, impose a requirement on, or request the appropriate party(ies) to arrange for an assurance engagement to be performed for a specific purpose. When engagements use criteria that are designed for a specific purpose, the Standard requires a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users.[13]

232. In the context of a financial statement audit, the subject matter information is prepared in accordance with a recognised framework, and the intended users of the information and the purpose for which it is prepared are identified in the framework and are well understood. In the context of an EER engagement, there may be a broad range of subject matters, and a large number of different frameworks from which to select in preparing and reporting the subject matter information. Possible users may have a broad range of interests in the underlying subject matter. In the context of an EER engagement it may, therefore, be relatively more important to identify in the assurance report who

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[13] ISAE3000 (Revised), paragraph A18

the intended users are and the purpose for which the EER report is prepared.

233. ISAE 3410[14] also notes that it is reasonable for the practitioner to assume that users:

    a) Have a reasonable knowledge of [subject matter] related activities, and a willingness to study the information in the [EER report] with reasonable diligence;

    b) Understand that the subject matter information is prepared and assured to levels of materiality, and have an understanding of any materiality concepts included in the applicable criteria;

    c) Make reasonable decisions on the basis of the information in the [EER report].

234. Therefore, as discussed in the context of challenge 1: *Determining the Scope of an EER Assurance Engagement Can Be Complex* and in in relation to challenges 6 & 7: *Obtaining Assurance with Respect to Narrative and Future-Oriented Information*, it is essential that the criteria are suitable to present the subject matter information in a manner that is complete, accurate, neutral and understandable and that will therefore assist intended users in their decision-making; the subject matter information should be relevant and should not omit information such that it detracts from the information needs of users.

235. However, even when the criteria are suitable, are adequately disclosed and available to intended users, and the subject matter information is presented in a way that is fair, balanced and understandable, many users do not find assurance reports easily understandable, particularly clauses that intend to limit the reliance readers should place on them.

Understanding practitioner reporting requirements in the International Assurance Standards

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[14]   ISAE 3410, paragraph A46

236. The Standard identifies basic elements the assurance report is to include, rather than requiring a standardized format for reporting. It recognizes the need to tailor assurance reports to the specific circumstances.[15] The Standard also allows the practitioner to choose a "short-form" or "long-form" style of reporting to facilitate effective communication to the intended users. "Short-form" reports ordinarily include only the basic elements. "Long-form" reports include other information and explanations that are not intended to affect the practitioner's conclusion.

237. In addition to the basic elements, long-form reports may describe in detail the terms of the engagement, the applicable criteria being used, findings relating to particular aspects of the engagement, details of the qualifications and experience of the practitioner and others involved with the engagement, disclosure of materiality levels, and, in some cases, recommendations. The practitioner may find it helpful to consider the significance of providing such information to common information needs of the intended users.[16]

238. Where such information is included, there is a requirement that it is clearly separated from the practitioner's conclusion and phrased in such a manner so as make it clear that it is not intended to detract from that conclusion.[17] While long-form reports may be useful in explaining in more comprehensive terms, they may reduce comparability between entities and be more difficult to understand what value assurance has for them. The Task Force is of the view that, while there may be circumstances in which long form reports are appropriate or useful, their use could reduce comparability. It may be more useful for assurance reports to include 'standard' matters that are addressed, as for ISA 701, that promote greater consistency in the matters that are important/significant to users' understanding of the assurance engagement that was performed. These are

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[15] ISAE 3000 (Revised), paragraph A159

[16] ISAE 3000 (Revised), paragraph A160

[17] ISAE 3000 (Revised), paragraph 68

matters that the Task Force proposes to address in developing practitioner reporting principles

239. ISA 700 (Revised) notes that while there is a need for an appropriate balance between the need for consistency and comparability in auditor reporting and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant, consistency in the auditor's report promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote user's understanding and to identify unusual circumstance when they occur[18]. The broader range of subject matters and criteria make it relatively more important in the context of EER reporting for assurance reports to allow for comparability to assist users' understanding. The Task Force also proposes to address this issue in presentation principles as part of developing practitioner reporting principles.

Understanding the impediments to users' understanding of the assurance report

240. In order to respond to the fact that many users do not find assurance reports easily understandable, the Task Force considers that, in developing the guidance, it will be helpful to consider the requirements of paragraph 69 of the Standard, which require an assurance report to include at a minimum certain basic elements, and consider the need for guidance in applying those requirements.

241. In addressing this, the Task Force proposes to consider:

   a) Whether the ways in which the requirements for these basic elements are being applied in practice is sufficiently flexible to assist users' understanding of the particular circumstances of the engagement (e.g., whether the structure of the reporting requirements in the Standard is being followed without sufficient tailoring or without including information that would enhance user understanding); and

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[18] ISA 700 (Revised), paragraph 4

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b) Whether tailoring in practice, in applying these requirements, diverges so significantly from the requirements of the Standard that it undermines the purpose of the assurance report, and the comparability of assurance reports across different EER assurance engagements.

242. In developing the guidance, further consideration will be given to examples of EER assurance reporting, and to developing illustrative examples of reports that support the purpose of an assurance engagement to enhance the confidence of users while also following the requirements of the Standard.

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Outstanding matters

243. The following matters, identified as aspects needing guidance, will be given further consideration by the Task Force during the development of the phase 2 guidance:

a) Implications for the assurance report when the EER report contains financial statements that are subject to an audit (combined report).

b) As noted in paragraph 50, how the decisions relating to the scope of the assurance engagement affect the number and form of the assurance conclusions.

c) As noted in paragraph 122 d), explaining uncertainties, and what might trigger a modified assurance conclusion in relation to narrative or future-oriented information.

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Guidance under development to address each of these matters.

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