Objectives of Agenda Item

The objectives of this Agenda Item are to:

- Present the IAASB with the latest work of the EER Task Force to tackle the issues relating to the remaining five of the Ten Key Challenges.
- Receive feedback from the IAASB on the concepts and principles presented (rather than detailed drafting comments on the draft guidance).
- Provide an update on the progress of the project as a whole.

Introduction and Overview of the Agenda Items

1. Since the March 2019 IAASB meeting, building on the discussions at that meeting, the Task Force has held two three-day meetings, in which it has begun work on developing responses to the issues identified that will provide the basis for developing guidance on the remaining Key Challenges to be addressed in phase 2 of the project.

2. The Key Challenges are visualized in the EER Assurance House:
3. The challenges represented in white were allocated to and completed in phase 1, during which initial work also began on aspects of challenges 6 & 7; those in orange, relating to challenge 1, the ‘obtaining evidence’ and ‘assurance reports’ aspects of challenges 6 & 7, and challenges 8, 9 and 10 were allocated to phase 2 of the project.

4. The Task Force’s discussions to date on the phase 2 challenges are summarized in this issues paper. An additional document Agenda item 8-A Supplementary Paper setting out detailed feedback from the EER breakout sessions at the IAASB March 2019 Board Meeting is provided.

5. At the IAASB meeting, following an initial presentation from the Task Force Chair, the IAASB will be invited to participate in ‘breakout’ discussions in small groups to discuss the proposals by the Task Force as set out in this paper, and the questions posed at the end of each section of this paper, including whether there are examples that may be used when developing the guidance. Each breakout group will be given one or more challenges to discuss and consider. The IAASB will then reconvene to report back on the breakout sessions. Agenda item 8-B provides details of the four breakout groups.

6. This issues paper is divided into the following sections:
   - Challenge 1: Determining the Scope of an EER Assurance Engagement Can Be Complex
   - Challenges 6 & 7: Obtaining Assurance with Respect to Narrative and Future-Oriented Information
   - Challenge 8: Exercising Professional Skepticism and Professional Judgment
   - Challenge 9: Obtaining the Competence Necessary to Perform the Engagement
   - Challenge 10: Communicating Effectively in the Assurance Report
   - Appendix 1: Initially identified aspects to be addressed (with linkage to detailed points in the Supplementary Paper)
   - Appendix 2: Project update and future meeting agenda topics
   - Appendix 3: Outreach

7. The Task Force is looking for the Board’s input on the proposals and tentative conclusions expressed in this issues paper which will drive the Task Force’s further development of the guidance during phase 2.
Challenge 1: Determining the Scope in an EER Assurance Engagement

Introduction

9. The 2016 Discussion Paper (the “DP”) described, in paragraphs 96 to 101, various challenges that may arise in establishing strong governance over the preparation of EER reports, which are related to certain differences in the nature of EER reports compared to financial statements. These differences were noted to include:

a) Broader subject matter, users and purpose – EER reports may address a wider range of subject matters and be used by a broader and more diverse group of intended users for a more diverse range of purposes;

b) Broader scope of governance, internal control and competence – Broader subject matter, users and purpose may necessitate a broader scope of reporting processes, controls and oversight, broader subject matter competence, and a greater need for the preparer to use experts in designing and operating EER reporting systems;

c) Less maturity in governance and control of the subject matter – The underlying subject matter may be less deeply-embedded in the entity’s strategic and operational processes, the entity’s management and those charged with governance may be less experienced in such matters, and the design of reporting processes (including information systems), controls and oversight may be less mature;

d) Lack of availability of suitable criteria – Relevant aspects of the underlying subject matter, and suitable measurement or evaluation criteria, often are not adequately addressed in established reporting frameworks, developing them may be highly judgmental for entities, and in doing so (the entity’s ‘materiality process’) the entity will need to ensure that such judgments reflect the user perspective appropriately; and

e) Subject matter information is more qualitative, subjective, future-oriented, predictive and hypothetical – EER reports are more likely to include information that is more qualitative (descriptive or evaluative), subjective, future-oriented, predictive and hypothetical and the criteria used for their measurement or evaluation may be less well-developed or accepted and less reliable.

10. The DP noted that these challenges may result in difficult acceptance judgments in a number of respects, or in the costs outweighing the benefits for full scope assurance engagements. It also noted that lesser than full scope assurance engagements might be considered in these circumstances, subject to the preconditions being present including that there is a rational purpose for such an engagement. However, the necessary considerations appeared complex for many practitioners and were not always well understood.

11. The DP noted that ISAE 3000 (Revised) (“the Standard”) already enables considerable flexibility in the scope of assurance engagements relating to EER reports. For example, the scope of an assurance engagement may be limited to parts of the report (such as those that do not give rise to some of the challenges referred to above), or it may be possible to overcome some of these challenges, for example through establishing entity-developed criteria.

12. Considering the stakeholder feedback to the DP, the Board agreed to provide guidance on addressing the difficult acceptance judgments for the practitioner in determining whether it would be
possible to accept an assurance scope narrower than the EER report, including guidance that addresses:

a) Whether the preconditions for an EER assurance engagement have been met;

b) Factors that should be considered when determining whether to accept different types of assurance engagements (limited or reasonable);

c) Whether an assurance engagement over a complete EER report should be accepted when governance and controls are developing;

d) Cost considerations;

e) The use of experts by management and practitioners; and

f) The other matters, identified in paragraph 8 above, relating to difficult acceptance judgments that may result from challenges in establishing strong governance over the preparation of EER reports compared with financial statements (the table in Appendix 1 challenge 1: Determining the Scope of an EER Assurance Engagement Can Be Complex sets out further detail).

13. 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) Understanding how to apply the concept of a rational purpose;

b) The need to identify and understand the information needs of the EER report’s intended users;

c) Responding to possible expectation gaps, particularly for limited assurance engagements or where the scope of the assurance is very narrow (for example, only a few indicators such as Greenhouse Gas emissions);

d) Responding to the tendency of some preparers to want the scope to be the areas that are easily subject to an assurance engagement (perhaps such that an assurance report is obtained for a low cost, or because the processes and systems over some aspects of the EER are immature or developing, or because there is an incentive to report only on particular areas because it increases the entity’s ratings in the marketplace if assurance has been obtained), rather than the areas that would most significantly assist intended users’ decision-making;

e) Whether it is appropriate for the assurance scope to include different areas each year on a ‘rolling program’ so that over several years all areas are covered;

f) Setting the scope narrower than a whole report needs to be done with reference to specific aspects of the underlying subject matter and the related elements and criteria, not to specific aspects of the subject matter information; and

g) Limited assurance engagements are often performed where the system of internal control or the availability of evidence would not support a reasonable assurance engagement, however poor internal controls might suggest a need for reasonable assurance if their weaknesses increase the risk of error in the EER report.

14. The Board generally supported the aspects of guidance initially identified by the Task Force to address this challenge, and additionally suggested several more detailed points relating to the aspects of guidance identified by the Task Force. These included:
a) Emphasizing the importance of grounding an EER report in its rational purpose, and of understanding the needs of intended users of the report.

b) Suitable criteria, including the reasons for exclusions, are critical to the scoping decisions.

c) The importance of liaison and outreach with preparers or those reporting on the EERs.

15. Some initial draft guidance on agreeing the scope of an EER engagement was developed during phase 1 of the project, but it was recognized that the guidance needed to be further developed in phase 2, in particular in relation to the different considerations that might apply to an assurance engagement over an entire EER report, and an assurance engagement covering a narrower scope such as specific measures or indicators in isolation.

Context

16. In traditional financial reporting, reporting frameworks (e.g. IFRS) specify the underlying subject matter and its elements that should be reported, and this is widely understood by preparers, users and practitioners. EER is more difficult as underlying subject matters are diverse, are generally less comprehensively specified by the large number and variability of EER reporting frameworks, and are of relatively differing interest to a wide range of stakeholders.

17. Where an EER framework does not specify what topics and related elements would assist the decision-making of the intended users of the report, the criteria may not be considered to be suitable on their own as they may lack relevance or completeness.1 Preparers apply a materiality process to make judgments about what topics and related elements are to be included in the EER report,2 effectively developing the criteria further such that they result in subject matter information that assists the decision-making of the intended users.3 This can be challenging for both a preparer making these judgments and for a practitioner reviewing their appropriateness, when both the intended users and their information needs can be diverse and may result in reporting over a broad range of subject matters or a limited number of performance indicators in a particular subject matter area. This is discussed in further detail in Chapter 8: Considering the Entity’s ‘Materiality Process’ of the February 2019 Consultation Paper (the “CP”).

18. It is important to distinguish the different functions of the materiality process:

   a) determining or developing the criteria to be used to measure the underlying subject matter and report the subject matter information, and

   b) scoping, which relates to determining the subject matter information to be assured (and in what depth); both scoping and the ‘materiality process’ differ from the materiality considerations applied by the practitioner in planning and performing the engagement and assessing misstatements. These considerations relate to omissions from, or misstatements within, the scope of the information included in the EER report that is determined to be the subject matter information (‘SMI’), which is the information to be assured, for the engagement.

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1 Extended External Reporting (EER) Assurance IAASB Consultation Paper (February 2019) paragraph 127
2 Extended External Reporting (EER) Assurance IAASB Consultation Paper (February 2019) paragraph 125
3 Extended External Reporting (EER) Assurance IAASB Consultation Paper (February 2019) paragraph 127
19. The CP, in paragraph 55, discusses that the scope of an EER assurance engagement can be an entire report or only part(s) of it, provided that the preconditions in paragraph 24 of the Standard are met. If considering a particularly narrow scope for the assurance engagement, careful consideration may be needed as to whether the preconditions are present, including that the engagement has a rational purpose.

20. As discussed in paragraph 49 of the CP, while the meaning of the term ‘rational’ is not explicitly addressed in the Standard, an assurance engagement may be considered to have a rational purpose if the practitioner’s conclusion is designed “to enhance the degree of confidence of the intended users about the subject matter information”. Therefore, in considering whether the engagement has a rational purpose, the scope of the assurance engagement needs to be considered from the point of view of the user and what would enhance their confidence about the subject matter information.

21. In considering the scope of the assurance engagement, two dimensions are relevant:

   a) The breadth of the SMI for the engagement (which is the information in the EER report that is to be assured), and therefore the breadth of the underlying subject matter (“USM”) and applicable criteria (“ACR”) from which that SMI has been prepared. The SMI may be all, or less than all, of the information included in the EER report; and

   b) The depth of the assurance to be obtained by the practitioner (i.e. the quantity and quality of evidence that is needed), which is linked, amongst other matters, to the level of assurance (limited or reasonable) for the engagement.

   These matters are proposed by the preparer, considered by the practitioner in determining whether the preconditions are present, based on a preliminary knowledge of the expected engagement circumstances, and determined by agreement between the preparer and the practitioner on acceptance of the engagement.

Breadth of the subject matter information to be assured

22. Where the SMI for the engagement is less than all of the information included in the EER report, the ACR and USM for the engagement should also be correspondingly narrower in scope than the criteria and underlying subject matter information that would have been applicable if all of the information in the EER report was to be assured.

23. Irrespective of whether the scope of the engagement is all of, or less than all of, the information included in the EER report, there should be a coherent relationship between the SMI, ACR and USM for the engagement because the SMI for the engagement should result from the proper application of the ACR for the engagement to the USM for the engagement. The coherence of this relationship should be considered when establishing whether the preconditions for assurance are present.

Linking underlying subject matter, criteria and subject matter information to be assured

24. Considering the coherence of the relationship between the USM, ACR and SMI in the circumstances of the engagement means that:

   a) The preconditions are considered within the intended scope (narrow or broad) of each of these elements of the EER assurance engagement;
b) When the scope of the engagement is narrower than all of the information included in the EER report, the USM and ACR are not the same as the criteria and underlying subject matter that would have been applicable in an engagement where the SMI was all of the information included in the EER report.

c) In agreeing the scope of the engagement, changes in any of the three elements (USM, ACR or SMI), from those that would have been applicable in an engagement where the SMI was all of the information included in the EER report, would necessitate changes in each of the others.

d) The scope of the engagement cannot be determined simply by identifying criteria and underlying subject matter which would have been suitable and appropriate for the preparation of all the information included in the EER report, and then selecting only part(s) of the information included in the EER report as the SMI for the engagement. It would also be necessary to identify the corresponding part(s) of the ACR and USM that bear an appropriately coherent relationship to the selected SMI. It would then be necessary to determine whether those part(s) of the ACR and USM are suitable and appropriate and whether the other preconditions are present in the context of the proposed narrow scope and other circumstances of the engagement.

e) Selecting only those parts of the information included in the EER report that are easier to assure or that present the entity in a favorable light (sometimes referred to as 'cherry-picking') would not be appropriate unless the selected SMI, ACR and USM have an appropriately coherent relationship and the preconditions for acceptance of the proposed assurance engagement are present; and

f) Information in the EER report that is outside the established scope of the subject matter information is considered to be 'other information', which the practitioner is required to read to identify material inconsistencies, if any, with the subject matter information or the assurance report.

25. The Task Force is of the view that, when developing the guidance, it will be helpful to illustrate these concepts through the use of a number of examples.

26. An overarching principle in the Standard is that criteria developed by the entity would not be suitable if they result in subject matter information or an assurance report that is misleading to the intended users.4

27. Criteria need to be made available to the intended users to enable them to understand how the underlying subject matter has been measured or evaluated. Paragraphs A51-A52 of the Standard describe ways in which this can be done.

28. Practitioners also need to assess whether the preparer has made the criteria sufficiently freely accessible by the intended users and described them in sufficient detail and with sufficient clarity that their essential nature can be said to be "available"5 to the intended users. Practitioners also need to consider whether the presentation and disclosure of the descriptions of the criteria made available

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4 ISAE 3000 (Revised) paragraph A50
5 EER Assurance – Issues Paper IAASB Meeting, June 18-23, 2018
are adequate to enable the intended users to understand the scope of what has been assured and the reasons for the narrower scope of the engagement.

Applying the concept of a rational purpose

29. In considering whether the preconditions for assurance are met, in addition to considering whether the underlying subject matter is appropriate and the criteria are suitable, the practitioner is required to consider whether the engagement has a rational purpose,\(^6\) i.e. it is designed to enhance the degree of confidence of the intended users about the subject matter information. In doing so, the practitioner may need to consider not only the ‘materiality process’ (i.e. the further development of the criteria by the preparer, where the criteria in the framework are not sufficiently developed to be suitable) the preparer has undertaken in respect of the USM for the engagement but also the preparer’s wider ‘materiality process’ undertaken to develop criteria for the preparation of any part(s) of the information included in the EER report not within the scope of the engagement. This would enable the practitioner to consider matters such as:

a) Whether there may be omissions of relevant parts of the underlying subject matter from the SMI, and whether such omissions call into question the rational purpose of the engagement; and

b) Whether and how the SMI and any other part(s) of the information included in the EER report is used in the preparer’s own decision-making processes or, if not, whether the preparer may have been biased in selecting as SMI only those parts of the EER report that are easily subject to an assurance engagement or that present the entity in a positive way. As the preparer is accountable to its stakeholders for its decisions, if the information relating to those decisions is important to users, then it may be expected that the preparer would be using that information in its own decision-making. Likewise, if the company is using the information in its decision-making, then it may be reasonable to expect that a user would be interested in that information.

30. In considering these matters in a more complex engagement, a high level of assurance competence may be needed to apply professional judgment and professional skepticism and to take actions that are appropriate in the circumstances. The competence needed in applying professional judgment and professional skepticism is discussed further in relation to challenge 8: *Exercising Professional Skepticism and Professional Judgment* and challenge 9: *Obtaining the Competence Necessary to Perform the Engagement*.

Considering whether a narrower scope engagement has rational purpose

31. When considering whether a narrower scope engagement has a rational purpose, the practitioner’s consideration of any wider ‘materiality process’ applied by the preparer may need to be at a different level of detail than where the intended scope of the engagement is the entire EER report. In a narrower scope assurance engagement, where relevant, the purpose of considering the wider ‘materiality process’ is to identify matters that have not been, but should have, been included within the narrower scope, rather than to focus on the development of suitable criteria for the other information included in the EER report.

\(^6\) ISAE 3000 (Revised) paragraph 24(b)(vi)
32. Entities producing EER reports typically implement gradual changes to their governance and controls to support such reporting as it becomes more established and formal.\(^7\) To accept an assurance engagement, the practitioner is required to determine, amongst other matters, that the preparer has a reasonable basis for the subject matter information as part of the precondition that the roles and responsibilities of the preparer are suitable.\(^8\) Where an entity’s governance and controls over EER are in the process of developing, the preparer may not yet have a reasonable basis for reporting on all aspects of the underlying subject matter/s or for all the subject matter information that is included in the EER report. There may therefore be challenges to being able to meet the preconditions for assurance in relation to some aspects of the EER report. Accordingly, when the entity is in the less mature stages of that process, it may not be appropriate for the practitioner to accept an engagement to assure the whole EER report. Considerations in relation to the entity’s internal control and governance and oversight of the reporting process are discussed further in the CP Chapter 6: Considering the System of Internal Control.

33. Although an engagement to assure all of the information included in its EER report may not meet the preconditions, management may wish to obtain assurance on those areas for which an assurance engagement could meet the preconditions, and to disclose in the EER report that they are working on developing the governance and reporting processes and systems to extend the scope of assurance in other areas in due course. The narrower scope engagement would nevertheless need to have a rational purpose. In assessing whether there is a rational purpose the practitioner will need to consider carefully the reasons for the preparer wishing to include only certain part(s) of the information included in the EER report within the scope of assurance, and whether those reasons are appropriate. The practitioner may also consider whether those reasons are suitably disclosed. However, disclosure alone would not justify acceptance of such an engagement if the reasons for the narrower scope to be assured are inappropriate or the proposed engagement lacks a rational purpose.

34. Where the SMI is less than all the information included in the EER report, as noted in paragraph 21 above, the preconditions are considered in the context of the narrow scope of, and coherence of the relationship between, the ACR, USM and SMI for the engagement.

35. In the circumstances where the entity’s governance and controls over EER are in the process of developing, it may be expected that more part(s) of the information included in the EER report would fall within an evolving (building blocks approach to the) scope of the SMI, for successive EER assurance engagements, as the entity’s EER governance, reporting processes and systems evolve to enable the preconditions to be met on other parts of the information included in its EER report. However, it may be necessary for the preparer and the practitioner to consider how such an approach may affect comparability of the SMI over time, and whether related criteria for associated presentation and disclosure are suitable and will be available to the intended users to be able to understand how the USM has been measured or evaluated, including the implications of how the SMI has changed over time. Where the SMI is less than all the information included in the EER report, the practitioner will need to give careful consideration to the ‘other information’ to determine whether there may be inconsistencies between the SMI and other information included in the EER report.

\(^7\) Extended External Reporting (EER) Assurance IAASB Consultation Paper (February 2019) paragraph 59  
\(^8\) ISAE 3000 (Revised) paragraphs 24(a) and A39
36. Where the entity has given as its reasons for a narrow scope engagement that it is in the process of developing its governance and controls over EER, but it does not make any attempt to include further parts of the information in the EER report within the scope of the assurance engagement in later periods, that may (unless user information needs have changed) call into question the entity’s reasons for reporting the subject matter information and whether the assurance engagement has a rational purpose.

A rolling program of assurance

37. Sometimes an entity may wish to obtain assurance, on a rolling basis, over selected but different parts of the EER in successive periods, rather than on the entirety of the information in the EER report in each reporting period. It is important to make a distinction between an assurance engagement, on a rolling basis, over selected parts of the EER report that vary from period to period and the performance of assurance procedures on a selective, rolling basis once the SMI has been agreed. The former relates to determining the scope of the assurance engagement and assessing the preconditions for assurance, and is discussed further below. The latter relates to obtaining evidence relating to the SMI after the acceptance decision has been made.

38. Where the preparer wishes to have an assurance engagement, with the scope determined on a rolling basis, over a narrower part of the subject matter information than has been included in EER report, the practitioner needs to consider whether there is a rational purpose for doing so. In considering whether there is a rational purpose, the practitioner applies professional judgment and professional skepticism in understanding the reasons for the preparer proposing a rolling program of assurance, and whether those reasons are appropriate when considered from the perspective of intended users. For example, the entity may consider that reporting on all aspects of the subject matter information included in the EER report every year may not be cost effective, and that a rolling program of reporting may nevertheless meet the needs of intended users. These may be reasonable considerations, whereas selectively including only those aspects of the USM that portray the entity in a positive light or because they are easier to assure may not be likely to enhance user confidence in the SMI.

39. Where such a rolling scope program is considered to result in successive assurance engagements that each has a rational purpose, the criteria for presentation and disclosure may be particularly important to allow the intended users to understand both the reasons for the approach the preparer has taken and the boundaries of the information in the EER report that has been assured.

40. Where an evolving or rolling scope program is considered to result in successive assurance engagements that each has a rational purpose, the coherence of the relationship between the USM, ACR and SMI of those engagements and the presence of the preconditions are considered for those engagements, as discussed in paragraph 22 above. For example, if the entity determines that it wishes to obtain assurance on a rolling basis by geography relating to aspects of the subject matter information included in its EER report, then the ACR are applied to the USM related to the selected geographical region to result in the SMI. Consideration of the suitability of the criteria will include whether the criteria for associated presentation and disclosure are suitable and will be available to the intended users to allow them to understand both the reasons for the rolling program of assurance and the boundaries of the subject matter information that has been assured.

41. Where an evolving or rolling program of assurance engagements is adopted by a preparer and accepted by a practitioner, users may expect it to be followed consistently as designed. However,
the nature, extent and timing of the consideration the practitioner gives to the ‘other information’ may also change from period to period as, effectively, the information included in the EER report related to the geographical regions not within the scope of assurance in a particular period become ‘other information’. Consideration may also need to be given to whether the engagement circumstances have changed such that a rolling scope program of assurance may no longer be appropriate. The Task Force plans to use examples in the guidance to illustrate the thought processes that might be applied by a practitioner in relation to evolving or rolling scope programs of assurance engagements.

Depth of assurance to be obtained – the level(s) of assurance

42. The second dimension of scope to consider is the depth of the assurance to be obtained, which, at least in part, is influenced by the agreed level of assurance (limited or reasonable), and is related to the nature, timing and extent of procedures the practitioner performs as part of their evidence-gathering procedures. The Standard requires that a rational purpose includes, in the case of a limited assurance engagement, that the practitioner expects to be able to obtain a meaningful level of assurance.9

43. As the level of assurance that the practitioner plans to obtain is not ordinarily susceptible to quantification,10 determining what is ‘rational’ in the context of the level of assurance to be obtained may require considerable skill in the exercise of professional judgment and professional skepticism. Across the range of limited assurance engagements, what is meaningful can vary from just above assurance that is likely to enhance the intended users’ confidence about the subject matter information to a degree that is clearly more than inconsequential to just below reasonable assurance.11 What is meaningful in a particular engagement represents a judgment within that range that is dependent on the particular circumstances of the engagement, including the information needs of intended users as a group, the criteria, and the underlying subject matter of the engagement.

44. The Task Force is of the view that it may be helpful to consider the decisions regarding the level of assurance to be obtained in a reasonable assurance engagement in a similar way.

45. In a reasonable assurance engagement, the practitioner reduces engagement risk – the risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated – to an acceptably low level in the circumstances of the engagement as a basis for the practitioner’s conclusion.12 Reducing engagement risk to zero is very rarely attainable or cost beneficial and, therefore “reasonable assurance” is less than absolute assurance. This is due to factors such as the use of selective testing, the inherent limitations of internal control, the fact that much of the evidence available to the practitioner is persuasive, rather than conclusive, the use of professional judgment in gathering and evaluating evidence and, in some cases, the characteristics of the USM when evaluated or measured against criteria.13

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9  ISAE 3000 (Revised) paragraph 24(b)(vi)
10  ISAE 3000 (Revised) paragraph A4
11  ISAE 3000 (Revised) paragraph A5
12  ISAE 3000 (Revised) paragraph 12(a)(i)a
13  ISAE 3000 (Revised) paragraph A14
46. The Task Force believes that the practitioner’s judgment about the level of assurance that is appropriate in the engagement circumstances – which has consequences for the nature, timing and extent of assurance procedures – is not only relevant in terms of whether the practitioner agrees to perform a limited or reasonable assurance engagement. The Task Force considers that such a judgment is also relevant, in the context of the practitioner agreeing to perform either type of assurance engagement, in terms of whether the proposed level of assurance is likely to result in a conclusion that would justifiably enhance the degree of confidence of the intended users about the subject matter information to a level that is meaningful to the intended users, having regard to the corresponding level of engagement risk, in the circumstances of the engagement.

47. Generally, the greater the consequence to intended users of receiving an inappropriate conclusion when the subject matter is materially misstated, the greater the assurance that would be needed in order to be meaningful to them¹⁴ and the lower the engagement risk the practitioner would be willing to accept in carrying out their assurance procedures. As discussed in paragraph 49 of the CP, in some circumstances, the intended users’ need for assurance may even be so great that a reasonable assurance engagement is needed to obtain a meaningful level of assurance.

48. What is an acceptably low level of engagement risk may vary according to the circumstances of the engagement. The practitioner may therefore consider what is an acceptably low level of engagement risk in the context of possible levels of assurance that could be obtained. Doing so may include considering the information needs of intended users as a group, the criteria, and the underlying subject matter of the engagement as well as the consequence to users of receiving an inappropriate conclusion in the circumstances of the engagement.

49. The nature, timing and extent of procedures to be performed is discussed further in relation to challenges 6 & 7: Obtaining Assurance with Respect to Narrative Information and Obtaining Assurance with Respect to Future-Oriented Information. However, the decision as to what is likely to be meaningful in terms of the appropriate level of assurance is considered as part of the acceptance decision when considering whether the preconditions are present, including that the practitioner expects to be able to obtain the evidence needed to support their conclusion.¹⁵

Other considerations

50. As the level of assurance also relates to evidence-gathering, the Task Force proposes dealing with levels of assurance in greater detail, including considerations regarding systems of internal control, as part of developing the guidance in relation to challenges 6 & 7: Obtaining Assurance with Respect to Narrative Information and Obtaining Evidence with Respect to Future-Oriented Information.

51. The Task Force proposes developing guidance, in relation to challenge 10: Communicating Effectively in the Assurance Report, on how the decisions relating to the scope of the assurance engagement affect the number and form of the assurance conclusions.

52. The Task Force’s considerations regarding the use of experts by management and the practitioner are discussed in relation to challenge 8: Exercising Professional Skepticism and Professional Judgment and challenge 9: Obtaining the Competence Necessary to Perform the Engagement.

¹⁴ ISAE 3000 (Revised) paragraph A7
¹⁵ ISAE 3000 (Revised) paragraph 24(b)(iv)
Outstanding matters

53. The importance of liaison and outreach with preparers as a more general point is noted, and there are ongoing activities to address this.

Matters for IAASB Consideration

Q1. The IAASB is asked for its views on:

a. The analysis presented above, from which the Task Force proposes to develop guidance regarding:

i. Applying the concept of a rational purpose and the need to consider this from the users’ perspective.

ii. The need for coherence between the criteria, underlying subject matter and subject matter information in a narrow scope engagement.

iii. Other considerations relating to narrow scope assurance engagements, including a rolling program of assurance.

iv. The need to consider the practitioner’s expectation about their ability to obtain the evidence needed, in the context of the proposed level of assurance, as part of establishing whether the preconditions are present.

b. Where examples would be useful and whether there are any examples the Task Force can include.
Challenges 6 & 7: Obtaining Evidence in the Context of Narrative and Future-Oriented Information

Introduction and context

Narrative Information

54. Paragraphs 118 to 120 of the DP noted that narrative information in EER reports may be factual (more observable and therefore more readily captured by reporting systems) or may be more subjective (less observable and more susceptible to being reflective of, and more variable with, the views of those reporting it). Narrative information may also include management judgments and be more susceptible to management bias. The key challenge in relation to narrative information is how to address the inherent subjectivity and increased risk of management bias and to manage potentially unrealistic expectations about the extent to which the practitioner can reduce the inherent subjectivity.

55. The DP noted that although there are no specific standards for addressing narrative information in an assurance engagement, the topic was partly addressed in the IAASB’s project to revise ISA 720.

56. Taking account of respondent observations on the DP, the Board agreed to provide further guidance about relevant considerations in seeking to obtain sufficient appropriate evidence, in the context of narrative information in EER reports, including:

   a) Identifying appropriate sources of evidence;
   b) Determining sufficiency and appropriateness of evidence;
   c) Obtaining and evaluating evidence about the completeness, balance and neutrality of narrative information; and
   d) Obtaining and evaluating evidence in the context of addressing measurement or evaluation uncertainty.

Future-oriented information

57. Paragraphs 121 to 123 of the DP noted that future-oriented information addresses future conditions, events, outputs and outcomes (performance or impact), in relation to which there is generally greater uncertainty and these matters may therefore be more difficult to measure or evaluate. Even when EER frameworks address the type of future-oriented information that is relevant to include in an EER report, they often do not address the boundaries of acceptable assumptions made in making the measurements or evaluations that give rise to the subject matter information.

58. As a result, the DP noted that a key challenge is that there may not be suitable criteria for some of the information included in the EER report. If so, it may not be possible to accept an assurance engagement unless the scope is narrowed to exclude future-oriented information or, for example, if the underlying subject matter of the engagement was restricted to the process used in arriving at that information.

59. The DP also noted that possible implications of that challenge, which the Task Force could address in developing guidance, include that:

   a) It is not possible to obtain sufficient appropriate evidence on the future-oriented information itself;
b) The scope of an assurance engagement should be narrowed to exclude subject matter information about the future-oriented outputs or outcomes, to include only subject matter information about the process used in arriving at the future-oriented information, or to address only whether the future-oriented information is properly prepared, on the basis of the assumptions, in accordance with the relevant financial reporting framework; or

c) An assurance engagement cannot be accepted because there are no suitable criteria at all.

60. The DP also noted that ISAE 3400 provides the most pertinent available standards in this area. ISAE 3400 addresses prospective financial information (i.e. financial information based on assumptions about events that may occur in the future and possible actions by an entity), which may take the form of forecasts, projections, or a combination of both. It notes that such information is highly subjective, and its preparation involves considerable judgment.

61. Taking account of respondent observations on the DP, the Board agreed to provide further guidance about relevant considerations in seeking to obtain sufficient appropriate evidence, in the context of future-oriented information in EER reports, including obtaining and evaluating evidence:

a) When the subject matter information is subjective and susceptible to management bias;

b) In the context of management’s process for preparing future-oriented information;

c) About whether future-oriented information has been properly presented in the EER report; and

d) In the context of practitioners reporting on future-oriented information without creating unrealistic user expectations (for example, about the achievability of predicted performance or impact).

62. During phase 1 of the project, some guidance relating to the other phase 1 challenges was developed for challenges 6 & 7 but other issues, relating to obtaining and evaluating evidence, are to be addressed in phase 2.

63. Some of the issues relating to both narrative and future-oriented information are similar and overlap. The basic concepts of an EER report apply equally to both these specific types of subject matter information. Narrative information and future-oriented information are also not mutually exclusive. For example, narrative information may be either future-oriented or historically-oriented, and future-oriented information may be presented either in narrative or quantitative form. Furthermore, both types of information can relate to qualities of elements that are not directly observable and their measurement or evaluation may need to be estimated using assumptions or otherwise measured or evaluated with less precision.

64. The Task Force initially identified the following aspects of guidance as being needed to address the ‘obtaining evidence’ part of both of these challenges and discussed these with the Board at the March 2019 Board meeting:

a) The extent to which it is appropriate for the practitioner to rely on controls may vary considerably – for example, this may be ineffective where the subject matter information is highly subjective (whether it is narrative or not);

b) How the ease and ability to obtain evidence is linked to the nature of the system of internal control;
c) How subject matter information presented in the form of diagrams and pictures should be addressed by practitioners; and

d) Documentation requirements.

65. The Board generally supported the aspects of guidance initially identified by the Task Force to address this challenge, and additionally raised the following for consideration:

a) How to address subjective, superfluous or irrelevant narrative in subject matter information and the need for clear guidance linked to the 'materiality process' guidance set out in Chapter 6 of the CP.

b) Performance materiality more generally, not only in relation to narrative and future-oriented information.

Further Task Force consideration of the approaches taken in ISAE 3400 and ISA 540 (Revised)

66. The Task Force further considered the approach taken in ISAE 3400, key elements of which are summarized below. The Task Force considers that, in principle, many of these elements can be adapted in providing guidance on addressing evidence in relation to both narrative information and future-oriented information. This is because the ISAE 3400 approach is premised on addressing subject matter information that reflects higher levels of measurement or evaluation uncertainty, is therefore relatively subjective, may be more speculative, and is generally more susceptible to management bias. These characteristics are often found in both narrative and future-oriented information.

67. The terminology used in ISAE 3400 is not consistent in all respects with the terminology in the Standard. However, using the terminology of the Standard, ISAE 3400 deals only with engagements in which the practitioner’s report expresses conclusions that convey both:

a) Limited assurance as to whether the assumptions [subject matter information] [have been properly prepared on the basis of applicable criteria that are suitable to] provide a reasonable basis for the prospective financial information; and

b) Reasonable assurance as to whether the prospective information [subject matter information] has been properly prepared [in accordance with applicable criteria that are suitable] on the basis of the assumptions.

68. The Standard indicates the broad nature of the assertions relating to prospective information, which the practitioner should seek to obtain sufficient appropriate evidence about. This also indicates the nature of important criteria (including criteria relating to presentation and disclosure) that the practitioner will need to consider in establishing whether the applicable criteria are suitable and have been made available to the intended users:

a) In relation to the assumptions:
   i. The reasonableness of management’s best estimate assumptions; and
   ii. The consistency of hypothetical assumptions with the purpose of the prospective financial information, and whether they are clearly not unrealistic.

b) In relation to the proper preparation of the prospective information in accordance with the assumptions:
i. The disclosure of important types of information (e.g., the accounting policies; the material assumptions; when assumptions are subject to a high degree of uncertainty, the uncertainty and sensitivity of the results needs to be disclosed; when results are expressed in terms of a range, the basis of establishing points in the range is clearly indicated and the range is not selected in a biased or misleading way);

ii. The proper presentation of the prospective information (including whether it is informative and not misleading);

iii. The disclosure of all material assumptions and whether they are best estimate or hypothetical in nature; and

iv. The consistency of the prospective information with historical financial statements, using appropriate accounting principles.

69. ISAE 3400 notes that the practitioner will not be in a position to express a reasonable assurance conclusion as to whether the results shown in the prospective financial information will be achieved.\(^{16}\) This is discussed in the context of the generally future-oriented and potentially speculative nature of the evidence available to support the assumptions on which prospective financial information is based compared with the evidence ordinarily available in a financial statement audit. It also notes, in that context, that it may therefore be difficult to obtain reasonable assurance about the reasonableness of the assumptions.

70. Accordingly, although ISAE 3400 deals only with engagements in which the practitioner’s report expresses a conclusion that conveys limited assurance on the reasonableness of the assumptions, it does not preclude the expression of a conclusion that conveys reasonable assurance when in the practitioner’s professional judgment an appropriate level of assurance has been obtained.\(^{17}\)

71. ISAE 3400 specifically excludes addressing prospective information in narrative or general terms but notes that many of the procedures outlined in it may be suitable to use in that context.

72. The Task Force also noted that the approach in ISA 540 (Revised) to obtaining and evaluating evidence about the reasonableness of accounting estimates (which may be future-oriented) and evaluating the adequacy of related disclosures, will also be relevant, by analogy, in developing guidance to address challenges relating to future-oriented information as well as other types of narrative information that involve significant measurement or evaluation uncertainty.

**Structuring the guidance on narrative and future-oriented information**

73. Having considered the matters discussed during the March Board meeting breakout sessions, the Task Force is of the view that, while the nature and quality of the evidence that is able to be obtained for narrative and future information may differ from each other and from evidence that is obtained for historical information, the key thought processes followed in designing and performing evidence-gathering procedures will, in principle, be similar for all types of subject matter information in an EER report.

\(^{16}\) ISAE 3400 paragraph 8

\(^{17}\) ISAE 3400 paragraph 9
74. Accordingly, the task force considers that guidance on a general approach to issues relating to obtaining and evaluating evidence about information in EER reports would provide helpful context to more targeted guidance on common and specific issues identified in the context of narrative and future-oriented information. Doing so would, in the Task Force view, also avoid unnecessary duplication if the guidance was provided on a standalone basis for these types of information, in separate chapters. The Task Force considers that examples could be used in the specific guidance to draw out different or unique considerations in the context of narrative or future-oriented information.

75. The Task Force considered a number of alternative ways to structure the guidance. A separate chapter could be added for the guidance on a general approach to evidence, with separate chapters respectively providing guidance dealing with specific issues relating to narrative and future-oriented information (as was the case in the CP for guidance on phase 1 challenges). One variant considered would include specific examples relating to narrative information in the general guidance, and to include only specific guidance on future-oriented information in a separate chapter.

76. The Task Force also noted that in addressing the phase 1 challenges, the specific guidance necessary for narrative and future-oriented information was similarly limited because the general guidance on those challenges addressed many of the principles relevant to those types of information.

77. The Task Force proposes to explore these structuring options as the guidance is further developed and would welcome the Board's views on them. However, subject to the Board's views, the Task Force initially proposes to explore adding a chapter with general guidance relating to evidence in EER assurance engagements and to add only specific guidance and examples to the chapters in the CP about narrative and future-oriented information. Whichever approach is decided upon, some restructuring of the guidance relating to challenges 6 and 7 for the phase 1 materials may be needed.

Developing a thought process for practitioners in obtaining and evaluating evidence

Introduction

78. In discussing the issues relating to evidence about narrative and future-oriented information, which are to be addressed by the guidance, the Task Force concluded that most of them could be attributed to one of three inter-related dimensions relating to evidence:

a) Determining the relevance and reliability of the evidence needed and available;

b) Designing and performing procedures to obtain the (sufficient appropriate) evidence needed; and

79. In relating the identified issues to these dimensions, the Task Force developed a general view of the important considerations about evidence on each dimension. These are described below. The Task Force proposes to develop the guidance to provide a thought process for the practitioner in addressing these considerations. This thought process could be applied by practitioners to address evidence for any type of subject matter information in an EER report. The Task Force also proposes to illustrate the application of this general thought process to specific issues identified for narrative and future-oriented information, through the use of practical examples.
80. The Task Force considers that this approach would be consistent with how guidance has been developed for other challenges addressed in phase 1. In developing the guidance, the Task Force also proposes to consider how developments in the current revision of ISA 315, and key elements of the approaches in ISAE 3400 and in ISA 540 (Revised), may be adapted in addressing narrative and future-oriented information in an EER engagement.

Context – the fundamental significance of evidence in an EER assurance engagement

81. Evidence is a fundamental concept that defines the nature of an assurance engagement, one in which a practitioner aims to obtain sufficient appropriate evidence in order to express an assurance conclusion.\(^{18}\) The assurance conclusion is about whether the subject matter information is free from material misstatement.\(^{19}\) Evidence is the information used by the practitioner in arriving at the assurance conclusion.\(^{20}\) Evidence is primarily obtained from procedures performed during the course of the engagement but may include information obtained from other sources.\(^{21}\) Ordinarily, evidence available will be persuasive rather than conclusive.

82. A misstatement is a difference between the subject matter information and the appropriate measurement or evaluation of the underlying subject matter in accordance with the criteria. Misstatements can be qualitative or quantitative in nature and include omissions.\(^{22}\) The materiality of misstatements was addressed in Chapter 12 of the phase 1 guidance.

83. The significance of evidence in an assurance engagement is emphasised in the preconditions for accepting an assurance engagement, which include that the practitioner establishes that:

- The underlying subject matter is appropriate, such that the subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence to support an assurance conclusion\(^ {23}\); and

- The practitioner expects to be able to obtain the evidence needed to support the assurance conclusion.\(^{24}\)

84. The exercise of professional judgment and of professional skepticism is critical in obtaining sufficient appropriate evidence through performing procedures. Professional judgment is required to be exercised (in making informed decisions about appropriate courses of action) in planning and performing the engagement, including determining the nature, timing and extent of procedures.\(^{25}\) Assurance engagements are required to be planned and performed with an attitude of professional skepticism, in order to obtain sufficient appropriate evidence.

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\(^{18}\) ISAE 3000 (Revised) paragraph 12(a)

\(^{19}\) ISAE 3000 (Revised) paragraph 65

\(^{20}\) ISAE 3000 (Revised) paragraph 12(i)

\(^{21}\) ISAE 3000 (Revised) paragraph A146

\(^{22}\) ISAE 3000 (Revised) paragraph 12(o)

\(^{23}\) ISAE 3000 (Revised) paragraphs 24(b)(i) and A40

\(^{24}\) ISAE 3000 (Revised) paragraph 24(b)(iv)

\(^{25}\) ISAE 3000 (Revised) paragraph 12(t)
85. Areas of decision-making in the conduct of an assurance engagement, where professional judgment is necessary include decisions about:

- Materiality and engagement risk.
- The nature, timing and extent of procedures to be performed to meet the requirements of the Standard.
- Whether sufficient appropriate evidence has been obtained and in the case of a limited assurance engagement whether a meaningful level of assurance has been obtained.
- Whether the objectives of the Standard have been met.
- Whether the applicable criteria have been properly applied to the underlying subject matter.
- Whether the applicable criteria that have been selected or developed are suitable in the circumstances of the engagement.
- The appropriate conclusions to draw based on the evidence obtained, including in forming the assurance conclusion and in drawing the conclusions that support it.

86. In performing procedures to comply with the requirements of the Standard, the practitioner makes decisions that ultimately support the assurance conclusion. Making such decisions involves making choices about courses of action or conclusions that can be drawn. For example, the practitioner may have to decide if a risk of material misstatement exists or if an assertion about a class of transactions or balance is misstated or if a control operated effective. The nature of these decisions is assisted by the application of judgment and professional skepticism in determining the courses of action that are appropriate in the circumstances of the engagement, whether in making the acceptance decision or during the performance of the engagement, and either directly to support a decision about whether or not an assertion implicit in the subject matter information is corroborated (true) or contradicted (false), or, indirectly, in relation to another matter that supports the assurance conclusion, for example, in relation to the assessment of risk or materiality.

87. Other procedures may involve decisions that are less directly related to the assurance conclusion. For example, those procedures that involve making decisions about aspects of engagement quality, such as the competence of those who are to perform the engagement or the sufficiency or effectiveness of direction, supervision and review procedures.

The characteristics of persuasive evidence

88. The nature, timing and extent of the procedures designed to be performed determine the persuasiveness of the evidence that is available to be obtained by performing a procedure. Different underlying subject matters have different characteristics, including the degree to which subject matter information about them is qualitative or quantitative, objective or subjective, historical or prospective, and relates to a point in time or covers a period. These characteristics may also affect the persuasiveness of available evidence.\(^\text{26}\)

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\(^{26}\) ISAE 3000 (Revised) paragraph A42
89. The persuasiveness of evidence actually obtained by performing procedures may also be affected by matters such as the competence of the individuals assigned to perform them and the effectiveness of the direction, supervision and review of those individuals.

90. The characteristics of persuasive evidence are its appropriateness (relevance and reliability) and sufficiency. The relevance and reliability of evidence relate to the quality of evidence, while the sufficiency of evidence relates to the quantity of evidence. These characteristics are not binary but are expressed in different degrees. The sufficiency of evidence relates to both the extent of the evidence obtained (e.g., from more than one source; the extent of sampling) and the strength of the relevance and reliability of the evidence.

91. The relevance of evidence relates to how closely it pertains to, assists in making, or contributes to, the decision being made in performing the procedure. It is closely related to the purpose of the procedure performed. Relevance has the characteristic of corroborating or contradicting the appropriateness of options for courses of action or conclusions that can be taken or drawn in making the decision – i.e. it is the ‘right’ evidence to consider in light of the decision to be made.

92. The reliability of evidence relates to its informational validity (sometimes referred to as representational faithfulness or authenticity), which includes its completeness, accuracy neutrality (lack of bias), and the precision with which the evidence can be obtained (sometimes referred to as its verifiability). The reliability of evidence is influenced by its nature and source and is affected by the individual circumstances under which the evidence is obtained.

93. For example, generally, evidence is more reliable when:
   - It is obtained from sources external to the preparer;
   - If it is generated by the preparer, if related controls are effective;
   - Obtained directly by the practitioner rather than indirectly or by inference; and
   - It exists in documentary form.

   However, such generalizations are subject to important exceptions. For example, evidence obtained from an external source may not be reliable if the source is not knowledgeable or objective. Obtaining evidence from different sources or of a different nature may either corroborate other evidence or indicate that an individual item of evidence is not reliable.

94. Sufficiency of evidence is a measure of the extent of the evidence obtained and the strength of its relevance and reliability. More evidence that has some relevance and some reliability, or evidence that has more relevance or more reliability, will be more persuasive in corroborating or contradicting the appropriateness of options for courses of action or conclusions that can be taken or drawn in making the decision under consideration (or the level of assurance it provides about the decision).

95. The persuasiveness of the evidence that is necessary to conclude that sufficient appropriate evidence has been obtained depends on the level of assurance that needs to be obtained in the

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27 International Framework for Assurance Engagements paragraph 50
28 International Framework for Assurance Engagements paragraph 63
29 International Framework for Assurance Engagements paragraph 63
30 International Framework for Assurance Engagements paragraph 64
circumstances of the engagement, and the components of engagement risk that the practitioner does not directly influence (those components of the risks of the subject matter information being materially misstated that exist prior to audit, i.e. inherent risk and control risk). The higher these components of risk are, the more persuasive the evidence that will need to be obtained to reduce engagement risk to an acceptably low level in the circumstances of the engagement. However, obtaining more evidence may not compensate for the evidence having low relevance or reliability and may not therefore result in sufficient appropriate evidence.

Nature of a procedure and how it affects the characteristics of the evidence obtained

96. Procedures performed in an assurance engagement vary in nature. The nature of a procedure refers both to its purpose and to its type. Purpose reflects relevance to the decision that the practitioner is to address in performing the procedure (i.e. the relevance to making the decision, of the evidence needed). The purpose also influences the reliability of the evidence needed to be obtained by the practitioner by performing the procedure. The type of a procedure refers to the manner in which the procedure is performed (to achieve its purpose). The type of procedure also influences the relevance and reliability of the evidence that is obtained by performing the procedure.

Purpose of a procedure and its relationship to decision making

97. For all procedures that the practitioner performs in complying with the requirements of the Standard, the ultimate purpose is to contribute to the reduction of detection risk by enabling the practitioner to obtain evidence about conclusions that collectively support the assurance conclusion.

98. Classes of procedure that by their nature have different purposes contribute to the reduction of detection risk in different ways. Evidence obtained from performing such procedures is about conclusions that may support the assurance conclusion in a relatively more or less direct manner. Evidence about conclusions that support the assurance conclusion relatively less directly is often required to be responded to appropriately by designing and performing other procedures that provide evidence about conclusions that support the assurance conclusion relatively more directly.

99. For example, the practitioner is required to design and perform procedures, with the purpose of obtaining an understanding of the engagement circumstances (evidence) sufficient to provide a basis for the practitioner to design and perform other procedures. The practitioner is required to respond appropriately to the understanding (evidence) obtained, by designing and performing procedures, on the basis of that understanding, with the purpose of identifying and assessing the risks of material misstatement (in a reasonable assurance engagement) or of identifying areas where a material misstatement is likely to arise (in a limited assurance engagement). Responding appropriately means that the design and performance of those procedures is expected to enable the practitioner to identify such risks or areas where material misstatements are likely to arise. The classes of procedures by nature described in this paragraph may be referred to collectively as risk assessment procedures.

31 ISAE 3000 (Revised) paragraph A12
32 ISAE 3000 (Revised) paragraph A147
33 ISAE 3000 (Revised) 46L(a) and 46R(a)
34 ISAE 3000 paragraphs 48L(a) and 48R(a)
100. The evidence obtained by performing such risk assessment procedures is also required to be responded to by procedures, which may be referred to as further procedures, with specific purposes which may be to obtain evidence about the operating effectiveness of a control or to obtain evidence about whether a material misstatement exists. Such further procedures are required to respond appropriately to the identified and assessed risks of material misstatement or to the identified areas where a material misstatement is likely to arise. Responding appropriately means that the design (the nature, timing and extent) and performance of the further procedures is expected to enable the practitioner to obtain sufficient appropriate evidence about whether the subject matter information is materially misstated.

101. The practitioner is also required to perform procedures, with the purpose of evaluating whether sufficient appropriate evidence has been obtained, from the performance of further procedures and other sources, about whether the subject matter information is materially misstated. Evidence obtained from the performance of the further procedures and those described in this paragraph is about conclusions that support the assurance conclusion in a relatively more direct manner (at the level of assertions or misstatements).

102. The practitioner is also required to perform procedures with many other purposes, in the conduct of an engagement. For example: procedures to consider engagement acceptance; procedures to evaluate the competence and capabilities of an expert, another practitioner, or the internal audit function, when their work is to be used as evidence; or to report in accordance with the Standard. Many of these procedures may contribute to the reduction of detection risk relatively less directly (more pervasively at the level of the engagement as a whole).

Types of procedure and their effect on the characteristics of persuasive evidence

103. The manner of performance of a procedure (its type) may, for example, be: inspection; observation; confirmation; re-calculation; re-performance; analysis (substantive or otherwise); or inquiry. The quality of evidence obtained may vary with the type of procedure. The reliability of evidence obtained from two types of procedure with the same purpose may be very different. For example, in obtaining evidence about the implementation of a control, evidence obtained by observation may be more reliable than evidence obtained by inquiry, which is obtained indirectly or by inference.

104. Depending on the precision that is required, one type of procedure may be more appropriate than another in seeking to comply with a particular requirement of the Standard. Often evidence may be gathered to support the same purpose by performing more than one type of procedure. In this context, the Standard notes that evidence obtained by inquiry alone is not sufficient to determine whether a relevant control has been implemented or whether it is operating effectively. Professional judgment is required to make decisions about the types of procedures that are appropriate in complying with a particular requirement of the Standard.

105. Another area where the Standard provides guidance in relation to the type of procedures to be performed is in limited assurance engagements. The guidance is in the context of the level of assurance to be obtained, which must be at least meaningful. The Standard notes that: “the emphasis placed on the nature of various procedures as a source of evidence will likely differ, 

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35 ISAE 3410 paragraph 14(l)
36 ISAE 3000 (Revised) paragraph A3
depending on the engagement circumstances. For example, the practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on inquiries of the entity’s personnel and analytical procedures, and relatively less emphasis, if any, on testing of controls and obtaining evidence from external sources than may be the case for a reasonable assurance engagement.”

The thought process for practitioners in obtaining and evaluating evidence

106. The Task Force proposes to include in the guidance a further-developed version of the preliminary outline of the thought process included below. The thought process is intended to assist practitioners in addressing the challenges in obtaining and evaluating evidence, particularly those identified in the project proposal as relating to evidence about narrative and future-oriented information. It will be supplemented by some general guidance based on the discussion above, which would be cross referenced from the thought process. In addition, the Task Force proposes to develop examples to illustrate how the thought process can be applied in addressing particular issues identified about narrative and future-oriented information.

Determining the characteristics of the evidence needed and available

107. The first stage of the thought process considers the characteristics of the evidence needed and of the available evidence. The first step is to identify and understand the nature of the decision that is to be made. As noted above, this may be a decision that more directly relates to the assurance conclusion (e.g., whether an assertion about the subject matter information is materially misstated or a relevant control is operating effectively), or one that relates more indirectly to the assurance conclusion.

108. In considering the relevance of the evidence needed, the practitioner identifies possible decision outcomes and underlying indicants, whose condition indicates the appropriateness or inappropriateness of the possible decision outcomes. Information about such indicants is relevant because that information indicates which decision outcome is appropriate.

109. The practitioner identifies conditions of the indicant that corroborate and those that contradict possible decision outcomes. Conditions of particular interest are those that would contradict a decision outcome that would, directly or indirectly, support an unmodified assurance conclusion, because such a decision outcome would have implications for the engagement. The practitioner considers what reliable information about the relevant indicants is needed to make the decision.

110. Consideration of the degree of sufficiency, relevance and reliability of the information needed to make the decision with the appropriate level of assurance is made in designing the procedure(s).

111. The practitioner then considers what information is available that would provide reliable evidence about relevant indicants, and the sources from which it could be obtained. Consideration of the characteristics of the relevant indicants, of the characteristics of the sources of available evidence, of the nature of the evidence available and of the conditions under which the evidence could be obtained from the sources, assists the practitioner in evaluating the reliability of the available evidence.
Designing and performing procedures to obtain sufficient appropriate evidence

112. The second stage of the thought process addresses the design and performance of procedures. It assists the practitioner in identifying the purpose of the procedure in light of the understanding of the decision developed in the first stage.

113. The thought process then moves on to consider the type of procedures that it would be feasible to perform to obtain the evidence needed. Since the type(s) of procedure performed affect the reliability of the evidence that can be obtained by performing them, the practitioner considers what types of procedure could feasibly be used to obtain available reliable evidence.

114. The design of appropriate procedures also needs to take into account other considerations, such as factors that could cause indicants to have conditions that would contradict a decision outcome that would support an unmodified assurance conclusion.

115. The practitioner also considers the level of precision and detail with which the procedure needs to be performed. This may depend on the nature of the decision to be made, the nature and complexity of the underlying subject matter, the nature of the criteria to be applied, the risk of misstatement in the subject matter information, what is likely to affect the decisions of intended users, the nature and source of available evidence, and the level of assurance to be obtained.

116. The practitioner then considers the sufficiency of the evidence needed to be obtained, both the quantity of evidence and its degree of relevance and degree of reliability. The practitioner is then able to determine the precise nature, timing and extent of the procedure(s) to be performed, such that they expect to be able to obtain sufficient appropriate evidence.

117. The thought process also identifies considerations that are relevant to the performance of the engagement. These may include decisions to be made about the need to exercise assurance and subject matter competence, the significance of the professional judgments and of the exercise of professional skepticism that is likely to be needed in performing the procedures. These decisions have implications for quality control at the engagement level.

Evaluating the sufficiency and appropriateness of the evidence obtained

118. The third stage of the thought process addresses the evaluation of the evidence obtained. If the design and performance of procedures has been properly addressed, the evaluation should be able to focus primarily on differences from expectations. Such differences may relate to the results of the procedures (particularly where those results indicate that the evidence contradicts a decision outcome that would support an unmodified conclusion). Differences from expectation may also relate to new information. The assurance engagement is an iterative, systematic engagement process, which requires the practitioner to re-evaluate earlier decisions in light of new information, exercising professional skepticism, throughout the engagement.
Preliminary outline of the thought process

A. Determining the characteristics of the evidence needed and available

Nature of the decision to be made

a) What decision is to be made to meet the requirement of the Standard?
   • What course of action or conclusion does the decision relate to?
   • How will the decision support the assurance conclusion?
   • In that context, how precise or detailed will the evidence need to be?
   • How should the decision be reflected in the purpose of the procedure(s)?
   • What aspect(s) of which item(s) are directly relevant to the decision?
   • How might the nature of directly relevant item(s) affect the characteristics of persuasive evidence available?
   • Will the decision depend on any other decision(s)? If so, what outcome was decided, and does it remain appropriate?

Possible decision outcomes

b) What are the possible decision outcomes?

Nature of indicants of an appropriate or inappropriate decision outcome

c) What might be relevant direct or indirect indicants of the appropriateness or inappropriateness of the possible decision outcomes?
   • Which aspect(s) of item(s) directly relevant to the decision might be relevant direct indicants (they would be direct indicants if directly observable)?
   • Which aspect(s) of other observable item(s) might be relevant indirect indicants?
   • What combination of relevant indicants would be appropriate?

d) Which possible conditions of relevant indicants would corroborate, and which would contradict, the appropriateness of the possible decision outcomes?

e) What factors might give rise to conditions of relevant indicants that would contradict the appropriateness of decision outcomes that would ultimately support an unmodified assurance conclusion (e.g., information about inherent risk factors might do so directly in the case of a procedure to detect misstatements of the subject matter information and might do so indirectly in the case of other procedures)?

Considering the relevance and reliability of evidence needed

f) How might the characteristics of relevant indicants affect the reliability of information (evidence) about them that may be available?
g) Taking the considerations in A(a) to (f) into account, what types of information would provide reliable evidence about the condition of relevant indicants and factors that might give rise to conditions of relevant indicants that would contradict the appropriateness of possible decision outcomes (relevant evidence)?

**Considering the reliability of available relevant evidence**

h) What possible sources of available relevant evidence are there, and how relevant would the evidence from those sources be?
   - What possible sources internal to the preparer are there (whether within or outside the preparer’s information system relevant to the EER report)?
   - What possible sources external to the preparer are there?

i) What are the characteristics of the possible sources (see A(f)), what is the nature of the evidence available from them, and what are the conditions under which available evidence could be obtained from them?

j) How might the factors in A(i) affect the reliability of evidence available from those sources?

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**B. Designing and performing procedures to obtain sufficient appropriate evidence**

**Designing the procedure(s) to obtain evidence**

*Purpose of procedure(s)*

a) Taking the considerations in A(a)-(d) into account, what should be the purpose of the procedure(s)?

*Type of procedure(s)*

b) Taking the considerations in A(f)-(i) and B(a) into account, what type(s) of procedure is it feasible to perform, to obtain the evidence needed from identified possible sources of available evidence?
   - How does the relevance and reliability of evidence that can be obtained by performing a possible type(s) of procedure compare with the relevance and reliability of the evidence available from an identified possible source (see A(f))? 

*Other considerations in designing procedure(s)*

c) Taking the considerations in A(a)-(i) and B(a)-(b) into account, what other considerations (if any) are relevant in designing the nature, timing and extent of the procedure(s) to be performed, including how the nature, timing and extent of the procedure(s) should be responsive to:
   - The factors in A(e)
   - The precision and level of detail necessary to meet the purpose
The sufficiency of appropriate available evidence that needs to be obtained

d) Taking the required level of assurance (a meaningful level, in a limited assurance engagement) for the engagement into account:

- How much evidence would need to be obtained, from which possible source(s), by performing which feasible procedure(s); and
- How relevant and reliable would the evidence obtained need to be such that you expect the evidence obtained to be sufficient and appropriate and therefore persuasive in determining the outcome of the decision?

Nature, timing and extent of procedure(s)

e) Based on the considerations in B(a)-(d), what is the nature, timing and extent of the procedure(s) that it would be appropriate to perform to obtain evidence, and from which sources?

Performing the procedure(s)

f) Taking the considerations in A(a)-(j) and B(a)-(e) into account, how might the nature, timing and extent of the procedure(s) influence the significance of the assurance and subject matter competence, professional judgments to be made or exercise of professional skepticism required in performing the procedure(s)?

g) What are the implications for the competence of those who are to perform the procedure(s) and for their direction, supervision and review?

C. Evaluating the sufficiency and appropriateness of the evidence obtained

a) In performing the procedure(s), has any new information come to your attention that differs significantly from that expected and on which the planned procedure(s) were based, including conclusions reached in considering the matters in sections A and B? If so, have the planned procedure(s) been re-evaluated?

- Does the level of exceptions identified, or other information that has come to light, which contradict the appropriateness of the decision taken, differ from your expectation?
- If the decision depends on any other decision(s), is the outcome of the other decision(s) still appropriate or has it been revisited? For example, have relevant risks of material misstatement been revisited or additional risks been identified?

b) Has any difficult professional judgment(s) identified been appropriately reviewed and has appropriate consultation taken place if applicable?

c) Has appropriate competence and specialized expertise been applied, and the exercise of professional judgment and professional skepticism been appropriate, in performing the procedure(s)?

d) In evaluating the sufficiency and appropriateness of the evidence:
• Have you considered the relevance of the evidence, including how closely it pertains to the decision being made, and, if there was other relevant evidence or evidence that is more relevant available from the same or other sources, did you select the sources from which you obtained evidence in an unbiased manner?

• Have you considered the reliability of the evidence, both how closely it represents the underlying indicant(s) (see A(c)) that it purports to represent (including its completeness, accuracy and neutrality) and whether the precision with which it does so is sufficiently detailed for the purposes of the decision being made?

• Did you consider the characteristics of the source(s) from which the evidence was obtained?

• Where the evidence represents information that was not verifiable directly, did you consider the precision with which it was prepared and whether it was appropriately selected from a reasonable range?

• Have you considered the sufficiency of the evidence, both the amount of evidence obtained and its degree of relevance and its degree of reliability?

e) Are you able to conclude that you have obtained sufficient appropriate evidence in the circumstances of the engagement?

f) If not, have you extended the performance of the procedure(s) or considered whether to perform an additional procedure(s)?

g) If you extended the work, and you were still unable to conclude satisfactorily, did you consider the implications for the engagement, including for engagement risk, acceptance and continuance and the assurance conclusion and report?

Outstanding matters

119. The Task Force will give further consideration to the following areas where the need for guidance was identified in relation to obtaining evidence:

a) Documentation considerations;

b) The consideration of materiality more generally, including performance materiality;

c) The heightened risk of bias associated with internally generated evidence, where there is a lack of external sources from which to obtain evidence, and the need for professional judgment and professional skepticism;

d) The need for the same principles to be applied to diagrams, graphs, charts and other visual representation of the subject matter information;

e) How do deal with subjective and superfluous information included within narrative or future-oriented information, and the association with ‘other information’; and

f) The need for the preparer to keep proper books and records as part of their responsibility for having a reasonable basis for the subject matter information.
Matters for IAASB Consideration

Q2. The IAASB is asked for its views on:

a. The analysis presented above, from which the Task Force proposes to develop the phase 2 guidance, appropriately responds to the identified aspects of guidance needed to address this challenge, and, in particular:
   i. Whether the discussion in paragraphs 77 - 117 above is helpful
   ii. Which parts of the thought process are most useful and whether there are aspects missing
   iii. Whether the approach is consistent with the Audit Evidence Task Force thinking.

b. The Force’s proposal to add a chapter with general guidance relating to evidence in EER assurance engagements and to add only specific guidance and examples to the chapters in the CP about narrative and future-oriented information.

c. Where examples would be useful and whether there are any examples the Task Force can include.
Challenge 8: Exercising Professional Skepticism and Professional Judgment

Introduction and context

120. The Standard requires the practitioner to plan and perform an engagement with professional skepticism, recognizing that circumstances may exist that because the subject matter information to be materiality misstated. The Standard also requires the exercise of professional judgment in planning and performing an assurance engagement, including determining the nature, timing and extent of procedures, and the application of assurance skills and techniques as part of an iterative, systematic engagement process.

121. The DP summarized the challenges faced by practitioners in exercising professional skepticism and professional judgment in the context of an EER engagement as follows:

“There may be more areas that require judgment in applying EER frameworks than in applying financial reporting frameworks, and more areas where the judgments in preparing the subject matter information are susceptible to subjectivity and management bias. There are therefore generally more areas where there is a need to apply professional judgment and professional skepticism in EER assurance engagements. At the same time, given the broader and more diverse subject matters addressed, it may be more challenging for the practitioner to obtain the competence needed to support the application of professional judgment and professional skepticism in relation to such engagements.”

122. The Task Force initially identified the following aspects to be addressed in the guidance during phase 2 of the project, and discussed these with the Board at the March 2019 Board meeting:

a) How this challenge is closely related to the issue of practitioners obtaining the necessary competence, especially in the case of practitioners without significant assurance experience.

b) Not all the experts involved in an EER assurance engagement may be accustomed to applying professional judgment and professional skepticism, as defined in the assurance framework, throughout the engagement.

c) How individuals’ skills in exercising professional skepticism can be developed.

d) Frameworks and methodologies can help reinforce exercise of good judgment and of professional skepticism.

e) A key area often requiring professional skepticism in EER assurance engagements is in relation to an entity’s ‘materiality process’, particularly checking that the criteria are complete.

f) Exercising professional judgment and professional skepticism is important in understanding the engagement circumstances, assessing risks (or identifying areas where material misstatement is likely), designing further procedures and in obtaining and evaluating evidence.

123. In the break-out sessions during the March 2019 Board meeting, Board members suggested that the following additional considerations should be addressed in developing the guidance:

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37 ISAE 3000 (Revised) paragraph 37
38 ISAE 3000 (Revised) paragraph 38
39 ISAE 3000 (Revised) paragraph 39
a) The guidance in relation to this challenge needs to be scalable.

b) How professional skepticism is related to quality management, including considering the new material in the quality management exposure drafts.

c) A need to challenge whether more or less exercise of professional judgment and professional skepticism is really required in an EER assurance engagement as compared to an audit, or whether their exercise is simply different because of the need to evaluate the different subject matter and criteria of these types of engagement.

d) Reporting considerations, including explaining uncertainties, and what might trigger a modified assurance conclusion in relation to narrative or future-oriented information.

124. In addressing these challenges, the Task Force is of the view that it is helpful to consider first:

a) How the Standard and other standards define professional judgment and professional skepticism, and how the two concepts relate to each other, as this will assist in identifying the skills needed in their exercise; and

b) The impediments to being able to apply professional skepticism and professional judgment, including how the application of these skills may be different in the context of an EER engagement compared to a financial statement audit engagement.

c) Skills needed to exercise professional judgment and professional skepticism

125. The exercise of professional judgment is required in applying all of the International Standards issued by the IAASB\(^{40}\), including ISAE 3000 (Revised); that is, in complying with their requirements.

126. In an assurance engagement, information obtained in complying with the requirements can be considered as evidence as it is used by the practitioner in reaching the practitioner’s conclusion.\(^{41}\) All decisions to be made in applying the requirements of the standards, for example the decisions around determining, evaluating and assessing information, are “about courses of action that are appropriate in the circumstances of the engagement”,\(^{42}\) and are informed by the evidence obtained by the practitioner.

127. In an assurance engagement, professional judgment applies the relevant training, knowledge and experience, within the context provided by assurance and ethical standards,\(^{43}\) in making those informed decisions about the courses of action that are appropriate in the circumstances of the engagement.

128. Independence includes a mindset or attitude that avoids influences that might compromise the exercise of professional judgment in forming an assurance conclusion, and that might therefore

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\(^{40}\) IAASB Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements 2018 Edition Volume 1, Preface paragraph 17

\(^{41}\) ISAE 3000 (Revised) paragraph 12(i)

\(^{42}\) ISAE 3000 (Revised) paragraph 12(t)

\(^{43}\) ISAE 3000 (Revised) paragraph 12(t)
compromise that conclusion.\textsuperscript{44} It also allows the practitioner to act with integrity and exercise objectivity and professional skepticism effectively in forming an assurance conclusion.\textsuperscript{45}

129. Professional skepticism is applied throughout the engagement; that is, in performing procedures and in making decisions throughout the engagement. It is an attitude (of mind), and the definition in the Standard highlights three aspects of that attitude: a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical evaluation of evidence.\textsuperscript{46}

130. The Task Force discussed that the ability to apply professional skepticism is also supported by the effective exercise of other skills, such as being willing to consider points of view to check their own, acting with the courage to challenge, where necessary, and the ability to suspend drawing conclusions in decision-making and follow through with inquiry and challenge until the practitioner is satisfied that the explanations and other evidence obtained support the decision being made (see diagram below paragraph 135).

131. Professional skepticism and professional judgment are closely linked with each other, as well as with the considerations identified in relation to challenge 9: Obtaining the Competence Necessary to Perform the Engagement and the considerations relating to evidence identified in relation to challenge 6: Obtaining Assurance with Respect to Narrative Information and challenge 7: Obtaining Assurance with Respect to Future-Oriented Information. The Task Force therefore proposes to develop the guidance on challenge 8 in close conjunction with the guidance on challenge 9 and the evidence-related guidance on challenges 6 & 7.

132. Assurance skills and techniques include the application of professional judgment and professional skepticism. Competence in applying them, as for all assurance skills and techniques, is developed through extensive training and practical application.\textsuperscript{47}

133. The Task Force recognizes that practical experience is a particularly important element in acquiring such skills, including through the good example of engagement partners and more experienced engagement team members providing appropriate direction, supervision and review. Those involved in the engagement with responsibility for complying with the requirements of the Standard in planning or performing the engagement need time to develop their competence in exercising professional judgment and professional skepticism and in applying other assurance skills that support their effective application, to a level appropriate to their role in the engagement. The level of competence of those involved in the engagement, who have such responsibility, is likely to vary and they may therefore be subject a varying degree of direction, supervision and review by others with greater competence, which is an important aspect of engagement quality management at the engagement level. This is discussed further in relation to challenge 9: Obtaining the Competence Necessary to Perform the Engagement.

134. The Task Force concluded in light of the above that the exercise of professional skepticism importantly involves being able to stand back, suspend decision-making and critically assess the

\textsuperscript{44} IAASB Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements 2018 Edition Volume 1 Glossary of Terms Independence
\textsuperscript{45} ISAE 3000 (Revised) paragraph A33
\textsuperscript{46} ISAE 3000 (Revised) paragraph 12(u)
\textsuperscript{47} ISAE 3000 (Revised) paragraph 31b
evidence related to the decision being made with professional judgment in complying with the requirements of the Standard. It also concluded that a critical assessment requires an appropriate level of subject matter competence, in the circumstances of the engagement, and involves understanding and addressing the impediments to professional skepticism that may need to be overcome in making that decision.

135. The Task Force also noted that whilst the attitude of professional skepticism is a constant, the degree of competence and the actions needed to apply it can vary, both between assurance engagements (considering the circumstances of particular engagements) and within a particular assurance engagement (depending on the nature of the decisions being made).

136. The diagram below illustrates the relationship between the skills and characteristics of attitude needed for the exercise of professional skepticism (a constant), the impediments to the exercise of those skills, and possible actions that may be taken, depending on the identified impediments.
Needs for, and impediments to, the exercise of professional skepticism and professional judgment on an EER engagement

137. The actions needed in applying professional judgment and professional skepticism on an engagement will vary with the nature and difficulty of the decisions that are required to be made and the difficulty in performing procedures to comply with the requirements of the Standard; the greater the complexity or difficulty, the greater the skills and competence that are likely to be needed to be able to apply professional judgment and professional skepticism and to take actions that are appropriate in the circumstances.

138. Understanding the impediments on the engagement in relation to the ability to apply professional judgment and professional skepticism, including how the application of these skills may be different in the context of an EER engagement compared to a financial statement audit engagement, is helpful in understanding the actions that may be needed to overcome those impediments.

Subject matter expertise on EER engagements

139. An EER engagement may be undertaken in relation to a wide range of underlying subject matters, many of which will require specialized subject matter competence, for example, scientific or engineering skills. As a result, it may be necessary to involve a relatively higher proportion of experts in an EER assurance engagement than in a financial statement audit, where the assurance practitioner is trained in the underlying subject matter competence (financial accounting) relevant to an audit engagement.

140. While subject matter experts may well need to apply a questioning mindset, be alert to possible error or bias in their work, and be able to critically assess evidence, the exercise of those skills in their work as an expert may be different from applying those skills in making decisions in applying the requirements of the Standard. Although some subject matter experts involved in an EER assurance engagement may also have experience and some level of competence in applying professional judgment and professional skepticism and other assurance skills, it is not necessary for such an expert to have such experience or competence during the conduct of their work as an expert used by a practitioner in the context of an assurance engagement.

141. However, if such an expert is also responsible for applying a requirement(s) in the Standard, they will require some level of competence in assurance skills (including professional judgment and professional skepticism) and will, in that respect be a member of the engagement team, whose work is subject to direction, supervision and review under the oversight of the engagement partner. This is discussed further in relation to challenge 9: Obtaining the Competence Necessary to Perform the Engagement.

Using the work of management’s expert

142. In the context of an EER engagement, management may employ their own subject matter expert/s to assist in the preparation of the subject matter information, giving rise to a number of risks, including that their work may reflect management bias.

143. If information to be used as evidence has been prepared using the work of a responsible party’s or preparer’s expert, the practitioner is required to evaluate the competence, capabilities and objectivity
of that expert, obtain an understanding of the work of that expert and evaluate the appropriateness of that expert’s work as evidence.

144. The skills and competence needed in applying professional judgment and professional skepticism in making such evaluations may vary depending on the circumstances of the engagement; for example, where the subject matter is complex or subject to a high degree of measurement uncertainty, a high degree of assurance competence and skills as well as an appropriate degree of competence in the subject matter are likely to be needed to be able to exercise professional judgment and professional skepticism in assessing the risks involved and in determining an appropriate course of action to address the assessed risks.

145. Where there is a high degree of measurement uncertainty associated with the subject matter, in addition to having an appropriate degree of competence in the subject matter, the practitioner may also need significant assurance skills and experience as well as knowledge of the entity and its business to be able to consider whether there could be pressures or incentives for management to misstate the subject matter information or apply bias when measuring the subject matter, and to be able to question whether the expert has considered all the evidence expected to be available to them, whether the assumptions and methods used to measure the subject matter are reasonable, and to determine the nature and extent of further procedures that may be needed to understand and assess the work of that expert.

Assurance skills and competence

146. Practitioners without significant assurance experience may not have acquired the level of competence to apply a critical, questioning and objective mindset to all aspects of the planning or performance of the engagement, including in reviewing the work of others. For example, they may have insufficient confidence to question or challenge the judgments and assumptions of a preparer or management or practitioner’s expert, particularly where they lack the necessary level of subject matter competence.

147. To address this impediment, engagement team members with appropriate levels of competence should be assigned to those areas of the engagement for which their skills are appropriate, and the direction, supervision and review of their work flexed accordingly. Assigning direction, supervision and review responsibilities to members of the engagement team will require consideration of the competence of those performing the direction, supervision and review, as well as the competence of the engagement team member performing the tasks.

Other factors influencing the ability to apply professional judgment and professional skepticism

148. Other impediments to the exercise of professional judgment or professional skepticism in EER engagements may include:

a) Immature reporting frameworks for the EER subject matter information, such that there may be a broad range of possible approaches and acceptable criteria that could be applied by preparers of the subject matter information, necessitating a greater degree of skill and competence by the practitioner in applying professional judgment and professional skepticism in making decisions about the course of action that is appropriate in the circumstances, particularly in relation to the entity’s materiality process and assessing the suitability of the criteria.
b) Fee pressures that may arise as a result of differences in circumstances between EER and audit engagements, which may be an impediment to being able to apply the appropriate resource to the engagement or to perform the engagement in accordance with applicable technical and professional standards and due care, including those needed to apply professional judgment and professional skepticism.

**A framework for applying professional judgment and professional skepticism**

149. To help practitioners address the needs and impediments identified above, the Task Force proposes developing guidance around the thought processes for considering where professional judgment and professional skepticism may need to be applied, from the acceptance decision and throughout the engagement process. The Task Force proposes to develop examples to illustrate how the practitioner's actions in exercising professional judgment and professional skepticism may need to be flexed depending on the nature of the subject matter, the stage in accepting or performing the engagement, the level of assurance applicable in the circumstances of the engagement, and other factors.

150. While professional skepticism is required to be exercised throughout the process, the Task Force is of the view that it is useful to provide guidance on where and how professional skepticism and professional judgment may need to be applied during the decision-making relating to each of:

a) The acceptance or continuance decision;

b) Assessing risk and materiality;

c) Designing evidence-gathering procedures and obtaining evidence; and

d) Evaluating the sufficiency and appropriateness of evidence.

**Applying professional skepticism in the acceptance or continuance decision**

151. In determining whether to accept or continue an engagement, the practitioner considers whether the preconditions for assurance are met, including whether the engagement has a rational purpose, and considers whether the team, collectively, have the appropriate competence and skills to perform the engagement and to enable an assurance report that is appropriate in the circumstances to be issued.

152. Considering whether the engagement has a rational purpose, of necessity, involves being able to understand the intended users’ perspective and to make judgments about what is likely to influence the decisions of those intended users. The Task Force believes that it will therefore be important, in developing the guidance, to link the application of professional skepticism to the assessment of criteria, including the ‘materiality process’ the preparer has applied in developing suitable criteria, and to the assessment relating to the proposed scope of the engagement, as discussed in relation to challenge 1: _Determining the Scope of an EER Engagement Can Be Complex_.

153. Before accepting or continuing the engagement, the engagement partner exercises professional judgment to be satisfied that there is no reason to believe that relevant ethical requirements, including:

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48 ISAE 3000 (Revised) paragraph 24(b)(vi)
49 ISAE 3000 (Revised) paragraph 32a
independence, will not be satisfied and that those persons who are to perform the engagement collectively have the appropriate competence and capabilities to perform the engagement.\textsuperscript{50} This may require an overall stand back to consider a broad range of matters, such as:

a) The reputation of the entity and its management;
b) The purpose of the engagement;
c) The intended users;
d) Whether there may be fee or time pressures and the effect those may have on the quality of the assurance engagement;
e) Whether or not there is a well-developed reporting framework;
f) The complexity of the subject matter and its measurement;
g) Whether there is sufficient knowledge, experience and ability to perform the engagement;
h) Whether and where additional expertise may be needed; and
i) Whether there are other factors that may contribute to the decision to either accept or decline the engagement.

154. The acceptance decision may also involve considerations, by the engagement partner, of whether the practitioner’s firm has developed a methodology to help support the performance of an EER engagement and reinforce expectations around the exercise of good judgment.

155. When developing the guidance, careful consideration will be needed to avoid suggesting that different levels – higher or lower – of professional skepticism are needed in the context of EER engagements, but that, rather, the nature, extent and timing of actions taken in exercising professional skepticism may vary, depending on the nature and complexity of the subject matter, the extent to which experts or other practitioners are to be used, and other factors. The Task Force also proposes to consider the ED of ISQM 1 and whether it may be useful to make linkages to that material.

Assessing risk and materiality

156. During the planning stage of an engagement, the appropriate exercise of professional skepticism is likely to be enhanced by a practitioner’s knowledge and understanding of the industry and environment in which the entity operates, its business processes, supply chain, customers and other factors. With such knowledge and understanding, the practitioner will be better placed to ask questions that need to be asked.

157. For example, a practitioner, with their knowledge of the business, and sufficient competence in the criteria, may be able to ask whether the subject matter information is complete, whether there is a heightened risk of misstatement of the subject matter information due to fraud, non-compliance with laws and regulations, lack of preparer competence or management bias. An experienced assurance practitioner has the ability to recognize what could create challenges in preparing the subject matter information and to ask the ‘right’ questions to obtain an understanding of where the risks may lie, the possible causes of those risks, and to design assurance procedures to address those risks.

\textsuperscript{50} ISAE 3000 (Revised) paragraph 22(a) and (b)
158. The exercise of professional judgment and professional skepticism also assists in obtaining an understanding of who the users are and what is likely to influence their decisions when assessing materiality for the engagement.

159. The Task Force is of the view that it will be helpful to illustrate, through the use of examples, where the assessment of risks and the application of the concept of materiality may require greater or different skills in being able to apply professional judgment and professional skepticism in the context of an EER engagement. It will also be important to take account of the material being developed in relation to ISA 315, and included in ISA 540 (Revised) that requires the practitioner to design and perform risk assessment procedures in a manner that is not biased towards obtaining evidence that may be corroborative or towards excluding evidence that may be contradictory.\(^51\)

Designing and performing evidence-gathering procedures

160. Having understood who the users of the subject matter information are, and what is likely to influence their decisions, and having assessed the risk of the subject matter information being materially misstated, the practitioner uses their judgment to consider whether the risk assessment procedures performed provide an appropriate basis for the design of further assurance procedures.

161. During the evidence-gathering stage of the engagement, assurance skills are applied, for example, in assessing information that may bring into question the reliability of documents and responses to inquiries to be used as assurance evidence, or whether there are circumstances that suggest the need for additional assurance procedures, and to reduce the risks of overlooking unusual circumstances, using inappropriate assumptions in determining the nature, timing and extent of assurance procedures and over generalizing when drawing conclusions from assurance observations.

162. The Task Force considers that it will be helpful to illustrate the exercise of professional judgment and professional skepticism through the use of examples to illustrate the type of questions a practitioner might ask at different stages of the engagement or in relation to different engagement circumstances.

Evaluating the sufficiency and appropriateness of evidence

163. At the conclusion of the engagement the application of professional judgment includes consideration of the sufficiency and appropriateness of assurance evidence obtained to support the assurance conclusion. A critical self-assessment of the work done in the light of the circumstances allows the practitioner to stand back and, again, to consider the subject matter information and the evidence obtained from the perspective of what would be likely to influence the users’ decision-making, considering both evidence that supports the conclusion and evidence that may be contradictory to that conclusion.

Other considerations

164. This material will also be discussed by the Professional Skepticism Task Force ahead of this agenda item at the IAASB Board meeting in June.

\(^{51}\) ISA 540 (Revised) paragraph 18
165. Reporting considerations identified during the March 2019 Board meeting breakout sessions are considered further in relation to challenge 10: *Communicating Effectively in the Assurance Report.*

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<td>a) Whether the Task Force analysis presented above, from which the Task Force proposes to develop the phase 2 guidance, appropriately responds to the identified aspects of guidance needed to address this challenge.</td>
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Challenge 9: Obtaining the Competence Necessary to Perform the Engagement

Introduction and context

Challenges in obtaining the competence necessary to perform an EER assurance engagement

166. The DP discussed, in paragraph 127, the broader, deeper and often more complex nature of the underlying subject matter addressed in EER assurance engagements, compared with that addressed in a financial statement audit, as well as the greater number of areas where judgment is required. This gives rise to a need for the assurance practitioners performing such engagements collectively to have broader and more specialized subject matter competence or to make greater use of the work of experts or other practitioners that have such competence.

167. Such competence is needed by an assurance practitioner in order to be able to challenge management effectively, and to use of the work of practitioner’s experts with a broader range of expertise. The practitioner needs the subject matter competence to understand and apply the perspectives of a wider range of intended users, for example in evaluating the relevance of entity-developed criteria and in applying the concept of materiality, in the circumstances of the engagement. Key areas of competence that may be more challenging to acquire include understanding and evaluating the entity’s business model in relation to the broader underlying subject matter, and the ability to work effectively in multi-disciplinary teams.

168. The DP proposed and the IAASB confirmed in relation to addressing challenge 9: Obtaining the competence necessary to perform the engagement that the non-authoritative guidance to be developed would address:

a) The competence expected of practitioners performing EER assurance engagements, noting that such guidance could be based on the application material already included in ISAE 3410\(^{52}\), adapted to the EER environment;

b) In relation to using the work of others, considerations relating to competence in the context of:

i. Ethical and quality control considerations;

ii. The ability to obtain evidence about the wide variety of EER subject matter information encountered;

iii. Communications between the practitioner and experts;

iv. The timing of the work performed by others; and

v. The determination and application of the concept of materiality in the engagement circumstances; and

c) The need to communicate explicitly about the competence of the engagement team in the assurance report and whether this would be helpful in enhancing confidence and trust in the EER assurance report.

\(^{52}\) ISAE 3410, paragraphs A18-19, A42-43
169. In light of responses to the DP, the IAASB agreed that the guidance would also address:

a) The competence expected of the engagement partner (including considerations relevant to practitioners who are not professional accountants).

b) Assessing the collective competence needed to perform an EER assurance engagement and the need to involve experts.

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

a) Implications of experts doing a significant proportion of the work, for example for the appropriate assurance skills they may need, to perform procedures or for direction, supervision and review.

b) The potential usefulness of a ‘skills matrix’ in showing the skills of the assurance team.

c) The extent to which the engagement partner needs knowledge of the underlying subject matter (to avoid undue reliance on experts).

d) Quality management of the work of another practitioner whose work is intended to be used.

e) The appropriateness of quality control procedures, such as reviews of work done, particularly when a large multi-disciplinary team is involved.

f) Different parts of the engagement may require different competences, for example assessing the suitability of criteria may require a good understanding of the requirements of the Standard, whereas more subject matter specific knowledge may be required for performing certain assurance procedures.

g) Understanding the differences between the responsibilities of the engagement partner and those of the rest of the engagement team.

171. The Board generally supported the aspects of guidance initially identified by the Task Force and additionally suggested the Task Force should consider the following in developing the guidance for this challenge:

a) The guidance should be scalable and should not focus on the most complex engagements.

b) With respect to the need for the engagement partner to take overall responsibility for the engagement:

   i. The engagement partner needs a certain level of subject matter competence.

   ii. The engagement report could convey the engagement team’s competence and overall responsibility of the engagement partner.

c) Clarify whether “expert” is intended to be used in the same context as it is in the ISAs or means a person with expertise in the subject matter of the engagement.

d) The Task Force should approach the idea of using a skills matrix with caution.

e) There is a need to raise awareness of the differences in competence requirements for practitioners and others under the Standard as compared with other external services intended to provide assurance to users.
What the Standard says

172. The Task Force reviewed the requirements and application material in the Standard that relate to the above challenges and concluded that it is helpful to summarize these, by way of providing context in determining how to address those challenges in the guidance.

173. The discussion that follows summarizes the key aspects of the standards identified in this respect by the Task Force. It also highlights the differences between the approaches to addressing the competence necessary to perform a financial statement audit and an EER assurance engagement, including highlight a key difference in the way an auditor’s/practitioner’s expert is defined in ISAs compared to the Standard, and explains implications for how competence is assessed for those who perform the engagement and how the work of a practitioner’s expert may be used in performing an EER assurance engagement.

Nature of necessary competence to perform an EER assurance engagement

174. The competence necessary to perform an assurance engagement includes both assurance competence (assurance skills and techniques) and subject matter competence (competence in the underlying subject matter of the engagement and in its measurement or evaluation). The objectives of the Standard are directed to the practitioner, and the practitioner is required to comply with each relevant requirement of the Standard. In doing so, the practitioner is required to apply assurance competence as part of an iterative, systematic engagement process. The practitioner is an individual(s) who conducts the engagement (usually the engagement partner or other members of the engagement team or, as applicable, the firm).

Requirements in the Standard to address necessary competence to perform the engagement

175. The Standard includes requirements for the practitioner to address the competence of members of the engagement team and other individuals whose work is to be used by the practitioner (a practitioner’s expert, another practitioner, not part of the engagement team, or an internal auditor).

176. Any firm or network firm partner or staff and any other individual engaged by the firm or a network firm, who conducts or performs the engagement, is referred to in this issues paper as an assurance practitioner. The responsibilities of an individual who conducts or performs the engagement include complying with requirements of the Standard. Such an individual is required to apply assurance competence in fulfilling those responsibilities. The engagement’s assurance practitioners are members of the engagement team. The practitioner’s internal experts (i.e. a practitioner’s expert who is a partner or staff, including temporary staff, of the firm or a network firm), but not the firm’s external experts, are also members of the engagement team.

Ethical and quality control requirements that address competence necessary to perform the engagement

177. The premise on which the Standard is based includes that the engagement’s assurance practitioners are members of a firm that is subject to quality control requirements at least as demanding as [ISQC1] and that members of the engagement team are subject to relevant ethical requirements at

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53 ISAE 3000 (Revised), paragraphs 14, 17
54 ISAE 3000 (Revised), paragraph 39
least as demanding as [the IESBA Code]. The fundamental principles on which the IESBA Code is founded include professional competence and due care. ISQC1 requires the firm to establish policies and procedures that allow the firm to accept or continue only those engagements which the firm is competent to perform.

Assurance practitioners and practitioner’s experts

178. Assurance practitioners are often professional accountants, but the Standard also acknowledges that a competent practitioner other than a professional accountant may choose to represent compliance with the Standard. Representing such compliance includes representing that they comply with the requirements of the Standard that address their own competence and the competence of others who are to perform the engagement (see paragraphs 180 and 181).

179. A practitioner’s expert (whether an internal or an external expert) is an individual who has subject matter competence, often with a relatively high level of subject matter expertise. Such an expert is not usually an assurance practitioner. However, an individual with subject matter expertise, who performs a role as a practitioner’s expert on an assurance engagement, may also have the assurance competence to perform a role as an assurance practitioner (which may include the competence to perform the role of engagement partner). Such an individual may perform roles as both an assurance practitioner and a practitioner’s expert on the same engagement.

180. There may be relevant ethical considerations where a practitioner’s expert also performs a role as an assurance practitioner on the same engagement. For example, there may be threats to the assurance practitioner’s objectivity or self-review threats if the role of an assurance practitioner involves performing assurance procedures in accordance with paragraph 52 of the Standard, in relation to their role as a practitioner’s expert on the same engagement.

Competence of the engagement partner

181. The engagement partner is required to have a relatively high level of assurance competence (i.e. a level of competence that has been developed through extensive training and practical application), as well as sufficient subject matter competence to accept responsibility for the assurance conclusion.55

Competence of other assurance practitioners

182. The engagement partner is also required to be satisfied that those persons who are to perform the engagement (the engagement’s assurance practitioners) collectively have the appropriate competence to comply with the Standard and enable an appropriate assurance report to be issued.56 This is likely to include considering the levels of both assurance competence and subject matter competence needed, in the circumstances of the engagement, by engagement’s assurance practitioners.

183. Some EER assurance engagements require specialized competence or a level of expertise beyond that ordinarily possessed by practitioners. The assurance practitioners other than the engagement

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55 ISAE 3000 (Revised) paragraphs 31 (a) and (c)
56 ISAE 3000 (Revised), paragraph 32(a)
partner, who perform the engagement, may therefore need to have a combination of different levels of assurance competence and different levels of subject matter competence, or access to the work of one or more practitioner’s experts, to perform such an engagement. All assurance practitioners are likely to need some level of competence in both. However, some may also need to have specialized subject matter competence or specialized assurance competence.

Competence of a practitioner’s expert

184. Where an engagement requires a high level of subject matter expertise, or subject matter competence in a specialized area, some of the assurance work may need to be performed by a multi-disciplinary team. This may include integrating the work of assurance practitioners, who may have subject matter competence in a specialized area or a higher level of subject matter expertise, with the work of one or more practitioner’s experts.

185. A practitioner’s expert is not required to have assurance competence but may need a sufficient understanding of the Standard to enable that expert to relate the work assigned to them to the engagement objective.

186. An assurance practitioner may use the work of a practitioner’s expert if, having followed relevant requirements of the Standard, they conclude that the work of that expert is adequate for the practitioner’s purposes. Such relevant requirements include evaluating whether the practitioner’s expert has the necessary subject matter competence for the practitioner’s purposes. If so, the assurance practitioner may accept that expert’s findings or conclusions in the expert’s field (i.e. findings or conclusions of that expert that are based on their subject matter expertise but not those based on their assurance competence), as appropriate evidence. The practitioner’s sole responsibility for the assurance conclusion expressed (the formation of which involves applying the practitioner’s assurance competence) is not reduced by such use of that expert’s work.

Competence of other individuals whose work is relevant to the engagement

187. A practitioner may also determine that it is appropriate to use, as evidence, information prepared with the assistance of a preparer’s expert, or the work of another practitioner, not part of the engagement team, or the work of an internal auditor. In that case, the practitioner is required to evaluate the competence of the preparer’s expert or the level of competence of the internal audit function and whether the work of another practitioner is adequate for the practitioner’s purposes, which may include evaluating the competence of the other practitioner.

Differences between financial statement audits and EER assurance engagements

188. In a financial statement audit, the collective competence of the engagement team includes expertise in the fields of accounting and auditing. Certain aspects of financial accounting may require specialist knowledge and skills and, in such a situation, the audit engagement team may include a person, whether engaged or employed by the firm, using expertise in a specialized area of accounting or auditing to perform audit procedures, or a person with such expertise may be involved in the engagement in a consultation capacity only. Neither of these is defined as an expert in the ISAs.

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57 ISA 220 paragraph A10
189. In the context of a financial statement audit, an auditor’s expert is an individual who has expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence.\textsuperscript{58} A key difference between a financial statement audit and an assurance engagement performed in accordance with the Standard is therefore that in a financial statement audit subject matter competence (expertise in the field of accounting, whether in a general or specialized area) is treated as a core competence of the audit practitioner whereas in an EER assurance engagement subject matter competence (expertise in the field of EER reporting) beyond a general level of such competence is not treated as a core competence of an EER assurance practitioner.

190. Assurance competence is the key competence of an assurance practitioner in an EER assurance engagement. Assurance skills and techniques include those planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner that are distinct from expertise in the underlying subject matter of any particular assurance engagement or its measurement or evaluation\textsuperscript{59}; they include the application of professional skepticism and professional judgment, obtaining and evaluating evidence, understanding information systems and the role and limitations of internal control, and linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures. Accordingly, they involve far more than the application of subject matter expertise.

191. An EER engagement may be undertaken in relation to a wide range of subject matters, many of which may require extensive subject matter expertise, for example, scientific or engineering skills, to be able to perform the engagement. While the assurance practitioner may have some subject matter expertise, the higher levels of such expertise and the expertise in specialized areas of the subject matter that may be needed to perform the engagement may go beyond those ordinarily possessed by most assurance practitioners. This may be more likely to be the case when the EER report addresses broader or more complex underlying subject matter.

192. Consequently, in broader or more complex engagements, a significant proportion of the assurance work may need to be performed by assurance practitioners who also have relevant subject matter expertise, or may depend on the practitioner using the work of a practitioner’s expert. Such experts may have some assurance competence, but may not possess the extensive assurance competence required to perform an assurance engagement in accordance with the Standard.

193. The extent to which it is necessary to use the work of practitioner’s experts will be a matter of judgment, but it is essential to keep in mind that the more complex the engagement the more necessary it may be to closely integrate the work of those experts with the work of the assurance practitioners. The Standard requires assurance skills and techniques to be applied during the conduct of the assurance engagement. Although such expertise is the core competence of an assurance practitioner, having a certain level of subject matter expertise is likely to be essential to enable the assurance practitioners’ assurance competence to be applied effectively in performing the engagement.

\textsuperscript{58} ISA 620 paragraph 7
\textsuperscript{59} ISAE 3000 (Revised) paragraph 12(b)
194. While the subject matter expert has specialized skills and knowledge that may enable an informed and knowledgeable view on the subject matter, they may not have the extensive assurance skills required by the Standard and/or are not bound by their professional requirements to comply with those requirements even if they do have the skills.

Responsibility for the assurance conclusion on the subject matter information

195. The IESBA Code requires that the practitioner should only undertake engagements where the firm is competent to perform the engagement and has the capabilities to do so. The engagement partner is required to have competence in assurance skills and techniques developed through extensive training and practical application, and sufficient competence in the underlying subject matter and its measurement or evaluation to accept responsibility for the assurance conclusion.

196. The practitioner has sole responsibility for the assurance conclusion expressed, and that responsibility is not reduced by the practitioner’s use of the work of a practitioner’s expert. Nonetheless, the practitioner may accept a subject matter expert’s findings or conclusions in the expert’s field as appropriate evidence if they conclude that the work of that expert is adequate for the practitioner’s purposes.

197. Accordingly, the Task Force is of the view that:
   a) an EER assurance engagement performed in accordance with the Standard should be led by an engagement partner who is an assurance practitioner with an appropriately high level of assurance competence, and cannot be led by an individual with a high level of subject matter expertise who does not have the appropriately high level of assurance competence necessary to comply with the requirements of the Standard;
   b) the engagement partner should have sufficient understanding of, and competence in, the subject matter to be able to apply professional skepticism to the work of the expert and assess its appropriateness as evidence in forming the assurance conclusion; and
   c) the engagement partner and engagement team subject matter competence may vary depending on the engagement circumstances, and also may vary relative to each other.

The practitioner’s thought process in accepting and performing the engagement

198. The Task Force proposes that it may be helpful to frame the guidance in relation to this challenge around a framework for the practitioner’s thought process when considering the competence of the engagement team and other individuals collectively, in the context of a particular engagement, and in applying the different competences that might be required at different stages, or in relation to different aspects, of the engagement.

199. The Task Force proposes that the guidance will include consideration of the assurance and subject matter competence necessary at acceptance and in performing each key stage of the engagement. The Task Force also proposes to illustrate how such competence may be applied in performing

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60 IESBA Code paragraph 210.6 and ISAE 3000 (Revised) paragraph A68
61 ISAE 3000 (Revised) paragraph 31
62 ISAE 3000 (Revised) paragraph A68
assurance procedures, or may be evaluated by the assurance practitioner applying assurance competence in determining whether work or information, which results from the application of subject matter or assurance competence, is adequate for the practitioner’s purposes to be used as evidence in forming the assurance conclusion.

200. In addition, it is proposed that the guidance will address differences in approach when addressing practitioner's internal and external experts, including the implications for the practitioner’s quality control considerations.

Acceptance of the engagement

201. Before accepting the engagement, the practitioner considers the collective assurance and subject matter competence needed to perform the engagement, taking into account the particular circumstances of the engagement. Factors the practitioner may take into account include:

a) The nature and complexity of the underlying subject matter;

b) The extent to which the underlying subject matter lends itself to precise measurement or whether there is a high degree of measurement uncertainty;

c) The engagement partner’s and engagement team’s competence and previous experience in relation to the subject matter; and

d) The level of assurance to be provided.

202. In a more complex engagement, the practitioner may find it helpful to draw up a skills matrix setting out the assurance and subject matter competencies necessary to perform the engagement and those of key engagement team members and other individuals whose work is to be used in performing the engagement. Such a matrix could help the practitioner to assess whether and from what possible sources the identified competence necessary to perform the engagement can be obtained. Such a matrix may also identify where subject matter competence in a specialized area may be required and whether it is available to the practitioner from within their own firm or network (practitioner’s internal expert) or may need to be obtained from outside the firm or network.

203. The decision tree below may be helpful in considering how the competence of resources available to the practitioner is to be used on the engagement – i.e. whether such competence is to be used:

a) By assurance practitioners in performing assurance procedures under the direction, supervision and review of the engagement partner, or

b) By a practitioner’s expert, another practitioner, not part of the engagement team, a preparer’s expert or internal auditor, whose competence needs to be evaluated in order to establish whether their work or the information they produce can be used as appropriate evidence by the practitioner in forming the assurance conclusion.
Planning and performing the engagement

204. In performing the engagement, assurance skills and techniques are applied as part of an iterative, systematic engagement process. Accordingly the composition of engagement team is considered throughout the engagement and the direction, supervision and review of their work takes account of the extent of their assurance competence, as well as the extent of their subject matter competence. The lower the level of assurance competence, the higher the need for direction, supervision and review of their work; the lower the extent of their subject matter competence when they are performing assurance procedures, the lower their ability to exercise professional skepticism and professional judgment in relation to the evidence gathered, including the evidence obtained from using the work of an expert. The diagram below illustrates the levels of assurance skills that may be available in the engagement team and the level both of the subject matter competence and of the direction, supervision and review that may be appropriate in the engagement circumstances.

205. In applying the framework/thought process above, the Task Force believes that:

a) There is flexibility in how the team is composed, provided the skills are appropriate to the engagement circumstances and provided the engagement is led by a person with both the required degree of assurance skills and practical experience and an appropriate understanding of the subject matter;

b) The engagement partner is sufficiently and appropriately involved in the engagement and able to apply the appropriate degree of direction, supervision and review, depending on the composition of the team and the complexity of the engagement;
c) Where subject matter experts or other practitioners are used, both the context in which their work is to be used and the actions the practitioner is required to take in order to be able to use their work as evidence are clarified.

206. As noted in paragraph 118, the Task Force will give further consideration to the concept of materiality, including in relation to use of the work of experts.

### Engagement partner and engagement team competence

<table>
<thead>
<tr>
<th>Subject matter expert (internal or external)</th>
<th>Assurance engagement partner and senior engagement team members performing assurance procedures</th>
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<tbody>
<tr>
<td>Assess their work as evidence</td>
<td>Lower level of supervision, high degree of judgment and professional skepticism regarding appropriateness of evidence</td>
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<table>
<thead>
<tr>
<th>Less experienced team members performing assurance procedures</th>
<th>Engagement team member performing assurance procedures</th>
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<tbody>
<tr>
<td>Higher degree of direction, supervision and review needed</td>
<td>Some degree of direction, supervision needed; varies depending on individual and extent of judgment needed for assurance work being performed</td>
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**Matters for IAASB Consideration**

Q4. The IAASB is asked for its views on:

a) Whether the Task Force proposals for the guidance to be developed in phase 2 regarding (i) the framework for considering the balance of subject matter expertise and assurance skills, (ii) the linkage to evidence and (iii) the profile of the engagement team appropriately respond to the identified aspects of guidance needed to address this challenge.

b) Whether the Board members have identified any new aspects in addressing this challenge.

c) Where examples might be useful and whether there are any examples the Task Force can include.
Challenge 10: Communicating Effectively in the Assurance Report

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 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, ISA 701, ISA 720, ISAE 2410).

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 purpose67 and objectives of an assurance engagement68, which are set out in the Standard.

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).

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

63  International Standard on Auditing (ISA) 700 Forming an opinion and reporting on financial statements
64  ISA 701 Communicating key audit matters in the independent auditor’s report
65  ISA 720 The Auditor’s Responsibilities Relating to Other Information
66  ISAE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity
67  See definition of an assurance engagement – paragraph 12(a) of the standard
68  See paragraph 10 of the standard
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. Subject to the Board’s views, the Task Force proposes to explore 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.

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69 See paragraph A94 of the Standard
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, 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 who may also be the measurer or evaluator, and the engaging party) can be one of the intended users, but not the only one.

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.

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

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.

70 ISAE 3000 (Revised) paragraph 12(v)

71 ISAE 3000 (Revised) paragraph A37

72 International Framework for Assurance Engagements paragraph 35

73 ISAE 3000 (Revised) paragraph A16

74 ISAE 3410 paragraph A47
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.75

232. In the context of a financial statement audit, the subject matter information is prepared in accordance with a recognized 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 the intended users are and the purpose for which the EER report is prepared.

233. ISAE 341076 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.

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75  ISAE3000 (Revised) paragraph A18

76  ISAE 3410 paragraph A46
Understanding practitioner reporting requirements in the International Assurance Standards

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.77 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.78

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.79 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 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 occur80. 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.

77 ISAE 3000 (Revised) paragraph A159
78 ISAE 3000 (Revised) paragraph A160
79 ISAE 3000 (Revised) paragraph 68
80 ISA 700 (Revised) paragraph 4
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

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.

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.

Matters for IAASB Consideration

Q5. The IAASB is asked for its views on:

a) Whether the Task Force proposals for the guidance to be developed in Phase 2 appropriately respond to the identified aspects of guidance needed to address this challenge; in particular, the proposals for:

i. approaching the guidance from the perspective that the assurance report is designed to enhance the confidence in the subject matter information, which links to rational purpose


<table>
<thead>
<tr>
<th>ii.</th>
<th>developing practitioner reporting principles, based on the characteristics of suitable criteria</th>
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<tr>
<td>iii.</td>
<td>understanding impediments to users' understanding of the assurance report</td>
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</table>

b) Whether it would be useful to include illustrative example assurance report wording in the guidance.
Appendix 1 - IAASB March 2019 Board Meeting Feedback from EER Breakout Sessions

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

A. Whether the engagement should cover all material issues to avoid user misunderstanding about scope

B. Whether the preconditions for an EER assurance engagement have been met (SP1)
   a) The need to identify and understand the information needs of the EER report’s intended users
   b) Understanding how to apply the concept of a rational purpose
   c) Responding to the tendency of some preparers to want the scope to be the areas that are easily subject to an assurance engagement (perhaps such that an assurance report is obtained for a low cost), rather than the areas that would most significantly assist intended users’ decision-making
   d) Setting the scope narrower than a whole report needs to be done with reference to specific aspects of the underlying subject matter and the related elements and criteria, not to specific aspects of the subject matter information (SP2)

C. Factors that should be considered when determining whether to accept different types of assurance engagements (limited or reasonable) (SP7-11))
   a) Limited assurance engagements are often performed where the system of internal control or the availability of evidence would not support a reasonable assurance engagement, however poor internal controls might suggest a need for reasonable assurance if their weaknesses increase the risk of error in the EER report
   b) Responding to possible expectation gaps, particularly for limited assurance engagements or where the scope of the assurance is very narrow (for example, only a few indicators) (SP3, SP6)

D. Whether an assurance engagement over a complete EER report should be accepted when governance and controls are developing

E. Cost considerations
   a) Whether it is appropriate for the assurance scope to include different areas each year on a ‘rolling program’ so that over several years all areas are covered (SP5)

F. The use of experts by management and practitioners
G. Other matters relating to difficult acceptance judgments that may result from challenges in establishing strong governance over the preparation of EER reports resulting from the following differences in the nature of EER reports compared with financial statements:

<table>
<thead>
<tr>
<th>Differences in nature of EER reports that may give rise to challenges in establishing strong governance</th>
<th>Acceptance judgments on preconditions or other matters that may be more difficult as a result of such challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>(USM – underlying subject matter; CR – criteria; SMI – subject matter information; PAC – practitioner’s assurance conclusion)</td>
<td></td>
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</table>

(a) Broader scope of USM, intended users and purpose

- Precondition – appropriate USM
- Precondition – suitable CR
- Precondition – rational purpose
- Other – appropriate collective competence and capabilities of persons who perform engagement

(b) Broader scope of governance, internal control and competence needed by preparer for SMI

- Precondition – expected ability to obtain evidence needed to support PAC
- Precondition – suitable roles and responsibilities of preparer: has appropriate basis for SMI

(c) Less maturity in governance and internal control of USM by preparer

- Precondition – suitable roles and responsibilities of preparer (responsible party): has competence and experience to take responsibility for USM

(d) Less availability of suitable CR

- Precondition – appropriate USM: capable of reasonably consistent measurement or evaluation
- Precondition – suitable CR

(e) More qualitative, subjective, future-oriented, predictive or hypothetical SMI

- Precondition – suitable CR: relevant and reliable CR, including related CR for disclosure and presentation
# Challenges 6 & 7 Obtaining Assurance with Respect to Narrative and Future-Oriented Information

<table>
<thead>
<tr>
<th>Challenge 6: Obtaining Assurance with Respect to Narrative Information</th>
<th>Challenge 7: Obtaining Assurance with Respect to Future-Oriented Information</th>
</tr>
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<tbody>
<tr>
<td>A. Identifying appropriate sources of evidence with respect to different types of narrative disclosures and providing illustrative examples (SP13, SP14, SP16, SP17)</td>
<td>A. Whether the requirements of the EER framework provide an adequate basis for suitable criteria regarding future-oriented information and, therefore, whether such information can be included within the scope of an assurance engagement (SP12)</td>
</tr>
<tr>
<td>B. Determining sufficiency and appropriateness of evidence (SP13, SP14, SP16, SP17)</td>
<td>B. How future-oriented information could be included within the scope of an EER assurance engagement</td>
</tr>
<tr>
<td>C. Assessing completeness, balance and neutrality of narrative information (SP13, SP16, SP17)</td>
<td>C. How to address subjectivity and management bias information (SP13, SP16, SP17)</td>
</tr>
<tr>
<td>D. Addressing measurement or evaluation uncertainty (SP12, SP13, SP14, SP17, SP18)</td>
<td>D. How to consider management’s process for preparing future-oriented information (SP18)</td>
</tr>
<tr>
<td>E. Whether the future-oriented information has been properly presented in the EER report (SP12, SP18)</td>
<td></td>
</tr>
<tr>
<td>C. Determining sufficiency and appropriateness of evidence (SP13, SP14, SP16, SP18)</td>
<td></td>
</tr>
<tr>
<td>F. How to address the risk that there may be expectation gaps with respect to work done on such information (SP19)</td>
<td></td>
</tr>
<tr>
<td>G. How practitioners can report on such information without creating unrealistic user expectations (for example, about the achievability of predicted performance or impact) (SP19)</td>
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</table>
With respect to the ‘obtaining evidence’ parts of these two challenges:

a) The extent to which it is appropriate for the practitioner to rely on controls may vary considerably – for example this may be ineffective where the subject matter information is highly subjective (whether it is narrative or not) (SP14)

b) Documentation requirements (SP15)

c) How subject matter information presented in the form of diagrams and pictures should be addressed by practitioners (SP13)

d) How the ease and ability to obtain evidence is linked to the nature of the system of internal control (SP14)
Challenge 8 – Exercising Professional Skepticism and Professional Judgment

A. There may be more areas that require judgment in applying EER frameworks than in applying financial reporting frameworks and more areas where the judgments in preparing the subject matter information are susceptible to subjectivity and management bias. There are therefore generally more areas where there is a need to apply professional judgment and professional skepticism in EER assurance engagements. At the same time, given the broader and more diverse subject matters addressed, it may be more challenging for the practitioner to obtain the competence needed to support the application of professional judgment and professional skepticism in relation to such engagements.

   a) How this is closely related to the issue of practitioners obtaining the necessary competence, especially in the case of practitioners without significant assurance experience (SP20, SP22)

   b) Not all the experts involved in an EER assurance engagement may be accustomed to applying professional judgment and professional skepticism throughout the engagement (SP20)

   c) How individuals’ skills in exercising professional skepticism can be developed (SP22)

   d) Frameworks and methodologies can help reinforce exercise of good judgment and of professional skepticism (SP25)

   e) A key area often requiring professional skepticism in EER assurance engagements is in relation to an entity’s ‘materiality process’ – particularly checking that the criteria are complete (SP24)

   f) Exercising professional judgment and professional skepticism is important in understanding the engagement circumstances, assessing risks (or identifying areas where material misstatement is likely), designing further procedures and in obtaining and evaluating evidence. (SP26).
Challenge 9 – Obtaining the Competence Necessary to Perform the Engagement

A. Provide further guidance to address the competence expected of professional accountants performing EER assurance engagements. Such guidance could be based on the application material already included in ISAE 3410, adapted to the EER environment. It could also address, in the context of using the work of others, ethical and quality control considerations; the ability to obtain evidence about the varied nature of subject matter information encountered; the communications between the practitioner and other experts; the timing of the work performed by others; and the materiality used in the context of the engagement and how this is determined. The IAASB could also explore whether there is a need to communicate explicitly about the competence of the engagement team in the assurance report and whether this would be helpful in enhancing confidence and trust in the EER assurance report.

B. Competence of the engagement partner (including consideration of other professionals) (SP 34)
   a) The extent to which the assurance partner needs knowledge of the underlying subject matter (without undue reliance on experts)
   b) Quality management of the work of another practitioner whose work is intended to be used
   c) The appropriateness of quality control procedures (for example, review and approval of work) particularly when a large multi-disciplinary team is involved

C. Assessing the competences needed for EER assurance engagements and the need to involve experts (SP34, SP36, SP37)
   a) Implications of experts doing a significant proportion of the work, for example for the appropriate assurance skills they need to perform the procedures or for direction, supervision and review.
   b) Potential usefulness of a ‘skills matrix’ in showing the skills of the assurance team.
   c) Different parts of the engagement may require different skills and knowledge, for example assessing the suitability of criteria requires a good understanding of the requirements of ISAE 3000 (Revised), whereas more subject matter specific knowledge may be required for performing certain assurance procedures
   d) Understanding the differences between the responsibilities of the engagement partner and those of the rest of the team.
Challenge 10 – Communicating Effectively in the Assurance Report

A. How to minimize the expectation gap regarding the level of assurance (SP42).
   a) Transparency is considered very important in communicating the scope and level of assurance.
   b) 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.
   c) Long-form reports may be useful in some circumstances, but it may reduce comparability between entities and be more difficult for users to understand what value the assurance has for them.
   d) Whether the ‘rational purpose’ of the assurance engagement should be explicitly identified in the assurance report.
   e) Implications for the assurance report when the preparer uses entity-developed criteria.

B. How reports might address: different levels of assurance; the parts of the EER report within the scope of the assurance engagement; the identity and competence of the engagement leader; describing the work performed (SP40)
   a) Limited assurance can mean various levels of assurance along a sliding scale – communicating this can be challenging but important.
   b) How different levels of assurance over different parts of an EER report, and where the work effort was directed, can be communicated clearly.
   c) Implications for the assurance report when the EER report contains financial statements that are subject to an audit (combined report).
   d) 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.
   e) Whether including an equivalent of ‘key audit matters’ is compatible with the requirements of ISAE 3000 (Revised).
   f) Examples of assurance reports.

C. Whether and, if so, how to identify the intended users (SP40)
   a) Whether it would be best practice to identify explicitly who the intended users are.
Appendix 2 – Project update and future meeting agenda topics

Task Force

1. The Task Force members are listed on the project page on the IAASB website.

2. There are three observers to Task Force meetings; representatives from the World Business Council for Sustainable Development, the Corporate Reporting Dialogue, and Principles for Responsible Investment.

3. The Project Advisory Panel now has 26 members, with good representation across stakeholder groups and global regions. It last met via web conference on February 14, 2019, providing very valuable feedback and input on the Task Force’s work to date.

Plan for Board Meetings in 2019

September 2019

- Phase 1 Consultation Paper responses
- Review of draft guidance on all phase 2 issues

December 2019

- Updates to draft guidance on all phase 1 and phase 2 issues
- Seek approval of exposure draft

Plan for Task Force Meetings in 2019

July 16-18, 2019 (Vancouver)

August - date to be determined (Conference Call)

October 16-18 (Vancouver)

November 12-14 (Series of Conference Calls)
Appendix 3 – Outreach

Outreach Activities 2019

The Task Force Chair and IAASB Staff have undertaken the following outreach activities since the December Board meeting.

- Bilateral discussion with Steve Gunders, Corporate Reporting Dialogue – January 28, 2019
- IASB Management Commentary Consultative Group Meeting – April 3, 2019
- Participant in Shift Round Table Measuring Human Rights Performance: What Role Can Accountants Play? – April 24, 2019
- Presentation to WBCSD Assurance Working Group (Conference Call) – April 25, 2019
- Presentation and participation in panel discussion at Workshop on Assurance and Integrated Reporting – IIRC Global Conference – May 16, 2019