Challenges allocated to phase 1

Challenges split between phase 1 and phase 2

Challenges allocated to phase 2

Phase 2

The EER Assurance House (under construction)

Communicating Effectively in the Assurance Report

Determining the Scope of an EER Assurance Engagement

Exercising Professional Skepticism and Professional Judgment

Obtaining the Competence Necessary to Perform the Engagement

1. Evaluating Suitability of Criteria
2. Applying Materiality
3. Building Assertions
4. Maturity in Governance & Internal Control
5. Addressing Narrative and Future-Oriented Information

1. Exercising Professional Skepticism and Professional Judgment
2. Obtaining the Competence Necessary to Perform the Engagement
Agenda for Today

9:00 – 9:45 Recap of phase 2 discussions at March meeting and Subsequent Task Force Work
9:45 – 11:00 Breakout discussions in small groups
11:00 – 11:30 Break
11:30 – 12:30 Report back on breakout discussions
Recap of March Meeting and Subsequent Task Force Work

Initial discussions on phase 2 challenges at March Meeting of IAASB

- Breakout sessions for Board members to discuss the aspects of guidance needed to addressed the challenges
- Summary of feedback presented to the Board for each challenge

Task Force meeting in London – May 8 -10

- Task Force considered the identified aspects of guidance for each issue
- Task Force considered the appropriate responses in applying ISAE 3000 (Revised) to each issue
- Task force considered how to develop practical guidance, including thought processes that practitioners could apply, from their analysis
- Issues paper summarizes Task Force analysis of appropriate responses and initial views on how to develop practical guidance – the guidance is to be developed from these summaries – they are NOT first drafts of the guidance!
The Task Force is seeking your views on the analysis presented in the issues paper and on its initial views on how to develop practical guidance from this.
Issues identified and aspects of guidance needed to address them

• Engagement acceptance considerations linked to ISAE 3000 (Revised) preconditions:
  – Grounding in the engagement’s rational purpose and the needs of intended users
  – Importance of addressing suitability of the applicable criteria, including reasons for exclusions
  – Implications of common inherent characteristics of USM and SMI in EER assurance engagements
  – Implications when governance and controls are developing
  – Addressing potential “cherry picking” (cost and other considerations)
  – Considering a “rolling program” for scope

• Other considerations in making scoping decisions
  – Setting the scope narrower than all of the EER report, including
  – Setting the level of assurance (limited v reasonable assurance engagements)
  – Possible expectation gaps
  – Use of experts by practitioner or management
Task Force Analysis – overarching considerations

• This challenge relates to acceptance decisions in agreeing the scope of the engagement.

• It is NOT related to the practitioner determining of the ‘scope’ of the work effort and is SEPARATE FROM management determining the ‘scope’ what is included within the EER report.

• Critical consideration for practitioner is whether the preparer’s proposed scope results in the engagement with a rational purpose that appropriately enhances confidence of intended users.

• In doing so, TF identified two distinct dimensions of scope to be considered:
  – Breadth of the EER subject matter information to be assured.
  – Depth of assurance to be obtained – the level of assurance.
Challenge 1 - Scoping an EER Assurance Engagement – paras 9-53

Task Force Analysis (continued) – Considerations relating to breadth of SMI assured

• When the SMI is proposed to be less than all of the EER report (narrow scope):
  – Is there coherence amongst USM, ACR and SMI within the proposed narrow scope?
  – Is narrow scope SMI misleading to intended users, rendering narrow scope ACR unsuitable?
  – Will the narrow scope ACR, including criteria relating to presentation and disclosure, be made available to, and sufficiently identifiable and accessible by, intended users?

• Are other preconditions present for proposed narrow scope:
  – In considering rational purpose:
    • Is SMI within proposed narrow scope important to entity decision-making?
    • Do omissions of relevant criteria or relevant USM call into question the rational purpose?
  – Does practitioner expect to be able to obtain SAE, in context of proposed narrow scope?
  – If governance and controls immature, is a narrow or evolving program of scope more appropriate than all of the EER report?
Task Force Analysis – Considerations relating to depth of assurance

- Related to level of assurance – for limited assurance required to be meaningful
- Judgments are made about the level of assurance for both limited and reasonable assurance engagements
- What is a meaningful level is related to the consequences to the intended users of an inappropriate assurance conclusion and to what is an acceptably low level of engagement risk in the circumstances of the engagement?
- The level of assurance has consequences for the nature, timing, extent of procedures performed to obtain SAE

Task Force proposal to address other identified issues

- Level of assurance to be addressed in guidance on evidence (challenges 6 & 7)
- How scoping decisions affect number and form of assurance conclusions to be addressed in guidance on communicating in the assurance report (challenge 10)
- Management’s and practitioner’s experts to be addressed in guidance on challenges 8 & 9
Issues identified and aspects of guidance needed to address them

• Issues related to common characteristics of Narrative & Future-Oriented SMI:
  – Addressing measurement or evaluation uncertainty – SMI is more subjective, requires more management judgment, and is more susceptible to management bias
  – Identifying appropriate sources of evidence
  – Determining sufficiency and appropriateness of evidence
  – Evidence to address completeness and freedom from bias
  – Determining performance materiality
  – Documentation
  – Extent to which reliance on controls is appropriate for assertions about subjective SMI
Issues identified and aspects of guidance needed to address them (cont’d)

• Issues more specific to narrative SMI
  – SMI in form of diagrams and pictures

• Issues more specific to future-oriented SMI
  – Limited availability of evidence about assertions related to outcomes
  – Considering management’s process to prepare future-oriented SMI
  – Presentation of future-oriented information in the EER report
  – Addressing potential expectation gaps (e.g. not assuring outcomes)
Relevance of approaches to subjective SMI in ISAE 3400 and ISA 540

- They respectively deal with prospective financial information ("PFI") and accounting estimates.
- Task Force view is that elements of the approaches to subjective SMI in each standard can be adapted in addressing subjective narrative or future-oriented EER SMI.

**ISAE 3400 approach:**
- Future-oriented and speculative nature of evidence for assumptions on which PFI based means practitioner not normally in position to express reasonable assurance about outcome of PFI results.
- Provide **reasonable assurance** that PFI properly prepared on basis of the assumptions.
- Provide **limited assurance** that assumptions (best estimate or hypothetical assumptions) provide **reasonable basis for the PFI** - reasonable assurance not precluded when that level obtained.
- Key focus is criteria for presentation of the PFI (e.g., informative and not misleading) and for related disclosures (e.g., basis of preparation including for PFI expressed as range, assumptions, uncertainty).

**ISA 540 approach** – evaluate **reasonableness of accounting estimates** (which may be forward-looking) and related disclosures.
Task Force Analysis

• Nature and quality of evidence may differ for narrative and future-oriented SMI, but key thought processes are similar for all evidence-gathering and evaluation

• Propose to base guidance on a thought process that could be used to consider evidence to support any decision being made in the course of engagement, with examples relevant to the specific issues identified for narrative and future-oriented SMI:
  – What is decision to be made and what would indicate appropriate decision-outcome?
  – Determine relevance and reliability of evidence needed and available
  – Design and perform procedures to obtain sufficient appropriate evidence
  – Evaluate sufficiency and appropriateness of evidence obtained
Areas that require further consideration by Task Force:

• Documentation

• Materiality, including performance materiality

• Internally-generated evidence
  – Needs robust governance and controls
  – Needs proper books and records

• The need for the same principles to apply to visual representation of SMI

• Superfluous information included in narrative information and association with ‘other information’
Issues identified and aspects of guidance needed to address them

• Many aspects of EER require judgment and skepticism – increased subjectivity and risk of management bias

• Linked to the practitioner needing to have the necessary competence
  – Experts may not be accustomed to applying professional scepticism and professional judgment as defined in Assurance Framework
  – How to develop skills in exercise of professional skepticism

• With respect to professional judgment and professional skepticism:
  – Importance of professional skepticism in: Understanding engagement circumstances | Assessing risks | Designing and performing procedures | Evaluating evidence
  – How professional skepticism is related to quality management
  – ‘Materiality process’ a key area of professional judgment

• Need for scalability of guidance for this challenge – does amount of exercise of PJ and PS vary or do they need to be exercised differently due to different characteristics of USM and ACR?
Task Force Analysis

• Understanding needs for and impediments to appropriate actions to exercise PS/PJ
  – Identify skills needed and impediments to exercise of PS/PJ
  – Closely linked with competence and obtaining evidence
    • Balance of assurance competence and subject matter expertise
    • Attitude is a constant; skills needed to apply it vary

Framework for applying PS/PJ

• Develop a thought process to address PS/PJ in:
  – Acceptance decision
  – Assessing risk and materiality
  – Designing and performing procedures to obtaining SAE
  – Evaluating sufficiency and appropriateness of evidence
Issues identified and aspects of guidance needed to address them

- Wide range of skills and experience required – assurance skills and detailed subject-matter knowledge
- Implications of use of experts for significant proportion of work
- Potential usefulness of a skills matrix
- Competence of the engagement partner and collective competence of the team needed to perform engagement, including:
  - Need to involve experts
  - Engagement partner subject matter competence to avoid over-reliance on experts
- Quality management of work of experts and other practitioners
- Guidance needs to be scalable
Task Force Analysis

• ISAE 3000 (Revised) requires:
  – Practitioner’s firm to be subject to quality control requirements at least as demanding as ISQC 1
  – Exercise of *assurance* competence

• EER to be led by practitioner with high level of *assurance* competence

• Use of experts permitted but engagement partner has sole responsibility for engagement

• Key difference between financial statement audit and EER assurance engagement is engagement partner and team competence in USM:
  – Engagement partner needs sufficient understanding of USM to apply professional skepticism to work of expert
  – Engagement partner and team subject matter competence may vary
Task Force Analysis (cont’d)

- Develop a thought process from acceptance throughout the engagement
- Flexibility in composition of team, but appropriate to circumstances
- Sufficient involvement by engagement partner to take appropriate actions
Task Force Analysis (cont’d)

- Actions needed depend on:
  - Use of work of internal or external experts
  - Degree of specialisation of team in subject matter
  - Assurance competence on engagement team
Issues identified and aspects of guidance needed to address them

• Managing expectation gaps, including whether and how to identify intended users
• Summarizing the work performed
• Communicating scope and levels of assurance, including where mix of reasonable and limited
• Identifying the competence of the engagement partner / subject matter experts
• Long vs. short form reports
• Combined report with audit report on financial statements and assurance report on EER
Task Force Analysis and proposed approach

- Assurance conclusion designed to enhance confidence of intended users
  - Consider from the point of view of the user
  - Links to rational purpose
  - Need to understand who users are

- Primary purpose of practitioner’s report is to communicate, to intended users, information about the assurance conclusion and the basis for that conclusion

- Develop ‘practitioner reporting principles’ by analogy to suitable criteria as a basis for applying the flexibility in content elements of the practitioner’s report

- Understand impediments to users’ understanding of the assurance report

- Clarify both the requirements of ISAE 3000 (Revised) and the flexibility permitted by the standard

- Consider the principles of ISA 701, ISAE 3410
Matters for further consideration by the Task Force

- Combined report for financial statements and EER
- Decisions about scope affect the number and form of assurance conclusions
- Explaining measurement or evaluation uncertainties
Breakout discussions
Breakout sessions on the five key phase 2 challenges

**Group A (Paul Penler)**
Determining Scope of an EER Assurance Engagement Can Be Complex (challenge 1)

**Group B (Lyn Provost)**
Obtaining Evidence with Respect to Narrative and Future-Oriented Information (challenges 6 & 7)

**Group C (Sachiko Kai)**
Exercising Professional Skepticism and Professional Judgment and Obtaining the Competence Necessary to Perform the Engagement (challenges 8 & 9)

**Group D (Fernando Ruiz)**
Communicating Effectively in the Assurance Report (challenge 10)
In relation to each of the phase 2 challenges and the material in the Issues paper, the IAASB is asked for its views on the questions relating to the challenge allocated to your group:

1) Whether the Task Force Proposals appropriately respond to the identified aspects of guidance needed (including any specific questions asked in the question at the end of the relevant section of the Issues Paper)

2) Where examples would be useful and whether there are aspects missing
Report back
Next steps

- Task Force to develop phase 2 guidance
- Initial draft of guidance relating to phase 2 challenges to be presented in September, along with presentation of feedback from phase 1 consultation
- Plan to seek approval of exposure draft of full non-authoritative guidance document in December