



EER Assurance

Agenda Item

8-A

Project Update – March 2018

16 March 2018

IAASB

International Auditing
and Assurance
Standards Board

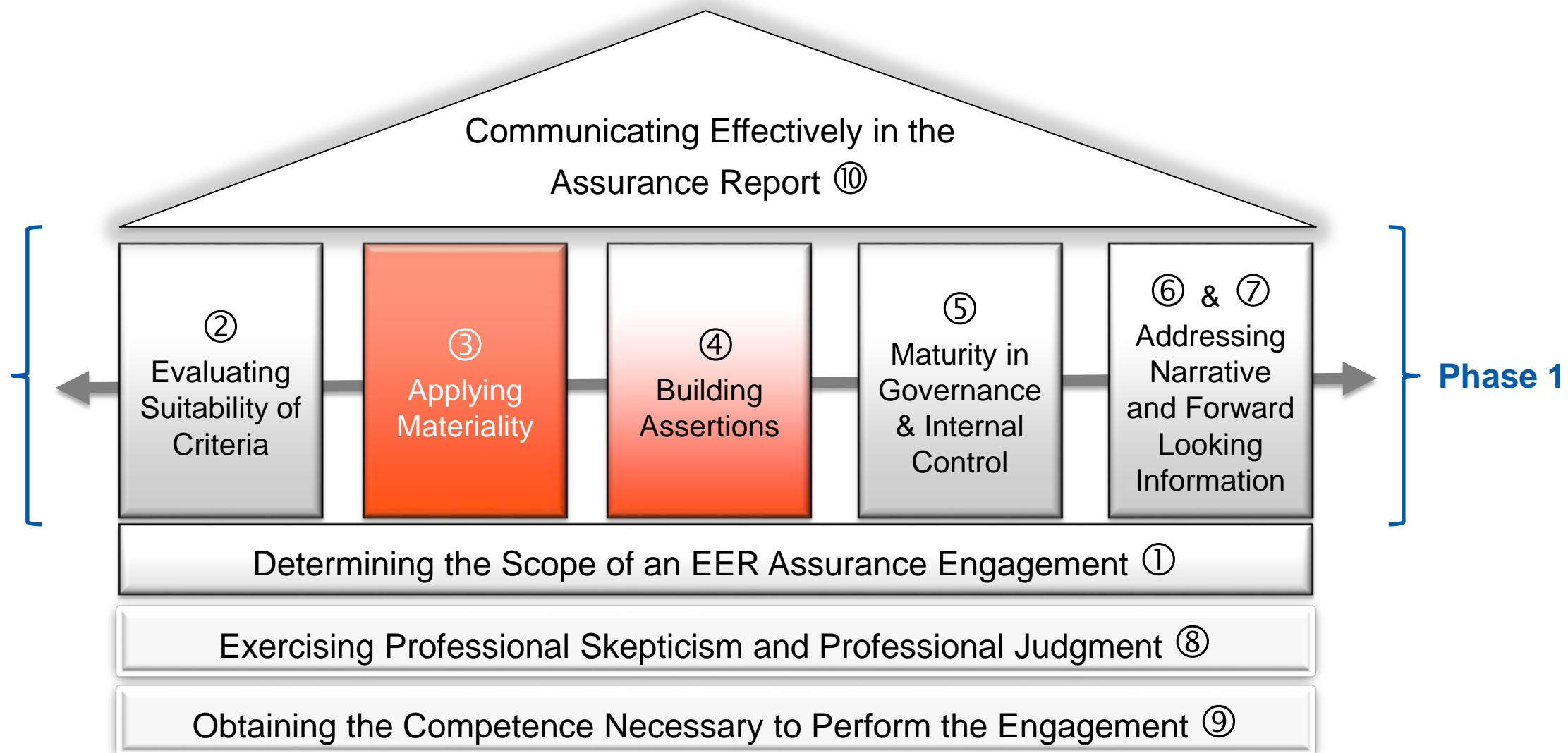
Recap of December update

- Interconnectedness of challenges
- Allocation of challenges to phases 1 and 2 – the ‘EER Assurance House (under construction)’
- Planned research agenda
- Project Advisory Panel (PAP) call for nominations
- Outline project plan

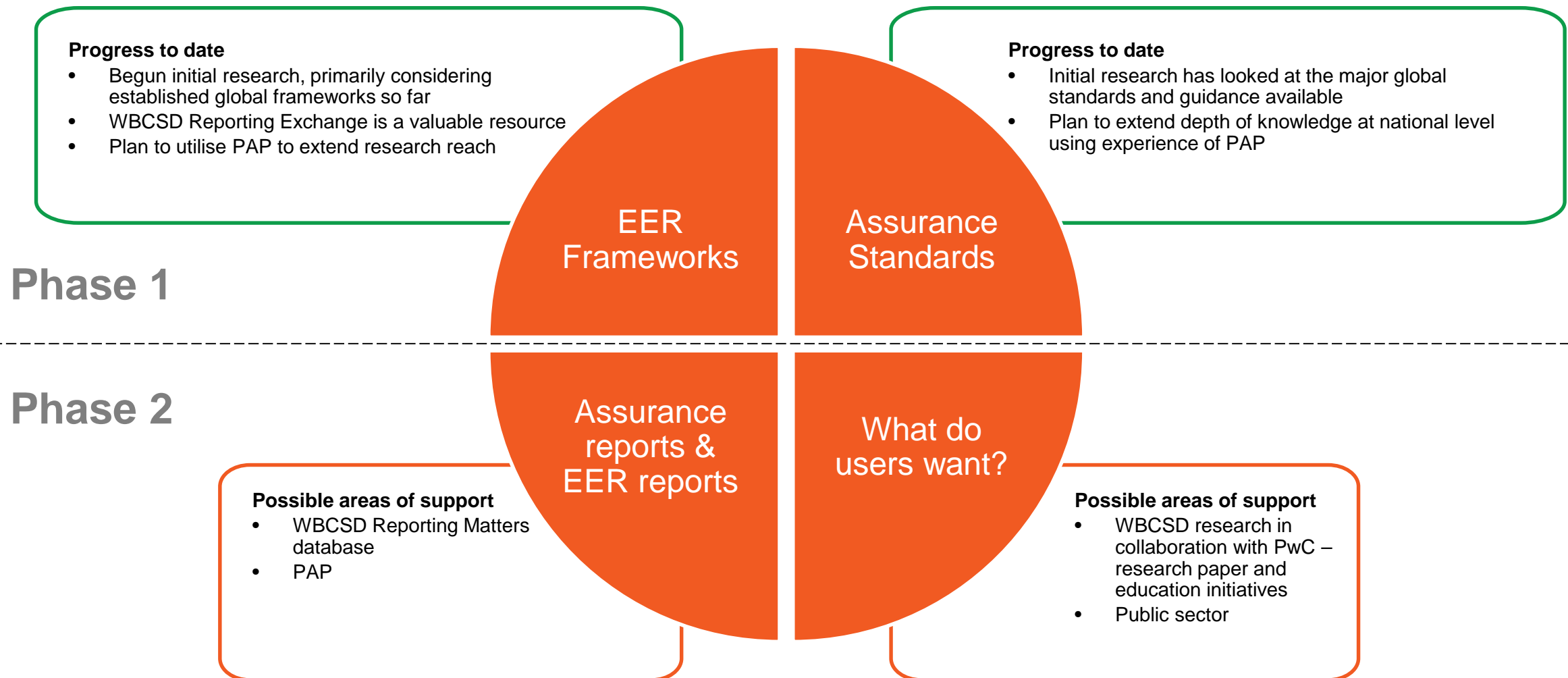
The Ten Key Challenges

- 1: **Determining the Scope of an EER Assurance Engagement Can Be Complex**
- 2: **Evaluating the Suitability of Criteria in a Consistent Manner**
- 3: **Addressing Materiality for Diverse Information with Little Guidance in EER Frameworks**
- 4: **Building Assertions for Subject Matter Information of a Diverse Nature**
- 5: **Lack of Maturity in Governance and Internal Control over EER Reporting Processes**
- 6: **Obtaining Assurance with Respect to Narrative Information**
- 7: **Obtaining Assurance with Respect to Future-Oriented Information**
- 8: **Exercising Professional Skepticism and Professional Judgment**
- 9: **Obtaining the Competence Necessary to Perform the Engagement**
- 10: **Communicating Effectively in the Assurance Report**

The EER Assurance House (under construction)



Planned research agenda



Work since December



Understanding
contextual
background of
reporting
frameworks



Challenge 3:
Materiality



Outreach and
project planning



Understanding contextual background of reporting frameworks

Why are we taking this approach?

- Our guidance must be applicable to all frameworks – looking for commonalities and differences between them
- Much work has been done on financial reporting frameworks – we want to understand the limit of the similarities to EER frameworks

Understanding contextual background of reporting frameworks



Task Force has broken down key characteristics and fundamental principles existing in various reporting frameworks:

Users



Purpose & use of report



Subject matter elements



Causes of change in the subject matter elements



Nature of the subject matter information



Qualitative characteristics of the subject matter information



Understanding contextual background of reporting frameworks



Users

- Number of potential primary users can be much larger for EER compared to traditional financial reporting
- Frameworks vary as to whether investors are the sole intended primary users
- Different user groups can have very different approaches to a concept such as materiality
- Understanding the potential primary users and their needs (what could affect decision making) is very important for an assurance practitioner

Understanding contextual background of reporting frameworks



Purpose & use of report

- Understanding the purpose of the EER report and its expected primary use by users is important for an assurance practitioner to plan an effective engagement.
- Different frameworks have varying intended purposes; this drives the nature and breadth of the subject matter.
- Corporate reporting consists of confirmatory and predictive information (concept from financial reporting frameworks). The balance between those is likely to be different for EER.

Understanding contextual background of reporting frameworks



Subject matter elements

Financial reporting

Typical subject matter elements are

- Assets
- Liabilities
- Equity
- Income
- Expenses

Assets are resources themselves, liabilities are claims on resources.

Specific EER frameworks

A wider variety of resources / capitals are included, for example resources which are manufactured, intellectual, human, relationships or natural.

Generalised EER framework

Reports typically address resources and impacts on those resources (both internal and external to the entity). Likely to include the entity's governance and key relationships.

We are continuing to explore this further.

Understanding contextual background of reporting frameworks



Causes of change in the subject matter elements

Frameworks typically classify and refer to these using different terms, including

- transactions
- events
- conditions
- activities
- interactions
- relationships

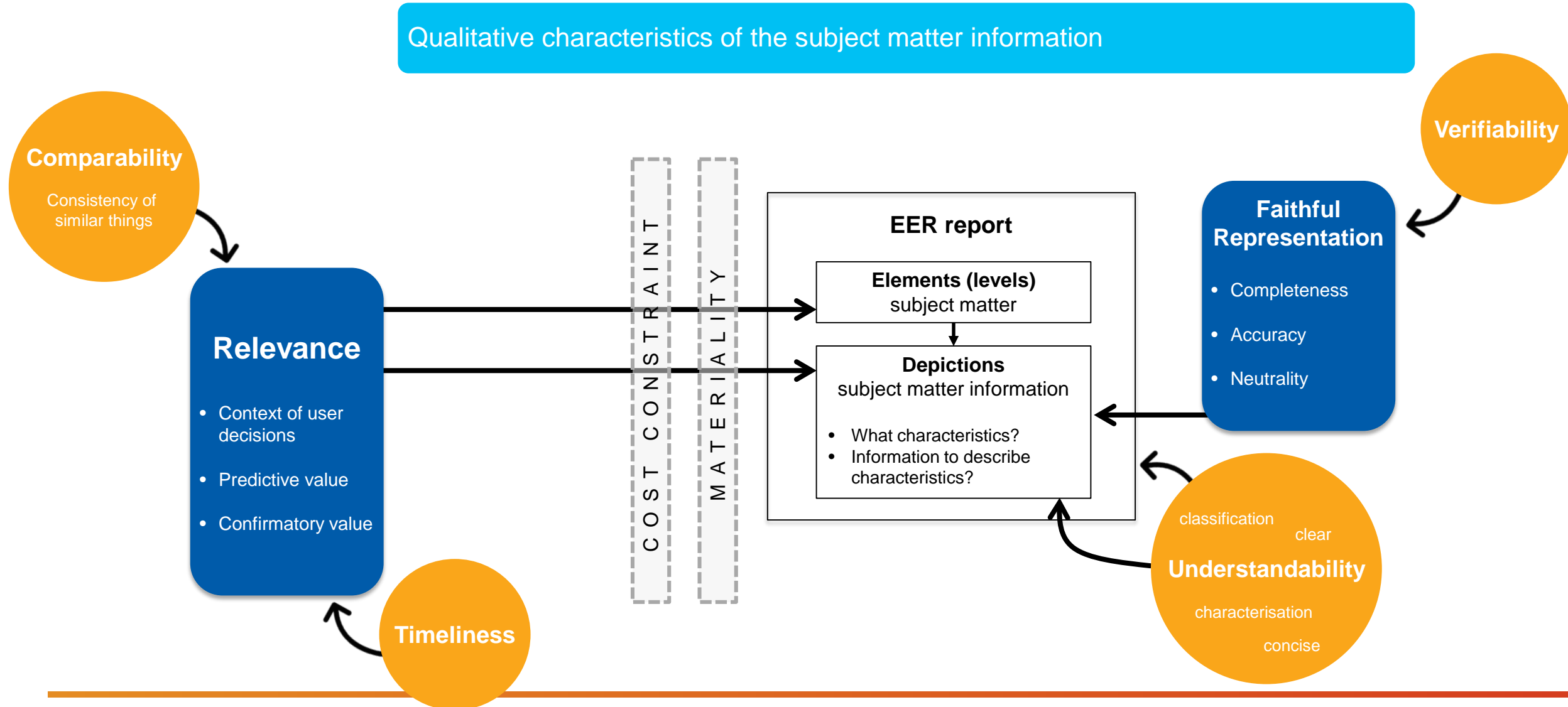
Understanding contextual background of reporting frameworks



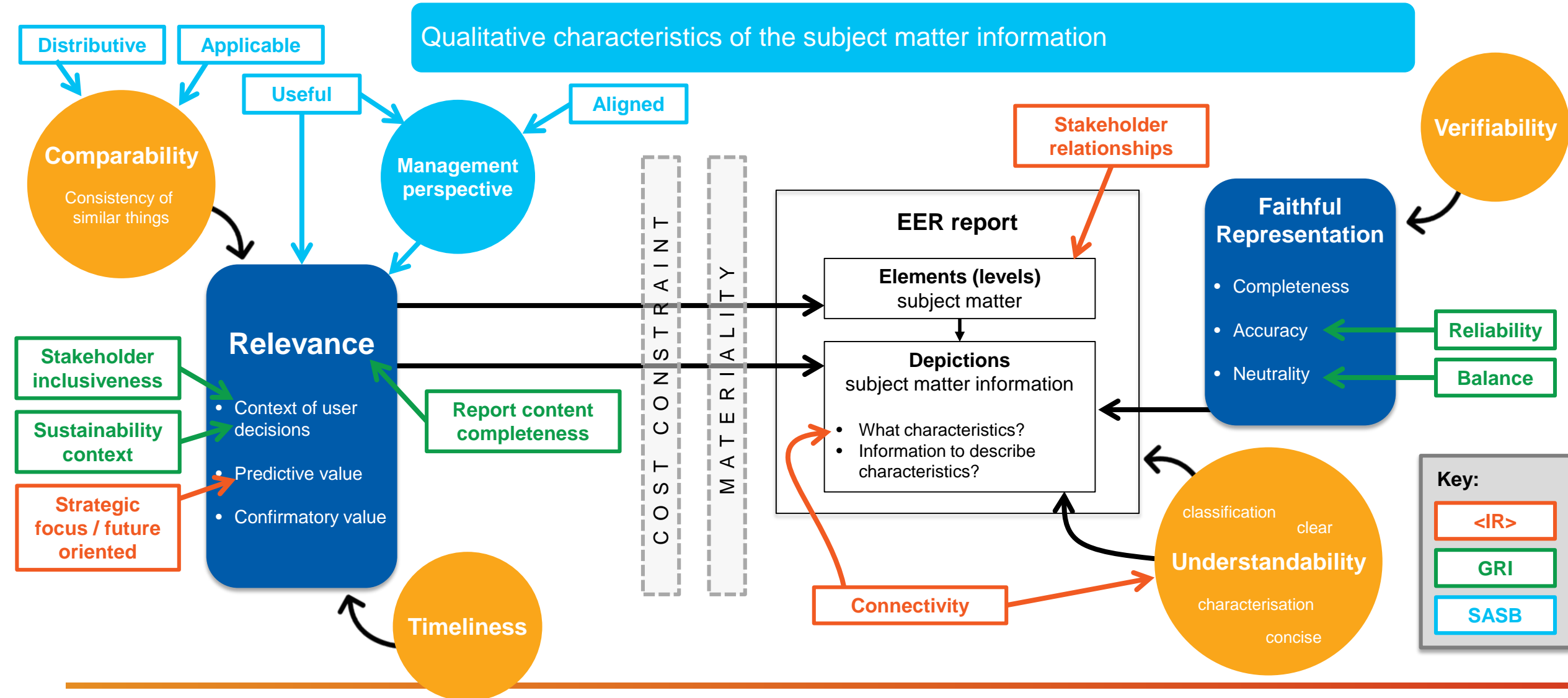
Nature of the subject matter information

- Different frameworks stipulate the nature and form of the subject matter information to varying degrees; some only provide principles and others are more prescriptive about performance measures and indicators to report.
- Many of the requirements can be classified into three categories:
 - 1) Information resulting from the measurement of a subject matter element and related disclosures
 - 2) Contextual information about the entity and the environment it operates in
 - 3) Information required to understand how something has been measured; a method and how it has been applied

Understanding contextual background of reporting frameworks



Understanding contextual background of reporting frameworks



Understanding contextual background of reporting frameworks

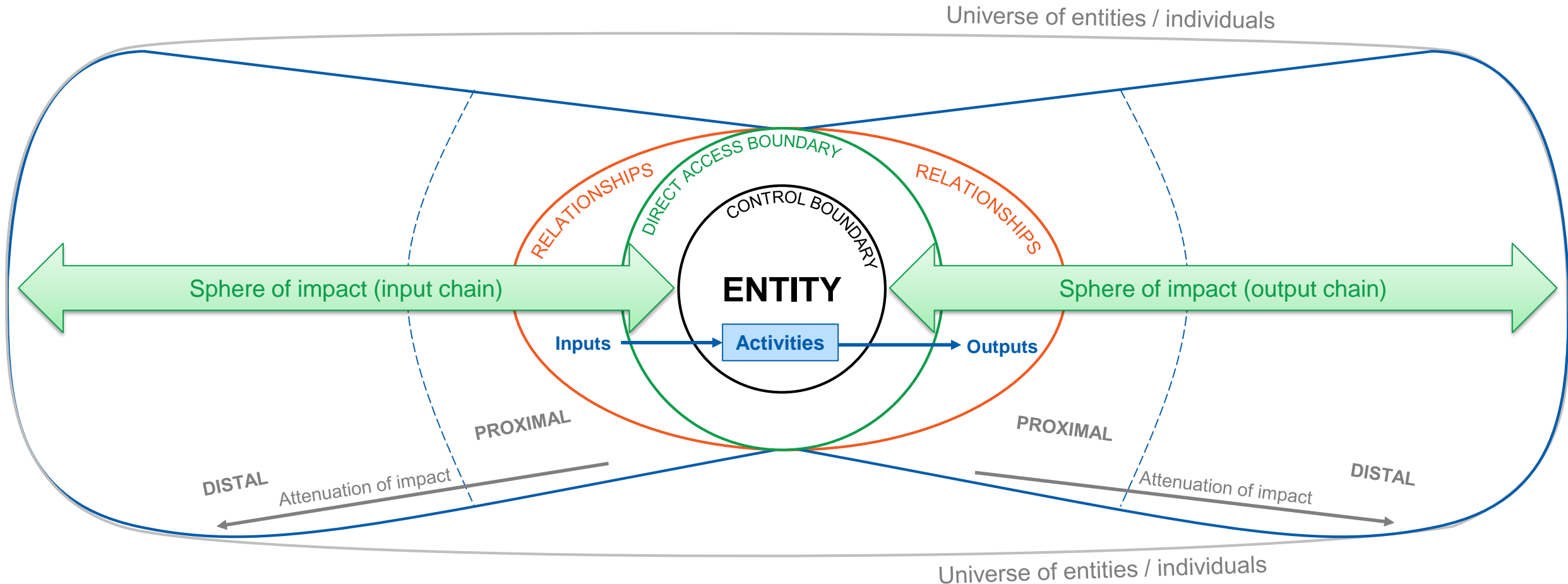


Reporting boundaries

- The reporting boundary is typically less clear in EER than traditional financial reporting.
- Concept of control for assets, and obligations to transfer assets, for liabilities.
- EER frameworks reporting may extend to both internal and external resources in terms of the entity's performance and wider impact.

Understanding contextual background of reporting frameworks

An illustration of reporting boundaries



Understanding contextual background of reporting frameworks



Matters for IAASB Consideration

1. Are there further areas of fundamental differences and similarities between the major reporting frameworks (both traditional financial reporting and EER)?
2. Does the IAASB agree that it is helpful to draw out generalisations from the EER frameworks to support framework-neutral guidance for assurance practitioners?
3. Has the Task Force identified all qualitative characteristics of subject matter information relevant to EER and appropriately aligned them with those in the financial reporting frameworks?
4. Does the IAASB agree with the Task Force's assessment and understanding of reporting boundaries?
5. Are there any other issues the Task Force should consider?

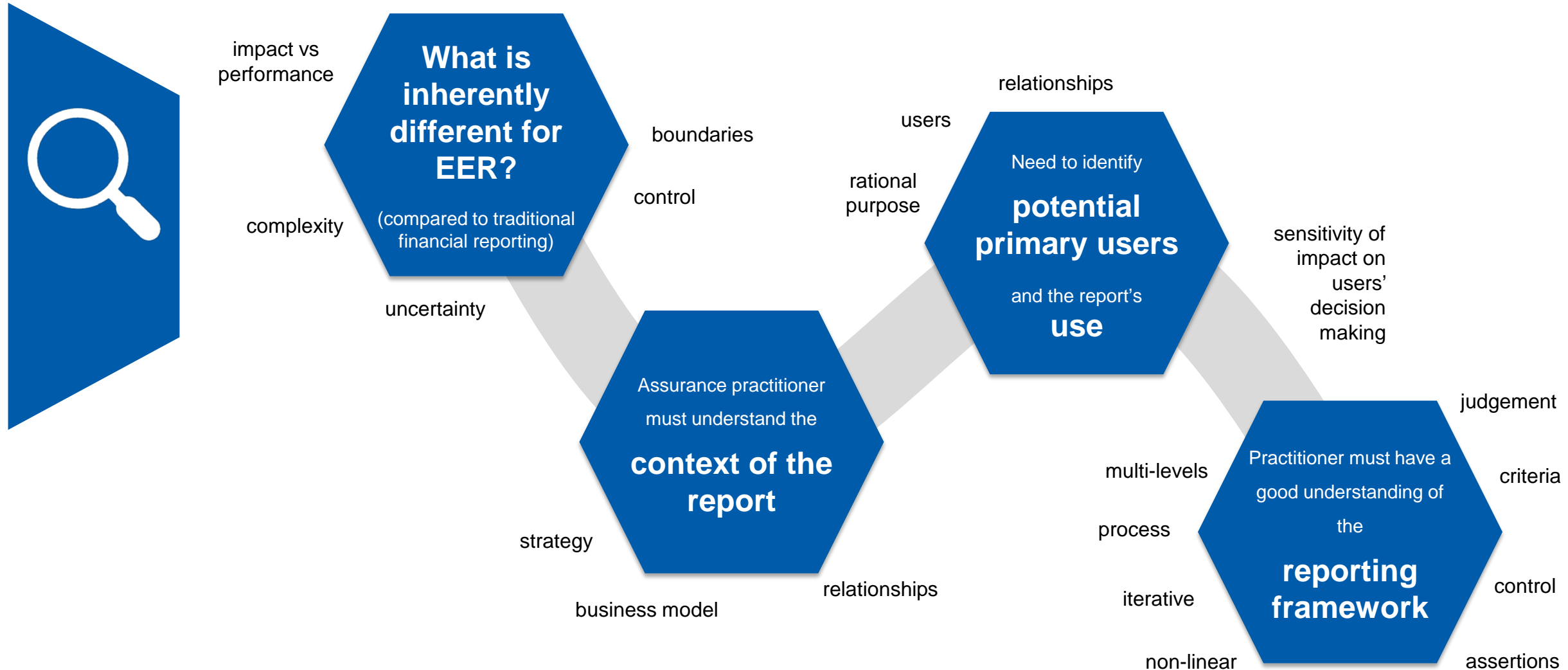


Challenge 3: Materiality

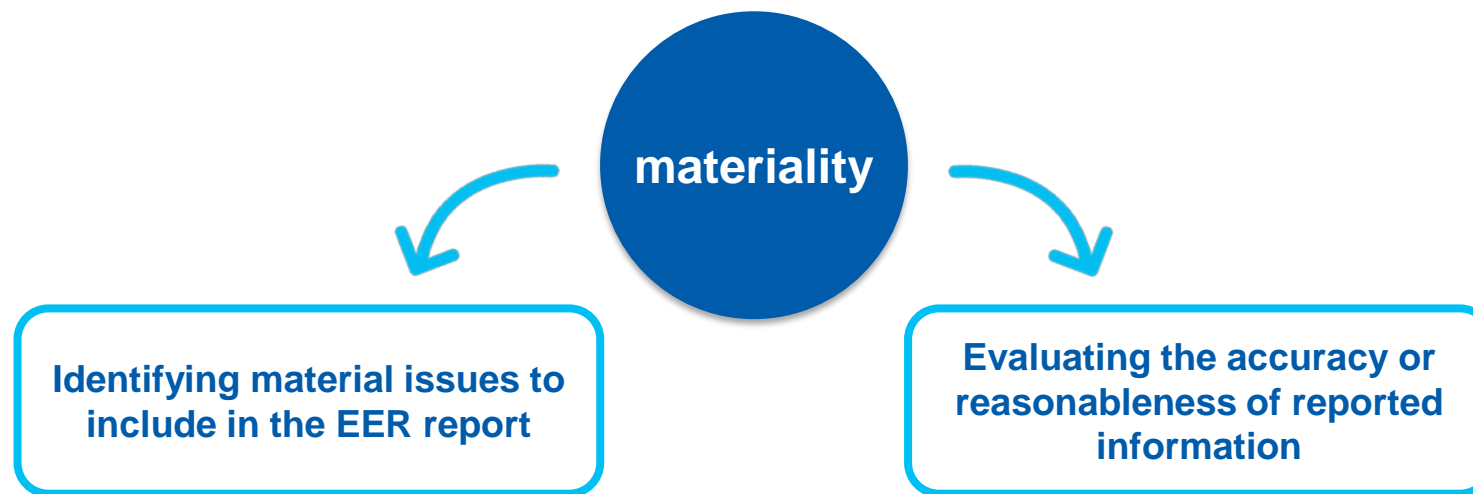
Initial presentation of issues

Task Force has had initial discussions to explore the issues surrounding this first challenge and initial drafting of guidance is underway.

Materiality



Materiality



- Material information is “that which is reasonably capable of making a difference to the proper evaluation of the issue at hand”
[Corporate Reporting Dialogue: Statement of Common Principles of Materiality]
- Misstatements, including omissions, are considered to be material if they ... could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information.
[ISAE 3000 (Revised), paragraph A94]

Materiality



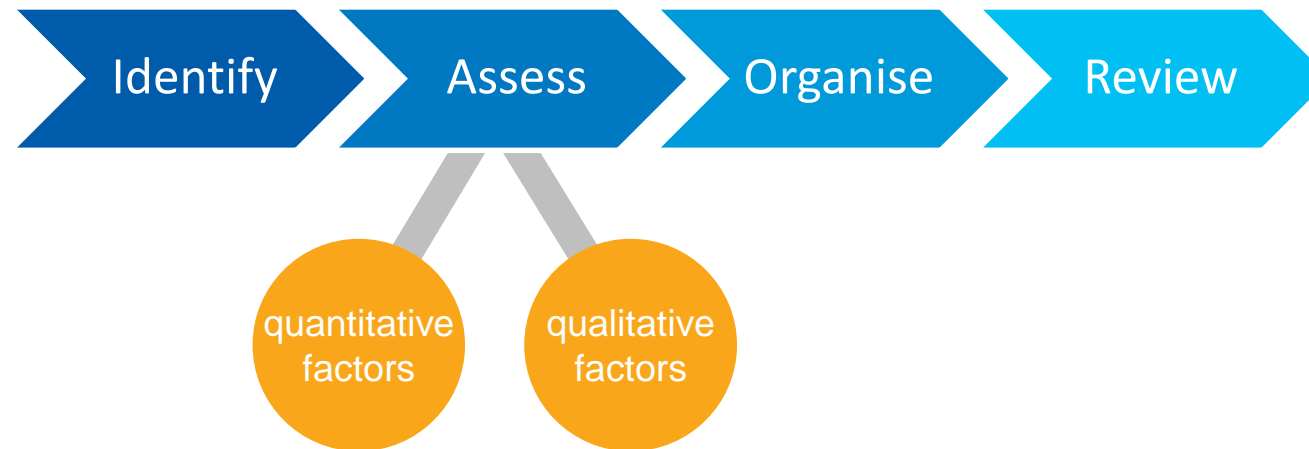
- We plan to produce guidance in the form of a framework for assessing materiality such that it is applicable to all EER frameworks and subject matter.
- The relevant assertions must be identified in order to make materiality decisions.
- Materiality must be considered for each different type of subject matter or reported measure – it isn't possible to consider the report as a whole and misstatements cannot be aggregated outside an appropriate 'unit of account'. Concept of balance is important.
- Disclosure of the materiality process undertaken by preparers is important and valuable to include in EER reports.

Materiality



Identifying material issues to report

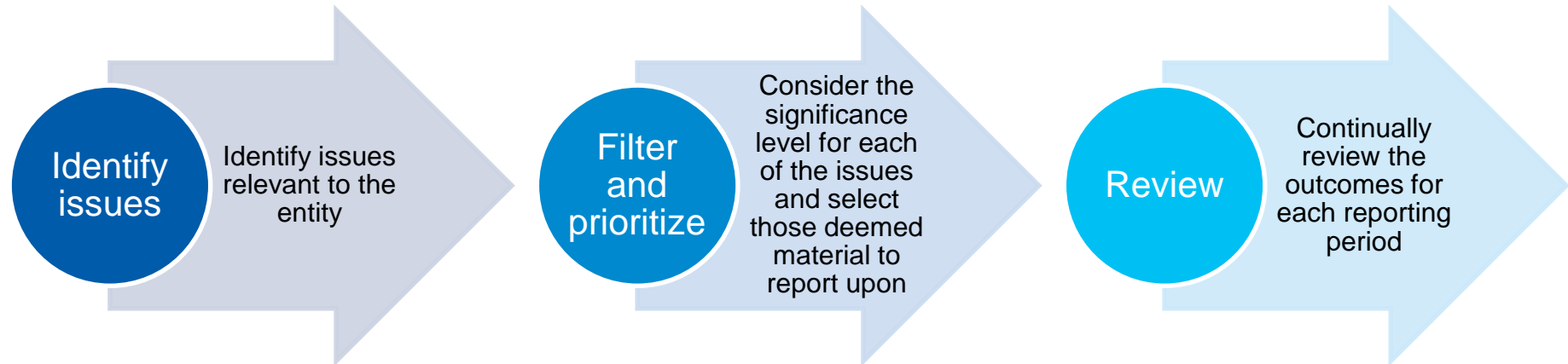
- The process in traditional financial reporting is straightforward as the subject matter elements and information are well established and defined in the frameworks.
- The IASB Practice Statement 2, *Making Materiality Judgements*, gives guidance for financial reporting and presents a four step process for an entity making materiality judgements:



Materiality

Identifying material issues to report

For EER, a possible three step approach based on ideas of AccountAbility¹ and GRI²:



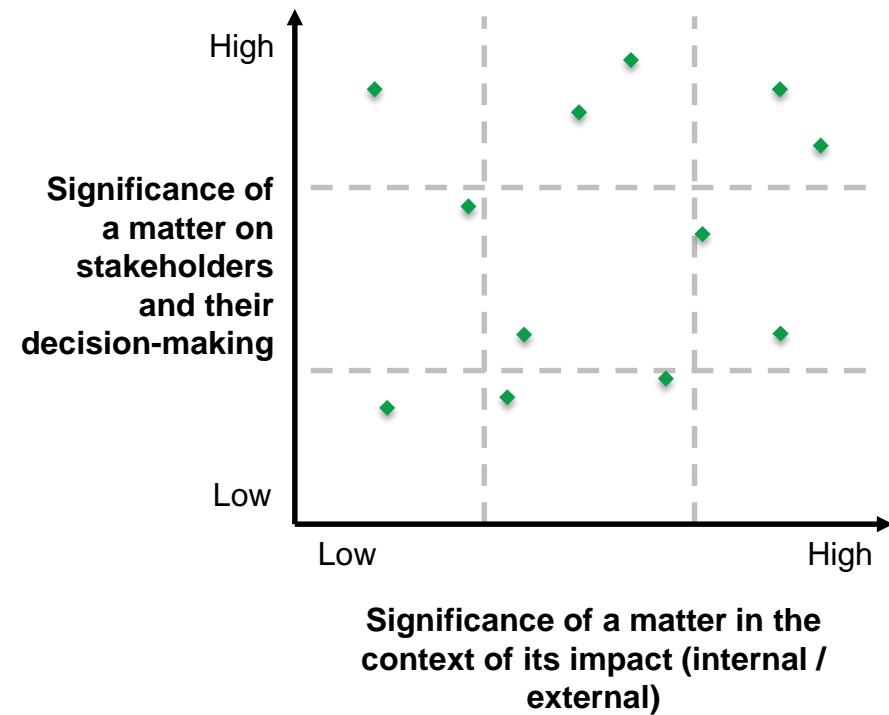
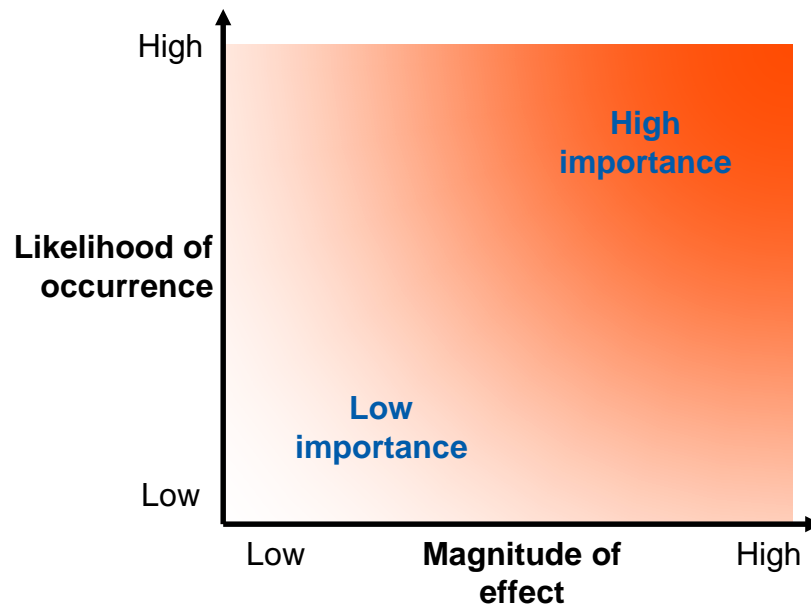
¹ AccountAbility - The Materiality Report (2006)

² GRI – Defining Materiality: What Matters to Reporters and Investors (2015)

Materiality



Identifying material issues to report – internal and external perspectives



Materiality



Other issues and observations

- Information in EER is often both qualitative and quantitative in nature. While the approach to materiality needs to be different for qualitative and quantitative information, assurance practitioners need guidance to help with assessing matters with both qualitative and quantitative characteristics.
- Should assurance practitioners focus their attention and effort on the material matters and issues in an EER report rather than on each matter or item of information? To do this they may need to take into account the sensitivity of users, which may vary depending on the nature of the subject matter information and the way it is presented and given prominence in the report. How would this fit within the concept of materiality?
- Assurance practitioners also need to take into account the multiple levels of users and their varying needs to fully understand what affects their decision making. Our guidance must assist practitioners with this.

Materiality



Matters for IAASB Consideration

1. Does the IAASB agree with the Task Force's proposed approach to develop a 'framework' to assist practitioners with materiality decisions?
2. Does the IAASB agree that the apparent differences in approaching the determination of what is material (ie. including a management perspective) can be reconciled?
3. How useful to practitioners are the frameworks, as presented on slides 22 and 23, for identifying material issues?
4. Are there other aspects of assessing materiality which the Task Force should consider?



Outreach and project planning

- Discussion of the project with key stakeholders and organisations
- Full project plan for Task Force and Board meetings developed
- Received 41 nominations for the Project Advisory Panel – first activities being planned
- Planning underway for roundtable and outreach events in October and November

Project Plan – Board meetings



March 2018

- Project update
- Initial presentation of issues relating to materiality (challenge 3)

June 2018

- Presentation of issues on materiality (3), assertions (4), criteria (2)

September 2018

- Presentation of issues for remaining phase 1 challenges (5, 6 and 7)
- Review of draft guidance on all phase 1 issues

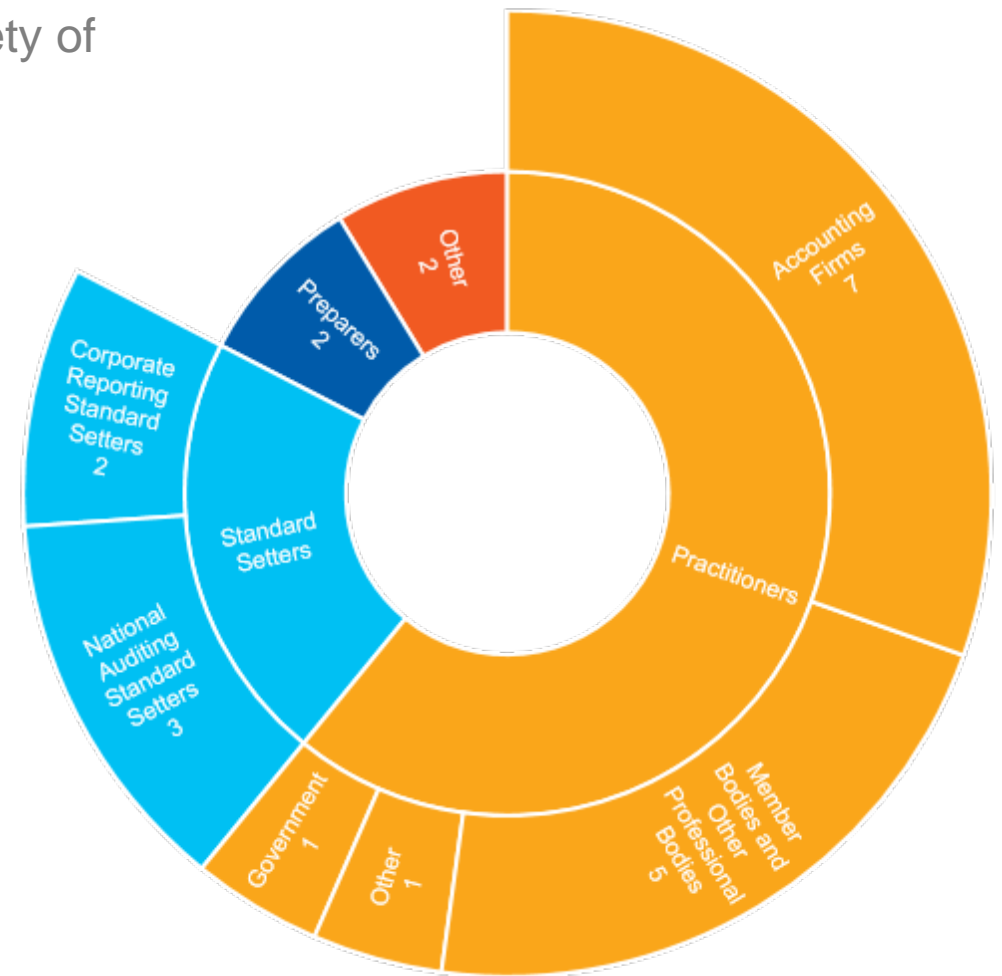
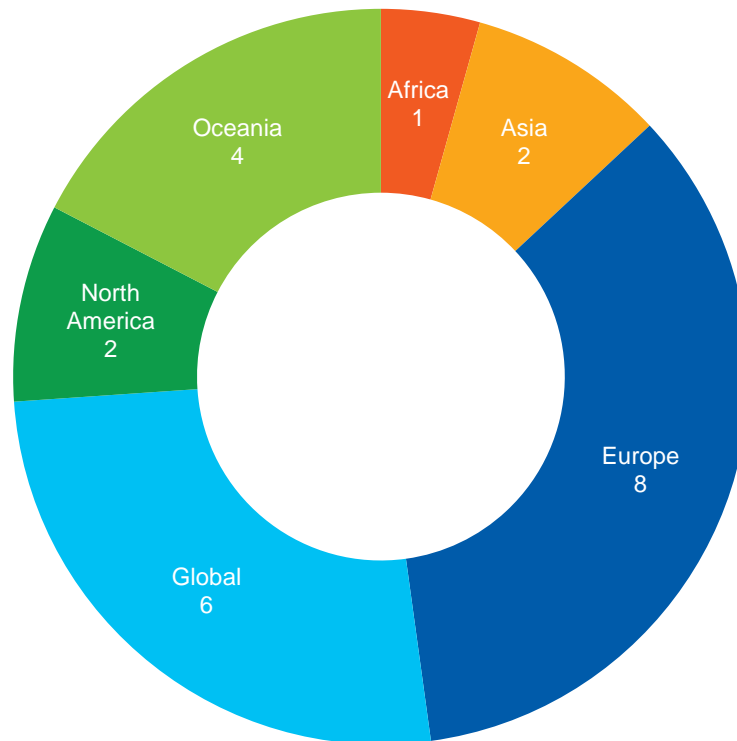
December 2018

- Feedback from roundtables and updates to draft guidance
- Seek approval of exposure draft

Project Advisory Panel



- 41 nominations received from a wide variety of stakeholder groups and regions
- 23 provisionally selected





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