

**Meeting:** IAASB  
**Meeting Location:** New York, USA  
**Meeting Date:** March 11-15, 2019

# Agenda Item 6

## EER Assurance – Issues Paper

### Objectives of Agenda Item

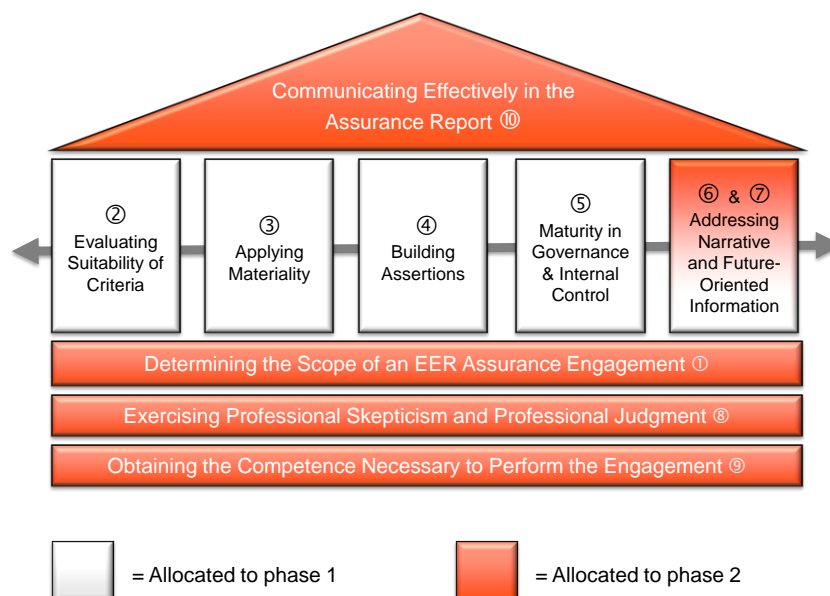
The objectives of this Agenda Item are to:

- present the results of EER Task Force and Project Advisory Panel (PAP) initial discussions on the challenges allocated to phase 2; and
- receive input from the IAASB on the content of the guidance and on how the challenges should be addressed in the guidance.

### Introduction and Overview of the Agenda Item

1. The EER Task Force has started to consider the challenges allocated to phase 2, which are:
  - a) determining the scope of an EER assurance engagement;
  - b) communicating effectively in the assurance report;
  - c) exercising professional skepticism and professional judgment;
  - d) obtaining the competence necessary to perform the engagement; and
  - e) obtaining evidence in respect of narrative and future-oriented information.
2. The challenges are also summarized in the following diagram:

The EER Assurance House (under construction)



3. Appendix 1 of this issues paper includes the table from Appendix 2 of the [project proposal](#), which stated the planned scope of the guidance in relation to each of the challenges. This was based on the proposals in the 2016 discussion paper<sup>1</sup> (DP) and the responses to it. Challenges allocated to phase 1 are included for information purposes only in grey text.
4. The EER Task Force and PAP have had initial discussions on the phase 2 challenges and what the guidance needs to include. Aspects of guidance that have been initially identified by the EER Task Force and PAP as being needed to address the challenges are included in Appendix 1.
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 aspects of guidance that are needed to address the challenges, as well as how the aspects of guidance would advise practitioners to address the challenges. Each breakout group will be given one or more challenges to discuss and consider the matters in the box below. The IAASB will then re-convene to report back on the breakout discussions.

#### **Matters for IAASB Consideration in Breakout Session**

In relation to each of the challenges in paragraph 1(a)-(e) and the material in Appendix 1, the IAASB is asked for its views on:

- Q1. Whether there are any additional aspects of guidance that are needed to address the challenge, beyond those listed in Appendix 1;
- Q2. Whether the initially identified aspects of guidance are relevant matters to be addressed and are appropriately described; and
- Q3. How the aspects of guidance should advise practitioners to address the challenge, considering any relevant requirements or application material of ISAE 3000 (Revised)<sup>2</sup>.

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<sup>1</sup> Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements

<sup>2</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

## Appendix 1

Challenge	Planned Scope of Guidance
<p><b>1. Determining the Scope of an EER Assurance Engagement Can Be Complex</b></p> <p><b>■ Phase 2</b></p> <p><i>Relevant paragraphs from ISAE 3000 (Revised):</i> 26-29, 40, A2, A36, A44, A56, A59, A86, A99, A104</p> <p><i>Relevant paragraphs from ISAE 3410<sup>3</sup>:</i> 17(a), A20</p>	<p><b><i>As proposed in DP:</i></b></p> <p>Provide guidance on addressing the difficult acceptance considerations relating to the challenges mentioned in the DP and their implications for the practitioner determining the scope of an assurance engagement that would be possible (i.e., a less than full scope assurance engagement) and that has a rational purpose.</p> <p><b><i>Relevant observations of respondents to be taken into account – need to consider:</i></b></p> <ul style="list-style-type: none"> <li>• Whether engagement should cover all material issues to avoid user misunderstanding about scope</li> <li>• Whether pre-conditions for an EER assurance engagement have been met</li> <li>• Factors that should be considered when determining whether to accept the different types of assurance engagements</li> <li>• Whether an assurance engagement over a complete EER report should be accepted when governance and controls are developing</li> <li>• Cost considerations</li> <li>• Use of experts by management and practitioners.</li> </ul> <p><b><i>Initially identified aspects of guidance needed to address this challenge:</i></b></p> <ul style="list-style-type: none"> <li>• Understanding how to apply the concept of a ‘rational purpose’</li> <li>• The need to identify and understand the information needs of the EER report’s intended users</li> <li>• 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)</li> <li>• 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</li> <li>• 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</li> <li>• 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</li> </ul>

<sup>3</sup> International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*

Challenge	Planned Scope of Guidance
	<ul style="list-style-type: none"> <li>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.</li> </ul>
<p><b>2. Evaluating the Suitability of Criteria in a Consistent Manner</b></p> <p>■ Phase 1</p>	<p><i>As proposed in DP:</i></p> <p>Provide additional guidance to assist practitioners in assessing the suitability of criteria for EER engagements and whether the criteria have been made appropriately transparent to the intended users.</p> <p><i>Relevant observations of respondents to be taken into account – need to consider:</i></p> <ul style="list-style-type: none"> <li>Assessment of completeness, balance and neutrality.</li> </ul>
<p><b>3. Addressing Materiality for Diverse Information with Little Guidance in EER Frameworks</b></p> <p>■ Phase 1</p>	<p><i>As proposed in DP:</i></p> <p>Provide additional guidance in the specific context of EER, in relation to evaluating the entity's EER materiality process, including the extent and nature of stakeholder engagement; considering the overall materiality of misstatements; and considering materiality for qualitative depictions, including for narrative descriptions and future-oriented information.</p> <p><i>Relevant observations of respondents to be taken into account – need to consider:</i></p> <ul style="list-style-type: none"> <li>Identifying the intended users</li> <li>Assessing completeness, balance and neutrality</li> <li>Assessing qualitative misstatements in aggregate.</li> </ul>
<p><b>4. Building Assertions for Subject Matter Information of a Diverse Nature</b></p> <p>■ Phase 1</p>	<p><i>As proposed in DP:</i></p> <p>Provide guidance to develop a methodology that could be used to build and classify relevant assertions for the different types of information that are prevalent in EER reports, having regard to the types of depiction methods and communication principles commonly encountered in EER frameworks.</p> <p><i>Relevant observations of respondents to be taken into account – need to consider:</i></p> <ul style="list-style-type: none"> <li>Illustrating typical assertions for EER engagements</li> <li>Designing appropriate procedures to obtain sufficient appropriate evidence about different types of external information</li> <li>Building completeness, balance and neutrality assertions.</li> </ul>

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<p><b>5. Lack of Maturity in Governance and Internal Control over EER Reporting Processes</b></p> <p>■ Phase 1</p>	<p><b>As proposed in DP:</b></p> <p>Provide further guidance in the context of EER reporting to address:</p> <ul style="list-style-type: none"> <li>• How to evaluate the maturity of reporting systems, controls and oversight;</li> <li>• Factors to consider in determining which controls are relevant to the assurance engagement and circumstances in which a more formal reporting process with more extensive internal controls may be needed to provide a reasonable basis for preparing the EER report;</li> <li>• Circumstances when it may be necessary to obtain sufficient appropriate evidence of the operating effectiveness of controls and what to consider when testing controls; and</li> <li>• The consequences of weaknesses in reporting systems, controls and oversight when alternatives to placing some reliance on the operating effectiveness of controls are not available.</li> </ul>	
<p><b>6. and 7.</b></p> <p>■ Phases 1 and 2</p>	<p><b>6. Obtaining Assurance with Respect to Narrative Information</b></p> <p><b>As proposed in DP:</b></p> <p>Provide further guidance in the context of narrative information in EER reports to address: assessing the suitability of criteria; building appropriate assertions; considering materiality; and relevant considerations in seeking to obtain sufficient appropriate evidence.</p> <p><b>Relevant observations of respondents to be taken into account – need to consider:</b></p> <ul style="list-style-type: none"> <li>• Identifying appropriate sources of evidence with respect to different types of narrative disclosures and providing illustrative examples</li> <li>• Determining sufficiency and appropriateness of evidence</li> <li>• Assessing completeness, balance and neutrality of narrative information</li> <li>• Addressing measurement or evaluation uncertainty.</li> </ul>	<p><b>7. Obtaining Assurance with Respect to Future-Oriented Information</b></p> <p><b>As proposed in DP:</b></p> <p>Provide further guidance in assessing future-oriented information in an EER assurance engagement, including:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• How to address subjectivity and management bias;</li> <li>• How to consider management's process for preparing future-oriented information;</li> <li>• Whether the future-oriented information has been properly presented in the EER report; and</li> <li>• How practitioners can report on such information without creating</li> </ul>

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		<p>unrealistic user expectations (for example, about the achievability of predicted performance or impact).</p> <p><b>Relevant observations of respondents to be taken into account – need to consider:</b></p> <ul style="list-style-type: none"> <li>• How to address the risk that there may be expectation gaps with respect to the work done on such information</li> <li>• How future-oriented information could be included within the scope of an EER assurance engagement</li> <li>• Determining sufficiency and appropriateness of evidence.</li> </ul>
	<p><b>Initially identified aspects of guidance needed to address the ‘obtaining evidence’ parts of these two challenges:</b></p> <ul style="list-style-type: none"> <li>• 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)</li> <li>• Documentation requirements</li> <li>• How subject matter information presented in the form of diagrams and pictures should be addressed by practitioners</li> <li>• How the ease and ability to obtain evidence is linked to the nature of the system of internal control</li> </ul>	
<p><b>8. Exercising Professional Skepticism and Professional Judgment</b></p> <p>■ Phase 2</p> <p><i>Relevant paragraphs from ISAE 3000 (Revised):</i> 12(t), 12(u), 37-38, A76-A85</p>	<p><b>As proposed in DP:</b></p> <p>Given the IAASB’s ongoing project in relation to professional skepticism, exploring this challenge in the specific context of EER assurance engagements will be deferred until it can be considered further in light of the results of exploring how the ISAs may be enhanced, as proposed in the DP, which is not likely to be in phase 1.</p> <p>The EER Task Force has since decided that this challenge will be explored in phase 2, in the context of progress made on related IAASB projects.</p> <p><b>Understanding the Challenge:</b></p> <p>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</p>	

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	<p>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.</p> <p><b><i>Initially identified aspects of guidance needed to address this challenge:</i></b></p> <ul style="list-style-type: none"> <li>• How this is closely related to the issue of practitioners obtaining the necessary competence, especially in the case of practitioners without significant assurance experience</li> <li>• Not all the experts involved in an EER assurance engagement may be accustomed to applying professional judgment and professional skepticism throughout the engagement</li> <li>• How individuals' skills in exercising professional skepticism can be developed</li> <li>• Frameworks and methodologies can help reinforce exercise of good judgment and of professional skepticism</li> <li>• 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</li> <li>• 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</li> </ul>
<p><b>9. Obtaining the Competence Necessary to Perform the Engagement</b></p> <p>■ Phase 2</p> <p><i>Relevant paragraphs from ISAE 3000 (Revised):</i> 22, 31-32, 52-55, A60, A67-A73, A120-A135</p>	<p><b><i>As proposed in DP:</i></b></p> <p>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.</p> <p><b><i>Relevant observations of respondents to be taken into account – need to consider:</i></b></p> <ul style="list-style-type: none"> <li>• Competence of the engagement leader (including consideration of non-</li> </ul>

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<p><i>Relevant paragraphs from ISAE 3410:</i> 16, A18-A19</p>	<p>accountants)</p> <ul style="list-style-type: none"> <li>Assessing the competences needed for EER assurance engagements and the need to involve experts.</li> </ul> <p><b>Initially identified aspects of guidance needed to address this challenge:</b></p> <ul style="list-style-type: none"> <li>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</li> <li>Potential usefulness of a ‘skills matrix’ in showing the skills of the assurance team</li> <li>The extent to which the assurance leader needs knowledge of the underlying subject matter (without undue reliance on experts)</li> <li>Quality management of the work of another practitioner whose work is intended to be used</li> <li>The appropriateness of quality control procedures (for example, review and approval of work), particularly when a large multi-disciplinary team is involved</li> <li>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</li> <li>Understanding the differences between the responsibilities of the engagement leader and those of the rest of the team</li> </ul>
<p><b>10. Communicating Effectively in the Assurance Report</b></p> <p>■ Phase 2</p> <p><i>Relevant paragraphs from ISAE 3000 (Revised):</i> 30, 64-78, A158-A192</p>	<p><b>As proposed in DP:</b></p> <p>Provide further guidance in the context of the assurance report to resolve the ambiguity experienced by users in interpreting EER assurance reports. This guidance could address reporting considerations such as: summarizing the work performed, communicating about inherent limitations in the assurance that can be obtained; referring to other assurance practitioners; the way the assurance conclusion is expressed; when and how to use long form reports rather than short form reports; 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); clarifying the scope of the engagement (particularly when it is not full scope); and drafting a combined report including both the auditor’s report on the financial statements and the assurance practitioner’s report on the EER report.</p> <p><b>Relevant observations of respondents to be taken into account – need to consider:</b></p>



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<p><i>Relevant paragraphs from ISAE 3410:</i></p> <p>76-77, A134-A153, Appendix 2</p>	<ul style="list-style-type: none"> <li>• How to minimize the expectation gap regarding the level of assurance</li> <li>• 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</li> <li>• Whether and, if so, how to identify the intended users.</li> </ul> <p><b><i>Initially identified aspects of guidance needed to address this challenge:</i></b></p> <ul style="list-style-type: none"> <li>• Transparency is considered very important in communicating the scope and level of assurance</li> <li>• Limited assurance can mean various levels of assurance along a sliding scale – communicating this can be challenging but important</li> <li>• 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</li> <li>• Long-form reports may be very 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</li> <li>• Whether the ‘rational purpose’ of the assurance engagement should be explicitly identified in the assurance report</li> <li>• Whether it would be best practice to identify explicitly who the intended users are</li> <li>• Implications for the assurance report when the preparer uses entity-developed criteria</li> <li>• How different levels of assurance over different parts of an EER report, and where the work effort was directed, can be communicated clearly</li> <li>• Implications for the assurance report when the EER report contains financial statements that are subject to an audit (combined reports?)</li> <li>• 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</li> <li>• Whether including an equivalent of ‘key audit matters’ is compatible with the requirements of ISAE 3000 (Revised)</li> <li>• Examples of assurance reports</li> </ul>