Agenda Item 11-A

Draft Discussion Paper intended for discussion at the June Board meeting

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Supporting Credibility and Trust in Emerging Forms of External Reporting

IAASB Integrated Reporting Working Group Draft Discussion Paper

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This publication has been developed by the Integrated Reporting Working Group (IRWG) established by the International Auditing and Assurance Standards Board (IAASB). References to "we" and "our" are to the IRWG. The IRWG was established to inform the IAASB as to how and when to respond to developments in external reports most effectively in the public interest.

This publication does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards[1] issued by the IAASB.

I.   Introduction

> *What expectations do stakeholders have of professional services in supporting the credibility of emerging forms of external reporting by entities; and how can the IAASB support such services so that stakeholders' expectations are met?*

1. These questions are at the core of our consideration of how and when the IAASB should respond to emerging forms of external reporting (we refer to such reporting as 'EER').

2. The purpose of this Discussion Paper ('DP') is to explore:

    - The factors that influence credibility and trust internally and externally in reports issued under EER frameworks (irrespective of whether such external reports are incorporated into the traditional annual report or published as supplemental reports, we refer to them in this DP as 'EER reports') (Section III).

    - The demand for professional services relating to EER reports to be provided for internal and external stakeholders, in the broader context of credibility and trust – in particular, the nature of assurance or other engagements that would be most relevant in ensuring that an EER report meets the expectations of its users, recognizing the need for innovation due to developments in EER frameworks and related governance processes (Section III).

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[1]   The IAASB's International Standards comprise the International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), International Standards on Related Services (ISRSs), and International Standards on Quality Control (ISQCs).

- The implications of these matters for standard-setting by the IAASB, having regard to the types of professional services engagements called for, the ability of the IAASB International Standards to accommodate such engagements and the need for further guidance in performing assurance engagements with respect to EER reports (Sections III and IV).

- The best way to continue the dialogue with stakeholders and international organizations on supporting credibility and trust in EER reports.

We would like to facilitate open discussion about the potential role of the IAASB and where others can or need to play a role in a holistic and interactive process.

3. This DP seeks responses to the questions set out on pages 49–50 from all participants in the external reporting supply chain, in order to better understand how the IAASB may support enhanced credibility and trust in EER reports internal and external stakeholders.

What are the Trends in External Reporting and What is Driving Them?

4. Increasingly, entities are reporting more holistically and cohesively about:

- Their goals;

- Their business model, strategy and governance processes;

- The risks and opportunities they face and how they manage and respond to them; and

- Their performance, position and future prospects.

5. When entities give such an account of their goals, and how they are striving to meet them, they are responding to calls from investors and other stakeholders to tell their 'story' in a manner that:

- Communicates the value the entity creates in the short, medium, and long term; and

- Links the elements of that story together to create a cohesive whole.

6. As society's expectations of entities evolve, entities are also increasingly responding to calls from investors and other stakeholders for more information about the wider impact they have on society and on the non-financial resources they employ or impact ('non-financial information').

7. As a result, external reporting by entities is increasingly providing non-financial information that goes beyond the traditional (financial statement) focus on their financial position, financial performance and the impact on their financial resources. There is a debate about whether and to what extent these broader information needs of stakeholders should be met through a single channel, the annual report, or whether different channels should be used for

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How Can the IAASB make a Difference in EER as the Leading Standard Setter for Assurance Engagements?

The IAASB:

- Develops standards and other guidance to enhance the quality of engagements at the assurance practitioner level, the engagement level, and the firm level

- Has an established international scope with currently over 110 jurisdictions using or committed to using the International Standards on Auditing

- Other IAASB Standards widely recognized

- Provides a platform for dialogue and interaction with entities, and parties involved in the external reporting supply chain

different purposes. However, it is evident that investors also expect more non-financial information to be disclosed, at least insofar as it is relevant to the future prospects and financial performance of the entity in the longer term.

8.   This trend in reporting of broader non-financial information has developed alongside the sustainability/environmental, social and governance (ESG) reporting movement over the last three decades, and is now led and supported by a number of global organizations and affiliations of interested parties.

9.   A number of EER frameworks and standards have begun to emerge, including the International Integrated Reporting (<IR>) Framework developed by the International Integrated Reporting Council (IIRC) and Global Reporting Initiative (GRI). The Small and Medium Practices Committee of the International Federation of Accountants is currently developing implementation guidance on integrated reporting for small- and medium-sized entities.

10.   In addition, the digital revolution is transforming stakeholder access to information about entities – broadening and deepening external sources of information about them and the context in which they operate. It is also reducing the cost and increasing the speed with which information can be accessed and assimilated by markets. With access to more, and timelier, sources of information, stakeholders' expectations of the depth and quality of the story that entities tell are increasing and they are better able to assess and challenge such information.

11.   These trends are seen not only at a global level but also at national and regional levels in a wide variety of initiatives to enhance management commentary and annual reports, including, for example:

•   The requirements on the disclosure of non-financial information by large companies in the European Directive, which affects around 6,000 companies in the European Union;[2]

•   The requirement in the Johannesburg Stock Exchange Listing Requirements[3] for listed entities to apply the principles of the King Code of Governance Principles (King III Code) (or explain the non-compliance with the King III Code), which recommends the issuance of an integrated report;

•   The requirement in the United Kingdom (UK) Companies Act for a Strategic Report as part of a 'fair, balanced and understandable' annual report in the UK;

•   Standards for reporting sustainability indicators being developed by the Sustainability Accounting Standards Board in the United States of America (USA); and

•   The requirement for public sector entities and charities in New Zealand to provide a Statement of Service Performance (SSP) and the related Technical Practice Aid provided by the New Zealand Auditing Standards Board.

12.   Due to fast-changing external circumstances to which entities are exposed, there is notably an increasing interest in the ability to whether the company is able to sustain itself in the future (i.e., whether it is viable). The UK Corporate Governance Code (amended in 2016) requires transparency on how an entity has

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2   See, for example, the paper of the Federation of European Accountants *The Future of Corporate Reporting-Creating the Dynamics for Change* outlining the main developments in Europe

3   See website https://www.jse.co.za/current-companies/issuer-regulation

assessed its prospects and over what period, so that users are able to hear directly from the directors as to views on the entity's sustainability. This information is included in the strategic report as referenced in the previous paragraph and part of a fair, balanced and understandable annual report. The auditor's responsibilities with respect to the information as included in the annual report is described in paragraphs 28-32.

13.   There is also a vast emerging interest that information on future prospects to sustain the entity includes a broad range of resources or capitals than just those that are financial given its close interlinkages between the value creation to stakeholders and the ability of the entity to sustain its operations in the future. These information needs are increasingly addressed in EER frameworks.

> The IRWG project page includes a more detailed overview of developments in EER as well as background to the various organizations that are referenced in the Discussion Paper.
>
> Currently this information is included in **Agenda Item 11-C.1** and **Agenda Item 11-C.2**

What Professional Services are Being Provided, or Called For, to Support the Credibility of EER Reports?

14.   In parallel with the emergence of EER reports, questions have been asked about the need to enhance their credibility. Professionals have started to respond to the currently variable demand from both internal and external stakeholders of entities, for professional services in this regard.

15.   Examples of such responses include the provision of:

- Advisory services;

- A range of assurance and other engagements of varied scope under the IAASB's International Standards or other standards;[4] and

- Other less standardized forms of evaluation or assessment, resulting in either internal reporting to management or those charged with governance (TCWG), or reporting to external stakeholders, on the entity's published reports, or on the maturity, design or effectiveness of the underlying reporting processes or controls.

How and When should the IAASB Respond in the Public interest?

16.   The IAASB's mission is to serve the public interest by setting independently, and under its own authority, high-quality standards on quality control, auditing, review and other assurance and related services. The objective is to contribute to the enhanced quality and consistency of practice throughout the world, and to strengthen public confidence in the global audit and assurance profession.

17.   In order to inform the IAASB on how and when to respond to EER most effectively in the public interest, the IAASB established the IRWG to engage with stakeholders and to monitor EER and related assurance developments. In July 2015, we published the IRWG paper, *Exploring Assurance on Integrated Reporting and Other Emerging Developments in External Reporting,* to inform stakeholders about our ongoing work in this area.

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4   For example, the standards of the International Organization for Standardization (ISO), or the assurance standards of AccountAbility

18. This DP follows from the work of the IRWG since the publication of the IRWG paper. It explores the need to enhance the credibility of EER and the potential role of the IAASB International Standards – and asks, in this context, if they are already "fit for purpose" or if there is a need for further innovation or implementation support, recognizing that this is an evolving area. [5]

19. In line with the IAASB International Standards, this DP takes a framework neutral approach. The DP refers to and considers the implications of various EER frameworks, such as those promoted globally by the IIRC and the GRI, and others established in legislative or stock exchange requirements in different jurisdictions. Many such frameworks share similar underlying principles. The IAASB recognizes that when an entity adopts a global EER framework this will be applied within the context of the legal and regulatory framework of the jurisdiction in which the entity operates.

In the public interest, the IAASB aims to:

- Keep the IAASB International Standards fit for purpose in a changing EER landscape
- Support practitioners who respond to demand to enhance credibility of EER and EER reports, including via engagements going beyond the current scope of the IAASB International Standards
- Support the quality of assurance engagements while acknowledging the flexibility needed in this EER landscape
- Counter inconsistent or incorrect interpretation in applying the IAASB International Standards
- Continue stakeholder engagement in the EER supply chain to monitor needs and challenges.

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[5]   Public sector and small and medium practices perspectives are not separately addressed but are included in this paper in the relevant sections where applicable. Further work will be done by the IRWG in this regard.

II. Principal Findings from Research and Outreach to Date

20. In the course of its work to date, the IRWG has held discussions with a wide range of stakeholders and considered a wide range of publicly available information, including surveys, reports and academic research.[6]

Key Messages

21. The key messages from the information-gathering to date are:

- ***EER is still evolving*** to meet the emerging needs of a variety of stakeholders for wider information about the entity. There are a number of new, and still evolving, forms of external reporting and related reporting frameworks/standards. These share some common features but also reflect some differences in the intended users, use and scope of such reports. Understanding the concepts that underpin different EER frameworks, their similarities and differences, is important in framing questions to consider the role that professional services might play in addressing the credibility of EER reports. Whereas the conceptual framework for financial statements is relatively well-established, there is a need for further insight into the frameworks underpinning EER reports and their implications.

- There <u>is</u> ***demand for action to support credibility and trust***, but this is not limited to calls for 'external assurance'. It also includes demand for action to enhance credibility and trust through effective governance and control – for example, looking to the roles of the different 'lines of defense',[7] and the oversight of TCWG, within the entity.

- There is a ***need for flexibility in the nature of 'external assurance'*** as reporting frameworks evolve, to enable the assurance to be delivered appropriately. There is a need to consider innovation in 'external assurance' beyond those assurance engagements covered by the IAASB International

> EER frameworks address a wide variety of investors and other stakeholders, as potential users of such reports, often with different information needs, focusing on different time horizons. It is important to understand how such frameworks address:
>
> - The type of decisions that different users make on the basis of EER reports.
>
> - The relevance of non-financial information to user decision-making and how this connects with the scope and qualitative characteristics of information that should be included in EER reports.
>
> - The relevance of other information that users have access to in addition to the EER reports, both from the entity itself and from other sources.
>
> - The principles of communication that users wish to see applied, and the necessary play-offs between them.

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6   Please see the IRWG project page for detailed references

7   See, for example, the Position Paper IIA (2013a) of the Institute for Internal Auditors (IIA) that discusses the three lines of defense in effective risk management and internal control; *Enhancing Integrated Reporting: Internal Audit Value Proposition*, 2015, published jointly by the IIA of France, the Netherlands, Spain, the UK and Ireland; and the 'five lines of assurance' described as 'combined assurance' in the *Draft King IV Report on Corporate Governance for South Africa, 2016*.

Standards, such as reporting on the evaluation or assessment of the maturity of the entity's systems and processes.

> ❖ Stakeholders do not generally use the terms 'assurance' or 'external assurance'[8] to mean an "assurance engagement" as defined by the IAASB, but rather as overarching terms for a wide range of approaches to assessment of external reporting processes and external reports ('external assurance' when performed by a party external to the entity).
>
> ❖ The current and expected demand for such 'external assurance' is variable across jurisdictions and comes not only from external users, such as investors, but also from parties within the entity – such as the entity's management and governance bodies, including the audit committee.
>
> ❖ There is a recognition that the benefit of 'external assurance' is that it brings rigor that can increase the robustness, accuracy and trustworthiness of the information reported, which not only adds credibility to the reports, but can also act as a catalyst to improve internal reporting systems and controls.

Consultation by the IIRC and Others

22. The IAASB had monitored the initial exploration of assurance issues by the IIRC during the development of the International <IR> Framework and the IRWG, once formed, continued by monitoring the IIRC's subsequent more detailed consultation in 2014, feedback to which was published in July 2015.[9]

23. The responses to the IIRC consultation, which specifically explored 'external assurance' in the context of integrated reporting, indicated:

- Strong support for the IAASB to take the lead in developing any standards and application guidance that may be needed for 'external assurance,' liaising with other relevant bodies.

- Mixed reactions to the priority for developing standards and guidance.

- For the time being, the existing IAASB International Standards would be sufficient, with a preference for application guidance to be developed for assurance engagements related to integrated reports, but that there may be a need for a specific assurance engagement standard when integrated reporting is more mature.

- Guidance may be needed on a more informative assurance report – not just a binary opinion.

- Demand for 'external assurance' is likely to focus mainly on 'assurance' over the integrated report itself, rather than over the integrated reporting process.

- To the extent that innovation was proposed by respondents to the IIRC consultation, this mainly reflected a perceived need for alternatives to reasonable assurance engagements on the full integrated report at a stage where companies are still developing their reporting systems and reporting criteria are still in development.

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8 In this DP we use 'assurance' or 'external assurance' between quotation marks we refer to the way stakeholders are using the terms, which is in a much broader sense than an Assurance Engagement as defined in the IAASB International Standards.

9 IIRC *Assurance on <IR>: Overview of feedback and call to action*, July 2015.

24.   In its feedback statement, the IIRC called on the IAASB to:

- Ensure that it also seeks input from practitioners other than professional accountants and from other stakeholders; and

- Continue to evaluate the principles and characteristics of assurance and the responses on the technical challenges raised in the IIRC consultation papers, and to encourage research and innovation regarding assurance on integrated reporting, including the possibility of innovative approaches to resolving the identified assurance issues.[10]

25.   In addition to the IIRC, the GRI[11] and the World Business Council for Sustainable Development (WBCSD) have held discussions on assurance engagements with preparers, intended users and practitioners. These discussions emphasized the increasing need for enhancing the credibility of information.

26.   Based on the discussions that the GRI held on credibility and trust, the Global Sustainability Standards Board (GSSB), that was formed by the GRI, is reviewing different means by which the credibility and trust of sustainability reporting can be enhanced.[12]

27.   The WBCSD recommends that the IAASB develop a standard for assurance engagements on sustainability information leveraging ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information,* (ISAE 3000 (Revised)) and ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements (ISAE 3410)*. The WBCSD also recommends that the IAASB consider broadening the scope of such a standard to include assurance on integrated reporting as defined by the IIRC.[13]

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10   IIRC *Assurance on <IR>: Overview of feedback and call to action*, July 2015, page 7.

11   GRI-GSSB meeting document- *Enhancing Credibility and Trust of Sustainability Reporting*, November 2015, project update on GRI events on enhancing credibility and trust of sustainability reporting

12   See also the GRI January 2016 Newsletter

13   See WBCSD Publication *Assurance: Generating Value from External Assurance of Sustainability Reporting,* February 2016

III. Professional Services in the Broader Context of Credibility and Trust

28. When EER reports meet the definition of an annual report[14] and an audit of the financial statements is conducted in accordance with ISAs, the auditor is required to read the EER report and consider whether there is a material inconsistency between that information and the financial statements, as well as the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit. [15] While reading the EER report, the auditor is also required to remain alert for indications that information in the EER not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated.[16]

29. If the auditor identifies that a material inconsistency appears to exist or becomes aware that the other information appears to be materially misstated, the auditor is required to perform procedures and conclude whether a material misstatement of the EER report exists. If so, the auditor is required to seek to have the matter resolved or brought to the attention of the intended users. Uncorrected material inconsistencies are required to be communicated in the auditor's report. The auditor's report explicitly highlights that this work does <u>not</u> constitute a separate engagement to provide a conclusion, or to express assurance, on the EER information in the report. [17]

30. While this information is not audited (and the auditor therefore does not obtain assurance on it), the limited procedures on this information as part of the audit and reference to this information in the auditor's report may add some credibility to the EER report for the user of the auditor's report.

31. However, it is important for users to recognize that, despite the auditor diligently meeting these responsibilities in performing the audit, the EER information could still be materially misstated. For example, the EER information could be misstated but a material inconsistency may not appear to exist because the misstated information is not related to the financial statements and the auditor did not obtain any relevant knowledge of the matter in the audit. If not understood by users, this could give rise to an expectation gap. The IAASB is therefore asking questions about what users and others expect in terms of practitioner involvement with respect to EER reports.[18]

32. This section explores the concept of credibility and trust in relation to EER reports, why the need for it may arise, the factors that may support or damage it, and the potential interactions between those factors. For example, an assurance engagement can be an effective way to enhance credibility and trust, but is only one factor that influences it. The DP also addresses the type of innovation that may be needed in professional services, including recognizing that the maturity of the reporting process and various new forms of external

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[14] Paragraph 12(a) of ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* defines an annual report as "a document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters."

[15] See ISA 720 (Revised) paragraph 6

[16] See ISAE 3000 (Revised) paragraphs 62 and A 142

[17] See ISA 720 (Revised) paragraphs 8-16

[18] See questions on page 49-50

reporting are in the early stages of development, and explores the implications for the IAASB's international standard-setting activities.

What are Credibility and Trust in the Context of EER reports and What Factors Affect Them?

33. Credibility and trust have been considered by a number of other commentators in relation to EER reports.[19] We are exploring them here primarily from the perspective of the internal and external stakeholders of an entity. Credibility is a user-perceived attribute of information which engenders an attitude of trust (a predisposition to believe or have faith in) the information in the mind of the user.[20]

34. In the context of EER reports, credibility is likely to be enhanced, for example, if there is :

- **A sound reporting framework —**one that is transparent and that the user has confidence provides a sound basis for meeting their needs;

- **Strong governance over the reporting process—**- so that the user is satisfied that robust processes and controls were applied and that the people involved were competent and not influenced by conflicts of interest;

- **Consistent wider information—**the user is satisfied that the report is internally consistent and consistent with the user's wider knowledge; or

- **'External assurance' reporting**—the user has access to independent 'external assurance' over the report.

Conversely, credibility could be damaged if the user has conflicting evidence about the matters referred to immediately above.

Who Needs Credibility and Trust and for What Purpose?

35. Enhancing the credibility of EER reports can reduce the risks (or costs) to external stakeholders of making decisions, based on those reports, in an environment of information asymmetry[21] and serves the public interest where these benefits outweigh the costs of sustaining that credibility. Information asymmetry is typical of a principal-agent (user-preparer) relationship but internal stakeholders, such as TCWG and senior management, can also experience information asymmetry. Enhancing credibility can therefore be important for both internal and external stakeholders.

36. Users take into account information in external reports as part of the broader mix of information available to them in making a variety of decisions, including whether to increase, reduce or maintain their stakes in the entity or to take other action to hold management to account for their use of the entity's resources and for the impact the entity has on other resources.

37. TCWG, such as non-executive directors and members of the audit committee or of a supervisory board or committee, commonly represent shareholders or, in some jurisdictions, may represent stakeholders more

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19 See the publications set out in footnotes 8, 11 and 14),. The IIA is also exploring this further, for example in *Integrated Reporting and the Emerging Role of Internal Auditing,* and in *Enhancing Integrated Reporting – Internal Audit Value Proposition.*

20 In the remainder of the DP where we address credibility this is seen in the wider context of enhancing the credibility of information to engender trust.

21 In a situation of information asymmetry at least one party to a transaction has more relevant information.
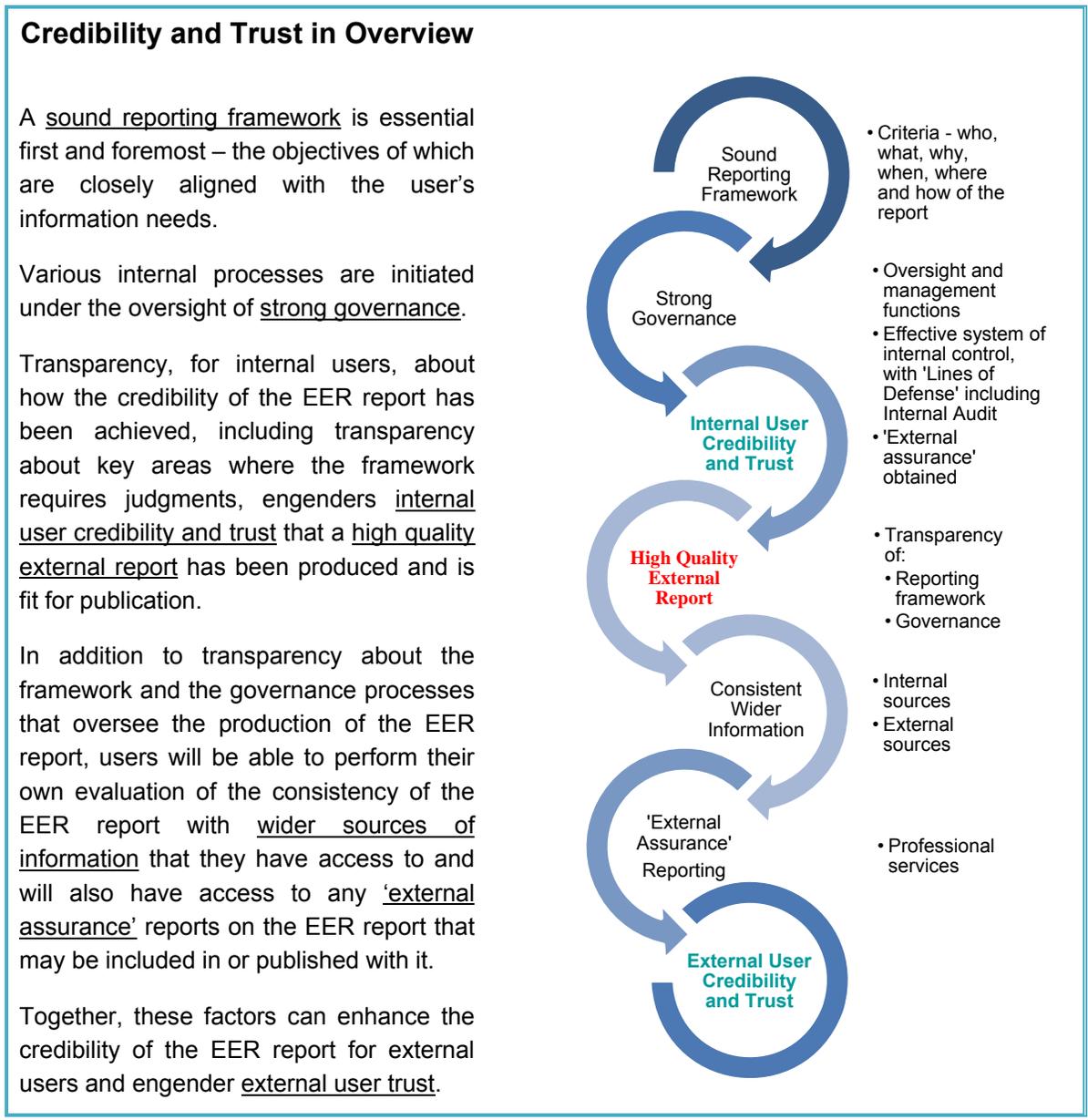
broadly. In that role, they are typically responsible for oversight of the financial reporting process and often for oversight of a broader EER report. As a result, they have a clear interest in considering how the credibility of an EER report has been achieved.

38.   For management, providing a robust and credible account to their stakeholders of their past management and of their proposed future strategy for the entity can help legitimize the actions they have taken and propose to take. Their position could be seriously undermined if that credibility were to be contested. Therefore, management too has an interest in seeking 'assurance' to enhance the credibility of their external reports. This may be a matter of particular concern for them in relation to EER reports, given the relative immaturity and novelty of the underlying reporting processes.

What Factors Influence Credibility and Trust for Internal and External Stakeholders?

39.   The four factors identified in paragraph 34 that, when present, may enhance the credibility of EER reports and give rise to user trust are discussed further and illustrated in the graphic below.

Figure 1: Credibility and Trust in Overview

Credibility and Trust in Overview

A <u>sound reporting framework</u> is essential first and foremost – the objectives of which are closely aligned with the user's information needs.

Various internal processes are initiated under the oversight of <u>strong governance</u>.

Transparency, for internal users, about how the credibility of the EER report has been achieved, including transparency about key areas where the framework requires judgments, engenders <u>internal user credibility and trust</u> that a <u>high quality external report</u> has been produced and is fit for publication.

In addition to transparency about the framework and the governance processes that oversee the production of the EER report, users will be able to perform their own evaluation of the consistency of the EER report with <u>wider sources of information</u> that they have access to and will also have access to any <u>'external assurance'</u> reports on the EER report that may be included in or published with it.

Together, these factors can enhance the credibility of the EER report for external users and engender <u>external user trust</u>.

Sound Reporting Framework
- Criteria - who, what, why, when, where and how of the report

Strong Governance
- Oversight and management functions
- Effective system of internal control, with 'Lines of Defense' including Internal Audit
- 'External assurance' obtained

Internal User Credibility and Trust

High Quality External Report
- Transparency of:
  - Reporting framework
  - Governance

Consistent Wider Information
- Internal sources
- External sources

'External Assurance' Reporting
- Professional services

External User Credibility and Trust

Sound Reporting Framework

40. Management is responsible for ensuring that the external report complies with an applicable reporting framework. The user's perception of the credibility of an EER report can be influenced by the qualities and transparency of the reporting framework used for its preparation.

41. A sound reporting framework guides preparers in ensuring that the report is an effective communication and gives users confidence that the report will meet their needs. Frameworks therefore typically address:

- **Reporting objectives**: intended users, scope and use (the who; the high level what, when and where; and the why of the report);

- **Content elements** to be included in the report (the more detailed what, when, and where of the report);

- **Qualitative characteristics of the information, including:**

  o **Depiction methods** for the content elements (measurements, quantitative and/or qualitative evaluation or assessment techniques, and descriptions) (the technical aspects of the 'how'); and

  o **Principles for communicating** effectively in the report (the communication aspects of the 'how').

42. Table 3 in Section 4 highlights how these features differ between EER frameworks and financial reporting frameworks, and considers the challenges that this creates for EER 'external assurance' engagements. These features and how they are interrelated are discussed further below.

43. *Type of reporting framework*: A reporting framework may comprise standards or a conceptual framework, or both. When it comprises both, the framework may have absolute primacy, be used solely to guide standard setting, or it may have a degree of authority somewhere between these extremes.

44. *Reporting objectives*: As can be seen in the supplemental information on the IRWG project page [here listed as **Agenda Item 11-C.2**], the objectives of different EER frameworks can vary significantly. The closeness of fit between the objectives of the reporting framework and the user's needs is an important credibility factor. Transparency about the objectives of the report is therefore important.

45. *Content elements and depiction methods*: where specified in reporting frameworks, these can drive consistency in reporting but may also limit the ability of the preparer to tailor the report to the entity's specific circumstances. Where such tailoring is important in meeting the reporting objective, frameworks may specify principle-based requirements for judgments by preparers to determine relevant content elements or depiction methods.

46. Where applicable the need for such judgments and the potential for ambiguity in those criteria may make the framework inherently more susceptible to the risk of preparer bias. For example, under a principle-based requirement:

- Identifying content elements and depiction methods can involve significant judgments about what to report and the appropriate depiction methods to use. Clear principles for determining these matters (such as a strong materiality principle and a requirement for stakeholder engagement to enable it to be applied effectively), and transparency about these matters and about the processes to implement them, can be important credibility factors for an EER report.

- Applying depiction methods can involve addressing significant uncertainties in making estimates and qualitative evaluations or assessments and can therefore require significant judgments by preparers.

Frameworks may address such uncertainties and judgments by requiring related disclosures and by establishing a neutrality principle to be applied in making such judgments to counter the inherently greater susceptibility to preparer bias risk.

47. The following Table 1 summarizes the characteristics of an EER framework that are likely to engender credible reporting, and their relationship to the characteristics of suitable criteria set out in paragraph A45 of ISAE 3000 (Revised).

Table 1: Characteristics of EER Frameworks Meeting the IAASB Characteristics of Suitable Criteria

Characteristics of an EER framework that are likely to engender credible reporting	IAASB characteristics of suitable criteria
Has an objective that reflects the users' expectations as to the scope, intended users and intended use of the report.	Relevance
Consistently includes and reliably depicts all relevant reportable content elements that are material to the intended users in the context of the intended purpose of the report.	Relevance, completeness, reliability
Recognizes areas of uncertainty, ambiguity and judgment that give rise to inherently greater susceptibility to preparer bias risk and establishes adequate disclosure and neutrality principles to counter this.	Completeness, neutrality
Promotes transparent (open), clear (unambiguous) and concise (readily understandable) reporting of these matters, and enables effective comparability both with other pertinent entities and over time.	Reliability, understandability

48. The credibility of EER reports can also be enhanced when there is user confidence in the quality of the EER framework applied because:

- The due process for developing the framework involves interaction with stakeholders to ensure that the interests of the intended users and other stakeholders are appropriately reflected;

- There is effective governance over the development of the framework that addresses potential conflicts of interest; and

- The framework is well-known, commonly understood, and has broad stakeholder acceptance.

Strong Governance

49. Strong governance includes sound governance structures that oversee a strong internal control system, including effective risk management and high quality reporting processes.[22] Management and TCWG are responsible for establishing internal control as necessary to ensure that the information in the external report

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22   See, for example, International Federation of Accountants *Integrating Governance for Sustainable Success.*

is reliable and available on a timely basis. Management or TCWG may be required to, or may voluntarily make, an explicit assertion in the external report on their responsibility.

50.   *Oversight by TCWG,*[23] who are responsible for overseeing the strategic direction of the entity and its obligations related to accountability. This includes overseeing the entity's external reporting process, historically mostly financially related. As EER is evolving, TCWG may also extend their responsibilities to this wider area. In listed companies and other large entities, much of the work related to overseeing the entity's external reporting process is often undertaken by an audit committee. A transparent and constructive relationship between management and TCWG will enhance credibility of the external report. In executing their responsibilities TCWG, including audit committees where they exist, may engage with intended users to obtain their perceptions of the usefulness and quality of external reporting.

51.   Some entities also have as part of their governance process a separate disclosure committee that assists the Board of Directors and the audit committee in preparing the disclosures required and helps ensure that an entity's disclosure controls and procedures are properly implemented. These activities help to support the quality of external reporting.

52.   *A strong internal control system* is founded on:

- A control environment in which the oversight function (TCWG) and management actively support high quality external reporting, and embed a culture in the entity that engenders effective internal control;

- An effective information system for obtaining and processing relevant information to enable the depiction of content elements;

- Identification and assessment of risks that may threaten the quality of external reporting and the design of appropriate responses in the form of control activities;

- Regular overall monitoring of controls to determine that such controls are effective; and

- Adequate information and communication, including more broadly on the business processes.

53.   Many entities use internal audit for their operational audits or to assist in the audit of the external reporting process or the external report itself. Internal auditors are also exploring how their role may evolve along with the maturity of the EER processes within the entity.[24]

54.   *Interaction with users:* Management routinely communicates and engages with intended users, particularly investors, in a number of ways. Visible, active engagement with users may provide an added motivation for management to achieve high-quality external reporting and may also enhance credibility.

55.   Stakeholder dialogue is an important part of the process for defining an entity's strategy, identifying the most material issues to address, and disclosing them in external reports. The importance of such engagement is reflected in many EER frameworks as part of the 'materiality' assessment. Entities may also include

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[23]   See Glossary in the IAASB Handbook: The person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, TCWG may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

[24]   Institute of Internal Auditors (2013) in *Integrated Reporting and the Emerging Role of Internal Auditing.*

stakeholder representatives in their governance structures, such as in their non-executive board or may have a separate expert advisory group to advise the board on such matters.

56. For external users, the credibility of external reports may increase if the different elements of the governance system (structures, processes and people) that support the EER process are made transparent. This includes transparency about the individuals involved in the reporting process within an entity and those that govern these processes, as well as information pertinent to users 'perception of those individuals' integrity and competence.

Consistent Wider Information

57. Inconsistencies between the various sources of information about the entity and its environment available to users (see inset box on page 5 may impact the credibility of the EER report.

58. Factors affecting the credibility of that other information – such as the perceived independence and objectivity of the ultimate source of the information, the medium through which it is communicated (for example, a respected news agency), or the fact that the information was obtained in the past and was already perceived as credible – may influence whether the EER report or the other information is determined to be most credible by users when there are inconsistencies between them.

59. Ensuring the consistency of information in the EER report with other sources of information likely to be available to users of the report, or explaining apparent inconsistencies, may enhance the credibility of the EER report.

'External Assurance'

60. Entities seek to enhance the credibility of their external reports not only through strong governance but also through obtaining professional services. Various publications referenced earlier show that such 'external assurance' covers more professional services than assurance engagements as defined in the IAASB International Standards. Credibility can come from a variety of professional services performed by various types of service providers, not just professional accountants. Such professional services may result in assurance reports that are either publicly available or restricted to parties involved in the engagement.

61. In exploring 'external assurance' further we would first like to draw attention to the different types of engagements that are covered by the IAASB International Standards. Table 2 provides insight into those types of engagements that are most relevant to EER.

Table 2: Relevant engagements, covered by IAASB International Standards, in the area of EER

	Reasonable Assurance Engagement	Limited Assurance Engagement	Agreed-upon Procedures	Compilation Engagement
Standards	ISAE 3000 (Revised)		ISRS 4400	ISRS 4410 (Revised)
Scope	Defined in assurance engagement – could be the EER report as a whole, particular elements of the EER report or the EER process		Agreed at engagement acceptance – particular matters to be addressed by the agreed-upon procedures could be elements of the EER report or of the EER process	The EER report or particular elements of it
User	Intended users of EER report		The parties that define the procedures	Ordinarily, management of entity
Objective	Reasonable assurance on compliance with criteria or fair presentation	Limited assurance on compliance with criteria or fair presentation	Findings on performing particular procedures as basis for users to form own conclusions	Assist with preparation and presentation of information
Independence required of practitioners	Yes		No, unless required by law or by engagement – disclosure in report required if not independent	No, unless required by law – but must comply with relevant ethical requirements (other than independence) and state compliance in the report.
Performance of the engagement	Evidence-gathering against criteria		Perform the procedures agreed upon and use evidence obtained as basis for reporting factual findings	Assist with preparation and presentation based on criteria and information provided by management
Reporting on the engagement	Assurance report expressing a conclusion		Report of factual findings	Compilation Report
Availability of the engagement report	Usually publicly available		The report includes a statement that the use of the report is restricted to parties who have agreed to the procedures to be performed	May be restricted to management and TCWG or made publicly available
How commonly used in EER	Not often	Frequently in relation to some EER frameworks	Not often, mainly public sector or compliance	Not often

Existing Professional Services

62. *Assurance Engagements*: Various surveys show that, increasingly, assurance engagements are being performed on the information in EER reports both where these form part of an annual report as well as where they are provided as stand-alone reports.[25] In an assurance engagement following the ISAEs,[26] evidence is obtained about whether the external report, or that part of the external report, subject to the assurance engagement complies with the criteria. The engagement therefore reduces information uncertainty.[27] There is a wide range of assurance engagements that can be performed and Section IV provides some insight as to how the IAASB International Standards allow for flexibility in the nature and scope of the assurance engagement, as well as some of the current challenges. It is expected that the nature and scope of assurance engagements will evolve over time.

63. Although not often performed in relation to EER reports, the following types of engagements currently covered by the IAASB International Standards, may become more relevant in this area in future:

- *Agreed-upon procedures engagements*[28] could involve the practitioner being asked to perform certain procedures on particular items in the EER report or on aspects of the EER process. Such engagements could address aspects of compliance with particular requirements. In these engagements no assurance is expressed. Instead, users assess for themselves the procedures and findings reported by the practitioner, and draw their own conclusions from the practitioner's work. The report of findings is restricted to those parties who have agreed to the procedures to be performed (since others, unaware of the reasons for the procedures, may misinterpret the results), and therefore cannot be included in, or published with, the EER report.

- *Compilation engagements*[29] could assist management with the preparation and presentation of an EER report. Management retains responsibility for the information and the basis on which the external report is prepared and presented. The practitioner is not required to verify the accuracy or completeness of the information provided by management for the compilation. The user's perception of the credibility of the EER report could be enhanced by clear communication of the nature and extent of the practitioner's involvement with the compiled EER report and knowledge of the practitioner's professional expertise in EER and compliance with professional standards, including relevant ethical requirements.[30]

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[25] See for example, KPMG: *Currents of Change, the KPMG Survey of Corporate Responsibility Reporting 2015.*

[26] ISAE 3000 (Revised) covers both reasonable and limited assurance engagements.

[27] See also AICPA Assurance Services: A White Paper for Providers and Users of Business Information.

[28] Although ISRS 4400, *Engagements to Perform Agreed-Upon Procedures regarding Financial Information,* is currently focused on financial information, potential revisions are being explored, including extending the scope of application of the Standard more widely, for example to non-financial information.

[29] ISRS 4410 (Revised), *Compilation Engagements,* although applicable to historical financial information, may also be applied, adapted as necessary, to assist management in the preparation and presentation of an EER report.

[30] Relevant ethical requirements include integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

64.   *Certifications* are a type of engagement in which a third party that is accredited by an appropriate accreditation body – for example, the International Organization for Standardization (ISO) – evaluates whether a subject matter complies with applicable criteria. These type of engagements result in a certificate.[31]

Emerging Professional Services

65.   In relation to EER reports, such as integrated reports, where an entity's EER processes are being developed and remain relatively immature, the limitations of such processes may mean that it is not possible to comply with the requirements of the standards for some of the existing professional services referred to above but users may still seek other types of external input that may provide some degree of 'external assurance.' In practice, some new and innovative types of engagements are already being performed. These engagements are not addressed by the IAASB International Standards, and are not always performed by practitioners who are professional accountants. Examples include:

- *Consultancy (advisory) engagements* reporting to internal users that, for example, address the quality of the EER process or that support the entity's EER materiality process to determine the content elements and relevant information to depict them in the report.

- *Assurance Readiness Engagements* to explore whether the particular proposed EER framework provides suitable criteria, and whether the reporting processes and information systems are adequate, including maintaining suitable documentation to enable a practitioner to obtain sufficient appropriate evidence in performing an assurance engagement.

- *Maturity assessments* in which practitioners evaluate (against practitioner-defined criteria) the maturity of the EER process as a whole, or some aspect of it, such as whether the performance measures the entity is developing are sufficiently well established to provide users with a better understanding to support their decision-making, and provide insights based on the practitioner's evaluation that are designed to assist the entity in further developing its EER processes.[32]

- *Expert insight reports* that provide a subject matter expert's insight on particular topics, for example the strategy of the entity, its innovation in products or services of the entity or the performance on climate change through a certain period. These insight reports can be included in, or published with, the EER report and may be obtained in addition to an assurance report.

Other involvement of external parties

66.   *Stakeholder panels* of subject matter experts, often individuals with a strong public standing, are asked to express views as individuals or as a panel. They aim to bring an independent, often critical, perspective to the strategy, actions or performance of the entity on particular topics in the EER report. Such panels do not

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[31]   Examples are the certifications against ISO 14001 for an environmental management system or ISO 14065 for bodies that undertake validation or verification of Green- house gas (GHG) Statements and related assertions. Some professional accountants are also accredited under ISO.

[32]   See, for example, PwC Insight Report for the Crown Estate's Total Contribution for the year ended 31 March 2015. In the PwC insight report the maturity of each indicator is assessed against six core dimensions defined by the firm: the measurement certainty, whether an established framework/standard was used to prepare the information, whether the information is prepared and reported on a consistent basis, the extent to which the entity's external reporting is aligned with its internal performance reporting and the extent to which there has been external validation. Another example is the Credence Model developed in South Africa that uses three different levels of maturity for over 50 ESG elements.

aim to seek objective evidence for such a purpose, but their views may add credibility to the EER report because their expertise in the particular areas where they are invited to comment is provided independently of the reporting entity. The usefulness of a stakeholder panel could be limited if it is not representative, or if its members do not have sufficient knowledge of the topic being addressed. Stakeholder panels can be used at different levels within the governance process and do not always result in a publicly available report.

How external inputs may enhance the credibility of an EER report

67.   The type of 'external assurance' that is most appropriate in the circumstances and most relevant to users will depend on users' needs (which may be quite different between internal and external stakeholders), the nature of the external input and the maturity of the entity's EER processes.

68.   The way such engagements may enhance the credibility of the EER report is dependent on particular characteristics of such professional services and other inputs and the personal traits of those providing them, for example:[33]

- Competence that is demonstrated or generally well known;

- Objectivity and independence;

- Quality of the performance of the engagement;

- Quality control, where applicable, at the engagement and firm level by the practitioner and firm that perform the engagement; and

- Clarity of reporting, including a summary of the work performed.

69.   Although the necessary competence may be different depending on the particular form of external input and the complexity of the entity, in general competence is likely needed to include:

- Knowledge of the relevant EER framework;

- Knowledge of the underlying subject matter; and

- Knowledge of any engagement standards that apply.

Transparency about the competence of those performing the professional service may add to the credibility of the EER report. Particular types of engagements (for example, assurance engagements) also require the practitioner to meet independence and other relevant ethical requirements.

70.   The manner in which the outcome of the external input is reported can influence the degree to which the external input adds credibility to the EER report. Key characteristics of a communication that may add such credibility include that it is understandable and clearly structured, well balanced, not biased and, where applicable, comparable between reporting periods and with other entities that prepare EER reports.

71.   An explicit reference to national or international standards for quality control of the practitioner's firm and for the performance of the engagement, as well as to relevant ethical requirements may also enhance the credibility of the EER report.

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[33]   See also AICPA *Assurance Services: A White Paper for Providers and Users of Business Information*. To provide a service that increases confidence in the information the independent professional providing it has to engender trust not only as a provider of the service but also in the process the professional uses to deliver it. This trust comes from a combination of: (1) the expertise in the assurance process and knowledge of the subject matter in question, (2) the quality and consistency of service performance and (3) the service provider's reputation.

Sufficiency of the IAASB International Standards

72.   With new and emerging engagements occurring in relation to EER, the question arises whether, in the public interest, there is a need to cover a broader range of engagements than currently covered by the IAASB International Standards. In addition, for those engagements that are already covered by the IAASB International Standards, the question arises whether the existing standards provide sufficient guidance for use in engagements on EER, particularly for assurance engagements. Since assurance engagements are primarily performed in practice, we consider these first in more detail.

Assurance Engagements in More Detail

What is an Assurance Engagement?

73.   An **Assurance Engagement** is one in which a **Practitioner** endeavors to obtain **Sufficient Appropriate Evidence** in order to express, in a **Written Report**, an **Assurance Conclusion** designed to enhance the degree of confidence of **Intended Users** other than the **Responsible Party** about the outcome of the measurement or evaluation of an **Underlying Subject Matter** against identified **Criteria.** That outcome is the information (**Subject Matter Information**) that results from such measurement or evaluation. The practitioner is required to obtain **Sufficient Appropriate Evidence** about whether the subject matter information is free from material misstatement, as the basis for the **Assurance Conclusion**.

What are the key features of an Assurance Engagement?

74.   Figure 2 on page 25 identifies the key features of an assurance engagement under the relevant IAASB International Standards ('Assurance Standards') and the IAASB International Framework for Assurance Engagements ('Assurance Framework'). There are a number of premises, pre-conditions and requirements for performing such an engagement, that establish the boundaries of what constitutes such an Assurance Engagement. However, within these boundaries, there is considerable scope for designing different types of assurance engagements, including in the context of EER reporting.

75.   The Assurance Standards comprise ISAE 3000 (Revised) and subject-matter specific assurance standards (other ISAEs). ISAE 3000 (Revised) was developed as an umbrella standard and, in its design, it anticipated application in a wide range of possible engagements, including in new and emerging areas such as EER. Current experience is that when external assurance is sought on EER reports, ISAE 3000 (Revised) is typically the applicable standard.[34]

76.   Where a subject-matter specific ISAE is relevant to the subject matter of a particular engagement, that ISAE applies in addition to ISAE 3000 (Revised). For example ISAE 3410 provides more granular material when performing an assurance engagement on a greenhouse gas statement.

77.   This DP primarily makes reference to the requirements and concepts in ISAE 3000 (Revised) and the Assurance Framework but, where relevant in the context, makes supplementary reference to other ISAEs.

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[34]   See also the IRWG project page

What Factors Shape the Nature of an Assurance Engagement?

A Three Party Relationship

78.   There must be a ***Three Party Relationship*** between a responsible party, a Practitioner and Intended Users, and the roles and responsibilities of these parties must be clearly differentiated and consistent with the roles and responsibilities established for these parties.[35] The responsible party[36] must have, and is required to acknowledge, responsibility for the subject matter. The responsible party can be an intended user but not the only one.

79.   The party that measures or evaluates the subject matter against the criteria is referred to as the measurer or evaluator.[37] The measurer or evaluator may be the responsible party or the practitioner or a third party. An assurance engagement is a direct engagement when the measurer or evaluator is the practitioner, and is otherwise an attestation engagement.[38] When we refer to an assurance engagement subsequently in this section, we mean an attestation engagement unless otherwise indicated.

80.   There are a number of premises,[39] pre-conditions[40] and roles and responsibilities[41] relating to the practitioner (who may or may not be a professional accountant), which include that: they are subject to Ethical[42] and Quality Control[43] requirements; they must have the necessary competence and capabilities;[44] they must be responsible for determining the nature, extent and timing of the procedures performed;[45] and they must be sufficiently involved in all aspects of the work done (even when other auditors or experts perform some of this) so as to be able to take sole responsibility for the assurance conclusion expressed.[46.]

Subject Matter, Criteria, Subject Matter Information and Evidence

81.   In an assurance engagement, the necessary characteristics of the underlying subject matter (that it is appropriate[47]), of the criteria (that they are suitable[48] to the engagement circumstances) and of sufficient

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[35]   ISAE 3000 (Revised) paragraphs A37–A39 and Appendix

[36]   ISAE 3000 (Revised) paragraphs A37–A39

[37]   ISAE 3000 (Revised) paragraph 12 (n)

[38]   ISAE 3000 (Revised) paragraph 12 (a)(ii)

[39]   ISAE 3000 (Revised) paragraphs 14–23

[40]   ISAE 3000 (Revised) paragraphs 24–30

[41]   ISAE 3000 (Revised) paragraphs 31–45

[42]   ISAE 3000 (Revised) paragraphs 3 and 31 (a)

[43]   ISAE 3000 (Revised) paragraphs 31–35

[44]   ISAE 3000 (Revised) paragraphs 31–32

[45]   ISAE 3000 (Revised) paragraphs 38, 40, 44(a) and 50

[46]   ISAE 3000 (Revised) paragraphs 32(b) and 65, 40, 44(a) and 50

[47]   ISAE 3000 (Revised) paragraph 24 (b)(i)

[48]   ISAE 3000 (Revised) paragraphs 24 (b)(ii) and 41

appropriate evidence (that the practitioner should expect to be able to obtain it[49]) are interrelated with each other and to the characteristics of the subject matter information.[50]

82. For the underlying subject matter to be appropriate, it must be possible to identify criteria that are suitable, i.e., that are:[51]

- **<u>Reliable</u>** – allow reasonably consistent measurement or evaluation of the underlying Subject Matter in expressing the Subject Matter Information;

- **<u>Relevant</u>** and **<u>Complete</u>** for purposes of having subject matter information that is assisting decision-making by Intended Users and that is not omitting relevant factors that could reasonably expect be expected to affect decisions of intended users; and

- **<u>Neutral</u>** and **<u>Understandable</u>** such that the Subject Matter Information will be free from bias and capable of being understood by the Intended Users.

83. For the practitioner to expect to be able to obtain sufficient appropriate evidence, the subject matter information that results from measuring or evaluating the underlying subject matter against the criteria must be '**<u>assurable</u>'**, i.e., capable of being subjected to assurance procedures to obtain sufficient appropriate evidence that the subject matter information is not materially misstated.

84. Whether the subject matter information is assurable depends on the circumstances of the engagement, which includes the following.

The extent to which available assurance procedures are capable of obtaining persuasive evidence that the subject matter information is free from material misstatement.[52]

85. This will depend in part on the nature of the different types of potential material misstatements that could occur in that information, which depends on the nature of the subject matter information,[53] such as whether it:

- Relates to a point in time or a period of time.

- Is descriptive or evaluative.

- Is quantitative or qualitative.

- Is objective or subjective.

- Is historical or future oriented.

- Relates to a real or hypothetical situation.

- Is factual or predictive.

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[49] ISAE 3000 (Revised) paragraph 24 (b)(iv)

[50] ISAE 3000 (Revised) paragraph A42

[51] ISAE 3000 (Revised) paragraphs 24 (b)(ii) and A45

[52] ISAE 3000 (Revised) paragraph A40

[53] ISAE 3000 (Revised) paragraph A42

86.   Given that the subject matter information is, in effect, a depiction of the underlying subject matter in terms of the criteria, the nature of the subject matter information is dependent on the nature of the subject matter and the criteria; and their nature is dependent on the nature of the intended user and their intended use of the subject matter information for decision-making.

Whether there are any practical constraints on the practitioner's ability to perform assurance procedures or to obtain sufficient appropriate evidence.[54]

87.   Circumstances that may limit the practitioner's ability to do so include the imposition of scope limitations by a party to the engagement, as well as circumstances that are beyond the control of any party to the engagement, in which it is not possible for the practitioner to perform suitable assurance procedures (such as observation in relation to certain conditions, transactions or events that occurred prior to the acceptance of the engagement).
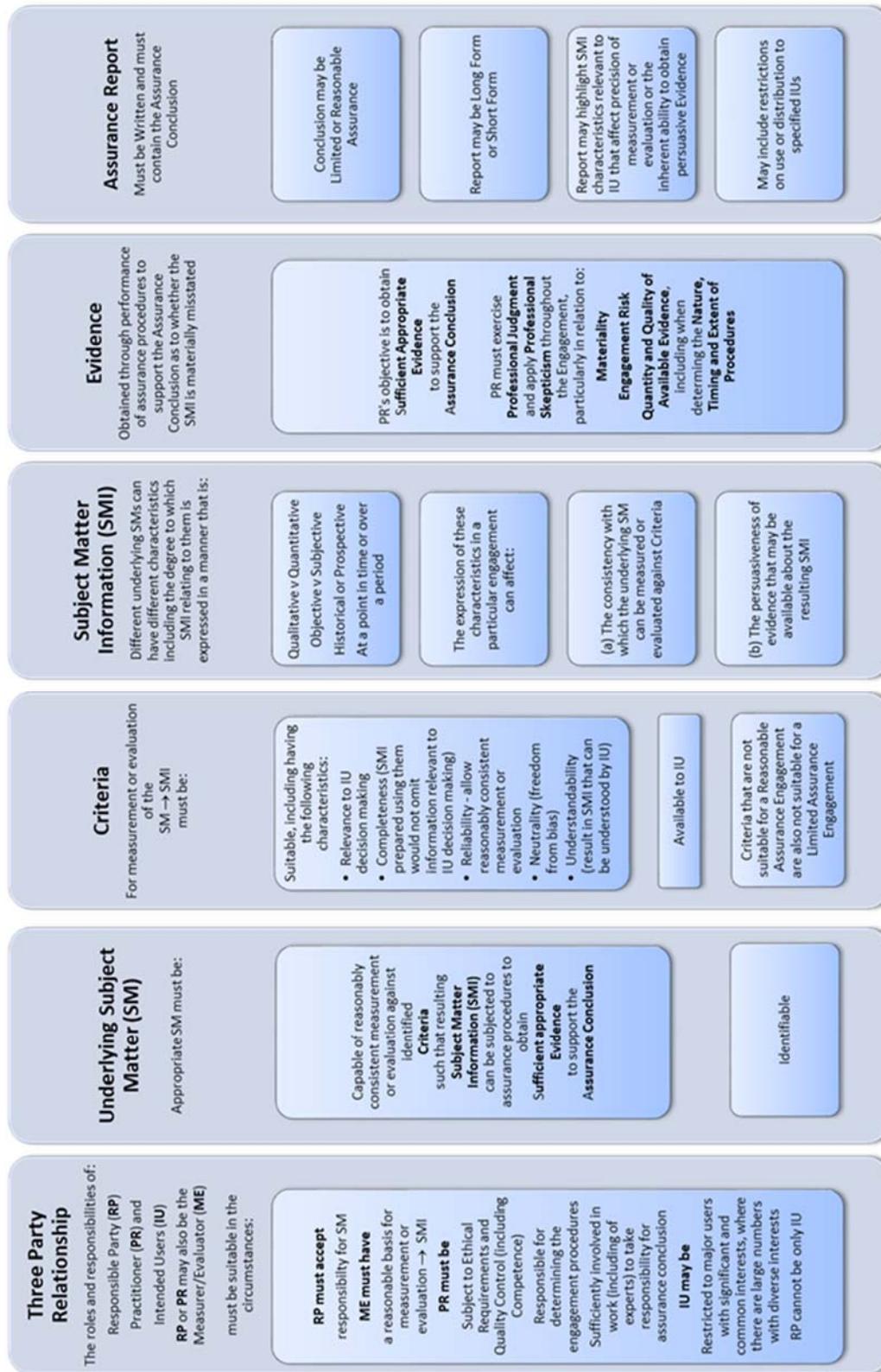
Transparency for Users

88.   The criteria are required to be made available to the intended users[55] and the assurance conclusion must be included in a written assurance report that is made available to the intended users.[56] Other matters relevant to the intended users that may be included in the assurance report include: additional information about the engagement (a 'long form' report that goes beyond a primary focus on expressing the assurance conclusion); characteristics of the subject matter information that affect the inherent precision of measurement or evaluation of the subject matter or the inherent ability to obtain sufficient appropriate evidence; and circumstances when the engagement has been performed in the context of a restricted group of intended users.

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[54]   ISAE 3000 (Revised) paragraphs 26, 41, 43, 45 and 66

[55]   ISAE 3000 (Revised) paragraph 24(b)(iii)

[56]   ISAE 3000 (Revised) paragraph 24(b)(v)

Figure 2: Key Features of an Assurance Engagement

Three Party Relationship

The roles and responsibilities of:
Responsible Party (RP)
Practitioner (PR) and
Intended Users (IU)
RP or PR may also be the Measurer/Evaluator (ME)

must be suitable in the circumstances:

RP must accept responsibility for SM

ME must have a reasonable basis for measurement or evaluation → SMI

PR must be
Subject to Ethical Requirements and Quality Control (including Competence)
Responsible for determining the engagement procedures
Sufficiently involved in work (including of experts) to take responsibility for assurance conclusion

IU may be
Restricted to major users with significant and common interests, where there are large numbers with diverse interests
RP cannot be only IU

Underlying Subject Matter (SM)

Appropriate SM must be:

Capable of reasonably consistent measurement or evaluation against identified **Criteria** such that resulting **Subject Matter Information (SMI)** can be subjected to assurance procedures to obtain **Sufficient appropriate Evidence** to support the **Assurance Conclusion**

Identifiable

Criteria

For measurement or evaluation of the SM → SMI must be:

Suitable, including having the following characteristics:
- Relevance to IU decision making
- Completeness (SMI prepared using them would not omit information relevant to IU decision making)
- Reliability - allow reasonably consistent measurement or evaluation
- Neutrality (freedom from bias)
- Understandability (result in SMI that can be understood by IU)

Available to IU

Criteria that are not suitable for a Reasonable Assurance Engagement are also not suitable for a Limited Assurance Engagement

Subject Matter Information (SMI)

Different underlying SMs can have different characteristics including the degree to which SMI relating to them is expressed in a manner that is:

Qualitative v Quantitative
Objective v Subjective
Historical or Prospective
At a point in time or over a period

The expression of these characteristics in a particular engagement can affect:

(a) The consistency with which the underlying SM can be measured or evaluated against Criteria

(b) The persuasiveness of evidence that may be available about the resulting SMI

Evidence

Obtained through performance of assurance procedures to support the Assurance Conclusion as to whether the SMI is materially misstated

PR's objective is to obtain **Sufficient Appropriate Evidence** to support the **Assurance Conclusion**

PR must exercise **Professional Judgment** and apply **Professional Skepticism** throughout the Engagement, particularly in relation to:

Materiality
Engagement Risk
Quantity and Quality of Available Evidence, including when determining the **Nature, Timing and Extent of Procedures**

Assurance Report

Must be Written and must contain the Assurance Conclusion

Conclusion may be Limited or Reasonable Assurance

Report may be Long Form or Short Form

Report may highlight SMI characteristics relevant to IU that affect precision of measurement or evaluation or the inherent ability to obtain persuasive Evidence

May include restrictions on use or distribution to specified IUs

Rational Purpose

89. An Assurance Engagement must also have a **Rational Purpose**.[57] Given the flexibility in the IAASB International Standards to design different types of assurance engagement, this provides an overarching boundary that, in effect, requires consideration as to whether it is appropriate for the practitioner to accept the engagement, having considered amongst other matters the impact on the intended users, whether any significant scope limitations are being imposed and whether there is an intent to inappropriately associate the practitioner with the underlying subject matter or subject matter information.

90. An Assurance engagement may be a reasonable assurance engagement or a limited assurance engagement.[58] In either case, the practitioner endeavors to reduce the risk that they will express an inappropriate assurance conclusion when the subject matter information is materially misstated (engagement risk) to a level that is acceptably low in the circumstances of the engagement – however, a limited assurance engagement is planned and performed on the basis that engagement risk remains higher after the performance of the engagement than in the case of a reasonable assurance engagement.

91. In the case of a limited assurance engagement that has a rational purpose, among other matters, the engagement must be planned such that the level of assurance obtained by the practitioner is likely to enhance the confidence of Intended Users about the subject matter information to a degree that is clearly more than inconsequential (referred to as '**Meaningful**').[59]

92. An assurance engagement is not aimed at obtaining evidence to form a conclusion on matters such as the quality of the entity's performance or whether the policy of an organization is ambitious enough to respond to major challenges and opportunities the entity is facing.

How do these Assurance Engagement Concepts Relate to the Reporting and Governance Concepts in paragraphs 39–56?

93. The concepts underlying a strong reporting framework and strong governance that are described in Section III paragraph 39–56 as supporting the preparation of a high quality EER report are closely related to the concepts underlying an assurance engagement

Reporting Framework

94. The concepts underlying a strong reporting framework correlate with those underlying an assurance engagement:

> *The Objective in the EER Framework specifies the User (Assurance Engagement - Intended Users) and Use (linked to the Assurance Engagement - criterion of Relevance to decision-making of the Intended Users) of the EER Report. The Reporting Framework also specifies, or provides a basis for determining, the Scope and Content Elements (Assurance Engagement – Underlying Subject Matter) of the EER Report and the Depiction Methods and Principles for Communicating (Assurance Engagement - Criteria) to be used in preparing and presenting information in the EER Report (Assurance Engagement - Subject Matter Information).*

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[57] ISAE 3000 (Revised) paragraphs 24(b)(vi) and A56

[58] ISAE 3000 (Revised) paragraph 12(a)(ii)

[59] ISAE 3000 (Revised) paragraph 24(b)(vi)

95. In addition, the assurance engagement concept of a 'risk of material misstatement' of the EER report (and its components: inherent risks and control risks) is closely related to the concepts underlying a strong reporting framework. The nature of the subject matter information depends on the nature of the underlying subject matter and of the criteria and these in turn are dependent on the Intended User and their decision making needs.

Figure 3: The Nature of Subject Matter Information
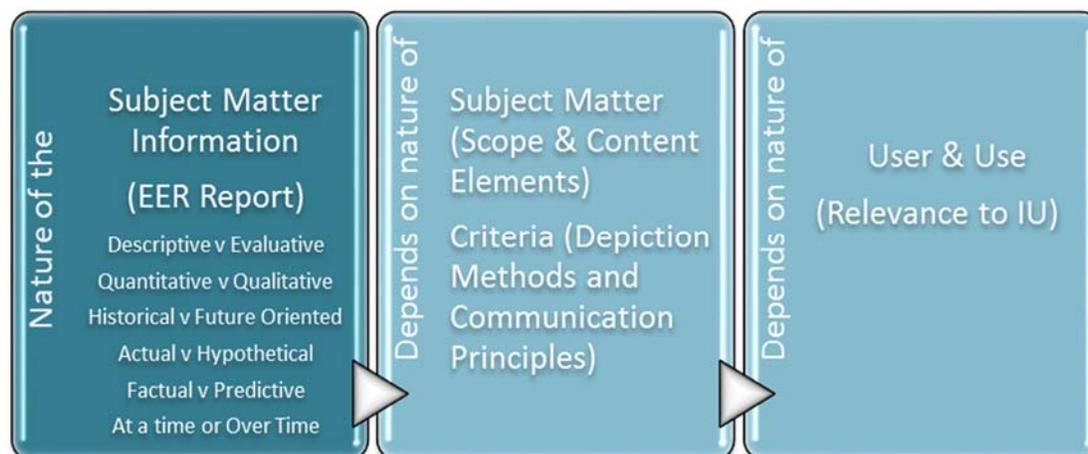
96. The EER framework therefore determines the nature of the subject matter information and the manner in which the subject matter, the criteria and the subject matter information are required to be determined. Factors arising from their nature and interaction can give rise to inherent susceptibility to misstatement in the EER report. To the extent that those factors could affect the decision making of the intended users, they are **Inherent Risks** of material misstatement of the EER report. Some of the factors that give rise to higher levels of inherent risk in relation to applying EER frameworks are discussed in paragraph 46.

Strong Governance

97. **Inherent Risks** have to be avoided or mitigated if the responsible party (or other measurer/evaluator) is to establish a reasonable basis (for example, reasonably effective reporting processes, controls and oversight) for the preparation of the EER report. This is a pre-condition of acceptance of an assurance engagement. Strong governance should ensure that the reporting entity has appropriate reporting processes, controls and oversight to provide 'internal assurance' that the report has been properly prepared (i.e., does not include material misstatements) in accordance with the reporting framework.

98. **Control Risks** are factors that give rise to greater susceptibility – in the reporting processes, controls and oversight – to failure to avoid or mitigate inherent risks and therefore to prevent or to detect and correct material misstatements in the EER Report. They are referred to as 'control risks' because the concept of 'control', in the IAASB International Standards includes: the reporting processes (including relevant aspects

of the information system); control activities; risk assessment and monitoring of controls; and the control environment (which includes oversight).

How is Sufficient Appropriate Evidence Obtained in an Assurance Engagement?

99. In an assurance engagement, the Practitioner performs assurance procedures in order to obtain sufficient appropriate evidence that the subject matter information is free from material misstatement. Those procedures are designed in light of the outcome of a process followed by the practitioner to identify and assess the risks of material misstatement (or, in the case of a limited assurance engagement, a process to identify areas of likely risk of material misstatement).

100. The starting point for the identification and assessment of risks of material misstatement (or a process to identify areas of likely risk of material misstatement) is inherent risks. The practitioner may use 'assertions' as a tool to assist them in doing so. Assertions may be implicit or explicit and may be considered by the Practitioner both at the level of the subject matter information as a whole and at the level of individual items of information included in the subject matter information. They are in effect the set of statements that would need to be valid in order for the SMI to be free from material misstatement and are therefore closely related to the criteria. If an assertion were not valid to a material extent, the subject matter information would be materially misstated.

101. Control risks are contingent on inherent risks. In an assertions-based process, they are considered in the context of assertions in relation to which there are identified inherent risks. Where control risks are operating effectively, and the practitioner has obtained sufficient appropriate evidence to that effect, they may be able to perform assurance procedures on the subject matter information itself that are designed to obtain less evidence, than if they had not obtained evidence about the controls.

102. Assurance procedures that are designed to test the SMI itself are designed to address whether the inherent risks were adequately mitigated. Similarly, those that are designed to test the entity's reporting processes, controls or oversight are designed to address whether the control risks were adequately mitigated.

What Types of Assurance Engagement can be Commissioned in the Context of EER Reporting?

103. In the context of EER reporting, different types of assurance engagement are possible. For example, an assurance engagement could address the EER report as a whole using the EER framework as the criteria, if it provides a basis for suitable criteria. The assurance conclusion would be expressed in terms that the EER report was properly prepared on the basis of the EER framework. However, even if the EER framework does not provide a basis for suitable criteria, an assurance engagement may be possible in the context of, for example, one that addresses:

    (a) Only certain of the information in the EER report, applying the criteria relevant to that information; or

    (b) The EER reporting process applying, criteria based on the EER framework and others established in the context of more general objectives for such a reporting process.

104. The adaptability of the assurance framework in this respect is discussed further with examples in Appendix A. The ability to perform an assurance engagement is always subject to the premises and pre-conditions described above and the requirement that there should be a rational purpose for the engagement.

What are Challenges for Assurance Engagements in the EER Environment?

[PLACEHOLDER TABLE 3 AS INCLUDED IN AGENDA ITEM 11-B]

105. The next section explores in more technical detail the challenges that arise in assurance engagements with regard to EER.

IV. Key Challenges for Assurance Engagements in this Emerging Area

106. This section explores whether international standard setting or other guidance, such as implementation guidance, may be necessary to support EER assurance engagements.

107. We have organized the discussion of the challenges identified in Section III (see Table 3) under a number of topics, as set out below. In relation to each topic, we first summarize the key challenges identified; we then consider the extent to which the IAASB International Standards address those challenges and identify areas that could be explored further by the IAASB.

> References are made to table 3 and 4, in a number of places in this section of the DP. For purposes of this draft of the DP, these tables are included in **Agenda Item 11-B.**

[PLACEHOLDER FOR TABLE 4, TOGETHER WITH ITS INTRODUCTORY TEXT, AS INCLUDED IN AGENDA ITEM 11-B – AS A POTENTIAL TOOL FOR NAVIGATING BETWEEN THE TOPICS DISCUSSED BELOW AND THE RELATED CHALLENGES IDENTIFIED IN TABLE 3 AND OTHER ITEMS]

A.   Variety of Subject Matters

What are the Key Challenges?

108.   The scope of an EER assurance engagement may be broader and more diverse given the variety in intended users, the variety in underlying subject matters and subject matter information and subject matter information that by nature may be more judgmental and require more flexibility and less standardization than in relation to audits of financial statements. In addition, there are few jurisdictional requirements for EER assurance engagements (Challenge 1, 2 and 5 in Table 3). This may result in difficult acceptance judgments in a number of areas or in the costs of an EER AE outweighing the benefits (challenge 6, 7, 8, 15 and 18 in Table 3). There may be a need to consider alternative types of assurance engagements in those circumstances, subject to there being a rational purpose (see paragraphs 89–91 above).

109.   Table 5 illustrates potential assurance engagements relating to integrated reporting, identifying for each the underlying subject matter, the criteria, the resulting subject matter information and the terms in which the assurance conclusion might be expressed. Similar options arise for other forms of EER reporting.

Table 5: Examples of Potential Assurance Engagements Regarding Integrated Reporting

	Full Integrated Report	**Part of the Integrated Report**	**Integrated Reporting Process**
Underlying Subject Matter	Value creation over time	Aspects of performance	Reporting process
Criteria	International <IR> Framework	Criteria by various organizations	Internal control criteria
Subject Matter Information	Integrated report	Key performance indicators (KPIs)	Internal control or management assertion about the internal control over the preparation and presentation of the integrated report
Assurance Conclusion	.. "is prepared, in all material respects, in accordance with the International <IR> Framework"	.. "presents fairly, in all material respects, the [specify the KPIs or content subject to the assurance engagement] of the entity as at [*date*] or for the [*period*] ended [*date*] in accordance with [*specified criteria*]"	.. "the entity maintained, in all material respects, effective internal control over the preparation of an integrated report as of [*date*] based on the [*specified criteria*]."

How is the Variety of Subject Matters Addressed in the International Standards?

110. ISAE 3000 (Revised) already allows for a significant amount of flexibility that may be needed to address the variety of subject matters in EER reporting and demand for assurance to be addressed, subject to meeting the conditions for accepting an assurance engagement (see paragraphs 78 to 92 above). Examples include flexibility in:

- Nature and scope of the assurance engagement (as illustrated in Table 5);

- Criteria used in the assurance engagement may be suitable because they are established (e.g. by law or regulation or by a recognized body following due process) or may be specifically developed by the reporting entity to meet the conditions for suitable criteria (see Section III, paragraph 47; paragraph 82; and Topic B below); and

- Contents of the assurance report itself (see paragraph 88; and Topic J below).

What We Will Explore Further?

111. Whilst we believe the engagement acceptance considerations in ISAE 3000 (Revised) continue to be reasonable, they are expressed in general terms, and given the wide range of potential acceptance issues identified above in relation to EER assurance engagements, we would like to explore further:

- Whether further guidance may be needed on EER assurance engagement acceptance considerations and any consequences for the scope of the assurance engagement, including considering the rational purpose of the assurance engagement when alternative types of engagement need to be considered. Such guidance could include considerations relating to the challenges described above and could explore their implications for an acceptable scope for an assurance engagement, when acceptance challenges arise in relation to the performance of a full scope assurance engagement.

- How flexibility in the assurance engagement can be further facilitated while at the same time maintaining comparability between assurance engagements and clarity for the users and preparers.

B. Suitability of Criteria

What are the key challenges?

112. Suitability of the criteria is an acceptance condition for an assurance engagement. As described in paragraphs 81 to 87, Criteria must have certain characteristics to be suitable but they must also be such that the underlying subject matter can be measured or evaluated reasonably consistently using them. This depends on both the nature of the underlying subject matter and the availability of reasonably consistent methods for measuring or evaluating it. These determine the nature of the subject matter information and whether it is 'assurable' (see paragraphs 83 to 86).

113. Given the variety of EER frameworks, the question arises whether evaluations of the suitability of criteria are being performed in a consistent manner. Table 1 of this DP identifies certain characteristics of reporting frameworks that are likely to engender credible reporting. Considering whether an EER framework displays these characteristics is relevant to assessing its suitability as criteria.

114. As described in paragraphs 94–96, EER frameworks are often less prescriptive about content elements and depiction methods, and therefore more ambiguous about the determination of these items, and applicable depiction methods are often subject to greater uncertainty as to measurement or evaluation or as to the manner of presentation and related disclosures. Accordingly, there are more areas where judgment is required in applying EER frameworks and a greater risk of preparer bias. There will likely be a need for a 'materiality' process to ensure these judgments reflect the user perspective. In an EER assurance engagement there will therefore be more areas where professional judgment and professional skepticism will need to be applied by the practitioner and there may be acceptance issues that will need to be addressed (see challenges 9, 10, 11, 13, 14, 15, 16 in Table 3).

115. There are a variety of reasons why EER frameworks display these characteristics including because, relative to financial reporting such frameworks, EER frameworks: (a) are still at a relatively early stage of development; (b) include reporting objective and communication principles that are specifically geared towards more flexible, entity-specific reporting; or (c) deal with relatively complex subject matters (for example, the implications of an organization's business model, strategies and impacts on the value it creates for itself and for others, both historically and in the future).

116. In contrast, financial reporting frameworks, such as IFRS, are generally at a more advanced stage of development and often prescribe in a greater degree of detail the required contents, and the recognition and measurement methods, presentation formats and related disclosures of a financial report. In doing so, key elements of judgement that would otherwise need to be made by report preparers have been subsumed by the due process used to develop the framework.

117. Areas of uncertainty, ambiguity and judgment can be addressed by the reporting framework establishing adequate disclosure and neutrality principles to counter preparer bias risk. In practice, this often results in an EER assurance engagement being performed on the basis of criteria that include both "established criteria"[60] and criteria that are established by the preparer exercising their own judgment using such principles that are then reflected in the entity's own "reporting policy". This is demonstrated in Figure 3.

Figure 3: Criteria for the Assurance Engagement[61]:

118. What we refer to as the entity's "reporting policy" may not always be separately identified in the EER report. Often it may be an integral part of how information is presented, for example, the specific measurement methods used to compile a KPI may be integrated into a narrative about the performance level achieved rather than disclosed in a separate reporting policy note.

119. The Practitioner in an EER assurance engagement needs to consider whether both the criteria established by the EER framework and those reflected in the entity's own "reporting policy" are suitable criteria. Consistency in making judgments about whether the criteria for an EER assurance engagement are suitable will require consistent approaches in doing so.

How is the Suitability of Criteria Addressed in the IAASB International Standards?

120. The IAASB International Standards adopt a framework-neutral approach and effectively define the boundaries of an AE through the acceptance conditions described above. These are necessarily described

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[60] Established criteria are prescribed by law or regulation or issued by authorized or recognized bodies of experts that follow a transparent due process. See paragraph 12 (c) and paragraphs A10 and A49 of ISAE 3000 (Revised).

[61] The components of established criteria and reporting policy mentioned in this diagram are indicative only: they are not complete, and whether particular components are part of the established criteria or part of the reporting policy will vary with the circumstances.

at a general level since ISAE 3000 (Revised) was established to cover a wide variety of underlying subject matters.

121. ISAE 3000 (Revised) notes that established criteria are, in the absence of indications to the contrary, presumed to be suitable. Examples of a number of EER frameworks, which may in the context of a particular EER assurance engagement represent established criteria are included in the additional background information on the IRWG project page. With respect to criteria reflected in the entity's own "reporting policy", paragraph ISAE 3000 (Revised)[62] indicates that they would not be suitable if they result in subject matter information or an assurance report that is misleading to the intended users and that it is desirable for the intended users or the engaging party to acknowledge such criteria are suitable for the intended users' purposes.

122. Such criteria also need to be available to the intended users to allow them to understand how the underlying subject matter has been measured or evaluated. ISAE 3000 (Revised) notes that criteria are made available to the intended users in one or more of the following ways:

- Publicly (which will typically be the case for established criteria).

- Through disclosure in a clear manner in the presentation of the subject matter information (which will typically be the case for the entity's reporting policy).

- Through disclosure in a clear manner in the assurance report (for example, paragraph A164 of ISAE 3000 (Revised) notes that it may be relevant in the circumstances for the assurance report to disclose: measurement or evaluation methods used when the applicable criteria allow for choice between a number of methods, or any significant interpretations made in applying the applicable criteria in the engagement circumstances).

- By general understanding, for example, the criterion for measuring time in hours and minutes.

123. Accordingly, the practitioner needs to consider not only whether criteria are suitable, but also whether they have been disclosed with sufficient detail and clarity that they can be said to be "available". Suitability and availability may need to be assessed together when the criteria are not disclosed in one single place (for example, when they are comprised of established criteria plus the entity's reporting policy).

What Challenges Need to be Addressed?

124. ISAE 3000 (Revised) does not describe in detail how to evaluate the suitability of criteria, whether they are established criteria or those reflected in the entity's own "reporting policy." Through this DP we are exploring whether additional guidance may be needed to assist practitioners in the exercise of professional judgement when assessing the suitability of such criteria for EER engagements and whether they have been appropriately disclosed to intended users.

125. Guidance could address the issues mentioned above, as well as factors such as the following that may affect a practitioner's professional judgement about the suitability of criteria and availability of these criteria in an EER environment:

- The due process followed in developing the reporting policy, the governance around it and the inclusion of intended users in this process.

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[62] ISAE 3000 (Revised) paragraph A50

- How expectations about balancing principles, such as balancing conciseness with completeness, measurement or evaluation uncertainty with relevance and materiality or timeliness, have been taken into account.

- Assumptions about the intended users' familiarity with the type of EER. The more familiar they are, the more likely it is that they will understand variations in such things as measurement/evaluation methods and presentation formats without the need for detailed explanations of reporting policies.

- The level of maturity achieved in the particular type of EER. This can affect, for example, the acceptable level of variation in the way similar phenomena are reported by different organizations.

- The level of consistency or flexibility expected for the type of EER. For example, where an EER framework is aimed at each entity telling its individual "story," reporting policies may need to be more explicit about such things as measurement methods for entity-specific KPIs; however, greater latitude may need to be allowed for preparers to select what information to include, what information to exclude and how to present information, for example, identifying the reporting boundary for a concise integrated report.

- Expectations about conciseness. If an external report is an intentionally concise account of a complex underlying subject matter, for example summary financial statements included in an integrated annual report, it may be unreasonable to burden it with excessive detail about reporting policies.

- How these matters may be addressed through the entity's 'materiality' process.

C. Materiality

What are the Key Challenges?

126. An EER framework is generally built around providing information that is of relevance to the decision-making of the users of the EER report, in the context of its intended use.[63] Materiality is a concept that addresses relevance in the circumstances of a particular EER report. It may be defined in the reporting framework but, in general, a misstatement of information in an EER report is material if that information "could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information." Information may be misstated by omission, or by failing to be measured or evaluated, presented or disclosed as required by the framework. Misstatements may be intentional or unintentional, and may be qualitative or quantitative in nature. The Corporate Reporting Dialogue has compared materiality as described in a number of existing EER frameworks and identified common principles.[64]

127. In an assurance engagement, the practitioner's conclusion addresses whether the subject matter information is free from material misstatement.

128. The scope of an EER assurance engagement may be broader and more diverse as regards the intended users and the subject matter (also see challenge 1 in Table 3) and the perspective of a wider range of users may need to be considered in applying the concept of materiality (also see challenges 2 and 9 in Table 3). As noted above, there are more areas where judgment is required in applying EER frameworks and a greater

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[63]   In some cases accountability may be the key purpose of the framework.

[64]   *Statement of Common Principles of Materiality*, 2016, by the Corporate Reporting Dialogue. See also *Materiality in Integrated Reporting*, 2015, by the IIRC and IFAC. Both of these publications address materiality under different reporting frameworks.

risk of preparer bias. There will likely be a need for a 'materiality' process to ensure these judgments reflect the user perspective (paragraphs 114 to 116). In an EER assurance engagement, the absence of an effective materiality process, it may be difficult for the practitioner to obtain sufficient appropriate evidence about the completeness and relevance of the information in the EER report. As a result, there could be engagement acceptance issues (also see Challenges 11, 14, 15 in Table 3).

129. A key challenge, therefore, in an EER assurance engagement is how to assess what would be material, when both the users and their information needs can be diverse or even unknown. This may be particularly challenging when considering whether misstatements have arisen in making judgments in applying an EER framework, in the greater number of areas referred to in paragraph 128. The practitioner is therefore likely to need to pay close attention to the entity's materiality process to determine what content elements should be included in the report and how they should be depicted in the EER report (measurement or evaluation and presentation methods and related disclosures), including the extent and nature of its interaction with its stakeholders in doing so.

130. Another key challenge is that, compared with financial statements, EER has no common unit of measurement or evaluation in which to express each of the content elements relating to the underlying subject matter. In financial statements, all the content elements can be measured (or estimated) in a common monetary unit and each identified quantitative misstatement in the recognition or measurement of a content element can be measured in that unit. This enables the determination of whether all such misstatements are material in quantitative terms, both individually and in aggregate, using an overall quantitative materiality benchmark.

131. In EER reports, there is a variety of content elements that relate to diverse phenomena and their depictions may have very diverse natures (see above). The subject matter information that results from their depiction may have a range of characteristics which may vary on a number of dimensions (see paragraphs 81, 85 and 95). Narrative Information and Future Oriented information are further addressed in Topics F and G below.

132. The lack of a common unit of measurement for all content elements and of any basis for quantifying some of them means that in relation to EER reports there is only a limited ability to determine whether all identified misstatements individually are material in quantitative terms, and there is only a limited ability to determine whether quantitative misstatements are material in aggregate. This diversity also makes it challenging to identify an overall quantitative materiality level for an EER report as a whole and makes qualitative materiality considerations relatively more significant in EER reporting than in financial reporting. Related to this is the challenge of applying materiality to qualitative information in the context of EER.

How is Materiality Addressed in the International Standards?

133. ISAE 3000 (Revised) requires the practitioner to consider materiality when planning and performing the assurance engagement (including when determining the nature, timing and extent of procedures), and when evaluating whether the subject matter information is free from material misstatement.[65]

134. ISAE 3000 (Revised) notes that assessing materiality is a matter of professional judgment, which is made in the light of surrounding circumstances, both qualitative and quantitative, including the practitioner's perception of the common information needs of intended users as a group.[66] Since the IAASB International

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[65] See ISAE 3000 (Revised) paragraph 44.

[66] See ISAE 3000 (Revised) paragraphs A92-A100.

Standards are designed to be framework neutral, ISAE 3000 (Revised) recognizes that the framework may define materiality but sets out various considerations relating to the concept of materiality, that provide a frame of reference for the practitioner in assessing materiality, when the framework does not do so.

135. ISAE 3000 (Revised)[67] also notes that professional judgments about materiality are not affected by the level of assurance, that is, for the same intended users and purpose, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of intended users.

What Challenges May Require Further Guidance?

136. While ISAE 3000 (Revised) provides guidance on such matters as assumptions that are reasonable for the practitioner to make with respect to intended users and quantitative factors to consider when making materiality judgments, we are exploring whether further guidance is needed in the specific context of EER, in relation to:

- The entity's materiality process, including the extent and nature of stakeholder engagement;

- How to consider the materiality of misstatements in aggregate, in the context of different types of measurement units; and

- How to consider materiality for qualitative depictions, both individually and in aggregate, including for narrative descriptions and future oriented information.

D. Building Assertions in Planning and Performing an Assurance Engagement

What are the Key Challenges?

137. The use of assertions in an assurance engagement is described in paragraphs 100 and 101. The diversity in nature of subject matter information in an EER assurance engagement may make it more challenging to develop appropriate assertions (also see challenge 19 in Table 3).

How are Assertions Addressed in the International Standards?

138. Since ISAE 3000 (Revised) is an umbrella standard meant to cover a broad range of underlying subject matters and subject matter information, it cannot explicitly refer to assertions on particular types of subject matter information.

139. In contrast, the subject matter specific standard ISAE 3410 does include assertions that are used in the specific context of assurance engagements on GHG statements. Assertions are defined in ISAE 3410 as representations by the entity, explicit or otherwise, that are embodied in the GHG statement and are used by the practitioner to consider the different types of potential misstatements that may occur.

140. ISAE 3410 establishes assertions for the quantification of emissions and for presentation and disclosure that are directly comparable with those that were established in the ISAs in relation to an audit of financial statements prior to the completion of the IAASB's Disclosures Project. This comparability reflects similarities in the nature of the subject matter information for these engagements (financial statements and a GHG Statement) – they both relate to a particular period and present content elements (for example assets,

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[67] See ISAE 3000 (Revised) paragraph A92

liabilities versus emissions) that relate to phenomena (economic versus physical) that in each case can be measured in a common unit (monetary unit versus CO_2 equivalents).

141. The assertions in the ISAs were amended in the Disclosures Project: (a) to combine the assertions for account balances and for classes of transactions and events with those for the presentation of those items and related disclosures; and (b) to recognize that in relation to disclosures in the financial statements not related to those items, the revised assertions for those items may need to be adapted as appropriate.

What Challenges May Require Further Guidance?

142. The assertions established in the ISAs and in ISAE 3410 may not be sufficient in the EER environment since:

- These assertions are focusing on content elements that are depicted primarily as a measured quantity of a characteristic of the content elements, together with related disclosures whereas EER reports also include depictions of content elements that are not depicted in this way and many that are not depicted in quantitative terms at all.

- Some EER frameworks include Principles for Communication, such as connectivity, that are not used in relation to financial statements or GHG Statements. There may be a need for different assertions to address these.

143. Through this DP we are exploring whether more specific guidance is needed on classifying and building assertions and related types of misstatements in the context of EER reporting. Such guidance could include, for example, a general methodology that could be used to classify and build relevant assertions relating to an EER report. In particular, it could do so having regard to the types of depiction methods and principles for communication that are prevalent in the context of EER reporting and whether the assertions are intended to support the practitioner's identification of potential types of misstatements at the level of the EER report or at the level of the presentation of content elements.

E. Maturity of Governance and Internal Control Around the Reporting Process

What are the Key Challenges?

144. Many entities may not yet have sufficiently robust EER reporting systems, controls and oversight in place. There may be higher order control risks, or higher levels of control risk. In those circumstances, there may be acceptance issues (because the EER report may not be assurable) or the cost of performing the AE may be prohibitive (also see challenges 6, 7, 8, 17, 18, 19 in Table 3).

145. The maturity of governance and internal control around reporting processes may have implications for the mix of procedures needed to obtain sufficient appropriate evidence. Despite the initial assessment at the engagement acceptance stage, the practitioner may encounter unexpected weaknesses due to a lack of maturity in the governance and internal control system that cannot be resolved via the mix of evidence gathering procedures performed. In such cases, the practitioner evaluates the consequences for the completion of the assurance engagement and the assurance report.

146. For particular EER reports those charged with governance may not yet be involved in the EER reporting process, nor be aware or involved with the assertions being made with respect to the EER report. As a result, the communication between the practitioner and those charged with governance may be less effective. This may have implications for the practitioner's evaluation of the control environment.

147. Stakeholder engagement plays a much more prominent role in the EER governance processes and as described in section III is often explicitly addressed in the different EER frameworks. The stakeholder engagement process may not be as structured yet and as a result its outcome of the topics identified as being most relevant to the entity's strategy or for inclusion in the EER report may be highly subjective in nature. The practitioner needs to consider whether the outcome of this process is suitable for aspects of the assurance engagement, in particular for assessing the assertion that all relevant topics are included in the EER report.

148. Given the variety of topics In an EER report, the information is often compiled using different information systems, where different types of controls may exist compared to those for financial statement preparation. If controls are lacking or are not operating effectively, and alternative procedures cannot be performed to obtain sufficient appropriate evidence, the practitioner needs to consider the impact on the assurance conclusion.

How is Governance and Internal Control Addressed in the IAASB International Standards?

149. ISAE 3000 (Revised) requires the practitioner in a reasonable assurance engagement to obtain an understanding of internal control over the preparation of the subject matter information relevant to the engagement, and to evaluate the design of those controls relevant to the engagement and determine whether they have been implemented by performing procedures in addition to inquiry of the personnel responsible for the subject matter information. In contrast, for a limited assurance engagement, ISAE 3000 (Revised) requires that the practitioner consider the process used to prepare the subject matter information.

150. Table 6 provides an overview where in the assurance process considerations are made with respect to the maturity of corporate governance and internal control.

Table 6: Considerations with Respect to the Maturity of Corporate Governance and Internal Control in the Assurance Process

Engagement Acceptance	Evidence-gathering Process	Reporting
Initial assessment and identification of topics for which the immaturity may result in the inability to obtain sufficient appropriate evidence.	Consideration of the appropriate mix of procedures to obtain insight and plan further procedures (different for reasonable and limited assurance engagements).	Consideration of the impact of any consequences of immaturity of corporate governance on the assurance conclusion.

What Challenges May Require Further Guidance?

151. Given that EER processes may be less formal and less mature compared to financial reporting processes, additional guidance may be needed that addresses, for example:

- How to evaluate the maturity of governance (including reporting systems, controls and oversight) in the context of EER reporting;

- Factors to consider in determining which controls are relevant to the engagement and the circumstances in which a formal reporting process with more extensive internal controls may be needed to provide a reasonable basis for preparing the EER;

- When it is or is not appropriate to adopt an engagement strategy that involves obtaining sufficient appropriate evidence as to the operating effectiveness of relevant controls;

- What to consider when testing controls; and

- Addressing the consequences of weaknesses in reporting systems, controls and oversight, when alternatives to performing assurance procedures to obtain evidence as to the operating effectiveness of relevant controls are not available.

F.   Narrative Information

What are the Key Challenges?

152.   EER reports include much narrative information, such as on the strategy of the entity, its governance, risk and opportunity management, and value created as well as future oriented information, for example, the information on prospects within an integrated report. The different nature of subject matter information in EER assurance engagements may make it more challenging to design effective assurance procedures, particularly when such information is subjective or more future oriented (see also challenges 20, 21 and 22 in Table 3 as well as the explanation in paragraphs 80, 85, 95, 129, 130 and 131).

153.   Narrative information may include:[68]

- Factual narrative—information that is supported by events that have occurred, which may be evidenced in a number of ways, including reporting systems and their resulting reports, or in information reported externally by other organizations.

- Subjective narrative—information that is less observable or less supportable by observable data and therefore is more reflective of, and variable with, the views of the individuals reporting it; it may contain views or judgements of management and those charged with governance; the evidence supporting it may be reflected in various reports, internal communications, and the organization's internal or external websites, and in the organization's operating practices.

154.   Some EER frameworks may include compliance with principles for which there may be no agreed or generally accepted standards. This could may make it more challenging for preparers and practitioners to be consistent in making judgments about such matters. For example, the IIRC Discussion Paper[69] assumed that for integrated reporting a significant challenge will come from assessing aspects of connectivity related to factual narratives. Therefore, a key challenge will be how to achieve consistency in judgement when such narratives are inherently more subjective in nature.

155.   One particular challenge for practitioners include how to manage potential unrealistic expectations of intended users that the conclusion by the practitioner not only addresses the reliability of the information and its consistency with the requirements of the EER framework, but also, for example: (a) the achievement of predicted outcomes included in the EER report; or (b) the sufficiency of the entity's strategies, compared to identified risks and opportunities, as described in the EER report. Although the practitioner is not in a position to express such conclusions, users may perceive that the practitioner is providing a conclusion or 'assurance' in some manner.

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[68]   See IIRC *Assurance on <IR> an Exploration of Issues*, *2014* paragraph 4C: 4.32 and 4.33.

[69]   See footnote 64

156. Table 7 provides an overview of various considerations made with respect to narrative information in the assurance process.

Table 7 Various Considerations with Respect to Narrative Information in the Assurance Process

Engagement Acceptance	Evidence-Gathering	Reporting
Consideration whether suitable criteria are available for narrative information. Consideration whether sufficient appropriate evidence can be obtained.	Consideration of the sufficiency of the governance and reporting process supporting the narratives. Consideration of the design of procedures to respond to assessed risks. Consideration of the appropriateness of the tone/balance/not misleading.	Consideration of the impact of evidence obtained on the conclusion in the assurance report.

How is this Addressed in the IAASB International Standards?

157. There is no separate standard on narrative information in an assurance engagement. For financial statement audits, the IAASB disclosures project addressed narrative information within the financial statement audit. Disclosures with respect to financial statements comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference.[70]

158. ISAE 3000 (Revised) implicitly addresses narrative information in addressing 'other information' if this is not included in the scope of the assurance engagement, in a manner similar to ISA 720 (Revised) for financial audits (also see paragraph 28 of this DP). However, there is no explicit guidance when narrative information is part of the subject matter information of the assurance engagement.

What Challenges May Require Further Guidance?

159. Given the relevance for narrative information for EER reports, further guidance may need to be developed on narrative information. Such guidance could address: assessing the suitability of criteria; building appropriate assertions; considering materiality for narrative information and considerations for sufficient appropriate evidence, in relation to narrative information included in subject matter information in an EER assurance engagement.

G. Future Oriented Information

What are the Key Challenges?

160. EER frameworks typically include requirements for future oriented information in depicting particular content elements. For example, the International <IR> Framework requires future oriented information to depict the

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[70] ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 13(f).

ability of the entity to create value creation over time. Future oriented information is predictive and can be about qualitative characteristics in narrative descriptive or evaluative form or about quantitative characteristics. The different nature of subject matter information in EER AEs may make it more challenging to design effective assurance procedures, particularly when such information is subjective or more future oriented (see also challenge 20, 21 and 22 in Table 3 as well as the explanation in paragraphs 80, 85, 95, 129, 130 and 131).

161. The future is uncertain by its nature – predicted events may not occur and unknown events may arise. This makes future oriented information inherently more uncertain in nature. In addition, particular future oriented topics may be, by their nature, more difficult to depict.

162. Even if additional disclosure is provided in the subject matter information about the nature and extent of such uncertainty, or about the range within which the measurements or evaluations of the Content Elements that are affected by it, a challenge remains in considering the balance the reduced reliability of such measurement or evaluation in the face of such inherent uncertainty with the relevance and usefulness of such information to the intended users.

163. Currently, even where 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 future oriented information. Therefore, even at the engagement acceptance stage, the practitioner may identify a lack of suitable criteria. Such evaluation may result in a conclusion that: (a) it is not possible to obtain sufficient appropriate evidence on the future oriented information itself; (b) the scope of the assurance engagement should be restricted to obtaining evidence on the process in arriving at the future oriented information, as described in ISAE 3400; [71] or (c) there are no suitable criteria at all.

How is this Addressed in the IAASB International Standards?

164. For obtaining evidence relating to future oriented information ISAE 3400, is the closest available guidance for practitioners. ISAE 3400 describes evidence-gathering as to:

- The reasonableness of management assumptions;

- Proper preparation, on the basis of the assumptions;

- Proper presentation of the prospective financial information and disclosure of all material assumptions, including an indication of whether they are best estimate or hypothetical assumptions; and

- Whether prospective information is consistent with historical financial statements, using appropriate accounting principles.

165. The description of the scope of ISAE 3400, however, explicitly excludes its application to the examination of prospective financial information expressed in general or narrative terms, such as that found in management's discussion and analysis in an entity's annual report, although many of the procedures outlined therein may be suitable for such an examination. It must also be noted that ISAE 3400 has a narrow scope and does not provide any guidance on evidence-gathering with respect to the data itself.

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[71]   ISAE 3400, *The Examination of Prospective Financial Information (Old ISA 810),* ISAE 3400 is a standard that needs to be updated to the new clarity conventions.

166. Also, an analogy can be made to ISA 540[72] that explains how to obtain sufficient appropriate evidence with respect to the reasonableness of accounting estimates in financial statements, whether recognized or disclosed, and for evaluating the adequacy of the related disclosures in the financial statements.

What Challenges May Require Further Guidance?

167. Further guidance might be developed on assessing future oriented information[73] in an assurance engagement, including, for example, assessing whether EER frameworks are suitable to enable practitioners to include this type of information in the scope of the assurance engagement (also see B. Suitability of criteria), how to address the subjective nature and potential preparer bias, how to consider the process for arriving at future oriented information and its proper presentation, and how practitioners can communicate and report on future oriented information without creating unrealistic expectations.

H. Professional Skepticism and Professional Judgment

168. Professional skepticism plays a fundamental role in assurance engagements in EER. Professional judgment and professional skepticism are closely interrelated and the exercise of professional skepticism facilitates good professional judgments. Maintaining professional skepticism throughout the assurance engagement enables the practitioner to reduce the risks of overlooking unusual circumstances or over generalizing when drawing conclusions from audit observations or using inappropriate assumptions in determining the nature, timing and extent of the assurance procedures and evaluating the results thereof.

169. EER frameworks include more judgmental areas, such as the appropriateness of the preparer materiality judgments may require additional attention given its subjectivity and the susceptibility to management bias (see also challenges 9, 10 and 12 and 13 in Table 3).

170. The professional skepticism exercised by practitioners on an engagement team is influenced by education, training and experience of the individual, the actions of the firm's leadership, the actions of the engagement partner, as well as the culture and business environment of the firm. Impediments to professional skepticism range from excessive workload and deadline pressures to weak "tone at the top" and firm culture. The IAASB currently has a project underway to identify how best to emphasize the importance of exercising professional skepticism, including whether changes to the standards are necessary. This project is being undertaken in conjunction with the International Ethics Standards Board for Accountants (IESBA) and International Accounting Education Standards Board (IAESB) with a focus on the ISAs. However, any outcome of this project will have conforming amendments to the ISAE series too. Accordingly, this is not being explored further by this DP.

I. Competence of Practitioners Performing the Engagement

What are the Key Challenges?

171. The complexity of the underlying subject matter on which information is presented (for example, the entity and its value creation processes) will impact the specialized skills, knowledge and competence of practitioners needed for assurance engagements. The practitioner needs to exercise more judgment, which

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[72]   ISA 540 *Auditing Accounting Estimates, including Fair Value Estimates, and Related Disclosures*

[73]   This need was also identified by the IIRC in <u>Assurance on <IR> an Exploration of Issues</u>, 2014 section 6 Assurance methodology issues: 6F – paragraphs 6.10 and 6.11 (on page 36)

requires sufficient expertise to be able to challenge management effectively. The practitioner will need to have the competence to address the perspective of a wider range of users in applying the concept of materiality and broader subject matter competence, including in relation to the use of experts (also see challenge 3 and 4 in Table 3).

172. The competence needed may include knowledge of the business model, strategy development, risk management, stakeholder engagement, ability to apply expertise in judgmental areas in the EER framework, ability to work in multidisciplinary teams and to communicate between different disciplines as well as to disentangle the reporting process to identify the various relevant functions in the reporting entity relevant to obtaining sufficient appropriate evidence. The competence needed can be obtained from within the firm, as well as from outside the firm by engaging particular experts.

173. In contrast to using an expert in a specialized area of accounting or auditing as in the financial statements, the complexity of the underlying subject matter information in the EER context may require multi-disciplinary skills not only for particular elements of the subject matter information, but during the course of the full assurance engagement, from planning the engagement to reporting the assurance conclusion. Such experts may have different skills depending on the particular needs of the assurance engagement, for example, having a chemistry background. Various professional firms already include multidisciplinary skills in their engagement teams. Where they do not, however this multidisciplinary expertise may also be obtained externally.

174. The practitioner may also plan to use the work of the internal audit function. In those entities where the internal audit function is involved in the EER reporting process, the internal audit function also includes a variety of competencies to support the quality of such internal audit.

175. Table 8 provides an overview of various considerations with respect to competencies and using experts in different capacities during the different stages of the assurance process.

Table 8 Considerations of Competencies in the Assurance Process

Engagement Acceptance	Evidence-Gathering	Reporting
Considerations on the various competences needed in the assurance engagement team. Considerations on compliance with ethical and quality control requirements.	Consideration quality control at engagement level, including sufficient communication between various subject matter experts in the engagement team. Consideration of work by external experts	Consideration on how to provide transparency on multidisciplinary teams.

How is Competence Addressed in the IAASB International Standards?

176. Competence for assurance engagements is addressed in ISAE 3000 (Revised) (also see paragraph 80).[74] Under ISAE 3000 (Revised) the engagement partner may decide to consult a practitioner's expert to provide advice on an individual matter. The greater the significance of the practitioner's expert's work in the context

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[74]   ISAE 3410 paragraph16 and ISAE 3000 (Revised) paragraphs 52–55

of the engagement, the more likely it is that the expert will work as part of a multi-disciplinary team comprising subject matter experts and other assurance personnel.

177. ISAE 3410[75] describes in detail the type of competence needed, including the type of expertise, in relation to GHG AEs. This guidance could be adapted for application to the EER environment.

178. ISAE 3000 (Revised) also provides guidance for those engagements where practitioners use the work of internal audit.[76]

What Challenges May Need Further Guidance?

179. Through this DP we are exploring whether more guidance is needed on 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.

180. In using the work of others, guidance could be considered in particular with respect to the 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 or internal audit function, the timing of the work performed by others, the materiality used in the context of the engagement and the context in which this is done.

181. We also would like to explore: whether there is a need to communicate explicitly about the competence of the engagement team in the assurance report; whether this would be helpful in enhancing trust, for example by including information that the engagement is performed by a multidisciplinary team with details on the particular type of expertise; and, if so, how this might be done in a manner that does not mislead the user about the practitioner taking sole responsibility for the assurance conclusion expressed (see paragraph 80).

J. Form of Assurance Report

What are the challenges?

182. The practitioner may need to adapt the structure and content of the assurance report to reflect the diversity in AE Scope, Users and Subject Matter and the nature of the subject matter information (particularly when this gives rise to factors that affect the inherent precision of measurement or evaluation of the subject matter or the inherent ability to obtain sufficient appropriate evidence). The nature of the assurance report may need to be more judgmental and is likely to require more flexibility and less standardization than in relation to auditor's reports, given few jurisdictional requirements for EER AEs (also see challenges 5, 16, 22 in Table 3).

183. We understand that assurance reports are sometimes viewed by users as ambiguous, in particular with respect to information on the scope of the work performed and conclusions reached. Users indicated that, as a result, they found it difficult to properly interpret the assurance report, particularly as limited assurance reports can vary in the description of the depth and types of procedures performed. At the same time, since

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[75]   ISAE 3410 paragraphs A18-A19

[76]   See also paragraph 55 of ISAE 3000 (Revised)

limited assurance reports are longer and more descriptive, some users found them to be more useful than a report for reasonable assurance engagements.

How do the IAASB International Standards Address the Assurance Report?

184. ISAE 3000 (Revised) describes the content elements of an assurance report. Since ISAE 3000 (Revised) is an umbrella standard for many types of assurance engagements the standard allows for flexibility in describing and structuring reports.[77] As a result, there is the possibility of significant variation in the information included in assurance reports. Examples of matters that result in such variation include:

- The ability to include other information and explanations in addition to the basic report elements required by ISAE 3000 (Revised), such as:

    - The terms of the engagement

    - The 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

    - Recommendations.

    It should be noted, however, that such other information is not intended to contradict the practitioner's conclusion and whether to include any such information depends on the practitioner's consideration of the significance to the information needs of the intended users.

- 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.[78] Since a limited assurance engagement can vary along a range of a level of assurance to be obtained by the practitioner,[79] the procedures performed also may vary in nature and depth.

- Where separate conclusions may be provided on each aspect of the subject matter information that is made up of a number of aspects, such as in EER, and do not need to relate to the same level of assurance. Rather, each conclusion is expressed in the form that is appropriate to either a reasonable or a limited assurance engagement.

- The wording selected for the assurance conclusion. ISAE 3000 (Revised) only provides examples of how the type of reporting framework influences the assurance conclusion. Examples of these are as follows:

    - For compliance engagements—"in compliance with" or "in accordance with."

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[77]   See also paragraphs 67–78 of ISAE 3000 (Revised)

[78]   See also paragraph 69 (k) of ISAE 3000 (Revised)

[79]   See also paragraph A5 of ISAE 3000 (Revised)

- For engagements when the applicable criteria describe a process or methodology for the preparation or presentation of the subject matter information—"properly prepared."

- For engagements when the principles of fair presentation are embodied in the applicable criteria—"fairly stated."[80]

185. The IAASB has recently published new and revised standards on auditor reporting that require the auditor to report on key audit matters (KAMs)[81] in a financial statement auditor's report and are required for listed entities, with a voluntary application to other types of organizations, unless required by law. KAMs are those matters that, in the auditor's judgment, were of most significance in the audit of the current-period financial statements. During our information-gathering activities some practitioners suggested that reporting on key assurance matters may also become relevant in a similar way in the context of EER. While KAMs do provide further insight in the assurance process, they would not solve the user perceived ambiguity of assurance reports.

What Challenges May Need Further Guidance?

186. Some respondents to the IIRC consultation called for further guidance on the assurance report in the following areas:

- The summary of work performed;

- The communication to intended users about the inherent limitations of an integrated report;

- The reference to the work of other assurance practitioners;

- The way the assurance conclusion is expressed; and

- When "long form" versus "short form" reporting might be used.

187. In developing guidance, a challenge is how to resolve ambiguity in an environment where flexibility is needed. Therefore, we would like to explore whether there is a need:

- For a more restrictive assurance report for EER assurance engagements, for example aimed at a fixing the elements and ordering of the assurance report, or specifying particular wording for certain basic elements of the assurance report.

- To consider being more specific on the scope of the assurance engagement, clarifying what is included or excluded if the scope is not the full EER report.

188. In practice, increasingly the EER information is included in annual reporting along with the financial statements. Although in practice there is often a separate auditor's report on the financial statements and an assurance report on the EER information, during our outreach to date, investors expressed the need for a single, more simple "long form" report with "consistent" paragraphs on the EER assurance aspects. Therefore, we would also like to explore whether, in those cases where the financial statements and the EER report are included in one document, there is a need for guidance on how to draft one assurance report covering both the financial statement audit and the assurance engagement. [82]

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[80] See ISAE 3000 (Revised) paragraph A181

[81] See also the different IAASB resources on the website

[82] See for example the combined auditor's and assurance report on page 163 of the integrated report of KPN

Overall Evaluation

189. We have concluded, based on our overall preliminary analysis, that given the available guidance in ISAE 3000 (Revised), there is no need at this time to develop a subject specific standard similar to ISAE 3410 for addressing a wide variety of underlying subject matters in EER, but rather that the IAASB should explore the need for developing guidance in the form of an International Practice Note or other type of guidance within the areas addressed in this DP.

Questions

The IRWG would like to obtain views on the following topics. In replying to these questions please provide practical examples.

Credibility and Trust

1. Section III describes factors that affect credibility and trust. Are there any other factors that need to be considered by the IAASB, and if so what?

2. Section III describes different types of professional services that are either currently performed or could be useful in enhancing credibility and trust. Are there any other types of professional services that are, or may in future be, relevant in enhancing credibility and trust that the IAASB needs to consider? If so, what are they?

3. Section III describes in paragraph 28-32 the responsibilities of the auditor of the financial statements under ISA 720 (Revised) with respect to the other information included in the annual report. Would this be sufficient if the information is included in the annual report or is there a need for assurance or other related services to enhance credibility and trust when the EER information is included in the annual report?

Gap in Scope of IAASB International Standards

4. Section III describes the different types of engagements that are covered by the IAASB International Standards and suggests that application material or other guidance such as an International Practice Note may assist practitioners in applying the IAASB International Standards in the context of EER reports. Do you agree?

    (a) If so, in relation to which International Standards (assurance engagements, agreed-upon procedures or compilation engagements) would such material be helpful and if so in what areas? (for assurance engagements see question 6)

    (b) If you disagree, please provide the reasons why and describe what other action the IAASB should take.

Assurance Model

5. Section IV suggests that it would not be appropriate to develop a subject specific standard such as ISAE 3410 on EER or particular EER frameworks at the current stage of development of such EER frameworks and related standards. Do you agree or disagree, and if so why or why not?

6. Section IV describes assurance engagements and technical challenges in addressing EER in such engagements and suggests that application material may be helpful in addressing the following areas of technical challenges:

    • Variety of subject matters

    • Suitability of criteria

    • Materiality

    • Building assertions in planning and performing the engagement

    • Maturity of governance and internal control processes

    • Narrative information

- Future oriented information

- Assurance report

Do you agree with the above suggestions?

    (a)   If so, in relation to which of the technical challenges and why?

    (b)   If you disagree with the above suggestions, please provide the reasons why and describe any other actions that the IAASB should take.

7.   Are there any other areas of technical challenge that need to be addressed by the IAASB International Standards and if so, what are they, and why should the IAASB address them?

Other

8.   In order to assist the IAASB in considering the usefulness of subject specific assurance standards, please advise as to the extent to which ISAE 3410 is being used in practice by your organization. If not used, why not and what other form of pronouncement from the IAASB might be useful?

9.   For which actions would collaboration with or actions by other organizations also be needed?

Appendix A

Figure 1: Overview Examples of Nature and Scope of the Assurance Engagement

Color code: the full report (orange), particular elements from the report (green) or the reporting process (blue)
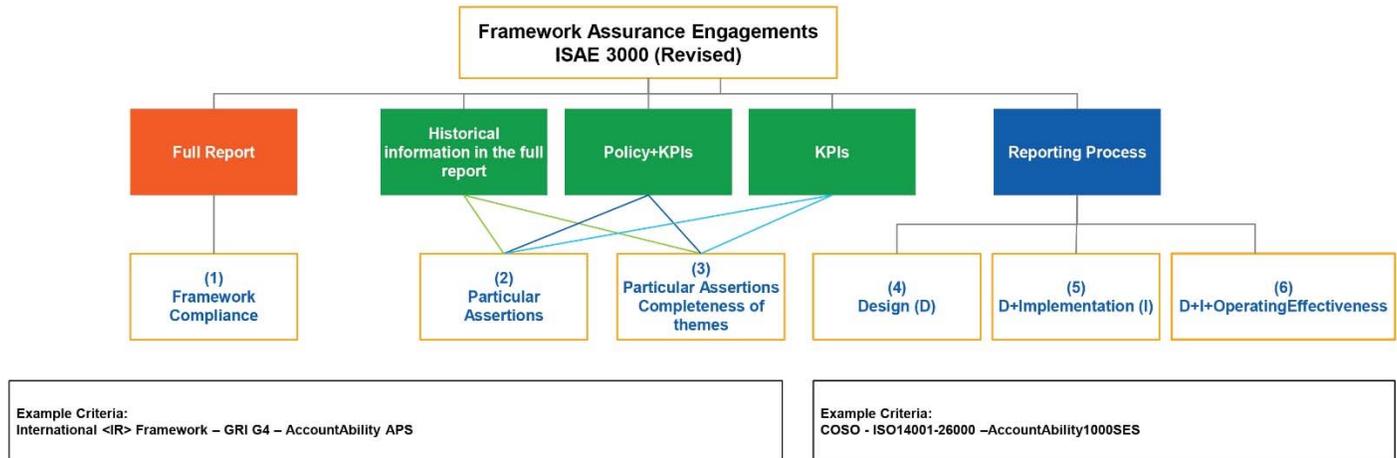
To make it more practical, illustrative conclusions that might be included in the assurance report are provided below for the respective examples:

1. Example 1 addresses assurance on the full external report against all the principles and content elements of the reporting framework. This is the full scope. An illustrative conclusion for such scope is: *The information in the report is properly prepared, in all material respects, in accordance with XYZ criteria.* It must be noted that these type of assurance engagements in practice still only rarely occur.

2. Example 2 addresses situations where the scope of subject matter information of the assurance engagement is only either on:

    a. The historical information;

    b. The policy and key performance indicators (KPIs) around particular topics; or

    c. The KPIs and related disclosures only.

    As it does not include the entire EER report, particular principles, such as the completeness principle or for integrated reporting the connectivity principle, will also be excluded from the scope of the assurance engagement. Within the subject matter information however the respective information needs to be complete. The other types of information will be read for any inconsistencies, but not subject to the assurance engagement. The added value to the intended users is that assurance is obtained, for example, on the accuracy and consistency of the subject matter information against the reporting framework used.

The choice of selecting the policy and KPIs, or only the KPIs and related disclosures for the subject matter information of an assurance engagement, often is made in practice as the criteria for measurement and presentation for these matters are more robust, as are the underlying reporting processes. Some companies, for example, choose to include a KPI overview similar to the financial statements. The added value is that the information that is used for quantitative analysis of companies is subject to assurance. In such circumstances transparency should also be given as to what was not covered by the assurance engagement.

An illustrative conclusion is: *The historical information/information on policy and performance as described on pages xx to yy/information on key performance as described on pages xx to yy in the report is properly prepared, in all material respects, in accordance with XYZ criteria. We have not obtained any assurance on ….*

3. Example 3 addresses the same subject matter information as in Example 2, but also addresses whether all relevant topics (for example, climate change, diversity) are included in the EER report.

    An illustrative conclusion is: *All relevant topics to depict ZZ are included in the report and the historical information/information on policy and performance on the topics as described on pages xx to yy/information on key performance as described on pages xx to yy in the report is properly prepared, in all material respects, in accordance with XYZ criteria. For the other topics we have to disclaim as we have not obtained any assurance on whether the information within these other topics as described on pages xx to yy are properly prepared.*

4. Example 4 addresses the design of the reporting process. In practice such engagements could be useful when new reporting systems, including internal controls, or revisions in the reporting process are being implemented. The added value is that the user obtains assurance that the design of the reporting process meets the criteria.

    An illustrative conclusion is: *The design of the applicable reporting process and related internal controls included is appropriate, in all material respects, in accordance with XYZ criteria.*

5. Example 5 addresses the design and operation of the reporting system. The added value is that in addition to example 5, evidence is also obtained on how the reporting system actually operates in practice and whether this meets the criteria.

    An illustrative conclusion is: *The applicable reporting process and related internal controls are adequately designed and have been implemented, in all material respects, in accordance with XYZ criteria.*

6. Example 6 addresses the design, operation and effectiveness of the reporting system. The added value is that the users also obtains assurance as to whether the intended outcome of the reporting system against the criteria is achieved.

    An illustrative conclusion is: *The applicable reporting process and related internal controls are adequately designed, have been placed implemented and operated effectively [as of specified date/for a specific period], in all material respects, based on XYZ criteria.*