

## Agenda Item 1-B For Reference Only

### ~~DRAFT GUIDANCE IN APPLYING SPECIAL CONSIDERATIONS IN PERFORMING ASSURANCE ENGAGEMENTS ON THE STANDARD TO EXTENDED EXTERNAL REPORTING (EER) – PHASES 1 AND 2~~

#### Chapter 1: Introduction

##### Background

##### ~~Purpose of this Guidance~~ Scope and Authority of this Document

7. ~~[6] [7] This purpose of this guidance document provides practical is to provide practical assistance to a practitioner carrying out assurance engagements over EER in the form of guidance intended to be applied by practitioners in performing assurance engagements on the application of the standard in accordance with ISAE 3000 (Revised) (hereafter 'the Standard') on extended external reporting (hereafter 'EER') by entities of all sizes about a broad range . deals with assurance engagements other than audits or reviews of financial statements as described in the *International Framework for Assurance Engagements*. It is intended to be applied to a wide range of matters being reported on. This guidance is designed to assist with engagements over EER reports of entities of all sizes and a broad range of EER matters being reported on.~~
5. ~~[4] [5] The scope of the IAASB issued a discussion paper guidance in this document is limited to specific areas where the IAASB identified<sup>1</sup> in 2016 identifying ten areas where that a practitioner may find guidance useful to address challenges they commonly encounter in applying ISAE 3000 (Revised) (sometimes alternatively referred to as "the the Standard in assurance engagements on EER (hereafter 'EER' in this document) to assurance engagements') over EER. Those challenges arise in the context of certain circumstances commonly encountered in relation to EER assurance engagements, discussed below. In response to broad agreement with this assessment from respondents, the scope of this document is to provide guidance in these specific areas. See Appendix 1 for further background information.~~
- 7A Although the guidance may be helpful in performing other types of assurance engagements, it has not been developed with such engagements in mind. The Standard deals with assurance engagements, as described in the *International Framework for Assurance Engagements*, other than audits or reviews of financial statements. Examples of assurance engagements on different types of underlying subject matters, and whether this guidance does or does not deal with them, are included in Table 1 in Appendix 2.
9. ~~[8] [9] The Standard can be used in both direct and attestation engagements<sup>2</sup>, however, like the Standard, this guidance is written in the context of attestation engagements. Like the Standard, it may be applied to direct engagements, adapted and supplemented as necessary in the engagement circumstances.~~

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

<sup>2</sup> ~~Refer to ISAE 3000 (Revised) paragraph 12(a)(ii) for definitions of attestation and direct engagements.~~

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8. [7] [8] ~~As it is~~ This document contains non-authoritative, ~~this~~ guidance. Accordingly, the guidance does not introduce any further requirements beyond those in the Standard. Similarly, ~~none of the contents of this guidance removes or changes~~ the guidance does not override or change any of the requirements or application material in the Standard.

Purpose and Intended Audience of this Document

- 5A. The aim of the IAASB in issuing this document is to enable more consistent and appropriate application of the Standard in EER assurance engagements, and thereby to strengthen the influence of such engagements on the quality of EER reporting and to promote greater trust in the resulting assurance reports by their intended users.
6. [5] [6] The guidance's intended audience of the guidance is primarily practitioners carrying out EER assurance engagements. ~~A, although it the guidance may also be useful for preparers of EER reports~~ assist other parties to such an engagement in understanding aspects of the performance of EER engagements, such as preparers and users of EER or regulators, it has not been developed with the needs of such parties in mind.

The Nature of EER and the Meaning of 'EER Information' and 'EER Report'

1. [1] 'Extended external reporting' (EER) ~~EER~~ encapsulates many different types of reporting that provide information ~~focus about~~ on the financial and non-financial consequences of an entity's activities. Such reporting information (referred to in this document as 'EER information') may focus on ~~be about~~ the consequences for the entity's own resources and relationships, or on the wider consequences for the well-being of the economy, environment or society, or both, or on the service performance of a public sector or not-for profit entity.
- 1A. EER reporting information therefore goes beyond the financial information typically included in financial statements which focus on the consequences of the entity's ~~economic resources or obligations, or changes therein, as a consequence of the entity's activities for its financial resources, transactions and other events and conditions~~ ('financial information' as may be as presented in statements of financial position and/or financial performance and related disclosures.
2. [2] EER information reporting may be incorporated in the mainstream presented as a section(s) of mainstream periodic reports issued by a company or organization, such e.g. as an annual report or integrated report, or a regulatory filing, such as the US SEC Form 10-K or the UK strategic report. Alternatively, it EER information may also be included presented as in a separate report(s) or statement(s) issued by an entity, such as a sustainability report, a corporate social responsibility statement, a public sector performance report or value for money report, or a greenhouse gas statement. In this document, reference to an 'EER report' means EER information presented as one or more such section(s), report(s) or statement(s). In some cases, an EER report may comprise EER information made accessible by users on demand, through various communication channels, which may be made accessible by them in real time.

Circumstances Commonly Encountered in Relation to EER Assurance Engagements

2. [3] EER reports may are often voluntarily prepared and issued by entities, but increasingly may be required by law or regulation (such as the EU requirement for a large company to include a non-financial statement in its annual report), or alternatively may be produced by entities voluntarily. They may be prepared using criteria in EER frameworks, standards and/or guidance

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established by law or regulation, by international or national standard setters, or by other bodies (referred to in this document as “EER frameworks criteria”), criteria developed by the entity (referred to as ‘entity developed criteria’), or a combination of both. EER can be less structured in comparison to financial statement reporting. There may also be diversity in the criteria used to prepare the EER report given the wide selection of EER frameworks, and because entities often develop their own criteria either in addition to, or instead of, using EER frameworks.

3.

The meaning of ‘EER Report’

43. [13] An EER report is subject matter information that may address diverse cover a variety of underlying subject matter(s), or aspects thereof, of the type(s) discussed in paragraph 1, which may be complex and may have diverse characteristics that range from objective to subjective, historical to future-oriented, or a combination. There may also be diversity in the criteria used to prepare the EER report given the wide range of available EER frameworks, and because preparers often use entity developed criteria in addition to, or instead of, framework criteria. As a result, there may be greater opportunity for management bias in the selection or development of criteria.

43A. The nature of primary representations of different aspects of the EER underlying subject matter presented in the subject matter information may also be diverse. Some of these representations may be measured and presented in quantified terms and others may be evaluated and presented in qualitative (narrative or descriptive) terms. In either case, these primary representations may be accompanied by related disclosures.

43B. EER subject matter information may also be presented in The EER report may represent different aspects of the underlying subject matter primarily in numerical or narrative diverse forms including, in either case with related disclosures. Information in the EER report may be in the form of, or a combination of, writing text, charts, graphs, diagrams, images or embedded videos. The information may be objective or subjective, historical or future-oriented, or a combination of these. The EER report may be a standalone report or incorporated in another mainstream report of the entity (see paragraph 1). Alternatively, the information comprising the EER report may be accessible by the user on demand, from various sources and in real time.

4. [4] Compared with financial statements, EER reports tends to may be more diverse than financial statement reporting, both in format and in the matters being reported on in structure and format and in the characteristics of the underlying subject matter(s), and the EER subject matter information may be presented more often in qualitative terms than in quantified terms. The EER reporting can also be more qualitative; the subject matter information can comprise more description (narrative information) alongs may include financial and both non-financial (including non-monetary) information and financial information, and both may include information presented in qualitative or quantified terms, numbers.

4A. The entity's process to prepare the EER report and other components of the entity's system of internal control relevant to the preparation of the EER report may often be less than fully

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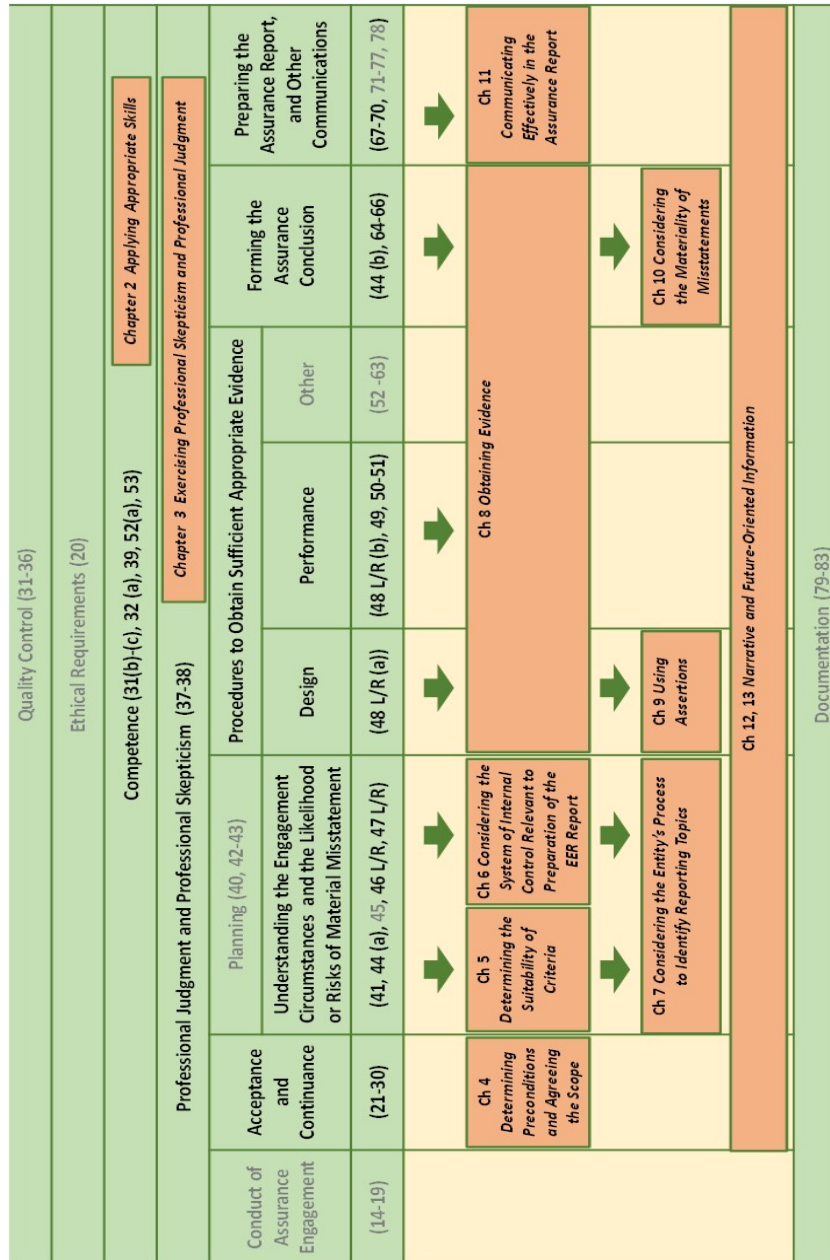
~~developed~~es and aspects of the internal control system related to the preparation of EER may often be less developed, particularly when an entity first starts to prepare EER.

**Using the Guidance in this Document**

- 9A. The guidance in this document is structured in chapters that can be related to specific stages and other aspects of an assurance engagement performed in accordance with the Standard. Diagram 1 below can be used to navigate this document in the context of performing an EER assurance engagement. Ordering of the chapters in this document follows the flow of stages and other aspects of the performance of an engagement, as represented in the diagram.
- 9B. Each chapter is structured to answer the 'What', 'Why' and 'How' of the guidance in this document. Each chapter is introduced by a description of the matters addressed by the guidance in that chapter (the 'What') under the sub-heading *Matters Addressed by the Guidance in this Chapter*. That description is followed by an explanation of the circumstances in which the guidance in that chapter may be of assistance to practitioners (the 'Why'), under the sub-heading *Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners*. The explanation highlights relevant challenges in performing an EER assurance engagement from those identified above under the sub-heading *Circumstances Commonly Encountered in Relation to EER Assurance Engagements*.
- 9C. The remainder of each chapter (the 'How') generally provides a thought process for addressing the challenges highlighted in the 'Why'. The thought process identifies considerations that may assist the practitioner. The considerations are cross referenced, where relevant, to requirements and application material in the Standard, to specific guidance and examples in the same or other chapters, to examples in Supplement B, and to contextual information in Supplement A.
- 9D. Each Appendix and Supplement describes the matters that it addresses and how they may assist a practitioner using the guidance in this document. However, this document can be used by a practitioner without reference to the Appendices and Supplements.
- 9E. Diagram 1 below provides an overview of all the aspects of the performance of an EER assurance engagement under the Standard (see green bands, rows and column headings). The diagram associates each of the requirements of the Standard (see green bands) and each chapter of this document (see brown boxes), with those aspects of the performance of an EER assurance engagement to which they relate. The diagram also indicates (see green arrows) the requirements of the Standard addressed by each chapter, and chapters that include guidance related to guidance in an earlier chapter. Those aspects of the performance of an EER assurance engagement and those requirements of the Standard that are not addressed in this document are shown in grey text.

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**Diagram 1 – Relationships between Stages of Engagement, Requirements of the Standard, and this Guidance.**



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**Terminology, I-and-~~icons~~ and Cross-references**

10. This guidance uses the terminology used in Standard when the concepts being discussed are addressed in the Standard. When necessary other terms are identified and explained in the guidance and summarized in a list of terms set out in Appendix 1.
11. Throughout the guidance and examples, including the examples in Supplement B, icons are used to identify where the exercise of professional skepticism or professional judgment are illustrated.
- 11A. The legend below explains the icons and format of cross-references used in this document.

Icons – illustrate exercise of:		Legend				
		Format of Cross-references (A.A.a.aa)				
 Professional Judgment	Cross-reference to:	A	A	a	aa	Examples
	Guidance	"G"	Para no. or "Ch" + Chapter no.	Sub-para no. (lower case alpha)	Sub-sub-para no. (lower case Roman numeral)	G.78 refers to paragraph 78 of the Guidance G.Ch4 refers to Chapter 4 of the Guidance
	Standard (requirements)	"S"	Para no.			S.24.b.ii refers to paragraph 24(b)(ii) of the Standard
	Standard (application material)	"S"	"A" + Para no.			S.A42.a refers to paragraph A42(a) of the application material of the Standard
 Professional Skepticism	Supplement – A, B	"SuA", "SuB"	Para no.			SuA.62

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**Chapter 2 [previously 4] Applying Appropriate ~~Skills~~ Competence and Capabilities**

**Introduction**

87. [52] To accept or continue an assurance engagement the engagement partner is required to be satisfied that engagement team collectively have the appropriate competence and capabilities to:
- a) Perform the engagement in accordance with the relevant standards and applicable legal and regulatory requirements; and
  - b) Enable an assurance report that is appropriate in the circumstances to be issued.<sup>3</sup>
88. [53] The focus is on the ability to meet the requirements of the assurance standard/s, and to issue an appropriate assurance report that will enhance the degree of confidence of the intended users in the subject matter information. The competence needed to perform an assurance engagement includes both assurance competence and sufficient competence in the underlying subject matter of the engagement and in its measurement or evaluation.
89. [54] As discussed in Chapter 1, EER may be diverse, both in format and in the matters being reported on. The reporting can also be qualitative, comprising narrative description alongside financial and non-financial numbers. The frameworks and criteria used to measure or evaluate the subject matter/s may be in the early stages of development, and the governance, processes and internal control systems related to the preparation of EER may often be less developed than in a financial reporting context, particularly when an entity first starts to prepare its EER reporting. All these factors may increase the need for a high level of assurance competence as well as extensive subject matter expertise, for example, scientific or engineering skills, to be able to perform the engagement, depending on the particular engagement circumstances.

**Assignment of the Team**

90. [55] In a financial statement audit engagement, the audit partner and engagement team have core competence in both auditing skills and techniques (assurance competence) and in financial accounting (subject matter competence). However, in an EER engagement, while the assurance practitioner may have some subject matter expertise, the subject matter competence that may be needed on a complex engagement may go beyond that ordinarily possessed by most assurance practitioners.
91. [56] To be able to perform the assurance work over specialized subject matters or subject matter areas, the practitioner may need to use the work of a practitioner's expert. Such an expert has specialized skills and knowledge that enable an informed and knowledgeable view on the subject matter, but they may not have the extensive competence in assurance skills and techniques that are needed to perform an assurance engagement in accordance with the Standard or to be able to make the judgments in relation to contentious or difficult assurance matters. While a practitioner's expert is not required to have assurance competence, they may need sufficient understanding of the Standard to enable them to relate the work assigned to them to the objectives of the engagement.

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92. [57] Assurance skills and techniques include those planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner that are distinct from expertise in the underlying subject matter of any particular assurance engagement or its measurement or evaluation; they include the application of professional skepticism and professional judgment, obtaining and evaluating evidence, understanding information systems and the role and limitations of internal control, and linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures in an iterative systematic engagement process. Accordingly, they involve far more than the application of subject matter expertise.
93. [58] On broader or more complex EER engagements the practitioner may judge it necessary for the work to be performed by a multi-disciplinary team that includes both appropriate assurance competence and one or more practitioner's experts. The assurance practitioners, other than the engagement partner, who perform the engagement, may have a combination of different levels of assurance competence and different levels of subject matter competence. However, all assurance practitioners are likely to need some level of competence in both to be able to understand and apply the perspectives of a wider range of users and to be able to exercise the professional skepticism and professional judgment needed during planning and performing an assurance engagement.
94. [59] Both assurance practitioners and subject matter experts may, additionally, have specialized competence in a particular area, for example, an assurance practitioner may be a specialist in assuring IT systems and controls, in assuring sustainability information, or in assurance sampling techniques and methodologies; a subject matter expert, such as a biochemist, may be a specialist in environmental waste measurement and management, or a lawyer may be a specialist in environmental or human rights legislation (i.e. a specialized branch of law).
95. [60] The extent to which the work of experts and/or specialists is used, and how it is used, are a matter of judgment for the practitioner, taking account of factors such as:
- a) The nature and complexity of the underlying subject matter and its measurement or evaluation;
  - b) The extent to which the underlying subject matter lends itself to precise measurement or whether there is a high degree of measurement uncertainty that may need significant knowledge and judgment in relation to the subject matter;
  - c) The engagement partner's and engagement team's competence and previous experience in relation to the subject matter; and
  - d) The level of assurance to be provided.
96. [61] In a more complex engagement, the practitioner may find it helpful to draw up a skills matrix setting out the assurance and subject matter competencies needed to perform the engagement and those of key engagement team members and other individuals whose work is to be used in performing the engagement. A matrix could also help identify where subject matter competence in a specialized area may be needed by the practitioner and whether that competence is available to the practitioner from within their own firm or network (practitioner's internal expert) or may need to be obtained from outside the firm or network (external expert).



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97. [62] The more complex the engagement, the more necessary it may be to consider how the work of the assurance practitioners and the work of the practitioner's expert/s is to be integrated into a cohesive whole. Competence is not only about whether appropriate individual engagement team member competence is brought to bear on the engagement, but also how the various competencies (whether assurance competence or subject matter expertise) work together as an interdependent team to apply their combined knowledge, expertise and judgment (collective competence) to planning the assurance procedures and obtaining evidence, communicating findings on a timely basis, and evaluating the results. It is likely that individuals working together as a team, building a relationship, with a common focus on the purpose of the engagement and the needs of the intended users will be more effective than individual, isolated efforts on separate areas of the engagement that need different types of expertise.
98. [63] The following examples illustrate some of the considerations relating to the collective competence of the engagement team that may apply in ~~a complex engagement and a less fairly un~~complex engagement, ~~respectively.~~ Appendix 3, example 3 illustrates some of the considerations that may apply in a more complex engagement.

**EXAMPLE**

A professional services firm voluntarily reports, and requests assurance over:

- ☐ its GHG emissions from purchased electricity for a single office;
- ☐ metered water usage for its office; and
- ☐ the number of employees by gender and by grade.

In this example, an assurance engagement partner and team of practitioners with competence and experience in sustainability assurance engagements are likely to be able to perform the engagement to meet the requirements of the Standard without the need to engage further subject matter expertise.

**Competence and responsibilities of the engagement partner**

99. [65] The Standard requires that, in addition to assessing the collective competence of the team, the engagement partner is to have competence in assurance skills and techniques developed through extensive training and practical application as well as sufficient subject matter competence to accept responsibility for the assurance conclusion.
100. [66] An assurance practitioner may use the work of a practitioner's expert if, having followed relevant requirements of the Standard, they conclude that the work of that expert is adequate for the practitioner's purposes. However, the engagement partner has sole responsibility for the engagement. That responsibility is not reduced by the work of the practitioner's expert. The engagement partner needs to have sufficient understanding of, and competence in, the subject matter, in addition to having a high level of assurance competence, to be able to:
- a) ask appropriate questions of the expert and assess whether the answers make sense in the context of the engagement and as viewed from a user perspective;

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- b) assess the expert's work and integrate it with the work of the engagement team as a whole; and
  - c) take responsibility for the conclusions reached.
101. [67] The engagement partner is also responsible for the overall quality of the engagement, including for:
- a) appropriate direction, supervision and the review of the work of less experienced team members by more experienced team members;
  - b) maintenance of engagement documentation that provides evidence that the engagement was performed in accordance with relevant ISAEs and legal and regulatory requirements (see chapter 10 for guidance on documentation); and
  - c) for appropriate consultation by the engagement team on difficult and contentious matters.

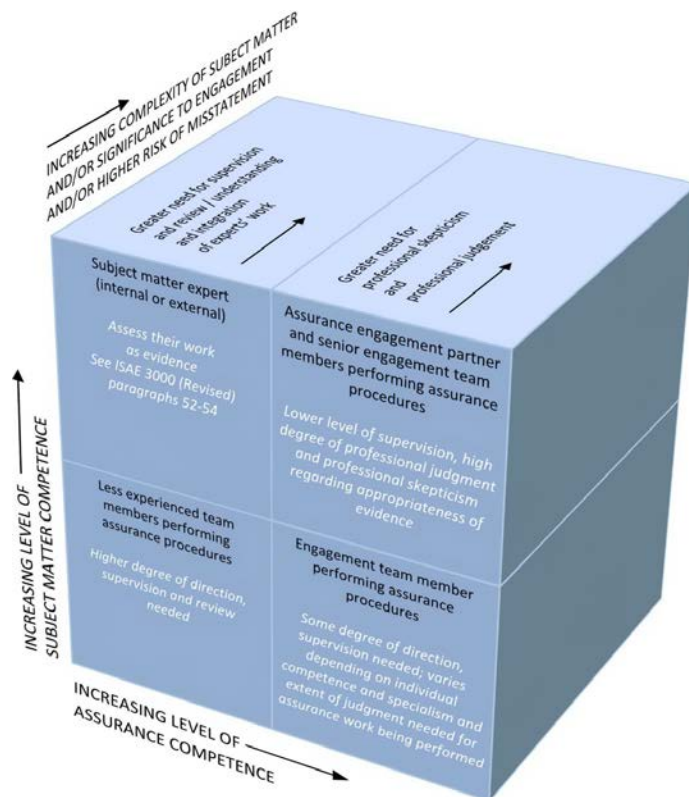
*Direction, supervision and review*

102. [68] The engagement partner considers the composition of the engagement team throughout the engagement and takes account of their assurance and subject matter competence when making decisions about the direction, supervision and review of their work. The lower the level of assurance competence of a team member is, the higher will be the need for direction, supervision and review of their work. Similarly, the lower the extent of their subject matter competence when they are performing assurance procedures, the lower may be their skills in exercising professional skepticism and professional judgment in relation to the evidence gathered, including the evidence obtained from using the work of an expert.
103. [69] The extent and nature of direction, supervision and review needed are a matter of judgment, taking account of factors such as:
- a) The assurance and subject matter competence of the individual team member;
  - b) The significance of the work performed by the individual in the context of the engagement as a whole;
  - c) The risks of material misstatement in the matter to which the work of the assurance practitioner or practitioner's expert relates;
  - d) Whether the practitioner's expert is internal or external to the practitioner's firm; and
  - e) Whether or not the firm has a well-developed methodology for practitioners to follow when performing a particular type of EER engagement.

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104. [70] The diagram below illustrates the levels of assurance skills that may be available in the engagement team and the level of both the subject matter competence and the direction, supervision and review that may be appropriate in the engagement circumstances. For example, where there is greater subject matter complexity, or the work of the individual is more significant to the engagement as a whole, greater direction, supervision, review and integration of that work is likely to be needed than if the subject matter is less complex or the work of the individual relates to a less significant part of the engagement.

**Engagement partner and engagement team competence**



**Other Quality Control Considerations**

105. [71] The premise on which the Standard is based includes that the engagement's assurance practitioners are members of a firm that is subject to quality control requirements at least as demanding as ISQC 1. Those requirements include that the firm establishes and maintains a system of quality control that includes documented policies and procedures addressing the

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matters set out in paragraph A61 of the Standard and that are communicated to the firm's personnel.

106. [72] Assurance practitioners are often professional accountants, but the Standard acknowledges that a competent practitioner other than a professional accountant may choose to represent compliance with the Standard. Representing compliance includes representing that they comply with the requirements of the Standard that address their own competence and the competence of others who are to perform the engagement, and that they are able to evidence that they are a member of a firm that is subject to quality control requirements at least as demanding as ISQC 1.
107. [73] Where the entity has a subsidiary, division, branch or operational site at a remote location or in a different jurisdiction, the practitioner may use the work of another practitioner to perform assurance procedures at that component. However, the engagement partner remains responsible for the overall assurance conclusion and for the quality control of the engagement. The Standard contains a number of requirements with respect to using the work of another practitioner in a multi-team or multi-location engagement.
108. [74] If the other practitioner is a member of the same network of firms, and that network is subject to common systems and processes to comply with ISQC 1, then a lower degree of direction, oversight and review may be necessary than when the component's subject matter information is subject to assurance by a practitioner outside of the practitioner's own network, or by a practitioner who is not a member of a firm that applies ISQC 1.

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**Chapter 3 [previously 5]: Exercising Professional Skepticism and Professional Judgment**

**Introduction**

109. [75] The Standard requires the engagement to be planned and performed with professional skepticism, recognizing that circumstances may exist that cause the subject matter information to be materially misstated. It also requires the exercise of professional judgment in planning and performing the assurance engagement, and the application of assurance skills and techniques (which include the exercise of professional skepticism and professional judgment) as part of an iterative, systematic engagement process.
110. [76] Sufficient knowledge of the circumstances of the engagement, as well as assurance competence and understanding of relevant standards, laws and regulations, are important to being able to exercise professional skepticism and professional judgment in making the informed decisions that are required throughout an EER engagement. Paragraphs A76 to A85 of the Standard set out why maintaining an attitude of professional skepticism and applying professional judgment are necessary, and in which circumstances they may be particularly important.

Engagement circumstances include the terms of the engagement, including whether it is a reasonable assurance engagement or a limited assurance engagement, the characteristics of the subject matter, the criteria to be used, the needs of the intended users, relevant characteristics of the responsible party and its environment, and other matters, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.

**The importance of professional skepticism and professional judgment in an EER engagement**

111. [77] In an EER engagement, the need for sound professional judgment and the exercise of professional skepticism may be heightened. EER engagements can be complex, with underlying subject matters that may be subject to greater subjectivity, management bias, estimation and evaluation uncertainties than when applying financial reporting frameworks (see Chapter 1).
112. [78] These and other factors, may make it challenging to:
- a) Understand the needs of intended users;
  - b) Understand the interrelationships of different aspects of the subject matter information;
  - c) Determine whether assumptions and methods used by the preparer are appropriate;
  - d) Recognize unusual circumstances or omissions of information when they occur

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- e) Evaluate the sufficiency and appropriateness of evidence obtained; and
- f) Determine the appropriate course of action in light of the facts and circumstances of the particular engagement.

113. [79] Other factors such as:

- a) the preparer's lack of familiarity with the reporting frameworks;
- b) the lack of maturity of frameworks, governance and controls; and
- c) the possibility that the underlying subject matter may not be central to the entity's strategy or management priorities

may also increase the need for the practitioner to exercise professional skepticism and professional judgment.

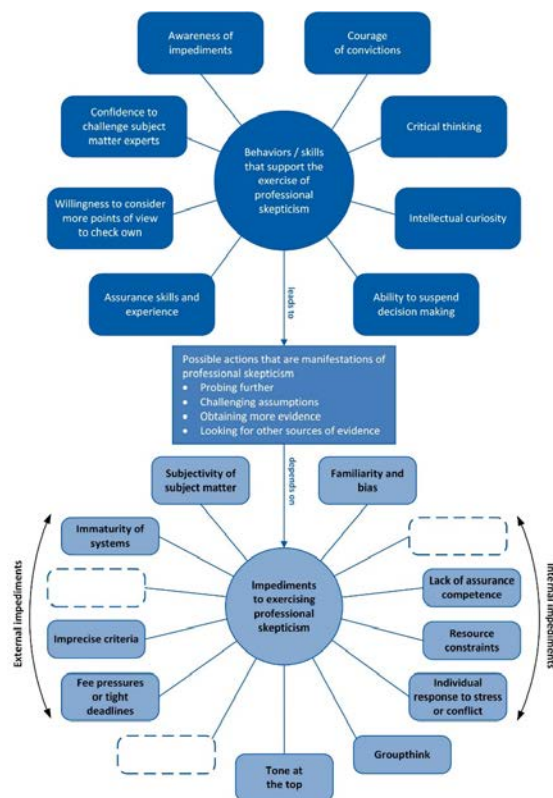
**Acquiring and applying professional skepticism and professional judgment**

*Professional skepticism*

- 114. [80] Professional skepticism is founded on an attitude of mind that, is neither unduly cynical nor accepting of representations or answers to inquiries at face value, even if they sound plausible. In an assurance engagement, it is manifested in the actions the practitioner takes in understanding and evaluating matters based on the evidence. These actions are primarily about asking the right questions and making a judgment, based on the evidence obtained, as to when it may be necessary to probe further and when it is appropriate to move on.
- 115. [81] The importance of professional skepticism to the interests of intended users is underscored by the increasing complexity of business and of EER reporting, rapid changes needed by businesses to adapt to changing circumstances, increased regulation, increased demand for transparency of information, the call for greater responsibility by business for its actions, and the use of increased judgment, estimation and assumptions by preparers of the EER information.
- 116. [82] The exercise of professional skepticism may be impeded by a number of factors, both external factors, not within the direct control of the practitioner, and internal factors. Heightened awareness of the presence and intensity of these factors can help practitioners to avoid or mitigate their impact by taking appropriate action.

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117. [83] The diagram below indicates both the attributes and behaviors that may be needed in the exercise of professional skepticism, and possible impediments to its exercise; it is not intended to illustrate all possible factors, but is indicative of the type of factor that may influence the practitioner's exercise of professional skepticism. The dotted boxes are intended to indicate that further impediments may be identified by the practitioner.



118. [85] External impediments to the exercise of professional skepticism may arise, for example, as a result of imprecise criteria, subjectivity or complexity of the subject matter, or because EER reporting and the associated governance, processes and controls are at an early stage. It can be difficult to know what the subject matter information should be or what may be of consequence to a user's decision-making when criteria and subject matter allow for a wide range of different interpretations and subjective judgments. As discussed in Chapter 4, assurance competence, strong business acumen and sufficient knowledge of the subject matter and its measurement or evaluation underpin the ability to exercise professional skepticism.

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119. [86] External pressures such as fee or time pressures may also impede the exercise of professional skepticism, as may an organizational culture or tone at the top that does not tolerate challenge. In such circumstances, practitioners may be reluctant to question when things do not seem right. However, it is important to bear in mind that the objective of an assurance engagement is to enhance the degree of confidence of the intended users in the subject matter information; it is therefore the users' needs that are kept in mind throughout the engagement. Clear and early communication with the preparer about expectations regarding, for example, the timing of deliverables and the availability of evidence and access to personnel may help to mitigate these impediments.
120. [87] Internal impediments may arise as a result of factors at firm level, engagement level or personal level. For example, a firm may not encourage differing views, place importance on training and ongoing professional education or develop assurance methodologies for the performance of its engagements. At engagement level, there may be resource constraints that prevent the appropriate competence from being included on the engagement team or that put team members under undue time pressures. Personal traits such as individuals' response to time pressure, stress or conflict, cultural background, intellectual curiosity, confidence to question or personal bias can act as impediments to the proper exercise of professional judgment.

*Professional judgment*

121. [88] The ability to exercise professional judgment is closely linked with competence in a particular subject matter. It is developed through extensive training and experience in that subject matter. Practical experience and 'on the job' coaching are particularly important in developing the ability to exercise professional judgment, including through the example set by engagement partners, and through more experienced engagement team members providing appropriate direction, supervision and review to less experienced members of the team.

- The application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.
- The distinguishing feature of the professional judgment expected of a practitioner is that it is exercised by a practitioner whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.
- The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the practitioner.
- Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate evidence.

122. [89] While subject matter experts also exercise judgment in relation to their area of subject matter expertise, the Standard contemplates professional judgment as part of the assurance



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skills and techniques of a practitioner, acquired through extensive training, knowledge and practical experience. Professional judgment is necessary regarding decisions about, amongst other matters: materiality and engagement risk; the nature, timing and extent of procedures that will enable sufficient appropriate evidence to be obtained to comply with the requirements of the relevant ISAEs; evaluating the evidence obtained and drawing appropriate conclusions based on that evidence; and the actions to take in exercising professional skepticism.

123. [90] Throughout the rest of this guidance, the exercise of professional judgment and professional skepticism are illustrated by way of examples related to specific decision points in the lifecycle of an EER engagement and are set out in the relevant chapters where those decision points are discussed. Within those chapters, the examples are identified by use of the symbol PJ or PS [as indicated in Chapter 1]. These include: [link to areas to which the examples relate, for example: scoping, competence, evidence-gathering and evaluation, reporting]
124. [91] Further discussion on professional judgment and professional skepticism can be found in the [Supplement].

*Documenting professional judgment*

125. [92] Paragraph 79 (c) of the Standard also requires the practitioner to prepare documentation sufficient to enable an experienced practitioner, having no previous connection to the engagement, to understand the significant professional judgments made in reaching conclusions on significant matters arising during the engagement. Documentation in an assurance engagement includes a record of the practitioner's reasoning on all significant matters that require the exercise of professional judgment, and related conclusions. When difficult questions of principle or professional judgment exist, documentation that includes the relevant facts that were known by the practitioner at the time the conclusion was reached may assist in demonstrating the practitioner's knowledge.

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**Chapter 4 ~~[previously 3]: Agreeing the Scope and Determining Preconditions~~  
and Agreeing Scope ~~Determining Preconditions~~**

**Matters Addressed by the Guidance in this Chapter**

12A. This Chapter provides guidance on applying the acceptance and continuance requirements of S.21-30 in the context of a potential EER assurance engagement. It focuses on determining whether the preconditions are present and agreeing the scope of the engagement, understanding the work effort that may be appropriate in applying the acceptance and continuance requirements, and remaining alert to, and managing, potential threats to the practitioner's independence that may arise in performing the potential engagement.

**Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners**

12B. The underlying subject matter may be complex and diverse, and the characteristics of the underlying subject matter and subject matter information may be more qualitative than quantitative and more future-oriented than historical. The entity's process to prepare the EER report or other components of the entity's system of control relevant to preparation of the EER report may not be fully developed. These and other factors, including that the engagement may be voluntary, and cost considerations may be a key engagement consideration for the preparer, may result in the proposed scope of the engagement being limited. The criteria may also include a significant element of entity developed criteria.

12C. When all or some of these factors are present, especially in an initial engagement, the practitioner may anticipate an extensive work effort to meet the acceptance and continuance requirements, and the potential existence of impediments to acceptance. There may also be an expectation that the practitioner would first conduct a separate non-assurance engagement to advise the preparer on its readiness for an EER assurance engagement. Such an engagement could give rise to potential threats to the practitioner's independence in later performing the proposed assurance engagement.

**Determining Whether the Preconditions for Assurance are Present**

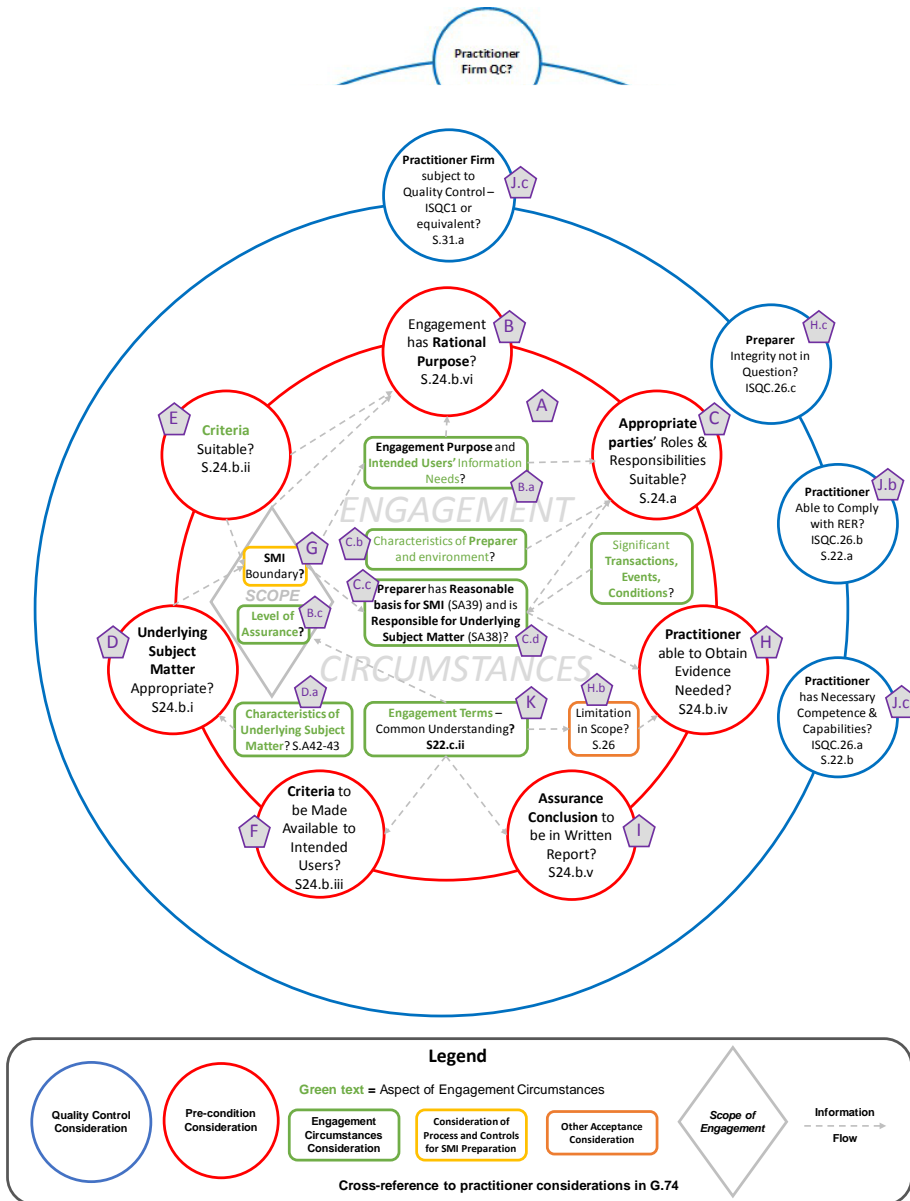
68. [43] ~~[378]~~ The practitioner is ~~only~~ permitted to accept or continue an assurance engagement ~~only~~ when, amongst other matters, the basis on which the engagement is to be performed has been agreed. In part, this is established through identifying that the preconditions for an engagement are present, based on a preliminary knowledge of the engagement circumstances and discussion with the preparer.
69. [44] ~~[38]~~ For a recurring engagement, the same preconditions are required ~~as for an initial engagement~~, however the continuance process may be more straightforward as the practitioner will already have good knowledge of the entity and the engagement ~~circumstances with which to determine if the preconditions are present.~~
70. ~~[45] [39] The same preconditions need to be present for all assurance engagements, whether limited or reasonable assurance is being obtained. For example, in order for the criteria to be suitable in a limited assurance engagement, the practitioner must be able to determine that they would be suitable in a reasonable assurance engagement.71. [46] [40] The preconditions are set out in paragraph 24 of the Standard, which are summarized in the seven grey-shaded boxes:~~

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72. [41] The preconditions are set out in ~~paragraph 24 of the Standard~~S.24, and all the preconditions are required to be met. ~~For example, although it can be challenging to determine whether the criteria are complete, the practitioner is required to do so. Although the presence of completeness in the criteria may be less readily determinable than the presence of other characteristics of suitable criteria, t~~The practitioner will need a sufficient preliminary knowledge of the engagement circumstances to be able to make a reasoned determination about whether the criteria exhibit the characteristic of completeness~~preconditions are present.~~
- 72A. The diagram below sets out the practitioner's consideration of the preconditions within the context of the particular engagement circumstances. It also illustrates the interrelationships between the various preconditions (which are shown in the red circles), and linkages to other acceptance considerations by the practitioner (shown in green boxes). The grey diamond illustrates the three-way cohesiveness of the underlying subject matter, the criteria and the resulting subject matter information, which are considered together when determining the scope of the assurance engagement, and are discussed further below in G.47-48. Cross references in grey pentagons in the diagram below are to the practitioner considerations in G.74.

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**Diagram 2 – Acceptance Considerations Including Preconditions**



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74. [47] [42] The following considerations for the practitioner include questions (based on the preconditions for an assurance engagement) that are designed to illustrate how the practitioner may make some of the judgments involved in the acceptance or continuance decision.

**CONSIDERATIONS FOR THE PRACTITIONER**

- A. Does the practitioner have sufficient preliminary knowledge of the engagement circumstances to be able to determine whether the preconditions are present (G.72, G.78A)?
- B. Does the engagement have a rational purpose (S.24.b.vi, S.A56, G.76)?
- (a) Has the preparer identified the purpose of the engagement and the intended users and their information needs?
  - (b) Have the intended users been involved in determining the criteria?
  - (c) Are the identified purpose, intended users and their information needs, and the proposed scope of the engagement (boundary of the subject matter information and level of assurance) consistent with each other and with the practitioner's knowledge of the engagement circumstances?
  - (d) If the appropriate parties are not the same, could the characteristics of their relationships undermine the purpose of the engagement?
  - (e) Would the practitioner be inappropriately associated with the underlying subject matter or the EER report?

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CONSIDERATIONS FOR THE PRACTITIONER

- C. Are the roles and responsibilities of the appropriate parties suitable, and has the preparer appropriately fulfilled its responsibility to have a reasonable basis for the subject matter information (S.24.a, S.A37-A39, G.76)
- (a) Is the underlying subject matter appropriate and are the criteria suitable?
  - (b) What are the characteristics of the relationships between the parties?
  - (c) Does the preparer's process to prepare the subject matter information provide a reasonable basis for that information, and is the process appropriately supported by other relevant aspects of the entity's system of internal control (G.Ch 6)?
  - (d) Has the preparer acknowledged its responsibility for the underlying subject matter?
  - (e) Have the practitioner and preparer reached a common understanding of their roles and responsibilities and of the engagement terms (S.22.c.ii)?

CONSIDERATIONS FOR THE PRACTITIONER

- D. Is the underlying subject matter appropriate (S.24.b.i, S.A40-A44, G.75A-75C)
- (a) Given the characteristics of the underlying subject matter, is it identifiable, and is it capable of consistent measurement or evaluation, at an appropriate level of aggregation or disaggregation?
  - (b) Can the resulting subject matter information be subjected to procedures to obtain sufficient appropriate evidence?
- E. Are the applicable criteria suitable for the engagement circumstances (S.24.b.ii, S.A45-A50, G.Ch 5)?
- (a) Are any framework criteria suitable on their own (i.e., do they exhibit the five characteristics of suitable criteria) or is there a need for entity developed criteria?
  - (b) Does the preparer have an appropriate process in place for selecting or developing and reviewing the criteria (G.Ch 7)?
- F. Will the framework or entity developed criteria be made available to the intended users (S.24.b.iii and S.A51-A52)?
- G. Has the proposed boundary of the subject matter information been determined appropriately, and if the subject matter information is less than the EER report, has it been selected in an unbiased manner?

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CONSIDERATIONS FOR THE PRACTITIONER

- H. Does the practitioner expect to be able to obtain the evidence needed to support the limited or reasonable assurance conclusion, as applicable (S.24.b.iv, S.A53-A55, ISQC1.26.c)?
- (a) Would the preparer's process to prepare the subject matter information provide a reasonable basis for that information whether the proposed level of assurance is limited or reasonable assurance?
- (b) Has the preparer accepted responsibility for the underlying subject matter?
- (c) Has the preparer imposed a limitation on the practitioner's work (S.26, S. A155.c) and will the practitioner have adequate access to the preparer's records and people?
- (d) Is the integrity of the preparer in question?

CONSIDERATIONS FOR THE PRACTITIONER

- I. Is the assurance conclusion to be contained in a written report (S.24.b.v)?
- J. Are expectations for engagement quality management appropriate?
- (a) Is the practitioner a member of a firm that is subject to ISQC 1 or other professional requirements, or requirements in law or regulation that are at least as demanding as ISQC 1 (S.31.a, S.A60-A66)?
- (b) The members of the engagement team are subject to the IESBA Code or other professional requirements, or requirements in law or regulation, that are at least as demanding (S.22.a, S.A30-A34, ISQC1.26.b)?
- (c) Do those who are to perform the engagement collectively have the appropriate competence and capabilities to do so (S.22.b, S.32, ISQC1.26.a, G.Ch 2)?
- K. Will the understanding of the engagement terms be set out in writing in an engagement contract (S.27, S.A57-A58)?

Considering whether the engagement has a rational purpose

76. [49] [45] The purpose of an assurance engagement is established in the definition of an assurance engagement in ~~paragraph 12(a)~~ S.12.a of the Standard. The meaning of the term 'rational' is not explicitly addressed in the Standard. However, an assurance engagement may be considered to have a rational purpose if the practitioner's conclusion is designed "to enhance the degree of confidence of the intended users ... about the subject matter information". It may be expected that it is designed to do this in a way that is logical, coherent and appropriate in the engagement circumstances. In this context, the application material in paragraph ~~A56 of the Standard~~ S.A56 sets out certain considerations that may be relevant in determining whether the purpose of a proposed assurance engagement is rational.

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CONSIDERATIONS FOR THE PRACTITIONER

In determining whether a proposed EER assurance engagement has a rational purpose, it may be appropriate for the practitioner to consider matters such as:

- Who the intended users are, including taking into account whether the applicable criteria were designed for a general or special purpose, and whether the EER report or the assurance report will be used or distributed more broadly than to the identified intended users.
- Assuming the subject matter information is expected to address the significant information needs of the intended users, whether any aspects of the subject matter information are expected to be excluded from the assurance engagement and the reason for their exclusion.
- Who selected the criteria, including whether and the extent to which the intended users or other parties were involved in selecting or designing the criteria and the degree of judgment and scope for bias where parties other than the intended users were involved in doing so.
- Whether the level of assurance that the practitioner plans to obtain (and therefore what would constitute sufficient appropriate evidence) is expected to reduce engagement risk to a level which is at least meaningful in the circumstances of the engagement, having regard to the extent of the consequence to the intended users of an inappropriate conclusion by the practitioner.
- Where the engagement is a limited assurance engagement, whether the level of assurance the practitioner plans to obtain is sufficient to be meaningful to the intended users – in some circumstances, the intended users' need for assurance may even be so great that a reasonable assurance engagement is needed to obtain a meaningful level of assurance.
- Whether the scope of the practitioner's work is expected to be limited significantly, such that the practitioner's conclusion may not sufficiently enhance the degree of confidence of the intended users in the EER report.
- Whether, when the engaging party, responsible party and the measurer or evaluator are not all the same party, the characteristics of the relationships between these parties could undermine the purpose of the engagement.
- Whether the practitioner believes that the preparer intends to associate the practitioner's name with the underlying subject matter or the EER report in an inappropriate manner.

Considering whether the underlying matter is appropriate

75A. The application material in S.A40-A45 sets out guidance on what it means for the underlying subject matter to be appropriate. Considerations include whether the underlying subject matter is identifiable, and capable of consistent measurement or evaluation against the applicable criteria.

75. [48] [44] Identifiable underlying subject matter means that the different aspects of the subject matter are well-defined and distinct from other things (see example below). All assurance engagements have an underlying subject matter, which is related to the purpose and intended



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users of the EER report, and to which the criteria are applied to result in the subject matter information. As discussed in G.47-48, there needs to be a coherent relationship between the underlying subject matter, the criteria and the subject matter information when determining the scope of the assurance engagement.

**EXAMPLE**

The greenhouse gas emissions of an entity might be identifiable underlying subject matter because there are widely accepted definitions of greenhouse gas emissions (such that they are distinct from other things, for example other emissions to air). Additionally, methods exist to measure or estimate those greenhouse gas emissions that are attributable to the entity's activities.

However, the impact of the entity's activities on global temperature change more broadly might not be identifiable underlying subject matter. This is because it is difficult to attribute global temperature changes to greenhouse gas emissions of specific entities and to separate the impact of greenhouse gas emissions from other factors causing such temperature changes (for example deforestation).

75B. Different underlying subject matters have different characteristics, as described in paragraph S.A42. Such characteristics affect the precision with which the underlying subject matter can be measured or evaluated against the criteria, and the persuasiveness of available evidence.

75D. The level of aggregation or disaggregation of the underlying subject matter may affect the practitioner's consideration of matters such as the entity's process to identify material aspects of the underlying subject matter to be included in the EER report (G.Ch 7), the suitability of criteria (G.Ch 5), and what might affect the decisions of the identified intended users (materiality considerations, which are discussed further in G.Ch 10). For further discussion on the appropriateness of the underlying subject matter and how aspects of the underlying subject matter may be addressed at different levels of aggregation or disaggregation, refer to SuA [x].

75C. The criteria may be applied to the underlying subject matter as a whole to result in the subject matter information, but, as described in S.A44, in some cases, the assurance engagement may relate to only one part of a broader underlying subject matter i.e. the criteria may be applied to particular aspects of the underlying subject matter.

Considering whether the criteria are suitable

70. [45] [39] In order for the criteria to be suitable in a limited assurance engagement, the practitioner must also be able to determine that they would be suitable in a reasonable assurance engagement.

82A. Considering whether the criteria are suitable involves considering whether they exhibit the five characteristics set out in S.A45. S.A46-A50 set out further considerations for the practitioner, including that the way in which criteria are developed may affect the work that the practitioner carries out to assess their suitability.

51. [21] As set out in S.A48, criteria can be selected or developed in a variety of ways. Suitable measurement or evaluation criteria often are not available in established EER reporting

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frameworks. Such frameworks often are less prescriptive about the scope of the underlying subject matter to be addressed in an EER report, or how to measure or evaluate and disclose the underlying subject matter, as compared to financial reporting frameworks. In such circumstances, the

preparer will need to develop the criteria further in order that they exhibit the characteristics of suitable criteria.

82B. One area where the development of such criteria may be needed is when the framework does not include criteria to identify the reporting topics for inclusion in an entity's EER report. In such circumstances, the entity will have to go through a process of selecting criteria from other frameworks, or develop its own. In these circumstances, it may be helpful for the practitioner to consider the preparer's process for identifying reporting topics to include in its EER in order to obtain a sufficient preliminary knowledge of the engagement circumstances. A more detailed consideration of the preparer's process may be undertaken when the practitioner obtains an understanding of the engagement circumstances as required by S.45-47L/R, and as discussed further in G.Ch 7 *Considering the Entity's Process to Identify Reporting Topics*.

*Considering the entity's process to prepare the subject matter information*

126. [58] To accept an assurance engagement, the practitioner is required to determine that the preparer has a reasonable basis for the subject matter information in the EER report as part of the precondition that the roles and responsibilities of the preparer are suitable. The practitioner is also required to determine that they expect to be able to obtain sufficient appropriate evidence. Practitioners may encounter entities at varying stages of development of their system of internal control, and whether these preconditions are present may depend on the extent to which the entity's system of internal control is, in the practitioner's professional judgment, able to support those preconditions, taking into account the nature, extent and complexity of the underlying subject matter and criteria.

128. [60] Considering the entity's system of internal control may assist the practitioner in determining whether the preconditions for an assurance engagement are present. Understanding the work effort doing so is addressed below under *Work Effort in Determining Whether the Preconditions are Present*. Guidance on the more detailed understanding of the entity's processes and systems of internal control obtained at the planning stage of the engagement is included in G.Ch 6 *Considering the System of Internal Control*.

**Agreeing the Scope of the Engagement**

43C. Agreeing the scope of the engagement means agreeing the boundary of the subject matter information for the EER assurance engagement and the level of assurance to be obtained in performing the engagement.

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Considering the proposed boundary of the subject matter information

44. [14] The Standard can be applied to engagements of diverse scopes, provided that the preconditions in S.24, and the other acceptance requirements are met. The preparer may propose a boundary of the subject matter information which may be The scope of an assurance engagement can be an entire EER report or only part(s) of an EER report in different circumstances.

44A. In the initial stages of EER reporting, The Standard can be applied to a variety of engagements, provided that the preconditions in paragraph 24 of the Standard are met. entities the practitioner may not be able to determine that the preparer has a reasonable basis for all of the information included in the EER report, so the boundary of the subject matter information may be only only those parts of the EER report for which the preparer does have a reasonable basis. In other circumstances, the p-xxx preparer may propose a recurring EER assurance engagement in which the boundary of the subject matter information is subject to variation from period to period (G.57-58 below). For example, the preparer may propose a boundary that increases from period to period or one that varies in a 'rolling program' of assurance (G.59-63 below), and a coherent relationship xxxx

44B. If considering a particularly narrow scope for the EER assurance engagement, for example covering only a few specific measures or indicators in isolation, rather than the entire EER report, careful consideration may be needed to determine whether the preconditions are present.

Considering a boundary of the subject matter information that includes only part(s) of an EER report

47. [17] Where the subject matter information is less than all of the information included in the EER report, the engagement criteria and underlying subject matter will not be the same as the criteria and underlying subject matter that gave rise to all the information in the EER report. They will be narrower in scope as they relate to a narrower boundary, but there still needs to be a coherent relationship between the subject matter information, criteria, and underlying subject matter, such that applying the criteria to the underlying subject matter gives rise to the narrower scope of subject matter information.

44A. If considering a particularly narrow scope for the assurance engagement, for example covering only a few specific measures or indicators in isolation, rather than the entire EER report, careful consideration may be needed to determine whether the preconditions are present.

48. [18] Selecting only those parts of the information included in the EER report that are easier to assure or that present the entity in a favorable light (sometimes referred to as 'cherry-picking') would not be appropriate unless the selected subject matter information, criteria and underlying subject matter have an appropriately coherent relationship and the preconditions for acceptance of the proposed assurance engagement are present, including that the engagement has a rational purpose. The engagement may be more likely to have a rational purpose if the parts of the EER report within the scope of the assurance engagement are those that are most important in assisting decision-making by the intended users. An example of underlying subject matter, criteria and subject matter information that have not been applied in a cohesive manner is set out in SuB.[x] An example of a narrow scope engagement which may have a rational purpose is set out below.

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EXAMPLE

A water utility company reports annually on a number of KPIs, including customer satisfaction, value for money, time lost through interruptions of water supply, leakages, the quality of its drinking water, and the quality of bathing waters where the company discharges wastewater to the sea. The company is required to report to its regulator, and to obtain reasonable assurance that the quality of drinking water supplied, and of wastewater discharged meets the criteria established in the regulatory framework.

In the past year the company has had numerous complaints about the quality of its drinking water, and the treatment of its wastewater and the number of samples taken is currently subject to investigation by the regulator.

While the company reports, in its EER report, on a number of different underlying subject matters, it has proposed that the scope of the assurance engagement be limited to the drinking water and wastewater KPIs only. The reason given is that, in the shorter term, the entity wants to focus on improving its processes, systems and controls for those aspects of the EER report that are subject to regulatory scrutiny, that require assurance, and that are likely to be of greater interest to the intended users. In such a case the narrower scope of the engagement may have a rational purpose.

*The meaning of 'scope' of assurance*

45. [15] The scope of an assurance engagement covers two dimensions:

- a) The breadth of the subject matter information for the engagement (the information in the EER report that is to be assured) and of the underlying subject matter and applicable criteria from which it has been prepared. The information in the EER report that is to be assured may be all, or less than all, of the information included in the EER report; and
- b) The depth of the assurance to be obtained by the practitioner, which is linked to the level of assurance (limited or reasonable) for the engagement and influences the quantity and quality of evidence that is needed to support the practitioner's conclusion.

46. [16] The breadth and depth of scope are proposed by the preparer, considered by the practitioner in determining whether the preconditions are present, and agreed between the preparer and the practitioner on acceptance of the engagement.

*The breadth of scope*

47. [17] Where the subject matter information to be assured is less than all of the information included in the EER report, the engagement criteria and underlying subject matter will not be the same as the criteria and underlying subject matter that gave rise to all the information in the EER report. They will be narrower in scope. However, there still needs to be a coherent relationship between the engagement subject matter information, criteria, and underlying subject matter, such that applying the engagement criteria to the engagement underlying subject matter gives rise to the narrower scope of subject matter information to be assured. In this case, the preconditions are considered in the context of the subject matter information, criteria and underlying subject matter for the proposed narrower scope of the assurance engagement.

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*Underlying subject matter is identifiable*

75. — [48] [44] Identifiable underlying subject matter means that the subject matter elements are well-defined and distinct from other things.

EXAMPLE

~~The greenhouse gas emissions of an entity might be identifiable underlying subject matter because there are widely accepted definitions of greenhouse gas emissions (such that they are distinct from other things, for example other emissions to air). Additionally, methods exist to measure or estimate those greenhouse gas emissions that are attributable to the entity's activities.~~

~~However, the impact of the entity's activities on global temperature change more broadly might not be identifiable underlying subject matter. This is because it is difficult to attribute global temperature changes to greenhouse gas emissions of specific entities and to separate the impact of greenhouse gas emissions from other factors causing such temperature changes (for example deforestation).~~



Considering a proposed boundary of the subject matter information that increases over time

*Increasing breadth of scope over time*

57. [27] Entities producing EER reports typically implement gradual changes to their governance and controls to support their EER reporting as it becomes more established and formal. Where an entity's governance and controls over EER are in the process of developing, the preparer may not have a reasonable basis for reporting on all aspects of the underlying subject matters or for all the information included in the EER report. Nevertheless, the preparer may wish to obtain assurance on those areas for which the preconditions could be met and to disclose in the EER report that they are working on developing the governance, processes and systems to extend the scope of assurance in other areas in due course. Consideration of the reasons for the preparer wishing to include only certain part(s) of the information included in the EER report within the scope of assurance is needed to determine whether the reasons for the narrower scope to be assured are ~~inappropriate or~~ and the proposed engagement ~~has~~ lacks a rational purpose.
58. [28] Where the entity's governance and controls over EER are in the process of developing, it may be expected that more part(s) of the information included in the EER report would fall within an evolving scope of the subject matter information for successive EER assurance engagements as the entity's EER governance, reporting processes and systems evolve. Where the entity ~~has given as its reasons for a narrow scope engagement that it is in the process of developing its governance and controls over EER, but it~~ does not make any attempt to include further information in the EER report within the scope of the assurance engagement in later periods, that may (unless user information needs have changed) call into question the entity's reasons for reporting the subject matter information and whether the assurance engagement has a rational purpose.

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Where the breadth of scope is Considering a proposed boundary of the subject matter information that varies in a 'rolling program' of assurance

59. [29] The entity may wish to establish a program ~~of to~~ systematically vary boundary of the subject matter information ~~the breadth of scope~~ year on year, which may involve including all or most aspects of the subject matter information in the scope over a repeating cycle ('rolling program'), for example, due to cost considerations.
60. [30] An assurance engagement, on a rolling basis, over selected parts of the EER report that vary from period to period is different from the performance of assurance procedures on a selective, rotational basis on subject matter information that is subject to assurance each period. The former relates to determining the scope of the assurance engagement and assessing the preconditions for assurance, and is discussed further below. The latter is about the design of selective procedures to obtain ~~ning~~ evidence about the subject matter information after the acceptance decision has been made.
61. [31] ~~When~~ re the preparer wishes to obtain assurance, with the scope determined on a rolling basis, the practitioner needs to understand the reasons for the preparer proposing a rolling program of assurance, and whether those reasons are appropriate when considered with the intended users in mind.
62. [32] ~~When~~ re such a program is considered to result in successive assurance engagements that each has a rational purpose, the criteria for presentation and disclosure may be particularly important to allow the intended users to understand the approach the preparer has taken and the boundaries of the information in the EER report that has been assured.
63. [33] ~~When~~ re an evolving or rolling program of assurance engagements is adopted by a preparer and accepted by a practitioner, users may expect it to be followed consistently as designed. However, the nature, extent and timing of the consideration the practitioner gives to the 'other information' may change from period to period as, effectively, the information included in the EER report related to those aspects not within the scope of assurance in a particular period become 'other information'. The practitioner also needs to be alert to changed engagement circumstances that may mean a rolling scope of assurance would no longer be appropriate. For an example of when a rolling program may be appropriate, refer to SuB.[x]. An example of when a rolling program may not be appropriate is set out below.

EXAMPLE

A multinational beverage company has high water usage. Its production process produces wastewater that is potentially harmful to sensitive ecosystems, but is closely monitored to make sure that the levels do not exceed those considered to be safe by the environment agencies in each location.

In this example, including water usage and wastewater for assurance on a rolling basis may not have a rational purpose as such an assurance engagement may not meet the intended users' needs. Users are likely to be interested in what the company is doing on an ongoing basis to reduce its water consumption, particularly in water scarce areas, and their decisions may well be influenced by even small levels of harmful effluent that exceed

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those considered to be safe. Breaching those levels may result in significant penalties or fines to the company. It is unlikely that a rolling basis of assurance, where some sites were excluded from assurance in a particular year(s), would not reflect a rational purpose in this situation.

*The depth of scope Considering the proposed level of assurance to be obtained*

64. [34] The ~~second dimension of scope is the depth of the~~ proposed level of assurance to be obtained. ~~This is influenced by the agreed level of assurance (limited or reasonable) may influence the practitioner's consideration of the acceptable, or an acceptably low, level of engagement risk and the, and is related to the~~ nature, timing and extent of procedures the practitioner performs as part of their evidence-gathering procedures.
65. [35] What is an acceptable, or an acceptably low, level of engagement risk may vary according to the circumstances of the engagement including the information needs of the intended users as a group, the criteria, and the underlying subject matter. Determining the nature, timing and extent of procedures to be performed in the context of the level of assurance to be obtained may require considerable skill in the exercise of professional judgment and professional skepticism, and is discussed further in Chapter 12 ~~Assuring Narrative~~ Obtaining Assurance on Qualitative Information and Chapter 12 ~~Assuring~~ Obtaining Assurance on Future-Oriented Information. However, the decision as to what is likely to be meaningful in terms of the appropriate level of assurance is considered when considering whether the preconditions are present.

**Work Effort in ~~D~~determining the presence of preconditions Whether the Preconditions are Present**

77. [46] The practitioner establishes whether the preconditions for an assurance engagement are present based on a preliminary knowledge of the engagement circumstances and discussion with the appropriate party(ies).
- 77A. Engagement circumstances include, amongst other matters, the characteristics of the subject matter, the criteria to be used, the needs of the intended users, relevant characteristics of the responsible party and its environment, and other matters such as transactions, conditions and practices, that may have a significant effect on the engagement. Accordingly, the extent of preliminary knowledge needed to arrive at a reasoned determination about the preconditions may depend on these ~~numerous and other~~ factors, such as the experience of the practitioner. A practitioner with previous experience of the subject matter and of the framework and criteria being applied may be expected to make judgments more readily than a practitioner without such experience.



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77B. The greater the complexity of the subject matter or the more subject it is to management bias, the greater may be the need for the practitioner to understand the systems, processes and controls in place that provide a reasonable basis for the subject matter information before being able to determine whether the preconditions are present. ~~By contrast, on an uncomplex engagement, discussion with the preparer may be appropriate.~~

78. [47] In a complex engagement, or one in which the preparer has further developed the framework criteria or has developed its own criteria, the practitioner may wish to consider bringing forward some of the procedures that ordinarily would be performed as part of planning, for example, performing a walk through to understand the processes for recording the information, or may choose to carry out a 'readiness assessment' (~~see paragraph xxG.79B.b).~~

78A. ~~On small, less complex engagements, a discussion with the preparer to obtain sufficient preliminary knowledge may be appropriate. In either case, the practitioner's preliminary knowledge of the engagement circumstances needed to arrive at a reasoned~~ determination ~~about the preconditions and, in doing so,~~ to exercise the professional skepticism and professional judgment required by the Standard, may include a sufficient understanding of the entity's business, its operating environment, who the intended users of the EER report are and what would affect their decision-making, as well as sufficient knowledge of the underlying subject matter and, where relevant, its connectedness with other subject matters the entity reports on.

73. ~~[42] The preliminary knowledge that the practitioner has when assessing the preconditions may be obtained through previous experience of the engagement, knowledge of the entity's business and industry, general business acumen, discussion with the preparer, or possibly bringing forward some of the work that ordinarily is performed during the initial stages of planning the engagement, or through a combination of these. It is a matter of professional judgment as to how extensive the practitioner's preliminary knowledge needs to be in order to make a reasoned judgement about each of the characteristics of suitable crit It will depend on factors such as how complex the engagement is, whether the criteria are established by the reporting framework used or whether they have been further developed by the preparer (see chapter 8), and on the experience of the practitioA practitioner with previous experience of the subject matter and of the framework and criteria being applied may be expected to make judgments more readily than a practitioner without such experience.~~

Assurance Readiness Engagements and "Maturity Assessments" Initial engagements

79A. When the proposed engagement is an initial engagement, it is likely that the work effort to determine whether the preconditions are present may be greater than in the case of a continuing engagement, especially when the entity's process to prepare the EER report is in the early stages and still evolving, or when the proposed engagement is complex.

79B. There are several possible approaches the practitioner may choose to take in such circumstances:

(a) As discussed in G.78 above, the practitioner may perform more extensive pre-acceptance procedures, for example, it may be possible to bring forward some of the procedures that



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are ordinarily performed as part of planning or to consider knowledge obtained from other engagements the practitioner performs for the entity; or

(b) As discussed in G.79-80 below, the practitioner may carry out an assurance readiness engagement to determine whether the preconditions are present, and to identify actions for management to consider if the preconditions are not present); or

(c) The practitioner may carry out a maturity assessment of the entity's process to prepare the EER report to advise the entity on actions to develop the process and related controls towards. Such an engagement would not be an assurance engagement (see G.81).

79. [50] [48] In some circumstances, for example in larger or more complex engagements, the practitioner may choose to determine whether the preconditions are present as part of an 'assurance readiness' process before committing to an assurance engagement. This may be a separate (non-assurance) engagement that would not be performed under the Standard. If it is found by the practitioner that the preconditions for assurance are present, the entity can then choose to proceed with requesting an assurance engagement. The nature of procedures the practitioner performs may not be different from those performed under an assurance engagement, but may be less extensive, and result in recommendations to management, rather than an assurance report.
80. [51] [49] As well as assisting the practitioner in managing a preparer's expectations, this approach may also be beneficial to the entity. I—because—the practitioner may communicate practitioner's communications about their findings, conclusions and recommendations about the entity's readiness for an assurance engagement ~~ement to those charged with governance or management, as appropriate. Such communications may encourage those charged with governance or management, as appropriate, to take steps to improve the process to prepare EER reports.~~
81. [52] [50] There are many other types of assurance readiness engagements and Alternatively, the practitioner may undertake a variety of engagements to perform. "maturity assessments" (non-assurance or advisory engagements) that a practitioner may undertake ~~that would not be performed as an assurance engagement~~ under the Standard. For example, a practitioner may undertake a 'maturity assessment' to evaluate the maturity of the entity's system of internal control related to the process to prepare the EER report, or other matters. This may include considering the design and implementation or effectiveness of the system as a whole, or aspects of it, such as the relevance of performance measures the entity is developing and considering whether they are sufficiently well-established to provide intended users with the appropriate information they need to assist their decision-making.

Ethical considerations

82. [53] [51] Although these assurance readiness engagements and maturity assessments discussed in G.79-81 can provide insights that may assist the entity in further developing its EER processes, there may be a self-review threat to the practitioner's independence if, for example, the practitioner is advising on the further development of the entity's EER processes

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and then plans to undertake a subsequent EER assurance engagement, or where the practitioner is providing an audit or other assurance engagement.

82C. For example, a self-review threat would arise if the practitioner were to assist the entity in designing its EER reporting systems or in setting the criteria, and then needed to obtain assurance about the suitability of those criteria, or about the effectiveness of design of the reporting systems, as part of a separate assurance engagement.

82D. However, making recommendations or observations about ~~issues-matters~~ that management may need to consider, or possible actions they may need to consider, further-select from or develop further may not give rise to a self-review threat. Similarly, if the entity has developed its criteria but has not documented them, the practitioner assisting the preparer in documenting the criteria based on discussions with the preparer may not give rise to a self-review threat. The key is that management must have sufficient capability to make, and do make, the decisions themselves.

**Response where the Preconditions are not Present**

143. [75] Where the practitioner establishes that the preconditions for an assurance engagement are not present, they may discuss this with the potential engaging party (management or those charged with governance). If changes cannot be made to meet the preconditions, the practitioner is not permitted to accept the engagement as an assurance engagement<sup>4</sup>.
144. [76] If it is not possible to accept the assurance engagement, the practitioner may engage with the entity to undertake an assurance readiness assessment (~~see paragraphs G.79-80~~ above). This may give the practitioner the opportunity to report their findings and conclusions on the system of internal control in a management letter to assist those charged with governance and senior management. The preparer may be encouraged to take steps to improve the controls and level of oversight such that an assurance engagement is possible in future.
145. [77] In circumstances where the preparer has not met its responsibilities and the practitioner cannot decline the engagement due to its acceptance being required by law or regulation, the practitioner may need to consider whether it is necessary to express a qualified conclusion or disclaim a conclusion. An engagement conducted under such circumstances does not comply with the Standard. Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with the Standard or any other ISAE(s)<sup>5</sup>.

**EXAMPLE**

A practitioner may be required by law to undertake an assurance engagement in relation to service performance information of a public sector entity, and may therefore not be able to decline the engagement.

<sup>4</sup> ISAE 3000 (Revised) paragraph 25

<sup>5</sup> ISAE 3000 (Revised) paragraph 25

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**Agreeing the Scope of an EER Assurance Engagement**

83. ~~[54] There is a wide variety in the scope of assurance engagements carried out in accordance with the Standard, in practice. The scope of an engagement can be an entire report or only part(s) of an EER report.~~
84. ~~[55] The Standard can be applied to a variety of engagements provided that the preconditions in paragraph 24 of the Standard are met. If considering a particularly narrow scope for the assurance engagement, for example only covering specific measures or indicators in isolation, careful consideration may be needed to determine whether the preconditions are present, including that the engagement has a rational purpose (see paragraph 49).~~
85. ~~[56] In circumstances where the proposed scope of the engagement is not an entire EER report, a practitioner may need to consider whether the reasons for excluding parts of the subject matter information from the assurance engagement are appropriate in determining whether the engagement has a rational purpose<sup>6</sup>. For example, the engagement may be more likely to have a rational purpose if the parts of the EER report within the scope of the assurance engagement are those which are most important in assisting decision-making by the intended users. Selecting only parts of the EER report that are easy to subject to an assurance engagement or that present the entity in a positive way may mean the assurance engagement does not have a rational purpose.~~

<sup>6</sup> ISAE 3000 (Revised) paragraph A56

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Chapter 5 [7]: Determining the Suitability and Availability of Criteria

Introduction

In planning and performing the engagement, the practitioner is required to determine whether the criteria are suitable for the engagement circumstances, including that they exhibit the characteristics identified in paragraph 24(b)(ii) of the Standard, and discussed further in paragraphs x to x below.

49. ~~[19] As discussed further in Chapter 7, criteria determine the content of the EER report and its basis of preparation. They are the benchmarks used to measure or evaluate the underlying subject matter. Criteria would not be suitable if they were to result in subject matter information or an assurance report that was misleading to the intended users. Suitable criteria are therefore required to be:~~

- ~~a) Relevant;~~
- ~~b) Complete;~~
- ~~c) Reliable~~
- ~~d) Neutral; and~~
- ~~e) Understandable.~~

50. ~~[20] Paragraph A45 of the Standard explains what these characteristics of suitable criteria mean.~~

53. [23] Where an EER framework does not specify what ~~topics and related elements~~ would assist the decision-making of the intended users of the report, but requires adherence to high-level principles, ~~in selecting them,~~ the criteria in the framework may not be considered to be suitable on their own as they may lack the characteristics required by the Standard. In such a situation, preparers apply a process to make judgments about how the high-level principles of the framework are to be met within their own organization, and develop the criteria further so that the combination of framework and entity-developed criteria result in subject matter information that assists the decision-making of the intended users. This is discussed in further detail in Chapter 8: *Considering the Entity's 'Materiality Process'*

54. [24] Just as the practitioner is required to determine whether the criteria set out in a framework meet the preconditions for assurance are suitable for the engagement circumstances, so the practitioner needs to determine whether the criteria developed by the preparer are suitable. To do this, the practitioner may need to understand not only the further development of the criteria by the preparer for the information within the proposed scope of the assurance engagement, but also the process the preparer has undertaken to develop criteria for the preparation of any other part(s) of the information included in the EER report but not within the scope of the engagement (the 'wider process'). This would enable the practitioner to consider matters such as:

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

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- b) Whether and how the subject matter information is used in the preparer's own decision-making processes. If information relating to an entity's decisions is important to its stakeholders, then it is reasonable to expect that the entity would be using that information in its own decision-making. Similarly, if the company is using the information in its decision-making, then it may be reasonable to expect that a user may be interested in that information. If the information is not used for the preparer entity's own decision-making, that may raise a question as to why the information is being reported, and whether there may be bias in selecting as subject matter information only those parts of the EER report that are easily subject to an assurance engagement or that present the entity in a positive way.
55. ~~[25] The practitioner's determination of whether the preconditions are present, in making the acceptance decision, is based on a preliminary knowledge of the business, rather than on the more detailed work effort required to do so in accordance with paragraph 41 of the Standard.~~ The consideration of the 'wider process' (see paragraph xx) applied by the preparer may also be at a different level of detail than where the intended scope of the engagement is the entire EER report. In a narrower scope assurance engagement, the consideration of the wider process is to identify matters that have not been, but should have been, included within the narrower scope, rather than to focus on whether there are suitable criteria for ~~the other~~all the information included in the EER report, and so may be less detailed than if the scope of the engagement were the EER report as a whole.

**Requirements for Suitable Criteria**

153. ~~[85] As detailed in Chapter 3, it is a precondition for an assurance engagement that the practitioner determines that the applicable criteria are suitable, based on a preliminary knowledge of the engagement circumstances. The practitioner is further required to determine whether the criteria are suitable in planning and performing the engagement. When the scope of the assurance engagement is not a whole EER report, the criteria to be applied in the preparation of those parts of the EER report which are within the scope of the assurance engagement are subject to the suitable criteria precondition. Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment<sup>7</sup>. Suitability is judged in the context of the engagement circumstances. Without suitable criteria, the subject matter information may be open to individual interpretation where there is undue subjectivity, increasing the risk of misunderstanding.~~
154. [86] Suitable criteria are required to exhibit each of five characteristics. The descriptions of these characteristics specify attributes of the subject matter information that necessarily result from applying the suitable criteria<sup>8</sup>. ~~The practitioner is required to determine whether the criteria exhibit each of the~~The five characteristics, ~~which~~ are<sup>9</sup>:
- a) Relevance;
  - b) Completeness;

• <sup>7</sup> ISAE 3000 (Revised) paragraph A10

• <sup>8</sup> ISAE 3000 (Revised) paragraph A45

• <sup>9</sup> ISAE 3000 (Revised) paragraph 41

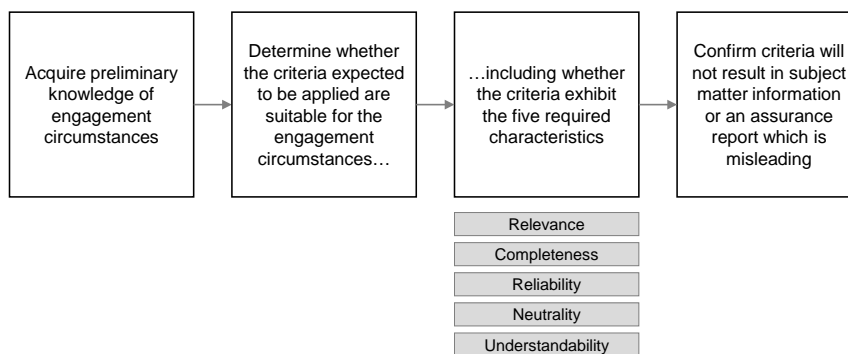
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- c) Reliability;
- d) Neutrality; and
- e) Understandability.

155. [87] In addition to exhibiting each of these five characteristics, an overarching principle in the Standard is that criteria developed by the entity would not be suitable if they result in subject matter information or an assurance report that is misleading to the intended users<sup>10</sup>. It may therefore be logical to expect that suitable criteria give rise to subject matter information that is not overly subjective (see paragraph **96**).

156. [88] The five characteristics are in many cases inter-related. Each must be exhibited in all cases, but the relative importance of each and the degree to which they are exhibited such that the criteria are suitable will vary according to the engagement circumstances.

157. [89] The following diagram shows steps the practitioner may follow in determining the suitability of criteria:



*Relevance*

**The Standard paragraph A45(a)**

Relevance: Relevant criteria result in subject matter information that assists decision-making by the intended users.

161. [93] Considering relevance involves considering whether the criteria will result in subject matter information that assists intended users' decision-making in the context of the purpose of the EER report.

162. [94] Understanding how subject matter information could assist intended users' decision-making may be approached by:

- a) Considering whether, and if so the extent to which, the preparer has:

<sup>10</sup> ISAE 3000 (Revised) paragraph A50

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- i) Considered the general types of decisions that intended users are expected to take based on the purpose of EER report and whether the criteria would lead to the preparation of the information that would assist them in doing so; and
  - ii) Considered whether the applicable criteria would enable the preparer to identify the elements and their qualities, and changes in them, such that the resulting subject matter information would assist intended users' decision-making in the context of the purpose of the EER report.
- b) If the preparer has considered the matters in (a), evaluating the conclusions of the preparer on those matters; and
- c) If not, asking the preparer to consider those matters, and if necessary considering whether the practitioner has a reasonable expectation of being able to address the matters in (a) directly.

**EXAMPLE**

[Draft a short example here to show what might be relevant/not relevant if reporting on employee information for shareholders/employees/unions as all will have different ideas of what is relevant]

163. [95] Where entity-developed criteria are the result of a rigorous internal process, involving input directly from both the intended users and those charged with governance, they are more likely to be relevant than if the entity has developed them without such a process or such input.
164. [96] Relevance of criteria (and hence whether the resulting subject matter information assists intended users' decision making) may be affected by the inherent level of measurement or evaluation uncertainty in applying them in the circumstances of the engagement. When subject matter information is subject to high inherent measurement or evaluation uncertainty, the related criteria may be relevant only if they require additional supporting information about the nature and extent of the uncertainty.

**EXAMPLE**

Information about a retailer's reputation amongst its diverse customer base may assist investors' decision-making in managing their investments. The company may develop criteria to measure customer perceptions of their reputation, for example by using a customer survey. The resulting measure is likely to reflect some degree of inherent uncertainty, as only a sample of customers are surveyed. If information about the nature and level of measurement uncertainty is not disclosed, investors may not find the survey results sufficiently useful to assist them in their decision-making. In such circumstances, the criteria may not be relevant. If the criteria required providing investors with more contextual information about the survey process and the level of precision achieved in measuring customer perceptions of their reputation (for example the sample size as a percentage of the total customers), this may help make the criteria relevant.

Refer also to discussion of 'accuracy' and 'precision' in paragraph 105 below, and further consideration of measurement uncertainty in paragraphs 227 to 229.

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165. [97] ~~Suitable criteria identify qualities of elements and measurement or evaluation bases that, when properly applied to them, result in subject matter information that assists intended users' decision-making. This is because suitable criteria must exhibit the characteristic of relevance. The practitioner considers relevance in determining whether the criteria are suitable.~~ The degree of relevance of an applicable criterion is not binary. Instead, the degree to which it assists intended users' decision-making may be considered to be on a scale that varies depending on the circumstances of the engagement. Nevertheless, whether the criteria are relevant is a binary decision that the practitioner needs to make.
166. [98] The concepts of relevance and materiality are not the same, although both refer to user decision-making. The concept of relevance is considered in evaluating the suitability of criteria, whereas materiality is considered by the practitioner in the context of potential and identified misstatements of the subject matter information. Materiality includes considering whether such misstatements could reasonably be expected to influence intended users' decision-making. It also includes considering whether the subject matter information is free from material misstatements made by the preparer in applying relevant criteria. Materiality is a threshold of significance to decision-making considered by the practitioner in relation to potential and identified misstatements, in the circumstances of the engagement.

EXAMPLE

Financial reporting example:

For most companies, revenue for all classes of transactions would typically assist decision-making by intended users, by enhancing their understanding of the company's financial performance during the year, however in some circumstances a misstatement omitting the accounting value of revenue from a particular class of transactions from the company's reported revenue may not be *material*, if such omission could not reasonably be expected to influence intended user's decision-making based on the financial statements.

EER example:

Information about total greenhouse gas emissions arising from a manufacturing company's activities may assist intended users' decision-making about the company's environmental impact, but a misstatement omitting, from the company's total reported emissions, information about emissions arising from its employees commuting to work might not be *material*. That may be the case, for example, if the omitted information was not sufficiently significant to influence intended users' decision-making, relative to information about the greenhouse gas emissions from the manufacturing activities of the entity.

167. [99] A further consideration is the requirements of the criteria to disaggregate or aggregate information as this may affect ~~both whether the criteria are suitable, and the~~ context for materiality considerations for misstatements. EER frameworks do not always specify in detail the required level of aggregation or disaggregation (sometimes referred to as the unit of account). They may, however, include principles for determining an appropriate level in particular circumstances.
169. [101] Criteria may be more relevant and comparable across entities if they are consistent with established measurement bases and benchmarks that are generally recognized to be valid in the context of the entity's industry or sector. However, there may be good reasons not to use such criteria, for example where the entity can develop more relevant criteria (that are also



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reliable), where permitted by the EER framework adopted and where those criteria are made available.

*Completeness*

**The Standard paragraph A45(b)**

Completeness: Criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter information. Complete criteria include, where relevant, benchmarks for presentation and disclosure.

170. [102] Criteria are required to be complete so that the intended user is able to make informed decisions by having access to subject matter information that does not omit relevant factors that are material in the context of the circumstances of the entity and the purpose of the EER report.
171. [103] The application of complete criteria is expected to result in subject matter information that includes all relevant factors, including information that represents negative aspects of what is being reported on (also see 'neutrality' below).
172. [104] There may be a need for a balance to be struck between an EER report being overly comprehensive and it still being concise enough to remain understandable.

*Reliability*

**The Standard paragraph A45(c)**

Reliability: Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by different practitioners.

173. [105] Reliable criteria are likely to result in subject matter information that is capable of reasonably consistent measurement or evaluation with the necessary degree of accuracy (such that it is free from error) and precision such that the criteria are also relevant. Accuracy is not the same as precision. Subject matter information can be sufficiently accurate if it is as precise as is reasonably possible, if it results from applying a well-defined process without undue error, and if it includes information about the inherent limitations in its precision.

**EXAMPLE**

A company may choose to report their market share. Management use a methodology they have developed to calculate this using their sales data and external data about their industry sector, including the financial statements of their main competitors. The calculation is unlikely to ever be completely precise as it involves estimating and making assumptions. However, if the methodology results in information that is as precise as is reasonably possible and therefore gives a fair indication of the company's market share, the practitioner may be able to conclude the criteria are reliable. It may be necessary for details of the methodology would form part of the criteria, it would need to be disclosed as part of making the criteria available to the intended users.

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174. [106] Reliable criteria may need to be based on strong definitions with little or no ambiguity, if the resulting subject matter information is to be capable of reasonably consistent measurement or evaluation.
175. [107] Reliable criteria would typically be expected to result in subject matter information that is capable of being subjected to an assurance engagement because sufficient appropriate evidence can be obtained to support the assertions that the subject matter information contains. This requires the underlying data and source information to be sufficiently accurate and complete and for it to be collected and processed in a manner that is neutral and maintains its integrity. Unsubstantiated claims in the subject matter information are unlikely to meet this requirement.

*Neutrality*

**The Standard paragraph A45(d)**

Neutrality: Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.

176. [108] Neutral criteria would normally be designed to cover both favorable and unfavorable aspects of the underlying subject matter being reported on, in an unbiased manner.

**EXAMPLE**

In relation to the results from an employee survey, neutral criteria may need to require reporting both the results from questions with favorable responses as well as those with less favorable ones, rather than selectively reporting only the 'best' results.

177. [109] Criteria would not be neutral if they were changed or modified arbitrarily from one reporting period to the next to remove negative aspects of performance. Doing so also may not be consistent with the principle of comparability (which is an aspect of relevance).
178. [110] A practitioner may need to be particularly careful to determine the suitability of entity-developed criteria and apply professional skepticism in evaluating the neutrality of these criteria due to the inherent risk of management bias.

*Understandability*

**The Standard paragraph A45(e)**

Understandability: Understandable criteria result in subject matter information that can be understood by the intended users.

179. [111] Understandable criteria typically result in subject matter information that will enable the intended users to identify readily the main points being made and to infer appropriately whether they are sufficiently significant to affect their decision-making. This is likely to be assisted by a clear layout and presentation of the subject matter information in a way that effectively summarizes and draws attention to these points.
180. [112] The criteria ideally result in the EER report being coherent, easy to follow, clear and logical.

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181. [113] There may be a need for a balance between criteria that are sufficiently relevant and understandable. For example, criteria may require subject matter information to be at a sufficient level of disaggregation to assist decision-making by the intended users (relevance) while also being sufficiently concise to be understood by them.

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*Example.*

182. [114] The following worked example shows how a practitioner could approach determining the suitability of criteria, including that the criteria exhibit the five characteristics:

**EXAMPLE**

An EER framework may include criteria that require the entity to report "water intake in the reporting period".

Intake in the reporting period is a quality of the underlying subject matter element 'water', a natural resource, that assists intended users' decision-making. The commonly used and well-understood measurement basis for water intake is volume, measured in units of liters. In determining whether the criteria are suitable, the practitioner may consider questions such as:

- ☐ Would the water intake information assist decision-making by the intended users? (relevance)
  - o A consideration might be how significant water is to what the company does, although most companies are likely to use at least some water. Water intake may be more significant for a manufacturer than perhaps a software developer, or more significant when obtained from certain sources such as surface water or groundwater. It may be more significant for entities with operations in water-scarce regions than for those operating in regions where water is more abundant.
  - o Answering this would require some knowledge of who the intended users are and what might assist their decision-making.
  - o The purpose of the EER report may also be a consideration; water intake may be more likely to assist intended users' decision-making when the purpose of the EER report is to describe the entity's impact on the environment but may be less likely to assist intended users' decision-making if the purpose is to describe the entity's governance processes.
- ☐ Do the criteria require everything about water (the underlying subject matter element) that would assist intended users' decision-making in the context of the purpose of this EER report to be disclosed? (completeness)
  - o This indicator is only measuring water intake over a defined period. This may be the potential quality of interest to the intended users (rather than the water's temperature or weight), but information about other qualities of water may assist intended users' decision-making in other circumstances (for example water intake from specific sources such as surface water or groundwater over a defined period, or a water-quality indicator (such as dissolved oxygen) for water discharge or the water discharged to specific destinations).
  - o There is an assumption that the criteria require reporting of all the water intake across the whole company and all of its sites.
- ☐ Do the criteria provide a methodology for calculation that allows reasonably consistent measurement? (reliability)

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	<ul style="list-style-type: none"> <li>o This may be where the entity must supplement the reporting requirement to suit their specific circumstances.</li> </ul>
	<ul style="list-style-type: none"> <li>o A company may calculate their water intake using water meters and collect readings at the beginning and end of the period. For municipal water this is information that would also be used for billing by the water company.</li> <li>o Considerations for the practitioner may therefore be focused around completeness as explained above - whether this approach will cover all of the water intake by the company (for example considering if all water flows through a meter that data can be collected from).</li> <li>o Other considerations may include when the water meters were last expertly calibrated, and on what days the readings are expected to be taken. Further consideration may be required if the methodology uses estimates and data required for doing so are not fully available. This may be the case where readings are not taken at exactly the start and end of the reporting period.</li> <li>o In the case of water intake, measuring it in units of liters is likely to be appropriate. This is likely to make it possible to compare the information to other periods and entities, assuming that the calculation is straightforward.</li> </ul>
	<p><input type="checkbox"/> Will the criteria result in information that is free from bias? (neutrality)</p> <ul style="list-style-type: none"> <li>o There is unlikely to be significant risk of management bias if the information is based on water meter readings, however further consideration may be required if the calculation methodology is more complex or involves estimation, or if the water intake definition used by the entity is restricted to specific sources that have a lower environmental impact.</li> </ul>
	<p><input type="checkbox"/> Will the criteria result in information that can be understood by the intended users? (understandability)</p> <ul style="list-style-type: none"> <li>o In most cases, water intake would be easily understood, although the practitioner may need to consider whether the criteria result in the information being presented and disclosed appropriately in the EER report.</li> </ul>

**Established Criteria**

183. [115] Where criteria are:

- a) prescribed by law or regulation; or
- b) issued by an authorized or recognized body of experts that follow a transparent due process, and are relevant to the intended users' information needs;

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they are presumed to be suitable in the absence of indications to the contrary and are known as 'established criteria'<sup>11</sup>. Where indications exist that the criteria may not be suitable, the practitioner may need to consider further whether the criteria are suitable.

184. [116] Criteria contained in some commonly used EER frameworks are issued by global organizations that are recognized bodies of experts following a transparent due process, and criteria specified by these EER frameworks are often relevant to the intended users' information needs. However, the often limited level of maturity or high-level approach used in developing criteria in such EER frameworks, including criteria prescribed by law or regulation, may mean that there are indications that such criteria, on their own, may not be suitable. and may also need to be further developed by the entity, even though the established criteria have been issued following transparent due process. ~~Different EER frameworks specify the criteria to varying degrees of detail. Where the criteria in an EER framework are less detailed, for example where it does not specify detailed measurement or evaluation criteria, the practitioner may not be able to determine that the criteria are suitable, and the preparer may consider it necessary to develop more detailed supplementary criteria in the context of that entity and its report. The practitioner may then need to determine the suitability of the detailed criteria for measurement or evaluation that the entity has developed for use together with the overarching criteria in the EER framework.~~

#### Changes to Criteria Over Time

185. [117] The suitability of criteria is not necessarily related to their maturity or the entity's experience of applying them. In the first few years of preparing EER reports, an entity may be developing and improving its reporting processes such that entity-developed criteria (potentially designed to supplement an EER framework) may change and evolve between reporting periods. Regardless of this, the practitioner uses professional judgment to determine whether the criteria are suitable each time an EER report is subject to an assurance engagement, including that they exhibit the five required characteristics.

##### EXAMPLE

Changes to criteria and measurement methods year-on-year may be expected for EER, particularly when an entity's reporting processes are developing, and management are innovating year-on-year to improve their reporting. Such criteria may still be understandable and reliable if there is a reasonable basis for the change and it is sufficiently disclosed and explained in the EER report. Where an entity's reporting is more mature, the rationale for changes to criteria might need to be stronger, and the explanation more detailed, to meet intended users' expectations.

186. [118] Where a preparer is using an EER framework that contains established criteria and chooses to modify or adjust those criteria with the result that they are different to what is commonly used in the entity's sector, this may be an indicator of potential management bias and of a risk that the resulting subject matter information could be misleading to the intended users. In such circumstances, the practitioner applies professional skepticism in determining the suitability of the criteria, and in considering whether there is a reasonable basis for the change

• <sup>11</sup> See ISAE 3000 (Revised) paragraph A49 for details of the definition of established criteria.

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and whether the change is sufficiently disclosed and explained in the EER report. The more mature the type of reporting or the EER framework being used is, the less likely it is that changes made by an entity to measurement methods and related disclosures from commonly accepted practice adopted by other similar entities will be appropriate, unless there has been a change in the entity's circumstances. It may be desirable for the preparer to obtain an intended users to acknowledge ment from the intended users that the entity-developed criteria are suitable for their purposes.

168. [100] In many cases it may be useful to intended users if the criteria are consistent from one reporting period to the next to aid comparability. Where criteria change, disclosure of the change with an explanation of the reasons for the change may be expected for the criteria to be relevant in the year of the change. Information about the impact of the change, for example re-stating comparative information (where possible and cost-effective), may also be expected for the criteria to be relevant in the year of the change. However, in other circumstances, a temporary reduction in comparability may be appropriate to improve relevance in the longer term
158. [90] The descriptions in the Standard of each of the required characteristics for criteria<sup>12</sup>, along with some factors the practitioner may find helpful to consider in determining whether the criteria are suitable, are set out in paragraphs 93 to 113 below.
159. [91] The engagement circumstances may include use of an EER framework that implicitly or explicitly requires different or more specific characteristics of the applicable criteria than the five characteristics of suitable criteria required by ISAE 3000 (Revised) the Standard. For example, characteristics such as comparability and conciseness (see paragraphs 100 and 104) may be seen as more specific aspects of understandability and relevance respectively.
160. [92] Where an EER framework includes such additional or more specific characteristics of criteria, it is still necessary for the applicable criteria to exhibit each of the five required characteristics of suitable criteria. Many of the commonly used EER frameworks use different terms to describe similar concepts to the five characteristics required by ISAE 3000 (Revised) the Standard. Additionally, some 'qualitative characteristics' may be implicit in the reporting requirements rather than being explicitly identified in an EER framework.

#### **Consequences where Criteria are not Suitable or Available**

191. [123] ~~The practitioner is also required to determine whether the criteria are suitable in planning and performing the engagement.~~ If it is discovered after the engagement has been accepted that some or all of the applicable criteria are unsuitable, the practitioner is required to follow the requirements of ISAE 3000 (Revised) paragraphs 42 and 43, of the Standard. In circumstances where the practitioner is mandated to accept the engagement under law or regulation but the criteria are not suitable or available, the practitioner would follow the same requirements in paragraphs 42 and 43 of the Standard to express a qualified or adverse conclusion, or disclaimer of conclusion, as appropriate in the circumstances.

• <sup>12</sup> ISAE 3000 (Revised) paragraph A45

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Availability of the Criteria

52. ~~[22] Criteria need to be made available to the intended users of the EER report so that such users can understand the basis on which the report has been prepared and assurance obtained. As there are numerous ways in which high-level principles may be able to be adhered to, the intended user is unlikely to be able to assess whether their needs have been met or to be able to base decisions on the reported information without access to the criteria. The user needs to be able to understand both what has been measured or evaluated, and how it has been measured or evaluated.~~

187. [119] Criteria need to be made available to the intended users to enable them to understand how the underlying subject matter has been measured or evaluated. As there are numerous ways in which high-level principles may be able to be adhered to, the intended user is unlikely to be able to assess whether their needs have been met or to be able to base decisions on the reported information without access to the criteria. The user needs to be able to understand both what has been measured or evaluated (the underlying subject matter), and how it has been measured or evaluated (the criteria). Paragraphs A51-A52 of the Standard describe ways in which this can be done. A practitioner may evaluate the adequacy of the transparency of the criteria, considering whether the criteria have been disclosed with sufficient detail and clarity such that they are available.

56. [26] Entity-developed criteria need to be available to intended users in the same way that any other criteria need to be. ~~Paragraphs A51-A52 set out ways in which the criteria may be made available.~~ While there is not a general requirement to disclose the process for developing the criteria, there may be some frameworks that do require such disclosure, at least for parts of the process, for example the GRI framework requires the Stakeholder Engagement Process to be disclosed. Even where there is no such requirement in the framework, practitioners may consider it appropriate to encourage preparers to disclose details of their process for their entity-developed criteria ('materiality process')

188. [120] The criteria may be made available outside of the EER report, for example if an established, publicly available EER framework has been used. In the case of entity-developed criteria, the entity may choose to publish the criteria and reporting policies in a separate EER report or on its website, which is then cross-referred to as at a particular date in the EER report. This may be a preferable option where an EER report is intended to be concise.

189. [121] The more familiar the intended users are with the type of reporting, the less likely it will be necessary to disclose detailed explanations of the reporting policies and measurement or evaluation methods, as these will be available by 'general understanding' to the intended users.

EXAMPLE

Measuring time in hours and minutes, or energy usage in kilowatt hours, is generally understood in a consistent way internationally due to scientific convention. Similarly, a preparer may assume that the intended users will understand greenhouse gas emissions measured in accordance with the Greenhouse Gas Protocol without providing full explanation due to its widespread acceptance and usage.



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## Chapter 6: Considering the System of Internal Control

### Introduction

127. [59] Entities producing EER reports typically implement gradual changes to their system of internal control to support such reporting as it becomes more established and formal. At an early stage, the system of internal control generally includes processes to collect and report the underlying data and information. As EER becomes more established for the entity, changes may be introduced to make the reporting process subject to specific control activities and greater governance and oversight, or to bring it more formally within the entity's risk assessment process and process to monitor the system of internal control. In considering engagement acceptance or continuance, practitioners may encounter entities at varying stages of development of their system of internal control.
128. [60] Considering the entity's system of internal control may assist the practitioner in establishing whether the preconditions for an assurance engagement are present, as discussed above. The Standard also requires the practitioner<sup>13</sup>:
- a) in a limited assurance engagement, to consider the process used to prepare the subject matter information, to enable identification of areas where a material misstatement is likely to arise; or
  - b) in a reasonable assurance engagement, to obtain an understanding of internal control over the preparation of the subject matter information, including evaluating the design of the controls relevant to the engagement and whether they have been implemented, to enable identification and assessment of the risks of material misstatement.
129. [61] Having a highly sophisticated or developed system of internal control is not a precondition for an assurance engagement. The guidance in this chapter mainly relates to considering the system of internal control in relation to the preconditions. It may also assist the practitioner in meeting the requirements referred to in paragraph 60. Separate considerations for the practitioner relating to the overall engagement strategy, including whether to test controls or to obtain evidence solely from substantive procedures, are discussed further in paragraphs 78 and 79.

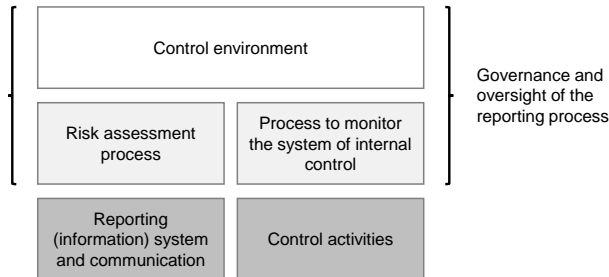
### Understanding the Entity's System of Internal Control

130. [62] An entity's system of internal control typically has five inter-related components<sup>14</sup>:

• <sup>13</sup> ISAE 3000 (Revised) paragraphs 46L, 46R, 47L and 47R

• <sup>14</sup> Based on ED-ISA 315 (Revised) paragraph 16(l)

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131. [63] The level of sophistication of the reporting (information) system and communication and the control activities components may vary according to the size and complexity of the entity, and the nature and complexity of the underlying subject matter and criteria. Similarly, the level of formality of the risk assessment process and the process to monitor the system of internal control may also vary for differently sized entities.
132. [64] The Standard application material notes that "in some cases, a formal process with extensive internal controls may be needed to provide the [preparer] with a reasonable basis that the subject matter information is free from material misstatement"<sup>15</sup>. Equally, in other circumstances, extensive internal controls may not be needed.
133. [65] Some examples of aspects of the components of an entity's system of internal control that a practitioner may consider in establishing whether the preconditions are present are given below. The three components shown in the top three boxes above (the control environment, the risk assessment process and the process to monitor the system of internal control) are considered together under the heading 'governance and oversight of the reporting process'.
134. [66] The examples are not meant to be an exhaustive list of aspects that may be appropriate for an entity. As noted above, some entities may require extensive internal controls and processes in order for the preparer to be able to take responsibility for the subject matter information being free from material misstatement. The practitioner may need to consider the engagement circumstances, including the size and complexity of the entity, when concluding whether the level of development of the system of internal control is adequate. Further guidance is given in paragraphs 72 to 74.

• <sup>15</sup> ISAE 3000 (Revised) paragraph A39

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*Reporting (Information) System and Communication*

135. [67] Policies, procedures and resources of the reporting (information) system and communication that the practitioner may consider are included below:

**CONSIDERATIONS FOR THE PRACTITIONER**

- a) Processes to select or develop criteria, including a 'materiality process' if applicable (see Chapter 8), to identify the elements to be included in the EER report;
- b) Processes to select or develop criteria for the measurement or evaluation of the elements, including their presentation or disclosure;
- c) Processes to capture, record, process, correct and include in the EER report subject matter information about those elements;
- d) Records and source documentation to support the preparation of the subject matter information relating to those elements. These are ideally stored and accessible so that they can be used as evidence by the practitioner;
- e) Processes to prepare the EER report; and
- f) How the entity uses IT to support the above.

136. [68] The preparation of EER reports is likely to involve the use of IT to collect or process the data. Entities may use complex IT applications, simple spreadsheets or paper-based records, or a combination of these. Identifying which tools are being used by the preparer to prepare the EER report may be an important part of the practitioner obtaining the understanding required by paragraphs 47L and 47R of the Standard.

137. [69] Further considerations may be necessary where information comes from an external information source. An external information source is an external individual or organization that provides information that has been used by the preparer in the preparation of the EER report. An example might be the results of an independent survey of customer satisfaction, or an external laboratory test of effluent quality from a production facility. A key consideration may be whether the criteria for measurement or evaluation used by the external information source are relevant because the resulting subject matter information would assist decision-making by the intended users. Determining this may require judgment, including taking account of the entity's ability to influence the external information source.

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*Control Activities*

138. [70] Types of control activities that the practitioner may consider include:

CONSIDERATIONS FOR THE PRACTITIONER	a)	Controls requiring segregation of duties between individuals involved in the reporting process, to the extent appropriate according to the size of the entity, for example between those preparing the information and those reviewing it;
	b)	Controls to prevent the preparer inappropriately modifying underlying sources of data, information or documentation that the practitioner would use as evidence;
	c)	IT controls to support any IT systems in being appropriately secure, robust, reliable and adequately maintained; and
	d)	Controls to address management bias that may occur in the process to develop or apply the measurement or evaluation bases and other reporting policies.

*Governance and Oversight of the Reporting Process*

139. [71] Aspects of the entity's governance and oversight of the process to prepare the EER report that the practitioner may consider may include:

CONSIDERATIONS FOR THE PRACTITIONER	a)	Involvement of those charged with governance and senior management at appropriate stages throughout the reporting process;
	b)	Approval of the EER report by those charged with governance or senior management, as appropriate;
	c)	The establishment of a subgroup of those charged with governance, such as an audit committee, charged with oversight responsibilities for the preparation of the EER report (for larger entities);
	d)	Those charged with governance or senior management, as appropriate, setting an appropriate 'tone at the top' to encourage high quality reporting processes and a high standard of ethical practices;
	e)	Key decisions made by those charged with governance or senior management, as appropriate, being recorded in written documentation, for example in minutes of board meetings;
	f)	Assignment of authority and responsibility for the process to prepare the EER report, and enforcement of accountability for meeting such responsibility;
	g)	The process undertaken to identify, assess and address risks related to the reporting process; and
	h)	The process in place to monitor the system of internal control, including monitoring the effectiveness of control activities and the process to identify and remediate deficiencies.

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**Consideration of the Entity's Size, Complexity and Nature**

140. [72] The level of formality required in terms of the entity's system of internal control may largely depend on the entity's size and complexity. A small and non-complex entity may not require formal documented policies or procedures in order for the preparer to meet their responsibilities. However, a larger or more complex entity such as a multi-national company may require more detailed and formalized control activities and processes supporting its external reporting.
141. [73] The nature of the processes and records within the system of internal control may vary according to the size and complexity of the entity.

**EXAMPLE**

For reporting on employee diversity, it may be appropriate for a small entity with 25 employees to record and store this data on a simple spreadsheet managed by one member of staff. However, in the case of a large entity with 20,000 employees across the world, a much more sophisticated process managed by HR teams may be required, likely supported by an appropriate IT system, in order to collect, collate and store data that is accurate and complete.

142. [74] Considering other factors that may affect the nature of the entity and its environment, for example its physical location, may assist the practitioner in considering whether the system of internal control is adequate for the practitioner to establish that the preconditions are present.

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**Chapter 7 (Previously 8): Considering the Entity's Process to Identify Reporting Topics**

**Introduction**

192. [124] As the content of EER reports is generally less comprehensively specified in EER frameworks than in financial reporting frameworks, the practitioner may need to review the appropriateness of judgments made by the preparer to determine more comprehensively the appropriate basis of preparation of the content. EER frameworks commonly refer to these judgments as relating to 'materiality', but the focus of such judgments is effectively considering more comprehensive bases for preparing subject matter information (referred to as 'criteria' in the Standard) that assists decision-making by intended users (such that the criteria exhibit the characteristic of relevance).
193. [125] For example, the preparer may need to make such judgments where the criteria from an EER framework do not specify in sufficient detail what topics and related elements are to be included in the EER report. A process that a preparer undertakes to do so is commonly referred to as a 'materiality process'.
194. [126] EER frameworks do not always provide direction for a preparer making such judgments. It can be challenging for both a preparer making these judgments and for a practitioner reviewing their appropriateness when both the intended users and their information needs can be diverse or even unknown. There will likely be a need for an entity's 'materiality process' to reflect the broader and more diverse user perspective often encountered.
195. [127] Where criteria from an EER framework do not specify what topics and related elements would assist the decision-making of the intended users of the EER report, the criteria may not be considered to be suitable on their own as they may lack relevance or completeness. In undertaking a 'materiality process', the preparer is effectively extending and developing the criteria further such that they exhibit the characteristic of relevance and the resulting subject matter information assists the decision-making of the intended users (see paragraphs 83 and 84).

**EXAMPLE**

The reporting requirements in an EER framework may say that the entity needs to include a description of the principal risks and uncertainties facing it.

It is left to the preparer to identify the principal risks and uncertainties for their entity and information about them that would assist intended users' decision-making. In most cases, EER frameworks cannot make this identification as it will vary from entity to entity.

In order for the criteria to be suitable, in many cases the preparer may need to take the reporting requirement from the EER framework and then undertake a 'materiality process' to develop the relevance and completeness of the criteria further, such that applying them identifies the risks and uncertainties, and provides information about them, that assists intended users' decision-making.

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**EXAMPLE**

A different EER framework may require the disclosure of specific indicators, such as the time spent by its employees on training during the period, measured in hours. Detailed instructions on how to calculate this are provided.

In this case the criteria may already be suitable, and the preparer may not need to undertake a 'materiality process' because the EER framework-setter has already made a judgment about what the intended users want to know. This is common in reporting to meet specific regulatory requirements, but some generally applicable EER frameworks assess what indicators are likely to be relevant criteria for specific industry sectors, for example as in the Sustainability Accounting Standards Board (SASB) standards.

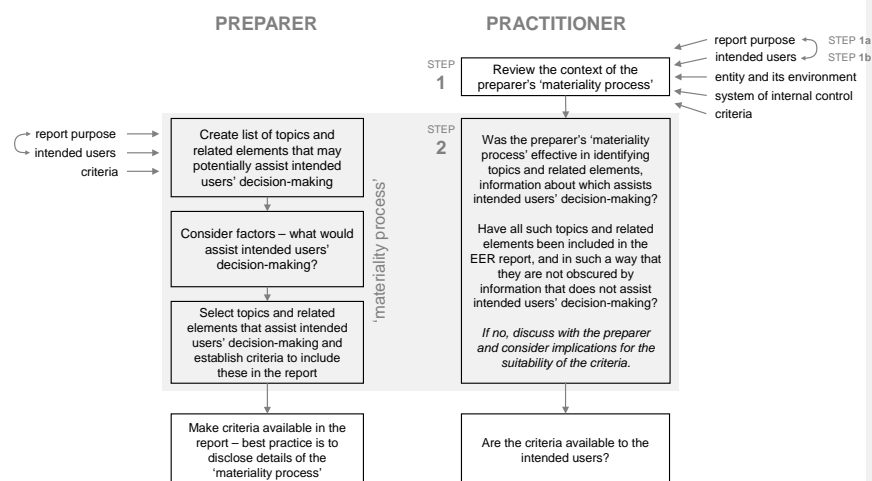
196. [128] The practitioner may need to review an entity's 'materiality process' as part of determining whether the criteria are suitable (see Chapter 7). The practitioner is also required to consider the process used to prepare the subject matter information in a limited assurance engagement, or to obtain an understanding of internal control over the preparation of the subject matter information in a reasonable assurance engagement<sup>16</sup>. This may also involve reviewing an entity's 'materiality process' where the preparer has undertaken one. Reviewing a 'materiality process' may also assist a practitioner to identify areas where a material misstatement of the subject matter information is likely to arise, or to identify and assess the risks of material misstatement in the subject matter information, as required in limited and reasonable assurance engagements respectively<sup>17</sup>.
197. [129] The extent to which the practitioner needs to review the appropriateness and outcomes of the entity's 'materiality process' may depend on the scope of the assurance engagement, as it is more likely to be important where the assurance engagement covers a whole EER report than where the scope of the assurance engagement is only specific indicators. However, understanding such outcomes may also be an important consideration when agreeing the assurance scope for certain types of EER, and as part of determining whether an assurance engagement has a rational purpose.
198. [130] Where applicable to the engagement, the flowchart below may assist the practitioner with reviewing the preparer's 'materiality process'. The steps a preparer might be expected to follow are provided on the left-hand side for reference. These are explained in this guidance to illustrate what the practitioner may expect when they come to review a 'materiality process'. The suggested process for a practitioner is shown on the right-hand side of the diagram and then explained in the guidance paragraphs below. The guidance focuses on the 'materiality process' identifying the relevant criteria to determine the topics and related elements to include in the report, but a similar approach may be used to then identify relevant criteria for indicators or metrics about those topics and related elements.

• <sup>16</sup> ISAE 3000 (Revised) paragraphs 47L and 47R

• <sup>17</sup> ISAE 3000 (Revised) paragraphs 46L and 46R



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**Example user groups**

<b>Wider society</b> <ul style="list-style-type: none"> <li>• NGOs / civil society organisations / special interest groups</li> <li>• Members of the public</li> <li>• Researchers, academics</li> <li>• Competitors and other market participants</li> <li>• Vulnerable groups</li> </ul>	→	<b>May influence decision making or be affected by the entity in these areas:</b> <ul style="list-style-type: none"> <li>• Change in the natural environment where they live</li> <li>• Change in lifestyle or quality of life as a result of the entity's activities</li> <li>• Trading negotiable instruments (in an emissions trading scheme)</li> <li>• Financial decisions (eg. investing) in other entities</li> <li>• Influences the activities of other entities &amp; individuals, including managing natural resources</li> </ul>
<b>Governments, regulators and legislators</b> <ul style="list-style-type: none"> <li>• Parliaments and legislators</li> <li>• National, regional and local government</li> <li>• Global organisations</li> <li>• Regulators</li> </ul>	→	<ul style="list-style-type: none"> <li>• Law and policy making</li> <li>• Monitoring compliance with laws and regulations</li> <li>• Providing national resources (public sector)</li> <li>• Accountability</li> <li>• Decision making on behalf of vulnerable groups</li> </ul>
<b>Investors and economic stakeholders</b> <p>Existing and potential:</p> <ul style="list-style-type: none"> <li>• Investors</li> <li>• Suppliers</li> <li>• Customers</li> <li>• Employees</li> <li>• Lenders</li> <li>• Share markets</li> </ul>	→	<ul style="list-style-type: none"> <li>• Buy or sell equity in the entity</li> <li>• Lend to the entity</li> <li>• Transact business with / use services of the entity</li> <li>• Matters relating to being employed by the entity</li> <li>• Stewardship</li> <li>• Shareholder voting decisions</li> <li>• The entity's use of their data and personal information</li> </ul>

**Step 2: Review Selection of Topics and Related Elements to Include in the EER Report**

213. [145] Taking into account the EER framework(s) used, the purpose of the EER report and the intended users, a preparer may often create a list of topics and related elements that assist intended users' decision-making in the context of the underlying subject matter. A preparer may

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do this in multiple stages, filtering an initially longer list of possible topics and related elements to end up with those that are considered to assist decision-making by intended users.

214. [146] Criteria about topics and related elements are likely to be relevant if the information resulting from applying them contributes to decision-making by the intended users and achieves the purpose of the EER report.

*Considering Interest to the Intended Users*

215. [147] To consider whether something would assist decision-making by intended users, one approach is to consider whether it is of interest to the intended users.
216. [148] The information that would be of interest to intended users may be expected to be reasonably (but not absolutely) aligned with what would assist their decision-making. This could reflect the extent to which the intended users perceive something will impact their own interests in the context of the purpose of the EER report.
217. [149] If considering whether something is of interest to intended users, examples of circumstances that might increase its relevance include:
- a) It is likely to cause investors to buy or sell equity in the entity
  - b) It is likely to change the entity's share price or enterprise value
  - c) There has been media coverage relating to it, or disclosure of it would likely result in media interest (local / national / global)
  - d) There have been a large number of complaints relating to it (for example from customers, suppliers or other stakeholders)
  - e) It has been mentioned unprompted by several stakeholders
  - f) There is a high level of wider societal interest in it, or particularly high levels of public sensitivity

**EXAMPLE**

A few examples in some circumstances might include human rights issues, corruption, amounts of tax paid in jurisdictions of operation, and executive remuneration.

- g) It is known to be an area of interest of stakeholders based on the preparer's prior experience and awareness
- h) It relates to an area of interest in the industry that may be widely reported by peers and competitors in the entity's sector
- i) It relates to (non-)compliance with laws, regulations, international agreements, or voluntary agreements with strategic significance to the organization and its stakeholders

*Considering 'Impact'*

218. [150] When it is not possible to evaluate sufficiently what would assist intended users' decision-making by identifying directly what would be of interest to them, an alternative or supplementary approach is to consider the significance, in the context of the purpose of the EER report, of the

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underlying subject matter elements (whether they represent 'conditions' or 'causes of change') on the entity's performance (in achieving its strategic objectives) or its impact on other entities. This approach is sometimes referred to as considering 'impact'.

'Other entities' could include individuals, organizations, wider society or the environment as is appropriate in the context of the purpose of the EER report. The impacts could occur either directly due to the actions and decisions of the reporting entity's management, indirectly through relationships of the reporting entity, or by the direct or indirect effect of forces external to the reporting entity.

**EXAMPLE**

A company may be responsible for regularly releasing a large volume of pollutants into a river. There may be direct impacts on the environment, and perhaps on local communities using the river for fishing or a water supply. There could also be indirect impacts on the company itself, perhaps through loss of revenue from customers unhappy with the company's attitude towards damaging the environment as well as direct impacts such as the cost of clean-up or fines from authorities.

219. [151] If considering the anticipated impact, examples of circumstances that might increase its relevance include:

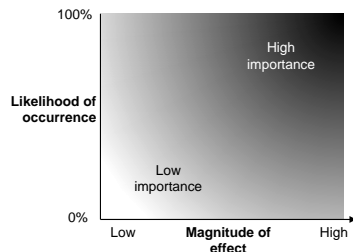
- a) It has major risks or opportunities for the entity (including reputational, affecting the entity's license to operate)
- b) It has direct material financial implications (as determined by financial statement materiality thresholds)
- c) It has, or will potentially have, a major effect on the entity's operational performance
- d) It has, or will potentially have, a major effect on other entities' operations or activities
- e) It has resulted, or will potentially result, in major direct irreversible damage to natural resources or the environment
- f) It relates to strategic opportunities for the entity to boost competitive position
- g) It relates to key organizational values, policies, strategies, operational management systems, goals and targets of the entity or its stakeholders

*Other Considerations*

220. [152] Some preparers present the results of their analysis of topics and related elements that, in the context of the purpose of the EER report, would be of 'interest to intended users' and that would have 'impact' on a scatterplot, which positions such topics and related elements in terms of their 'interest to intended users' and their 'impact', on separate axes.

221. [153] The judgments made in positioning such topics and related elements on each axis may be influenced by considering both the likelihood of such topics and related elements existing or occurring, and the magnitude of their significance, in terms of their 'interest to intended users' or 'impact' (as a proxy for considering the relative potential of information about such topics and related elements to assist intended users' decision making), if they were to exist or occur. Consideration of both likelihood and magnitude, and the importance of their potential to assist intended users' decision-making, may be illustrated on a diagram:

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- a) If something is certain or factual, its likelihood of occurrence is at the maximum level and the magnitude is the only variable.
  - b) The likelihood assessment may take into account whether a matter is inside or outside the control of the entity or management.
222. [154] The chosen timescale being considered in terms of impact or interest to the intended users is often also an important consideration. These may not be consistent, for example some intended users may be more interested in matters manifesting over the short-term (perhaps for an investor with a short-term intended investment period), and less interested in matters that will have a significant impact on the entity in the longer-term, and vice-versa.

**EXAMPLE**

An example to illustrate this might be an entity owning a factory on low-lying coastal land. Rising sea levels are expected to mean the factory site is unusable in five years' time. As there will be no impact for the next five years, this information may not assist decision-making by an intended user with a short-term interest in the entity (for example an investor expecting to invest for three years). Information about the issue may however assist decision-making by a bank who has issued a loan secured on the factory site maturing in ten years' time. The preparer must decide the appropriate timescale and make sufficient disclosure of this in the EER report.

223. [155] Stakeholder engagement activities can be an important part of a preparer identifying such topics and related elements. An open dialogue with stakeholders may give better results than passive interaction or asking them to comment on an existing list of topics and related elements, however there may be a need to adequately inform stakeholders about the entity and its activities to enable them to engage effectively with the process.
224. [156] Criteria about topics and related elements are likely to be complete if the information resulting from applying them does not omit relevant factors about such topics and related elements. In evaluating the completeness of the criteria, a practitioner could use some of the following sources:
- Discussions with management and those charged with governance
  - Previous reporting by the entity
  - Reporting by peers and competitors
  - Strategy documents prepared by the entity
  - Survey results (of the entity, peers or the industry)

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- Interviews with stakeholders, outreach activities, stakeholder engagement
- Web and social media searches
- Global megatrends
- Sustainable Development Goals
- Agendas and minutes from board or senior management meetings and committees
- Risk assessments

225. [157] The practitioner may make the following key judgments in considering the relevance and completeness of the criteria used by the preparer in selecting topics and related elements to include in the EER report:

**CONSIDERATIONS  
FOR THE  
PRACTITIONER**

Was the preparer's 'materiality process' effective in identifying topics and related elements, information about which assists intended users' decision-making?

Have all such topics and related elements been included in the EER report, and in such a way that they are not obscured by information that does not assist intended users' decision-making?

226. [158] In doing so, the practitioner uses professional judgement and professional skepticism to evaluate the preparer's decisions and may focus particularly on how the preparer decided to include or exclude items and the reasons for their decisions.

**Considering Topics and Related Elements Collectively**

228. [160] It may be appropriate not just to consider the relevance and completeness of criteria for selecting topics and related elements individually as there may be circumstances where information about multiple topics or related elements may in aggregate contain relevant factors, even when information about such topics or related elements individually does not.

**EXAMPLE**

Information about members of staff leaving may not, on its own, assist intended users' decision-making, neither might be information about a few customer complaints or the termination of two supplier contracts. However, if when combined, information about these events turn out to be related and indicates serious problems with the entity's senior management, information about such events may assist decision-making by the intended users in the context of those problems.

**Disclosure of the 'Materiality Process'**

232. [164] Intended users are likely to find it helpful in understanding the criteria, to also understand any 'materiality process' the preparer uses in developing the criteria. Accordingly, a practitioner may consider it appropriate to encourage a preparer to disclose details of their 'materiality process' (either in their report, or elsewhere such as their website), giving details of what has been included in the EER report and what has been left out.

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**Chapter 8 (Previously 9): ~~Performing Procedures and~~ Using Assertions**

**Matters Addressed by the Guidance in this Chapter**

233. ~~—[165] This Chapter provides guidance on how a~~Assertions ~~are a tool that~~ may be used by a practitioner ~~as a tool to consider the different types of potential misstatements that may occur i~~n the subject matter information, and to assist the practitioner in performing risk assessment ~~procedures and to assist in~~ designing assurance procedures to obtain evidence about whether the subject matter information has been prepared in accordance with the criteria, or ~~whether it~~ is misstated. ~~If used, they are a way for the practitioner to consider the different types of potential misstatements that may occur.~~

**Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners**

233A. The underlying subject matter, and frameworks and criteria used to measure or evaluate it may ~~be diverse, and may be expressed differently from those used to prepare and report an entity's financial performance and position. Consequently, the question may arise as to whether the assertions described in other standards apply to EER subject matter information or whether there may be different assertions embodied in the EER information.~~

234. ~~—[166] the Standard does not specifically require the practitioner to use assertions, and it therefore does not prescribe or identify specific assertions to be used, as these may vary from one engagement to another depending on the underlying subject matter and the criteria. However, a practitioner may use assertions in both reasonable assurance engagements and limited assurance engagements. Using Categories of Assertions~~

**The meaning of assertions**

241. [173] The term 'assertions' is used in this guidance consistent with the definitions of assertions in certain IAASB standards<sup>18</sup>, in the context of their use by the practitioner to consider the different types of potential misstatements that may occur, and to design assurance procedures accordingly. They are conceptually different from the 'written representations' that may be obtained from the preparer in accordance with ~~paragraphs 56 to 60~~<sup>S.56-60 of the Standard</sup>. The term 'assertions' is also not used in this guidance in the sense that the preparer may 'assert' something by writing it in their EER report.

**Considering types of potential misstatements in designing procedures**

249. [181] the Standard requires the practitioner to form a conclusion about whether the subject matter information is free from material misstatement<sup>19</sup>, which may be expressed as whether the subject matter information is prepared, in all material respects, in accordance with the applicable criteria.

250. [182] ~~Although the practitioner is not required to use assertions under the Standard, when~~ When designing procedures, a practitioner may ~~begin by considering the categories of assertions~~ find it helpful to use assertions in both reasonable and limited assurance engagements. ~~If so, the practitioner may begin by considering the categories of about the subject matter information that result if the applicable criteria were applied appropriately and the corresponding types of~~

<sup>18</sup> ISA 315 paragraph 4(a) and ISAE 3410 paragraph 14(b)

<sup>19</sup> — ISAE 3000 (Revised) paragraph 65

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~~potential misstatements that may have occurred if they were not applied appropriately. The practitioner may then design procedures to test whether the subject matter information is misstated with respect to the identified assertions. If the assertions are not misstated, this provides evidence that the information is properly prepared in accordance with the applicable criteria assertions used in other standards~~

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250A. The table below sets out the categories of assertions that are included in ISA 315 and in ISAE 3410, with those in ISA 315 relating to classes of transactions, other events and conditions shown as 'period' and those relating to account balances shown a 'point in time'. The categories of assertions in ISAE 3410 all relate to emissions which occur in a 'period'.

**Table 2 – Categories of Assertions in IAASB Standards**

ISA 315 (Period)	ISAE 3410	ISA 315 (Point in Time)	
Occurrence	Occurrence	Existence	A
	Responsibility	Rights and Obligations	
Cut-off	Cut-off		
Completeness	Completeness	Completeness	B
Accuracy	Accuracy	Accuracy, Valuation and Allocation	
Classification	Classification	Classification	
Presentation and Disclosure	Presentation and Disclosure (including Consistency)	Presentation and Disclosure	

245. [177] Some examples of categories of assertions that may be used in EER engagements include: 250B. The categories of assertions in these Standards address subject matter information may be applied to aspects of the underlying subject matter. For example, the 'period of time' assertions in ISA 315 relate to classes of transactions, other events or conditions. Such aspects may be at a level of disaggregation of the underlying subject matter, at which it is required to be measured or evaluated in accordance with the applicable criteria

250C. The categories of assertions in the rows in region A of the Table are assertions of the type that the subject matter information would be properly prepared if the subject matter information:

- Only relates to appropriate aspects of the underlying subject matter (respectively, for each column, appropriate aspects are those that have occurred, or that have occurred and for which the entity is responsible, or that exist and represent rights or obligations of the entity);
- Is complete, in that it relates to all such appropriate aspects of the underlying subject matter information; and
- Reflects appropriate 'cut-off', in that it has been presented as relating to the appropriate periods of time in which the appropriate aspects of the underlying subject matter occurred or at the point in time at which the appropriate aspects existed and represented rights or obligations of the entity.

250D. The categories of assertions in the rows in region B of the Table are assertions of the type that the subject matter information would be properly prepared if the subject matter information:

- Results from the proper measurement or evaluation of the appropriate aspects of the underlying subject matter information, in that the outcome of the application of the



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measurement or evaluation criteria to such aspects is accurate, or where applicable gives rise to a reasonable valuation or an appropriate allocation:

- Is appropriately classified as to the aspects of the underlying subject matter that it relates to; and
- Includes the disclosures required by the criteria and is presented in accordance with the requirements of the criteria.

250E. These are broad categories and, in general, it is likely that assertions that result from the requirements of the criteria in most assurance engagements can be classified into one of these categories or that one of these categories can be adapted to include them.

250F. It may assist the practitioner to consider the assertions at the level of disaggregation at which aspects of the underlying subject matter are required to be measured or evaluated in accordance with the criteria.

a) ~~Accurate~~

c) ~~Connectivity~~

d) ~~Consistency~~

e) ~~Cutoff~~

f) ~~Existence~~

h) ~~Presentation~~

i) ~~Classification~~

related to the required  
'reliability' characteristic  
of suitable criteria

related to the required  
'relevance'  
characteristic of suitable  
criteria

related to the required  
'understandability'  
characteristic of suitable  
criteria

~~This is not intended to be an exhaustive list, nor does it intend that all of these examples might apply to all assertions. It is necessary to identify those appropriate categories of assertion or criteria elements that may not~~

~~251. [183] As in a financial statement audit, a single procedure or test may be designed to test whether subject matter information exhibits more than one assertion. Decisions on the extent and nature of procedures that the practitioner plans to perform may be informed both by the nature of the assertions being tested and by the practitioner's assessment of the risks of material misstatement of that assertion (in a reasonable assurance engagement).~~

Types of potential misstatement

252. [184] The assertions allow the practitioner to consider the different types of potential misstatements that may occur, as when an assertion is not present in subject matter information, the information is misstated. Some examples of different types of possible misstatement include:

- a) Omission of information (failure of a 'completeness' assertion)
- b) False claims in information (failure of an 'existence' or 'occurrence' assertion, ~~or of a more general 'free from error' assertion~~)

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- c) Misleading or unclear representation of information (failure of an 'understandability' or 'presentation' assertion)
- d) Bias in information so that positive aspects of performance are focused on and negative aspects are omitted (failure of a ~~'neutrality'~~ or 'presentation' assertion)

253. [185] If a practitioner identifies a misstatement, they are required to make a judgment as to whether the misstatement is material, which will then determine the appropriate action. Refer to G.Ch102 for more guidance.

250A. There may be other ways in which the practitioner chooses to categorize required assertions, and this is a matter of choice for the practitioner as long as the types of misstatements that may occur are considered. For example, a framework's criteria may specify a required principle of 'connectivity'. The practitioner may choose to categorise the assertions embodied in the subject matter information in this way or may elect to consider this assertion in terms of presentation and disclosure of the subject matter information.

251. [183] As in a financial statement audit, a single procedure or test may be designed to test whether subject matter information exhibits more than one assertion. Decisions on the extent and nature of procedures that the practitioner plans to perform may be informed both by the nature of the assertions being tested and by the practitioner's assessment of the risks of material misstatement of that assertion (in a reasonable assurance engagement).

234A. If the practitioner does not use assertions, an alternative way of considering the potential types of misstatements may occur would be by direct consideration of the criteria.

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## Chapter 9 (previously 10): Obtaining Evidence

### *Other information*

66. [36] Anything in an EER report not within the scope of the assurance engagement is classed as 'other information'. Regardless of the engagement's scope, the practitioner is required by [paragraph 62](#) of the Standard to read all 'other information' in the EER report to identify material inconsistencies between the subject matter information and the other information that is not in that scope. If a material inconsistency or a material misstatement of fact in the 'other information' is identified, the practitioner is required to discuss this with the preparer and take further action as appropriate.
67. [37] Whether the scope of the assurance engagement is a whole EER report, or part of an EER report, that includes both narrative and quantitative representations and related disclosures the narrative information is as much part of the subject matter information as the quantitative subject matter information, and does not automatically constitute 'other information' (however, circumstances where narrative information could be considered to be 'other information' are discussed in [paragraph \[162\]](#)). The practitioner therefore needs to apply the same degree of rigor when obtaining evidence related to the narrative subject matter information as would be applied to any quantitative subject matter information. Each representation and its related disclosures are considered together from the perspective of suitable criteria and work effort.

### *Other Information*

86. [57] Anything in an EER report not within the scope of the assurance engagement is classed as 'other information'. Regardless of the engagement's scope, the practitioner is required by [paragraph 62](#) of the Standard to read all 'other information' in the EER report to identify material inconsistencies between the subject matter information included in the scope of the engagement and the other information that is not in that scope. If a material inconsistency or an unrelated material misstatement of fact in the 'other information' is identified, the practitioner is required to discuss this with the preparer and take further action as appropriate.

### Introduction

254. [93] Paragraphs 46 to 51 of the Standard set out the requirements for a practitioner to obtain an understanding of the underlying subject matter and other engagement circumstances (see [Chapter 5](#) for what is meant by 'engagement circumstances'), sufficient to:
- Enable the practitioner to identify and assess the risks of material misstatement (in a reasonable assurance engagement) or to identify areas where a material misstatement of the subject matter information is likely to arise (in a limited assurance engagement; and
  - Thereby, provide a basis for designing and performing procedures to respond to those risks or to address those areas and to obtain the level of assurance (limited or reasonable) needed to support the practitioner's conclusion.

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255. [94] Paragraphs 48 to 60 of the Standard set out the requirements for obtaining evidence, differentiating between limited and reasonable assurance in some respects. Where the Standard does not differentiate, the requirements are the same for both limited and reasonable assurance. The table at the end of this chapter summarizes the key differences in the requirements for limited and reasonable assurance when obtaining evidence.

**Determining how much evidence is enough in limited and reasonable EER assurance engagements**

256. [95] However, rather than considering limited and reasonable assurance as two discrete types of assurance, it may be useful to consider them as being differently positioned on a scale that reflects the level of assurance to be obtained by the practitioner, in the specific circumstances of the engagement. In both limited and reasonable assurance engagements:

- a) The collective persuasiveness of the evidence obtained establishes the actual level of assurance obtained (see the International Framework for Assurance Engagements, paragraphs 63-64, and the Supplement to this guidance, for further guidance on the persuasiveness of evidence);
- b) The level of assurance obtained, and conveyed in the assurance report, is intended to enhance the degree of confidence of intended users in the subject matter information; and
- c) The enhanced degree of confidence of intended users is likely to vary with the level of assurance obtained and conveyed in the assurance report, and therefore with the persuasiveness of the evidence obtained.

257. [96] In both limited and reasonable assurance engagements, the practitioner also aims to obtain evidence with enough collective persuasiveness to reduce engagement risk to a level that is acceptably low, a level that is likely to enhance intended users' confidence to a degree that is sufficiently meaningful in the circumstances of the engagement. When limited assurance has been obtained, the level of assurance is required to be at least meaningful (i.e. the assurance obtained is likely to enhance intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential). What is meaningful in a limited assurance engagement can range from just above 'clearly inconsequential' to just below what would be meaningful in a reasonable assurance.

258. [97] Decisions about 'how much evidence is enough?' therefore depend on the persuasiveness of the evidence obtained in reducing audit risk to the level that is acceptable in the specific circumstances of the engagement, including who the intended users are, what their needs are, and the nature of the risks, or areas of greater likelihood, of the subject matter information being materially misstated. Such decisions will require the exercise of professional skepticism and professional judgment and other assurance skills and experience.

259. [98] As discussed in Chapter 1, an EER report may represent different aspects of the underlying subject matter primarily in numerical or narrative form, in either case with related disclosures. Information in the EER report may be in the form of, or a combination of, writing, charts, graphs, diagrams, images or embedded videos. The information may be objective or subjective, historical or future-oriented, or a combination of these. All of these factors can create challenges for practitioners in obtaining the evidence needed to support the assurance conclusion.

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260. [99] The nature, types and sources of available evidence may be different in an EER engagement from that available in a financial statement audit. However, the key thought processes followed by a practitioner in designing and performing evidence-gathering procedures are likely to be common to any type of subject matter information, including those in an EER report. The thought process set out below may assist practitioners in designing and performing procedures to obtain evidence related to any subject matter information and in evaluating the evidence obtained. The examples illustrate their application in the specific context of EER subject matter information.
261. [100] The particular challenges in obtaining evidence related to narrative and future-oriented information are considered further in Chapters 11 and 12, respectively.

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**THOUGHT PROCESS FOR EVIDENCE-GATHERING**

The following thought process sets out considerations that may assist the practitioner when determining what evidence is needed and available, when designing and performing procedures to obtain sufficient appropriate evidence, and when evaluating the sufficiency and appropriateness of evidence obtained, in relation to the subject matter information in any EER report. While the thought process is set out in a step-by-step manner, in practice the evidence-gathering process is iterative, and the thought process, or aspects of it, may be revisited as new information comes to light:

**Considerations when determining what evidence is needed and available may include the following:**

- a) What practitioner decision (what assertion) does the evidence need to address and, if applicable, how does the evidence relate to the subject matter information?

Evidence relates to the subject matter information directly when it relates to whether the subject matter information is materially misstated.

Alternatively, the evidence may only relate to the underlying subject matter indirectly, such as when the evidence needs to be about whether controls over the subject matter information are designed or operated effectively or about the likelihood or magnitude of risks that the subject matter information is materially misstated.

In other cases, the evidence may not be related to the subject matter information at all, such as when it relates to whether a source of evidence or another practitioner exhibits certain characteristics.

When the evidence does not relate to whether the subject matter information is materially misstated, some of the remaining considerations below may not be applicable, or may need to be adapted in the circumstances.

- b) What would the entity be required to assert about the subject matter information in representing that it has been properly prepared in accordance with the criteria (the 'required assertions')? Or, conversely, in what way(s) could the underlying subject matter not be properly measured or evaluated, presented or disclosed in the subject matter information (the 'type(s) of misstatement' or 'what can go wrongs')?
- c) What might cause each 'required assertion' or 'type of misstatement' – i.e. what could pose a risk to the proper preparation of the subject matter information in that way?
- h) How does the entity manage and mitigate the risks that the subject matter information might be wrong in that way? For example, what governance and oversight structures, systems, processes and controls are in place to prevent or to detect and correct misstatements?
- i) Is management aware of any actual, suspected or alleged intentional misstatement or non-compliance with laws or regulations affecting the subject

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	<p>matter information and that may increase the likelihood or magnitude of misstatements?</p> <p>j) In the context of the particular engagement and particular decision to be made, how precise, detailed and extensive does the evidence need to be, for example, is the subject matter information capable of precise measurement or evaluation or is it subject to estimations and uncertainty?</p> <p>k) Does the entity have an internal audit function and, if so, what work have they performed in relation to the subject matter information, and what are their findings? How does that affect the assessment of risk?</p> <p>l) What are the available sources of evidence and how does the source affect the persuasiveness of the evidence and the assurance procedures to be performed – for example, is it in written or oral form, related to a point in time or for a period, from outside the entity or internally generated, is it entered into the entity's books and records, does it relate to the operation of controls or is it substantive in nature, and how reliable is it?</p> <p>m) Is the evidence needed in relation to the reported information of the company alone or for a multi-location organization or a supply chain (upstream, downstream or both) and what impact will that have on the ability to obtain sufficient appropriate evidence?</p> <p>n) Do the procedures to obtain or evaluate the evidence need the application of subject matter expertise or specialist knowledge?</p> <p>o) If so, what sources of that expertise or specialist knowledge are available and what will that mean to the direction, supervision and review of their work and the interaction between the subject matter expert/s and the assurance practitioners on the team?</p> <p><b>Considerations when designing and performing procedures to obtain sufficient, appropriate evidence include:</b></p> <p>a) What is the purpose of the procedure – i.e. what will the procedure achieve or tell me about the subject matter information?</p> <p>b) How much evidence would need to be obtained and from which of the available sources?</p> <p>c) How relevant and reliable would the evidence need to be, and will the available sources provide that degree of relevance and reliability? If not, are there alternative or additional procedures that can be performed?</p> <p>d) What would constitute a misstatement of the subject matter information and how will any identified misstatements be recorded and evaluated?</p> <p>e) What is the nature, timing and extent of the procedures and how might that affect the resources needed on the engagement team, and planning and communications with the preparer?</p>
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- f) What arrangements are there in place for documenting the work done and evidence obtained, and when will the documentation be available to review?
- p) Who on the team will direct, supervise, perform and review the procedures performed, and when?

**Considerations when evaluating the sufficiency and appropriateness of evidence obtained include:**

- a) Was the planned evidence able to be obtained?
- b) Has any new information come to attention that differs from that expected or that contradicts other evidence obtained? If so, has the appropriateness of the planned procedures been re-evaluated in light of the new information?
- c) Has the evidence obtained from different sources been considered in an unbiased manner?
- d) Does the level of exceptions or misstatements identified differ from expectation?
- e) Is more evidence needed and how will that be obtained?
- f) Have any difficult professional judgments been appropriately reviewed and has appropriate consultation on difficult or contentious matters taken place, if needed?
- g) Has appropriate assurance and subject matter competence and specialist expertise been applied?
- h) Has the exercise of professional skepticism and professional judgment been appropriate in performing the procedures and evaluating the evidence, including in understanding the work of subject matter experts, the assumptions and methods they have used, the basis for their conclusions, and the implications of their findings on the subject matter information and any other aspects of the engagement?
- i) Has the effect of uncorrected misstatements on the subject matter information been considered, both individually and in aggregate, and both quantitatively and qualitatively? For guidance on the materiality of misstatements, see Chapter 13 and, in the context of narrative and future-oriented information, also Chapters 11 and 12, respectively.
- j) Has the persuasiveness of the evidence (its sufficiency, and its relevance, and reliability) been considered?
- k) Where evidence represents information that was not verifiable to a high degree of precision, is the range from which the reported information was selected appropriate?
- l) Have events subsequent to the reporting period been considered, as well as their implications, if any, for the assurance engagement?



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|--|--|
|  | q) In the face of challenge, would the evidence obtained stand up to scrutiny, and are the evidence and the documentation of that evidence sufficient and appropriate to support the assurance conclusion and to meet the requirements of the Standard |
|--|--|

262. [101] The thought process is illustrated in ~~the~~ example 2 below in Appendix 3 by applying it to a case where the subject matter information is quantitative information. For further considerations in applying it to narrative and future-oriented subject matter information, see Chapters 11 and 12.

[INSERT TABLE SUMMARISING LIMITED/REASONABLE REQs FROM PARAS 48-49 of STANDARD]

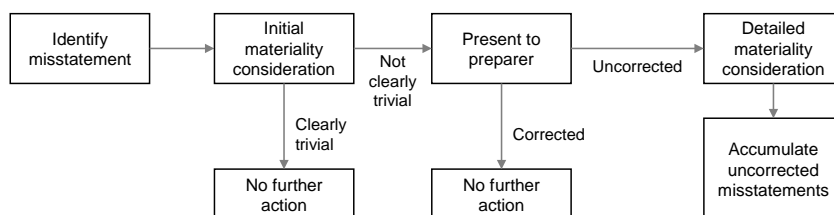
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### Chapter 10 (previously 13): Considering the Materiality of Misstatements

#### Introduction

310. [213] If during the assurance engagement the practitioner identifies a misstatement within subject matter information included in the EER report for material topics and related elements, the practitioner is required to make a judgment as to whether the misstatement is material.
311. [214] Misstatements may need to be evaluated in different ways given that subject matter information in EER takes such a variety of forms (for example quantitative and qualitative, different units of account).
312. [215] For parts of subject matter information that are quantitative (for example a KPI expressed in numerical terms), the starting point for materiality decisions is to establish materiality thresholds, often by using a percentage<sup>20</sup>. If the EER framework specifies a percentage threshold for materiality, it may provide a frame of reference to the practitioner in determining materiality for the engagement.

#### Practitioner Responsibilities



313. [216] Having identified a misstatement, the practitioner may consider whether it is clearly trivial or not. Where the misstatement is not clearly trivial, depending upon the circumstances of the engagement, the practitioner may present it to the preparer who then has the opportunity to correct the misstated information. The practitioner may also consider whether the nature of the misstatement may indicate that other misstatements may exist in other parts of the EER report.
314. [217] If the preparer does not want to correct the misstatement, the practitioner may need to undertake a more detailed consideration of whether the misstatement is material, and may take into account the considerations below.

#### Materiality Considerations

315. [218] Below is a series of 'materiality considerations' that a practitioner may use when considering materiality initially or in a detailed manner. They are examples of matters that could assist a practitioner in considering whether a misstatement is material. Misstatements are generally considered to be material if they could reasonably be expected to influence relevant decisions of intended users<sup>21</sup>. Therefore, the practitioner takes into account the extent to which the intended users could reasonably be expected to make a different decision if the subject

• <sup>20</sup> There are instances where this would not be appropriate, perhaps where the number is often very small (for example, number of fatalities).

• <sup>21</sup> ISAE 3000 (Revised) paragraph A94

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matter information was not misstated. The considerations below are not exhaustive; ultimately, professional judgment will be required to conclude based on the specific circumstances.

316. [219] A misstatement is more likely to be material if:

Underlying subject matter

- a) The misstated subject matter information relates to an aspect of the underlying subject matter that has been determined as being particularly significant (material).

External factors

- b) The misstated information relates to non-compliance with a law or regulation, particularly where the consequence for non-compliance is severe.

EXAMPLE

An instance of non-compliance with an important regulation that attracted a large fine is more likely to be material than one where there was no significant penalty.

- c) The misstated information relates to underlying subject matter that has implications for a large number of the entity's stakeholders.

Nature of the subject matter information

- d) It is a key performance indicator known to be used by intended users that is misstated, perhaps that is commonly used to compare the entity to its peers.
- e) It is in information reporting performance in relation to a target or threshold, where the magnitude of the error is comparable to the difference between the actual outcome and the target.

EXAMPLE

One of the performance targets determining a Chief Executive's bonus is achieving a customer satisfaction score of 75% or higher. The reported achieved score was 77% however this was found to be overstated by 3 percentage points, meaning the target was actually not met. It is likely that the misstatement in these circumstances would be material.

If, however, the target was 90%, the misstatement may be considered to be immaterial as the target was not reported to be achieved even though the score was incorrect.

- f) The misstated information is reporting a significant change in a previously reported position, or a trend that has reversed.

Presentation

- g) It is a presentational misstatement that has arisen from subject matter information being misleading and the wording that has been used lacks clarity such that it could be interpreted in widely different ways. Accordingly intended users might make different decisions depending on their interpretation.

Preparer's behavior

- h) The misstatement has arisen as a result of an intentional act by the preparer to mislead.

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- i) The preparer is reluctant to correct the misstatement for reasons other than they consider it immaterial.
317. [220] The majority of the considerations listed as examples in paragraph 219 may apply to both quantitative and qualitative information. For information that is quantitative, the factors can be used to set the materiality thresholds, which determines what level of error will be tolerated. For qualitative information, the factors similarly help a practitioner decide whether a misstatement is material based on the level of sensitivity of intended users' decision-making to such a misstatement.
318. [221] Knowing the context may be important before making materiality judgments – for example understanding the objective or purpose of the disclosure, and how the criteria intended the underlying subject matter to be measured. The practitioner can then consider whether (i) the disclosure is consistent with the objective, and (ii) whether it is clear and understandable.

**Accumulating Misstatements**

319. [222] After considering misstatements individually, the practitioner may need to consider misstatements in combination with others. The practitioner is unlikely to be able to accumulate misstatements and consider them together in the same way as a financial statement audit for an EER report comprising diverse and varied underlying subject matter. However, the practitioner may still need to consider whether there are misstatements of assertions that relate to the EER report as a whole (such as criteria relating to presentation of the EER report), where such criteria apply in the context of the engagement.
320. [223] The practitioner is required to accumulate all the uncorrected misstatements identified during the engagement, other than those that are clearly trivial<sup>22</sup>. This can be documented on a schedule so that the uncorrected misstatements can be considered collectively. While it will not be possible to add up non-numerical misstatements, or those relating to different elements, it may be possible to group the misstatements according to the elements in the EER report. Alternatively, the misstatements could be grouped according to the type of misstatement or the assertion that was not present. Misstatements of subject matter information in narrative form may need to be concisely described.

**"320a Clearly trivial" is not another expression for "not material." Misstatements that are clearly trivial will be of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, and will be misstatements that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the misstatement is considered not to be clearly trivial.**

321. [224] It may be helpful for the practitioner to give each of the misstatements a rating (for example, low / medium / high) to indicate the significance of the misstatement, particularly where the misstated subject matter information is in narrative form. The criteria may give further guidance in this area.

• <sup>22</sup> ISAE 3000 (Revised) paragraph 51

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322. [225] It may be appropriate for the practitioner to consider whether the misstatements identified affect any other parts of the EER report (both those parts within and outside of the assurance engagement scope) and look for any contradictions or inconsistencies.
323. [226] The practitioner is required to form a conclusion about whether the subject matter information is free from material misstatement<sup>23</sup>, including whether the uncorrected misstatements are material, individually or in the aggregate. Where the subject matter information is materially misstated, the practitioner follows the requirements in the Standard paragraphs 74 to 77.

**Measurement or Evaluation Uncertainty**

324. [227] When measurement or evaluation uncertainty means there is inherent variability in subject matter information, this does not affect materiality considerations. Higher measurement or evaluation uncertainty also may not necessarily lead to an increased risk of misstatement.
325. [228] Subject matter information with inherent variability may be sufficiently accurate if it is as precise as it reasonably can be and information about the inherent uncertainty is also disclosed. Supporting disclosures can give important context necessary to help the intended users understand the uncertainty. Without this, the criteria might not be suitable, and the underlying subject matter element may not be represented appropriately.
326. [229] When the uncertainty is not inherent, it may give rise to misstatements, perhaps because the preparer has not used the information available to measure or evaluate the underlying subject matter as precisely as would be possible.

• <sup>23</sup> ISAE 3000 (Revised) paragraph 65

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## Chapter 11 (previously 14): Preparing the Assurance Report

### Introduction

327. [149] In performing an assurance engagement, an objective of the practitioner is to express one or more conclusion(s) regarding the outcome of the measurement or evaluation of one or more aspects of the underlying subject matter(s), through a written report. The assurance report conveys the assurance conclusions and describes the basis for that conclusion(s).
328. [150] The practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion(s) designed to enhance the confidence of intended users about the subject matter information. The assurance report is the only means by which the practitioner communicates the outcome of the assurance engagement to the intended users.
329. [151] Although the Standard specifies minimum elements that are required to be included in assurance reports, it does not require a standardized format for assurance reports. Assurance reports are tailored to the specific engagement circumstances, which involves the exercise of professional judgment. To facilitate effective communication to the intended users, the practitioner may choose a short-form or long-form style of report. A short-form report usually only includes the basic elements that are required to be included in the report. A long-form report may include a wide range of additional elements.
330. [152] Considerations that may assist the practitioner in exercising professional judgment to prepare an assurance report that facilitates effective communication to the intended users and the achievement of the practitioner's objective may include whether, in the specific circumstances of the engagement, the report:
- a) Contains all the information that is useful to intended users in reaching appropriate conclusions about the nature and level of assurance the practitioner obtained (is relevant and complete);
  - b) Contains only information that can be relied upon by the intended users to convey what it purports to convey (is reliable);
  - c) Conveys that information in an unbiased manner (is neutral); and
  - d) Clearly communicates to the intended users both the meaning and significance of the information it seeks to convey (is understandable).

### The Complexities of EER Reporting

331. [153] As discussed in Chapter 1, an EER report may in some cases cover underlying subject matters that are diverse in nature and have diverse characteristics. Even when the underlying subject matters are relatively homogeneous, the characteristics of the underlying subject matter, the nature of the criteria and the presentation format of the subject matter information may give rise to complexity or inherent measurement or evaluation uncertainties.
332. [154] Such matters could be impediments to understandability of the report, depending on the specific circumstances of the engagement, if their implications are not clearly communicated to the intended users. Such matters may include:

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- a) The scope of the underlying EER report and how it is presented. For example, it may be in the form of a traditional standalone report or may be spread across various pages on a website with hyperlinks between pages;
- b) The identification and diversity of intended users and the decisions they expect to make based on the EER report;
- c) The diversity and characteristics of aspects of the underlying subject matter. For example, whether they are:
  - i) Qualitative or quantitative
  - ii) Subjective or objective
  - iii) Future-oriented or historicaland the complexities and uncertainties associated with their measurement or evaluation;
- d) The criteria used, including where the criteria may be based on a framework but need further development by the entity in order to be suitable, or whether the criteria were selected from multiple frameworks;
- e) Materiality considerations and whether those considerations are in the context of a whole report or less than the whole report, and whether they are in respect of qualitative or quantitative subject matter information;
- f) The range of competencies that were needed to perform the engagement and how they have been deployed on the engagement;
- g) Whether the engagement is a reasonable or limited assurance engagement or includes both limited and reasonable assurance for different aspects of the subject matter information, resulting in multiple assurance conclusions;
- h) The professional and ethical standards under which the engagement has been performed, for example, whether the assurance engagement is performed under more than one assurance standard or under ethical or quality control standards other than those issued by the IAASB or IESBA.

**Communicating Effectively in the Assurance Report**

- 333. [155] An assurance conclusion expressed in a binary manner may not be able to communicate the complexities identified above sufficiently without further contextual information to aid the intended users' understanding.
- 334. [156] A key consideration for the practitioner is whether the report will convey sufficiently clearly to the intended users:
  - a) Who the assurance report is intended for, and for what purpose;
  - b) What information has been assured and what has not been, when the scope of the assurance is not the EER report as a whole;
  - c) What nature and level of assurance has been obtained and what has not;
  - d) By reference to what criteria the assurance has been obtained;

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- e) The level of assurance that has been obtained and what that means in terms of the confidence that a user can have in the subject matter information.
335. [157] Paragraphs 68 and A158-A160 of the Standard allow for flexibility in how and what may be included in the assurance report, provided the required elements in paragraph 69 of the Standard are included, and it is clear that other information and explanations included as context or information are not intended to detract from the practitioner's conclusion. This means that, although the assurance conclusion is expressed in a binary way, the practitioner may include other information in their report to explain the basis and provide appropriate context for the assurance conclusion.
336. [158] Paragraphs yyy to xxx below address each of the basic elements of the assurance report required by paragraph 69 of the Standard, and provide guidance and examples to help practitioners make decisions about information that may be added to the report in respect of each basic element to facilitate effective communication with the intended users.
337. [159] Setting the context for the assurance conclusion in a clear, informative way that:
- a) Keeps a clear focus on the intended users; and
  - b) Neither omits information that would assist the user nor includes information that obscures the messages
- may assist in enhancing the intended users' understanding of the assurance engagement and the confidence they can justifiably have in the subject matter information. The guidance and examples are not intended to provide the only approach but are included as illustration.
338. [160] It may be helpful for the practitioner to bear in mind the relevance, reliability, completeness, neutrality and understandability (see paragraph 119) of the information to be included, when preparing the assurance report. An assurance report is likely to be:
- a) Relevant when it includes those matters that are likely to enhance users' understanding of the assurance conclusion, and confidence in the subject matter information, i.e., it does not include information that detracts from the ability to understand the practitioner's conclusion about the subject matter information;
  - b) Reliable when it:
    - i) communicates transparently the information about the engagement that was performed, the criteria, underlying subject matter, a summary of the work performed, and other factors that are necessary for users' understanding of the basis for the assurance conclusion, and
    - ii) does not mislead users either inadvertently (for example, by not applying sufficient rigor or precision in the wording used in the assurance report to reflect the basis for the conclusion) or intentionally (for example, by using positive observations and explanation to weaken or avoid a modified conclusion);
  - c) Complete when it does not omit information relevant to users' understanding of the practitioner's conclusion;



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- d) Neutral when it presents the summary of work performed in an objective way and does not overstate or embellish it<sup>24</sup>, and the conclusion follows from the procedures performed and the evidence obtained;
- e) Understandable when it is clear for whom the subject matter information and related assurance are intended, the purpose of the assurance report, and the degree of confidence the user can draw from the practitioner's conclusion.

*A title (paragraph 69 (a))*

339. [161] The first element required by paragraph 69 of the Standard is a title. The title identifies the nature of the report, distinguishes it from a non-assurance report and delineates it from information for which the preparer is responsible and which has been included within a wider document prepared by the preparer. It may aid user understanding for the title to include enough informational content to make it clear whether it is a limited or reasonable assurance report and what the assurance report is over i.e. what the subject matter information is.

**For example:**

***Independent Limited Assurance Report to the [Intended Users] on the Selected Sustainability Information in ABC PLC's Sustainability Report***

*An addressee (paragraph 69 (b))*

340. [162] An addressee identifies to whom the assurance report is directed. ~~Assurance engagements need at least three separate parties (the practitioner, responsible party, and the intended users); the responsible party may also be the preparer and the engaging party, and the responsible party can be one of the intended users, but not the only one<sup>25</sup>.~~
341. [163] The assurance report is usually addressed only to the engaging party or the directors of the engaging party. However, if users are not identified, the context for the assurance conclusion being expressed in terms of 'in all material respects' is incomplete as materiality considerations take account of what is relevant to the needs of users. The practitioner may, therefore, consider stating who the intended users are as a group (limit to those with significant and common interests as identified by the entity<sup>26</sup>).
- ~~342. [164] As indicated in the example above, the title may simply refer to 'the Intended Users' and within the body of the assurance report it would be made clear who those intended users were. It is the preparer's responsibility to identify the users and purpose of report; the assurance practitioner reflects what has already been disclosed by the preparer. The practitioner may also wish to state who the assurance report is not intended for.~~

• <sup>24</sup> ISAE 3000 (Revised) paragraph A177

• <sup>25</sup> International Framework for Assurance Engagements paragraph 35

• <sup>26</sup> ISAE 3410 paragraph A47

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For example, in the body of the assurance report, an explanation of who the intended users are might read:

*The Intended Users of this report are the shareholders of ABC plc as at [date]. This report is not intended for any other users as their needs have not been taken into account in performing our assurance procedures and preparing this report.*

or

*This report has been prepared, under [name of framework] and the related criteria as further developed by the entity and set out on page x, for the shareholders of the company and not for wider groups of stakeholders, whose reporting needs may differ from those for whom the report was prepared.*

343. [165] The practitioner may also consider it appropriate to include information about the materiality considerations so that it is transparent to the intended user what tolerance for misstatement has been applied in conducting the assurance engagement.

For example:

*In planning and performing our assurance engagement, we set thresholds for materiality to help us determine the nature, timing and extent of our procedures and to evaluate the effect of misstatements we identify in the subject matter information during the course of our work. We consider the effect of identified misstatements both on their own and when aggregated with other misstatements when reaching our conclusion about whether the subject matter information has been prepared in all material respects accordance with the stated criteria. We also consider qualitative factors such as how the subject matter information has been presented within the [identified report] and whether identified misstatements have resulted in ABC's non-compliance with laws or regulations.*

*Based on our professional judgment, we determined materiality for the [identified **underlying** subject matter] as follows:*

*Scope 1 greenhouse gas emissions: 5% of ABC PLC's reported Scope 1 greenhouse gas emissions [could include others to show multiple subject matter information]*

*This threshold means that a misstatement of x tonnes of CO<sub>2</sub>e either as an individual misstatement or as an aggregate of smaller misstatements would lead us to conclude that the Scope 1 emissions had not been prepared in all material respects with the stated criteria. [consider including wording that explains that as testing is on a selective basis, the misstatements we base our conclusions on are only those that we have identified, but there may be others, and that for limited assurance there is greater risk that such misstatements may exist and not be identified].*

*For narrative information, materiality considerations consider qualitative matters, including balance, understandability, and lack of bias.*

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*An identification or description of the level of assurance, the subject matter information and, when appropriate, the underlying subject matter (paragraph 69 (c))*

344. [166] An identification or description of the level of assurance, the subject matter information and, when appropriate, the underlying subject matter:
- a) Indicates to users the level of assurance obtained in relation to the subject matter information (the degree of confidence they can have in the subject matter information).
  - b) Identifies the subject matter information and, when appropriate, the underlying subject matter, making it clear what has been assured, and linking the output of the engagement to the scope of the engagement.
345. [167] It may not be clear to the intended users what the difference is between a limited and reasonable assurance engagement. This may create an expectation gap between the assurance actually obtained and what the user believes has been obtained. The users may therefore take an inappropriate degree of comfort from the assurance report when making decisions. The practitioner may consider it helpful to include in the assurance report an indication of the differences between limited assurance and reasonable assurance to aid user understanding. It may also be useful to explain that, in a reasonable assurance engagement, procedures are described only briefly because, in a reasonable assurance engagement, in all cases where an unmodified report is issued, sufficient appropriate evidence has been obtained to enable the practitioner to express an opinion (a high level of assurance)<sup>27</sup>; As limited assurance covers a greater range in what is meaningful, procedures are therefore described more fully.

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<sup>27</sup> ISAE 3410 paragraph A142

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For example:

*We include a description of the procedures we have performed because, in a limited assurance engagement, possible assurance approaches may range from applying very limited assurance procedures to applying fairly extensive procedures. The confidence the Intended Users can have in the reported [identify subject matter information] is greater where extensive procedures have been performed than where very limited procedures have been performed. We want the Intended Users to understand how confident they can be in the subject matter information, based on the extent of our assurance procedures and the persuasiveness of the evidence we have obtained.*

*In a reasonable assurance engagement, procedures are described only briefly because sufficient appropriate evidence is obtained to enable the practitioner to express an opinion (a high level of assurance).*

*This engagement is a limited assurance engagement.*

~~Alternatively, it may be possible to show, on a scale, the persuasiveness of evidence the practitioner has obtained to aid the user's understanding of confident they may be in the subject matter information. For example, it may be possible to set out a scale such as the following:~~

~~0, 1, 2, 3, 4, 5, 6 where:~~

~~0 is no evidence to support/not at all comfortable~~

~~1 is minimal evidence to support/not comfortable~~

~~2 is a little evidence to support/somewhat comfortable~~

~~3 is moderate evidence to support/fairly comfortable~~

~~4 is moderately high level of evidence to support/comfortable~~

~~5 is persuasive evidence to support/very comfortable~~

~~6 is conclusive evidence to support/completely confident~~

~~If such a scale were used it would need to be made very clear that this was not part of the assurance conclusion but an indication only of the level of comfort behind the conclusion.~~

346. [168] Characteristics of the underlying subject matter or subject matter information included as contemplated in paragraph 69 (c), may be included if doing so would assist users' understanding of areas of significant practitioner judgment. User understanding is also likely to be enhanced if it is clear what the reasons are for inclusion and how the matter was addressed.

*Identification of the applicable criteria (paragraph 69 (d))*

347. [169] Identification of the criteria in the assurance report allows the user to understand the benchmarks used to measure or evaluate the underlying subject matter.
348. [170] As discussed in Chapter 3, it is a precondition for assurance that the criteria are available to intended users so that users can understand the basis on which the subject matter information has been prepared. It may be useful for the practitioner to remind the preparer at the start of the

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engagement that the preparer is responsible not only for the identification of the criteria and the measurement or evaluation of the underlying subject matter against the applicable criteria, but also for making the criteria available to the intended users.

349. [171] If the criteria are not available publicly, for example where the entity has used its own criteria to identify, record and report the subject matter information or has applied a process to further develop the high level principles of a reporting framework, those entity-developed criteria need to be made available to the intended users in one of the other ways set out in paragraph A51 of the Standard.
350. [172] If the criteria will not be available, then the preconditions for assurance won't have been met and assurance cannot be provided. If the preparer does not include the criteria in the subject matter information and they are not otherwise available from a readily accessible source, they are included in a clear manner in the assurance report.
351. [173] Where the criteria are not included in the subject matter information or otherwise available, the practitioner may need to include them in the assurance report to enable the intended users to understand how the subject matter information has been prepared and to meet the requirements of the Standard. However, criteria made available in this way would need to be just as detailed as they would need to be had they been made publicly available or made available within the preparer's report. Including, in the assurance report, only a brief summary of the criteria would not enable the intended users to understand the basis of preparation of the subject matter information. However, it is the preparer's responsibility for making the criteria available to the intended users; including them in the assurance report is not ideal.
352. [174] Criteria need to be readily available to intended users; it should not be difficult for the intended users to find the criteria that are needed to understand how the subject matter information has been prepared. For example, a hyperlink from the preparer's report to an entity's home web page may not be enough if the user then has to navigate from the home page to another page where the criteria are set out.
353. [175] In order to enhance the intended users' understanding of the assurance report, it may be helpful for the practitioner not only to identify the criteria used, but also to indicate where they may be found, and to identify them by name, date or version number. Changes may be made by the preparer to the criteria over time and is important that the assurance report identifies the criteria that were used in performing the assurance engagement.

For example the assurance report may refer to the criteria as follows:

*The Reporting Criteria used by ABC to prepare the subject matter information are set out in "ABC's Basis of Preparation of the Sustainability Information 2019" available at [www.ABC.com/ara2019/downloadbasisofpreparation](http://www.ABC.com/ara2019/downloadbasisofpreparation)*

354. [176] Sometimes preparers may report the subject matter information using more than one framework. In such a case, user understanding is likely to be enhanced if the criteria relating to each framework are made available separately, rather than being summarized or combined.

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355. [177] A preparer may not wish to disclose the criteria on the grounds that they are confidential or commercially sensitive. Without the criteria being made available, the intended user would not be able understand how the underlying subject matter had been measured or evaluated and the requirements of the Standard would not have been met. In such a situation, the rational purpose of the engagement may be called into question. If there is sensitive information that only a few may be party to (for example in a contractual arrangement), then it may be expected the assurance report would be made available only to those users who are party to the contract, and would not be more widely available. In such case, the criteria could be made available to the intended users. Where the preconditions will not be made available to the intended users or are so summarized that they are not likely to be regarded as suitable, the preconditions for the assurance engagement will not have been met.

*Where appropriate, a description of any significant inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria (paragraph 69 (e)).*

356. [178] It may be useful to consider this requirement in conjunction with the requirement of paragraph 69 (c)) as it may be clearer to refer to any inherent limitations when discussing the characteristics of the underlying subject matter, rather than in a separate, isolated paragraph.

357. [179] While in some cases, inherent limitations can be expected to be well-understood by the intended users of an assurance report, in other cases it may be appropriate to make explicit reference to them in the assurance report<sup>28</sup>.

358. [180] Some inherent limitation wordings may have become standard, for example those relating to measurement methods applied to greenhouse gases, for which examples can be found in ISAE 3410. However, it may be unclear to a user what impact the described limitations have on the assurance conclusion, for example, whether the assurance conclusion 'stands' or whether the inherent limitations weaken the practitioner's conclusion and, if so, in what way and by how much. To enhance user understanding, the practitioner may consider:

- a) When inherent limitations can be expected to be well-understood, whether it is necessary to include them as standard language in the assurance report;
- b) Whether it may be helpful to explain not only that there are limitations, but also the impact on the assurance procedures and the assurance conclusion;
- c) Whether there are unusual subject matter specific limitations that may need to be described in more detail to be understood by the intended users and how the description of such limitations can be worded so that it avoids 'boilerplate' language and helps the intended users to understand the implications in the specific context of the subject matter information and assurance engagement.

359. [181] It will also be important that any description of inherent limitations is clearly separated from the practitioner's conclusion so that it such a description is not read by users as, in some way, modifying the assurance conclusion.

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<sup>28</sup> ISAE 3000 (Revised) paragraph A165

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*When the applicable criteria are designed for a specific purpose, a statement alerting readers to this fact and that, as a result, the subject matter information may not be suitable for another purpose (paragraph 69 (f))*

360. [182] To avoid misunderstandings, the practitioner alerts readers of the assurance report to the fact that the applicable criteria may be designed for a specific purpose. It may be helpful for the practitioner to consider this requirement in conjunction with the requirement in paragraph 69 (b).

*A statement to identify the responsible party...and to describe their responsibilities and the practitioner's responsibilities (paragraph 69 (g))*

361. [183] A statement to identify the responsible party informs the intended users who is responsible for the underlying subject matter and the measurement or evaluation of the underlying subject matter against the applicable criteria, and that the practitioner's role is to independently express a conclusion about the subject matter information<sup>29</sup>.
362. [184] It may help to enhance users' understanding of the boundaries of the respective roles, and avoid the perception that assurance may be there to 'fill the gaps', by explaining in the assurance report why the assurance provider cannot become involved in the preparation of the subject matter information, i.e., assurance is designed to give an independent conclusion over the subject matter information.

For example:

The Directors ABC PLC are responsible for:

- ☐ Designing, implementing and maintaining systems, processes and internal controls over the preparation of [identified subject matter information];
- ☐ Establishing suitable reporting criteria for preparing the [identified subject matter information] and making the reporting criteria available to the intended users of the [name of report];
- ☐ Measuring or evaluating and reporting the [identified subject matter information] based on the reporting criteria;
- ☐ Maintaining proper documentation and records to support the reported information.

We are responsible for planning and performing the engagement to obtain [limited/reasonable] assurance about the [identified subject matter information] and for forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained. As we are engaged to provide an independent conclusion, we are not [permitted to be] involved in the preparation of the subject matter information as doing so may compromise our independence.

• <sup>29</sup> ISAE 3000 (Revised) paragraph A168

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*A statement that the engagement was performed in accordance with the Standard or a subject-matter specific ISAE (paragraph 69 (h))*

363. [185] Such a statement enables users to understand which standard is governing the conduct of the engagement.
364. [186] Performance of the engagement under the Standard requires compliance with all of the applicable requirements of the Standard. Where a subject matter specific ISAE (e.g. 3400, 3410), is used, compliance with both that standard and ISAE 3000 (Revised) is required.
365. [187] Practitioner's statements that contain imprecise or limiting language (for example "the engagement was performed by reference to ISAE 3000") may mislead users of assurance reports.<sup>30</sup> Users are not likely to be able to differentiate between an assurance engagement carried out 'in accordance with' ISAE 3000 (Revised) and an assurance engagement carried out 'by reference to' or 'based on' ISAE 3000 (Revised). While the former meets all the requirements of the Standard; the latter may apply only certain aspects of the Standard and the user would not necessarily be aware of this. If all the requirements of the Standard have not been complied with, then no reference to the Standard should be made in the assurance report.

For example:

A statement as follows is acceptable:

*We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information', and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements', issued by the International Auditing and Assurance Standards Board.*

A statement such as the following is not in line with the requirements of the Standard

*We performed our work having regard to ISAE 3000 (Revised)*

or

*Our assurance engagement was performed on the basis of ISAE 3000 (Revised)*

366. [188] If the practitioner has been engaged to provide assurance under two different standards, for example, both ISAE 3000 (Revised) and AA1000 AS, the requirements of both standards should be met.

*A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in law or regulation that are just as demanding (paragraph (69) (i))*

[Task Force giving further consideration to this paragraph]

• <sup>30</sup> ISAE 3000 (Revised) paragraph A170



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*A statement that the practitioner complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as Parts A and B of the IESBA Code related to assurance engagements (paragraph 69 (j))*

[Task Force giving further consideration to this paragraph]

*An informative summary of the work performed as the basis for the practitioner's conclusion (69 (k))*

367. [190] Such a summary enables the intended users of the assurance report to understand what has been done in the context of the particular engagement as the basis for the practitioner's conclusion. For many assurance engagements, infinite variations in procedures are possible in theory, making it difficult to communicate clearly and ambiguously. Paragraph A176 of the Standard sets out factors to consider in determining the level of detail to be provided in the summary of work.
368. [191] It is important that the summary be written in an objective way that allows intended users to understand the work done as the basis for the practitioner's conclusion. In most cases, this will not involve detailing the entire work plan, but on the other hand it is important for it not to be so summarized as to be ambiguous, nor written in a way that is overstated or embellished.<sup>31</sup> 'Boilerplate' language is unlikely to aid the intended users' understanding; describing the work performed in sufficient detail for a user to understand both the nature and extent of the procedures and what that means in terms of their ability to have confidence in the subject matter information is likely to be more helpful. However, a description that is too detailed may detract from the users' understanding.
369. [192] The procedures for limited assurance may appear to a user to be more comprehensive than the procedures described for a reasonable assurance engagement so, as discussed in 129 above, it may be helpful for the practitioner to explain why this is the case.

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• <sup>31</sup> ISAE 3000 (Revised) paragraph A173

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For example:

*We are required to plan and perform our work in order to consider the risk of material misstatement of the [identified subject matter information]. In carrying out our limited assurance engagement, we:*

- ☐ *Held discussions with key management of ABC PLC to understand the governance over their reporting of the [identified subject matter information], and the processes, systems and controls they use to identify, record, check and report the [identified subject matter information]*
- ☐ *Traced one example of each [transaction] through the system from recording to reporting to confirm our understanding of the governance, systems, processes and controls management had described to us, but we did not test the design of the internal controls or whether they operated effectively over the reporting period*
- ☐ *Visited eight manufacturing sites out of a total of sixty sites. Selection of these sites was made on the basis of their inherent risk and materiality to the group*
- ☐ *Tested, at each site visited, [describe what was tested], which were selected on a haphazard basis by reference to underlying evidence [describe nature of evidence] that the subject matter information had been reported in accordance with the criteria set out on page xx of the [name of report]. Where misstatements were discovered in the initial selection, we held discussions with management and personnel responsible for the information to determine the reasons for the errors, omissions or other misstatements, and we extended our testing by another [x] items to determine whether further misstatements were present*
- ☐ *Considered the presentation and disclosure of the [identified subject matter information]*
- **[Detail other procedures performed]**

370. [193] Where experts are used, it may be helpful to include information relating to the extent of specialized skill or knowledge needed to apply assurance procedure to address a particular matter or to evaluate the results of those procedures. If the practitioner refers to the work of an expert, the wording in the assurance report cannot imply that the responsibility for the practitioner's conclusion is reduced because of the involvement of the expert<sup>32</sup>. Paragraph A187 notes that additional wording may be needed to prevent the assurance report implying that the practitioner's responsibility is reduced because of the involvement of an expert. [Task Force proposes to include an additional example here]

*The practitioner's conclusion (paragraph 69 (l))*

371. [194] The assurance conclusion is the objective of the assurance engagement and is designed to enhance the degree of confidence of the intended users about the subject matter information, but:

- a) Users may not readily understand the 'double negative' wording used to express a limited assurance conclusion

• <sup>32</sup> ISAE 3000 (Revised) paragraph 70

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- b) The Standard requires the conclusion to be expressed in one of two ways. Conclusions expressed in a different way, for example, by referring to 'moderate' or 'high' levels of assurance or stating 'We conclude that...' do not meet the requirements of the Standard and may not assist users' understanding
- c) As discussed in paragraph xx, the concept of 'in all material respects' may not be understood, especially if it is unclear who the intended users are
- d) Conclusions may not be clearly delineated from other information in the assurance report, so it is unclear what the conclusion/s is/are.
- e) Some practitioners may want to include recommendations and other observations within the assurance report. While this is permitted under the Standard, considerations relevant to deciding whether to include such observations in the assurance report include whether their nature is relevant to the information needs of intended users.
- f) Including observations of 'good practice' may be misunderstood by users to be part of the assurance conclusion, which may exacerbate the lack of clarity arising from the matter discussed in (d) above. Including those matters where recommendations have been made may raise questions in a user's mind as to whether or not they have not been appropriately dealt with in preparing the subject matter information or may be misunderstood as a qualification of the practitioner's conclusion on the subject matter information<sup>33</sup>.

For example, the wording immediately below makes it clear what the conclusion is:

*Based on the work we have done and the procedures we have performed, as described under the 'Work done' section of this report, and the evidence we have obtained, nothing has come to our attention that causes us to believe that the [identified subject matter information] has not been prepared in all material respects in accordance with the stated criteria.*

The following wording is not in accordance with the requirements of the Standard and it is both unclear and potentially misleading to a user as to what it means:

*We note that ABC PLC is committed to holistic sustainability reporting and has made significant progress in its in-depth reporting of its sustainability impacts. We conclude that the information presented in ABC PLC's sustainability report is balanced and accurate.*

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372. [195] It may be helpful to explain that the 'double negative' conclusion reflects a lower level of assurance than reasonable assurance because of the limited nature of procedures performed (nothing has come to our attention). It does not mean that there is nothing that could have come to the attention of the practitioner but, rather, that the procedures would not necessarily have

• <sup>33</sup> ISAE 3410 paragraph A151

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been expected to result in anything coming to their attention due to the limited nature of the procedures.

373. [196] 69 (m) to (o) – not covered as these are unlikely to present any barrier to the users' understanding.

[The Task Force proposes to include an additional example here to illustrate multiple conclusions]

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### Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, and subject to the inherent limitations outlined elsewhere in this report, nothing has come to our attention that causes us to believe that the selected sustainability information as set out the Subject Matter paragraph above for the year ended 31 December 2018 are not prepared, in all material respects, in accordance with the reporting criteria.

### Reasonable assurance conclusion

In our opinion and subject to the inherent limitations outlined elsewhere in this report, the selected sustainability information set out in the Subject Matter paragraph above for the year ended 31 December 2018 are prepared, in all material respects, in accordance with the reporting criteria.

### Multiple Assurance Standards

#### Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information', and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements' issued by the International Auditing and Assurance Standards Board, and AA1000APS (Type 1, moderate, which is the equivalent to The Standard limited assurance). A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

### Multiple frameworks

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 August 2018 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

This conclusion is to be read in the context of what we say in the remainder of our report.

#### Selected Information

The scope of our work was limited to assurance over the KPIs contained in the GRI report (the "Selected Information").

The Selected Information consists of the numerical KPIs presented alongside the Reporting Criteria in Section 3.

Our assurance does not extend to information in respect of earlier periods or to any other information included in the GRI report for the year ended 31 August 2018.

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**Chapter 12 (Previously 11): ~~Assuring Narrative Information~~ Obtaining Assurance on Qualitative Information**

**Introduction**

263. [102] While the thought process for obtaining evidence is similar for any evidence-gathering, there are some unique features of narrative information that may impact the practitioner's ability to obtain persuasive evidence for such subject matter information. Narrative and future-oriented information are considered separately in this chapter and Chapter 12, but they are not mutually exclusive. For example, narrative information may be future-oriented or historically-oriented, and future-oriented information may be presented in either narrative or quantitative form.

**Narrative Information**

264. [186] [187] [103] Narrative information is commonly understood to be subject matter information expressed predominately using words, although numbers, including historical financial information, and diagrams, charts, images or other visual information may be included. The information is typically qualitative rather than quantitative. Some aspects of the underlying subject matter may be represented in the subject matter information primarily using narrative information. For example, an entity's governance structure, business model, goals or strategic objectives may be described primarily with narrative information, with some supporting quantitative disclosures. Narrative information in EER reports may be:

- a) factual (directly observable and therefore more readily captured by the reporting system); or
- b) inherently subjective (not directly observable or readily captured by an entity's reporting system, and susceptible to being more reflective of, and more variable with, the views of those reporting it).

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**EXAMPLE**

Examples of purely factual narrative subject matter information:

- ☐ "An audit committee comprised of non-executive directors was established in the year"
- ☐ "We bought a factory in Canada"

Examples of subjective narrative subject matter information:

- ☐ "We produce healthy food for children"
- ☐ "Our impact on the environment is minimal"
- ☐ "We have successfully implemented flexible working throughout the organization"

These particular examples of subjective narrative subject matter information may be overly vague and unsubstantiated such that it is unlikely that the criteria would be suitable, and hence it may be difficult to obtain assurance without further development of the criteria so that the application of those criteria result in information that is able to be objectively measured or evaluated.

For the first example of subjective narrative subject matter information above, 'healthy food for children' could be defined for the purpose of reporting as 'food containing no artificial flavourants or colourants, and less than x g of salt and less than x g of sugar per 100g portion. Then, if those criteria were made available, the 'healthy food for children' might be suitable for assurance. However, there may also need to be disclosure if the entity produced unhealthy food for children in another product range (completeness of information/balance).

265. [188] [104] Narrative information that is not factual is subject to management judgment and may be more susceptible to management bias. The key challenge in relation to narrative information is how to address the inherent subjectivity and increased risk of management bias and to manage potentially unrealistic expectations that the practitioner can reduce the degree to which the subject matter information is affected by inherent subjectivity.

**Specific Considerations for Determining the Suitability of Criteria**

266. [189] [105] Subject matter information expressed in words may result from criteria representing different qualities of the underlying subject matter elements compared to numerical subject matter information or metrics, however the requirements for criteria to be suitable remain the same.
267. [190] [106] Reliable criteria for narrative information need to be well-defined and therefore reasonably unambiguous so as to allow reasonably consistent measurement or evaluation of the underlying subject matter.

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**EXAMPLE**

In applying criteria requiring an entity to report the aspects of its strategy that will help it achieve its principal objectives, an entity may report that such an aspect is its policy to prioritize providing high standards of service to its customers. The criteria behind this information appear to be insufficiently defined as the information is ambiguous (hence the criteria may not be reliable because the resulting subject matter information may not result from reasonably consistent evaluation of the underlying subject matter). It is unclear whether the criteria require the entity merely to disclose that it has such a policy in place (either formally written or not), or that its behavior complies with that policy or that the policy is effective in helping it achieve its objectives.

268. [191] [107] It is particularly important for narrative information that the criteria result in subject matter information that is understandable (including being unambiguous as to its intended meaning) and neutral, as subject matter information in narrative form may be at particular risk of failing to exhibit these characteristics. This is often because words and images can be inherently ambiguous in their meaning, and charts, graphs and diagrams may be presented out of context. Most importantly, the criteria cannot result in subject matter information that is misleading to the intended users<sup>34</sup>.
269. [108] Where the criteria are not suitable and the resulting subject matter information is subjective and therefore not capable of being assured, the practitioner may discuss this with the preparer so that the subjective information can be amended, removed from the subject matter information, moved to an 'unassured' section of the preparer's report (such that it becomes 'other information' that is not subject to assurance, but is read for consistency with the subject matter information). Alternatively, suitable criteria may be able to be developed by the preparer, such that the subject matter information is able to be reasonably consistently evaluated.
270. [109] If the preparer is unwilling to change the narrative information that does not result from applying suitable criteria, the practitioner may consider that the information is 'other information' (see paragraph 108) and may need to consider carefully what that means for the assurance conclusion, particularly if there are indications that the narrative information is incorrect, potentially misleading to users, or cannot be substantiated or is not separately identified as not subject to assurance.

• <sup>34</sup> ISAE 3000 (Revised) paragraph A50



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**EXAMPLE**

The criteria require an entity to report its principal achievements in the year. A simple statement such as "We won the award for Best Company of the Year" could be technically free from error, but still be misleading if:

- ☐ The award relates to the company's operations in only one small jurisdiction and not the whole company.
- ☐ The award was not awarded by a well-recognized and respected body, independent to the company.
- ☐ The award was not the result of a fair competition, for example if not all companies were eligible.

In such circumstances the practitioner may need to consider whether the criteria define the concept of a 'principal achievement' in sufficient detail, for example, addressing matters such as the scope of the company's operations addressed by the award, the standing of the awarding body, or the scope of eligibility for the award, to be understandable, and whether the criteria should require disclosures about such matters for the resulting subject matter information not to be misleading and therefore for the criteria to be suitable.

**Specific Considerations for Using Assertions and Testing Narrative Information**

271. [110] A number of challenges may arise in the context of obtaining evidence for narrative subject matter information, including:

- a) The effectiveness or otherwise of an entity's systems, processes and controls to identify, record, process and report the subject matter information. While the Standard does not explicitly require an effective internal control system, and does allow for a wholly substantive approach, if there is little rigor to how management gathers the information included as narrative in their EER report, there may be little basis for the practitioner to obtain assurance over the subject matter information.
- b) Substantive testing alone of the reported narrative information may be insufficient as it will not provide evidence as to the completeness and balance of that subject matter information. Such an approach is only possible when there is a reasonable expectation of the evidence being available, and that is dependent on the controls in place. The preparer's processes and records should be sufficient to provide a reasonable basis for narrative subject matter information, its sources, the criteria and the methods used to record the underlying subject matter based on those criteria. If the underlying circumstances for the preparation of the subject matter information are not complex, the controls may be informal or fairly simple controls; the greater the complexity the more important will be the processes and controls in place. There is a difference between simple controls and inadequate controls.
- c) The use of internal sources as a basis for reporting the information, for example, information may be entered directly into the entity's system on a real time basis without any hard copy documentation to support it, or may be obtained through informal communication by way of telephone calls, email or other internal communications. The practitioner will need to consider what evidence is available to support the information being recorded or gathered in this way as these sources, alone, will not be sufficient. For

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example, where information is being captured by the entity directly onto a computerized system, the practitioner may need to understand and confirm the physical and logical security and access controls in place around the entry of information, and the basis for the entries being made. Where information is gathered through informal communications, the preparer's underlying books and records should include sufficient evidence to back up those communications.

**EXAMPLE**

A parent company preparer may receive an email from its foreign subsidiary telling the parent about an accidental spillage of hazardous sludge into water sources during the production process at its local operations. The email may say that the spillage was not significant, that there had been an immediate clean-up to bring it under control and that no further action was needed.

The preparer may base the report wording on the wording in the email when preparing the narrative subject matter information. Such an email would not provide sufficient evidence to support the narrative in the EER report. The practitioner would need to consider what further evidence might be available, for example, there may be documentation from the local environment agency that provides evidence of an inspection and clean up and that levels of hazardous chemicals after the clean-up are within safe limits.

- d) The timeliness with which narrative information is prepared. Preparers may focus on providing quantitative information to the practitioner, but it may be important for the practitioner to obtain the entity's draft narrative information early in the engagement so that the work needed to obtain assurance evidence in relation to the narrative information can be properly planned for, and there is enough time for the preparer to make revisions, where needed.

272. [111] Assertions embodied in the narrative information may be explicit or implicit. Different assertions may be applicable or more important for narrative information compared to numerical subject matter information, however this will depend on the criteria being used. Even in situations where the same assertions are applicable, there may be more focus on assertions such as understandability and comparability for information in narrative form, as well as consistency with other information presented by the entity in the same document.

273. [112] When testing and documenting the practitioner's work in relation to narrative information, it may be necessary to break up long pieces of text and consider sections, paragraphs or sentences separately where these talk about different things. It is likely that different assertions will be applicable to each. Where the scope of the assurance engagement is the whole EER report, then any narrative information, including charts, diagrams and images, is subject to the same rigor as numerical information when obtaining evidence. Some of the evidence may be

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available from procedures performed in respect of related quantitative information, but additional work is likely to be needed.

274. [194] [113] Individual claims or indicators in the subject matter information can be individually significant and can be tested separately, particularly where they are part of wider sections of narrative information (not all of which might be as significant). In other circumstances a paragraph of text comprising related information may need to be considered together.
275. [195] [114] Practical methods of doing this may include highlighting the text in different colors or by drawing boxes around sentences or sections of significant narrative information in the practitioner's documentation of the work done and evidence obtained. The practitioner can then test each one, and ultimately the assurance working papers can be referenced to the related parts of the text in the subject matter information. [Refer to Example 3 Appendix 3.](#)
276. [196] [115] Purely factual narrative subject matter information is more straightforward to test for misstatement (by direct observation) than subjective narrative subject information. In the case of factual narrative, the practitioner's primary focus may be on whether the subject matter information is correct or incorrect (free from error assertion), although other assertions such as completeness and neutrality may also be a consideration.
277. [197] [116] More judgment may be required by a practitioner to test assertions for subjective narrative subject matter information. This is because the information cannot be directly observed, and its preparation is the result of an indirect process that the practitioner would then verify, including the validity of the process and basis for the assumptions made. Whether the subject matter information is neutral and free from bias may become more of an area of focus for the practitioner due to the subjectivity. As noted in paragraph 178, neutrality may be identified as a separate assertion or as an aspect of other assertions.
278. [117] Consideration may need to be given to whether diagrams, charts and images used are congruent with the messages in the narrative information or whether they give a conflicting impression. For example, it may be incongruent for the preparer to show images of happy communities where the company is reporting that it has relocated a community to make way for new production facilities.

#### **Specific Considerations for Evaluating Misstatements in Narrative Information**

279. [198] [118] Evaluating whether misstatements in subject matter information in narrative form are material may require use of the materiality considerations in Chapter 13 as numerical thresholds are not appropriate. Paragraph A95 of the Standard also sets out various qualitative factors that may be considered when evaluating the materiality of misstatements. When evaluating a misstatement within narrative subject matter information, whether factual or subjective, the same considerations may be used to conclude whether the misstatement is material, focusing on whether the misstatement could reasonably be expected to influence decision-making by the intended users. Misstatements in narrative subject matter information may arise through:
- a) The inclusion of inappropriate information, for example, information that does not meet the criteria or that obscures or distorts information required by the criteria;
  - b) The omission of information required by the criteria or that would be significant to the decisions of users, for example, information relating to a significant subsequent event that would be likely to change the decisions of users but has not been disclosed;

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- c) Misstatements of fact;
- d) Ambiguous statements or statements the meaning of which is unclear;
- e) Presenting in vague terms information that is capable of being determined precisely;
- f) Changes since the previous reporting period to disclosures or presentation without reasonable justification for doing so and/or without disclosure of the reasons for doing so; or
- g) The inclusion of graphs, charts, diagrams or other visual aids that present the information out of context, distort the information or are incongruent with the narrative textual statements.

280. [119] Where misstatements are identified in narrative, non-quantifiable information, the practitioner may record them by listing them or by marking up or highlighting them in a copy of the narrative information. Irrespective of how misstatements are accumulated during the engagement, when evaluating the assurance evidence obtained and in forming the assurance conclusion, the practitioner needs to consider not only individually material uncorrected misstatements, but also individually immaterial misstatements that, when considered collectively, may have a material impact on the subject matter information taken as a whole. However, where the subject matter information is not quantifiably measurable, it is not possible to simply add the misstatements together to determine their effect in aggregate.

281. [120] When the narrative subject matter information relates to one underlying subject matter, it may be relatively straightforward to evaluate the combined effect of individually immaterial misstatements on the subject matter information as the misstatements are considered within the context of that subject matter information only. However, when the subject matter information is an entire EER report covering a wide range of underlying subject matters, it may be more challenging to find a way of evaluating the combined effect of uncorrected narrative misstatements on the EER report as a whole. There may not be a common factor linking the various parts of the subject matter information, different emphasis may have been given to different aspects of the information included in the EER report or different aspects may be more significant than others to intended users.

282. [121] The practitioner's understanding of who the intended users are and what aspects of the subject matter information are likely to be important are essential to the practitioner's ability to make judgments about which misstatements are material; materiality judgments are made from the perspective of the intended users.

283. [122] It may be possible, once all non-quantifiable misstatements have been listed, to group them together, for example, by whether a criterion requirement has not been followed or by underlying subject matter. For example, in an entity's ESG report, there may be one or more individually immaterial misstatements in the narrative statements management has made about the health and safety of its workforce and another immaterial misstatement relating to employee diversity. As health and safety and diversity both relate to the social aspect of an ESG report, the practitioner may be able to group these misstatements together and consider their combined effect on the social dimension of the entity's ESG report. Similarly, a number of immaterial misstatements in the reported water usage information and another immaterial misstatement relating to waste generated may be able to be considered together as they both relate to the environmental aspect of the ESG report.

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284. [123] Even if there are misstatements that are not be able to be grouped together by underlying subject matter or other common factor, they may exhibit a common 'direction' or trend. For example, if the effect of the misstatements is to make the subject matter information, taken as a whole, look better than it really is, or all the misstatements overstate the positive efforts and impacts of the company's actions, and downplay the negative aspects, that may add up to give a biased and misleading picture to a user of the subject matter information taken as a whole.
285. [124] Understanding the underlying cause of identified misstatements may also help the practitioner to evaluate their materiality to the subject matter information as a whole. For example, narrative misstatements may be due to misunderstanding, oversight or error by an employee preparing the subject matter information, or may be because management has intentionally taken a decision to misrepresent facts. The former may not be considered to be material, whereas the latter may be. An individually immaterial misstatement may affect another part of the subject matter information, resulting in a misstatement of that part [Example to be developed and included].
286. [200] [125] As with any other misstatements, the practitioner may encourage the preparer to correct them. In the case of narrative information, this may frequently involve either re-wording or removing the misstated text. If the preparer declines to correct them, the practitioner is required to consider whether an unmodified conclusion is appropriate.

**Other Information Alongside Narrative Information**

287. [126] Where an entity's EER reporting is integrated with its financial reporting, the practitioner's responsibility to read the 'other information' as required by the Standard will extend to the information contained within the same document(s) as the EER report – i.e. to the financial statements and any narrative related to those financial statements. The practitioner considers the consistency of that other information with the subject matter information. There may be legitimate differences between the subject matter information included in an EER report and the other information related to the same underlying subject matter, depending on the criteria used, but the differences may need to be explained or reconciled by the preparer and disclosed so that a user of the integrated report can understand the reasons for the differences.
288. [127] Where the subject matter information is part, but not all of an EER report (e.g. only part of the preparer's EER report is subject to assurance), but that part is comprised of both narrative and quantitative information, then that part that is subject to assurance (both the narrative and quantitative elements of it) are the subject matter information and any information outside of that subject matter information is 'other information'.

[The 3 paras below are from Chapter 8 and need to be integrated into this chapter's material]

229. [161] Some information in an EER report may not result from criteria that are suitable or available. In many cases, this information may be of little consequence and may be unlikely to influence decision-making by the intended users.
230. [162] Where the information does not result from any criteria, the practitioner may consider this to be 'other information' and would then follow the requirements in paragraph 62 of the Standard.
231. [163] If the information results from applicable criteria that are not suitable or not available, at least one of the preconditions for an assurance engagement would not be present, and the

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practitioner follows the requirements in paragraphs 42 and 43 of the Standard if this is discovered after the engagement has been accepted

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**Chapter 12 (Previously 13): Obtaining Assurance on Assuring Future-Oriented Information**

**Specific Considerations for Testing Future-Oriented Information**

**Introduction**

289. [201] [128] EER may contain different forms of future-oriented subject matter information, which may fall into one of these categories:
- a) Information predicting future conditions or outcomes. This may include forecasts, projections, and information about future risks and opportunities.
  - b) Information regarding the entity's intentions or future strategy.
290. [202] [129] In all cases, the subject matter information is the result of applying criteria to the underlying subject matter, which require description of the future state or condition, or a future change in state or condition over time, of an aspect of the underlying subject matter.

**EXAMPLE**

If the underlying subject matter element was a forest under the control of the entity, the subject matter information might describe a forecast of the expected average growth of the trees over the next five years (future change in state over time), or the expected average height of the trees in five years' time (future state).

The subject matter information might also describe the future risks of disease affecting the forest (which would change its future condition), or the entity's future intentions to chop down parts of the forest (again changing is future condition).

291. [203] [130] Future-oriented subject matter information may describe:
- a) things that will be subsequently observable; or
  - b) hypothetical things that will never be observable.
292. [203] [131] For subsequently observable future-oriented information, it will be possible at a later point in time to observe the precision with which the forecast, projection, prediction, or intention reflected the subsequent reality, or the extent to which anticipated and unanticipated future risks or opportunities materialized. Hypothetical information includes a condition on the projection, prediction or intention. For example, a projection could be made, conditional on an entity winning a particular contract, that the entity's profit would increase 5% next year.

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### EXAMPLE

The difference between observable and hypothetical subject matter information is illustrated by the difference between a forecast and a projection (as based on definitions in ISAE 3400<sup>35</sup>, paragraphs 4-5):

A **forecast** is prepared on the basis of assumptions as to future events that management expects to take place and the actions management expects to take as of the date the information is prepared (best estimate assumptions).

A **projection** is based on hypothetical assumptions about future events and management actions that are not necessarily expected to take place, or a combination of hypothetical and best estimate assumptions. Such information illustrates the possible consequences as of the date the information is prepared if the events and actions were to occur. This may be known as a scenario analysis.

293. [204] [132] As with narrative information, some future-oriented information is factual and therefore does not contain a significant degree of uncertainty, for example the debt maturity profile of an entity that is determined by contractual terms. An alternative example is where future-oriented information is repeated from an external source (for example, a central bank's inflation forecast), as the claim being made by the preparer is likely to only be that it is in a third party's information, which itself is verifiable.
294. [204] [133] As performing an assurance engagement on this type of information is not considered to pose a particular challenge for a practitioner, the remainder of this chapter of the document only considers future-oriented information subject to estimation uncertainty, referred to as subjective information.

### Specific Considerations for Determining the Suitability of Criteria

295. [205] [134] Future-oriented information results from applying criteria to the underlying subject matter, just like any other subject matter information. However, the criteria will ask different questions about the subject matter elements, often asking for description of the future state or condition of the element, or a future change in state or condition over time (see paragraph 202 for an example).
296. [206] [135] Whether the criteria from which future-oriented information results are suitable or not can be determined in the same way as any other criteria as described in Chapter 7.
297. [207] [136] For subjective future-oriented information, suitable criteria may require disclosure of the assumptions and the nature, sources and extent of uncertainty. It may still be possible to obtain assurance over uncertain subject matter information if it is supported by adequate disclosure such that the uncertainty is adequately conveyed to the intended users.

### Specific Considerations for Using Assertions and Testing Future-Oriented Information

298. [208] [137] Assertions for future-oriented subject matter information are likely to be similar to historical subject matter information with inherent measurement or evaluation uncertainty, and therefore the guidance in Chapter 9 is broadly applicable. Where future-oriented information is

<sup>35</sup> International Standard on Assurance Engagements (ISAE) 3400 (Revised), *The Examination of Prospective Financial Information*



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more subjective, assertions such as neutrality may become more of the focus for testing due to the risk of management bias. Presentation or understandability assertions may also be a focus where good disclosure of assumptions and the context of subjective information is necessary.

299. [209] [138] Where criteria require a statement of intended future strategy, a target, or other intentions of an entity, the explicit material assertion that a practitioner can test is whether management or those charged with governance have an intention to follow that strategy or that the target or intention exists (existence assertion). Appropriate evidence could be obtained in the form of documentation of board meetings or actions that management have already taken to work towards adopting the strategy or agreeing the target. There is likely to be a further implied assertion that the entity has the capability to carry out its intent, or will develop the means to do so, or there may be separate explicit criteria addressing capability. However, a practitioner is ordinarily not in a position to 'predict the future' to obtain assurance on whether the intended outcomes of a strategy or a target will be achieved or not.
300. [210] [139] Similarly, where criteria require information about future risks and opportunities to be reported, the assertions to be tested will likely include that the risks and opportunities exist (existence assertion) and that the list of risks and opportunities is complete (completeness assertion) with respect to the risks and opportunities which would assist intended users' decision-making. The completeness assertion may be tested by reference to the entity's risk register or records of discussions of those charged with governance. However, it is important that the processes and controls in place over the maintenance of the risk register and the minuting of discussions provide a reasonable basis for using these sources as evidence.
301. [210] [140] The existence assertion is closely related to the underlying subject matter needing to be identifiable (see paragraph 48). A practitioner is ordinarily not able to obtain assurance on whether the risks and opportunities will materialize or not, however it may be possible in some circumstances to obtain assurance on information about the nature of the risks and opportunities, for example their likelihood or potential impact. Whether this is possible will depend on whether the exact criteria are suitable and the availability of appropriate evidence. A common challenge is that the likelihood of and potential impact of risks and opportunities can change significantly and quickly due to factors that may be unknown by the entity or outside of its control.
302. [211] [141] Subject matter information predicting future conditions or outcomes (for example, forecasts, projections and predictions) relates to events and actions that have not yet occurred and may not occur, or that have occurred but are still evolving in unpredictable ways. As above, the practitioner is ordinarily not in a position to 'predict the future' and express an assurance conclusion as to whether the results or outcomes forecasted, projected or predicted will be achieved or realized. The practitioner may instead focus on whether any assumptions are reasonable and that the subject matter information has been properly prepared in accordance with the applicable criteria.
303. [212] [142] The practitioner may need to consider that while evidence may be available to support the assumptions on which the future-oriented subject matter information is based, such evidence is itself generally future-oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in relation to historical events and conditions.
304. [143] When considering subject matter information predicting future conditions or outcomes, the same thought process as was considered in Chapter 10 can be applied. The practitioner may

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ask what decision is to be made, why the representations being made by the entity may not be true, how the risks might arise of those representations not being true, and how management of the entity manages and mitigates those risks.

305. [144] The practitioner's considerations in relation to the evidence that may be available may include, amongst other matters:
- a) What governance and oversight the entity has in place over the reporting of the prospective EER information, and whether there are systems, processes and internal controls that provide a reasonable basis for the assumptions made by the entity and for the data or other information used as basis for its forecasts or projections;
  - b) What sources of information the preparer has used as basis for the assumptions made, and the reliability of those sources;
  - c) What statistical, mathematical or computer assisted modelling techniques, if any, the preparer has used, and what methods for developing and applying the assumptions have been used;
  - d) How reliable those techniques and methods are, and how relevant they are to the underlying subject matter being forecast
  - e) The preparer's previous experience and competence in making projections
  - f) The accuracy of previous projections made by the preparer and the reasons for significant differences between the projected outcome and the actual outcome. Where the preparer has a history of making reasonably reliable projections, that may reduce the risk of the future-oriented representations made by the entity being materially misstated. However, that may not be the case if the underlying subject matter is inherently volatile or subject to change
  - g) The time period being covered by the future-oriented information. The longer the time period covered, the more speculative the assumptions become as the ability to make a best estimate decreases
  - h) The inherent susceptibility of the underlying subject matter to change and the sensitivity of the assumptions to changes that may occur
  - i) The extent to which the future conditions are solely or partly under the entity's own control or whether they are outside of the entity's control
  - j) The evidence and documentation the preparer has in place to support both the assumptions made and the proper preparation of the subject matter information from those assumptions and how persuasive the evidence is
  - k) Whether there is a need for subject matter or other expertise on the engagement team and, if so, the sources of that expertise.
306. [145] The considerations when designing and performing the procedures to obtain sufficient, appropriate evidence and when evaluating the sufficiency and appropriateness of evidence obtained are similar to those set out in Chapter 10 and, where future-oriented information is presented in narrative form, also to the considerations set out in Chapter 11.

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307. [146] However, it may be more difficult to determine the persuasiveness of evidence when it is more speculative in nature than when it is factual. While written representations from management do not take the place of sufficient, appropriate evidence, it may be relatively more important in the context of an engagement to assure future-oriented information to obtain written representations from those charged with governance of the entity confirming that the assumptions as of the date of the assurance report remain appropriate even though the underlying information may have been accumulate over time.
308. [147] Similarly, future-oriented information is subject to greater uncertainty than historical information so it may be acceptable to assess whether the outcome is within a reasonable range of possible outcomes.
309. [148] Disclosures may be particularly important in the context of future-oriented information to enable a user to understand the context for the subject matter information and the inherent uncertainties involved. The practitioner's considerations on whether the disclosures in the subject matter information are appropriate may include whether:
- a) The presentation of the future-oriented information is informative, neutral and not misleading
  - b) The assumptions used and the basis for those assumptions are clearly disclosed
  - c) The basis for establishing points in a range is disclosed and the range is not selected in a biased or misleading manner when the future-oriented EER subject matter information is expressed in terms of a range
  - d) The date as of which the future-oriented information was prepared is clear and there is a statement that the assumptions are appropriate as at that date
  - e) The uncertainties and sensitivities involved are disclosed, enabling a user to understand the implications of 'what if?'
  - f) Where comparatives are presented, whether there have been any changes in the current period to the assumptions made or the basis on which the underlying subject matter has been prepared, the changes are disclosed together with the reasons for those changes and their effect on the subject matter information

[Examples under development of future-oriented information (narrative and quantitative) including disclosure; one of which on strategy/ governance]

**Specific Considerations for Evaluating Misstatements in Future-Oriented Information**

[Under development]

**Reporting Considerations for Future-Oriented Information**

[Under development]

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Appendix 1

Terms used in this Document

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Appendix 2

Table 1: Types of EER Reports, Example Frameworks Used and Whether Covered by this Guidance

Subject	Example of Available Reporting Frameworks or Standards	IAASB Standard(s)	Covered by the EER Guidance?
Greenhouse Gas Emissions	<ul style="list-style-type: none"> <li>WBCSD/WRI GHG Protocol</li> <li>ISO 14064</li> </ul>	<ul style="list-style-type: none"> <li>ISAE 3410 (requires compliance with ISAE 3000 (Revised))</li> </ul>	<ul style="list-style-type: none"> <li>Yes</li> </ul>
Integrated Reporting	<ul style="list-style-type: none"> <li>IIRC Integrated Reporting Framework</li> </ul>	<ul style="list-style-type: none"> <li>ISAE 3000 (Revised)</li> </ul>	<ul style="list-style-type: none"> <li>Yes</li> </ul>
Intellectual Capital	<ul style="list-style-type: none"> <li>WICI Intangibles Reporting Framework</li> </ul>	<ul style="list-style-type: none"> <li>ISAE 3000 (Revised)</li> </ul>	<ul style="list-style-type: none"> <li>Yes</li> </ul>
Management Commentary related to Financial Statements prepared under IFRS	<ul style="list-style-type: none"> <li>IASB Management Commentary Practice Statement</li> </ul>	<ul style="list-style-type: none"> <li>ISAE 3000 (Revised)</li> </ul>	<ul style="list-style-type: none"> <li>Yes</li> </ul>
Public Sector Service Performance or Value for Money Statements	<ul style="list-style-type: none"> <li>Law, Regulation or Standards</li> </ul>	<ul style="list-style-type: none"> <li>ISAE 3000 (Revised)</li> </ul>	<ul style="list-style-type: none"> <li>Yes</li> </ul>
Sustainability (Environment, Social, Governance)	<ul style="list-style-type: none"> <li>CDSB Framework</li> <li>GSSB Standards</li> <li>SASB Standards</li> <li>TCFD Framework</li> </ul>	<ul style="list-style-type: none"> <li>ISAE 3000 (Revised)</li> </ul>	<ul style="list-style-type: none"> <li>Yes</li> </ul>
Country-by-Country Taxes	<ul style="list-style-type: none"> <li>Law or Regulation</li> <li>GSSB Standard: Tax and Payments to Governments</li> </ul>	<ul style="list-style-type: none"> <li>ISAE 3000 (Revised)</li> <li>ISA 800/805</li> </ul>	<ul style="list-style-type: none"> <li>Yes</li> <li>No</li> </ul>
Compliance	<ul style="list-style-type: none"> <li>Law or Regulation</li> <li>Contractual Terms</li> </ul>	<ul style="list-style-type: none"> <li>ISAE 3000 (Revised)</li> </ul>	<ul style="list-style-type: none"> <li>No</li> </ul>
Historical Financial Statements	<ul style="list-style-type: none"> <li>IASB International Financial Reporting Standards (IFRS)</li> </ul>	<ul style="list-style-type: none"> <li>ISAs</li> <li>ISRE 2400 (Revised) or ISRE 2410</li> </ul>	<ul style="list-style-type: none"> <li>No</li> </ul>
Internal Controls at a Service Organisation	<ul style="list-style-type: none"> <li>COSO Internal Control - Integrated Framework</li> <li>AICPA SOC 2 Trust Services Criteria</li> </ul>	<ul style="list-style-type: none"> <li>ISAE 3402 (requires compliance with ISAE 3000 (Revised))</li> <li>ISAE 3000 (Revised)</li> </ul>	<ul style="list-style-type: none"> <li>No</li> </ul>