Agenda Item

7-A

EER Assurance – Draft Guidance

The following is a draft of the IAEPN being developed by the EER Task Force as at August 31, 2018.

International Assurance Engagement Practice Note [XXXX]

Addressing Challenges in the Application of ISAE 3000 (Revised) to EER

Introduction

Background

1. At the date of this IAEPN, entities are increasingly producing reports which include non-financial information that go beyond the traditional (financial statement) focus on the entity's financial position, financial performance and impact on its financial resources. The IAASB refers to these as 'emerging forms of external reporting' (EER).

2. EER encapsulates many different forms of reporting, including, but not limited to, integrated reporting, sustainability reporting and other reporting about environmental, social and governance matters. Such reports may be prepared under legislative or regulatory requirements and established frameworks, standards and guidance issued by international or national standard setters and other bodies.

3. The IAASB issued a discussion paper in 2016 suggesting Ten Key Challenges for Assurance Engagements over EER. Respondents to the discussion paper broadly agreed with the assessment of the challenges. There was also broad agreement with the proposal to develop guidance for practitioners in addressing the challenges when applying ISAE 3000 (Revised) ("the standard") when undertaking assurance engagements over EER. The scope of this IAEPN is therefore to provide guidance addressing the Ten Key Challenges and respond to the feedback to the discussion paper. The challenges are listed in Appendix 1.
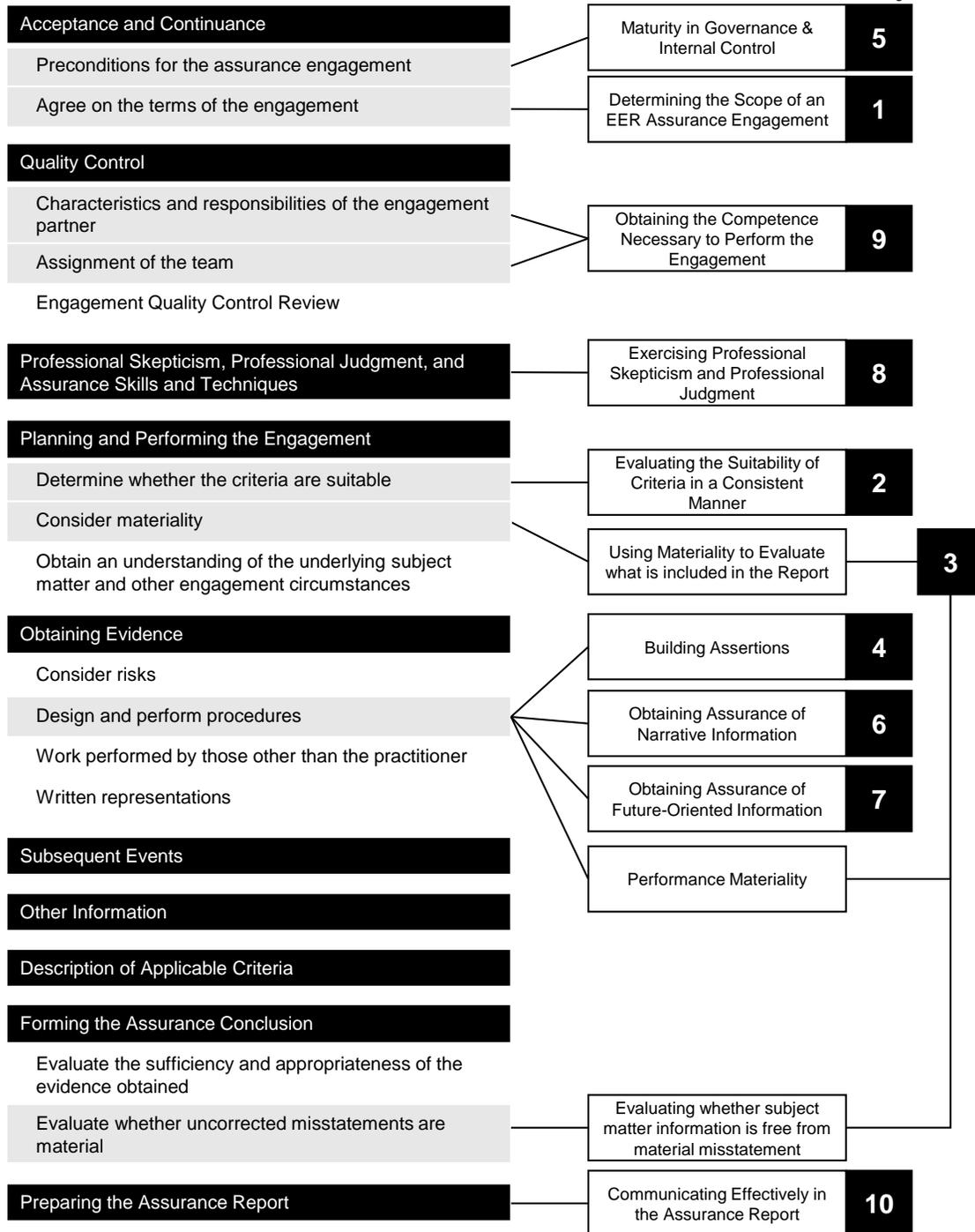
Use of this IAEPN

4. The guidance for practitioners is in Section I, arranged by challenge and the sections of the standard. Since ISAE 3000 (Revised) is not a subject matter specific standard, this IAEPN also includes background, explanatory and contextual information relevant to EER and related assurance engagements in Section II.

ISAE 3000 (Revised) Requirements	Contents of this IAEPN	
		Discussion Paper challenge number
Acceptance and Continuance	Maturity in Governance & Internal Control	**5**
Preconditions for the assurance engagement		
Agree on the terms of the engagement	Determining the Scope of an EER Assurance Engagement	**1**
Quality Control		
Characteristics and responsibilities of the engagement partner	Obtaining the Competence Necessary to Perform the Engagement	**9**
Assignment of the team		
Engagement Quality Control Review		
Professional Skepticism, Professional Judgment, and Assurance Skills and Techniques	Exercising Professional Skepticism and Professional Judgment	**8**
Planning and Performing the Engagement		
Determine whether the criteria are suitable	Evaluating the Suitability of Criteria in a Consistent Manner	**2**
Consider materiality	Using Materiality to Evaluate what is included in the Report	**3**
Obtain an understanding of the underlying subject matter and other engagement circumstances		
Obtaining Evidence		
Consider risks	Building Assertions	**4**
Design and perform procedures	Obtaining Assurance of Narrative Information	**6**
Work performed by those other than the practitioner	Obtaining Assurance of Future-Oriented Information	**7**
Written representations		
Subsequent Events	Performance Materiality	
Other Information		
Description of Applicable Criteria		
Forming the Assurance Conclusion		
Evaluate the sufficiency and appropriateness of the evidence obtained		
Evaluate whether uncorrected misstatements are material	Evaluating whether subject matter information is free from material misstatement	
Preparing the Assurance Report	Communicating Effectively in the Assurance Report	**10**

5.   As non-authoritative guidance, this IAEPN does not introduce any further mandatory requirements on the practitioner beyond those in ISAE 3000 (Revised). Similarly, none of the contents of this IAEPN remove or change any of the requirements in ISAE 3000 (Revised).

6. Prior to carrying out any assurance engagement in accordance with ISAE 3000 (Revised), the practitioner is required to undertake appropriate acceptance and continuance procedures. These include confirming that the preconditions for the engagement are present[1] (many of which are discussed further in this IAEPN) and that the practitioner has no reason to believe the relevant ethical requirements, including independence, will not be satisfied.

7. The practitioner is also required to be satisfied that those who are to perform the engagement collectively have the appropriate competence and capabilities[2]. Carrying out assurance engagements typically requires significant professional judgment and the broad range of subject matter in EER may mean specialized skills and experience are required. One area in particular is the need to plan and perform the engagement with sufficient professional skepticism given the risks arising from assuring typically new and maturing types of external reporting.

> Refer to paragraphs 56 to 57 for further guidance [to be developed in phase 2].

8. This IAEPN has been written in the context of general purpose reporting frameworks, but may also be useful, as appropriate in the circumstances, in the context of special purpose reporting frameworks[3].

9. ISAE 3000 (Revised) can be used in both direct and attestation engagements[4], however, like the standard, this IAEPN contains material specific to attestation engagements. It may be applied to direct engagements, adapted and supplemented as necessary in the engagement circumstances.

Terminology

10. Terminology in this IAEPN is used consistently with ISAE 3000 (Revised), where defined in paragraph 12 of the standard.

11. The Appendix of ISAE 3000 (Revised) sets out the roles and responsibilities of different parties in an assurance engagement. In many circumstances (in an attestation engagement), the responsible party is also the measurer or evaluator. For simplicity, this IAEPN uses the term 'preparer' to mean a responsible party who is also the measurer or evaluator.

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[1] ISAE 3000 (Revised) paragraph 24
[2] ISAE 3000 (Revised) paragraph 32
[3] Refer to ISA 200 paragraph A4 for definitions of general purpose and special purpose reporting.
[4] Refer to ISAE 3000 (Revised) paragraph 12(a)(ii) for definitions of attestation and direct engagements.

# Section I - Guidance for practitioners in applying ISAE 3000 (Revised) to EER

Acceptance and continuance

ISAE 3000 (Revised) paragraphs 21-30

Preconditions for assurance

12. The standard sets out in paragraph 24 the preconditions which must be present for a practitioner to perform an assurance engagement in accordance with ISAE 3000 (Revised). These are summarized in the six grey shaded boxes:

Preconditions for assurance
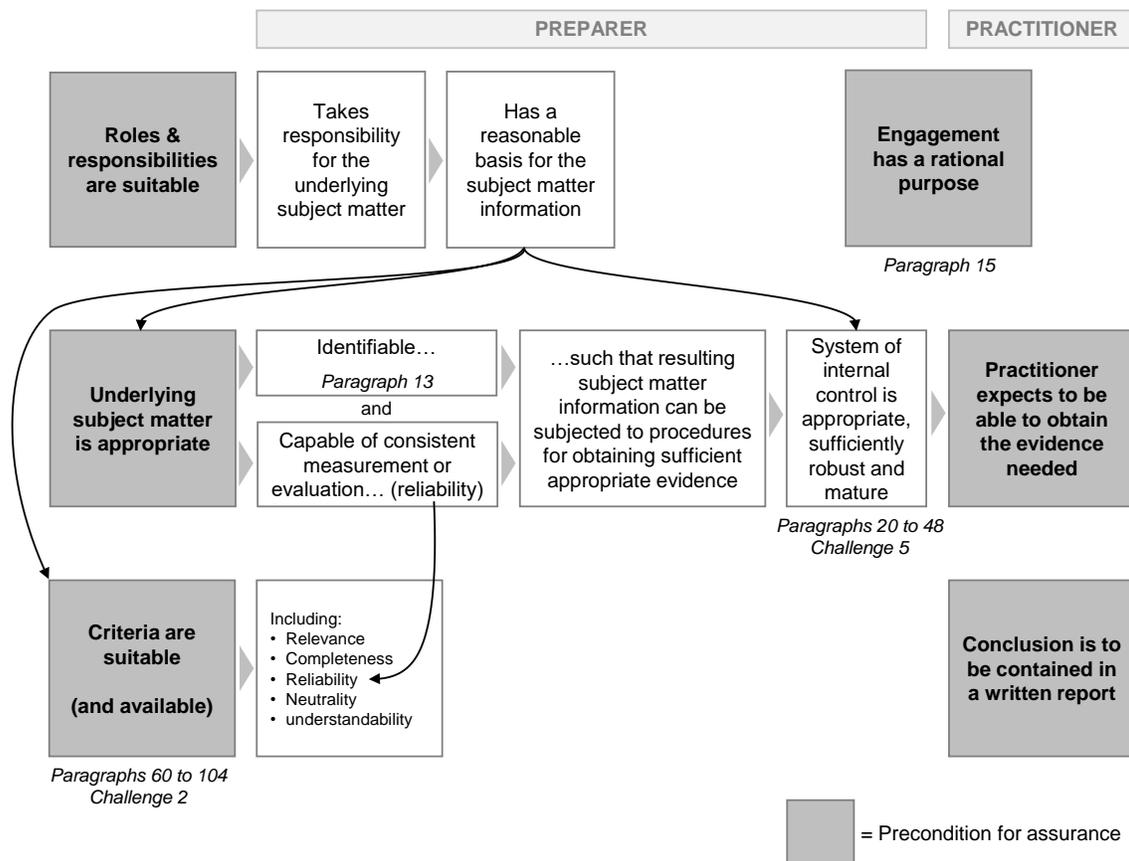
Understanding the preconditions

13.   Identifiable underlying subject matter means that the subject matter elements (see paragraphs 219 to 234) are well-defined and distinct from other things.

<table>
<tr><td rowspan="2" style="background-color:black;color:white;">EXAMPLE</td><td>The carbon emissions of an entity might be an identifiable underlying subject matter because there are widely accepted definitions of carbon emissions (such that they are distinct from other things, for example effluent). Additionally, methods exist to measure or estimate those carbon emissions which are attributable to the entity's activities.</td></tr>
<tr><td>However, the impact of the entity's activities on global temperature change might not be identifiable. This is because it is difficult to attribute the temperature change to carbon emissions of specific entities and to separate the impact of carbon emissions from other factors causing temperature change (for example deforestation).</td></tr>
</table>

14.   For the preparer to have a reasonable basis for the subject matter information, the practitioner might expect the following three conditions to be satisfied:

    a)   The underlying subject matter is appropriate (see definitions in paragraph 24(a));

    b)   The criteria are suitable (see guidance in paragraphs 60 to 104); and

    c)   The preparer's governance and system of internal control is appropriate, sufficiently robust and mature. This includes its reporting (information) system, controls and oversight (see guidance below in paragraph 20 onwards).

15.   For an engagement to have a rational purpose, it will have an appropriate reason for being undertaken, which is linked to the purpose of the report. In turn, the purpose should be useful and helpful to the intended users, such that the assurance engagement will enhance the degree of confidence that the intended users have in the subject matter information.

Practitioner's responsibilities

16.   When deciding whether to accept a new engagement for the first time, the practitioner is required to establish whether the preconditions for an assurance engagement are present. Making the

acceptance decision will be based on a preliminary knowledge of the engagement circumstances and discussion with the preparer[5].

> Refer to paragraph 59 for further information about understanding the engagement circumstances.

17. In some circumstances, for example in larger or more complex engagements, the practitioner may choose to undertake the acceptance process as part of a separate 'assurance readiness' engagement to assess whether the preconditions are present.

> Refer to paragraphs 36 to 39 for further guidance.

18. For a recurring engagement, the same preconditions are required, however the continuance process is likely to be more straightforward as the practitioner will already have good knowledge of the entity and the engagement circumstances with which to assess if the preconditions are present. The practitioner may therefore focus on whether there have been any changes since the previous acceptance/continuance decision was made.

19. The preconditions need to be present for all assurance engagements, regardless of whether limited or reasonable assurance is being provided. In order for a limited assurance engagement to be possible, the report must be capable of being subject to a reasonable assurance engagement.

Maturity in Governance & Internal Control (Challenge 5)

What is the challenge?

20. Many entities seeking to apply EER frameworks may have a reporting system, controls and oversight in place for EER which are not yet very robust. A lack of maturity and formality may mean it is challenging for the practitioner to conclude whether the preconditions for an assurance engagement are present or not. If the control environment is too weak, the higher control risk may mean the EER report is not readily capable of being assured.

21. Entities producing EER reports typically develop the system and processes needed to support the reporting gradually over time as the reporting itself becomes more established and formal. Establishing internal controls and appropriate levels of oversight by senior management and those

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[5] ISAE 3000 (Revised) paragraph 24

charged with governance also tends to happen over a period of time, partly due to the further effort and cost involved. The reporting system, controls and oversight need to have developed to such a level which is appropriate in the circumstances of the entity in order to support an assurance engagement. This guidance aims to help practitioners conclude whether the reporting system, controls and oversight are sufficiently mature such that the preconditions for assurance are present.

[Further guidance to be developed on the nature of a reporting system in an EER context]

Comparison with financial reporting

22.   The requirements of the standard to consider the process used to prepare the subject matter information (in a limited assurance engagement) or to obtain an understanding of internal control (in a reasonable assurance engagement)[6] are comparable with the requirements for a financial statement audit.

23.   However, the guidance below may be helpful for practitioners as it is common for the reporting system and internal controls over EER processes to be less mature than their equivalents for the entity's financial reporting process, especially where the entity has only recently begun preparing EER reports. In some cases, a system designed for internal management reporting may not be sufficiently robust and reliable to support external reporting if the purpose and users of the external report require a higher degree of quality and accuracy to support their decision-making than is necessary for internal management purposes.

Relevant preconditions for the assurance engagement

24.   The maturity of governance and internal control over EER is an important consideration in evaluating whether the preconditions for an assurance engagement are present. Aspects of the preconditions which may be affected by the maturity level of the entity's governance and internal control environment include:

a)   The underlying subject matter is appropriate[7]. An appropriate underlying subject matter is identifiable and capable of consistent measurement or evaluation against the applicable criteria[8];

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[6] ISAE 3000 (Revised) paragraph 47L / 47R
[7] As required by ISAE 3000 (Revised) paragraph 24(b)(i)
[8] ISAE 3000 (Revised) paragraph A40

b)   The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances;

c)   The preparer[9] is responsible for having a reasonable basis for the subject matter information[10]. The standard 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"; and

d)   The practitioner expects to be able to perform procedures to obtain sufficient appropriate evidence to support their assurance conclusion[11].

Understanding the entity's system of internal control

25.   In order for the preparer to have a reasonable basis for the subject matter information, some form of system of internal control will need to exist. An entity's system of internal control can have five inter-related components[12]:
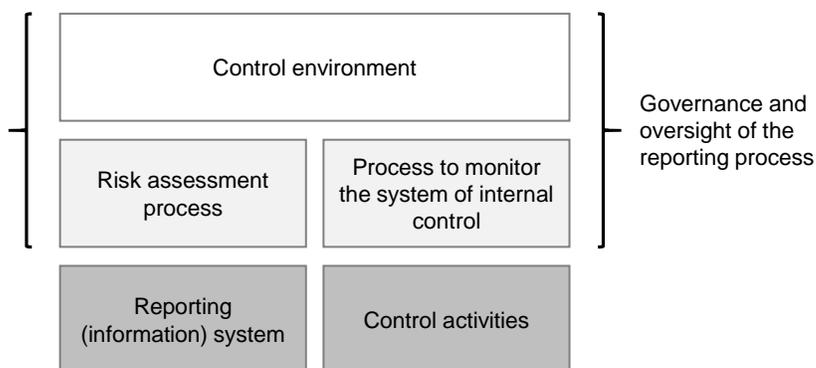
26.   The level of sophistication of the reporting system and the controls in the control activities component may vary according to the size and complexity of the entity, and the nature and complexity of the underlying subject matter and criteria. Similarly the level of formality of the risk assessment process and the process to monitor the system of internal control may also vary for differently sized entities. The practitioner's role is to determine whether the preparer has a reasonable basis for the subject matter information. This includes considering whether the system of internal control is appropriate and sufficiently mature (in terms of its level of sophistication and formality) in the engagement circumstances.

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[9] This would be the responsibility of the measurer or evaluator in circumstances where this role is distinct from the responsible party – see the Appendix to ISAE 3000 (Revised).
[10] ISAE 3000 (Revised) paragraph A39
[11] ISAE 3000 (Revised) paragraphs 24(b)(iv) and A40
[12] Based on ED-ISA 315 (Revised) paragraph 16(l)

27. Some examples of aspects of the components of an entity's system of internal control that a practitioner might expect to be in place are given below. The three components shown in the top three boxes above are considered together under the heading 'governance and oversight of the reporting process'.

The examples should not be treated as an exhaustive list of the minimum requirements an entity must have in place. As noted above, some entities will require extensive internal controls and processes beyond these in order for the preparer to be able to take responsibility for the subject matter information being free from material misstatement. In all cases the level of development of the system of internal control needs to be appropriate in the engagement circumstances, considering the size and complexity of the entity. Further guidance is given in paragraphs 33 to 35.

Reporting (information) system

28. Examples of aspects of a reporting system which a practitioner might understand to consider whether it is appropriate in the engagement circumstances include:

   a)   Appropriate measurement or evaluation bases and other reporting policies in place to identify, recognize (where applicable), measure, present and disclose the information about the subject matter elements consistently;

   > See also requirements for suitable criteria.

   b)   Processes to develop the measurement or evaluation bases and other reporting policies;

   c)   Robust and consistent processes to capture the information and data required for measuring and evaluating the underlying subject matter;

   d)   A robust 'materiality process';

   > Refer to paragraph 109.

   e)   Appropriate records and source documentation to support the subject matter information. These should be stored and accessible to be used as evidence by the practitioner; and

   f)   Appropriate use of IT to support the above.

29. The preparation of EER reports is likely to involve the use of IT to collect and/or process the data. Some entities may use complex IT software, while others may rely on simple spreadsheets or just

hard copy records. Identifying what tools are being used by the preparer is an important part of the practitioner obtaining an understanding of the engagement circumstances.

30.   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 report[13]. A key consideration is whether the information is suitable for use by the intended users. Determining this may require judgment, including taking account of the entity's ability to influence the external information source.

Control activities

31.   Examples of areas of internal control relating to the reporting system for which a practitioner might consider whether the controls are appropriate in the engagement circumstances include:

a)   Segregation of duties between individuals involved in the reporting process, to the extent appropriate according to the size of the entity. There would ideally be segregation between those preparing the information and those reviewing it;

b)   Prevention of the preparer modifying underlying sources of data, information or documentation which the practitioner would use as evidence;

c)   Appropriate IT controls to ensure any supporting IT systems are secure, robust, reliable and adequately maintained; and

d)   Prevention of management bias occurring in the process to develop the measurement or evaluation bases and other reporting policies.

Governance and oversight of the reporting process

32.   Examples of aspects of governance and oversight which a practitioner might consider whether they are appropriate in the engagement circumstances include:

a)   Involvement of senior management and those charged with governance at appropriate stages throughout the reporting process;

b)   Approval of the report by those charged with governance;

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[13] Conforming and Consequential Amendments to ISA 500, paragraph 5(cA), arising from the revision of ISA 540.

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 report (for larger entities);

d)   Those charged with governance and senior management 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 being recorded in written documentation, for example in minutes of board meetings; and

f)   Effective processes for aligning the content of the report with the strategy and operations of the business.

Consideration of the entity's size, complexity and nature

33.   The level of formality required in terms of the entity's reporting system, controls and oversight to meet these requirements will largely depend on the entity's complexity and size. A small and non-complex entity may not require formal documented controls or processes in order for the preparer to meet their responsibilities and for the practitioner to be able to accept the engagement. However, a larger entity, perhaps a listed company, or a multi-national company, might require more detailed and formalized processes and controls supporting its external reporting.

34.   The nature of the system, processes and records should be appropriate for 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 of the 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 would be required, probably supported by an appropriate IT system, in order to collect, collate and store data which is accurate and complete.

35.   Other factors affecting the nature of the entity and its environment, for example its physical location, may be relevant for the practitioner to consider in concluding whether the reporting system, controls and oversight are appropriate in the engagement circumstances.

Assurance Readiness Engagements and Maturity Assessments

36.   As noted in paragraph 17 above, the practitioner may choose to undertake the acceptance process as part of a separate engagement prior to committing to an assurance engagement. The typical aim is to explore whether the proposed criteria are suitable and whether the entity's reporting system, controls and oversight are adequate. If it is found that the preconditions for assurance are present, the entity can then choose to proceed with an assurance engagement.

37.   As well as assisting the practitioner manage a client's expectations, this approach can also be beneficial to the entity as the practitioner would typically prepare a management letter (or similar) with its findings and recommendations, allowing those charged with governance to strengthen and improve its processes and controls.

38.   A practitioner may alternatively undertake a 'maturity assessment' to evaluate (against practitioner-defined criteria) the maturity of the EER process as a whole, or relevant aspects of it, such as whether the performance measures the entity is developing are sufficiently well-established to provide users with the appropriate information they need to support their decision-making.

39.   Although these engagements and assessments can also provide insights that may assist the entity in further developing its EER processes, the practitioner must take care to comply with applicable ethical and independence requirements that may apply to a subsequent EER assurance engagement or where they are also providing an audit or other assurance engagement.

Making acceptance decisions

40.   When making a decision whether to accept a new engagement or not, the practitioner uses an initial understanding of the reporting system, controls and oversight as part of a preliminary knowledge of the engagement circumstances.

41. The following judgments (based on some of the preconditions for an assurance engagement) may assist the practitioner in making the acceptance decision:

    a)   Is the underlying subject matter appropriate?

        i)   Is it identifiable; and

        ii)   Is it capable of consistent measurement or evaluation against the applicable criteria;

    such that the resulting subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence?

    b)   Are the criteria you (as the practitioner) expect to be applied suitable for the engagement circumstances?

        i)   Is there an appropriate process for developing and reviewing the criteria?

    c)   Has the preparer appropriately fulfilled its responsibility to have a reasonable basis for the subject matter information?

        i)   Is the underlying subject matter appropriate (see above)?

        ii)   Are the criteria suitable?

        iii)   Is the governance and system of internal control appropriate and sufficiently robust?

    d)   Do you (as the practitioner) expect to be able to obtain the evidence needed to support your assurance conclusion?

The full preconditions for an assurance engagement are set out in paragraph 24 of the standard.

42. The same preconditions for an assurance engagement must be present for both limited and reasonable assurance engagements. Despite common misconceptions, the appropriate level of maturity in the reporting system, controls and oversight is not lower for limited assurance engagements; the requirements for accepting an engagement are the same as for reasonable assurance engagements.

43.   An entity continually seeking to improve their reporting and experiment in innovative ways is not necessarily the same as an entity with an immature reporting system. Practitioners are often in a position to encourage entities to improve the effectiveness of their reporting system and the strength of their internal controls. Once an entity's reporting system, controls and oversight are sufficiently mature to support an assurance engagement, further innovation and improvement is to be encouraged, although the reporting system and controls need to remain sufficiently robust. Where innovation leads to changes in criteria, there may be consequences to consider in terms of a reduction in comparability; see paragraph 78.

Response where governance and internal control are not sufficiently mature

44.   Where the practitioner concludes that the entity's internal control environment and level of oversight is too weak such that the preconditions for an assurance engagement are not present, they shall in the first instance discuss this with the engaging party (management and/or those charged with governance). If changes cannot be made to meet the preconditions, the practitioner shall not accept the engagement as an assurance engagement[14].

45.   It may then be appropriate for the practitioner to engage with the entity to undertake an assurance readiness assessment (see paragraphs 36 to 39 above). This might give the practitioner the opportunity to report their findings regarding the internal control environment in a management letter to assist senior management and those charged with governance. 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.

46.   In circumstances where the preparer has not met its responsibilities and the practitioner cannot decline the engagement as it is required by law or regulation, the practitioner considers whether it is necessary to express a qualified conclusion or disclaim a conclusion. An engagement conducted under such circumstances does not comply with ISAE 3000 (Revised). Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with ISAE 3000 (Revised) or any other ISAE(s)[15].

> **EXAMPLE**
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> A practitioner may not be able to decline the engagement where it is required that an assurance engagement is undertaken by law. This is commonly found in a public sector regulatory environment in some jurisdictions.

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[14] ISAE 3000 (Revised) paragraph 25
[15] ISAE 3000 (Revised) paragraph 25

Impact on engagement strategy

47.   The level of maturity of the internal control environment may also affect the practitioner's strategy for the assurance engagement in terms of testing controls and designing appropriate assurance procedures.

> Refer to 'Planning and Performing the Engagement' for further guidance on designing the assurance strategy and procedures relating to the challenges covered by this IAEPN.

48.   When an engagement has been accepted, the practitioner has responsibilities when planning the engagement to obtain a more detailed understanding of the engagement circumstances[16] than would have been obtained to make an acceptance decision. In doing so, the requirements set out in paragraphs 47L and 47R of the standard for limited and reasonable assurance engagements respectively are relevant.

When undertaking a reasonable assurance engagement, the practitioner is required to evaluate the design of the controls relevant to the engagement and determine whether they have been implemented by performing procedures in addition to inquiry of the personnel responsible for the subject matter information[17].

Determining the Scope of an EER Assurance Engagement (Challenge 1)

49.   [This challenge has been allocated to phase 2 of the project, however the results of Task Force discussions to date are included below.]

What is the challenge?

50.   The potential scope of an EER assurance engagement may be broader and more diverse than the scope of an audit of financial statements, reflecting the much greater diversity in the information in EER reports. As EER develops and matures, there is demand for assurance other than full scope assurance engagements (with a lesser scope), as well as new forms of engagements which are emerging. However, for many, this appears to be a complex area and the necessary considerations for accepting engagements are not always well understood, for example assessing whether there is a rational purpose for an engagement.

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[16] ISAE 3000 (Revised) paragraph 46L / 46R
[17] ISAE 3000 (Revised) paragraph 47R.

Initial guidance

51.   The IAASB notes the wide variety of current practice in setting the scope of assurance engagements being carried out in accordance with ISAE 3000 (Revised). The scope of an engagement can be an entire report or only part, or specific aspects, of a report.

52.   ISAE 3000 (Revised) can be applied to all these different engagements provided that the preconditions in paragraph 24 of the standard are met, in particular the requirements for the underlying subject matter to be appropriate, for the criteria to be suitable and for the engagement to have a rational purpose. If considering a particularly narrow scope for the assurance engagement, for example only covering specific measures or indicators in isolation, careful consideration is needed to conclude whether the engagement has a rational purpose. Careful consideration of rational purpose is also needed if the practitioner believes the engaging party intends to associate the practitioner's name with the underlying subject matter or the subject matter information in an inappropriate manner[18].

> Also refer to guidance on the suitability of criteria – paragraphs 60 to 104.

53.   In circumstances where the assurance scope is not an entire report and the scope is to be determined by agreement between the preparer and the practitioner, one approach is to include the most material aspects of the report within the assurance scope. Care should be taken to ensure the reason for excluding aspects of the subject matter information from the assurance engagement is appropriate such that the engagement still has a rational purpose[19]. Selecting aspects only based on what is straightforward to assure or what presents the entity in a positive way may mean the assurance engagement does not have a rational purpose.

> Refer to materiality guidance – paragraphs 105 to 147.

54.   Anything in a 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 report to identify material inconsistencies between the subject matter information included in the assurance scope and the other information which is not in the assurance 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 taken further action as appropriate.

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[18] ISAE 3000 (Revised) paragraph A56
[19] ISAE 3000 (Revised) paragraph A56

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55.   [Guidance to be developed further in phase 2]

Quality Control

ISAE 3000 (Revised) paragraphs 31-36

Obtaining the Competence Necessary to Perform the Engagement (Challenge 9)

56.   [Guidance to be developed in phase 2]

Professional Skepticism, Professional Judgment, and Assurance Skills and Techniques

ISAE 3000 (Revised) paragraphs 37-39

Exercising Professional Skepticism and Professional Judgment (Challenge 8)

57.   [Guidance to be developed in phase 2]

Planning and Performing the Engagement

ISAE 3000 (Revised) paragraphs 40-47

58.   In planning the engagement, the practitioner is required to determine whether the criteria are suitable for the engagement circumstances[20], as well as the nature, timing and extent of planned procedures[21]. In assessing the suitability of criteria, the practitioner considers how they address the principle of materiality given that materiality is an aspect of relevance (one of the required characteristics of suitable criteria).

59.   The practitioner is also required to obtain an understanding of the underlying subject matter and other engagement circumstances[22]. As noted in paragraph A102 of the standard, this provides the practitioner with a frame of reference for exercising professional judgment throughout the engagement. The 'engagement circumstances' are the broad context of the engagement, with an important aspect being the need for the practitioner to obtain an understanding of the entity and its activities.

[Further guidance on understanding the 'engagement circumstances' to be developed]

> Further explanation of the standard's requirements and the meaning of 'engagement circumstances' is given in paragraphs A101-A107 and 12(d) of the standard.

Evaluating the Suitability of Criteria in a Consistent Manner (Challenge 2)

ISAE 3000 (Revised) paragraphs A45-A50

What is the challenge?

60.   Reporting frameworks used for preparing EER reports are often less prescriptive about the content of a report and methods to represent its subject matter elements, and therefore more ambiguous about the determination of these items. In financial reporting, the criteria are typically well established, and are then supported by accounting policies specific to the entity. Given the diverse nature of the underlying subject matter in EER, there is considerable opportunity for management bias in determining the content of a report and the methods used to represent its subject matter

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[20] ISAE 3000 (Revised) paragraph 41
[21] ISAE 3000 (Revised) paragraph 40
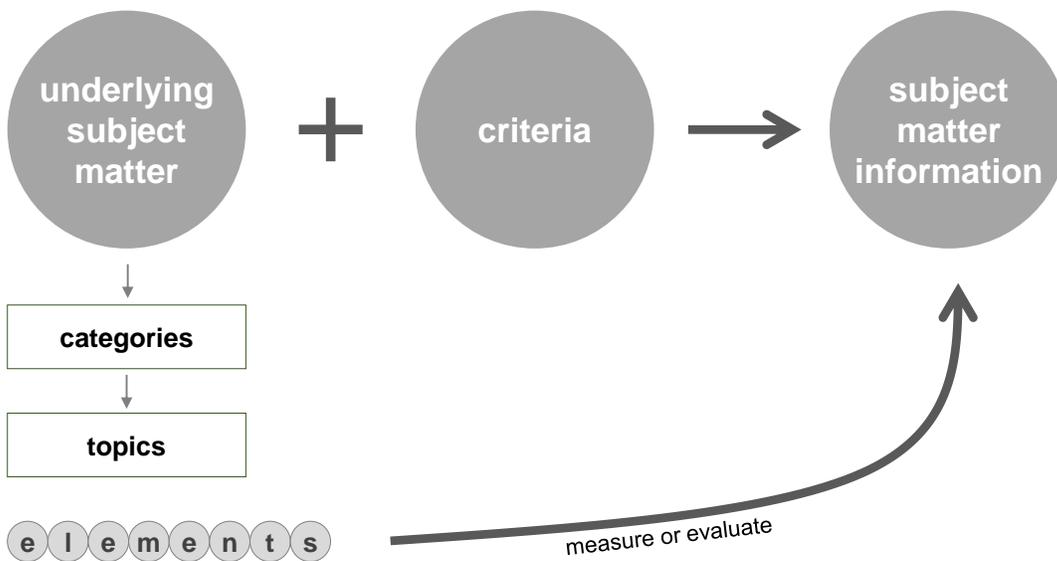[22] ISAE 3000 (Revised) paragraph 46L / 46R

elements. There is therefore considerable need for the application of professional judgment and professional skepticism by the practitioner in determining the suitability of criteria in an EER-related assurance engagement.

> Refer to Section II for discussion of differences between financial reporting and EER frameworks with respect to criteria, as well as further description of underlying subject matter and subject matter elements.

Introduction

61.   Criteria specify both:

   a)   the nature and scope of the topics and related elements to be included in the report; and

   b)   the representations of such elements that should be included in the report, including the qualities of the elements that should be described, and the methods to be used in measuring or evaluating those qualities.

ISAE 3000 (Revised) Definitions		
Underlying subject matter	**Criteria**	**Subject matter information**
The phenomenon that is measured or evaluated by applying criteria.	The benchmarks used to measure or evaluate the underlying subject matter.	The information that results from applying the criteria to the underlying subject matter.

62. All assurance engagements have an underlying subject matter linked to the purpose of the report. The term 'phenomenon' is used in the standard in the sense of a 'thing' which is perceived or considered, rather than the in the sense of something that is remarkable or rare. Underlying subject matter could in some cases be broken down into 'categories' and 'topics'; see paragraphs 230 to 232 for further details.

63. The criteria specify how to provide a representation of relevant elements (and the relevant causes of their change) in the context of achieving the purpose of the report. The standard refers to them as 'benchmarks'. In effect, they identify how the relevant properties of relevant elements are measured or evaluated qualitatively. They include, for example, the definitions of relevant performance indicators, measurement or evaluation bases and other reporting policies, and more widely the whole basis of preparation of the report.

> Refer to 'The general concept of an EER report' in Section II of this IAEPN for further explanation.

EXAMPLE

An illustration of these terms in a financial reporting context:

Underlying subject matter	Criteria	Subject matter information	Elements
Financial condition and performance of Entity X.	The measurement bases set out in IFRS.	Accounting values in the primary financial statements and the related disclosures in the notes.	Economic resources (e.g. assets) and claims on those resources (e.g. liabilities), and transactions, other events and conditions (e.g. income and expenses).

EXAMPLE	A specific example to illustrate these terms from non-financial statement reporting:			
	Underlying subject matter	*Criteria*	*Subject matter information*	*Elements*
	Environmental, social and governance information about Entity X. ↓ Social / human information ↓ Staff diversity	Percentage of people employed by Entity X who are male at a specific point in time[23].	50% of employees are male.	Entity X's employees.

64. Criteria can either be taken from a reporting framework or be developed by the entity itself. In reality, many entities use criteria from one or more reporting frameworks and supplement these with their own entity-specific criteria where a reporting framework lacks the necessary detail or is not fully comprehensive.

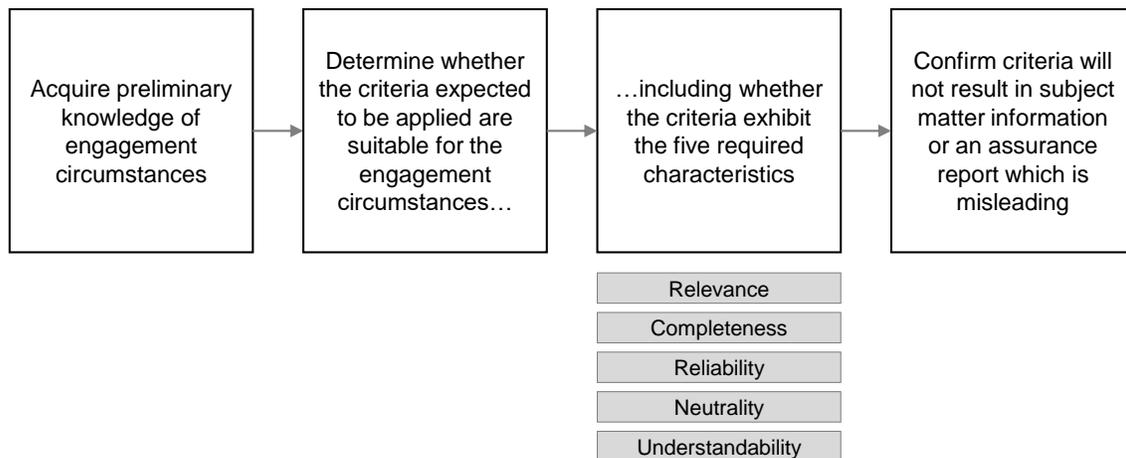*Requirements for suitable criteria*

65. As detailed in paragraphs 12 to 14, it is a precondition for an assurance engagement that the criteria are suitable for the engagement circumstances. Suitable criteria are required to achieve reasonably consistent measurement or evaluation of the underlying subject matter. 'Reasonably consistent' is to be determined using professional judgment. Suitability is judged in the context of the engagement circumstances. Without criteria, the subject matter information may be open to individual interpretation where there is undue subjectivity, increasing the risk of misunderstanding.

66. Suitable criteria are required to exhibit each of five characteristics. The definitions of these characteristics specify characteristics of the subject matter information that necessarily result from using the suitable criteria. The practitioner is required to determine whether the criteria exhibit each of the five characteristics, which are[24]:

   a) Relevance;

   b) Completeness;

   c) Reliability (broadly equivalent to 'accurate' or 'free from error');

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[23] In order to be suitable, the criteria in this example may need to be more specific, for example giving a definition of an employee to specify whether contractors are included, or how to treat part-time employees.
[24] ISAE 3000 (Revised) paragraph 41

d)   Neutrality; and

e)   Understandability.

67.   In addition to exhibiting 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[25]. This is consistent with the expectation that suitable criteria give rise to subject matter information that is not overly subjective.

68.   The five characteristics are generic and 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.

69.   The following diagram shows steps the practitioner may follow in evaluating the suitability of criteria:

Acquire preliminary knowledge of engagement circumstances	Determine whether the criteria expected to be applied are suitable for the engagement circumstances…	…including whether the criteria exhibit the five required characteristics	Confirm criteria will not result in subject matter information or an assurance report which is misleading

| Relevance |
| Completeness |
| Reliability |
| Neutrality |
| Understandability |

70.   The definitions of each of the required characteristics for criteria[26], along with some factors the practitioner may find helpful to consider in assessing whether the criteria are suitable, are set out below[27].

[Further examples of each of the characteristics to be developed]

71.   The engagement circumstances may include use of a reporting framework which implicitly or explicitly requires different or more specific characteristics of the criteria to be used in preparing the subject matter information. Some examples and guidance relating to possible additional

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[25] ISAE 3000 (Revised) paragraph A50
[26] ISAE 3000 (Revised) paragraph A45
[27] Some factors based on *Exposure Draft NZAuASB 2017-2* (New Zealand Auditing and Assurance Standards Boad, 2017)

characteristics are included below, for example conciseness (see paragraph 81) and comparability (see paragraph 78), which may be seen as more specific aspects of understandability and relevance respectively. Where a framework includes such additional characteristics of criteria, it is still necessary for the applicable criteria for the engagement to exhibit each of the ISAE 3000 (Revised) characteristics, at least in meaning if not by name. Many of the commonly-used frameworks in some cases use different terms to describe similar concepts to the required characteristics. It may be helpful for the practitioner to understand whether the additional criteria are more specific aspects of, or a different term for the same underlying concept, one of the characteristics required by ISAE 3000 (Revised).

Relevance

ISAE 3000 (Revised) Definition
Relevant criteria result in subject matter information that assists decision-making by the intended users.

72.   Considering relevance involves considering whether the criteria will result in subject matter information that could affect user decision-making in the context of the purpose of the report.

73.   Understanding what subject matter information could affect user decision-making may be approached by:

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

   i)   Considered the general types of decisions that users might take based on the report and the information that would assist them doing so; and

   ii)   Considered whether the applicable criteria would enable the preparer to identify the relevant elements and their relevant properties, and relevant changes in them, and prepare subject matter information about these matters, that could influence user decision-making in the context of the purpose of the report.

b)   If the preparer has considered the matter in (a), evaluating the conclusions of the preparer on those matters; and

c)   If not, considering whether it is reasonably possible for the practitioner to address the matters in (a) directly.

74.   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.

> Refer to guidance on the maturity of governance and internal control in paragraphs 20 to 48.

75.   Relevance of subject matter information may be affected by the inherent level of measurement or evaluation uncertainty. When subject matter information has high inherent measurement or evaluation uncertainty, that information may be relevant only if accompanied by supporting information about the nature and extent of the uncertainty.

> Refer also to discussion of 'accuracy' and 'precision' in paragraph 83 below, and further consideration of measurement uncertainty in paragraphs 213 to 215.

76.   Materiality is an aspect of relevance in the context of a specific entity. To affect user decision-making, subject matter information must be relevant in general, but it must also be material (relevant in the specific context of the entity and the specific purpose of the report). Whether a particular type of information is or isn't relevant is not binary, but instead its significance to decision-making may be considered to be on a scale which varies according to the context of different entities and purposes of reports. Materiality is a threshold of relevance (or <u>significance</u> to decision-making) in the context of a specific entity and purpose of the report, which has to be judged for all types of information.

EXAMPLE

Financial reporting example:

Revenue would typically be *relevant* to understanding most companies' performance during the year, however in some circumstances the financial value of it may not be *material*.

EER example:

Carbon emissions arising from a manufacturing company's employees commuting to work may be *relevant* to the company's environmental impact, but at the same time they might not be *material* if they were much smaller than the carbon emissions from the manufacturing process itself.

> Refer to paragraphs 259 to 261 in Section II for further discussion of the relationship between materiality and relevance.

77.   A further consideration is the requirements of the criteria to disaggregate or aggregate information as this may affect materiality judgments. Reporting 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.

> Refer to separate guidance beginning at paragraph 105 regarding materiality and how it interacts with the criteria to determine the content of the report.

78.   To the extent possible, criteria should be consistent from one reporting period to the next to aid comparability. Where criteria change, disclosure of this with an explanation of the reasons for the change might be expected. Re-stating comparative information (where possible and cost-effective) may also be beneficial to users, however, if necessary, a temporary reduction in comparability may be worthwhile to improve relevance in the longer term.

Completeness

> **ISAE 3000 (Revised) Definition**
>
> 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.

79.   Criteria are required to be complete so that the intended user is able to make informed decisions by having access to all relevant subject matter information (see above) in the context of the circumstances of the entity and the purpose of the report.

80.   In order for the application of the criteria to result in complete subject matter information, their application must give rise to all relevant subject matter information, including any that represents negative aspects of, for example, the performance or risk being reported on (also see 'neutrality' below).

81.   There is a need for a balance to be struck between a report being overly comprehensive and it still being concise enough to remain understandable.

Reliability

ISAE 3000 (Revised) Definition
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.

82.   Reliable criteria should be based on strong definitions with little or no ambiguity, if the resulting subject matter information is to be useful in user decision-making.

83.   Reliable criteria are those which are likely to result in subject matter information which represents what it purports to represent (sometimes referred to as faithful representation) sufficiently accurately (freedom from error) and without bias in selecting the information to report (neutrality). Accuracy is not the same as precision. A representation can be sufficiently accurate if it is as precise as is reasonably possible, if it results from applying a well-defined process without error, and if it includes information about the inherent limitations in its precision.

84.   Reliable criteria should also result in subject matter information that is capable of being assured because there sufficient appropriate evidence can be obtained to confirm the assertions that it contains. This requires the underlying data and source information to be complete, accurate and neutral and for it to be collected and processed in a manner that maintains its integrity. Unsubstantiated claims in the subject matter information are unlikely to meet this requirement.

85.   Reliable criteria may be more relevant and comparable across entities if they are consistent with established measurement bases and benchmarks, which 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 more relevant entity-specific criteria can be developed, where permitted by the framework adopted and adequate disclosures are made.

Neutrality

ISAE 3000 (Revised) Definition
Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.

86.   Neutral criteria should be designed to cover all relevant aspects of underlying subject matter with suitable emphasis, including both favorable and unfavorable aspects in an unbiased manner.

87.   Criteria should not be changed or modified arbitrarily from one reporting period to the next merely to remove negative aspects of performance. This would not be consistent with the principles of neutrality and comparability (an aspect of relevance).

88.   Practitioners should be particularly careful to assess the suitability of entity-developed criteria and apply professional skepticism in assessing the neutrality of these criteria due to the inherent risk of preparer bias.

Understandability

ISAE 3000 (Revised) Definition
Understandable criteria result in subject matter information that can be understood by the intended users.

89.   Understandable criteria should result in subject matter information which will enable the intended users to identify readily the main points being made and to infer appropriately how significant they are to 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.

90.   The criteria should result in the report being coherent, easy to follow, clear and logical.

91.   The criteria should require information to be at a level of aggregation that results in sufficiently relevant but concise subject matter information.

Established criteria

92.   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;

they are presumed to be suitable in the absence of indications to the contrary and are known as 'established criteria'[28].

93.   Some commonly used EER reporting frameworks are issued by global organizations who are recognized bodies of experts following a transparent due process, and these frameworks are often relevant to the intended users' information needs. However, the often limited level of maturity or

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[28] See ISAE 3000 (Revised) paragraph A49 for details of the definition of established criteria.

high-level approach of these frameworks means that indications may exist that the criteria may not be suitable on their own. Different frameworks specify the criteria to varying degrees of detail. Where a framework is less detailed, for example where it does not specify detailed measurement or evaluation methods, it is often necessary for the preparer to develop more detailed supplementary criteria in the context of that entity and its report. The practitioner then needs to assess the suitability of the detailed criteria and measurement/evaluation methods the entity has developed for use within the overarching framework.

94.   Use of a new or developing framework or type of reporting does not necessarily mean that the criteria cannot be suitable, even if it is still maturing, or if the entity's reporting processes are new or developing year-on-year. The practitioner uses professional judgment to assess whether the criteria are suitable in the circumstances, including that they sufficiently exhibit the five required characteristics.

EXAMPLE	Changes to criteria and measurement methods year-on-year are to 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 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.

95.   Where a preparer is using an established framework and chooses to modify or adjust the criteria within the framework so that they are different to what is commonly used in the entity's sector, the practitioner applies professional skepticism due to the increased risk of management bias and the resulting subject matter information being misleading to the intended users. The more mature the type of reporting or the 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.

Fair Presentation and Compliance frameworks

96.   The term "fair presentation framework" is used to refer to a reporting framework that requires compliance with the requirements of the framework and:

a)   Acknowledges explicitly or implicitly that, to achieve fair presentation of the underlying subject matter, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or

b)   Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the underlying subject matter. Such departures are expected to be necessary only in extremely rare circumstances.

The term "compliance framework" is used to refer to a reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (a) or (b) above[29].

97.   Reports are prepared under both fair presentation and compliance frameworks in EER, and both can be the subject of an assurance engagement if the criteria are suitable as described above.

98.   A preparer may prepare a report using criteria from both fair presentation and compliance frameworks, but in such circumstances should be careful to establish the overall purpose of the report. In other instances, a preparer may use a compliance framework and add criteria such that the report is prepared under a fair presentation basis.

99.   In many instances where the criteria are specified by law or regulation, the law or regulation is a compliance framework. The criteria might be considered to be 'established' (see paragraphs 92 to 95), meaning that unless there are any indications to the contrary, they would be assumed to be suitable. The practitioner therefore would not need to specifically assess whether the criteria are relevant, complete, reliable, neutral and understandable. Professional skepticism should be applied in being alert to the existence of indicators that the criteria might not be suitable.

Where a compliance framework is used and the criteria are not deemed 'established', the practitioner is required to assess whether they are relevant, complete, reliable, neutral and understandable using the guidance above.

EXAMPLE	The EU non-financial reporting directive could be considered as establishing a compliance framework where the criteria are specified by law in member states. [Example to be added of a compliance framework where the criteria are issued by a recognized body of experts that follow a transparent due process.]

Availability of the criteria

100.   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. Paragraphs A51-A52 of ISAE 3000

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[29] Based on definitions in ISA 200 which is written specifically for financial reporting frameworks.

(Revised) describe ways in which this can be done. Practitioners assess the adequacy of the preparer's transparency, considering whether they have been disclosed with sufficient detail and clarity that they can be said to be "available".

101.   The criteria may be made available outside of the report, for example if an established, publicly available 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 report or on its website which is then cross-referred to in the report. This may be a preferable option where a report is intended to be concise (for example, summary financial statements included in an annual report).

102.   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/evaluation methods, as these will be considered to be available by 'general understanding' to the intended users.

Consequences where criteria are not suitable or available

103.   Where the practitioner concludes that the applicable criteria are not suitable and/or available, the practitioner cannot accept the engagement, unless:

a)   They are mandated to do so under law or regulation; or

b)   The preparer resolves the issue to the practitioner's satisfaction, allowing the engagement to be accepted; or

c)   The scope of the assurance engagement can be restricted to one or more aspects of the underlying subject matter for which the criteria are suitable and available[30].

104.   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. In circumstances where the practitioner is mandated to accept the engagement under law or regulation but the criteria are not suitable and/or available, the practitioner should follow the same requirements to express a qualified or adverse conclusion, or disclaimer of conclusion, as appropriate in the circumstances.

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[30] ISAE 3000 (Revised) paragraph A36

Using Materiality to Evaluate what is included in the Report (Challenge 3)

ISAE 3000 (Revised) paragraph 44, A92-A100

What is the challenge?

105.　The content of EER reports is generally less comprehensively specified and requires more judgment in EER frameworks than in financial reporting. A key challenge, therefore, in an EER assurance engagement is how to assess what topics and related elements would be material, when both the users and their information needs can be diverse or even unknown. EER frameworks do not always provide direction on materiality. In applying the concept of materiality, there will likely be a need for an entity's EER materiality process to ensure these judgments reflect the broader and more diverse user perspective often encountered.

Introduction

106.　The standard requires the practitioner to "consider materiality when planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures; and evaluating whether the subject matter information is free from material misstatement"[31].

107.　In circumstances where the content of a report is not entirely specified by a framework, the preparer needs to make judgments to decide what topics and related elements are to be included in the report, based on what is material. In simple terms, something is material if it could "reasonably be expected to influence relevant decisions of intended users"[32]. Materiality is therefore linked to the report's criteria which determine the subject matter information. It is one aspect of the requirement for the criteria to be relevant such that they result in subject matter information which assists decision-making by the intended users[33].

> Refer to paragraphs 60 and 104 for further guidance regarding criteria.

108.　The practitioner is required to understand management's internal control over the preparation of the subject matter information relevant to the engagement. Preparing the subject matter information includes addressing materiality considerations as described above.

109.　The flowchart below may provide the practitioner with a framework to consider and review the preparer's 'materiality process'. The steps a preparer might be expected to follow are provided on the left-hand side for reference, and further detail is given in Section II of this IAEPN. The

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[31] ISAE 3000 (Revised) paragraph 44
[32] Based on concept in ISAE 3000 (Revised) paragraph A94
[33] ISAE 3000 (Revised) paragraph A45

suggested process for a practitioner is split into three steps as shown on the right-hand side of the diagram and then explained in the guidance paragraphs below.
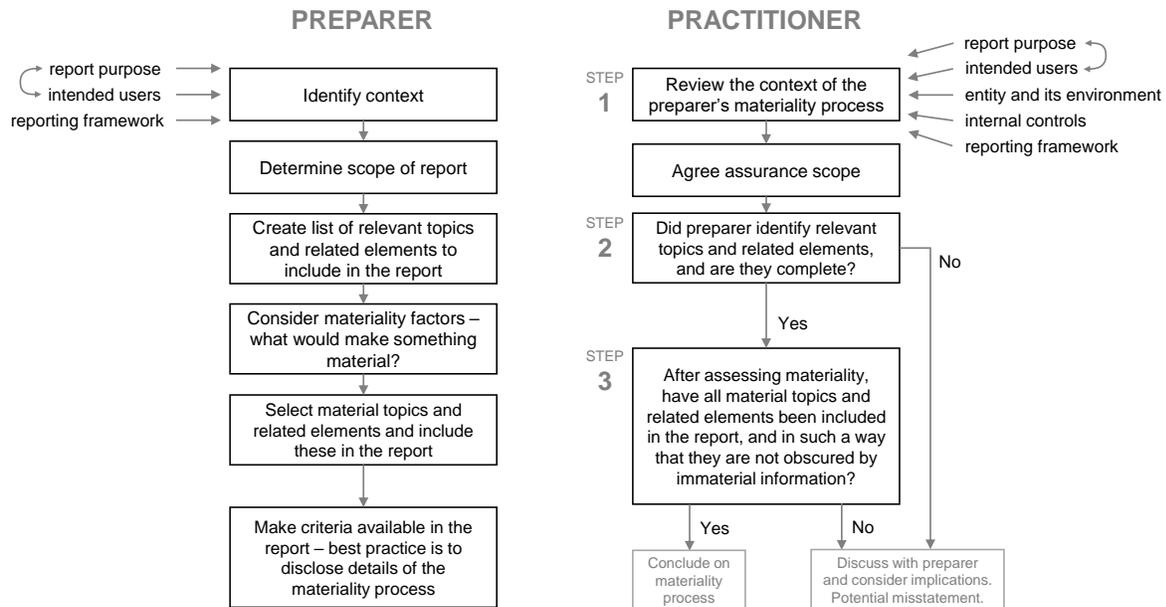
[Further guidance to be developed to explain how this varies where the scope of the assurance engagement is limited to certain parts of the report.]

Step 1: Review the context of the preparer's materiality process

110. The practitioner is advised to begin by reviewing the context of the preparer's materiality process including consideration of the:

    a)   Report's purpose (step 1a);

    b)   Intended users (step 1b);

    c)   Entity and its environment;

    d)   Internal controls; and

    e)   Reporting framework.

111. Ideally a preparer documents their 'materiality process' and the decisions they have made so that it can be reviewed by the practitioner. In the absence of written documentation, the practitioner may be able to review the preparer's process through inquiry of the preparer. If the preparer has not

undertaken an appropriate process to determine the content of the report, the practitioner needs to consider whether this suggests the preconditions for an assurance engagement are not present.

> Refer to the section regarding Maturity in Governance & Internal Control for further guidance, in particular paragraph 28.

112. Use of certain reporting frameworks may establish the report's purpose and identify who are the intended users. Frameworks may specify the underlying subject matter and the criteria to varying degrees. In some cases this might include specifying the criteria for entities in specific industries to use based on what the framework-setter considers is likely to be material for particular groups of intended users.

113. However, it is often the case that EER frameworks do not provide a sufficient basis to support the preparer's materiality decisions, or that the preparer may be using entity-developed criteria.

114. The following paragraphs provide further guidance for the practitioner to consider the report's purpose (step 1a) and the intended users (step 1b). No further specific guidance is considered necessary in respect of considering the entity and its environment, internal controls or the reporting framework beyond what is included in ISAE 3000 (Revised).

Step 1a: Has the preparer adequately identified the purpose of their report?

115. The purpose will be to report certain information about an underlying subject matter to a group(s) of intended users. A few examples of the report's purpose might include:

- To report the entity's impact on the natural environment

- To describe the entity's activities over a period and how they contribute to the entity's objectives

- To describe how the entity creates 'value'

- To inform the intended users of the financial position, financial performance and cashflows of the entity

- To describe what the entity plans to do in the future, or how it expects to perform

116. The practitioner is advised to consider the report's purpose as context when assessing the materiality judgments made by the preparer.

Step 1b: Has the preparer adequately identified the report's intended users?

117.   In order to make decisions based on materiality, it is important for the preparer to understand the general nature of decisions the intended users[34] are likely to take based on, or influenced by, the information in the report. The practitioner therefore also uses this as context when assessing the materiality judgments made by the preparer.

118.   A distinction is made between intended users and stakeholders. A stakeholder in the entity may

a)   have a relationship and interactions with the entity, and / or

b)   be directly or indirectly affected by the entity's actions.

There may be circumstances where the stakeholders and intended users are not the same. Some stakeholders may only have influence or a voice through a third-party agent(s), whether they have chosen to be represented in this way or not. The agent(s) may then be an intended user of the report, and the stakeholder may not read or use the report themselves directly.

EXAMPLE	A victim of child slavery involved in a company's manufacturing supply chain (a stakeholder) would presumably not be in a position to read the company's report, however their interests may be represented by a charity/politicians/lobbyists (agents) campaigning against child labor and using their position to influence the company's customers.

119.   A single report may have multiple groups of users, with potentially different information needs. Not all these users may be the intended users, but it is only the intended users which preparers and practitioners should focus on.

120.   A report cannot focus on the particular needs of an individual user, unless there is only a single user, however a preparer may need to consider where individuals within a group of intended users have common interests.

121.   ISAE 3000's application material contains some further guidance, including that in some circumstances where there are a large number of possible users, it may be necessary to limit the intended users to "major stakeholders with significant and common interests"[35]. This might be

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[34] The 'intended users' are defined by the International Framework for Assurance Engagements as the individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report (paragraph 35).
[35] ISAE 3000 (Revised) paragraph A16

useful, subject to any particular requirements in the EER framework, where reports are published without specifying the intended users, effectively for the benefit of global society.
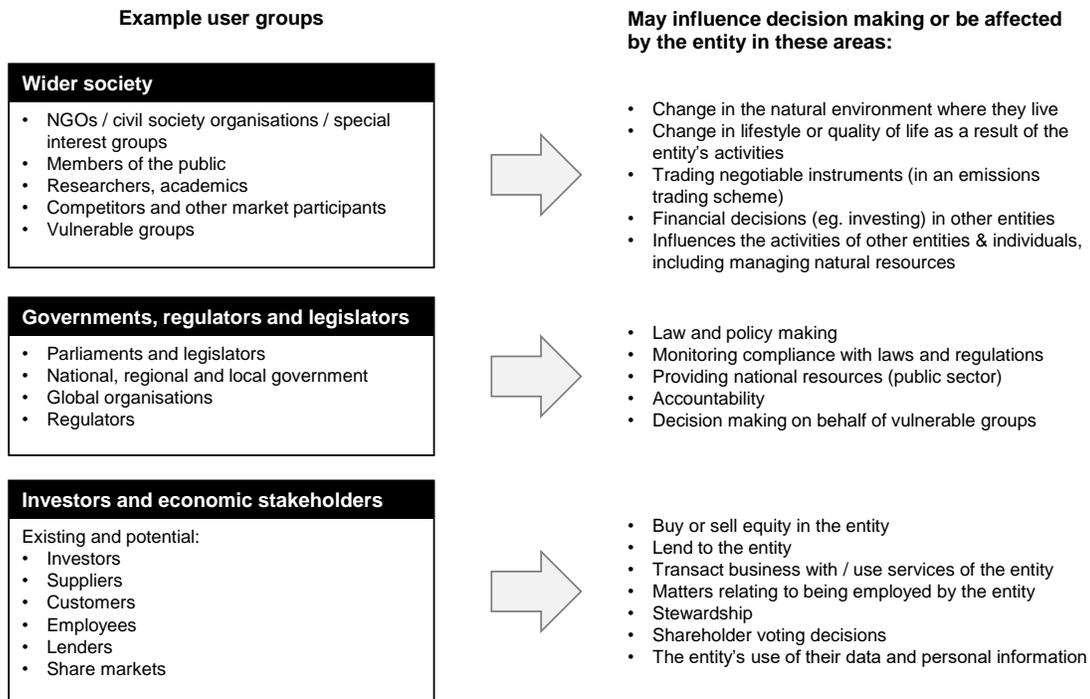
<table>
<tr>
<td rowspan="5" style="background-color:black; color:white;">EXAMPLE</td>
<td>A report by a state-run hospital reporting on its clinical performance might have users including:

•   Government – needs to know whether citizens are being provided with adequate healthcare and whether resources are being used efficiently.

•   Groups of patients (current or potential), the general public and the wider world – want to know whether the hospital is available to provide care to the community, playing its role in controlling diseases, and if it is clinically safe.

•   Cancer patient – self-interest about whether the hospital has the capabilities to treat them successfully.

In this example, the top two user groups might be the intended users, but the individual patient would not be.</td>
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</table>

122.   Different intended user groups may interpret materiality differently; something which is material to one group of intended users may be trivial to another.

123.   Merely reading the information in the report is a valid use by an intended user; the outcome may be that they make a decision to take no action based on the information reported. They would still have a legitimate need for the information to reach that conclusion and so materiality does not depend on an intended user taking action from the reported information.

124.   Some examples of possible user groups are included in the table below – this is not intended to be an exhaustive list, but it could be considered by preparers as a starting point for identifying the intended users of their report by potentially selecting some from the below table and adding entity-specific user groups. It is not necessary for preparers or practitioners to create a detailed list of the intended users – the aim is to have an awareness of the broad groups of intended users as context in materiality judgments.

Example user groups	May influence decision making or be affected by the entity in these areas:
Wider society • NGOs / civil society organisations / special interest groups • Members of the public • Researchers, academics • Competitors and other market participants • Vulnerable groups	• Change in the natural environment where they live • Change in lifestyle or quality of life as a result of the entity's activities • Trading negotiable instruments (in an emissions trading scheme) • Financial decisions (eg. investing) in other entities • Influences the activities of other entities & individuals, including managing natural resources
Governments, regulators and legislators • Parliaments and legislators • National, regional and local government • Global organisations • Regulators	• Law and policy making • Monitoring compliance with laws and regulations • Providing national resources (public sector) • Accountability • Decision making on behalf of vulnerable groups
Investors and economic stakeholders Existing and potential: • Investors • Suppliers • Customers • Employees • Lenders • Share markets	• Buy or sell equity in the entity • Lend to the entity • Transact business with / use services of the entity • Matters relating to being employed by the entity • Stewardship • Shareholder voting decisions • The entity's use of their data and personal information

Step 2: Review the list of relevant topics and related elements

125.   Taking into account the reporting framework(s) used, the purpose of the report and the intended users, preparers would often create a list of topics and related elements which are relevant to users' decision-making in the context of the underlying subject matter.

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126.   Key judgment for the practitioner:

How effective was the preparer in identifying <u>relevant</u> topics and related elements as part of their process and are there other matters the practitioner considers should have been on that list?

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127.   Topics and related elements are relevant if they contribute to achieving the purpose of the report for the intended users.

128.   When testing whether the list of relevant topics and related elements is complete, practitioners could refer to some of these 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)

- 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

129. Stakeholder engagement activities can be an important part of a preparer identifying material topics and related elements, and then assessing their materiality. An open dialogue with stakeholders will give better results than passive interaction or asking them to comment on an existing list of topics and related elements, however there is a need to adequately inform stakeholders about the entity and its activities to enable them to engage effectively with the process.

Step 3: Review selection of material topics and related elements

130. Once preparers have a list of relevant topics and related elements, they then select those which are material and should therefore be included in the report.
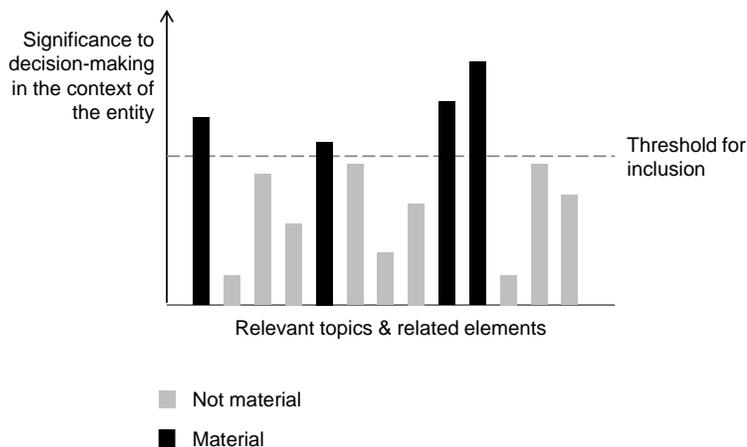
Practitioners need to understand the report's purpose, the intended users, and any reporting framework being used as context for assessing the materiality judgments made by the preparer.

131. One means of assessing how material something is by considering both its 'impact' and the level of interest of intended users. These two variables can be portrayed as axes on a scatterplot.
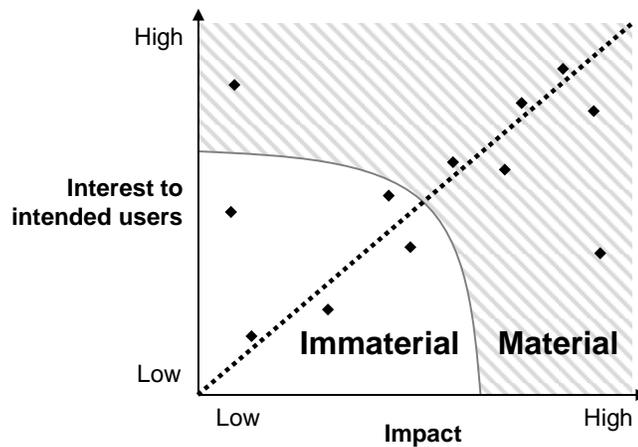
132. *'Interest to intended users'* is the extent to which information could reasonably be expected to influence decision-making by intended users. This could reflect the extent to which the intended users perceive something will impact them. The collective views of intended user groups as a whole should be plotted at one point on the axis.

133. With reference to the 'interest to intended users' axis, something is more likely to be material if:

   a) It is likely to cause investors to buy or sell equity in the entity

   b) It is likely to change the value of 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 (e.g. 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

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EXAMPLE

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

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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 which may be widely reported by peers and competitors in the entity's sector

i)   It relates to non-compliance with relevant laws, regulations, international agreements, or voluntary agreements with strategic significance to the organization and its stakeholders

134.   *'Impact'* refers to the extent to which the preparer anticipates something will impact on the entity's performance (in achieving its strategic objectives) or will impact on other entities (how the entity's activities are anticipated to affect other entities). This impact could occur either directly due to the actions and decisions of the entity's management, or by the direct or indirect effect of forces external to the entity [example to be added].

Reference to 'other entities' is intended to include individuals, organizations, wider society or the environment as is relevant in the context of the report's purpose.

135.   With reference to the 'impact' axis, something is more likely to be material if:

a)   It has direct material financial implications (as determined by financial statement materiality thresholds)

b)   It has major risks or opportunities for the entity (including reputational, affecting the entity's license to operate)

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

136. The result of the considerations in paragraphs 133 and 135 could be plotted on the scatterplot shown above. The scatterplot may be useful as a tool to compare the relative materiality of topics and related elements. Professional judgment is required to make the decision as to whether something is material or not as the diagram is only an illustration and not a numerical or mathematical model.

> Refer to paragraphs 278 to 281 for relevant background context on this approach in Section II.

137. The scatterplot suggests a topic or related element might be considered material if it had a high 'impact' but was of low 'interest to intended users'. This may represent a common reality where intended users have imperfect or incomplete information about the entity and are not fully aware of the high impact topic or related element. Alternatively the time horizon of interest to intended users may be different to that of the entity or its management (see paragraph 140) causing there to be a disconnect between the level of 'impact' and 'interest to intended users'.

138. The position on either axis may be influenced by the <u>likelihood</u> of an event or circumstance occurring, and the <u>magnitude</u> of its interest to intended users, or of the impact, if it were to occur. This can be illustrated on a further diagram:
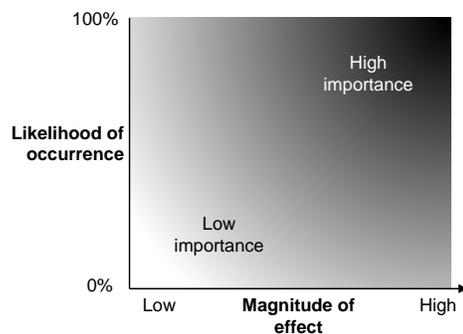
   a)   If something is certain or factual, its likelihood of occurrence is at the maximum level and the magnitude is the only variable.

   b)   The likelihood assessment should take into account whether a matter is inside or outside the control of the entity / management.

   c)   The position on this scatterplot can be used to assist in determining the appropriate position on either of the axes of the scatterplot shown in paragraph 131.

139. Careful consideration should be given to information which may be material to intended users in understanding or in making predictions or developing expectations about the future.

> **EXAMPLE**
>
> A small hole in a boat may not be a material piece of information about the condition of the boat at a particular time, but it may be material to understanding the risk of the boat sinking in future. Knowing that the hole exists could change the decisions that intended users would make about the risk.

140. The chosen timescale being considered in terms of impact or interest to the intended users must also be taken into account. These may not be consistent, for example some 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 which will have a significant impact on the entity in the longer-term.

> **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 will not be material to an intended user with a short-term interest in the entity (e.g. an investor expecting to invest for three years). The issue is more material to a bank who has issued a loan secured on the factory site maturing in ten years' time. The preparer must decide over what timescale they are assessing materiality and make sufficient disclosure of this in the report.

141. Key judgment for the practitioner:

How effective was the preparer in assessing the materiality of the identified topics and related elements? Have all the <u>material</u> topics and related elements been included in the report, and in such a way that they are not obscured by immaterial information?

142. The practitioner uses professional judgement and skepticism to challenge the preparer's judgment, and is advised to particularly focus what the preparer chose to exclude and the reasons for their decisions.

Dealing with confidential information

143. Topics and related elements or information considered to be relevant and material, which the preparer has not included in the report on the basis that it is confidential or would potentially

damage the entity's reputation, should be treated as a misstatement. The materiality of this misstatement should then be assessed as per the guidance in paragraphs 197 to 215, and the practitioner should then respond accordingly. Non-disclosure of such information (either in the report or the assurance report) may be justified in extremely rare circumstances where the adverse consequences of disclosure would reasonably be expected to outweigh the public interest benefits of such communication. There may also be rare circumstances where law or regulation precludes public disclosure of information by either the preparer or the practitioner, for example something that might prejudice an investigation into an actual, or suspected, illegal act.

Considering topics and related elements collectively

144.   Topics and related elements should not just be considered individually as there are circumstances where multiple omissions of topics or related elements are in aggregate material.

EXAMPLE	Members of staff leaving may not be material on its own, neither might be a few customer complaints, or the termination of two supplier contracts. However, if when combined, these events turn out to be related and indicate serious problems with the entity's senior management, they may become more material.

Inclusion of immaterial information

145.   Despite undertaking a process to identify material topics and related elements, preparers may choose to still include some information which is not material. The appropriate response for the practitioner will depend on the engagement scope, however the inclusion of immaterial information is only likely to be problematic if it is misleading or obscures material information. Intended users may be able to identify and ignore immaterial information[36], particularly where it does not contribute anything to the report. However, if it is potentially misleading, the practitioner considers this a misstatement due to an assertion not being present (e.g. the assertion of understandability or relevance), assess how material the misstatement is, and respond accordingly.

146.   The most judgment will be required where immaterial topics and related elements are on the border of being material. In these cases, it may not be appropriate for the practitioner to assume that the intended users will identify this information as being immaterial.

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[36] Based on assumptions (a) to (d) regarding intended users in ISAE 3000 (Revised) paragraph A94.

Disclosure of the materiality process

147.   Users are likely to find it helpful in understanding the criteria, to also understand the materiality process the preparer uses in applying the criteria. Accordingly, practitioners may consider it appropriate to encourage preparers 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 report and what has been left out.

Obtaining Evidence

ISAE 3000 (Revised) paragraphs 48-60

Building Assertions (Challenge 4)

What is the challenge?

148.   The diverse nature of EER subject matter information compared with that contained in financial statements makes it more challenging to develop appropriate assertions.

Introduction

149.   Assertions are representations (sometimes referred to as 'truth-statements' or 'claims') that are inherent in the subject matter information. They assert that the criteria have been properly applied to the relevant underlying subject matter. They may be made explicitly or implicitly by the preparer. Independently, the practitioner can deduce them from the criteria and subject matter information. As such, they are used by the practitioner to consider the different types of potential misstatements that may occur in the subject matter information. In this IAEPN, the term 'assertions' is used principally in the context of their use by the practitioner for this purpose. They are conceptually different from the 'written representations' that may be obtained from the preparer in accordance with paragraphs 56 to 60 of the standard.

150.   Assertions are a tool which can be used by practitioners to assist in designing assurance procedures which are appropriate in the context of the engagement in obtaining evidence about whether the subject matter information has been prepared in accordance with the criteria, or is misstated. If an assertion is contradicted by the evidence obtained, then it is misstated. If an assertion is neither supported nor contradicted by the evidence, then insufficient appropriate evidence has been obtained to support a conclusion on the truth of that assertion.

151.   ISAE 3000 (Revised) 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 subject matter and the reporting framework (including the criteria). However, practitioners ordinarily use assertions in reasonable assurance engagements and often do in certain types of limited assurance engagements.

152.   Assertions may apply at different 'units of account'. The practitioner designs appropriate procedures to test the assertions for appropriate units of account, in the context of the criteria.

	Subject matter information about a quality of an element could in some cases be provided for a class of elements that have similar characteristics (e.g. the average time taken to rectify multiple minor breaches of water quality regulations following their discovery), or in other cases it may be appropriate to provide such information for an individual element (e.g. a single major breach of water quality regulations which caused a community's water supply to be cut off).
EXAMPLE	

A suggested starting point

153.   When building assertions, practitioners may find it helpful to begin with the required characteristics for suitable criteria. There is a logical flow from these five characteristics (reliability, completeness, understandability, relevance and neutrality) to the characteristics which should be exhibited by subject matter information. The subject matter information is then tested by the practitioner designing procedures to identify misstatements that could be material, with the assistance of assertions. Practitioners may consider how these assertions are relevant in the context of the specific engagement.

154.   Practitioners may then consider whether it is appropriate to add additional assertions depending on the specific nature of an engagement and the applicable criteria. These additional assertions may arise from requirements relating to the characteristics of useful information in the reporting framework. Frameworks may use different terminology to refer to such characteristics (for example 'guiding principles').

155.   Some examples of assertions which may be applicable for EER engagements include:

Free from error	Completeness	Understandability	Relevance
Neutrality	Occurrence	Presentation	Existence
Accuracy	Cutoff	Comparability	Classification

This is not intended to be an exhaustive list, nor is it expected that all of these examples will apply to a single engagement. The assertions in the list are not in any particular order. The practitioner can select the assertions from the above list that are applicable in the circumstances and add any additional assertions that are also applicable. The assertions that are appropriate for each engagement may vary depending on the reporting framework, underlying subject matter, criteria and assurance scope.

> Refer to the paragraphs 263 to 267 in Section II of this IAEPN for details of how this list has been developed.

156. Neutrality (or 'freedom from bias') may not necessarily be identified as a separate assertion as this requirement is additive with all other assertions. For example, there is a need for the report preparers to ensure that the resulting subject matter information is not biased when deciding which topics and related elements should be addressed in the report (additive to the 'completeness' assertion). Again, a preparer should ensure that the resulting subject matter information is not biased in measuring elements that require subjective judgments (additive with the 'free from error' assertion).

Use of assertions
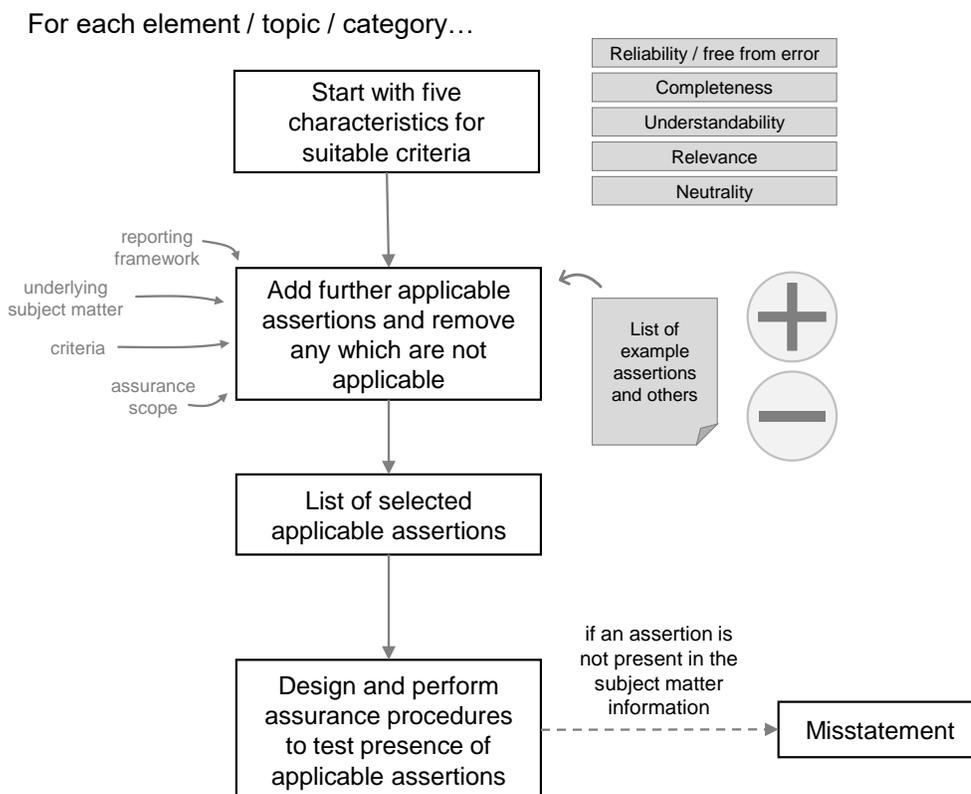
157. The practitioner designs assurance procedures to test whether each of the applicable assertions which have been selected is present within the subject matter information. As in a financial statement audit, a single test may be designed to test the validity of more than one assertion. The extent and nature of procedures should be informed by the practitioner's assessment of the risks of

material misstatement in the engagement as well as the assertions that have been identified. The practitioner then executes the procedures as designed.

158. When an identified assertion is not present in subject matter information when it is tested, 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)

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)

159. 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 paragraphs 197 to 215.

Obtaining Assurance of Narrative Information (Challenge 6)

What is the challenge?

160. Narrative information is commonly understood to be subject matter information expressed using words rather than numbers. These words may or may not be part of telling the 'story' (or 'narrative') of an entity. The information is typically qualitative rather than quantitative.

161. 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 and susceptible to being more reflective of, and more variable with, the views of those reporting it).

> See examples in paragraphs 171 and 172.

162. 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 assessing the suitability of criteria

163. Subject matter information expressed in words may result from criteria representing different qualities of the subject matter elements compared to numerical subject matter information or metrics, however the requirements for criteria to be suitable remain the same.

164. Reliable criteria for narrative information would be well-defined and therefore unambiguous so as to allow reasonably consistent measurement or evaluation of the underlying subject matter.

EXAMPLE	To fulfil criteria requiring an entity to report the aspects of its strategy that will help it achieve its principle objectives, an entity may report that it has a 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 and subject matter information would not be reliable). It is unclear whether the entity merely has a policy in place (either formally written or not), or if the entity is making a statement about their behavior or the effectiveness of the policy.

165. It is particularly important for narrative information that the criteria result in subject matter information which is understandable (including being unambiguous as to its intended meaning) and neutral, as subject matter information in narrative form may be at more risk of failing to exhibit these characteristics. This is often because words are harder to interpret than numbers and are inherently more ambiguous in their meaning and definitions. Most importantly, the criteria must not result in subject matter information which is misleading to the intended users.

<div style="border: 1px solid black;">

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 conclude the criteria are not suitable.

</div>

> Refer to paragraphs 60 to 104 for guidance on suitable criteria.

Specific considerations for materiality decisions

166. Evaluating whether subject matter information in narrative form is free from material misstatement will require use of the materiality considerations in paragraphs 202 to 205 as numerical thresholds are not appropriate.

167. When evaluating a misstatement within narrative subject matter information, whether factual or subjective, the same considerations can be used to assess whether the misstatement is material, focusing on whether the misstatement will affect decision-making by the intended users. One of the main considerations is about whether the misstated subject matter information will mislead the intended users, and if this is considered likely, the misstatement will in most cases be considered material.

> Refer to paragraphs 197 to 215 for guidance on materiality.

Specific considerations for building assertions

168. Different assertions may be applicable or more important for narrative information compared to numerical subject matter information, however this will depend on the criteria and any frameworks 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.

169. Prior to identifying the applicable assertions, it may be necessary to identify narrative information packages (which together provide representations of individual elements or groups of them), taking into account how the assertions relating to that information will be tested. Individual claims in the subject matter information can be individually material to the representation of a particular element or group of elements, and can be tested separately. However, identifying packages of information in the way suggested here may enhance the efficiency and effectiveness of design of procedures to test the most relevant claims about the most relevant elements or groups of elements, giving greater focus to the most significant assertions.

170. For example, it may be appropriate to consider individual sentences separately, or in other circumstances a paragraph of text comprising related information could be considered together. Practical means of doing this may include highlighting the text in different colors or by drawing boxes around packages of narrative information and referencing the assurance working papers to them. The practitioner then can identify the assertions applicable to each representation or package of narrative information and consider their relative significance. Text solely comprising immaterial information can in most cases be ignored, subject to the considerations in paragraphs 145 and 146.

171. Purely factual narrative subject matter information is more straightforward to test for misstatement (by direct observation) than subjective narrative subject information. The practitioner's primary focus is 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.

	Examples of purely factual narrative subject matter information:
EXAMPLE	• "An audit committee comprised of non-executive directors was established in the year" • "We bought a factory in Canada"

172. More judgement is required by practitioners 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 which the practitioner must then verify. Whether the subject matter information is neutral and free from bias becomes more of an area of focus for the practitioner due to the subjectivity. As noted in paragraph 156, neutrality may be identified as a separate assertion or as a requirement additive to all other assertions.

<table>
<tr><td rowspan="3">**EXAMPLE**</td><td>Examples of subjective narrative subject matter information:</td></tr>
<tr><td>• "We produce healthy food for children"</td></tr>
<tr><td>• "Our impact on the environment is minimal"</td></tr>
</table>

173. Even subject matter information which appears to be factual may contain ambiguity and give rise to subjectivity in its interpretation arising from imprecision in the meaning of words. This could result from criteria that are not sufficiently reliable. In the example above of buying the factory, this could be interpreted by some to mean buying an empty building, and by others to mean a fully operational facility.

> Refer to paragraphs 148 to 159 for guidance on building assertions.

174. [Further guidance in relation to challenge 6 to be developed in phase 2]

Obtaining Assurance of Future-Oriented Information (Challenge 7)

What is the challenge?

175. Future-oriented information is found in some EER reports in a few different forms. It addresses future conditions, events, outputs and outcomes (performance or impact), in relation to which there is generally greater measurement or evaluation inherent uncertainty and these matters may therefore be more difficult to represent simply and unambiguously. The subjectivity that results from such uncertainty means that a process is ordinarily required to measure or evaluate such elements indirectly, using a process, since direct observation is not possible. Even when EER frameworks address the type of future-oriented information that is relevant to include in an EER report, they often do not address the boundaries of acceptable assumptions made in applying the process to make the measurements or evaluations that give rise to the subject matter information. A key challenge is that there may not be suitable criteria and an assurance engagement may not be possible unless, for example, the scope of the assurance engagement is restricted to obtaining evidence about the process used in arriving at the future-oriented information. Such evaluation may result in a conclusion that:

a)   it is not possible to obtain sufficient appropriate evidence on the future-oriented information itself;

b)   the scope of the assurance engagement should be restricted to obtaining evidence and providing an assurance conclusion about the process used in arriving at the future-oriented information and whether the future-oriented information is presented in accordance with the applicable criteria; or

c)   there are no suitable criteria at all.

Types of future-oriented information

176.   EER may contain a variety of different forms of future-oriented subject matter information which may fall into one of these categories:

a)   Information predicting the future. This may include forecasts, projections, and information about future risks and opportunities.

b)   Information regarding the entity's intentions or future strategy.

177.   In all cases, the subject matter information will be 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 a subject matter element.

EXAMPLE	If the 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 the future condition of it), or the entity's future intentions to chop down parts of the forest (again changing the future condition of it).

178.   Future-oriented subject matter information may describe things which will be subsequently observable or hypothetical things that will never be observable. For subsequently observable future-oriented information, it will be possible at a later point in time to observe the precision with which the forecast, prediction, or intention reflected the subsequent reality, i.e. the extent to which anticipated and unanticipated future risks or opportunities materialized. Hypothetical information

includes a condition on the forecast, prediction or intention. For example, a forecast 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, paragraphs 4-5):

A **forecast** is prepared on the basis of assumptions as to future events which 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 which 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.

</div>

179. As with narrative information, some future-oriented information is factual and therefore does not contain any degree of uncertainty, for example the debt maturity profile of an entity which 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 be that a third party has said something, which itself is observable and probably not uncertain.

As assuring this type of information is not considered to pose a particular challenge for practitioners, the remainder of this section of the IAEPN only considers <u>subjective</u> forward-looking information.

Specific considerations for assessing the suitability of criteria

180. 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 177 for an example).

181. Whether the criteria from which future-oriented information results are suitable or not can be assessed in the same way as any other criteria as described in paragraphs 60 to 104.

182.   For subjective future-oriented information, the criteria may need to require detailed description of the assumptions and the level of uncertainty in order to be suitable. It may still be possible to provide assurance over uncertain subject matter information if it is supported by adequate disclosure such that the subject matter element is faithfully represented to the intended users.

183.   Criteria may require information about the future to be used to measure or evaluate a current or past condition of an element, for example in the way that current financial value might be measured using forecasts of future cashflows. This would then result in subject matter information which was historically-oriented (as it would be value at a balance sheet date in the past), and therefore this is not future-oriented subject matter information which is the focus of this part of the IAEPN.

It is possible that supporting disclosures of such subject matter information might themselves be future-oriented, for example explaining assumptions made by reference to a forecast. This however can be treated as one of the categories of future-oriented subject matter information in paragraph 176.

Specific considerations for materiality decisions

184.   The materiality of future-oriented information can be assessed in much the same way as historically-oriented information.

185.   The degree to which the subject matter information reflects inherent uncertainty about the outcome of the measurement or evaluation process is an important factor in considering materiality. Inherent variation in measurement or evaluation outcomes does not in itself constitute a misstatement but omitting information about that variation and the underlying uncertainty could affect decision-making by intended users, and hence could be a material misstatement. Just because some future thing inherently cannot be measured or evaluated within a range of predicted outcomes that, if known, could affect decision making and would therefore be considered material, does not mean that the criteria are not suitable, if there are additional criteria for appropriate presentation and disclosure about the nature, sources and extent of the uncertainties.

186.   Decision-making in relation to future uncertainty can also be supported by the provision of relevant historically-oriented information with predictive value to allow intended users to make their own judgments. A forecast or prediction by the preparer is not always necessary to meet intended users' needs.

EXAMPLE	An entity is due to launch a new product. Rather than disclose a forecast of sales, the preparer states that when new products have been launched over the last five years, sales have always exceeded 200 units per week after the first three months. This historical fact includes an implicit statement of persistence which gives the information a predictive value. In some circumstances this historical factual information may be more valuable to intended users than a subjective forecast.

EXAMPLE	Indicators of the wider 'health' or value of the organization at the reporting date, for example employee engagement scores or brand value, can be useful information for intended users to form their own view on the future prospects of the entity.

187. When dealing with future-oriented information, the relevant timescale being considered becomes important when making materiality decisions (refer to paragraph 140). In most cases, the level of uncertainty increases the further into the future the information relates to.

Specific considerations for building assertions

188. Assertions for future-oriented subject matter information are likely to be similar to historically-oriented subject matter information with inherent measurement or evaluation uncertainty, and therefore the guidance in paragraphs 148 to 159 is broadly applicable. Where future-oriented information is more subjective, assertions such as neutrality may become more important due to the risk of management bias. Presentation or understandability assertions may also be important where good disclosure of assumptions and the context of subjective information is necessary.

189. Where criteria require a statement of intended future strategy, a target, or other intentions of an entity, the main relevant assertion which 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. A practitioner is unlikely to be able to perform an engagement to assure whether the intended outcomes of the strategy or the target will be achieved or not.

190. Similarly, where criteria require relevant future risks and opportunities to be reported, the relevant assertions will likely include whether the risks and opportunities exist (existence assertion) and whether the list of risks and opportunities is complete (completeness assertion). The existence

assertion is closely related to the concept of identifiability. A practitioner may not be able to perform an engagement to assure whether the risks and opportunities will materialize or not, however it may be possible in some circumstances to assure 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.

191. Subject matter information predicting the future (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. While evidence may be available to support the assumptions on which the 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. The practitioner may therefore not be in a position to express an opinion as to whether the results or outcomes forecasted, projected or predicted will be achieved or realized.

However, they may be able to form an assurance conclusion regarding the process used in arriving at the future-oriented information. Specifically, the practitioner may be able to undertake an engagement where the scope is to assess and conclude whether:

[examples are still under development]

	Possible relevant assertions
a) The preparer's best-estimate assumptions on which forecasts are based are not unreasonable, and in the case of hypothetical assumptions in projections or scenario analysis, such assumptions are consistent with the purpose of the information.	Occurrence, Completeness, Relevance, Neutrality
b) The subject matter information is properly prepared on the basis of the assumptions. This will involve, for example, making clerical checks such as recomputation, and reviewing internal consistency.	Accuracy, Completeness
c) The subject matter information is properly presented in accordance with the applicable criteria, and all material assumptions are adequately disclosed, including a clear indication	Presentation, Understandability

	as to whether they are best-estimate or hypothetical assumptions.	
d)	The subject matter information is prepared on a consistent basis with previous reporting by the entity, where appropriate.	Consistency

192. [Further guidance in relation to challenge 7 to be developed in phase 2]

Performance Materiality (Challenge 3)

[section still under development]

193. The practitioner may apply the concept of performance materiality to determine the extent of assurance procedures and identify the items to test. The aim is to perform sufficient procedures to obtain the required level of assurance that all material misstatements have been detected.

194. As in a financial statement audit, when designing assurance procedures, practitioners are required to test information to reduce to an appropriately low level the probability that the uncorrected and undetected misstatements could be aggregated such that the information as a whole is materially misstated. This requires looking for misstatements that are not individually material as well as those which are.

195. Use of performance materiality thresholds to set the extent of assurance procedures is more complex for non-financial information than it is in a financial statement audit and requires judgment by the practitioner. Misstatements relating to one topic or element might interact with and affect others relating to other topics or elements, hence it is necessary to consider misstatements individually as well as in the context of related information.

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EXAMPLE

A report describes how a series of controls are operating effectively, however the practitioner identifies that one is not and that there is a deficiency. This is considered to be significant (not clearly trivial), however it is not individually material as there are other compensating controls operating effectively.

The practitioner later identifies a deficiency in an unrelated control, which again is considered significant but not individually material. However, it is concluded that both deficiencies considered together indicate a weakness which is deemed to be material to the intended users.

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Refer to paragraphs 197 to 215 for further guidance on accumulating and considering misstatements.

196. When information is entirely in narrative form, procedures may include reading sections of the report as a whole and considering the overall messaging being presented to intended users as well as testing individual sentences and pieces of subject matter information.

Forming the Assurance Conclusion

ISAE 3000 (Revised) paragraphs 64-66

Evaluating whether subject matter information is free from material misstatement (Challenge 3)

Evaluating misstatements

197. If during the assurance engagement the practitioner identifies a misstatement within subject matter information included in the report for material topics and related elements (arising when an applicable assertion is not present), they are required to make a judgment as to whether the misstatement is material.

198. Misstatements in different circumstances will need to be evaluated in different ways given that subject matter information in EER takes such a variety of forms (e.g. quantitative and qualitative, different units of account).

199. For parts of subject matter information which are quantitative (e.g. a KPI expressed in numerical terms), the starting point for materiality decisions is to establish materiality thresholds, often by using a percentage[37]. 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. For historical financial information which has been subject to an audit, it may be appropriate to use the materiality threshold used for the audit.

Practitioner responsibilities

200. Having identified a misstatement, the practitioner makes an initial materiality assessment to conclude whether it is clearly trivial or not. Where the misstatement is not clearly trivial, the practitioner presents it to the preparer who then has the opportunity to correct the misstated information.

201. If the preparer does not want to correct the misstatement, the practitioner undertakes a more detailed assessment to assess how material the misstatement is, taking into account the considerations below.

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[37] There are instances where this would not be appropriate, perhaps where the number is very small (for example, number of fatalities).
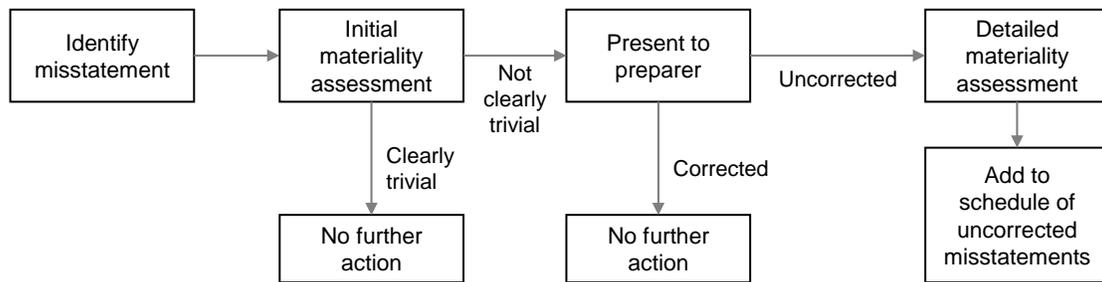
Materiality considerations

202. Below is a series of 'materiality considerations' which a practitioner can use when undertaking an initial or detailed materiality assessment. These are examples of things that might be relevant to consider when assessing whether a misstatement is material. The assessment requires consideration of whether the intended users would make a different decision if the subject matter information was not misstated. Misstated information which would affect decision-making means the misstatement is material. These considerations are not exhaustive; ultimately, professional judgment will be required to conclude based on the specific circumstances.

203. A misstatement is more likely to be material if:

Underlying subject matter

a)   The misstated subject matter information relates to a topic or category of underlying subject matter which has been assessed as being highly material.

> Refer to Step 3 of the guidance relating to assessing the materiality of underlying subject matter topics – paragraphs 130 to 142.

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 which attracted a large fine is more likely to be material than one where there was no significant penalty.

c)   A large number of people or entities (whether they are intended users or not) are affected by the misstated information.

Nature of the subject matter information

d)   It is a key performance indicator known to be used by intended users which is misstated, perhaps which is commonly used to compare the entity to its peers.

e)   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 less material 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 which has reversed.

Presentation

g)   It is a presentational misstatement which has arisen from subject matter information being misleading and the wording which 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 actions

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

i)   The preparer is reluctant to correct the misstatement for reasons other than they consider it immaterial.

204. The majority of the considerations listed as examples in paragraph 203 apply to both quantitative and qualitative information. For information which 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 practitioners decide whether a misstatement is material based on the level of sensitivity of intended user decision-making to such a misstatement.

205. Knowing the context is important before making materiality judgments – for example understanding the objective/purpose of the disclosure, and how a piece of subject matter information has been measured. The practitioner can then consider whether (i) the disclosure is consistent with the objective, and (ii) whether it is clear and understandable.

    In assessing whether something is clearly disclosed, it may be helpful to consider whether the following attributes of the item are included if appropriate:

    a) The risks

    b) Level of uncertainty

    c) Impact (on decision making or on resources)

    d) Comparative information

    If these attributes are not clear there is a greater risk of a misstatement.

Overall materiality

206. The practitioner is unlikely to be able to set an overall materiality (ISAE 3000, paragraph A98) for many EER engagements because the subject matter information very often does not have a common unit of account.

Accumulating misstatements

207. The practitioner is unlikely to be able to accumulate misstatements and consider them together in the same way as a financial statement audit for a report comprising diverse and varied underlying subject matter. However, the practitioner still needs to consider whether assertions relating to the report as a whole have been met, where such criteria apply in the context of the engagement.

208. A practitioner accumulates all the uncorrected misstatements identified during the engagement, other than those that are clearly trivial, on a schedule so that they can be easily assessed

collectively[38]. While it will not be possible to add up non-numerical misstatements, or those relating to different elements, the misstatements can be grouped according to the categories, topics and elements in the report. Alternatively, the misstatements could be grouped according to the type of misstatement or the assertion which was not present. Misstatements of subject matter information in narrative form will need to be succinctly described.

209.   It may be helpful for the practitioner to give each of the misstatements a rating (for example, low / medium / high) to indicate the severity or materiality of the misstatement, particularly where the misstated subject matter information is in narrative form.

210.   The practitioner may consider whether each of the misstatements has a financial impact, even if this cannot be quantified.

211.   It may be appropriate for the practitioner to consider whether the misstatements identified affect any other parts of the report (both those parts within and outside of the assurance engagement scope) and look for any contradictions or inconsistencies.

212.   The practitioner is required to make an overall conclusion on the report as to whether the uncorrected misstatements are in aggregate material or not and hence whether the subject matter information is free from material misstatement[39]. Where the subject matter information is materially misstated, the practitioner is required to follow the requirements in ISAE 3000 (Revised) paragraphs 74, 75 and 77.

Measurement uncertainty

213.   When measurement or evaluation uncertainty means there is inherent variability in subject matter information, this does not affect materiality considerations. Higher measurement uncertainty also does not necessarily lead to an increased risk of misstatement.

[Example to be added]

214.   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 understanding the uncertainty. Without this, the criteria might not be suitable, and the subject matter element may not be faithfully represented.

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[38] ISAE 3000 (Revised) paragraph 51
[39] ISAE 3000 (Revised) paragraph 65

215. When measurement uncertainty is not inherent, it may give rise to misstatements.

Preparing the Assurance Report

ISAE 3000 (Revised) paragraphs 48-60

Communicating Effectively in the Assurance Report (Challenge 10)

216.   [Guidance to be developed in phase 2]

Section II - Background and contextual information

Introduction to Section II

217. Section II of this IAEPN provides background and contextual information which practitioners may find it is helpful to understand in applying the guidance provided in Section I ("the guidance"). It explains general concepts underlying EER reports, as a form of subject matter information, and how these relate to key assurance concepts reflected in ISAE 3000 (Revised). Much of this section relates to the role of a preparer of such reports, rather than to the role of a practitioner. However, an appropriate understanding of the nature of the preparer's role in preparing an EER report, and how it relates to assurance concepts, is likely to assist practitioners in performing effective EER assurance engagements.

218. Where possible, the explanations of general concepts in this section draw comparisons between EER and more established forms of reporting, as well as comparing and relating the manifestation of these concepts in some major EER frameworks. The section also includes some material that explains certain aspects of the guidance in Section I, in further detail.

The general concept of an EER report

Introduction

219. EER encapsulates a wide variety of types of reporting by companies and other organizations. However, in general terms, an EER report describes particular qualities of particular elements that are associated with a particular underlying subject matter ('subject matter elements' or 'elements'). Primary qualities may have their own qualities (or aspects). The particulars described, and the underlying subject matter that they are associated with, are those that are relevant to the purpose and users of the report.

> Refer to paragraph 233 for examples of 'elements', and paragraphs 242 and 243 for examples of 'qualities'.

220. The descriptions of qualities of elements included in the report are, importantly, made by reference to the applicable criteria. They are not therefore merely descriptions of unique manifestations of the qualities of each element. Rather, the descriptions reflect a categorization of the elements into relevant well-defined classes, by reference to the manifestations of their qualities. This facilitates a degree of aggregation of the information about elements, which makes it more useful to the users.

221. This general concept of an EER report is perhaps most easily explained by reference to similarities and differences with the corresponding concept for financial reporting (specifically for financial statements), which many professionals may be more familiar with.

Concepts underlying financial statements

222. Financial statements provide information about the financial condition and performance of an entity. This is another way of saying that the underlying subject matter for financial statements is the financial condition and performance of the entity. The information provided in financial statements is primarily about the quality 'economic value' for well-defined financial statement subject matter 'elements' ('financial statement elements'). This is because that quality of those elements is of primary relevance to the purpose and users of financial statements.

223. The defined financial statement elements are:

   a)   The entity's economic resources and claims on those resources (for example, assets and liabilities); and

   b)   The transactions, other events and conditions (for example, sale or purchase transactions, or an agreement to purchase a property), the effects of which cause changes in the entity's economic resources and claims (for example, settling an expense incurred may reduce the entity's cash).

224. Financial statements represent the economic value of the financial statement elements, by describing it, in words and numbers, in the primary statements or in the notes. The criteria, by reference to which the economic value is described, include an established measurement basis (the particular concept of economic value), which is usually set out in accounting standards. When observation is not sufficient to do this, the criteria may also include a conceptually valid process or method to measure the economic value on the measurement basis. Such a method reflects established knowledge and may apply prediction or allocation techniques. The resulting information may be presented in the financial statements at different levels of aggregation, for example by type of asset, liability, income or expense, or by type of activity.

225. The criteria are established in the applicable financial reporting framework (for example, IFRS) or in the entity's accounting policies. The accounting values and related disclosures in the primary financial statements and notes are the subject matter information which results from applying the criteria to the underlying subject matter.

226. In an assurance context, ISAE 3000 (Revised) uses the terms 'underlying subject matter', 'criteria' and 'subject matter information' as defined below[40], however it does not explicitly address subject matter elements or their qualities and does not use these terms.

	underlying subject matter	+	criteria	→	subject matter information
Definition	The phenomenon that is measured or evaluated by applying criteria		The benchmarks used to measure or evaluate the underlying subject matter		The information that results from applying the criteria to the underlying subject matter
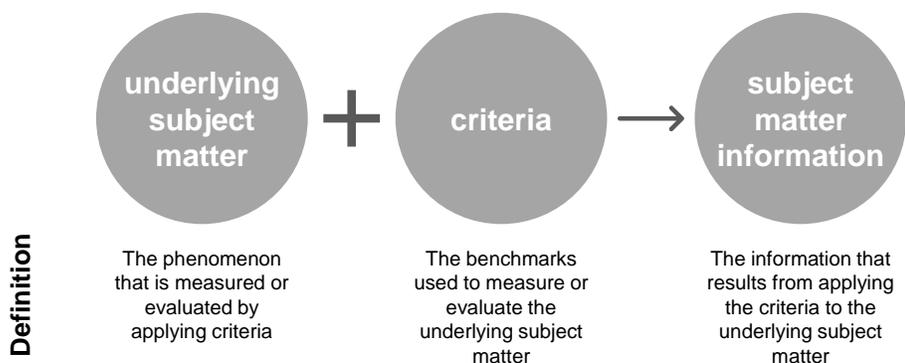
Paragraph 63 provides examples to illustrate these terms in both financial reporting and EER contexts.

Underlying subject matter

227. The underlying subject matter of an EER report is always closely related to the report's intended purpose and users. The concepts described above for financial statements are, at a high level, applicable in a similar manner for EER reports. However, underlying subject matter for EER reports is often broader and more diverse than simply the financial condition and performance of an entity.

Paragraph 115 provides examples of a report's purpose.

228. As a result, the underlying subject matter of an EER report often encompasses a much broader range of elements than the entity's financial statement elements. It may include elements of significance to the entity that do not meet the definitions of financial statement elements. Those elements may be of significance because they are of value to it, oblige or commit it, are parts of it, affect its other elements or are otherwise related to it. The underlying subject matter may also include elements associated with the entity's activities that have an impact on elements that are of significance to other entities, or groups of entities.

Paragraph 233 below provides examples of possible types of elements in an EER context.

229. A typical EER report may describe some or all of the following:

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[40] ISAE 3000 (Revised) paragraph 12

a)   The elements relevant to the report and their condition at a point in time. This might include the entity itself, or parts of it, and other elements not (or only partly) under the control of the entity;

b)   Changes in relevant qualities of those elements (compared to a time in the past, or a forecast of how they will or may change in the future); and

c)   The elements that cause those changes (e.g., the entity's activities, or other events and conditions).

230. Often, but particularly when the underlying subject matter for an EER report is broader or more diverse, the elements and their defining qualities may be analyzed between general categories (and sub-categories) and specific topics (and sub-topics). This could result, for example, in a hierarchical analysis, recognizing that such categories and topics are often inter-related. Such a hierarchical analysis is useful both in structuring the report to make it understandable to users and in considering the information that should be included in the report to enable it to fulfil its purpose.

231. Established EER frameworks use a range of terms to describe such analysis. Some terms used to describe them in such frameworks are included in the generalized diagram below.
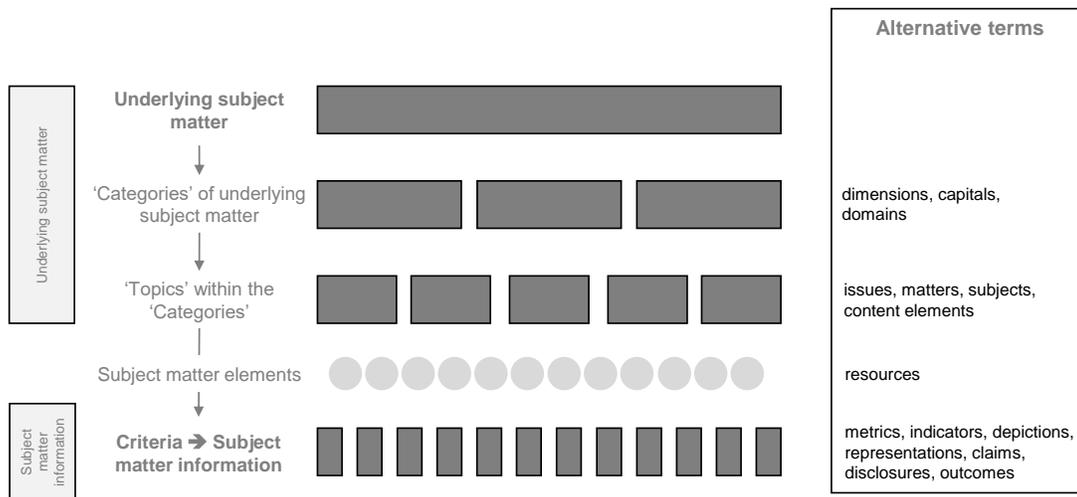
232. It is of note that the terms 'categories' and 'topics' are not explicitly used in ISAE 3000 (Revised). The diagram also reflects the position that 'topics' can relate to more than one 'category' and a piece of subject matter information can relate to more than one 'topic'.

Subject matter elements

233. For EER, the subject matter elements may be very diverse. They might include things within and outside the legal and financial boundaries of the entity, which may be of significance to, or affected by, the entity in operationalizing its strategy and business model. Elements might, for example, include:

a) natural resources;

b) employees;

c) customer relationships;

d) goods and services provided by other entities or manufactured and delivered by the entity;

e) the entity's strategy; or

f) the entity's governance, management, risk management and internal control infrastructure, including its policies and procedures, processes and related resources.

234. Subject matter elements may be parts of larger elements or may consist of parts themselves. Not all the qualities of a composite element are necessarily evident in any of its parts. Some qualities emerge only in the larger element. For example, the capability of a control, which consists of a design and a set of implementation and operational steps, does not exist in any of its individual parts.

Boundary of elements addressed in a report

235. Every report has a reporting boundary to determine what is in scope to be addressed in the report.

EXAMPLE	If considering a construction company's supply chain, this includes materials suppliers, as well as subcontractors. Each of the suppliers and subcontractors have their own suppliers and subcontractors and so the supply chain can get extremely long and complex. The reporting boundary determines how far along this chain to go.

236. The boundary of the relevant elements, and their relevant qualities, is determined by reference to the intended users and purpose (intended use) of the report.

Relating elements to categories and topics

237. Particularly where a report addresses a broad and diverse underlying subject matter, it is likely to address a broad and diverse range of elements covering many different categories and topics, as described above. In these cases, it may be helpful, both in preparing the report and in understanding how it has been prepared, to identify the elements that relate to each category and topic.

EXAMPLE	A sustainability report could be analyzed into categories of environmental, social, economic and governance information, each of which could address several topics. The environmental information could include reporting on several different 'resources' affected by the entity (the elements), such as natural resources (for example, trees, air or water), and related causes of change in those resources relevant to the underlying subject matter category 'environmental' (for example, the entity's deforestation of trees, emissions into the air, or release of effluent into a water system).

238. Understanding the structure of a report in this way may be important for a practitioner when agreeing the scope of an assurance engagement, particularly where the scope does not address a report in its entirety.

Refer to paragraphs 50 to 55 in Section I for guidance on determining the scope of an EER assurance engagement.

Criteria

239.   Criteria specify both:

   a)   the nature and scope of the topics and related subject matter elements to be included in the report (which are dealt with in definitions and underlying concepts); and

   b)   the representations of such subject matter elements that should be included in the report, including the qualities of the subject matter elements that should be described, and the benchmarks to be used in measuring or evaluating those qualities.

240.   Criteria establish the basis of preparation for the report. At its most simplistic, including a representation of a subject matter element in the report could involve measuring or evaluating a quality of the element and reporting the value of that measurement or the outcome of that evaluation, together with how the measurement or evaluation was made.

241.   An element is an individual object that exists and can be identified as distinct from all other individual objects. However, an element may be a part of another element and may consist of several other elements (a composite object).

EXAMPLE	'An apple' is an individual object, distinct from all other individual apples and from all other individual fruits etc. It is a composite object, with several distinct parts (separate objects): 'several pips'; 'a flesh'; 'a skin'; and 'a stalk'. It may also be a part of 'a fruit basket' (another composite object).

Qualities

242.   A quality is a type or kind of feature that can be exhibited by an element or another quality. Different elements and other qualities may exhibit a quality in different ways (each different way is called a 'trope'). The nature of a quality is abstracted from its different possible tropes. A trope is contained by an element or other quality, but not in the same way as a part is contained by an element. A trope cannot exist separately from the object or other quality that contains it.

> **EXAMPLE**
>
> An apple may be described as red or green or brown, which are tropes of a quality called 'color'. The individual color of an apple is contained in its skin, but the redness of an apple cannot exist separately from the apple or its skin and it is not a part of the apple. Some red apples may be described as 'dark' red and others as 'light' red. Dark and light are tropes of a quality (aspect) that modifies the quality called color. That aspect may be described as a tint, tone or shade.

243.   A quality can be categorized according to whether it addresses a feature of an element, or of another quality, that involves the element or quality:

- being located in *space*, existing over *time* or having an *attitude* (their tropes respectively describe *where*, *when*, and *how* it exists)

- having a *quality*, *relation* or *quantity* (their tropes respectively describe *what* its nature is, *what* its relations to other elements or qualities are and *how many or much* there is (are) of its parts or other qualities)

- being an *agent*, *subject* or *outcome* of an action (their tropes respectively describe *how* it can be a cause of change, *how* it can be changed by a cause and *what* is the effect of a cause on its state).

Evaluating or measuring elements

244.   Preparing subject matter information involves evaluating or measuring the relevant qualities of relevant subject matter elements. Evaluation involves comparing the tropes (of relevant qualities) of an element with benchmarks, which are established by the applicable criteria and cover all the possible tropes of a quality. In general, such a comparison results in information about the classification of relevant elements, by reference to the tropes of their relevant qualities. Such information provides answers to the types of questions about a relevant quality or aspects of it that are discussed in the preceding paragraph.

245.   Measurement is a special case of evaluation, in which the benchmarks used are quantitative (standard measures). In other cases, the benchmarks for evaluation are given names or labels, which may include, for example, letters, numbers, nouns, adjectives or adverbs. Benchmarks are said to be 'nominal' when they have no natural ordering (e.g., red, blue, yellow) or 'ordinal' when they have some degree of natural ordering (e.g., small, medium, large). In some classifications, numbers may be used as nominal or ordinal labels rather than as quantities.

246.   Making a measurement determines how many or how much of the relevant quality is in the trope being measured. The measurement instrument used to compare a trope with the standard measure may be physical (a meter) or a defined process. In either case, the instrument must be aligned with the standard measure (calibration).

247.   There are different types of standard measures but, in all cases, they are based on a clearly specified point of reference, which bears a defined relationship to the unit of measurement that is sufficiently precise for its purpose. For physical qualities, like length and time, the point of reference is usually a trope of the quality that can be observed consistently in a well-defined element, in well-defined circumstances (e.g. a meter of length is defined as the distance travelled by light in a vacuum, in a specified fraction of a second of time).

248.   In other fields or circumstances, the quality to be measured may be a concept that is not (or not always) observable and measurable directly. It may not therefore be possible to identify a directly observable point of reference and it may not (or not always) be possible to directly observe or measure a trope of the quality. This is often the case in the fields of social and economic knowledge (e.g. intelligence is a quality that cannot be observed or measured directly, and economic value is not always observable or measurable directly).

249.   In such cases, a well-defined and generally accepted measurement model is needed, either for establishing the point of reference, or for measuring tropes, or for both purposes. Such a model is based on a well-defined concept for the quality. It defines observable indicators of the quality, standards for the measurement or evaluation of such indicators, and a mathematical or logical process that generates repeatable measures of a trope when applied to the resulting measures or evaluated classes of those indicators. The point of reference for a standard measure may be a trope of the quality that can be measured consistently, using the model, in a well-defined element, in well-defined circumstances.

> **EXAMPLE**
>
> Intelligence tests are designed to obtain measures of indicators of the quality 'intelligence'. Standard measures of intelligence are defined by sufficiently precise estimates of the distribution of measures of individual intelligence across a relevant population. These estimates are inferred from the results (scores) of a defined intelligence test (measuring instrument) taken by a sufficiently large sample of members of the population.
>
> Accounting values are measured in currency units, but currency units may be used to measure different concepts of value. The points of reference used for accounting value measurements of tropes that are not observable are usually values that can be observed in historical or, with hindsight, future outcomes of actual transactions, in defined circumstances that correspond with the accounting value concept being used (measurement basis). Such points of reference are used to calibrate a defined measurement model (method) that uses data and assumptions about defined indicators of the accounting value (valuation attributes) and a defined process (method) to make measurements of tropes of the defined accounting value.

250. The quantifiability of a quality can exist in different ways. Some qualities that are quantifiable are said to be extensive because the quantity is proportional to the 'extent' of the quality in the trope. Measures of such qualities are additive. Examples of qualities that are extensive include certain physical qualities such as length, area, volume and time, which can be 'occupied' by an element.

251. Some qualities that are quantifiable exist only in discrete units of measurement. Measurement of such qualities involves identifying and counting the units. The resulting measures are whole multiples of the unit and are expressed as integers. In other cases, the quality can exist in continuous amounts. In such cases, the measurement instrument is calibrated on a scale that may reflect multiples, units, and parts of units. The resulting measures are expressed as real numbers.

252. In practice, measurement instruments have an inherent limit (degree) of precision (their ability to discriminate differences in measures). The degree of precision possible is limited by the smallest calibrated difference in quantity that can be discriminated using the instrument. For example, on a meter or ruler the smallest measurement that can be discriminated is determined by the closeness of the hatch marks. When the measurement instrument is a process, the degree of precision will be affected by inherent limitations in available data and knowledge to make a valid measurement, which requires the use of subjective assumptions.

Developing criteria

253.   Suitable criteria establish benchmarks that, when used to measure or evaluate qualities, give rise to useful information about relevant elements. That information can be made more useful by applying presentational techniques to it, such as summarization or aggregation.

254.   The criteria need to be able to provide a representation of the subject matter elements that is appropriate in the context of achieving the purpose of the report.

255.   Causes of change in subject matter elements comprise:

    a)   Transactions (involvement of another entity)

    b)   Actions (taken either by the entity itself or by other entities)

    c)   Other events and conditions (outside of the entity's control, e.g. a flood or weather conditions, not necessarily attributable to an action)

256.   Another way of thinking about criteria is that they embody the questions that must be addressed in evaluating or measuring a subject matter element.

EXAMPLE

If the subject matter element was a machine in a factory some questions which might underpin the criteria and, in brackets, the resulting subject matter information, include:

a) When was the machine built? (expression of time)

b) Where is the machine? (expression of location)

c) What color is it? (expression of a quality)

d) What is the maximum number of widgets it can produce in an hour? (expression of a capability to act so as to cause change)

e) What is the actual number of widgets produced in the last year? (expression of performance or outcome of an action that causes change)

f) What is its financial value at a point in time? (expression of a quantity or measurement)

g) What has been the change in value over the last year? (expression of the outcome of a change in the machine's state or condition)

h) How did the change in value happen? (expression of the cause of a change)

i) Why have the directors decided to sell the machine? (expression of the intent of an action to cause a change)

EXAMPLE

Another example of an element might be a river next to a company's factory which it has access to. Questions which might underpin the criteria include:

a) Where is the river? (expression of location)

b) How much water flows through the river? (expression of characteristic)

c) How polluted is the river in terms of the chemical composition of the water? (a measurement)

d) How has the water quality changed over a period of time? (expression of change in condition)

e) What is the impact of the factory on the water quality of the river? (explanation of cause of change in condition)

257. The criteria can be selected or developed in a variety of ways, for example, they may be[41]:

   a)   Embodied in law or regulation

   b)   Issued by authorized or recognized bodies of experts that follow a transparent due process (for example, GRI or SASB standards)

   c)   Developed collectively by a group that does not follow a transparent due process

   d)   Published in scholarly journals or books

   e)   Developed for sale on a proprietary basis

   f)   Specifically designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement

   g)   A combination of the above

Requirements for suitable criteria

258. The practitioner in an assurance engagement is required to determine whether the criteria are suitable for an assurance engagement. This includes a requirement that the criteria exhibit the five characteristics of relevance, completeness, reliability, neutrality and understandability. ISAE 3000 (Revised) states that where criteria are established, they are presumed to be suitable in the absence of indications to the contrary[42]. In a financial statement audit, there is a similar presumption and the criteria are usually generally well defined and accepted (and therefore established) in the applicable financial reporting framework (e.g. IFRS). Accordingly, it is not usually necessary to make a detailed evaluation of the acceptability of the criteria. In an EER engagement, determining whether the criteria are 'established' and where (as is usually the case) they are not, assessing the suitability of criteria, is ordinarily a more significant exercise for the practitioner.

> Refer to paragraphs 60 to 104 in Section I for guidance on assessing the suitability of criteria.

Relevance and materiality

259. As explained in paragraph 76 of the guidance, materiality is an aspect of relevance in the context of a specific entity. Furthermore, materiality is threshold of relevance (or the significance to decision-

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[41] ISAE 3000 (Revised) paragraph A48
[42] See ISAE 3000 (Revised) paragraph A49 for details of the definition of established criteria.

making by intended users) in the context of that specific entity and purpose of the report. Criteria may specify types of information that, in general across many reporting entities, could influence particular types of user decisions that are related to the purpose of the report. Such criteria are important as a base for determining what may be relevant in the particular circumstances of an entity and the particular purpose of its report.

260. Other criteria may specify how to determine what is relevant in those particular circumstances (i.e. what is material). Such criteria require additional judgments to be made in applying generic criteria, to determine whether the resulting subject matter information could affect user decisions in the specific circumstances. Materiality criteria are difficult to establish except in the context of a particular entity. For this reason, established frameworks ordinarily specify a materiality principle, which has to be applied by the preparer. Without such a materiality principle in an established framework, the subject matter information resulting from applying the criteria could omit something that is relevant in the specific report and, if so, would not exhibit the characteristic of relevance.

261. Relevance of subject matter information may be affected by the level of measurement or evaluation uncertainty that is inherent in the subject matter information and the available criteria that could be used. Some criteria for measurement or evaluation may provide information about a quality that has more inherent uncertainty than another criterion. It may still be more relevant than the other criterion.

Report example

262. Below is part of an example report for fictitious entity 'ReportCo' designed to illustrate the concepts above. It is based on a real example of an integrated report prepared under the Integrated Reporting ('<IR>') framework. Below the extract is a table identifying the various components and structural parts of the report.

Performance

ReportCo has a range of indicators for each of its six capitals. Overall the business has made significant progress towards achieving its long-term objectives.

Finances

- ReportCo made an increased profit in the year due to increased demand and effective cost control.
- One-off acquisition added 3% to the value of the company.

$20m

profit after tax compared to $18m in the previous year.

5%

increase in revenue.

People

- Positive changes to organisational structures allow better focus on customer service.
- Improved focus on the wellbeing of all our people.

85%

employee engagement score – our highest ever.

4,500

employee headcount.

Experience

- The knowledge and expertise we have gained in our 25 year history sets us apart from the competition.
- Well established disaster recovery procedures.

25

new patents registered in the year.

24hrs

recovery time after warehouse fire.

Relationships

- Our brand is well regarded and brand visibility has increased over recent years.
- Strong supplier relationships have led to favourable contract renewals.

98%

of customers would recommend us.

$5m

cost savings from contract renegotiation.

Infrastructure

- Continued investment in our distribution network, allowing us to increase capacity.
- Additional warehouse opened in New Town.

$55m

invested in the latest technology this year.

1 day

reduction in average order fulfilment times.

Environment

- Replacement of entire vehicle fleet with cleaner alternatives.
- Continued efforts to reduce our carbon emissions across the business.

53

vehicles replaced with low-emission alternatives.

69%

of waste recycled across all of our sites.

Structural component	Example(s)
Underlying subject matter	As this is an integrated report prepared in accordance with the <IR> framework, the underlying subject matter is information about how the company creates value for shareholders and other stakeholders.
Categories	The company has identified six 'capitals' which are the resources and relationships with which it creates value, broadly in line with the <IR> framework. These are finances, people, experience, relationships, infrastructure and the environment.
Topics	Within each of the capitals, the company has selected several topics to focus on, for example under 'relationships' details are given about the company's brand and supplier relationships.
Elements	Many elements have been reported on just on one page – these include employees, patents, customer relationships, financial income, vehicles and waste.
Criteria	The criteria used in this extract have the broad function to describe the company's performance in creating value through a range of selected indicators. Some of the criteria are relatively straightforward such as the number of vehicles replaced in the year. Other criteria such as employee engagement scores or the results of customer surveys would need careful consideration by a practitioner as to whether they were suitable for an assurance engagement.
Subject matter information	The words and numbers that provide a representation of relevant qualities of elements (e.g., "4,500 employee headcount" is a quantitative representation of a relational quality of the employee group, the number of individuals contained in it).

Assertions

263.   Section I explains how assertions can be used by practitioners as a tool to assist in designing assurance procedures. It provides guidance on building assertions that are appropriate in the engagement circumstances. The paragraphs below provide relevant contextual information about assertions and their relationship to qualitative characteristics of useful financial information, which may be helpful to practitioners in applying that guidance

> Refer to paragraphs 148 to 159 in Section I for the guidance on building assertions.

Example reconciliation of required characteristics for criteria to assertions

264.   The diagram below illustrates how the required characteristics for criteria (as defined in ISAE 3000 (Revised)) can be reconciled to a basic set of assertions as suggested in Section I:
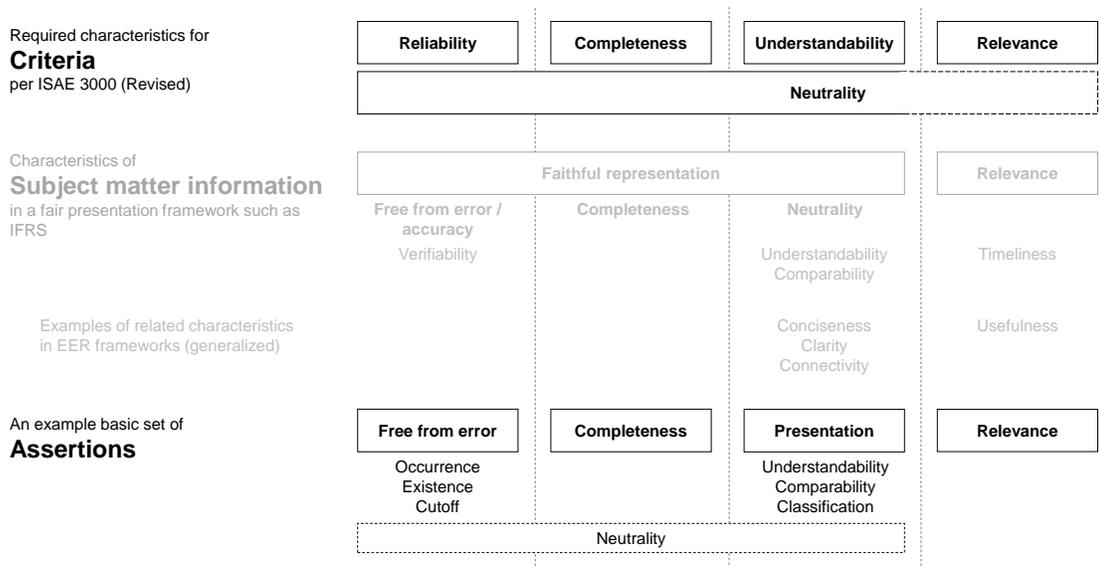
265.   The characteristics of subject matter information (middle row in grey) shown in bold type are those specified by the IASB Conceptual Framework for financial reporting – these are shown on the diagram only to show how these can be reconciled into this model, not because they are necessarily specifically required for EER. Further terms for characteristics of useful subject matter information (not in bold) are also included, some of which are taken from various EER frameworks.

266.   It is likely that a practitioner will identify the four assertions in boxes in most engagements, but would then add additional assertions depending on the specific nature of an engagement. These additional assertions may arise from requirements in the reporting framework (for example <IR>'s requirement for there to be connectivity between information in the report). Frameworks may use

different terminology for the characteristics for subject matter information (for example 'guiding principles').

267. The use of the term 'reliability' has been subject to much debate since ISAE 3000 was revised in 2013. The IASB and IPSASB are now using 'faithful representation' which encompasses much of what was previously understood by 'reliability' with measurement / evaluation uncertainty incorporated in 'free from error'. This IAEPN therefore assumes the term 'reliability' is consistent with the terms 'faithful representation' and 'free from error' as described above.

Materiality

Introduction and context

268.   Section I sets out guidance, including a framework for the practitioner's application of the concept of materiality. That guidance is split into three areas of an EER assurance engagement where materiality is ordinarily considered:

a)	Evaluating which topics and related subject matter elements are to be included in the report;	Paragraphs 105 to 147
b)	Determining the extent of assurance procedures (performance materiality); and	Paragraphs 193 to 196
c)	Evaluating whether the subject matter information included in the report for material topics and related subject matter elements is free from material misstatement.	Paragraphs 197 to 215

269.   In circumstances where the scope of the engagement is limited to certain parts of the report, materiality considerations will need to be applied in that context. For example, if the assurance scope is not an entire report, the role of the practitioner in the first area above (paragraph 268(a)) may be different.

270.   The following paragraphs provide further background information about materiality, a preparer's materiality process, and conceptual background to the suggested framework for the practitioner's application of the concept of materiality. Whilst the guidance in Section I is primarily focused on assisting a practitioner in forming a view on the appropriateness of the results of an entity's materiality process, this section provides information on a preparer's role to provide context about what a preparer might be expected to have addressed in their materiality process.

Similarities and differences between financial reporting and EER

271.   In traditional financial reporting, the first area (paragraph 268(a)) is straightforward as the reporting frameworks (e.g. IFRS) substantively address it by specifying the underlying subject matter and its elements and their qualities that should be reported. This is widely understood by preparers, users and practitioners. This is generally not as comprehensively addressed in EER frameworks. The relevant subject matter elements and their relevant qualities are generally less comprehensively specified by EER reporting frameworks and entities therefore have to develop their own processes to determine these matters.

272. The second and third areas (paragraph 268(b) and (c)) apply for both financial reporting and EER, however they are often more challenging for the practitioner when the subject matter elements are diverse in nature and are not all capable of being evaluated, measured or tested in a consistent way or common unit of measurement, as is very often the case for an EER report.

Responsibilities of preparers and practitioners

273. It is principally the preparer's responsibility (as the measurer / evaluator) to determine what subject matter elements are material to include in the report, and what information about those content elements is included. In fulfilling its responsibilities for the subject matter information, in its roles as responsible party and as measurer or evaluator, the preparer would be expected to undertake some form of 'materiality process' to achieve this[43]. The degree of formality (including the extent to which it is documented) of the process may depend on the nature and size of the entity, the nature of the subject matter and the degree to which the EER framework addresses such considerations.

274. Through review of relevant documentation, and/or by inquiry of management and other procedures, the practitioner reviews the preparer's process to fulfil its responsibilities in ISAE 3000 (Revised) paragraph 47L / 47R, and the results of management's process.

The preparer's materiality process

275. The starting point for the preparer's process to determine the content of their report should be the EER framework(s) being adopted. Frameworks may specify the underlying subject matter and the criteria to varying degrees, and may specify, or be based on assumptions about who the intended users are[44]. EER frameworks differ widely in this respect. For example, a framework such as the <IR> framework only gives a high-level indication of the 'capitals' which may be relevant to the entity's creation of value and specifies broad 'content elements'. Others, for example SASB's standards, provide much more granular criteria for underlying subject matter and subject matter information for entities in specific industries based on what the framework-setter considers is likely to be material for specified groups of intended users.

276. In general, preparers would also be expected to begin their process by understanding both the purpose of their report and its intended users.

277. The purpose will be to report certain information about an underlying subject matter to a group(s) of intended users.

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[43] Refer to ISAE 3000 (Revised) paragraph A39
[44] Some frameworks (for example, the GRI standards) consider the whole of society across the world to be the intended users.

a) Purpose → Condition and / or performance of the entity (within a specified domain or scope of interest)

and / or

The entity's impact on stakeholders (within a specified domain or scope of interest)

b) User → Needs information about purpose (to make decisions)

Consideration of interest to intended users and impact

278. Step 3 of the guidance (paragraph 130 onwards) suggests how the materiality of something could be assessed by considering its impact and level of interest of intended users, and portrays these on a scatterplot:
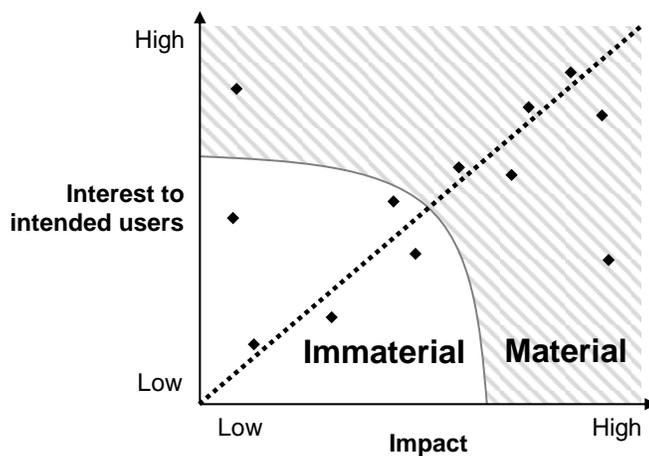
279. This is a commonly used approach, although there are slight differences between the approaches suggested by some of the commonly used reporting frameworks. These are discussed below.

280. In a theoretical scenario where the interest of intended users in something was only affected by an accurate understanding of its expected impact, there would be a perfect correlation with all items plotted along the dotted x=y line. In reality some anomalies may well be expected, perhaps where intended users are considering different timescales, or where intended users are particularly sensitive to an issue by its nature (and therefore they have a high level of interest in it, for example executives' remuneration) even if the impact is not correspondingly high.

281. For many reporting frameworks, for example the <IR> framework, 'impact' is considered to be the impact on the entity itself. This is common where the intended users are direct or indirect financial

stakeholders (for example shareholders and lenders). An alternative approach, for example that included in the GRI standards, is to consider the impact on others, wider society and the environment.

Appendix 1: The Ten Key Challenges

The Ten Key Challenges from the discussion paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting*, were:

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

Acknowledgements