

**Public Consultation on Proposed Guidance**  
**March 2020**

*Comments due: July 13, 2020*

**Proposed Non-Authoritative  
Guidance**

**Extended External Reporting (EER)  
Assurance**

## **Acknowledgements**

This Consultation Paper was developed by the International Auditing and Assurance Standards Board (IAASB) as part of a project run with the support of the World Business Council for Sustainable Development (WBCSD). This work is part of a conservation and financial markets collaboration among Ceres, World Business Council for Sustainable Development, World Wildlife Fund and the Gordon and Betty Moore Foundation. For more information, please visit [www.moore.org](http://www.moore.org).

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The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC). Visit [iaasb.org](http://iaasb.org).

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## REQUEST FOR COMMENTS

This Public Consultation on Proposed Guidance, *Extended External Reporting (EER) Assurance*, was developed by the International Auditing and Assurance Standards Board® (IAASB®).

**Comments are requested by July 13, 2020.**

Respondents are asked to submit their comments electronically through the IAASB website, using the "[Submit a Comment](#)" link. First-time users must register to use this feature. Please submit comments in both a PDF and Word file. Respondents are asked not to use tables in their responses as these create difficulties for analysis. All comments will be considered a matter of public record and will ultimately be posted on the website.

This publication may be downloaded from the IAASB website: [www.iaasb.org](http://www.iaasb.org).

# EXPLANATORY MEMORANDUM

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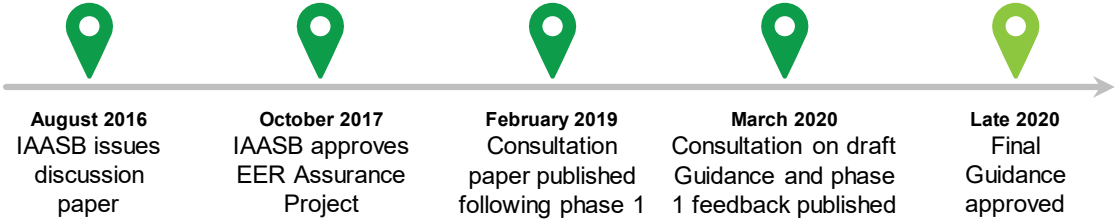
# EXPLANATORY MEMORANDUM

## Section 1 Introduction

1. This memorandum provides background to this consultation and the IAASB's [EER Assurance project](#).

### Section 1-1 Background

2. Extended External Reporting (“EER”) encapsulates many different forms of reporting, including, but not limited to, integrated reporting, sustainability reporting and other reporting by entities about financial and non-financial matters, including environmental, social and governance matters, related to an entity’s activities.
3. EER is becoming increasingly common, and there is a growing demand for assurance engagements in relation to it. Assurance engagements on EER are similar in concept to a financial statement audit (a specific type of assurance engagement), but they are performed on EER reports, which include information on underlying subject matters that go beyond the financial information typically included in financial statements.
4. The IAASB is responding to the growing demand for EER assurance engagements by developing non-authoritative guidance on those areas where practitioners may find guidance useful to address the challenges that they commonly encounter in applying ISAE 3000 (Revised) (“the Standard”) in EER assurance engagements.
5. Consistent with the [project proposal](#), the guidance has been developed in two phases. Following completion of phase 1 of the project, which covered drafting of approximately half of the guidance, the IAASB sought initial feedback from stakeholders on the phase 1 draft guidance through the consultation paper *Extended External Reporting (EER) IAASB Consultation Paper (February 2019)*.
6. For details of respondents’ phase 1 feedback received, and actions taken to respond to that feedback, please see the Feedback Statement *Extended External Reporting (EER) Assurance Phase 1 Feedback Statement* included in Appendix 2 to this Explanatory Memorandum.



7. Phase 2 of the project has also now been completed. This Public Consultation on Proposed Guidance (referred to throughout, in the appropriate context, as “consultation” or “consultation paper”) is on the combined updated phase 1 and phase 2 non-authoritative draft guidance: *Special Considerations in Performing Assurance Engagements on Extended External Reporting* (hereafter “the Guidance”).
8. Respondents to this consultation are also invited to comment on the two additional papers appended to this consultation paper, should they wish to do so. The additional papers are:
  - (a) Supplement A: *Credibility and Trust Model and Background and Contextual Information*. The four-factor model has previously been consulted on twice and has been updated for comments received. It is intended to provide a framework that is useful to all stakeholders in assurance

engagements. The Background and Contextual Information contains information that practitioners may find useful as background and context to the Guidance; and

- (b) Supplement B: *Illustrative Examples*, which provides further practical examples of the application of aspects of the Guidance. The examples provided in the Guidance are generally short examples, which illustrate the concepts discussed in the Guidance as they may be applied in less complex engagement circumstances. The more comprehensive examples in Supplement B are designed to illustrate the concepts discussed in the Guidance as they may be applied in the context of:
  - (i) More complex engagement circumstances; and
  - (ii) A range of reporting frameworks.

## **Section 1-2 Key Public Interest Issues Addressed by the Guidance**

- 9. As noted in the introduction to the Guidance, the purpose of the Guidance is to promote consistent high-quality application of the Standard so as to:
  - (a) Strengthen the influence of EER assurance engagements on the quality of EER reporting;
  - (b) Enhance trust in the resulting assurance reports; and
  - (c) Engender greater user confidence in the credibility of EER reports so that the reports can be trusted and relied upon by their intended users.
- 10. The 2016 discussion paper identified four factors<sup>1</sup> that play a key role in serving the public interest in high quality EER reports by supporting the credibility of EER reports and therefore enhancing user confidence in making decisions based on them. EER assurance engagements serve the public interest in EER reports by underpinning the strength of those factors, which are as follows:
  - (a) A sound EER framework for reporting, aligned with users' information needs (in an EER assurance engagement, the bases, methods or standards comprising the framework used by the entity to prepare the information in the EER report are known as the 'Criteria');
  - (b) Strong governance over the entity's EER reporting process (in an EER assurance engagement, the entity's EER reporting process and related controls are known as the "Entity's system of internal control relevant to the preparation of the EER report");
  - (c) Consistency between the EER report and users' wider sources of information to which users have access; and
  - (d) Access by users to independent external professional services reports.
- 11. EER reporting is of growing frequency and importance. It addresses matters that are becoming increasingly important to decision-making by investors and other users. As this importance increases, assurance will also become increasingly important in enhancing the credibility and trust of users in EER reporting.
- 12. EER assurance engagements are designed to provide a number of important public interest protections for the intended users of an assurance report that are aligned with the four-factor model. For example, such engagements involve addressing matters such as:

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<sup>1</sup> Four Key Factor Model for Credibility and Trust in Relation to EER

- (a) Whether the EER framework for reporting is aligned with users' information needs – the practitioner determines whether the 'criteria' used are suitable (Factor 1);
  - (b) Whether the EER reporting process provides a reasonable basis for the EER report and supports an expectation of being able to obtain the evidence needed (Factor 2);
  - (c) Understanding the entity and other engagement circumstances, based on internal and more widely available information, to support engagement performance (Factor 3); and
  - (d) Providing a written report to users, to communicate effectively the assurance conclusion and how it was reached, including meeting requirements to (Factor 4):
    - a. Determine whether the engagement has a 'rational purpose', considering the information needs of, and level of assurance appropriate to, the intended users;
    - b. Apply appropriate competence and capabilities and to exercise professional skepticism and professional judgment, throughout the engagement;
    - c. Design and perform procedures to obtain sufficient appropriate evidence that is persuasive in drawing the assurance conclusion;
    - d. Consider the potential types of misstatements, and how they could occur, in designing and performing procedures to detect material misstatements;
    - e. Consider whether misstatements could reasonably be expected to influence the decisions of intended users (i.e. materiality), throughout the engagement;
    - f. Reach the assurance conclusion (that the EER subject matter information is not materially misstated due to fraud or error) at the agreed level of assurance, based on the evidence.
13. However, the IAASB's research<sup>2</sup> identified a number of practical challenges in performing EER assurance engagements, which have the potential to limit the value of EER assurance engagements in serving the public interest. The Guidance seeks to address these challenges. They arise due to circumstances commonly encountered in the context of certain elements of EER reporting. Such circumstances, which are summarized in **Table 1**, are generally not (or not so extensively) encountered in financial statement audits.
14. **Table 2**, which follows Table 1, then sets out for each of those elements:
- In the left-hand column, areas of public interest importance that result from practical challenges in applying the requirements of the Standard in EER assurance engagements, due to the circumstances set out in Table 1;
  - In the middle column, how the circumstances summarized in Table 1 give rise to challenges in meeting the public interest; and
  - In the right-hand column, the public interest protections in the Standard that are relevant to those challenges, and the Guidance chapters that assist the practitioner in applying these protections. Section 3 below provides more detail on the content of each chapter.

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<sup>2</sup> Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements

<b>Table 1: Circumstances that may differ for EER reporting and financial statement reporting</b>	
<b>Element of EER reporting</b>	<b>Circumstances commonly encountered in EER reporting and how they may differ from financial statement reporting</b>
<b>A. Underlying Subject matter of EER report</b> – the ‘thing(s)’ being reported on in an EER report (referred to in Tables 1 and 2 as “ <b>EER USM</b> ”)	<p>An EER report can address diverse EER USMs, with varied characteristics. By comparison, financial elements reported in financial statements are generally more uniform in nature.</p> <p>Compared with financial statements, EER USMs may be less quantifiable or their quantification may be more complex. They may more often relate to future events or conditions and may be more inherently uncertain and more subjective to measure or evaluate.</p>
<b>B. Framework for reporting</b> – the bases, methods and standards applied to the EER USM to prepare the EER report (referred to in Tables 1 and 2 as “ <b>EER Criteria</b> ”)	<p>Due to the nature and characteristics of EER USM(s) (see A), EER criteria may be:</p> <ul style="list-style-type: none"> <li>• Diverse; or</li> <li>• Complex, especially when the EER USM is complex or subjective to measure or evaluate.</li> </ul> <p>Due to limited development of EER reporting frameworks:</p> <ul style="list-style-type: none"> <li>• There are numerous EER frameworks that address diverse EER USMs and are not aligned; and</li> <li>• EER frameworks may reflect high level principles, rather than more detailed criteria.</li> </ul> <p>By contrast, financial reporting frameworks are generally well-developed and well-aligned between frameworks. The use of entity developed criteria is less common.</p>
<b>C. Subject matter information in an EER report</b> – the information about the EER USM provided to users by the entity (referred to in Tables 1 and 2 as the “ <b>EER SMI</b> ”)	<p>EER reports are often voluntarily issued by entities, without the rigor of regulatory requirements or established criteria (such as many accounting frameworks) that specify the content of the report and how it should be presented.</p> <p>Due to the nature and characteristics of EER USM(s) and EER Criteria, EER SMI is often more:</p> <ul style="list-style-type: none"> <li>• Qualitative than quantitative</li> <li>• Subjective than objective</li> <li>• Future-oriented than historical</li> <li>• Over a period than at a point in time</li> </ul> <p>By contrast, financial performance or position is reported in primarily quantitative terms (monetary amounts) and is usually subject to regulatory requirements.</p>
<b>D. Entity’s system of internal control relevant to the preparation of the EER report</b> – the EER reporting process and related controls (in Tables 1 and 2 referred to as the “ <b>EER IC system</b> ”)	<p>EER IC systems may be less well developed than those relevant to financial reporting:</p> <ul style="list-style-type: none"> <li>• In the early stages of an entity’s EER reporting;</li> <li>• In the absence of a strong regulatory environment for EER reporting; or</li> <li>• When the subject matter information is not integrated into the entity’s management or governance, or not used in running the business.</li> </ul>



**Table 2: Areas of public interest importance that result from practical challenges in applying the requirements of the Standard in EER engagements**

Matters of public interest importance that may be affected by the circumstances in Table 1	How challenges to addressing such public interest matters may arise	How the Standard seeks to protect the public interest and how the Guidance may assist practitioners in doing so
<p><b>A. Underlying subject matter of an EER report (“EER USM”)</b></p>		
<p>EER USM is what users want information about.</p> <p>It is therefore important that it:</p> <ul style="list-style-type: none"> <li>• Is clearly identifiable; and</li> <li>• Can be measured or evaluated in such a way that the resulting information:               <ul style="list-style-type: none"> <li>○ Aids user decision-making (see B); and</li> <li>○ Can be subjected to effective evidence-gathering and reasonably objective measurement or evaluation procedures.</li> </ul> </li> </ul>	<p>Characteristics of EER USM identified In Table 1 may:</p> <ul style="list-style-type: none"> <li>• Influence the complexity of criteria needed to measure or evaluate it, and the precision with which it can be measured or evaluated, or the availability and persuasiveness of evidence;</li> <li>• Give rise to greater inherent uncertainties in its measurement or evaluation, making management judgment difficult, or presenting an opportunity for bias, and the need for the practitioner to exercise professional judgment and skepticism;</li> <li>• Influence the practitioner’s need for subject matter competence and to use work of a practitioner’s expert(s); and</li> <li>• Increase the need for clear communication in the assurance report, so that users understand the extent of the practitioner’s work, the measurement or evaluation uncertainties inherent in the EER USM(s), the expertise that has been brought to bear on measuring or evaluating it, and in obtaining evidence about the</li> </ul>	<p><b>The Standard:</b></p> <p>Requires the practitioner to apply appropriate competence in the engagement and to exercise professional skepticism and professional judgment throughout the engagement, questioning when matters don’t appear right.</p> <p>Requires the practitioner, before accepting an assurance engagement, to determine, amongst other matters, whether the underlying subject matter is appropriate.</p> <p><b>The Guidance</b> may assist the practitioner in:</p> <p>Chapter 1 – Applying appropriate competence.</p> <p>Chapter 2 - Exercising professional skepticism and professional judgment.</p> <p>Chapter 3 – Agreeing the scope of the EER assurance engagement, with a cohesive relationship between EER USM and EER criteria, such that the EER SMI meets user information needs.</p> <p>Chapter 6 – Considering the entity’s process to identify reporting topics (aspects of EER USM that are relevant to</p>

**Table 2: Areas of public interest importance that result from practical challenges in applying the requirements of the Standard in EER engagements**

Matters of public interest importance that may be affected by the circumstances in Table 1	How challenges to addressing such public interest matters may arise	How the Standard seeks to protect the public interest and how the Guidance may assist practitioners in doing so
	EER SMI, and to the implications for the confidence a user can have in the EER SMI.	<p>user decision-making) and how they are addressed by the entity in running its business.</p> <p>Chapter 8 – Obtaining evidence and considering the persuasiveness of available evidence.</p> <p>Chapter 10 – Communicating effectively in the assurance report.</p> <p>Chapters 11 and 12 – Considering how to address these challenges in the context of EER USM(s) expressed in qualitative terms, or that relate to future phenomena.</p>

**B. Framework for reporting (“EER Criteria”)**

<p>EER Criteria provide the basis, method or standards for preparing the EER SMI and against which it is assured (see C).</p> <p>In order to meet the information needs of users, the EER criteria need to be ‘suitable’. Suitable criteria should, when applied to the EER USM, result in EER SMI that meets the information needs of users, because it is:</p> <ul style="list-style-type: none"> <li>Relevant to user decisions;</li> </ul>	<p>Due to the characteristics of EER criteria (see Table 1 – B), application of the Standard in considering the suitability of criteria by the practitioner, may be challenging because it may need to address criteria:</p> <ul style="list-style-type: none"> <li>Selected from multiple EER frameworks;</li> <li>Developed by the entity, including criteria for identifying relevant reporting topics;</li> <li>Subject to greater preparer choice in selecting or developing them;</li> </ul>	<p><b>The Standard:</b></p> <p>Requires criteria to exhibit ‘suitable’ characteristics; the practitioner is not permitted to accept or continue the engagement if the criteria are not suitable or will not be available to the intended users.</p> <p>Requires the practitioner’s assurance report to refer to the criteria used so that users can understand against what the subject matter information has been assured.</p> <p><b>The Guidance</b> may assist the practitioner in addressing the challenges identified here:</p>
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**Table 2: Areas of public interest importance that result from practical challenges in applying the requirements of the Standard in EER engagements**

Matters of public interest importance that may be affected by the circumstances in Table 1	How challenges to addressing such public interest matters may arise	How the Standard seeks to protect the public interest and how the Guidance may assist practitioners in doing so
<ul style="list-style-type: none"> <li>• Complete, and does not omit relevant information;</li> <li>• Reliable because applying the criteria gives reasonably; consistent results, not unduly affected by preparer perceptions;</li> <li>• Neutral or unbiased; and</li> <li>• Understandable.</li> </ul> <p>Users need access to the criteria to understand the basis on which the EER SMI has been prepared and assured, and to use it effectively taking into account how comparable it is with other entities' EER information and with the entity's prior period 'EER information'.</p>	<ul style="list-style-type: none"> <li>• With greater inherent measurement or evaluation uncertainty and subjectivity in applying them; or</li> <li>• That are more difficult to make available to users.</li> </ul> <p>Practitioners may face a heightened need for appropriate practitioner competence in exercising professional judgment and professional skepticism:</p> <ul style="list-style-type: none"> <li>• Where there is increased opportunity for bias, unwarranted emphasis, or omission of information, especially if coupled with incentives or targets that the entity or its management are required to meet;</li> <li>• About whether the EER criteria provide a sound basis for measuring or evaluating the EER USM, or do not result in EER SMI that meets user information needs;</li> <li>• About whether criteria have been made available to users appropriately, especially when they are complex, or entity developed.</li> </ul>	<p>Chapter 1 – Applying appropriate competence</p> <p>Chapter 2 – Exercising professional skepticism and professional judgment.</p> <p>Chapter 4 – What it means for criteria to be suitable, and available.</p> <p>Chapter 6 - Considering an entity's process to develop and apply criteria to identify relevant reporting topics.</p> <p>Chapter 10 – Communicating effectively in the assurance report, so that it is clear to users what criteria have been used to prepare and assure the EER SMI.</p> <p>Chapters 11 and 12 – Considering how to address these challenges in the context of EER USM(s) expressed in qualitative terms, or that relate to future phenomena.</p>

**Table 2: Areas of public interest importance that result from practical challenges in applying the requirements of the Standard in EER engagements**

Matters of public interest importance that may be affected by the circumstances in Table 1	How challenges to addressing such public interest matters may arise	How the Standard seeks to protect the public interest and how the Guidance may assist practitioners in doing so
<p><b>C. The subject matter information in the EER report (“EER SMI”)</b></p>		
<p>EER SMI is used by investors and other users for decision-making about the entity’s performance, value, or impacts.</p> <p>It is therefore important for EER SMI to be based on:</p> <ul style="list-style-type: none"> <li>• Appropriate EER USM (see A); and</li> <li>• Suitable EER criteria (see B).</li> </ul> <p>It is also important for the EER SMI to be properly prepared based on the EER criteria (see D), such that any misstatements could not reasonably be expected to influence the decisions of the intended users (i.e. are not material), either deliberately or in error.</p>	<p>There is greater opportunity for management bias or fraud in what is reported because management may be able to choose:</p> <ul style="list-style-type: none"> <li>• What is reported and the way in which it is reported</li> <li>• What they want assurance on.</li> </ul> <p>EER SMI may therefore not reflect what the entity uses for its own decision-making in running its business and may be selected to cast the entity in a different light than is warranted.</p> <p>Due to the characteristics of EER USM and EER criteria, it may be more difficult for a practitioner to:</p> <ul style="list-style-type: none"> <li>• Determine whether the EER USM is materially misstated, especially when the SMI is expressed qualitatively, is future-oriented, or when there are diverse aspects of the SMI with no basis for aggregating the materiality impact of different misstatements.</li> <li>• Identify what is EER SMI and what is not (‘other information’) and to clarify for the user what has and has not been assured.</li> </ul>	<p><b>The Standard:</b></p> <p>Requires that, before accepting or continuing an assurance engagement, certain preconditions must be met. These include that:</p> <ul style="list-style-type: none"> <li>• The EER USM is appropriate;</li> <li>• The EER criteria are suitable; and</li> <li>• The engagement has a rational purpose, taking account of the information needs of intended users.</li> </ul> <p>Requires the practitioner to evaluate the materiality of any uncorrected misstatements quantitatively (where applicable), as well as considering qualitative aspects, such as how they have arisen and whether they reflect bias in preparing the EER SMI.</p> <p>Does not give detailed guidance on aggregation of misstatements for diverse EER USM, or in the context of qualitatively expressed EER SMI.</p> <p>Requires the practitioner to reach a conclusion about the EER SMI, based on their work, the evidence they obtain and their evaluation of unidentified or uncorrected misstatements. The level of work and quality of evidence</p>

**Table 2: Areas of public interest importance that result from practical challenges in applying the requirements of the Standard in EER engagements**

Matters of public interest importance that may be affected by the circumstances in Table 1	How challenges to addressing such public interest matters may arise	How the Standard seeks to protect the public interest and how the Guidance may assist practitioners in doing so
	<ul style="list-style-type: none"> <li>Communicate effectively in the assurance report about the extent of the practitioner’s work, the results of that work, and how much confidence users can place in the EER report and assurance conclusion.</li> </ul>	<p>needed may depend on the assurance needs of the intended users.</p> <p><b>The Guidance</b> may assist the practitioner in addressing the challenges identified here:</p> <p>Chapter 3 – Applying the acceptance and continuance requirements of the Standard.</p> <p>Chapter 7 – Considering the potential types of misstatements in EER SMI (including by using ‘assertions’ that would be valid if it has been properly prepared in accordance with the criteria), and how they may arise, to help the practitioner design and perform assurance procedures to detect material misstatements of EER SMI.</p> <p>Chapter 9 – Evaluating whether misstatements of the EER SMI (deliberate or otherwise) are material.</p> <p>Chapter 10 – Communicating effectively to users in the assurance report:</p> <ul style="list-style-type: none"> <li>For whom the assurance report is intended</li> <li>What part(s) of the EER report has and has not been assured</li> <li>The extent of the practitioner’s assurance procedures, and what that means to the confidence</li> </ul>

**Table 2: Areas of public interest importance that result from practical challenges in applying the requirements of the Standard in EER engagements**

Matters of public interest importance that may be affected by the circumstances in Table 1	How challenges to addressing such public interest matters may arise	How the Standard seeks to protect the public interest and how the Guidance may assist practitioners in doing so
		<p>users can have in the EER subject matter information.</p> <p>Chapters 11 and 12 – Considering how to address these challenges in the context of EER USM(s) expressed in qualitative terms, or that relate to future phenomena.</p>

**D. Entity’s system of internal control relevant to the preparation of the EER report (“EER IC system”)**

<p>It is important to the confidence and trust users may have in the EER SMI that it has been properly prepared in accordance with the SMI in all material respects, to meet their information needs.</p> <p>The entity’s EER IC system is important in addressing this because it is how the entity seeks to identify, process and report the EER SMI and its strength can affect the quality of that information.</p> <p>Such quality is important for user decision-making and can influence the ability of the practitioner to obtain evidence about whether the reported</p>	<p>The entity’s EER IC system may not be sufficiently developed to:</p> <ul style="list-style-type: none"> <li>• Provide a consistent basis for the preparation of the EER information</li> <li>• Prevent, or detect and correct, material errors or other misstatements in the EER information, or prevent inappropriate manipulation of the information during or after its preparation</li> <li>• Be integrated into the entity’s decision-making in running its business</li> <li>• Provide a sufficient ‘trail’ of documentation or other means of recording to justify the quality of the EER SMI.</li> </ul> <p>Consequently, the entity may not have, or may not be able to demonstrate that it has, a reasonable basis for the EER subject matter information.</p>	<p><b>The Standard:</b></p> <p>Requires the practitioner to consider if the preparer has a reasonable basis for the subject matter information, and recognizes that, in some cases, a formal process may be needed with extensive internal controls to provide the preparer with such a basis.</p> <p>Does not require the practitioner to understand the EER IC system, in a limited assurance engagement.</p> <p>Requires that the practitioner may not usually accept an engagement where there is not an expectation of obtaining the evidence they need.</p> <p>Requires the practitioner to comply with relevant ethical requirements, including independence requirements.</p>
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<p>EER SMI is materially misstated, whether deliberately or in error.</p>	<p>Without secure systems, standardized and controlled processes in the EER IC system, the quality of the EER information, and the ability of the practitioner to obtain evidence about it may be compromised, and the confidence and trust that users can have in the EER information may be undermined.</p> <p>Anticipating that the EER IC system may not be a highly persuasive source of evidence, the practitioner may not focus enough attention on it to understand where risks of misstatement might arise or where internal controls may mitigate such risks in the context of designing their procedures.</p> <p>Management may look to the practitioner to assist in the design or implementation of processes, systems, and controls in the EER IC system, which could compromise the practitioner's ability to give an <u>independent</u> conclusion about the output of those systems, due to a self-review or other ethical threat.</p>	<p><b>The Guidance</b> may assist the practitioner in addressing the challenges identified here:</p> <p>Chapter 3 – Considering the EER IC system in determining the presence of the preconditions, and ethical and independence challenges that may arise in relation to first-time engagements, especially when the EER IC system is not fully developed.</p> <p>Chapter 5 – Considering the system of internal controls in performing the engagement.</p> <p>Chapter 7 – Considering the way in which misstatements of the EER SMI may arise, to assist the practitioner in designing evidence-gathering procedures.</p> <p>Chapter 8 – Obtaining evidence about the EER SMI, including through consideration and testing of the EER IC system, where appropriate.</p>
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## **Section 2    Guide for Respondents**

15. The IAASB welcomes comments on all matters addressed in this consultation, but especially those identified in the Request for Comments section below. Respondents are free to address only some of the questions from the Request for Comments section if they wish.
16. The questions are set out once on page 26 below, but they are being asked in relation to each of the chapters of the Guidance. It would be most helpful if respondents could highlight comments separately for each chapter. Comments are most helpful when they respond directly to the question posed, refer to specific chapters or paragraphs (where appropriate), include the reasons for the comments, and make specific suggestions for any proposed changes to wording. When a respondent agrees with the approach suggested in the Guidance, it will be helpful for the IAASB to be made aware of this view as this cannot be inferred when not stated.



## **Section 3 Significant Matters Relating to the Guidance Document**

### **Section 3-0 Introduction**

#### *Scope, purpose and authority of the Guidance*

17. An Introduction to the Guidance sets out its scope, purpose, intended audience and authority, which are consistent with the project proposal.

#### *Form and structure of the Guidance document*

18. The draft Guidance itself has been structured into twelve chapters. Eight of these address key stages in the performance of an EER assurance engagement performed in accordance with the Standard. Two chapters address behavioral attributes required of practitioners in performing EER assurance engagements, and the remaining two address common types of EER information encountered in doing so. One further suggestion for structuring, which the Board received and would welcome comments on, was to group the chapters of the Guidance into three parts with:
  - Part A - behavioral attributes required of the practitioner throughout the assurance engagement - comprising Chapters 1 and 2, which address competence and capabilities, and the exercise of professional skepticism and professional judgment, respectively.
  - Part B - covering the process of an EER assurance engagement - comprising Chapters 3 to 10; and
  - Part C - addressing specific considerations from acceptance through to reporting on qualitative and future-oriented EER information - comprising Chapters 11 and 12.
19. The Guidance is intended to be a practical resource for direct use by practitioners. The form and structure of the Guidance document have been determined to assist such use. In doing so, the form and structure of the Guidance reflect the following:
  - The Introduction explains how the Guidance may be used by a practitioner;
  - The Introduction includes a diagram (Diagram 1), which:
    - Relates the Chapters of the Guidance to the stage of performance, or other aspects, of an EER assurance engagement, to make it easy to identify relevant material for the practitioner to consult;
    - Relates the Chapters of the Guidance to the relevant requirements of the Standard, enabling quick reference back to the Standard; and
    - Identifies, in grey text, those requirements of the Standard not covered by the Guidance as the Guidance is not a comprehensive text on all aspects of performing an EER assurance engagement;
  - Shorter examples are included in certain chapters, to illustrate practical application of aspects of the Guidance;
  - Diagrams are included in certain chapters where they may assist in visualizing the nature or relationships between concepts addressed;

- Considerations for the practitioner are called out in boxes, in relation to various aspects of the Guidance;
  - The Guidance uses the terminology used in the Standard, when the concepts being discussed in the Guidance are addressed in the Standard. When necessary, other terms are identified and explained in the Guidance, when first used, and summarized in a list of terms set out in Appendix 1 to the Guidance.
20. To make it straightforward for practitioners to find guidance in the areas they want, ordering of the chapters in the Guidance generally follows the flow of the performance of an engagement. Where this is not the case, the reason for its positioning in the guidance is set out below in the context of explaining the content of that particular chapter.
21. Each chapter sets out a description of what is covered, and how it assists the practitioner in applying the public interest protections set out in the Standard. Examples and diagrams are included in most chapters to aid understanding. In the paragraphs in sections 3-1 to 3-12 below, relating to each chapter, the diagrams included in that chapter are highlighted. For ease of reference, there is also a list in Appendix 1 to this Explanatory Memorandum of all the diagrams in the Guidance.

#### *Practical use of the Guidance*

22. Respondent feedback from the phase 1 consultation noted that the Guidance was already long and could become unduly long when the phase 2 material was added. The resulting length or complexity could make it less easy or enticing for practitioners to use the Guidance. In order to keep the combined Guidance as concise and simple as possible, only practical guidance on performing an EER assurance engagement is included within the Guidance itself.
23. Additional contextual and background material, and more comprehensive examples, which may assist practitioners in applying the Guidance (for example, when they first do so), are included in Supplement A and Supplement B, respectively. While cross-references are provided between the Guidance and the Supplements to signpost material that the practitioner may find useful, the Supplements are not integral to the Guidance. They are intended as companion documents, should practitioners wish to refer to them. The Guidance can be used by the practitioner without the need to refer to either Supplement. The Guidance is intended to be used as a stand-alone resource, together with the Standard.
24. It is intended that, when finalized, the cross-references in a “pdf” version of the Guidance document and Supplements will be enhanced by using hyperlinks to aid navigability between them, between the introduction and chapters of the Guidance, and between the Guidance and the requirements of the Standard (additional functionality that may be explored, includes the possible use of ‘pop-up boxes’ to provide access to definitions or explanations of terms used in the Guidance, by ‘hovering’ over a word or phrase, that is defined in the Standard or included in the list of terms set out in Appendix 1 to the Guidance).
25. It is anticipated that Diagram 1 in the Introduction to the Guidance will assist a practitioner in navigating the Guidance. The intention is to explore adding hyperlinks to the diagram, to further enhance this capability by enabling a practitioner to use the diagram as an ‘entry point’ to the electronically enhanced “pdf” version of the Guidance document.
26. It would be helpful if respondents could comment on the form and structure of the Guidance, including the suggestion set out in paragraph 18 above, and the use of hyperlinks for referencing, in their response to Question 2 in Section 4 below. Comments on specific diagrams would be most helpful if they were included in the response to Question 1, in the context of the particular chapter to which they

relate. Should respondents wish to do so, there is a list in Appendix 1 to this Explanatory Memorandum of all the diagrams in the Guidance, by chapter.

### **Section 3-1 Chapter 1: Applying Appropriate Competence and Capabilities**

*How this chapter addresses the public interest*

27. As a result of the circumstances set out in the table in paragraph 14 above, and the consequent challenges that may arise in meeting the public interest, there may be an increased need for a high level of assurance competence (skills, knowledge and experience) as well as extensive subject matter competence to be able to perform the engagement. Such competence is needed to be able to challenge management effectively, and may also call for greater use of the work of experts. Unlike in a financial statement audit engagement, where the audit partner and engagement team have core competence in both auditing skills (assurance competence) and in financial accounting and reporting (subject matter competence), the subject matter competence that may be needed on a complex EER assurance engagement may go beyond that ordinarily possessed by most assurance practitioners.
28. To assist the practitioner with these considerations in applying the requirements of the Standard, Chapter 1 *Applying Appropriate Competence and Capabilities*, provides guidance on the assignment of an engagement team with the competence and capabilities that may be needed to perform an EER assurance engagement. It also provides guidance on the required competence of the engagement partner and their responsibility for managing the combined competence of a multi-disciplinary engagement team throughout the engagement, through direction, supervision and review of the engagement team's work.

*Positioning of the chapter, and diagrams included*

29. This chapter has been positioned as the first chapter in the Guidance as it covers the competence, capabilities and skills needed throughout the performance of an EER assurance engagement from pre-acceptance to reporting.
30. Two diagrams are included in this chapter; the first (Diagram 2: *Relating Competence Levels to Direction, Supervision and Review*) illustrates the different levels of assurance competence and subject matter competence that may be present on the engagement team, and the corresponding supervision, direction and review that may be needed; the second (Diagram 3: *Relating Complexity and Significance to Direction, Supervision and Review*) considers the complexity of the underlying subject matter, its significance to the engagement, the risk of material misstatement of the subject matter information, and what that may mean to the level of direction, supervision and review that may be needed.

### **Section 3-2 Chapter 2: Exercising Professional Skepticism and Professional Judgment**

*How this chapter addresses the public interest*

31. The need to exercise professional skepticism and professional judgment is not unique to EER assurance engagements. However, in an EER assurance engagement the need for professional judgment and the exercise of professional skepticism may be particularly important due to the circumstances set out in Table 1 above.
32. To assist the practitioner, Chapter 2 *Exercising Professional Skepticism and Professional Judgment* considers:

- The attributes and behaviors that may be needed in the exercise of professional skepticism, as well as possible impediments to its exercise, and factors that may increase the need for professional skepticism. An awareness of the presence and intensity of these impediments and factors can help practitioners to avoid or mitigate their impact by taking appropriate action; and
- How competence in the exercise of professional judgment may be acquired.

*Positioning of the chapter, and diagrams included*

33. Similar to the chapter on applying appropriate competence and capabilities, the chapter *Exercising Professional Skepticism and Professional Judgment* has been positioned early in the Guidance as it covers behaviors that may be needed throughout the performance of an EER assurance engagement.
34. Diagram 4 (*Professional Skepticism Factors*) in paragraph 55 of the Guidance indicates both the attributes and behaviors that may be needed in the exercise of professional skepticism, and possible impediments to its exercise or factors increasing the need for the exercise of professional skepticism.
35. This chapter also explains that the exercise of professional skepticism and professional judgment is discussed throughout the rest of the Guidance, and is illustrated through examples related to specific decision points in the lifecycle of an EER assurance engagement. The symbols below are used to highlight illustrations of the exercise of professional skepticism and professional judgment in the examples provided in the Guidance. They are not intended to indicate every place in the Guidance where the exercise of professional skepticism and professional judgment is discussed.



Professional Skepticism



Professional Judgment

**Section 3-3 Chapter 3: Determining Preconditions and Agreeing the Scope**

*How this chapter addresses the public interest*

36. The preconditions are the starting point for addressing some of the challenges that may arise in meeting the public interest, for example, as set out in Table 2 above, how the challenges relate to:
  - What is reported in the EER report;
  - What part(s) of the EER report is subject to assurance (i.e., the scope of the engagement);
  - The criteria used to measure the underlying subject matter and prepare the subject matter information;
  - The practitioner's ability to obtain evidence;
  - The work effort that may be appropriate in applying the acceptance and continuance requirements of the Standard in the context of the circumstances identified in Table 1 above, especially in an initial engagement; and
  - Potential threats that may arise in relation to the practitioner's independence.
37. Chapter 3 includes guidance on applying the acceptance and continuance requirements of the Standard. It focuses on:
  - Determining whether the preconditions are present, and the interrelationships between the various preconditions;

- Agreeing the scope of the assurance engagement (i.e. what is to be assured);
  - Whether the scope of the EER assurance engagement proposed by the preparer meets the preconditions for assurance, and is likely to be relevant to decision-making of intended users, when:
    - The proposed assurance engagement addresses only part (s) of an EER report, rather than the whole EER report;
    - What is included in the subject matter information increases progressively from period to period; and
    - The subject matter information varies cyclically from period to period in a rolling program of assurance.
38. The chapter also includes guidance on the work effort that may be needed in determining whether the preconditions are present, independence considerations for the practitioner, and the practitioner's response when preconditions are not present.
39. A number of practical examples are included in this chapter to assist the practitioner by illustrating the concepts discussed in the chapter.

*Positioning of the chapter, and diagrams included*

40. Chapter 3 is positioned early in the Guidance as it includes pre-acceptance considerations for the practitioner.
41. The chapter includes a diagram (Diagram 5 *Acceptance and Continuance Considerations*) to illustrate that the preconditions are considered within the context of the engagement circumstances. This diagram includes references to associated considerations for the practitioner.

**Section 3-4 Chapter 4: Determining the Suitability and Availability of Criteria**

*How this chapter addresses the public interest*

42. A further area relating to the preconditions identified in the 2016 discussion paper was the practitioner evaluating the suitability of criteria in a consistent way. As identified in Table 2, it may be challenging for the practitioner to apply the Standard in considering the suitability of criteria.
43. The practitioner is required to determine whether the preconditions are present, including whether the criteria, whether they are from an EER framework or entity-developed, are suitable and will be available to the intended users.
44. Chapter 4 of the Guidance first explains the nature of criteria, before giving more detailed guidance on what it means for criteria to be suitable, in particular how the five characteristics of suitable criteria may be applied in an EER context.
45. How criteria are developed may affect the work that the practitioner carries out to determine their suitability. Chapter 4 clarifies that there are three possible engagement scenarios in which the practitioner is considering the suitability of criteria:
- An engagement in which the criteria used by the preparer are from a single framework, without further development;
  - An engagement in which the criteria are entirely entity developed;

- An engagement in which there is a set of framework criteria, but those are supplemented by the entity, either by entity developed criteria or by selecting additional criteria from other frameworks.
46. Chapter 4 also includes considerations for the practitioner:
- In determining the suitability of criteria established following a transparent due process if there are indications that the established criteria may not be suitable, as it cannot be presumed that they are suitable;
  - When there are changes to the criteria over time that may hinder comparability of the EER subject matter information from period to period;
  - On whether and how criteria are made available to the intended users so that they can understand the basis on which the EER subject matter information has been prepared; and
  - On the consequences when criteria are not suitable or available.
47. A number of examples are included in this chapter to assist practitioners in determining whether the criteria that they expect to be applied in preparation of EER subject matter information are suitable for the engagement circumstances, and will result in EER subject matter information that will assist users in their decision-making because it is relevant, complete, reliable, unbiased, and able to be understood.

*Positioning of the chapter, and diagrams included*

48. The guidance in this chapter and in Chapter 5 provide general guidance on determining the suitability of the criteria and in understanding the entity's system of internal control, respectively, before the particular aspects of these considerations are addressed in chapter 6 in relation to an entity's process to identify its reporting topics.
49. Diagram 6 (*Considering Suitability and Availability of Criteria*) in paragraph 135 sets out a thought process that the practitioner may follow in determining the suitability and availability of the criteria.

**Section 3-5 Chapter 5: Considering the System of Internal Control**

*How this chapter addresses the public interest*

50. The 2016 discussion paper suggested that governance and internal control over EER reporting processes often lacked maturity, particularly where EER was new. It noted that this may give rise to engagement acceptance issues. It may also give rise to issues for the practitioner in obtaining sufficient, appropriate evidence in relation to the subject matter information of an EER assurance engagement.
51. The Guidance discusses the entity's governance and internal control in terms of a 'system of internal control' to be consistent with other IAASB standards. The draft guidance emphasizes that the system of internal control does not necessarily need to be 'mature' or 'robust', but it should be sufficient to provide the preparer with a reasonable basis for the EER information.
52. The guidance in Chapter 5 focuses on providing guidance on the practitioner's understanding of the entity's system of internal control during the initial stages of planning an EER assurance engagement to address the requirements of paragraphs 47L and 47R of the Standard. The chapter also includes guidance to address considerations when:
- The entity's system of internal control may still be developing, including when an entity uses new technologies to record or process the subject matter information; and
  - Information is obtained from external sources.

*Positioning of the chapter, and diagrams included*

53. Linkage is made between Chapter 4 *Determining the Suitability and Availability of Criteria*, this chapter, and Chapter 6 *Considering the Entity's Process to Identify Reporting Topics*. Guidance on the work effort on the entity's system of internal control when determining the preconditions is included in Chapter 3.
54. Diagram 7 (*Components of System of Internal Control*) in paragraph 195 shows the five interrelated components of an entity's system of internal control, with the Control Environment, Risk Assessment Process and Process to Monitor the System of Internal Control grouped together as 'Governance and Oversight'. The chapter includes a number of considerations for the practitioner on each of:
  - Information system and communication;
  - Control activities; and
  - Governance and oversight of the EER reporting process.

**Section 3-6 Chapter 6: Considering the Entity's Process to Identify Reporting Topics**

*How this chapter addresses the public interest*

55. One aspect of the process to prepare EER reports, which may be practically different from the process to prepare financial statements, is that the preparer commonly needs to decide how to make judgments about what to include in their EER report based on what will assist decision-making by the intended users. This is because the criteria in an EER framework they are using may not adequately address how to make such judgments (i.e. the criteria may not be sufficiently relevant). As a result, the preparer may need to develop further criteria to address making such judgments. As noted in Table 2, this may give rise to practical challenges for the practitioner in applying the Standard in considering the suitability of criteria and the application of such criteria by the preparer.
56. This decision process was described in the 2016 discussion paper, and is sometimes described by practitioners, preparers and EER frameworks, as the preparer undertaking a 'materiality process'.
57. The process described - i.e. the process the entity goes through to develop further criteria when the framework criteria being used are not sufficiently specific to serve as suitable criteria, or when the entity develops its own criteria, has been renamed 'The entity's process to identify reporting topics' to better reflect the process as it is performed to develop and apply the criteria, and to avoid confusion with the concept of materiality as generally understood by practitioners.
58. The Guidance aims to guide practitioners through considering an entity's 'process to identify reporting topics', first by considering the context of the process and then reviewing the results of the process. Although there is not a requirement in the Standard to review, evaluate or conclude on the entity's process to identify reporting topics, and considering the outcomes (the resulting criteria) in their own right may be sufficient, it may be useful for the practitioner to obtain an understanding of the process the entity has undertaken as this may provide some evidence as to whether the criteria are suitable. The Guidance also clarifies that, while there is not generally a requirement to disclose the entity's process to identify reporting topics, some frameworks may require it, and even when there is no such requirement, users may find it helpful for the process to be disclosed.
59. A number of examples are included in the chapter to assist practitioners by illustrating the concepts discussed.

### *Positioning of the chapter, and diagrams included*

60. Chapter 6 is positioned directly after the chapters on criteria and internal controls to provide linkage between the guidance in this chapter and the guidance in those chapters. This chapter has to do with particular aspects of determining the criteria and considering the entity's system of internal control.
61. Diagram 8 (*Entity's Process to Identify Reporting Topics*) in paragraph 225 sets out considerations for the practitioner in the context of the preparer's process to identify reporting topics. Diagram 9 (*User Groups and Decision Needs*) in paragraph 238 gives examples of a number of different user groups and the areas in which their decisions may be affected by the entity and its activities.

## **Section 3-7 Chapter 7: Using Assertions**

### *How this chapter addresses the public interest*

62. As identified in Table 2 above, challenges may arise for the practitioner in determining whether the subject matter information may be materially misstated.
63. Chapter 7 provides guidance to the practitioner on how assertions may be used by the practitioner as a tool to consider the different types of misstatement that may occur in the subject matter information, and to assist practitioners in designing assurance procedures to obtain evidence about whether the subject matter information has been prepared in accordance with the criteria or whether it is misstated.
64. However, as explained in this chapter, using assertions is not required by the Standard and, if the practitioner does not wish to do so, they may choose to identify potential types of misstatements by direct consideration of the criteria.
65. Chapter 7 also explains that the assertions in an EER assurance engagement may be expressed in different terms from the criteria in other types of assurance engagements addressed by IAASB standards that require the use of assertions (ISA 315 (Revised)<sup>3</sup> and ISAE 3410<sup>4</sup>). However, the practitioner may wish to use the categories of assertions set out in these other IAASB standards to identify the types of potential misstatements.

### *Positioning of the chapter*

66. This chapter is positioned before Chapter 8 on obtaining evidence as assertions may be used by the practitioner when considering the design of their assurance procedures. The chapter also includes illustrative examples of how assertions may be used.
67. Table 2 in this chapter sets out the categories of assertions in IAASB standards referred to in paragraph 65 above.

## **Section 3-8 Chapter 8: Obtaining Evidence**

### *How this chapter addresses the public interest*

68. As noted in Table 2 above, challenges may arise in meeting the public interest in relation to the practitioner's ability to obtain evidence about the subject matter information. The Standard requires the practitioner to evaluate the sufficiency and appropriateness of evidence obtained in forming their conclusion, and to consider all relevant evidence, regardless of whether it appears to corroborate or

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<sup>3</sup> International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

<sup>4</sup> International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*



contradict the measurement or evaluation of the underlying subject matter against the applicable criteria.

69. Chapter 8 sets out considerations that may be used by the practitioner when considering what evidence is needed, and how to obtain it for any assurance engagement. While obtaining evidence, generally, was not identified as a separate challenge for the practitioner in the 2016 discussion paper, similar considerations to those set out in this chapter apply to obtaining evidence in relation to qualitative and future-oriented information, which were identified as a challenge. By providing generic guidance, this chapter provides context to the later chapters on the specific considerations for qualitative and future-oriented information.
70. The chapter also gives guidance on:
- Determining how much evidence is enough in the context of limited and reasonable assurance engagements;
  - Considerations for the practitioner on what evidence may be needed and available, when designing and performing procedures, and when evaluating the sufficiency and appropriateness of evidence.

#### *Positioning of the chapter*

71. Chapter 8 also includes guidance on performance materiality considerations at the planning stage of the engagement as performance materiality is considered in the context of designing procedures to obtain evidence. Considering the materiality of misstatements is dealt with in the next chapter, Chapter 9 *Considering the Materiality of Misstatements*.

### **Section 3-9 Chapter 9: Considering the Materiality of Misstatements**

#### *How this chapter addresses the public interest*

72. As noted in relation to 'The EER report and its subject matter information' in Table 2 above, challenges may arise for the practitioner in determining whether the subject matter information is materially misstated.
73. The practitioner's consideration of the materiality of misstatements is covered in Chapter 9 in response to the identified challenges of dealing with subject matter information that is subject to inherent variability or uncertainty, or does not have a common unit of measurement or evaluation. This chapter also includes consideration of the implications of misstatements due to fraud, as the circumstances identified above may give rise to greater opportunity for management bias or fraud in measuring or evaluating and reporting the EER information.
74. A number of examples are included in the chapter to illustrate the concepts discussed.

#### *Positioning of the chapter, and diagrams included*

75. Linkage is made from this chapter to Chapter 11, where, amongst other matters, the aggregation of misstatements in the context of qualitative subject matter information is considered.
76. Diagram 10 (*Practitioner Responsibilities in Relation to Identified Misstatements*) illustrates practitioner considerations in accumulating and evaluating misstatements.

## **Section 3-10 Chapter 10: Preparing the Assurance Report**

### *How this chapter addresses the public interest*

77. The circumstances set out in paragraphs 13 and 14 above, and other matters, such as who the intended users are, and the level of assurance obtained, could be impediments to the understandability of the assurance report if their implications are not clearly communicated to the intended users of the assurance report.
78. The Standard specifies certain elements that are required to be included in assurance reports at a minimum, but it does not require a standardized format. The assurance report may be tailored to the specific engagement circumstances. Chapter 10 provides guidance to assist practitioners in making judgments about information that may be added to each of the required elements of the assurance report. Such additions may facilitate effective communication with the intended users so that they are able to understand:
- What has been assured;
  - How the underlying subject matter has been evaluated; and
  - The degree of confidence they may have in the subject matter information.
79. Chapter 10 of the Guidance includes a number of illustrative examples, including on when:
- Multiple reporting frameworks have been used to prepare the EER subject matter information;
  - Different assurance conclusions (limited or reasonable assurance) are given in one report on different aspects of the EER subject matter information; and when
  - Practitioners may be performing the engagement under both the Standard and another assurance standard.

These examples are not intended to indicate the only approach that a practitioner may take in each case.

### *Positioning of the chapter*

80. Chapter 10 of the Guidance is positioned towards the end of the Guidance, as it relates to the conclusion of the assurance engagement. It is positioned before Chapter 11 and Chapter 12, which relate to considerations from acceptance through to reporting in the context of specific challenges encountered in the context of qualitative and future-oriented EER information.

## **Section 3-11 Chapter 11: Addressing Qualitative EER Information**

### *How this chapter addresses the public interest*

81. In the project proposal, assuring qualitative information was considered to warrant specific guidance as such types of subject matter information are more common in EER reports than in financial statements. Table 2 above identifies particular areas where challenges to meeting the public interest may arise as there may be greater measurement or evaluation uncertainty in the context of qualitative EER information and it may be more challenging to obtain evidence.
82. Chapter 11 includes guidance to address qualitative EER information in relation to:
- Determining the suitability of criteria;
  - Obtaining evidence;

- Evaluating misstatements;
- Communicating in the assurance report; and
- Considering 'other information' presented in the EER report alongside qualitative subject matter information.

83. Chapter 11 includes a number of examples to illustrate the concepts discussed.

*Positioning of the chapter*

84. As this chapter and Chapter 12 *Addressing Future-Oriented EER Information* cover a range of specific considerations from acceptance through to reporting that build on the more generic guidance provided on these matters in earlier chapters, Chapters 11 and 12 are positioned at the end of the Guidance.

**Section 3-12 Chapter 12: Addressing Future-Oriented EER Information**

*How this chapter addresses the public interest*

85. As for assuring qualitative information, future-oriented information was considered to warrant specific guidance as such types of subject matter information are more common in EER reports than in financial statements. Table 2 above identifies particular areas where challenges to meeting the public interest may arise as there may be greater measurement or evaluation uncertainty in the context of future-oriented EER information and it may be more challenging to obtain evidence.

86. Chapter 12 includes guidance to address considerations on future-oriented EER information in relation to:

- Determining the suitability of criteria;
- Obtaining evidence;
- Evaluating misstatements; and
- Communicating in the assurance report.

*Positioning of the chapter*

87. Similar to the previous chapter, this chapter covers a range of specific considerations from acceptance through to reporting that build on the more generic guidance provided on these matters in earlier chapters. Like Chapter 11, this chapter is therefore positioned after the more generic chapters.

88. Chapter 12 includes examples to illustrate aspects of the guidance in this chapter.

**Section 4 Request for Comments**

**Questions for Respondents**

- 89. The table below sets out the questions for respondents. As noted in Section 2 above, respondents are requested to:
  - Please address each chapter separately, including commenting on specific diagrams, in responding to Question 1. Please include the reasons for comments provided and make specific suggestions for any proposed changes to wording.
  - Please comment on the form and structure of the Guidance, including the suggestion set out in paragraph 18 above, and the use of hyperlinks for referencing, in responding to Question 2.

Questions to Respondents	
<b>Q1</b>	Does the draft Guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft Guidance? If not, where and how should it be improved to better serve the public interest in EER assurance engagements?
<b>Q2</b>	Is the draft Guidance structured in a way that is easy for practitioners to understand and use in performing EER assurance engagements? If not, where and how should it be improved to better serve the public interest in EER assurance engagements?

- 90. Respondents are also invited to comment on Supplement A and Supplement B should they wish to do so, in which case, it will be helpful to receive views on the structure and content of each Supplement, including whether they are clear and understandable, as well as the relationship of the Supplements to the draft Guidance document.

**Request for General Comments**

- 91. In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:
  - (a) Stakeholder Perspectives—Respondents representing stakeholders such as preparers (including smaller entities) of EER reports, users of EER reports, and public sector entities are asked to comment on the questions above from their perspective.
  - (b) Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in using the draft guidance in a developing nation environment.
  - (c) Translation—Recognizing that many respondents may intend to translate the final guidance for adoption in their own environments, the IAASB welcomes comments on potential translation issues.

## Acknowledgements

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## Appendix 1

### List of Diagrams by Chapter

Chapter	Paragraph # of diagram	Diagram Title
Introduction	20	Diagram 1 – Relationships Between Stages of Engagement, Standard Requirements and this Guidance
1	38	Diagram 2 – Relating Competence Levels to Direction, Supervision and Review
1	41	Diagram 3 – Relating Complexity and Significance to Direction, Supervision and Review
2	55	Diagram 4 – Professional Skepticism Factors
3	70	Diagram 5 – Acceptance and Continuance Considerations
4	135	Diagram 6 – Considering Suitability and Availability of Criteria
5	195	Diagram 7 – Components of System of Internal Control
6	225	Diagram 8 – Entity’s Process to Identify Reporting Topics
6	238	Diagram 9 – User Groups and Decision Needs
9	303	Diagram 10 – Practitioner Responsibilities in Relation to Identified Misstatements

## Appendix 2

# EXTENDED EXTERNAL REPORTING (EER) ASSURANCE PHASE 1 FEEDBACK STATEMENT

### Introduction

1. In February 2019, the International Auditing and Assurance Standards Board (IAASB) issued a Consultation Paper, *Extended External Reporting (EER) IAASB Consultation Paper (February 2019)*.
2. Extended External Reporting (EER) is becoming increasingly common and there is a growing demand for assurance engagements in relation to it. The IAASB is responding to this demand for assurance engagements by developing non-authoritative guidance on areas where practitioners may find guidance useful to address challenges they commonly encounter in applying ISAE 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (“the Standard”) in EER assurance engagements.
3. The responses received to the Consultation Paper from a range of different stakeholder groups expressed broad support for the approach taken in developing the guidance, and provided additional useful insights from the experience of the respondents.
4. This Feedback Statement summarizes what we have heard and the actions we have taken.

### Why the IAASB is Developing the Non-authoritative Guidance

5. The aim of the project to develop non-authoritative guidance is to enable more consistent and appropriate application of the Standard such that users of EER reports will have greater trust in the resulting assurance reports.

### What the Consultation Paper Addressed

6. Consistent with the [project proposal](#), the non-authoritative guidance is being developed in two phases to address ten key areas where a practitioner may find guidance useful, which were identified through a [discussion paper](#) issued by the IAASB in 2016. The Consultation Paper was issued following completion of phase 1 of the project, which covered drafting of approximately half of the guidance. The IAASB sought initial feedback from stakeholders on the phase 1 draft guidance through the Consultation Paper, to assist the IAASB in updating and completing the draft guidance during phase 2.
7. In addition to the draft non-authoritative phase 1 guidance, the Consultation Paper included two additional papers on which respondents were invited to comment:
  - *Background and Contextual Information on Understanding How Subject Matter Information Results from Measuring or Evaluating Subject Matter Elements Against the Criteria*; and
  - *Four Key Factor Model for Credibility and Trust in Relation to EER*.

### Purpose of this Feedback Statement

8. This Feedback Statement provides an overview of the key messages from the responses to the questions in the Consultation Paper. The responses have helped inform the IAASB in updating the phase 1 guidance, and in progressing the phase 2 guidance.

9. Sharing what we have heard so far with stakeholders is important in this process and the IAASB believes it may be useful in stimulating further thinking about, and discussion of, EER.

**WHO IS THIS FEEDBACK STATEMENT FOR?**

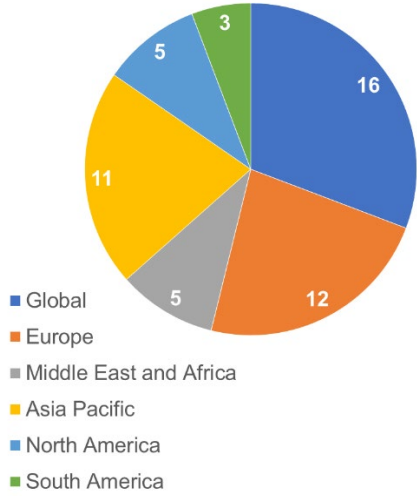
We believe there continues to be value in a wide range of stakeholders being involved in ongoing discussion on EER, including:

- Investors and other users
- Preparers
- Those in governance roles
- Standard setters
- Regulators
- Practitioners
- Internal auditors
- Academics
- Other stakeholders

**Overview of Respondents**

10. 52 responses were received which have been categorized into the following stakeholder groups and geographic areas:

<b>Total</b>	<b>52</b>
Investors and Analysts	1
Regulators and Oversight Authorities	2
National Auditing Standard Setters	8
Accounting Firms	8
Member Bodies and Other Professional Bodies	28
Public Sector Organizations	1
Academics	1
Individuals and Others	3



11. A majority of respondents were from the profession, although respondents also included two regulators from jurisdictions in which EER is evolving (Brazil and South Africa).

12. A full list of the respondents to the Consultation Paper is included at the end of this Feedback Statement.



## What We Heard

13. The key messages from respondents to the Consultation Paper affecting the draft guidance as a whole were that:
  - The draft guidance is already long, and may become unduly long and therefore complex to use with the additional phase 2 material. To address this, respondents urged a closer focus on providing practical guidance in the specific context of EER assurance engagements, and on avoiding excessive background material, conceptual content or repetition of the Standard.
  - However, more general educational material may be needed, particularly for EER practitioners who are not professional accountants and may be less familiar with auditing and assurance concepts. In this regard the additional papers provided with the guidance were considered helpful.
  - Several respondents encouraged the use of innovative ways of presenting the guidance to enhance its navigability and usefulness. For actions taken to address this comment and those above, please refer to 'Scope of the draft guidance, purpose and intended audience' in the table in paragraph 15 under Question 1, and the table in paragraph 17, Question 3.
  - Several respondents noted that the examples in the draft guidance were overly focused on GRI and sustainability reporting, and recommended taking examples from a broader range of EER reports, such as management commentary, integrated reports, and public sector service delivery performance reporting. We have addressed this by including broader range of examples; for details see 'Examples' in the table in paragraph 16 under Question 2.
  - Several respondents noted that additional guidance would be helpful in applying differential requirements for limited and reasonable assurance engagements. See 'Scope of the draft guidance, purpose and intended audience' in paragraph 15 under Question 1 for action we have taken to address this.
  - A few respondents called for guidance on the implications of technological advancements in the way EER information is reported and assured. See 'Scope of the draft guidance, purpose and intended audience' in the table in paragraph 15 under Question 1.
14. The Consultation Paper asked a number of specific questions about the phase 1 draft guidance. The feedback to each of these is set out in the following section.

**Q1**

**Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1? If not, where and how should it be improved?**

15. The majority of respondents supported the draft guidance but raised comments about some aspects of the guidance. Respondents' comments are summarized in the table below under sub-headings, set out in the left-hand column, that are consistent with the way Question 1 was posed in the Consultation Paper.

<b>Specific Significant Matters highlighted for respondent consideration in the Consultation Paper</b>	<b>What we heard</b>	<b>How we have responded</b>
<b><i>Scope of the draft guidance, purpose and intended audience</i></b>	<ul style="list-style-type: none"> <li>• 'EER engagements' should be defined so that it is clear to which engagements the guidance applies, and which engagements it is not intended to cover.</li> <li>• Clarify that, while the Guidance is focused on EER assurance engagements, it may also be applied more generally.</li> <li>• Clarify whether the guidance is intended for practitioners, preparers or both.</li> <li>• It would be helpful to give guidance on using the work of others, which is common practice in EER assurance engagements, including in the context of a supply chain.</li> <li>• Additional guidance would be helpful on the differential requirements for limited and reasonable assurance.</li> <li>• As the Standard is used by practitioners who are not professional accountants, the</li> </ul>	<ul style="list-style-type: none"> <li>• We have clarified in the updated draft Guidance, and by including a table in Appendix 2 to the draft Guidance, which types of EER reports are covered by the draft Guidance, and which are not. We have also clarified that:               <ul style="list-style-type: none"> <li>○ The focus is on EER specific challenges, rather than on generic assurance concepts, and</li> <li>○ Although there are some EER reports that are not covered by the Guidance, where the practitioner encounters the challenges addressed by the Guidance in the context of those other reports, the Guidance may nevertheless be helpful.</li> </ul> </li> <li>• Guidance on using the work of others is included in Chapter 1 <i>Applying Appropriate Competence and Capabilities</i> and Chapter 8 <i>Obtaining Evidence</i>.</li> </ul>

Specific Significant Matters highlighted for respondent consideration in the Consultation Paper	What we heard	How we have responded
	<p>importance of the practitioner complying with the quality control requirements set out in the Standard should be emphasized.</p> <ul style="list-style-type: none"> <li>The guidance should recognize the implications of technological advancements for the way EER information may be reported and assured.</li> </ul>	<ul style="list-style-type: none"> <li>Chapters 5 and 8 include considerations for the practitioner on limited assurance and reasonable assurance engagements, including considerations about 'how much evidence is enough'.</li> <li>We have clarified that the Standard is based on the premise that the assurance practitioner is a member of a firm subject to quality control requirements at least as demanding as those required to be met by a professional accountant under ISQC 1.</li> <li>We have clarified in the introduction to the Guidance that the Guidance is intended for practitioners performing assurance engagements in compliance with the Standard; although others, such as preparers or users may find the Guidance useful to understand respective roles and responsibilities, it is not written with those others in mind.</li> <li>Chapter 6 of the updated Guidance recognizes that entities may use new or evolving technologies to record, process and report their EER information, which may have implications for the way the practitioner designs and performs their assurance procedures.</li> </ul>

Specific Significant Matters highlighted for respondent consideration in the Consultation Paper	What we heard	How we have responded
<p><b><i>Preconditions and the system of internal control</i></b></p>	<ul style="list-style-type: none"> <li>• Differentiate the extent of preliminary knowledge of the engagement circumstances, and related work effort, expected of the practitioner: <ul style="list-style-type: none"> <li>○ When determining whether to accept an assurance engagement; and</li> <li>○ In obtaining an understanding of the entity during the early stages of planning after the engagement has been accepted.</li> </ul> </li> <li>• Guidance is needed on ‘readiness assessments’, including work effort, practitioner independence considerations, and what to do if the preparer is found not to be ready for assurance.</li> <li>• The guidance should address the precondition relating to underlying subject matter, and the significant inter-relationships between the preconditions, the needs of the intended users and whether there is a rational purpose to the engagement.</li> </ul>	<ul style="list-style-type: none"> <li>• The work effort pre- and post-acceptance in relation to the suitability of criteria (chapters 3 and 4) and the entity’s system of internal control (chapters 3 and 5) have been clarified. We have explained that when an engagement is an initial or more complex engagement, more extensive consideration may be needed before accepting the engagement than when the engagement is a recurring or less complex one.</li> <li>• The updated Guidance sets out several options for how a practitioner may obtain preliminary knowledge of the engagement circumstances, and gives guidance on: <ul style="list-style-type: none"> <li>○ Readiness assessments;</li> <li>○ Independence considerations for the practitioner; and</li> <li>○ What to do if the preparer is found not to be ready for assurance.</li> </ul> </li> <li>• We have updated the Guidance (chapter 3) to address the practitioner’s consideration of all of the preconditions, and the interrelationships between them, within the context of the particular circumstances of the engagement.</li> </ul>

<b>Specific Significant Matters highlighted for respondent consideration in the Consultation Paper</b>	<b>What we heard</b>	<b>How we have responded</b>
<b><i>Suitability of criteria</i></b>	<ul style="list-style-type: none"> <li>• Further guidance and examples of evaluating criteria would be helpful, particularly when principles-based frameworks need to be supplemented by entity-specific criteria.</li> <li>• An apparent inconsistency was noted in that the Standard indicates that established criteria ‘are presumed to be suitable in the absence of indications to the contrary, whereas the draft guidance noted that the criteria may not be suitable even when prescribed by law or regulation.</li> <li>• Emphasize how the entity has identified the intended users of the EER report and their information needs, and the importance of the practitioner understanding those needs.</li> </ul>	<ul style="list-style-type: none"> <li>• The updated Guidance (chapter 4) discusses the characteristics of suitable criteria, and clarifies that a set of published criteria is seldom likely to be sufficient on its own to meet the test of suitable criteria. The Guidance has also been updated to consider what it means to make the criteria ‘available’ to the intended users.</li> <li>• Longer examples are included in Supplement B to illustrate the application of the Guidance when a number of different principles-based frameworks are supplemented by entity-developed criteria.</li> <li>• Chapter 3 gives guidance to the practitioner to take account of the decision-making needs of the intended users when: <ul style="list-style-type: none"> <li>○ Considering whether to accept or continue the assurance engagement (chapter 3);</li> <li>○ Assessing the suitability of criteria (chapters 4 and 6);</li> <li>○ Considering how misstatements may arise in the EER subject matter information (chapter 7);</li> <li>○ Designing and performing assurance</li> </ul> </li> </ul>

Specific Significant Matters highlighted for respondent consideration in the Consultation Paper	What we heard	How we have responded
		<p>procedures (chapter 8);</p> <ul style="list-style-type: none"> <li>○ Evaluating how uncorrected misstatements in the EER subject matter information might affect the user’s ability to have confidence in the EER report (chapter 9); and</li> <li>○ Communicating in the assurance report so that users can understand the basis for the practitioner’s conclusion (chapter 10).</li> </ul>
<b>Materiality process</b>	<ul style="list-style-type: none"> <li>• Terminology used to describe the entity’s process for developing and applying criteria as the ‘materiality process’ is confusing as it is not to do with the concept of materiality as used in the standards, and as commonly understood by practitioners.</li> <li>• The guidance should not imply an obligation for the practitioner to review, evaluate or conclude on the preparer’s ‘materiality process’</li> <li>• The guidance would benefit from clear linkage that an understanding of an entity’s ‘materiality process’ may also assist the practitioner in determining whether the preconditions for assurance are present.</li> </ul>	<ul style="list-style-type: none"> <li>• The term ‘materiality process’ has been replaced with the ‘entity’s process to identify reporting topics’ to more accurately describe the process, and to avoid confusing it with ‘materiality’ as it is commonly understood.</li> <li>• The Guidance clarifies that, while the practitioner is not required to consider the entity’s process to identify reporting topics, understanding the process may provide useful evidence about the suitability of the criteria.</li> <li>• Improved linkage has been made between determining the whether the preconditions are present, including the suitability and availability of criteria, considering the system of internal control, and considering the entity’s process to</li> </ul>

Specific Significant Matters highlighted for respondent consideration in the Consultation Paper	What we heard	How we have responded
	<ul style="list-style-type: none"> <li>• Clarification is needed on whether the 'materiality process' should be disclosed in the entity's EER report.</li> <li>• The guidance should address the situation where multiple reporting frameworks are used as, in practice, reports often apply multiple criteria at the same time.</li> </ul>	<p>identify reporting topics.</p> <ul style="list-style-type: none"> <li>• There is not generally a requirement for the process to identify the reporting topics to be disclosed, but there may be some frameworks that do require it, and even if there is no such requirement, users may find it helpful if the process were disclosed.</li> <li>• We have included guidance that, when the preparer reports under multiple frameworks, the requirements of all of those frameworks need to be met.</li> </ul>
<b><i>Using assertions</i></b>	<ul style="list-style-type: none"> <li>• The material in this chapter is somewhat complex and conceptual in nature; the guidance should be more practical, and include examples, to assist those practitioners who may be unfamiliar with the concept of assertions.</li> <li>• The categories of assertions set out in the guidance should be as they are used in other IAASB standards, such as ISAE 3410 and ISA 315 (Revised). However, there could be assertions for EER reporting that are different from, or additional to, those used in financial statement audits.</li> </ul>	<ul style="list-style-type: none"> <li>• Background and conceptual material on the use of assertions has been moved to Supplement A.</li> <li>• In the Guidance document, we have retained more practical guidance and: <ul style="list-style-type: none"> <li>○ Clarified that use of assertions is not required, but may be a useful tool for practitioners in considering how misstatements might arise in the subject matter information;</li> <li>○ Included example categories of assertions consistent with those used in ISA 315 (Revised) and ISAE 3410;</li> <li>○ Recognized that there may be other</li> </ul> </li> </ul>

Specific Significant Matters highlighted for respondent consideration in the Consultation Paper	What we heard	How we have responded
		<p>ways in which assertions may be categorized.</p> <ul style="list-style-type: none"> <li>An additional example has been included in Supplement B to illustrate the use of assertions.</li> </ul>
<b><i>Materiality of misstatements</i></b>	<ul style="list-style-type: none"> <li>More guidance is needed on how to evaluate non-quantitative misstatements, and misstatements where there is not a common basis for aggregating identified misstatements to consider their combined effect.</li> <li>Clarification is needed on the meaning of 'clearly trivial'.</li> <li>Deal with performance materiality (at the planning stage of the engagement) to determine what type and size of misstatement of the subject matter information might matter to the intended users so that the assurance procedures can be designed accordingly.</li> <li>Presentational misstatement goes beyond the choice of wording to include the structure of the overall report and the priority with which information is presented.</li> </ul>	<ul style="list-style-type: none"> <li>Further guidance has been included on qualitative considerations, and where there is no common factor for aggregating identified misstatements (chapters 9 and 11)</li> <li>Further guidance is included on the meaning of the term 'clearly trivial' and a short example is provided in chapter 9.</li> <li>Guidance on performance materiality considerations is included in chapter 8.</li> <li>Guidance is included in chapter 9 that the consideration of the materiality of misstatements includes considering the EER subject matter information as a whole, even though, taken individually, each constituent aspect may not be materiality misstated.</li> </ul>



***Narrative and future-oriented information***

- It will be important that the phase 2 guidance includes examples of suitable criteria and procedures that a practitioner may perform in the context of narrative and future-oriented information.
  - Narrative and future-oriented information should be supported by a system of internal control sufficient to provide a reasonable basis for the subject matter information and to provide sufficient appropriate evidence for assurance purposes.
  - Further examples and practical guidance are needed on how to conduct an assurance engagement on narrative and future-oriented information, including on:
    - How subjective narrative information may be revised to be more factual, and
    - What the practitioner might do if the subject matter information remains subjective.
  - The guidance could better draw out that there is likely to be a stronger evidential basis for future-oriented information that is supported by a stable history of accurate forecasting than for future-oriented information that is entirely based on subjective judgment with no history.
  - Clarification is needed on what constitutes 'other information', particularly in the context
- The Guidance developed in phase 2 (chapters 11 and 12) gives guidance on considerations for:
    - Determining the suitability of criteria;
    - Obtaining evidence, including the source and persuasiveness of the evidence;
    - Evaluating misstatements, and
    - Communicating in the assurance report in the context of qualitative and future-oriented information, respectively.
  - Chapter 11 also clarifies what is meant by 'other information' and gives guidance on the steps the practitioner may take when information that does not result from applying the criteria is included in the EER report.

<b>Specific Significant Matters highlighted for respondent consideration in the Consultation Paper</b>	<b>What we heard</b>	<b>How we have responded</b>
	of narrative information.	

**Q2**

**Is the draft guidance clear and easy to understand, including through the use of examples and diagrams, and the way terminology is used? If not, where and how should it be improved?**

16. The majority of respondents found the guidance, particularly the examples, useful. In addition to individual comments on specific examples or diagrams, the following broad themes were noted:

<b>Specific Significant Matters highlighted for respondent consideration in the Consultation Paper</b>	<b>What we heard</b>	<b>How we have responded</b>
<i>Examples</i>	<ul style="list-style-type: none"> <li>The examples are focused on GRI and sustainability engagements. As the guidance is non-authoritative and likely to be applied to a broad range of EER engagements under a number of different frameworks, understanding and consistency of application are likely to be achieved through clear and detailed practical examples covering a broader range of EER reporting. The examples could be included in an appendix to the guidance or as a separate document so as not to add to the length of the guidance document (see also Question 3).</li> <li>Examples could be enhanced by illustrating what courses of action may be taken in response to the scenarios.</li> <li>An end-to-end case study, which could be built up to illustrate various aspects of the guidance, would be useful. Alternatively, several different case studies might be useful, each illustrating considerations in</li> </ul>	<ul style="list-style-type: none"> <li>A broader range of practical examples is included in the updated Guidance and in Supplement B, to illustrate different EER reports and frameworks used, such as GRI sustainability reporting, integrated reporting, public sector service performance reporting, management commentary, and intellectual capital. The examples set out in the Guidance are confined to shorter examples; those in Supplement B are longer, more complex, 'case-study' type examples.</li> <li>Examples have been developed to illustrate the application of the Guidance to EER information that includes both financial and non-financial information.</li> <li>We have clarified, in the introduction to the Guidance, that the Guidance is non-authoritative and that there is no requirement to refer to the Guidance or to the Supplements when performing an EER assurance engagement. The introduction to Supplement B also clarifies that the examples are not</li> </ul>

	<p>addressing the identified challenges.</p> <ul style="list-style-type: none"> <li>• EER assurance engagements may include financial information. Examples of historical financial information included within the scope of an EER engagement would be useful.</li> <li>• As not all EER assurance practitioners will have an audit background, the use of financial examples may not be helpful in illustrating concepts. While some respondents were of the view that only EER related examples should be used, others suggested that both a financial and non-financial example would be helpful to illustrate a concept.</li> <li>• Examples should illustrate one possible approach but should not suggest a new requirement or 'best practice'.</li> </ul>	<p>intended to suggest best practice or the only way of addressing the matters set out in the fact pattern to each example; they are included for illustrative purposes only.</p>
<p><b>Diagrams</b></p>	<ul style="list-style-type: none"> <li>• The diagram in paragraph 46 of the phase 1 draft guidance lacks clarity on what the implications of responses to the questions would be; further is there a need for both the diagram and the paragraph that follows?</li> </ul>	<ul style="list-style-type: none"> <li>• The diagram in paragraph 46 of the phase 1 guidance has been replaced to better show the interrelationships between the preconditions in the context of the engagement circumstances.</li> </ul>

## **Terminology**

- In addition to comments on the term 'materiality process' (see Question 1 above), it was noted that the terminology describing 'elements' and 'qualities' of the underlying subject matter information was complex, and introduced new terms unnecessarily.
- Terminology should generally be in line with that used in the Standard. If new terms are considered necessary, then a glossary of terms would be useful.
- We have replaced the term 'materiality process' with 'entity's process to identify reporting topics' as noted under Question 1 above.
- We have simplified the way in which the underlying subject matter is described by referring to 'aspects' of the underlying subject matter.
- The terminology used in the updated Guidance is aligned with that used in the Standard, where the Standard already describes the concepts. Where new terminology is introduced to describe a concept not dealt with in the Standard, the term is defined and included in Appendix 1 '*Terms used in this Guidance*' to the Guidance.

**Q3****Do you support the proposed structure of the draft guidance? If not, how could it be better structured?**

17. Respondents generally supported the structure of the guidance, but noted that:

What we heard	How we have responded
<ul style="list-style-type: none"> <li>• The guidance is lengthy, complex and conceptual in places (see also paragraph 13 above).</li> </ul>	<ul style="list-style-type: none"> <li>• Conceptual and background material has been moved to a supplement (Supplement A). The material in Supplement A is intended as additional material only; the Guidance can be used by a practitioner without reference to either Supplement A or Supplement B (see also the next point below).</li> <li>• Short examples have been retained in the Guidance; longer, more complex examples have been moved to Supplement B as additional material.</li> </ul>
<ul style="list-style-type: none"> <li>• It is unclear how the draft guidance:               <ul style="list-style-type: none"> <li>○ Relates to the Standard;</li> <li>○ Chapters relate to each other; and</li> <li>○ Follows the flow of a typical assurance engagement.</li> </ul> </li> <li>• A flowchart to link the stages of the engagement and show the iterative nature of the practitioner’s considerations would be helpful, and some reordering of chapters may be needed.</li> </ul>	<ul style="list-style-type: none"> <li>• As a consequence of the above, the main body of the Guidance is shorter; it also sets out the ‘what’ and ‘why’ at the start of each chapter so that it is clear what is to be addressed in the chapter, the reasons for needing to provide guidance in an EER context; the ‘how’ that follows in each chapter sets out considerations for the practitioner in performing the EER assurance engagement.</li> <li>• The introduction to the Guidance includes Diagram 1, which illustrates the stages of an assurance engagement under the Standard, the requirement paragraphs of that Standard, and how the Guidance links to those requirements.</li> <li>• Chapters have been reordered to follow the flow of the diagram. References are included from the Guidance to the Standard, and between chapters of the Guidance (see also immediately below).</li> </ul>
<ul style="list-style-type: none"> <li>• Innovative ways of presenting the guidance could enhance the navigability and usefulness of the guidance including through the use of hyperlinks:</li> </ul>	<ul style="list-style-type: none"> <li>• The intention is to explore the use of hyperlinks in the final Guidance document to link between chapters, between the Guidance and the Standard, and between the Guidance and the</li> </ul>

What we heard	How we have responded
<ul style="list-style-type: none"> <li>○ From the guidance to the Standard, and</li> <li>○ For cross-references within the guidance.</li> </ul>	<p>Supplements. The linking between the Guidance and the Supplements is not intended to suggest that the Supplements are an integral part of the Guidance, as the Guidance stands alone without the need to refer to either Supplement. However, to facilitate access, it is intended that links are to be included.</p>

**Q4**

**Do you agree that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised), and that the draft guidance does not introduce any new requirements?**

18. A number of respondents did not specifically respond to this question. Of those who did, a number of respondents agreed that the draft guidance does not contradict or conflict with the requirements or application material of the Standard and does not introduce any new requirements. Other respondents partially agreed, but the following broad themes were noted:

What we heard	How we have responded
<ul style="list-style-type: none"> <li>The guidance should not imply that an unduly high level of knowledge is required of an entity's system of internal control before acceptance of the engagement (see also Question 1 above) or imply an obligation to review, evaluate or conclude on the preparer's 'materiality process'.</li> </ul>	<ul style="list-style-type: none"> <li>The work effort pre- and post-acceptance in relation to the entity's system of internal control (chapter 3) has been clarified. We have explained that when an engagement is an initial or more complex engagement, more extensive consideration may be needed before accepting the engagement than when the engagement is a recurring or less complex one</li> </ul>
<ul style="list-style-type: none"> <li>The guidance should not inadvertently suggest new requirements or best practice through the choice of wording such as 'needs', 'desirable' and 'should'</li> </ul>	<ul style="list-style-type: none"> <li>The wording of the Guidance has been revised where considered necessary to avoid suggesting new requirements.</li> </ul>
<ul style="list-style-type: none"> <li>New terminology has been introduced into the guidance; care should be taken not to substitute existing terminology, but to use recognized terminology where possible (see also Question 2).</li> </ul>	<ul style="list-style-type: none"> <li>The terminology used in the updated Guidance is aligned with that used in the Standard, where the Standard already describes the concepts. Where new terminology is introduced to describe a concept not dealt with in the Standard, the term is defined and included in Appendix 1 '<i>Terms used in this Guidance</i>' to the Guidance.</li> </ul>



**Q5** Do you agree with the way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised)?

19. The majority of respondents who answered question 5 partially agreed, but, in addition to the comments expressed in relation to the preconditions and system of internal control (see Question 1), the introduction of new terminology (see Question 2), the suggestion in the guidance that there was an obligation to review the ‘materiality process’ (see Question 1), noted several other comments:

What we heard	How we have responded
<ul style="list-style-type: none"> <li>There should be clear signposting of matters that are not in the Standard.</li> </ul>	<ul style="list-style-type: none"> <li>References are provided in the updated Guidance to the requirements of the Standard. Where no such reference is given, the matters discussed generally reflect non-authoritative guidance, which has been included either:               <ul style="list-style-type: none"> <li>To assist the practitioner in applying the identified requirements, or</li> <li>Because the Standard does not deal with the particular concept, but it may be useful to a practitioner in addressing the challenges identified in the context of EER assurance engagements.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>Regulators may regard some of the guidance as requirements because no alternative approaches are given to those provided in the guidance; there should be at least two options.</li> </ul>	<ul style="list-style-type: none"> <li>We have clarified that the Standard is the IAASB’s authoritative pronouncement, and that the Guidance does not introduce, override or change requirements. We have also clarified that there is no requirement to refer to the Guidance in performing an EER assurance engagement, but the Guidance may be useful as reference material. See also above under Question 2.</li> </ul>
<ul style="list-style-type: none"> <li>Emphasize that the Standard requires compliance with other standards and ethical requirements. It would also be helpful to explicitly state that it would be inappropriate to refer to the Standard when the engagement is carried out under methodologies that are based on the Standard.</li> </ul>	<ul style="list-style-type: none"> <li>We have addressed this in chapters 1, 3 and 10.</li> </ul>

**Q6**

**Do you agree that the additional papers contain further helpful information and that they should be published alongside the non-authoritative Guidance document?**

20. The majority of respondents agreed that additional papers contained further helpful information and supported its publication alongside the non-authoritative guidance. The key message relating to the additional papers was the need to clarify the target audiences and the purpose of the additional papers.
21. We have clarified the intended audience and purpose of the Guidance and the two Supplements in the introduction to the Guidance, and in the introduction to each of Supplement A and Supplement B.

**Q7**

**In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:**

- (a) **Stakeholder Perspectives—Respondents representing stakeholders such as preparers (including smaller entities) of EER reports, users of EER reports, and public sector entities are asked to comment on the questions above from their perspective.**
  - (b) **Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in using the draft guidance in a developing nation environment.**
  - (c) **Translation—Recognizing that many respondents may intend to translate the final guidance for adoption in their own environments, the IAASB welcomes comments on potential translation issues.**
22. A number of respondents noted that there may be difficulty in translating the guidance due to its complexity and the introduction of new terminology. In addition, a few comments noted the need for scalability and the development of material on a “think simple first” basis, to help ensure that the guidance, which will primarily be used in the foreseeable future on engagements for larger listed companies and other public interest entities, will also be suitable for small and medium sized entities and non-public interest entities as and when they seek similar assurance engagements.
23. As noted above under Questions 2, we have aligned the terminology in the Guidance with that of the Standard wherever possible. Where new terminology is introduced to describe a concept not dealt with in the Standard, the term is defined and included in Appendix 1 ‘Terms used in this Guidance’ to the Guidance.
24. As discussed in Question 3 above, we have moved conceptual material to Supplement A, and longer, more complex examples to Supplement B. The Guidance is consequently shorter, more practical, able to be applied to less complex engagements, and can be used by a practitioner without reference to either Supplement A or Supplement B.

## List of Respondents to the Consultation Paper

25. The Feedback Statement has been prepared highlighting what the IAASB has learned from the responses to the Consultation Paper. If readers wish to read the full responses, they can be found at [www.iaasb.org](http://www.iaasb.org).

<b>Investors and Analysts</b>
Corporate Reporting Users' Forum
<b>Regulators and Oversight Authorities</b>
Conselho Federal de Contabilidade
Independent Regulatory Board for Auditors in South Africa
<b>Those Charged with Governance</b>
Institute of Internal Auditors
<b>National Auditing Standard Setters</b>
Australian Auditing and Assurance Standards Board
Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l'Ordre des Experts-Comptables
Hong Kong Institute of Certified Public Accountants
Institut der Wirtschaftsprüfer
Japanese Institute of Certified Public Accountants
Malaysian Institute of Accountants – Auditing and Assurance Standards Board
Nederlandse Beroepsorganisatie van Accountants (Royal Netherlands Institute of Chartered Accountants)
New Zealand Auditing and Assurance Standards Board
<b>Accounting Firms</b>
BDO International Limited
Crowe Global
Deloitte Touche Tohmatsu Limited
Ernst & Young Global Limited
Grant Thornton International Ltd
KPMG IFRG Limited
Mazars
PricewaterhouseCoopers International Limited
<b>Public Sector Organizations</b>
United States Government Accountability Office

Member Bodies
Association of Chartered Certified Accountants - Chartered Accountants Australia and New Zealand
Accountancy Europe
American Institute of Certified Public Accountants
Australian Institute of Performance Science
Associazione Italiana Revisori Contabili
CPA Australia
CPA Canada
European Federation of Accountants and Auditors for SMEs
Federación Argentina de Consejos Profesionales de Ciencias Económicas (Argentine Federation of Professionals Councils of Economic Sciences)
Institute for the Accountancy Profession in Sweden (FAR)
FSR – danske revisorer
The Global Reporting Initiative
Inter-American Accounting Association
Institute of Internal Auditors
International Integrated Reporting Council
Institute of Chartered Accountants in England and Wales
Institute of Chartered Accountants Ghana
Institute of Chartered Accountants of Scotland
Institute of Certified Public Accountants of Uganda
Institute of Public Accountants
Institute of Singapore Chartered Accountants
Malaysian Institute of Certified Public Accountants
National Association of State Boards of Accountancy
IFAC Professional Accountants in Business
South African Institute of Chartered Accountants
Sustainability Accounting Standards Board
The World Intellectual Capital/Assets Initiative
Wirtschaftsprüferkammer
Academics

Deakin University

Individuals and Others

Chris Barnard

Chartered Accountants Academy and Training and Advisory Services

Beth A. Schneider

# NON-AUTHORITATIVE GUIDANCE: SPECIAL CONSIDERATIONS IN PERFORMING ASSURANCE ENGAGEMENTS ON EXTENDED EXTERNAL REPORTING

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## Introduction

### Scope

1. Chapters 1 to 12 of this document provide practical non-authoritative guidance (hereafter 'the Guidance') intended to assist practitioners in performing assurance engagements in accordance with ISAE 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (hereafter 'the Standard') on extended external reporting (hereafter 'EER') by entities of all sizes about a broad range of reporting topics. EER is discussed below under *Nature of EER and Meaning of 'EER Information' and 'EER Report'*.
2. The scope of the guidance in this document is limited to specific areas where the IAASB identified<sup>5</sup> that a practitioner may find guidance useful to address challenges they commonly encounter in applying the Standard in assurance engagements on EER (hereafter 'EER assurance engagements'). Those challenges are discussed below under *Circumstances Commonly Encountered in Relation to EER Assurance Engagements*.

### Purpose and Intended Audience of the Guidance

3. The aim of the IAASB in issuing the Guidance is to promote consistent high quality application of the Standard in EER assurance engagements, and thereby to strengthen the influence of such engagements on the quality of EER reports, enhance trust in the resulting assurance reports, and engender greater confidence in the credibility of EER reports so that they can be trusted and relied upon by their intended users (S.12.m).
4. The intended audience of the Guidance is practitioners carrying out EER assurance engagements. Although the Guidance may also assist other parties to an EER assurance engagement in understanding aspects of the performance of EER assurance engagements, such as preparers and users of EER reports or regulators, it has not been developed with the needs of such parties in mind.

### Nature of EER and Meaning of 'EER Information' and 'EER Report'

5. EER encapsulates many different types of reporting that provide information about the financial and non-financial consequences of an entity's activities. Such information (referred to in this document as 'EER information') may be about the consequences of the entity's activities for the entity's own resources and relationships, or for the wider well-being of the economy, environment or society, or both, or the service performance of a public sector or not-for-profit entity.
6. EER information therefore goes beyond the financial information typically included in statements of financial position or financial performance and related disclosures. Such financial information is about an entity's economic resources or obligations, or changes therein, as a consequence of the entity's transactions and other events and conditions ('financial information').
7. EER information may be presented as a section(s) of mainstream periodic reports issued by a company or organization, e.g. an annual report or integrated report, or a regulatory filing, such as the U.S. Securities and Exchange Commission Form 10-K or the UK strategic report. EER information may also be presented as a separate report(s) or statement(s) issued by an entity, such as a sustainability report, a corporate social responsibility statement, a public sector performance report or value for money report, or a greenhouse gas statement. In this document, reference to an 'EER report' means EER information presented as one or more such section(s), report(s) or statement(s). In some cases, an EER report may comprise EER information that is

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<sup>5</sup> [Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements](#)

accessible by users on demand, through various communication channels, or that may be made available by the preparer in real time.

### **Circumstances Commonly Encountered in Relation to EER Assurance Engagements**

8. EER reports are often voluntarily prepared and issued by entities, but increasingly may be required by law or regulation (such as the EU requirement<sup>6</sup> for a large company to include a non-financial statement in its annual report). They may be prepared using criteria in EER frameworks, standards or guidance established by law or regulation, by international or national standard setters, or by other bodies (referred to as 'framework criteria'), criteria developed by the entity (referred to as 'entity developed criteria'), or a combination of both.
9. An EER report may address diverse underlying subject matter(s), or aspects thereof, which may be complex and may have diverse characteristics that range from objective to subjective, historical to future-oriented, or a combination, and may include both non-financial (including non-monetary) information and financial information. Due to the wide range of available EER frameworks, there may be diversity in the criteria used to prepare the EER report. Also, preparers often use entity developed criteria in addition to, or instead of, framework criteria. As a result, there may be greater opportunity for management bias in the selection or development of criteria.
10. The outcomes of measuring or evaluating aspects of the EER underlying subject matter by applying the criteria are presented in the EER report, and the nature of those outcomes may be diverse. Some may be presented principally in quantified terms and others may be presented principally in qualitative (narrative or descriptive) terms. In either case, the principal presentation may be accompanied by related disclosures. As a result, EER reports may be diverse in structure and format.
11. EER information may also be presented in the EER report in diverse forms, including text, charts, graphs, diagrams, images or embedded videos.
12. The entity's process to prepare the EER report and other components of the entity's system of internal control relevant to the preparation of the EER report may often not be fully developed, particularly when an entity first starts to prepare its EER report.

### **Authority of the Guidance**

13. The Standard is the IAASB's authoritative pronouncement that governs the performance of assurance engagements other than audits or reviews of historical financial information, which would include EER assurance engagements. There is no requirement to refer to the Guidance in performing such an engagement, but the Guidance may be used as reference material in doing so. The Guidance is not a comprehensive text that addresses all aspects of performing an EER assurance engagement.
14. This document contains non-authoritative guidance. Accordingly, the Guidance does not introduce any further requirements beyond those in the Standard. Similarly, the Guidance does not override or change any of the requirements or application material in the Standard.
15. Although the Guidance may be helpful in performing other types of assurance engagements than EER assurance engagements, it has not been developed with such engagements in mind. The Standard deals with assurance engagements, as described in the *International Framework for Assurance Engagements*, other than audits or reviews of historical financial information.

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<sup>6</sup> See: [https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting\\_en](https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en)

Examples of assurance engagements on different types of underlying subject matters, and whether the Guidance does or does not deal with them, are included in Table 1 in Appendix 2.

16. The Standard can be used in both direct and attestation engagements S12.a.ii. Like the Standard, the Guidance is written in the context of attestation engagements, and may be applied to direct engagements, adapted and supplemented as necessary in the engagement circumstances.

### Using the Guidance

17. The guidance in this document is structured in chapters that relate to specific stages and other aspects of an EER assurance engagement performed in accordance with the Standard. Diagram 1 below is useful in navigating this document in the context of performing an EER assurance engagement. Ordering of the chapters in this document follows the flow of stages and other aspects of the performance of an engagement, as represented in the diagram. Chapters 11 and 12 address specific considerations from acceptance to reporting in the context of qualitative and future-oriented information, respectively, and are therefore placed after more general guidance in earlier chapters.
18. Each chapter is structured to answer the 'What', 'Why' and 'How' of the guidance in this document. Each chapter is introduced by a description of the matters addressed by the guidance in that chapter (the 'What') under the sub-heading *Matters Addressed by the Guidance in this Chapter*. That description is followed by an explanation of the circumstances in which the guidance in that chapter may be of assistance to practitioners (the 'Why'), under the sub-heading *Circumstances in which the Guidance in this Chapter May be of Assistance to Practitioners*. The explanation highlights relevant challenges in performing an EER assurance engagement from those identified above in G.8-12.
19. The remainder of each chapter (the 'How') generally provides a thought process for addressing the challenges highlighted in the 'Why'. The thought process identifies considerations that may assist the practitioner. The considerations are referenced, where relevant, to requirements and application material in the Standard, to specific guidance and examples in the same or other chapters, to examples in Supplement B: *Illustrative Examples*, and to contextual information in Supplement A: *Credibility and Trust Model and Background and Contextual Information*. Each Supplement describes the matters that it addresses and how they may assist a practitioner using the guidance in this document. However, this document can be used by a practitioner without reference to the Supplements.
20. Diagram 1 below provides an overview of all the aspects of the performance of an EER assurance engagement under the Standard (see green bands, rows and column headings). The diagram associates each of the requirements of the Standard (see green bands) and each chapter of this document (see brown boxes), with those aspects of the performance of an EER assurance engagement to which they relate. The diagram also indicates (see green arrows) the requirements of the Standard addressed by each chapter, and chapters that reference guidance in an earlier chapter. Those aspects of the performance of an EER assurance engagement and those requirements of the Standard that are not addressed in this document are shown in grey text.

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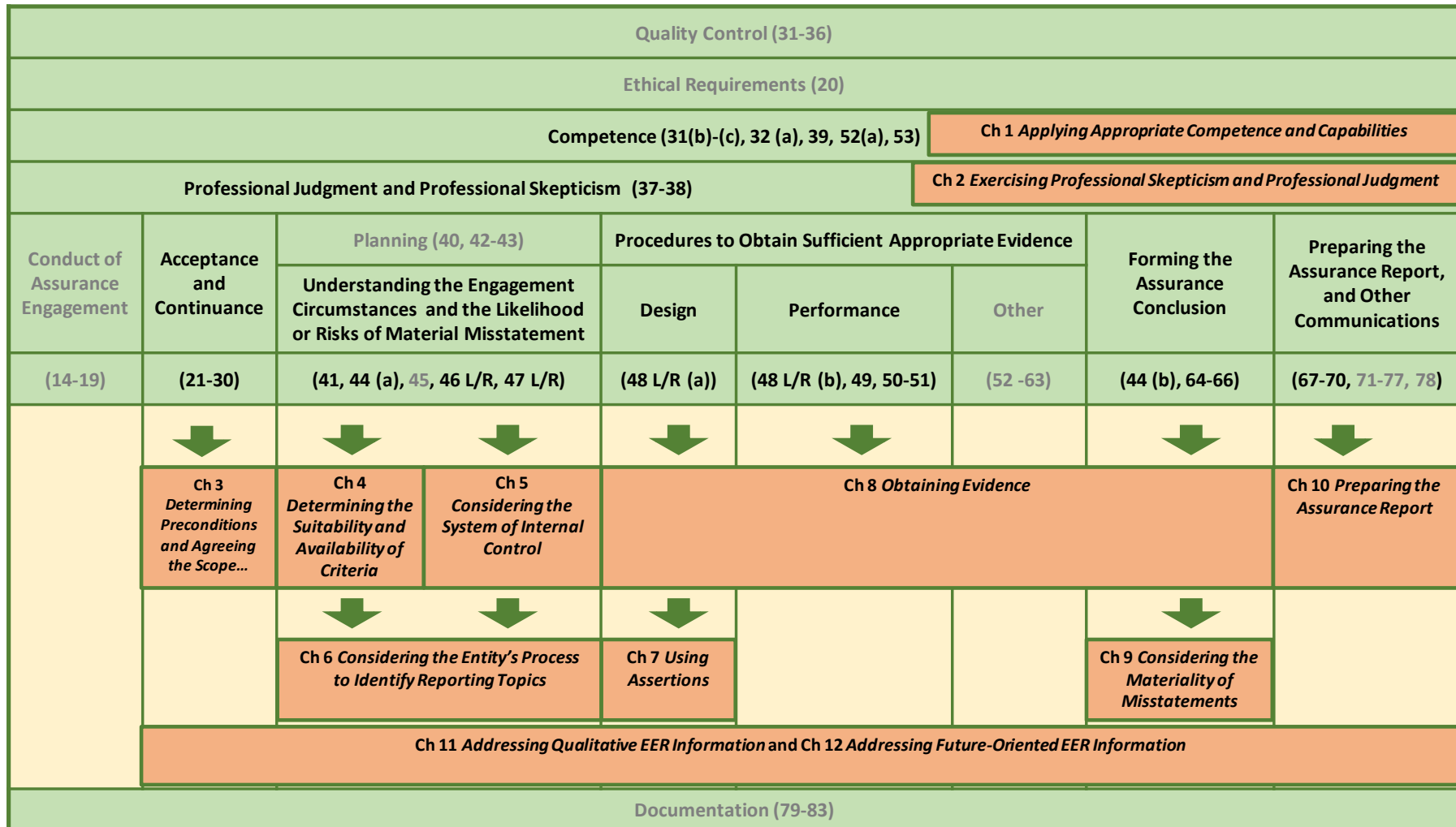


Diagram 1 – Relationships Between Stages of Engagement, Standard Requirements, and this Guidance

### **Terminology and References**

21. The Guidance uses the terminology used in the Standard when the concepts being discussed are addressed in the Standard. When necessary, other terms are identified and explained in the Guidance and summarized in a list of terms set out in Appendix 1.
22. Examples of the use of references throughout the Guidance are as follows:
  - (a) Requirement in the Standard: S.24.b.ii refers to paragraph 24(b)(ii) of ISAE 3000 (Revised)
  - (b) Application material in the Standard: S.A42a refers to paragraph A42(a) of ISAE 3000 (Revised)
  - (c) Guidance: G.78 refers to paragraph 78 of the Guidance  
G.Ch4 refers to Chapter 4 of the Guidance.
  - (d) Supplement A or B: SupA.II.63 refers to paragraph 63 in Section II of Supplement A.

## Chapter 1: Applying Appropriate Competence and Capabilities

### Matters Addressed by the Guidance in this Chapter

23. This Chapter provides guidance on the assignment of the engagement team with the competence and capabilities that may be needed to perform an EER assurance engagement, and to meet the requirements of S.31-32. It also provides guidance on the required competence of the engagement partner and their responsibility for managing the combined competence of the engagement team, and any practitioner's external experts, and the appropriate deployment of such competence, throughout the engagement, through direction, supervision and review of their work.
24. The focus of the Guidance is on the practitioner's competence to perform the engagement in accordance with the requirements of the Standard, and to issue an assurance report that is appropriate in the circumstances and that will enhance the degree of confidence of the intended users in the subject matter information. The competence needed to perform an assurance engagement includes both competence in assurance skills and techniques (hereafter 'assurance competence') and competence in the underlying subject matter of the engagement and in its measurement or evaluation (hereafter 'subject matter competence').

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

25. As discussed in the Introduction, EER reporting may be diverse, both in format and in the matters being reported on. The reporting can also be qualitative, comprising narrative description or qualitative information alongside financial and non-financial numbers. The frameworks and criteria used to measure or evaluate the underlying subject matter(s) may be in the early stages of development, and the governance, processes and internal control systems related to the preparation of EER reports often may be less developed than in a financial reporting context, particularly when an entity first starts to prepare its EER reporting. All these matters may increase the need for a high level of assurance competence as well as extensive subject matter competence, for example, scientific or engineering skills, to be able to perform the engagement, depending on the particular engagement circumstances.
26. In a financial statement audit engagement, the audit partner and engagement team have core competence in both auditing skills and techniques (assurance competence) and in financial accounting (subject matter competence). In an EER assurance engagement, while the practitioner may have some subject matter competence, the subject matter competence that may be needed on a complex engagement may go beyond that ordinarily possessed by most assurance practitioners.
27. When the subject matter competence needed on a complex engagement goes beyond that ordinarily possessed by most assurance practitioners, the practitioner may need to use the work of a practitioner's expert. Such an expert has specialized skills and knowledge that enable an informed and knowledgeable view on the underlying subject matter, but they may not have the assurance competence that is needed to perform an assurance engagement in accordance with the Standard. While a practitioner's expert is not required to have assurance competence, they may need sufficient understanding of the Standard to enable them to relate the work assigned to them to the objectives of the engagement.

### **Assignment of the Team with Appropriate Assurance Competence and Subject Matter Competence**

28. Assurance skills and techniques are required to be applied as part of an iterative, systematic engagement process, and include those planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner. These skills are distinct from expertise in the underlying subject matter of any particular assurance engagement or its measurement or evaluation. They include:
- (a) the application of professional skepticism and professional judgment;
  - (b) obtaining and evaluating evidence;
  - (c) understanding information systems and the role and limitations of internal control; and
  - (d) linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures.

Accordingly, they involve far more than the application of subject matter competence.

29. On broader or more complex EER assurance engagements the practitioner may judge it necessary for the work to be performed by a multi-disciplinary team that includes both appropriate assurance competence and one or more practitioner's experts. The assurance practitioners, other than the engagement partner, who perform the engagement, may have a combination of different levels of assurance competence and different levels of subject matter competence. However, all assurance practitioners are likely to need some level of competence in both to be able to understand and consider the perspectives of a wider range of users and to be able to exercise the professional skepticism and professional judgment needed during planning and performing an assurance engagement.
30. Both assurance practitioners and experts in the underlying subject matter and its measurement or evaluation (referred to in the Standard and hereafter as 'subject matter experts') may, additionally, have specialized competence in a particular area, for example, an assurance practitioner may be a specialist in assuring IT systems and controls, in assuring sustainability information, or in assurance sampling techniques and methodologies; a subject matter expert, such as a biochemist, may have expertise in environmental waste measurement and management, or a lawyer may have expertise in environmental or human rights legislation.
31. The extent to which the work of experts is used, and how it is used, are a matter of professional judgment for the practitioner, taking account of factors such as:
- (a) The nature and complexity of the underlying subject matter and its measurement or evaluation;
  - (b) The extent to which the underlying subject matter lends itself to precise measurement or whether there is a high degree of measurement uncertainty that may need significant knowledge and judgment in relation to the underlying subject matter;
  - (c) The engagement partner's and engagement team's competence and previous experience in relation to the underlying subject matter; and
  - (d) The level of assurance to be obtained.
32. In a more complex engagement, the practitioner may find it helpful to draw up a skills matrix setting out the assurance and subject matter competencies needed to perform the engagement and those of key engagement team members and other individuals whose work is to be used in performing the engagement. A matrix may also help identify where subject matter competence in

a specialized area may be needed by the practitioner and whether that competence is available to the practitioner from within their own firm or network (practitioner’s internal expert) or may need to be obtained from outside the firm or network (practitioner’s external expert).

33. The more complex the engagement, the more necessary it may be to consider how the work of the assurance practitioners and the work of the practitioner’s expert(s) is to be integrated into a cohesive whole. The appropriate application of competence in the performance of the engagement depends on the individual assurance practitioners and practitioner’s experts who are to perform the engagement having the appropriate competence to perform the roles assigned to them. It also depends on those individuals effectively integrating the application of their collective competence in working together as a multi-disciplinary team to perform the engagement.
34. The following example illustrates some of the considerations relating to the collective competence of the engagement team that may apply in a relatively less complex engagement. SupB.1 illustrates some of the considerations that may apply in a more complex engagement.

<b>EXAMPLE</b>	<p>A professional services firm voluntarily reports, and requests assurance on:</p> <ul style="list-style-type: none"> <li>• its GHG emissions from purchased electricity for a single office;</li> <li>• metered water usage for its office; and</li> <li>• the number of employees by gender and by grade.</li> </ul> <p>In this example, an assurance engagement partner and one or more practitioners with competence and experience in sustainability assurance engagements are likely to be able to perform the engagement to meet the requirements of the Standard without the need to engage further subject matter expertise.</p> <p>By contrast, an energy company reports on water quality associated with a power plant. A practitioner may utilize a biologist in assisting to design and perform procedures associated with measuring water quality.</p>
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**Competence and Responsibilities of the Engagement Partner**

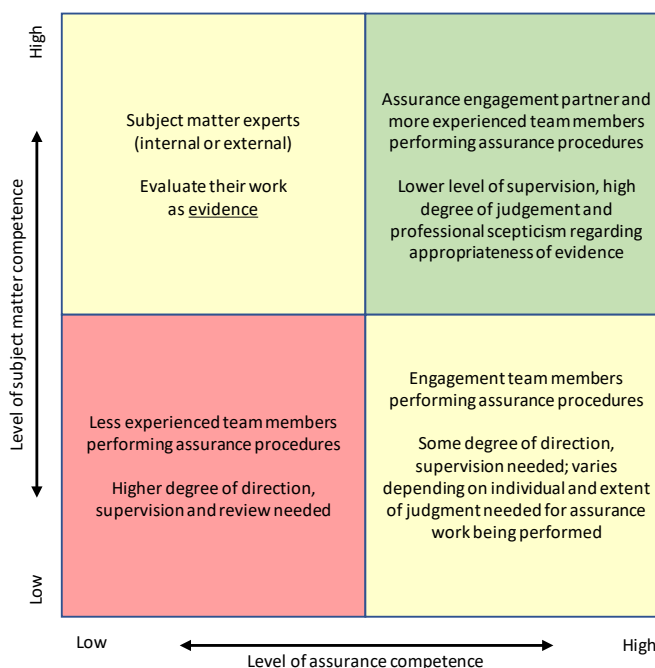
35. The Standard requires that, in addition to being satisfied that those persons who are to perform the engagement have the appropriate competence and capabilities, the engagement partner is to have competence in assurance skills and techniques developed through extensive training and practical application as well as sufficient subject matter competence to accept responsibility for the assurance conclusion. S.31.b-c
36. An assurance practitioner may use the work of a practitioner’s expert if, having followed relevant requirements of the Standard (see S.52), they conclude that the work of that expert is adequate for the practitioner’s purposes. However, the engagement partner has sole responsibility for the engagement. That responsibility is not reduced by the work of the practitioner’s expert. The engagement partner may need to have sufficient understanding of the underlying subject matter and sufficient subject matter competence, in addition to having a high level of assurance competence, to be able to:
- (a) When needed, ask appropriate questions of the expert and evaluate whether the answers make sense in the context of the engagement and as viewed from a user perspective;



- (b) Evaluate the expert’s work and, to the extent needed, integrate it with the work of the engagement team as a whole; and
  - (c) Take responsibility for the conclusions reached.
37. The engagement partner also requires appropriate competence to take responsibility for the overall quality of the engagement (S.33), which includes responsibility for:
- (a) Appropriate direction and supervision, and the reviews being performed in accordance with firm policies and procedures, in particular the work of less experienced team members being reviewed by more experienced team members;
  - (b) Maintenance of engagement documentation that provides evidence of the achievement of the practitioner’s objectives and that the engagement was performed in accordance with relevant ISAEs and legal and regulatory requirements; and
  - (c) Appropriate consultation by the engagement team on difficult and contentious matters.

*Direction, supervision and review*

38. In making decisions about the direction, supervision and review of the work performed throughout the engagement, the lower the level of assurance competence of a team member is, the higher may be the need for direction, supervision and review of their work. Similarly, the lower the extent of their subject matter competence when they are performing assurance procedures, the lower may be their skills in exercising professional skepticism and professional judgment in relation to the evidence gathered, including the evidence obtained from using the work of an expert.

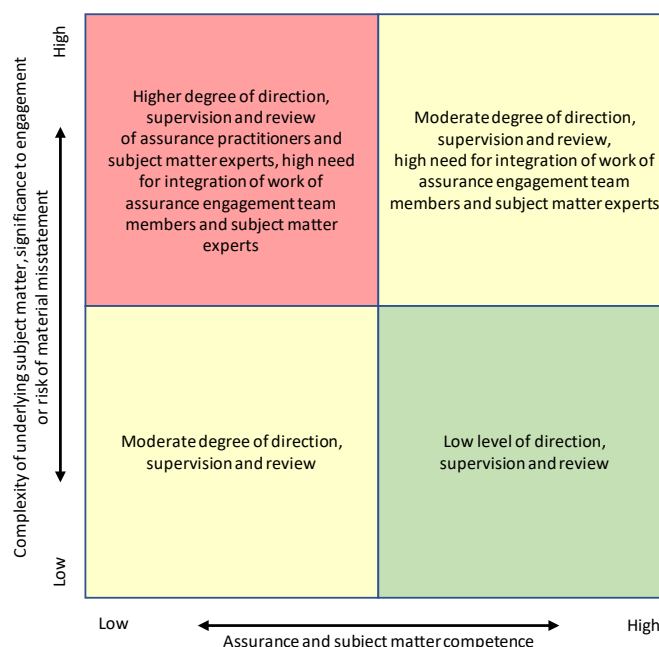


**Diagram 2 – Relating Competence Levels to Direction, Supervision and Review**

39. The diagram above illustrates the levels of assurance competence and subject matter competence that may be available in the engagement team, and the direction, supervision and review that may be appropriate.
40. The extent and nature of direction, supervision and review needed are a matter of professional judgment, and may take account of factors such as:

- (a) The assurance and subject matter competence of the individual team member;
- (b) The significance of the work performed by the individual in the context of the engagement as a whole;
- (c) The risks of material misstatement in the matter to which the work of the assurance practitioner or practitioner’s expert relates;
- (d) Whether the practitioner’s expert is internal or external to the practitioner’s firm; and
- (e) Whether or not the firm has a well-developed methodology for practitioners to follow when performing a particular type of EER assurance engagement.

41. For example, where there is greater complexity in the underlying subject matter or its measurement or evaluation, or the work of the individual is more significant to the engagement as a whole, greater direction, supervision, review and integration of that work is likely to be needed than if the subject matter is less complex or the work of the individual relates to a less significant part of the engagement. This is illustrated in the diagram below.



**Diagram 3 – Relating Complexity and Significance to Direction, Supervision and Review**

**Other Quality Control Considerations**

- 42. The premise on which the Standard is based includes that the assurance practitioners are members of a firm that is subject to quality control requirements at least as demanding as ISQC 1. Those requirements include that the firm establishes and maintains a system of quality control that includes documented policies and procedures addressing the matters set out in S.A61 and that are communicated to the firm’s personnel. In the absence of being subject to such quality control requirements, the assurance practitioner is not able to perform an EER assurance engagement in conformity with the Standard.
- 43. Assurance practitioners are often professional accountants, but the Standard acknowledges that a competent practitioner other than a professional accountant may choose to represent compliance with the Standard. Representing compliance includes representing that they comply with the requirements of the Standard that address their own competence and the competence

of others who are to perform the engagement, and that they are able to evidence that they are a member of a firm that is subject to quality control requirements at least as demanding as ISQC 1.

44. When the entity has a subsidiary, division, branch or operational site at a remote location or in a different jurisdiction, the practitioner may use the work of another practitioner to perform assurance procedures at that entity. However, the engagement partner remains responsible for the overall assurance conclusion and for the quality control of the engagement.
45. The Standard requires the practitioner to evaluate whether the work of another practitioner whose work is being used (S.53), for example in a multi-team or multi-location engagement, is adequate for the practitioner's purposes. The guidance in S.A121-A135, though written in the context of using the work of a practitioner's expert, identifies a number of factors that may be taken into account, and may therefore also provide helpful guidance in this context. Whether the other practitioner complies with ISQC 1, or is a member of the same network of firms and, if so, whether that network is subject to common systems and processes to comply with ISQC 1, then this may be a factor that can be taken into account in considering the appropriate degree of direction, supervision and review that may be necessary.

## Chapter 2: Exercising Professional Skepticism and Professional Judgment

### Matters Addressed by the Guidance in this Chapter

46. This Chapter discusses professional skepticism and professional judgment in the context of an EER assurance engagement. It covers the attributes and behaviors that may be needed for the exercise of professional skepticism, and what might be an impediment to its exercise. It also gives guidance on how competence in the exercise of professional judgment may be acquired, and refers to further examples of the exercise of both professional skepticism and professional judgment.

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

47. The Standard (S.37) requires the engagement to be planned and performed with professional skepticism, recognizing that circumstances may exist that cause the subject matter information to be materially misstated. It also requires (S.38-39) the exercise of professional judgment in planning and performing the assurance engagement, and the application of assurance skills and techniques (which include the exercise of professional skepticism and professional judgment) as part of an iterative, systematic engagement process.
48. In an EER assurance engagement, the need for professional judgment and the exercise of professional skepticism may be particularly important. EER assurance engagements can be complex, with underlying subject matters whose measurement or evaluation may be subject to considerable subjectivity, management bias, estimation and evaluation uncertainties (see Introduction).
49. These factors may make it challenging to:
- (a) Understand the needs of intended users;
  - (b) Understand the interrelationships of different aspects of the subject matter information;
  - (c) Determine whether assumptions and methods used by the preparer are appropriate;
  - (d) Recognize unusual circumstances or omissions of information when they occur;
  - (e) Evaluate whether uncorrected misstatements are material, individually or in the aggregate;
  - (f) Evaluate the sufficiency and appropriateness of evidence obtained;
  - (g) Determine the appropriate course of action in light of the facts and circumstances of the particular engagement; and
  - (h) Form a conclusion about whether the subject matter information is free of material misstatement.
50. The need for the practitioner to exercise professional skepticism and professional judgment may be increased by these and other factors, such as:
- (a) The preparer's lack of familiarity with the reporting frameworks;
  - (b) Frameworks, governance and controls that may still be developing; and
  - (c) The possibility that the underlying subject matter may not be central to the entity's strategy or management priorities.

## Acquiring and Applying Competence in Exercising Professional Skepticism and Professional Judgment

51. Sufficient knowledge of the circumstances of the engagement, as well as assurance competence and, in some circumstances, understanding of relevant standards, laws and regulations, may be important to being able to exercise professional skepticism and professional judgment in making the informed decisions that are required throughout an EER assurance engagement. S.A76-A85 set out why maintaining an attitude of professional skepticism and applying professional judgment are necessary, and in which circumstances they may be particularly important.

### THE MEANING OF 'ENGAGEMENT CIRCUMSTANCES'

Engagement circumstances include the terms of the engagement, including whether it is a reasonable assurance engagement or a limited assurance engagement, the characteristics of the underlying subject matter, the measurement or evaluation criteria, the information needs of the intended users, relevant characteristics of the preparer and its environment, and other matters, for example events, transactions, conditions or practices, that may have a significant effect on the engagement (S.12.d.)

### *Professional skepticism*

### WHAT IS PROFESSIONAL SKEPTICISM?

An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence (S.12.u.)

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

55. The diagram below indicates both the attributes and behaviors that may be needed in the exercise of professional skepticism, and possible impediments to its exercise or factors increasing the need for the exercise of professional skepticism. It is not intended to illustrate all possible impediments or factors, but is indicative of those that may influence the practitioner’s exercise of professional skepticism. The dotted boxes are intended to indicate that further impediments or factors may be identified by the practitioner.

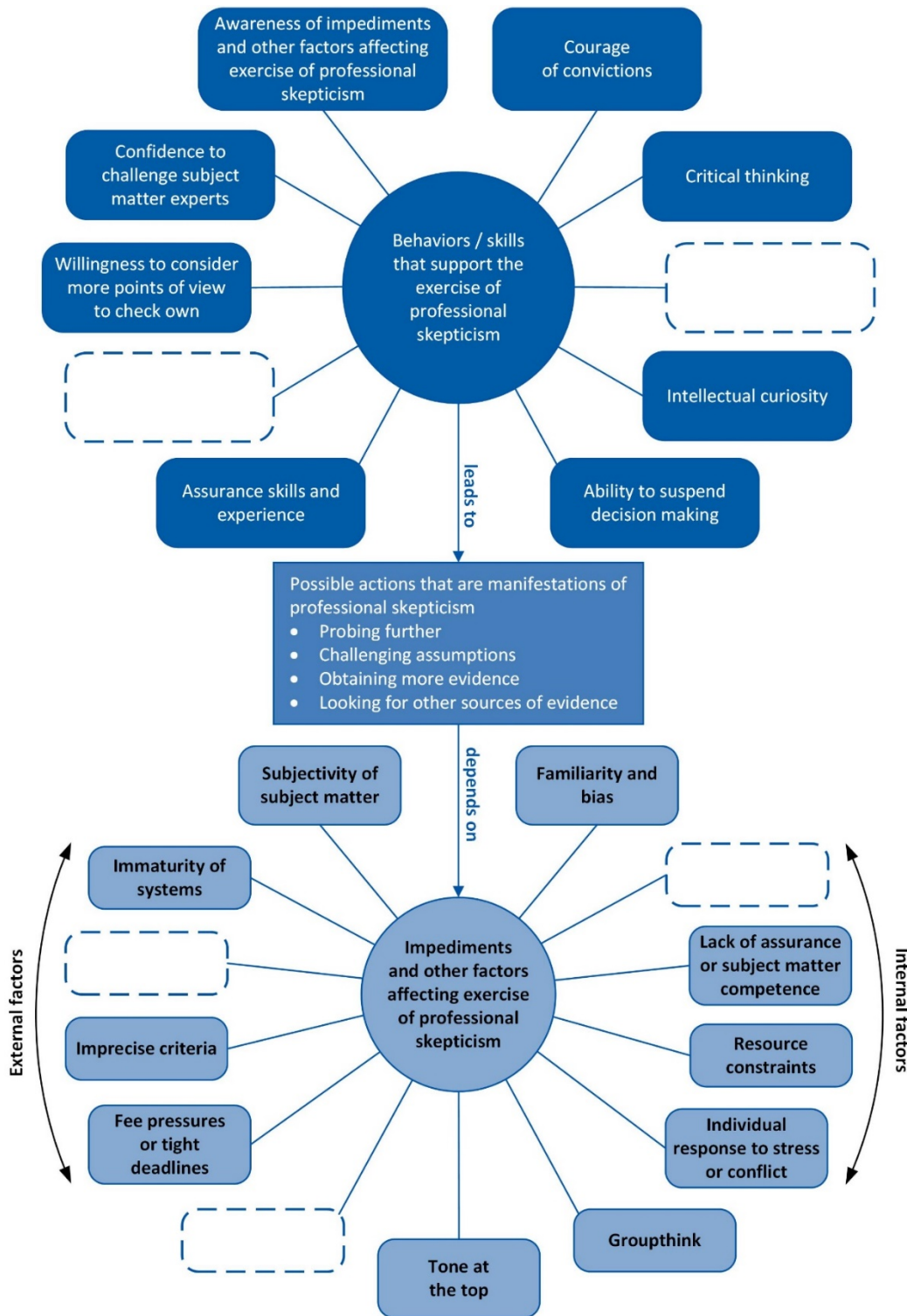


Diagram 4 – Professional Skepticism Factors

56. External factors that may heighten the need to exercise professional skepticism may arise, for example, as a result of imprecise criteria, subjectivity or complexity of the underlying subject matter, or because EER reporting and the associated governance, processes and controls are at an early stage. It can be difficult to know what the subject matter information should be or what may be of consequence to a user’s decision-making when criteria and underlying subject matter(s) allow for a wide range of different interpretations and subjective judgments. Assurance competence, strong business acumen and sufficient knowledge of the subject matter and its measurement or evaluation underpin the ability to exercise professional skepticism.
57. External pressures such as fee or time pressures may also impede the exercise of professional skepticism, as may an organizational culture or tone at the top that does not tolerate challenge. In such circumstances, practitioners may be reluctant to question when things do not seem right. However, it is important to bear in mind that the objective of an assurance engagement is to enhance the degree of confidence of the intended users in the subject matter information; it is therefore the users’ needs that are kept in mind throughout the engagement. Clear and early communication with the preparer about expectations regarding, for example, the timing of deliverables and the availability of evidence and access to personnel may help to mitigate these impediments.
58. Internal impediments may arise as a result of factors at firm level, engagement level or personal level. For example, a firm may not encourage differing views, place importance on training and ongoing professional education or develop assurance methodologies for the performance of its engagements. At engagement level, there may be resource constraints that prevent the appropriate competence from being included on the engagement team or that put team members under undue time pressures. Personal traits such as individuals’ response to time pressure, stress or conflict, cultural background, intellectual curiosity, confidence to question or personal bias can act as impediments to the proper exercise of professional skepticism.

*Professional judgment*

<b>WHAT IS ‘PROFESSIONAL JUDGMENT’?</b>
<ul style="list-style-type: none"> <li>• The application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement S.12.t.</li> <li>• The distinguishing feature of the professional judgment expected of a practitioner is that it is exercised by a practitioner whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.</li> <li>• The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the practitioner.</li> <li>• Professional judgment is not an appropriate justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate evidence.</li> </ul>

59. Competence in the exercise of professional judgment is developed through extensive training and experience and is facilitated by subject matter competence. Practical experience and ‘on the job’ coaching may be particularly important in developing the ability to exercise professional judgment, including through the example set by engagement partners, and through more

experienced engagement team members providing appropriate direction, supervision and review to less experienced members of the team.

60. Subject matter experts exercise judgment in relation to their area of subject matter expertise, but the Standard specifically contemplates professional judgment as part of the assurance competence of a practitioner, acquired through extensive training, knowledge and practical experience. In an EER assurance engagement, the exercise of professional judgment is necessary regarding decisions about, amongst other matters:
- (a) Materiality and engagement risk;
  - (b) The nature, timing and extent of procedures that will enable sufficient appropriate evidence to be obtained to comply with the requirements of the relevant ISAEs;
  - (c) Evaluating the evidence obtained and drawing appropriate conclusions based on that evidence; and
  - (d) The actions to take in exercising professional skepticism.
61. The exercise of professional skepticism and professional judgment are discussed throughout the rest of the Guidance, and illustrated by way of examples related to specific decision points in the lifecycle of an EER engagement. Such examples are included in, or (when included in Supplement B) referred to in, the chapters where those decision points are discussed. Within the examples in those chapters, specific illustrations of the exercise of professional skepticism or professional judgment are identified by the symbols below.



Professional Skepticism



Professional Judgment

62. The chapters that include examples with such specific illustrations are those that relate to competence and capabilities that may be needed to perform the engagement (G.Ch1), determining the preconditions and agreeing the scope of an engagement (G.Ch3), determining the suitability of the criteria (G.Ch4), considering the system of internal control (G.Ch5), considering the entity's process to identify reporting topics (G.Ch6), and considering the materiality of misstatements (G.Ch9)).
63. Further discussion on professional judgment and professional skepticism can be found in the SupA.II.29-62.



## **Chapter 3: Determining Preconditions and Agreeing the Scope of the EER Assurance Engagement**

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

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

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

65. The underlying subject matter may be complex and diverse, and the characteristics of the underlying subject matter and subject matter information may be more qualitative than quantitative and more future-oriented than historical. The entity's process to prepare the EER report or other components of the entity's system of internal control relevant to preparation of the EER report may not be fully developed or may have areas for improvement. In addition, the criteria used to measure or evaluate the underlying subject matter may include a significant element of entity-developed criteria. These and other factors, including that the engagement may be voluntary, and that cost considerations may be a key engagement consideration for the preparer, may result in the proposed subject matter information for the engagement being only part(s) of the entity's EER report (hereafter referred to as the 'perimeter of the subject matter information').
66. When all or some of the above factors are present, especially in an initial engagement, a more extensive work effort may be necessary than in a well-established area of reporting and assurance in order to meet the acceptance and continuance requirements. In some circumstances, the practitioner may encounter potential impediments to acceptance. In such circumstances, a separate non-assurance engagement to evaluate the maturity of the entity's reporting and advise the preparer on its readiness for an EER assurance engagement may be a valuable precursor to the entity's seeking assurance. While such an engagement can serve a valuable purpose in enhancing the entity's reporting process (hereafter referred to as the entity's 'EER reporting process') sufficiently that an EER assurance engagement can be performed, it can also give rise to potential threats to the practitioner's independence in later performing the proposed assurance engagement.

### **Determining Whether the Preconditions are Present in an EER Assurance Engagement**

67. The practitioner is only permitted to accept or continue an assurance engagement when, amongst other matters, the basis upon which the engagement is to be performed has been agreed. In part, this is accomplished through establishing that the preconditions for an engagement are present, based on a preliminary knowledge of the engagement circumstances and discussion with the preparer.
68. For a recurring engagement, the same preconditions are required as for an initial engagement, however the continuance process may be more straightforward as the practitioner will already have good knowledge of the entity and the engagement. The practitioner's considerations may focus on whether the engagement circumstances have changed since the previous period in assessing whether circumstances require the terms of the engagement to be revised (S.28).

69. The preconditions in the Standard (see S.24), which are discussed below, are required to be met. The practitioner will need a sufficient preliminary knowledge of the engagement circumstances to be able to make a reasoned determination about whether the preconditions are present.

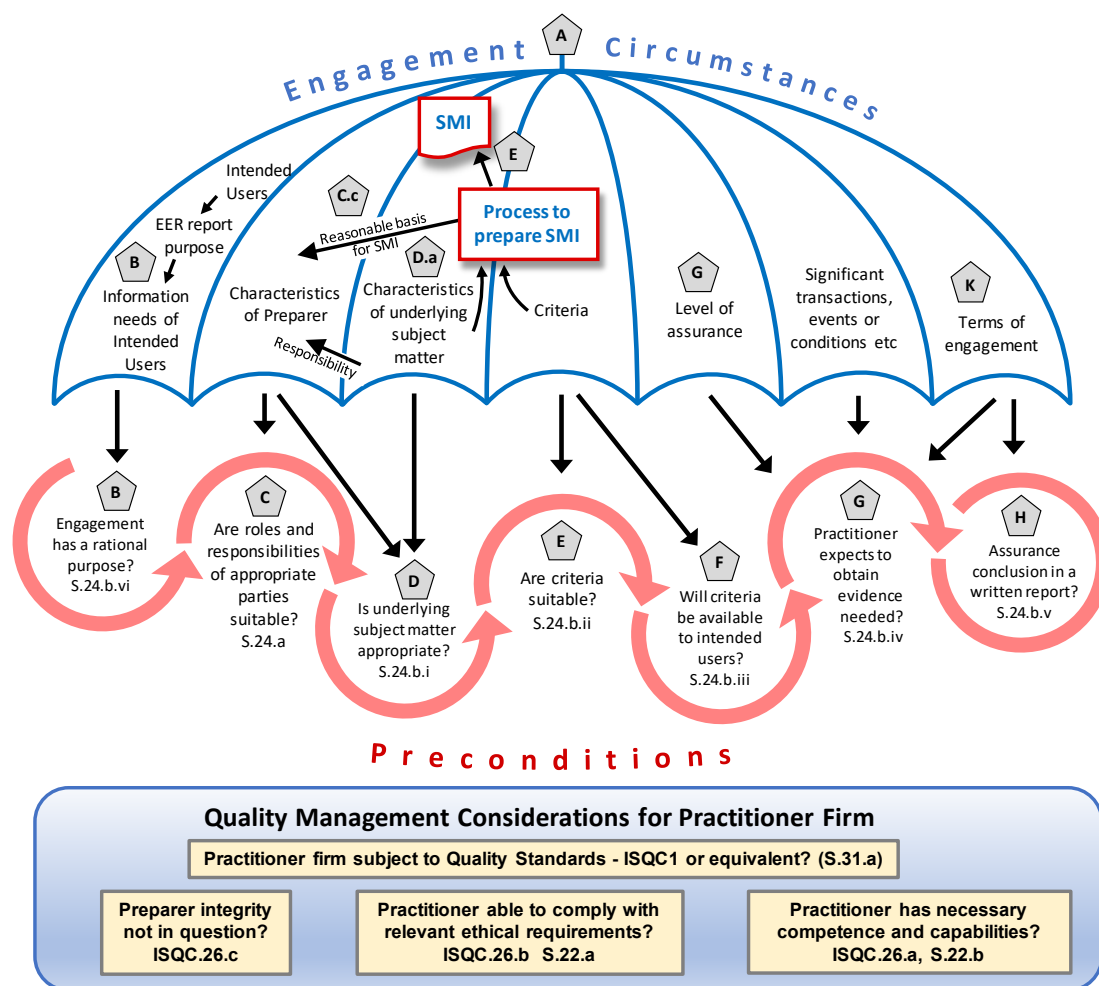


Diagram 5 – Acceptance and Continuance Considerations

70. The diagram below sets out the practitioner’s consideration of the preconditions within the context of the engagement circumstances. References in grey pentagons in the diagram below are to the practitioner considerations in G.71.
71. The following considerations for the practitioner include questions (based on the preconditions for an assurance engagement) that are designed to illustrate how the practitioner may make some of the professional judgments involved in the acceptance or continuance decision. Each consideration is referenced to relevant material in the Standard or in the Guidance, which may be in this chapter (G.71-83) or in other chapters.

	<p>A. Does the practitioner have sufficient preliminary knowledge of the engagement circumstances to be able to determine whether the preconditions are present (G.68, G.104)?</p> <p>B. Does the engagement have a rational purpose (S.24.b.vi, S.A56, G.72)?</p> <p>C. Are the roles and responsibilities of the appropriate parties suitable, and has the preparer appropriately fulfilled its responsibility to have a reasonable basis for the subject matter information (S.24.a, S.A37-A39, G.82)</p> <p>(a) If the roles of the appropriate party(ies) are not all performed by the same entity, what are the characteristics of the relationships between the parties?</p> <p>(b) Does the preparer's process to prepare the subject matter information provide a reasonable basis for that information, and is the process appropriately supported by other relevant aspects of the entity's system of internal control (G.Ch5)?</p> <p>(c) Has the preparer acknowledged its responsibility for the underlying subject matter?</p> <p>(d) Have the practitioner and preparer reached a common understanding of their roles and responsibilities (S.22.c.ii)?</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">CONSIDERATIONS FOR THE PRACTITIONER</p>	<p>D. Is the underlying subject matter appropriate (S.24.b.i, S.A40-A44, G.73-77)</p> <p>(a) Given the characteristics of the underlying subject matter, is it identifiable, and is it capable of consistent measurement or evaluation, at an appropriate level of aggregation or disaggregation?</p> <p>(b) Can the resulting subject matter information be subjected to procedures to obtain sufficient appropriate evidence?</p> <p>E. Are the applicable criteria suitable for the engagement circumstances (S.24.b.ii, S.A45-A50, G.Ch4, G.78-81)?</p> <p>(a) Are the framework criteria selected suitable on their own (i.e., do they exhibit the five characteristics of suitable criteria) or is there a need for entity developed criteria?</p> <p>(b) Does the preparer have an appropriate process in place for selecting or developing and reviewing the criteria (G.Ch6)?</p> <p>F. Will the framework criteria or entity developed criteria be made available to the intended users (S.24.b.iii and S.A51-A52)?</p>

CONSIDERATIONS FOR THE PRACTITIONER	<p>G. Does the practitioner expect to be able to obtain the evidence needed to support the limited or reasonable assurance conclusion, as applicable (S.24.b.iv, S.A53-A55, ISQC1.26.c)?</p> <p>(a) If the preparer's process to prepare the subject matter information does not provide a reasonable basis for that information (G.71.Cb), what are the implications for the practitioner in obtaining evidence (G.82-83, G.Ch8)?</p> <p>(b) What are the implications for obtaining evidence of the nature of any significant transactions, events or conditions (S.12.d, G.Ch8)? Has the preparer imposed a limitation on the practitioner's work in the terms of the engagement (S.26, S.A155.c, G.71.K) and will the practitioner have adequate access to the preparer's records and people (S.A54-55)?</p> <p>(c) Is the integrity of the preparer in question (ISQC1.26.c)?</p>
	<p>H. Is the assurance conclusion to be contained in a written report (S.24.b.v)?</p> <p>I. Has the proposed perimeter of the subject matter information been determined appropriately, and if the subject matter information is only parts of the EER report, has it been selected in an unbiased manner (G.84-99)?</p> <p>J. Are expectations for engagement quality management appropriate?</p> <p>(a) Is the practitioner a member of a firm that is subject to ISQC 1 or other professional requirements, or requirements in law or regulation that are at least as demanding as ISQC 1 (S.31.a, S.A60–A66)?</p> <p>(b) The members of the engagement team are subject to the IESBA Code or other professional requirements, or requirements in law or regulation, that are at least as demanding (S.22.a, S.A30–A34, ISQC1.26.b)?</p> <p>(c) Do those who are to perform the engagement collectively have the appropriate competence and capabilities to do so (S.22.b, S.32, ISQC1.26.a, G.Ch1)?</p> <p>K. Has the practitioner reached a common understanding of the engagement terms with the preparer and will they be set out in writing in an engagement contract (S.27, S.A57-A58)?</p>

*Considering whether the engagement has a rational purpose*

72. The purpose of an assurance engagement is established in the definition of an assurance engagement in S.12.a. The meaning of the term 'rational' is not explicitly addressed in the Standard. However, based on the definition of an assurance engagement, the purpose of an assurance engagement may be considered to be "to enhance the degree of confidence of the intended users ... about the subject matter information". The practitioner may consider that the proposed engagement has a rational purpose if it is designed to enhance user confidence in a way that is logical, coherent and appropriate in the engagement circumstances. The application material in S.A56 sets out certain considerations that may be relevant in determining whether the purpose of a proposed assurance engagement is rational.

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

- (a) Whether the preparer has identified (1) the purpose of the engagement (2) the intended users and (3) their information needs and whether the applicable criteria were designed for a general or special purpose. If not, the practitioner may request the preparer to do so and consider the implications for acceptance if they do not.
- (b) Who the practitioner expects to use the assurance report and the EER report and whether either is expected to be used or distributed more broadly than to the proposed addressees of the assurance report.
- (c) Whether the identified purpose, intended users and their information needs, the proposed scope of the engagement (perimeter of the subject matter information and level of assurance), the underlying subject matter and the criteria are consistent with each other and with the practitioner's knowledge of the engagement circumstances.
- (d) Whether any aspects of the subject matter information are expected to be excluded from the assurance engagement and the reason for their exclusion, assuming the subject matter information is expected to address the significant information needs of the intended users.
- (e) Who selected the criteria, including whether and the extent to which the intended users or other parties were involved in selecting or developing the criteria and the degree of judgment and scope for bias where parties other than the intended users were involved in doing so.
- (f) Whether the proposed level of assurance for the engagement (and therefore what would constitute sufficient appropriate evidence) is expected to reduce engagement risk to a level which is at least meaningful in the circumstances of the engagement, having regard to the extent of the consequence to the intended users of an inappropriate conclusion by the practitioner.
- (g) Where the proposed level of assurance for the engagement is limited assurance, whether the intended users' need for assurance may even be so great that a reasonable assurance engagement is needed to obtain a meaningful level of assurance.
- (h) Whether the scope of the practitioner's work is expected to be limited significantly (S.26, S.A54-55), such that the practitioner's conclusion may not sufficiently enhance the degree of confidence of the intended users in the EER report.
- (i) If the appropriate parties (S.13) are not all the same entity, whether the characteristics of the relationships between these parties could undermine the purpose of the engagement.
- (j) Whether the responsible party, if they are not the measurer or evaluator, consents to the proposed use of the subject matter information and will be able to review it before it is made available to intended users or to distribute comments with it.

- (k) Whether the practitioner believes that the preparer intends to associate the practitioner's name with the underlying subject matter or the EER report in an inappropriate manner, including whether the nature of the engagement and underlying subject matter is relevant to the practitioner's field and knowledge, and why the practitioner is being asked to perform the engagement.

*Considering whether the underlying subject matter is appropriate*

73. The application material in S.A40-A44 sets out guidance on what it means for the underlying subject matter to be appropriate. Considerations include whether the underlying subject matter is identifiable, and capable of consistent measurement or evaluation against the applicable criteria such that the resulting subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion, as appropriate.
74. Identifiable underlying subject matter means that the different aspects of the underlying subject matter are well-defined and distinct from other things (see example below). All assurance engagements have an underlying subject matter, which is related to the purpose and intended users of the EER report, and to which the criteria are applied to result in the subject matter information. As discussed in G.87-89, there needs to be a coherent relationship between the underlying subject matter, the criteria and the subject matter information when considering the scope and determining whether the engagement has a rational purpose.

EXAMPLE

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

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



75. Different underlying subject matters have different characteristics, as described in S.A42. Such characteristics affect the precision with which the underlying subject matter can be measured or evaluated against the criteria, and the persuasiveness of available evidence.
76. The level of aggregation or disaggregation of the underlying subject matter may affect the practitioner's consideration of matters such as the suitability of criteria (G.Ch4), the entity's process to identify material aspects of the underlying subject matter to be included in the EER report (G.Ch6), and what might affect the decisions of the identified intended users (materiality considerations, which are discussed further in G.Ch9). For further discussion on the appropriateness of the underlying subject matter and how aspects of the underlying subject matter may be addressed at different levels of aggregation or disaggregation, refer to SupA.II.115.

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

*Considering whether the criteria are suitable*

78. The suitability of criteria is not contingent on the level of assurance. If criteria are not suitable for a reasonable assurance engagement, they would also not be suitable for a limited assurance engagement, if other engagement circumstances were the same. Similarly, if criteria are suitable for a limited assurance engagement, they would also be suitable for a reasonable assurance engagement if other engagement circumstances were the same.
79. Considering whether the criteria are suitable involves considering whether they exhibit the five characteristics set out in S.A45. S.A46-A50 set out further considerations for the practitioner, including that the way in which criteria are developed may affect the work that the practitioner carries out to assess their suitability.
80. As set out in S.A48, criteria can be selected or developed in a variety of ways. EER framework criteria may not include all the characteristics of suitable criteria. Such frameworks often are less prescriptive about the scope of the underlying subject matter to be addressed in an EER report, or how to measure or evaluate and disclose the underlying subject matter, as compared to financial reporting frameworks. In such circumstances, the preparer will need to develop the criteria further in order for the criteria to exhibit all the characteristics of suitable criteria.
81. One area where the development of such criteria may be needed is when the framework does not include criteria to identify the reporting topics for inclusion in an entity's EER report. In such circumstances, the entity will apply a process to select criteria from other frameworks, or to develop its own. In these circumstances, it may be helpful for the practitioner to consider the preparer's process for identifying reporting topics to include in its EER report in order to obtain a sufficient preliminary knowledge of the engagement circumstances. A more detailed consideration of the preparer's process may be undertaken when the practitioner obtains an understanding of the engagement circumstances as required by S.45-47L/R, and as discussed further in G.Ch6 *Considering the Entity's Process to Identify Reporting Topics*.

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

82. To accept an assurance engagement as an attestation engagement, the practitioner is required to determine that the preparer has a reasonable basis for the subject matter information in the EER report as part of the precondition that the roles and responsibilities of the preparer are suitable. The practitioner is also required to determine that they expect to be able to obtain sufficient appropriate evidence. Practitioners may encounter entities at varying stages of development of their system of internal control, and whether these preconditions are present may depend on the extent to which the entity's system of internal control is, in the practitioner's professional judgment, able to support those preconditions, taking into account the nature, extent and complexity of the underlying subject matter and criteria.
83. Considering the entity's system of internal control may assist the practitioner in determining whether the preconditions for an assurance engagement are present. Understanding the work effort in doing so is addressed below under Work Effort in Determining Whether the Preconditions are Present (see G.102-105). Guidance on the more detailed understanding of the entity's processes and systems of internal control obtained at the planning stage of the engagement is included in G.Ch5 *Considering the System of Internal Control*.

## **Agreeing the Scope of the Engagement**

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

### *Considering the proposed perimeter of the subject matter information*

85. The Standard can be applied to engagements of diverse scopes, provided that the preconditions in S.24, and the other acceptance requirements are met. The preparer may propose a perimeter of the subject matter information which may be an entire EER report or only part(s) of an EER report in different circumstances.
86. In the initial stages of an entity's EER reporting, as it is still developing, a practitioner may not be able to determine that the preparer has a reasonable basis for all of the information included in the EER report, so the perimeter of the subject matter information may be only those parts of the EER report for which the preparer does have a reasonable basis. In other circumstances, the preparer may propose a recurring EER assurance engagement in which the perimeter of the subject matter information is subject to variation from period to period. For example, the preparer may propose a perimeter that increases from period to period (G.90-93) or one that varies in a 'rolling program' of assurance (G.94-99). One consequence of a changing perimeter may be a loss of comparability from period to period, which is discussed further in G.Ch4.

### *Considering a proposed perimeter of the subject matter information that includes only part(s) of an EER report*

87. If considering a particularly narrow scope for the EER assurance engagement, for example covering only a few specific measures or indicators in isolation, rather than the entire EER report, careful consideration may be needed to determine whether the preconditions are present.
88. When the subject matter information is less than all of the information included in the EER report, the engagement criteria and underlying subject matter will not be the same as the criteria and underlying subject matter that gave rise to all the information in the EER report. They will be narrower in scope as they relate to a narrower boundary, but there still needs to be a coherent relationship between the subject matter information, criteria, and underlying subject matter, such that applying the criteria to the underlying subject matter gives rise to the narrower scope of subject matter information.
89. Selecting only those parts of the information included in the EER report that are easier to assure or that present the entity in a favorable light would not be appropriate unless the selected subject matter information, criteria and underlying subject matter have an appropriately coherent relationship and the preconditions for acceptance of the proposed assurance engagement are present, including that the engagement has a rational purpose. Whether the engagement has a rational purpose may be influenced particularly by the extent to which criteria are neutral in the circumstances and the relative importance of EER information within the perimeter of the subject matter information in assisting decision-making by the intended users in the context of the purpose of the EER report. This is a matter of professional judgment in the circumstances of the engagement and is an area where it may be important for the practitioner to exercise professional skepticism. An example of underlying subject matter, criteria and subject matter information that have not been applied in a cohesive manner is set out in SupB.2. An example of a narrow scope engagement which may have a rational purpose is set out below.



## EXAMPLE

A water utility company reports annually on a number of KPIs, including customer satisfaction, value for money, time lost through interruptions of water supply, leakages, the quality of its drinking water, and the quality of bathing waters where the company discharges wastewater to the sea.

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

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



*Considering a proposed perimeter of the subject matter information that increases progressively from period to period*

90. Entities producing EER reports typically implement gradual changes to their governance and controls to support their EER reporting as it becomes more established and formal. Where an entity's governance and controls over EER are in the process of developing, the preparer may not have a reasonable basis for reporting on all aspects of the underlying subject matters or for all the information included in the EER report.
91. Nevertheless, the preparer may wish to obtain assurance on those areas for which the preconditions could be met and to disclose in the EER report that they are working on developing the governance, processes and systems to extend the scope of assurance in other areas in due course. Consideration of the reasons for the preparer wishing to include only certain part(s) of the information included in the EER report within the scope of assurance is needed to determine whether the reasons for the narrower scope to be assured are appropriate and the proposed engagement has a rational purpose.
92. A further consideration for the practitioner is whether they are aware that there are deficiencies in the entity's EER reporting process (G.Ch5) for information in the EER report that is not within the perimeter of the subject matter information for the engagement. If so, the practitioner may need to consider the implications for acceptance of the proposed engagement in the context of their responsibility to address the excluded information as other information in the proposed engagement (for further guidance relating to 'other information' see G.Ch11).
93. Where the entity's governance and controls over EER are in the process of developing, it may be expected that more part(s) of the information included in the EER report would fall within an evolving scope of the subject matter information for successive EER assurance engagements as the entity's EER governance, reporting processes and systems evolve. Although there may be a rational purpose to the entity continuing to obtain assurance on only some parts of its EER reporting, if the entity is falling behind market expectations for what is reported and assured, and does not make any attempt to include further information in the EER report within the scope of the assurance engagement in later periods, that may (unless user information needs have changed) call into question the entity's reasons for reporting the subject matter information and whether the assurance engagement has a rational purpose.

*Considering a proposed perimeter of the subject matter information that varies cyclically from period to period (a 'rolling program')*

94. The entity may wish to establish a program to systematically vary the perimeter of the subject matter information year on year, which may involve including all or most aspects of the subject matter information in the scope over a repeating cycle ('rolling program'), due to cost considerations.
95. A rolling program of the subject matter information means that different parts of the EER report are within the perimeter of the subject matter information each year, and each part may be within the perimeter of the subject matter information only once every few years. When all of the EER report is within the perimeter of the subject matter information each year but the practitioner performs assurance procedures on different aspects of the subject matter information each year, this is not a rolling program but is an aspect of selecting items for testing. For example, in the context of a financial statement audit, while stock from all of the entity's locations is included in the financial statements each year (i.e. it is not part of a rolling program as it is subject to audit each year), the auditor may choose to attend stock counts only at certain, but not all, of the locations. Similarly, in the context of an EER assurance engagement, for example, to obtain assurance on the entity's GHG emissions, the practitioner may choose to visit some of the entity's sites each year, focusing on larger sites or those that are assessed to be higher risk. The practitioner may select some of the same sites and some different ones each year, introducing some unpredictability into the procedures.
96. A cyclical variation in the perimeter of the subject matter information of a proposed recurring assurance engagement from period to period raises questions related to determining the scope of the assurance engagement and assessing the preconditions for assurance.
97. When the preparer proposes such an EER assurance engagement, the practitioner may need to understand the reasons and consider whether those reasons are appropriate in the context of the preconditions for acceptance, taking into account the assurance needs of the intended users. Such a proposal may have implications for whether the proposed engagement has a rational purpose, whether the criteria are relevant (they may lack comparability for example) or complete for each period addressed, it could be difficult for intended users to understand that assurance is limited to different reporting matters from year to year and may be misleading. Determining whether the preconditions are present for the proposed engagement could require significant judgment and it may be important for the practitioner to exercise professional skepticism.
98. When such a program is considered to result in successive assurance engagements that each has a rational purpose, the criteria for presentation and disclosure may be particularly important to allow the intended users to understand the approach the preparer has taken and the boundaries of the subject matter information in the EER report that has been assured.
99. When an evolving or rolling program of assurance engagements is proposed by a preparer and accepted by a practitioner, users may expect it to be followed consistently as designed. However, the 'other information' may change from period to period. The information included in the EER report related to those aspects not within the perimeter of the subject matter information in a particular period become 'other information'. The practitioner also needs to be alert to changed engagement circumstances that may mean continuance of the proposed recurring engagement is no longer appropriate for subsequent periods. For an example of when a rolling program may be appropriate, refer to SupB.3. An example of when a rolling program may not be appropriate is set out below.

## EXAMPLE

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

In this example, including water usage and wastewater for assurance on a rolling basis may not have a rational purpose as such an assurance engagement may not meet the intended users' needs. Users are likely to be interested in what the company is doing on an ongoing basis to reduce its water consumption. It is likely that a rolling basis of assurance, where some sites were excluded from assurance in a particular year(s), would not reflect a rational purpose in this situation.



*Considering the proposed level of assurance to be obtained*

100. The proposed level of assurance to be obtained (limited or reasonable) may influence the practitioner's consideration of the acceptable, or an acceptably low, level of engagement risk and the nature, timing and extent of procedures the practitioner performs as part of their evidence-gathering procedures.
101. What is an acceptable, or an acceptably low, level of engagement risk may vary according to the circumstances of the engagement including the information needs of the intended users as a group, the criteria, and the underlying subject matter. Determining the nature, timing and extent of procedures to be performed in the context of the level of assurance to be obtained may require considerable skill in the exercise of professional judgment and professional skepticism.

**Work Effort in Determining Whether the Preconditions are Present**

102. The practitioner determines whether the preconditions for an assurance engagement are present based on a preliminary knowledge of the engagement circumstances (see G.51) and discussion with the appropriate party(ies).
103. The greater the complexity of the underlying subject matter or the more susceptible it is to management bias, the greater may be the need for the practitioner to understand the systems, processes and controls in place that provide a reasonable basis for the subject matter information before being able to determine whether the preconditions are present.
104. In a complex engagement, or one in which the preparer has further developed the framework criteria or has developed its own criteria, the practitioner may wish to consider bringing forward some of the procedures that ordinarily would be performed as part of planning. For example, the practitioner may perform a walk through to understand the processes for recording the information, or may suggest carrying out an 'assurance readiness assessment' (G.107.b).
105. On small, less complex engagements, a discussion with the preparer to obtain sufficient preliminary knowledge may be appropriate. Whether the engagement is complex or relatively less complex, the practitioner's preliminary knowledge needed to arrive at a decision about the preconditions and to exercise the professional skepticism and professional judgment required by the Standard, may include a sufficient understanding of, as applicable:
  - (a) The entity's business and its operating environment.
  - (b) Who the intended users of the EER report are and what would affect their decision-making.

- (c) The underlying subject matter and, where relevant, its relationship to other underlying subject matters the entity reports on.
- (d) Whether the entity is requesting assurance on a narrow part of the information presented within the EER report, and the reasons for that request.
- (e) The criteria used and how they were selected or developed, and
- (f) Where the EER subject matter information is to be presented, for example, included in a financial filing or in a standalone report.

*Initial engagements*

106. When the proposed engagement is an initial engagement, it is likely that the work effort to determine whether the preconditions are present may be greater than in the case of a continuing engagement, especially when the entity's process to prepare the EER report is in the early stages and still evolving, or when the proposed engagement is complex.
107. There are various possible approaches the practitioner may take, depending on the circumstances, which may or may not involve performing a separate non-assurance engagement:
- (a) No separate engagement performed – performing more extensive pre-acceptance procedures, for example, it may be possible to bring forward some of the procedures that are ordinarily performed as part of planning or to consider knowledge obtained from other engagements the practitioner performs for the entity (G.104); or
  - (b) Carrying out a separate pre-acceptance engagement – to determine whether the preconditions are present, and to identify actions for management to consider to address impediments to acceptance, if the preconditions are not present (G.117-118) – such an engagement may be referred to as an 'assurance readiness engagement'. The focus is on performing pre-acceptance procedures, on agreed terms, for a proposed EER assurance engagement, without any pre-commitment to accept the engagement; or
  - (c) Carrying out a separate advisory engagement – to evaluate and advise management or those charged with governance on the current state of the entity's EER reporting process, and related controls in other components of the entity's system of internal control. An objective of the engagement may also be to provide advice on actions that the entity may need to take, to develop the process and related controls to the point where the process provides management or those charged with governance with assurance that the quality of the EER report is appropriate in the circumstances. Such an engagement may be referred to as a 'maturity assessment'. The focus is on the state of development and quality of the entity's EER reporting process. (G.111).
108. There may be little difference in the nature of the practitioner's work in the approaches set out in G.107.a and G.107.b. The main distinction is the existence of a separate agreement to perform the work in (b). In either (a) or (b), the practitioner may also provide comments on the entity's state of readiness for the proposed EER assurance engagement. The nature of the practitioner's work in (c) is also likely to be similar to (a) or (b), insofar as (a) or (b) address the entity's EER reporting process, but the work effort may be less extensive in doing so.
109. However, (a) and (b) would be performed primarily for the practitioner to determine whether to accept the proposed engagement, with any comments provided as a by-product. Aspects of the preconditions and other acceptance requirements other than the entity's EER reporting process that would not be addressed in (c) might additionally be addressed in (a) and (b). On the other

hand, (c) would be performed primarily for the practitioner to provide professional advice to management or those charged with governance.

110. Approaches (a) and (b) may assist the practitioner in managing a preparer's expectations about the potential to perform a proposed EER assurance engagement in the circumstances that would prevail. These approaches provide the entity's management or those charged with governance with useful input about the entity's readiness for an assurance engagement. Such input may encourage and assist management or those charged with governance, to take steps to enhance their readiness when impediments are identified, including any identified in the entity's EER reporting process.
111. Approach (c) may include considering the design and implementation of the entity's EER reporting process and related controls in other components of the entity's system of internal control, either as a whole or aspects of it. For example, the practitioner might advise on the entity's process to select or develop criteria, or the suitability of performance measures the entity has selected, or is developing, or on whether the entity's external data sources are appropriate and the data obtained from them is suitably controlled.

#### Independence considerations

112. Depending on how the approaches discussed in G.107.a-c are implemented, self-review, self-interest or advocacy threats to the practitioner's independence in relation to the proposed EER assurance engagement may arise if it were later accepted.
113. For example, a self-review threat to the practitioner's independence is created in approach (c) if the practitioner were to advise on the suitability of performance measures that the entity is proposing to use, and the practitioner would subsequently be required to evaluate the suitability of such performance measures if the proposed EER assurance engagement was accepted. Self-review and other threats to independence are also created if the practitioner assumes a management responsibility when performing a non-assurance service related to the underlying subject matter or the subject matter information of the proposed EER assurance engagement or if the practitioner is involved in the preparation of the subject matter information. The nature and level of any threat would depend on the circumstances, including whether in providing the non-assurance service the practitioner would assume a management responsibility. Any threat created would need to be evaluated and addressed in accordance with relevant ethical requirements if the practitioner anticipates accepting the proposed assurance engagement.
114. Similar considerations may be relevant with respect to aspects of the work in approaches (a) or (b), including when the practitioner provides input to management or those charged with governance about aspects of the underlying subject matter, subject matter information or criteria for the proposed EER assurance engagement or on the entity's EER reporting process or related controls.
115. The International Code of Ethics for Professional Accountants (including International Independence Standards) (the 'IESBA Code') sets out specific requirements and application material relevant to applying the conceptual framework in circumstances where a practitioner provides certain non-assurance services to assurance clients that may create threats to compliance with the fundamental principles or threats to independence.
116. However, providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility if management of the entity makes all related judgments and decisions that are the proper responsibility of management. Similarly, if the practitioner assists the preparer in documenting

criteria that the entity has developed but not documented, based on discussions with the preparer, a self-review threat is not created in the particular circumstances.

**Response where the Preconditions are not Present**

117. Where the practitioner establishes that the preconditions for an assurance engagement are not present, the practitioner may discuss this with the potential engaging party (management or those charged with governance). If changes cannot be made to meet the preconditions, the practitioner is not permitted to accept the engagement as an assurance engagement unless required to do so by law or regulation (S.25).
118. In circumstances where the preparer has not met its responsibilities and the practitioner cannot decline acceptance of the engagement due to law or regulation, the practitioner may need to consider whether it is necessary to express a qualified conclusion or disclaim a conclusion. An engagement conducted under such circumstances does not comply with the Standard. Accordingly, the practitioner is not permitted to include any reference within the assurance report to the engagement having been conducted in accordance with the Standard or any other ISAE(s) (S.25).

**EXAMPLE**

A public sector audit organization may be required by law or regulation to accept an assurance engagement on the service performance information of a public sector body. This may be the case even if the audit organization determines that the preconditions are not present.

## Chapter 4: Determining the Suitability and Availability of Criteria

### Matters Addressed by the Guidance in this Chapter

119. This Chapter provides guidance to the practitioner that is relevant during the planning stage of an EER assurance engagement, in determining whether the criteria are suitable for the engagement circumstances, including that they exhibit the characteristics identified in the Standard (S.41 and S.24.b.ii). This guidance is particularly relevant when available framework criteria are not established criteria or prescribed by law or regulation, because it cannot be presumed that such criteria are suitable (S.A49), or when the framework includes high-level principles, but those principles are not expressed at a sufficient level of detail to comprise suitable criteria in themselves.
120. The practitioner may need to consider criteria that the entity has developed or selected from one or more such available framework(s). When the entity develops its own criteria or selects from criteria in such frameworks, the practitioner's determination about their suitability may be more extensive and may need to consider any subjectivity or opportunity for management bias involved in the judgments made by management.
121. In making this determination, the practitioner builds on their consideration of suitability during acceptance or continuance of the engagement, in determining whether the preconditions were present, based on a preliminary knowledge of the engagement circumstances (see G.Ch3).
122. This chapter also provides guidance to the practitioner in considering whether the criteria will be made available to the intended users of the EER report in a suitable manner, when the criteria include entity-developed criteria or criteria selected from multiple available frameworks.
123. The guidance in this chapter addresses the application of S.41 during planning, but may also assist the practitioner when considering the suitability and availability of criteria in determining whether the preconditions are present (G.Ch3).

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

124. The definition of criteria in the Standard (S.12.c) refers to them as 'benchmarks'. As such, EER criteria may specify how to identify, measure or evaluate, or make disclosures about, relevant (aspects of) underlying subject matter (hereafter the relevant (aspects of) underlying subject matter are referred to as 'reporting topics'), or may address how to present the subject matter information in the EER report, in the context of achieving the purpose of that report. Criteria include, for example, the definitions of performance indicators, measurement or evaluation bases and other reporting policies, which together establish the whole basis of preparation of the EER report.
125. Established criteria include those issued by authorized or recognized bodies of experts that follow a transparent due process if they are relevant to the intended users' information needs (S.A49). Criteria in financial reporting frameworks are typically established criteria, and the recognition, measurement, presentation and disclosure bases that they incorporate are the basis for the accounting policies applied by the entity. Compared with financial reporting frameworks, EER frameworks are often less prescriptive about the criteria to be used to identify the reporting topics or to measure or evaluate the underlying subject matter.
126. Criteria used for a particular assurance engagement, referred to as the 'applicable criteria' (see S.12.c) may be taken from an EER framework, or developed by the entity itself, or a combination of both. Established criteria (S.A49) are presumed to be suitable, in the absence of indications to

the contrary. When the entity is using established criteria, the practitioner may consider whether there are any indications that the criteria are not suitable.

127. As discussed in G.Ch3, criteria in EER frameworks may not be established criteria or may not be suitable in themselves. EER frameworks often require adherence to a set of high-level principles, but those principles may not be expressed at a sufficient level of detail to enable the preparer to identify the reporting topics, determine how to measure or evaluate them, or determine how to present the resulting subject matter information, in a reliable manner in accordance with those high-level principles.
128. When applying an EER framework that lacks the necessary detail or is not sufficiently comprehensive to comprise suitable criteria on its own, an entity may also include criteria from one or more available EER frameworks, which may provide diverse options, or by using their own entity-developed criteria (see also G.Ch6 *Entity's Process to Identify Reporting Topics*).
129. When an entity selects criteria from diverse options in multiple available frameworks, the criteria selected may not be sufficiently relevant if they lack comparability from period to period and between entities. In addition, there may be subjectivity in selecting criteria in these circumstances or when the entity develops its own criteria. Criteria may also be complex, especially when the underlying subject matter is complex or subjective (see also G.Ch1 on competence).
130. Subjectivity in selecting or developing criteria may influence the difficulty of management judgment or the opportunity for management bias in determining the criteria for identification of reporting topics or for their measurement or evaluation. Complexity in criteria may influence the practitioner's need for subject matter competence or to use the work of a practitioner's expert(s) (see G.Ch1).
131. Such subjectivity or complexity may also influence the need for the practitioner to exercise professional judgment and professional skepticism in determining the suitability of such criteria in an EER assurance engagement (see G.Ch2) and may result in a more extensive or difficult determination by the practitioner.

## **Determining the Suitability of Criteria**

### *Introduction*

132. Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment (S.A10). Suitability is judged in the context of the engagement circumstances. Without suitable criteria, the subject matter information may be open to individual interpretation where there is undue subjectivity, increasing the risk that the subject matter information may not be useful to, or may be misunderstood by the intended users.
133. The explanations of the five characteristics of suitable criteria (S.A.45) describe attributes of subject matter information that results from applying criteria that have such characteristics (see G.139-160). The five characteristics are in many cases inter-related. Although each characteristic must be exhibited, the relative importance of each and the degree to which they are exhibited by individual criteria may vary with the engagement circumstances.
134. In addition to exhibiting the characteristics of suitable criteria, an overarching principle is that criteria developed by the entity would not be suitable if they result in subject matter information that is misleading to the intended users (S.A50). The subject matter information could be misleading if the characteristics of suitable criteria are not sufficiently exhibited by some of the

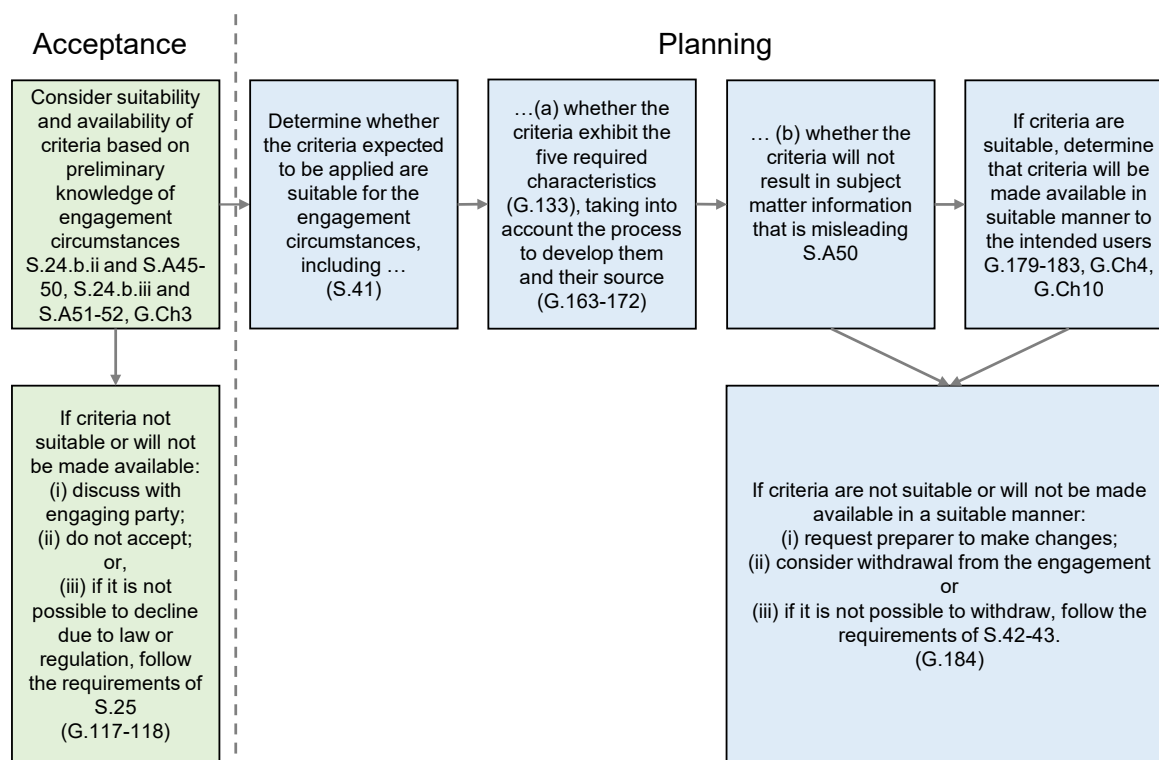


criteria, for example reliability may be insufficiently exhibited if the measurement or evaluation criteria, taken together with related disclosure criteria, are overly subjective.

*Considerations for the practitioner*

135. The following diagram shows a thought process that the practitioner may follow in determining the suitability and availability of the criteria and is referenced to the Guidance below:

*Qualitative characteristics of EER information required by an EER framework*



**Diagram 6 – Considering Suitability and Availability of Criteria**

136. When the applicable criteria are not established criteria or prescribed by law or regulation, or the framework includes high-level principles but those principles are not expressed at a sufficient level of detail to comprise suitable criteria in themselves, the practitioner may find it helpful to consider the extent to which the criteria include qualitative characteristics of the required EER information and, if so, how they compare with the attributes of subject matter information that results from applying criteria that exhibit the characteristics of suitable criteria.

137. Many of the commonly used EER frameworks use different terms to describe qualitative characteristics of EER information that are similar to such attributes of subject matter information. Additionally, some qualitative characteristics of the EER information required by a framework may be implicit in the reporting requirements rather than being explicitly identified in the EER framework.

138. The engagement circumstances may include use of an EER framework that implicitly or explicitly requires different or more specific characteristics of the applicable criteria than the characteristics of suitable criteria required by the Standard. Where an EER framework includes such additional or more specific characteristics of criteria, it is still necessary for the applicable criteria to exhibit each of the five required characteristics of suitable criteria. For instance, when an EER framework requires characteristics of EER information such as comparability and conciseness (see G.156,

G.160), the criteria may be seen as requiring characteristics that are more specific aspects of understandability and relevance, respectively.

139. Some factors the practitioner may find helpful to consider in relation to each characteristic, in determining whether the criteria are suitable, are set out in G.140-160 below, and are illustrated in SupB.4;9;10;11 and 12.

*Characteristics of suitable criteria*

Relevance

**S.A45.a.**  
 Relevance: Relevant criteria result in subject matter information that assists decision-making by the intended users.

140. As relevance relates to the user decision-making, the practitioner may wish to reflect on the intended users and their information needs (G.71.B and G.232-243).

141. Understanding how subject matter information could assist intended users' decision-making may be approached by:

- (a) Considering whether, and if so the extent to which, the preparer has:
  - (i) Considered the general types of decisions that intended users are expected to make based on the purpose of EER report; and
  - (ii) Considered whether the applicable criteria for identifying, and for measuring or evaluating and providing disclosures about, reporting topics would result in subject matter information that assists intended users' decision-making in the context of the purpose of the EER report.
- (b) If the preparer has considered the matters in (a), evaluating the conclusions of the preparer on those matters; or
- (c) If the preparer has not considered the matters in (a), asking the preparer to do so, and if necessary, considering whether the practitioner has a reasonable expectation of being able to address the matters in (a) directly.

**EXAMPLE**

Historically, an entity reporting on HR matters to its shareholders may have been confined to reporting on those matters required by law or regulation, which may have specified the nature of the information to be reported, such as gender pay gap reporting.

When the intended users include trade unions or the entity's employees, the entity may consider that it is appropriate to use criteria for reporting about HR matters that require reporting about matters such as gender diversity, training, and health and safety matters and how to measure or evaluate those matters.

The criteria for reporting on HR matters in an integrated report requires reporting about matters such as the entity's HR strategy and how it relates to its overall business strategy and contributes to value creation within the organization.

142. When entities develop their own criteria and those entity-developed criteria are the result of a rigorous internal process, involving input directly from both the intended users and those charged

with governance, they are more likely to be relevant than if the entity has developed them without such a process or such input (G.Ch6).

143. Relevance of criteria (and hence whether the resulting subject matter information assists intended users' decision-making) may be affected by the inherent level of measurement or evaluation uncertainty in applying the criteria in the circumstances of the engagement. When subject matter information is subject to high inherent measurement or evaluation uncertainty, the related criteria may be relevant only if they require additional supporting information about the nature and extent of the uncertainty. In circumstances when the underlying subject matter is subject to high measurement uncertainty, the criteria for presentation and disclosure may become relatively more important so that the nature and extent of the uncertainty is clear in what is presented.

## EXAMPLE

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



Refer also to the discussion of 'accuracy' and 'precision' in G.152, and further consideration of measurement uncertainty in G.325-G.327.

144. The degree of relevance of an applicable criterion is not binary. Instead, the degree to which it assists intended users' decision-making may be on a scale that varies depending on the circumstances of the engagement. Nevertheless, whether the criteria are relevant or not is a professional judgment that the practitioner needs to make. Its relevance may also need to be considered in the context of other criteria (e.g., see G.143).
145. The practitioner may also consider the requirements of the criteria to disaggregate or aggregate information as they may affect both whether the criteria are suitable, and the context for materiality considerations for misstatements. EER frameworks do not always specify in detail the required level of aggregation or disaggregation. They may, however, include principles for determining an appropriate level of aggregation or disaggregation in particular circumstances.
146. Criteria may be more relevant and comparable across entities if they are consistent with established measurement bases and benchmarks that are generally recognized to be valid in the context of the entity's industry or sector. However, there may be good reasons not to use such criteria, for example where the entity can develop more relevant criteria that are also reliable and made available to the users by inclusion in the EER report.
147. The practitioner may also consider any criteria that permit non-disclosure in the EER report of information about subject matter information, on the basis that it is confidential or would potentially damage the entity's reputation, when that information assists intended users' decision-making. Such criteria may not be sufficiently relevant or complete. However, they might be considered sufficiently relevant and complete in certain circumstances. For example, an established framework criterion may permit non-disclosure in extremely rare circumstances where the

adverse consequences of disclosure would reasonably be expected to outweigh the public interest benefits of such communication. A further example may be when law or regulation precludes public disclosure of information, such as information that might prejudice an investigation into an actual, or suspected, illegal act. Such criteria may be presumed to be suitable if there are no indications to the contrary.

148. If non-disclosure of confidential information is not permitted by the applicable criteria, such non-disclosure would ordinarily be treated as a misstatement, and the materiality of this misstatement would then be considered (see G.Ch9). The practitioner would then respond accordingly if the misstatement is material and may need to consider the implications for the assurance report.

#### Completeness

##### S.A45.b

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

149. Criteria are required to be complete so that the intended user is able to make informed decisions by having access to subject matter information that does not omit relevant factors that are material (see G.Ch9 for materiality considerations) in the context of the circumstances of the entity and the purpose of the EER report.
150. The application of complete criteria is expected to result in subject matter information that includes all relevant factors, including information that represents negative aspects of what is being reported on (also see 'neutrality' below).
151. There may be a need for a balance to be struck between an EER report being overly comprehensive and it still being concise enough to remain understandable.

#### Reliability

##### S.A45.c

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

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

**EXAMPLE**

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

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

## Neutrality

**S.A45.d**

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

155. Neutral criteria would normally be designed to cover both favorable and unfavorable aspects of the underlying subject matter being reported on, in an unbiased manner. Criteria would not be neutral if they could mislead the intended user in the interpretation of the subject matter information.

**EXAMPLE**

In relation to the results from an employee survey, neutral criteria may need to require reporting both the results from questions with favorable responses as well as those with less favorable ones, rather than selectively reporting only the 'best' results. In addition, the criteria may need to specify the way in which the survey questions are framed and what questions are asked as these aspects may also have an impact on whether the survey results present the underlying subject matter in a neutral manner.



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

## Understandability

**S.A45.e**

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

158. Understandable criteria typically result in subject matter information that will enable the intended users to identify readily the main points being made and to infer appropriately whether they are sufficiently significant to affect their decision-making. This is likely to be assisted by a clear layout and presentation of the subject matter information in a way that effectively summarizes and draws attention to these points.
159. The criteria ideally result in the EER report being coherent, easy to follow, clear and logical.
160. There may be a need for a balance between criteria that are sufficiently relevant and understandable. For example, criteria may require subject matter information to be at a sufficient level of disaggregation to assist decision-making by the intended users (relevance) while also being sufficiently concise to be understood by them.

**Considering the Process to Develop the Criteria and Their Source***Considering how criteria are developed*

161. How criteria are developed may affect the work that the practitioner carries out to determine their suitability, whether they are established criteria or entity-developed criteria. In considering the nature and extent of the work that the practitioner intends to carry out to determine suitability of the criteria, it may be helpful for the practitioner to consider the process followed by the framework setter or the entity.
162. The practitioner may find it helpful to consider the extent to which the process addresses matters such as the purpose of the EER report, the usefulness of the EER information to the intended users (including whether it requires attributes of the EER information that correspond to the attributes of subject matter information that results from applying criteria that have the characteristics of suitable criteria), whether the process is transparent, and whether it involves stakeholder engagement.

*Established criteria*

163. Where indications exist that established criteria may not be suitable, the practitioner cannot presume that the criteria are suitable and may need to perform further work to consider whether the criteria are suitable, taking into account the implications of those indications.
164. Criteria contained in some commonly used EER frameworks are issued by global organizations that are recognized bodies of experts following a transparent due process, and criteria specified by these EER frameworks are often relevant to the intended users' information needs.
165. However, in some cases, such an organization's process to develop criteria may not be fully developed or may result in an EER framework, which may be prescribed by law or regulation, that includes high-level principles that are not expressed at a sufficient level of detail to comprise suitable criteria in themselves. Depending upon the extent of the lack of specificity, the preparer may choose to communicate aspects of the criteria (e.g., which energy index was selected from options in the framework) through disclosure in the EER report. However, if the framework is significantly lacking in specificity, it may indicate that the criteria in that framework, on their own,

may not be suitable. As a result, there may also be a need for the entity to have additional entity developed criteria (or additional criteria selected from another framework), even though the established criteria may have been issued following a transparent due process.

*Entity-developed criteria and criteria selected from multiple frameworks*

Considering the entity's process to develop or select criteria

166. When an entity develops its own criteria or selects criteria from multiple available frameworks, the preparer applies a process to make judgments about the criteria it will use. Such a process to develop or select criteria is part of the entity's information system (see G.199).
167. When an entity has selected criteria from one framework, or developed its own criteria, to supplement criteria from a (another) framework, it may be helpful for the practitioner to consider how any high-level principles of the framework(s) were applied in the entity's process. The practitioner may also consider how such principles compare with the characteristics of suitable criteria.
168. More generally, when considering entity-developed criteria, it may be helpful for the practitioner to consider whether and, if so, the extent to which, the entity's process develops the criteria in a manner such that the entity-developed criteria, taken together with any framework criteria the entity is using, are suitable criteria.
169. Circumstances when the framework does not include criteria for identification of reporting topics, or only includes criteria that provide high-level principles for doing so but that are not sufficiently detailed to be suitable criteria in themselves, are discussed in further detail in Chapter 6: *Considering the Entity's Process to Identify Reporting Topics*. G.225-253 address considerations for the practitioner when the entity applies a process to develop its own criteria for identification of reporting topics. That guidance may be applied, adapted as necessary, whenever an entity applies a process to develop its own criteria or to select criteria from one or more frameworks that are not established criteria. In doing so, the practitioner may also apply considerations similar to those highlighted in G.165 to the entity's process.

Considerations when the perimeter of the subject matter information is not the entire EER report

170. In considering entity-developed criteria, the practitioner may need to understand not only entity-developed criteria for the subject matter information within the proposed scope of the assurance engagement, but also criteria for the preparation of any other part(s) of the information included in the EER report but not within the scope of the engagement (see G.286) Similarly the practitioner may consider the entity's process to develop such criteria (the 'wider process').
171. Doing so would enable the practitioner to consider matters such as:
  - (a) Whether there may be omissions of relevant parts of the EER report from the perimeter of the subject matter information for the engagement, and whether such omissions call into question the rational purpose of the engagement; and
  - (b) Whether and how the subject matter information is used in the preparer's own decision-making processes:
    - (i) If information relating to an entity's decisions is important to its stakeholders, then it may be reasonable to expect that the entity would be using that information in its own decision-making.
    - (ii) If the company is using the information in its decision-making, then it may be reasonable to expect that a user may be interested in that information.

- (iii) If the information is not used for the entity's own decision-making, that may raise a question as to why the information is being reported, and whether there may be bias in selecting as subject matter information only those parts of the EER report that are easily subject to an assurance engagement or that present the entity in a positive way.
172. Any practitioner consideration of the 'wider process' may be at a lower level of detail than where the boundary of the subject matter information for the engagement is the entire EER report. In a narrower scope assurance engagement, any consideration of the wider process would be to identify matters that have not been, but should have been, included within the narrower scope, rather than to focus on whether there are suitable criteria for all the information included in the EER report.

Indications that the preconditions are not present

173. Considering the entity's process to develop its own criteria, after acceptance or continuance, may identify matters that indicate that the preparer does not have a reasonable basis for the subject matter information. In those circumstances, the requirements in S42 may apply (see G.184 and G.188).

#### **Considering Changes to Criteria Over Time**

174. The suitability of criteria is not necessarily related to their maturity or the entity's experience of applying them. In the first few years of preparing EER reports, an entity may be developing and improving its EER reporting process such that entity-developed criteria (potentially designed to supplement an EER framework) may change and evolve between reporting periods. Regardless of this, the practitioner exercises professional judgment to determine whether the criteria are suitable each time an EER report is subject to an assurance engagement.
175. Changes to criteria and measurement methods year-on-year may be fairly common for EER when an entity's EER reporting process is developing, and management are innovating to improve their reporting. Such criteria may still be understandable and reliable if there is a reasonable basis for the change and it is sufficiently disclosed and explained in the EER report. Where an entity's reporting is more established, the rationale for changes to criteria might need to be stronger, and the explanation more detailed, to meet intended users' expectations.



## EXAMPLE

An entity reports on the number of people reached by its community training programs on hygiene. In the initial year of reporting, the entity estimated the number of people reached, based on the criteria of: (i) number of attendees enrolling on its training programs multiplied by (ii) the average sized family according to the latest census data.

As it developed its processes to record the information, it added questions to its enrolment forms to ask attendees to indicate (i) whether they or a family member living with them had previously attended the training program or a similar one, and (ii) how many people lived with them and with how many of those they had actively discussed what they had learnt on the training program. The entity also implemented a register system to record attendance and completion of the program. The additional information allowed the entity to update its criteria to: (i) avoid double-counting attendees who had previously attended, (ii) count only those who attended the full program, rather than including those enrolling, but not completing, the program, and (iii) obtain a more up to date estimate of the number of people reached.

176. Where a preparer is using an EER framework that contains established criteria and chooses to modify or adjust those criteria with the result that they are different from those commonly used in the entity's sector, this may be an indicator of potential management bias and of a risk that the resulting subject matter information could be misleading to the intended users. In such circumstances, the practitioner exercises professional skepticism in determining the suitability of the criteria, and in considering whether there is a reasonable basis for the change and whether the change is sufficiently disclosed and explained in the EER report.
177. The more mature the entity's EER reporting process or EER framework is, the less likely it is that changes made by an entity to measurement methods and related disclosures from commonly accepted practice adopted by other similar entities will be appropriate, unless there has been a change in the entity's circumstances, or there are unique features of the entity's business that necessitate a departure from the commonly accepted practice. It may be desirable for the preparer to obtain an acknowledgement from the intended users that the entity-developed criteria are suitable for their purposes.
178. In many cases it may be useful to intended users if the criteria are consistent from one reporting period to the next to aid comparability. Where criteria change, disclosure of the change with an explanation of the reasons for the change may be expected for the criteria to be relevant in the year of the change. Information about the impact of the change, for example re-stating comparative information (where possible and cost-effective), may also be expected for the criteria to be relevant in the year of the change. However, in other circumstances, a temporary reduction in comparability may be appropriate to improve relevance in the longer term.

#### **Considering Whether the Criteria will be Made Available in a Suitable Manner**

179. 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. In the case of an EER framework that has only high level-principles, as there are numerous ways in which high-level principles may be able to be adhered to, the intended user is unlikely to be able to consider whether their needs have been met or to be able to base decisions on the reported information without access to both the framework criteria and any entity-developed criteria.
180. S.A51-A52 describe ways in which criteria may be made available. A practitioner may consider whether the criteria will be made available publicly or in a clear manner, including, for example,

whether the criteria will be disclosed in sufficient detail and sufficiently clearly for the intended users.

181. Entity-developed criteria need to be available to intended users in the same way that any other criteria need to be. While there is not a general requirement to disclose the process for developing such criteria, some frameworks may require such disclosure, at least for parts of the process, for example the Global Reporting Initiative (GRI) framework requires disclosure about the stakeholder engagement process. Even when frameworks do not require it, practitioners may consider it appropriate to encourage preparers to disclose details of their process for their entity-developed criteria (G.Ch6).
182. The criteria may be made available outside of the EER report, for example if an established and publicly available EER framework has been used. In the case of entity-developed criteria, the entity may choose to publish the criteria and reporting policies in the EER report or to make them publicly available on its website, -referred to (as at a particular date) in the EER report.
183. The more familiar intended users are with common measures, the less necessary it may be to make available detailed explanations of those measures, as these may be available by 'general understanding' to the intended users.

**EXAMPLE**

A preparer may assume that the intended users will understand greenhouse gas emissions measured in accordance with the Greenhouse Gas Protocol without disclosing the measurement methods in the EER report, as the criteria set out in the Greenhouse Gas Protocol appropriately include that information, and the Greenhouse Gas Protocol is publicly available.

Where a preparer makes such an assumption it may be expected that the preparer has applied all of the criteria, relevant to its circumstances, set out in the Greenhouse Gas Protocol.

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

184. If it is discovered after the engagement has been accepted that some or all of the applicable criteria are not suitable, the practitioner is required to follow the requirements of S.42, which applies to all of the preconditions for acceptance. If, in such circumstances, the practitioner is not permitted to withdraw from the engagement under law or regulation but the criteria are not suitable or available, the practitioner would be required by S.43 to express a qualified or adverse conclusion, or disclaimer of conclusion, as appropriate in the circumstances.

## Chapter 5: Considering the System of Internal Control

### Matters Addressed by the Guidance in this Chapter

185. This Chapter provides guidance to the practitioner that is relevant during the planning stage of an EER assurance engagement, in understanding an entity's system of internal control relevant to the preparation of the subject matter information. This guidance is particularly relevant when an entity's EER reporting process and related controls are still developing, and when that process obtains data or information from external sources.
186. The Standard requires the practitioner:
- (a) in a limited assurance engagement, to consider the entity's EER reporting process (S.47L), to enable identification of areas where a material misstatement is likely to arise (S.46L.a); or
  - (b) in a reasonable assurance engagement, to obtain an understanding of internal control over the preparation of the subject matter information, including evaluating the design of the controls relevant to the engagement and whether they have been implemented (S.47R), to enable identification and assessment of the risks of material misstatement (S.47R.a).
187. In planning and performing the engagement, S.42 also requires the practitioner to respond if it is discovered after the engagement has been accepted that one or more preconditions for an assurance engagement is not present.
188. As discussed in G.Ch3, the nature of the entity's EER reporting process is likely to be an important consideration when determining if the preparer has a reasonable basis for the subject matter information in determining whether the preconditions are present. The practitioner may become aware of additional information when fulfilling S.47L/R, which indicates that the preparer may not have a reasonable basis for the subject matter information and that the related precondition may not be present.

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

189. Entities producing EER reports typically implement gradual changes to their system of internal control to support such reporting as it becomes more established and formal. At an early stage, the system of internal control generally includes an EER reporting process.
190. As EER becomes more established for the entity, changes may be introduced to make the EER reporting process subject to specific control activities and greater governance and oversight, or to bring it more formally within the entity's risk assessment process and process to monitor the system of internal control. Often these developments in the entity's EER reporting process and in other components of the entity's system of internal control occur alongside each other.
191. An entity may obtain information to be input to its EER reporting process from an external individual or organization that provides information that is used by the preparer in the preparation of an EER report (hereafter referred to as an 'external information source'). The entity may or may not be able to implement and operate its own processes and controls over the recording, collating and reporting of such information. This may have implications for the relevance and reliability of such information.
192. Entities may also use new or evolving technologies to record, process and report their EER information. For, example, an entity may use drone technology to record information at remote or extensive sites or may use automatic processing to process routine transactions. The entity may

also report its EER information in different forms that may be accessible by users on demand, through various communication channels.

193. All these factors may have implications for both the acceptance of the assurance engagement, and, if the engagement is accepted, for the design and performance of the practitioner's assurance procedures.
194. The guidance in this chapter addresses the application of S.47L/R and S.42-43, but may also assist the practitioner when considering aspects of the entity's system of internal control in determining whether the preconditions are present (G.Ch3).

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

195. An entity's system of internal control typically has five inter-related components<sup>7</sup>:

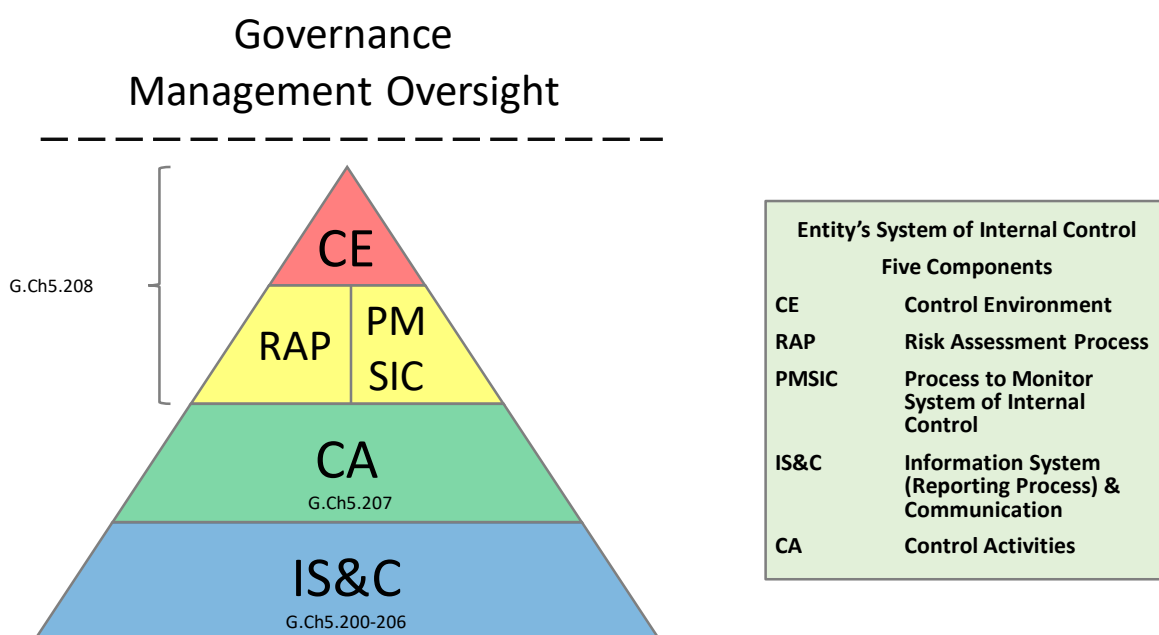


Diagram 7 – Components of System of Internal Control

196. The level of sophistication of the information system and communication component and the control activities component of the system of internal control 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.
197. S.A39 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”. Equally, in other circumstances, extensive internal controls may not be needed.
198. Some examples of aspects of the components of an entity's system of internal control that a practitioner may consider are given below. The three components shown in the top three boxes in the diagram in G.195 (the control environment, the risk assessment process and the process

<sup>7</sup> Based on ED-ISA 315 (Revised) paragraph 16(l)

to monitor the system of internal control) are considered together under the heading ‘governance and oversight of the EER reporting process’.

199. The examples are not meant to be an exhaustive list of aspects that may be appropriate in the engagement circumstances. As noted above, some entities may require a formal process with extensive internal controls for the preparer to have reasonable basis to take responsibility for the subject matter information being free from material misstatement. The practitioner may need to consider the engagement circumstances, including the size and complexity of the entity, when concluding whether the level of development of the system of internal control is appropriate to the engagement circumstances. Further guidance is given in G.67-71 in the context of determining whether the preconditions are present.

*Information System and Communication*

200. The entity’s EER reporting process is part of the entity’s information system relevant to the preparation of the EER subject matter information. Policies, procedures and resources of the information system and communication component that the practitioner may consider in the context of an EER assurance engagement are included below:

<b>CONSIDERATIONS FOR THE PRACTITIONER</b>	<ul style="list-style-type: none"> <li>(a) Processes to select or develop criteria, including the entity’s process to identify reporting topics, if applicable (see G.Ch6), to be addressed in the EER report;</li> <li>(b) Processes to select or develop criteria for the measurement or evaluation of reporting topics, including their presentation or disclosure;</li> <li>(c) Processes to capture, record, process, correct, and include in the EER report, data and information about the reporting topics;</li> <li>(d) Processes to select, obtain, review and monitor data and information obtained from external source(s);</li> <li>(e) Records and source documentation to support the preparation of the subject matter information relating to the reporting topics. These are ideally stored and accessible so that they can be used as evidence by the practitioner;</li> <li>(f) Processes to prepare the EER report; and</li> <li>(g) How the entity uses IT to support the above.</li> </ul>
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201. The EER reporting process is likely to involve the use of IT to collect or process data and information. Entities may use complex IT applications, simple spreadsheets or paper-based records, or a combination of these. Identifying which tools are being used by the preparer to prepare the EER report may be an important part of the practitioner obtaining the understanding required by S.47L/R.

Considerations when the entity’s EER reporting process and other related controls are developing

202. Although having a highly sophisticated or developed system of internal control is not a precondition for an assurance engagement, the entity’s EER reporting process should be adequate to provide the preparer with a reasonable basis for the subject matter information. Other controls over the EER reporting process may be informal or relatively simple when the engagement circumstances are simple. The greater the complexity of the subject matter information, the more complex the EER reporting process and other related controls may need to be. There is a difference between simple controls and inadequate controls. If the EER reporting

process and other related controls do not provide the preparer with a reasonable basis for the subject matter information, there may be greater likelihood of material misstatement in the subject matter information, or the practitioner may not be able to determine that they expect to be able to obtain the evidence needed to form the assurance conclusion.

203. As an entity's experience with EER reporting develops, the entity's system of internal control may become more sophisticated, and new technologies may be used to record, process and report their EER information. As discussed further in G.Ch8, although the way in which the information is recorded and reported may change, the objectives of the EER reporting process and other related controls that are necessary to provide a reasonable basis for the subject matter information, in the particular circumstances of an engagement, remain the same and the purpose of the entity's system of internal control relevant to the preparation of the subject matter information remains the same.

#### Considerations when an EER reporting process obtains data or information from an external source

204. Particular practitioner considerations may be appropriate when the entity's EER reporting process obtains information from an external information source. Examples of information from an external information source might include the results of an independent survey of customer satisfaction, or an external laboratory test of effluent quality for a production facility.
205. Key considerations for the practitioner may include the source of the external information, and the processes and controls over the information obtained from that external source. When the external information source processes information on behalf of the entity, for example, when the entity has outsourced some of its activities to a third party service organization, the entity may have contractual rights of access to that third party and to how the information is processed, or may be able to obtain a service auditor's report on the design and operation of the controls at the service organization. The entity may also have in place its own processes and controls to monitor information provided to, and received back from, the service organization.
206. When an entity uses information from another type of external source, for example, industry data used for benchmarking purposes, or indices or factors used in calculating or valuing the subject matter information, the entity may have its own processes and controls in place to consider the reputation of that source, the reliability of information from that source, whether there are other sources of similar information, and whether the information from such different available sources is aligned. Further consideration is given to external sources of information in G.Ch8.

*Control Activities*

207. Types of controls in the control activities component that the practitioner may consider include:

CONSIDERATIONS FOR THE PRACTITIONER	<ul style="list-style-type: none"> <li>(a) Controls requiring segregation of duties between individuals involved in the EER reporting process, to the extent appropriate according to the size of the entity, for example segregation between those preparing the information and those reviewing it;</li> <li>(b) Controls to prevent the preparer inappropriately modifying underlying sources of data, information or documentation that the practitioner would use as evidence;</li> <li>(c) Controls to identify transactions, occurrences and events, and to record them completely, accurately, in a timely manner, and to classify them appropriately (see also G.Ch7 for guidance on the use of assertions);</li> <li>(d) Controls over maintenance of measuring devices – e.g. to make sure they are calibrated, and cannot be tampered with;</li> <li>(e) IT controls to support relevant IT systems in being appropriately secure, robust, reliable and adequately maintained, for example through restricted physical and logical access; and controls over back-up of data and disaster recovery</li> <li>(f) Controls to address susceptibility to management bias that may occur in the process to develop or apply the measurement or evaluation bases and other reporting policies.</li> </ul>
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*Governance and Oversight of the EER Reporting Process*

208. Aspects of the entity’s governance and oversight of the EER reporting process that the practitioner may consider may include:

<b>CONSIDERATIONS FOR THE PRACTITIONER</b>	<ul style="list-style-type: none"> <li>(a) Involvement of those charged with governance and senior management at appropriate stages throughout the EER reporting process;</li> <li>(b) Approval of the EER report by those charged with governance or senior management, as appropriate;</li> <li>(c) The establishment of a subgroup of those charged with governance, such as an audit committee, charged with oversight responsibilities for the preparation of the EER report (for larger entities);</li> <li>(d) Those charged with governance or senior management, as appropriate, setting an appropriate ‘tone at the top’ to encourage high quality in the EER reporting process and a high standard of ethical practices;</li> <li>(e) Key decisions made by those charged with governance or senior management, as appropriate, being recorded in written documentation, for example in minutes of board meetings;</li> <li>(f) Assignment of authority and responsibility for the process to prepare the EER report, and enforcement of accountability for meeting such responsibility;</li> <li>(g) The process undertaken to identify, assess and address risks related to the EER reporting process; and</li> <li>(h) The process in place to monitor the system of internal control, including monitoring the effectiveness of control activities and the process to identify and remediate deficiencies.</li> </ul>
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**Consideration of the Entity’s Size, Complexity and Nature**

209. The level of formality required in terms of the entity’s system of internal control may largely depend on the entity’s size and complexity. A small and non-complex entity may not require formal documented policies or procedures for the preparer to meet its responsibility for establishing a reasonable basis for the subject matter information. However, a larger or more complex entity such as a multinational company may require more detailed and formalized EER reporting processes and control activities to meet this responsibility.

210. The nature of the entity’s processes, controls and records in the entity’s system of internal control may vary with the size and complexity of the entity.

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

211. In a limited assurance engagement, the practitioner is required to consider the entity's EER reporting process to enable identification of areas where a material misstatement of the subject matter information is likely to arise. The nature and extent of the practitioner's consideration may vary depending on the complexity of the EER assurance engagement and the nature and complexity of the underlying subject matter. For a relatively less complex, small engagement, inquiries may be sufficient to identify where a material misstatement is likely to arise. As the entity and underlying subject matter(s) become more complex, it is likely that more extensive procedures may be necessary to understand the process to prepare the subject matter information, for example, by performing a walkthrough to confirm the practitioner's understanding with personnel involved in the EER reporting process, including the entity's process to identify reporting topics (see G.Ch6).
212. In a reasonable assurance engagement, the practitioner, is required to evaluate the design of the relevant controls and whether they have been implemented, i.e., the practitioner will need to identify what is relevant, and design and perform procedures to obtain evidence to evaluate whether the design is suitable and whether the controls are in place as designed.
213. For examples of considerations relating to an entity's system of internal control, see SupB.7, 10 and 11.

## Chapter 6: Considering the Entity's Process to Identify Reporting Topics

### Matters Addressed by the Guidance in this Chapter

214. This Chapter provides guidance to the practitioner on considering an entity's process to identify reporting topics for inclusion in its EER report and the outputs of that process. Such a process ordinarily addresses both the entity's development of criteria to identify reporting topics to be addressed, and the application of those criteria to identify such reporting topics. When such criteria for the identification of reporting topics are applied, and then relevant criteria for the measurement or evaluation of those reporting topics are applied to them, the resulting EER information assists user decision-making when appropriately presented and disclosed in the EER report. In considering the identification of reporting topics, the practitioner considers whether misstatements might arise in the subject matter information because the criteria for identification of reporting topics have not been properly applied and, if so, whether such misstatements are material. Such materiality considerations may be addressed in accordance with the guidance in G.Ch9.
215. EER frameworks commonly refer to such a process as a 'materiality assessment' or 'materiality process'. However, the concepts of relevance and materiality are not the same, even though both refer to user decision-making. Relevance is considered in evaluating the suitability of criteria, whereas materiality is considered in the context of potential and identified misstatements of the subject matter information. Materiality is a threshold of significance to decision-making considered by the practitioner in relation to potential and identified misstatements, in the circumstances of the engagement. Applying the concept of materiality in that context is discussed in G.Ch9.

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

216. As discussed in the Introduction, an EER report may address diverse (aspects of) underlying subject matter. Consequently, there is a need for criteria to provide clear direction as to the reporting topics that should be addressed in the EER report.
217. EER frameworks do not always provide sufficiently detailed direction for a preparer make reliable judgments about what reporting topics to address in an EER report (see G.220 below). However, a framework may provide high-level principles for doing so. It can be challenging for both a preparer making these judgments and for a practitioner considering their appropriateness, and even more so when both the intended users and their information needs may be diverse or difficult to communicate with. In such circumstances, the entity will ordinarily need to establish a process to identify reporting topics taking into account the intended user and purpose (see G.214).
218. There may also be considerable opportunity for management bias in determining the reporting topics of an EER report or the criteria used to identify them (see G.125; G130) when the framework does not specify what topics are to be included in the EER report or identify them.
219. In such circumstances the exercise of professional judgment and professional skepticism may be particularly important in determining the suitability of criteria to identify reporting topics in an EER assurance engagement (see G.Ch4).

### Considering the Entity's Process to Identify Reporting Topics

220. When an EER framework does not identify relevant reporting topics in sufficient detail, the criteria are unlikely to be considered suitable on their own. The criteria may lack relevance or completeness. The criteria may lack reliability when the framework includes high-level principles for such identification, but those principles do not allow reasonably consistent identification of the

relevant reporting topics. In undertaking a process to identify reporting topics, the preparer is effectively extending or developing, and then applying, criteria for identifying reporting topics, such that these criteria sufficiently exhibit the characteristics of suitable criteria and the resulting subject matter information assists decision-making of the intended users (see G.128-129).

221. In considering the suitability of the criteria (see G.Ch4), the practitioner may need to consider the appropriateness of the judgments made by the preparer in developing criteria to identify reporting topics and the judgments made in applying those criteria.

## EXAMPLE

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

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

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

## EXAMPLE

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

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

222. The practitioner is required to consider the process used to prepare the subject matter information in a limited assurance engagement, or to obtain an understanding of internal control over the preparation of the subject matter information in a reasonable assurance engagement (S.47L/R, G.Ch5). This may also involve considering an entity's process to identify reporting topics, which is a part of the EER reporting process, when the preparer has undertaken one. Considering the process may also assist a practitioner to identify areas where a material misstatement of the subject matter information is likely to arise, or to identify and assess the risks of material misstatement in the subject matter information, as required in limited and reasonable assurance engagements respectively.
223. The extent to which the practitioner considers the appropriateness of the entity's process to identify reporting topics, and the reporting topics identified as a result of the application of that process, may depend on the perimeter of the subject matter information for the engagement (see G.Ch3). Considering these matters may be more relevant when the assurance engagement covers a whole EER report than when the perimeter of the subject matter information is limited

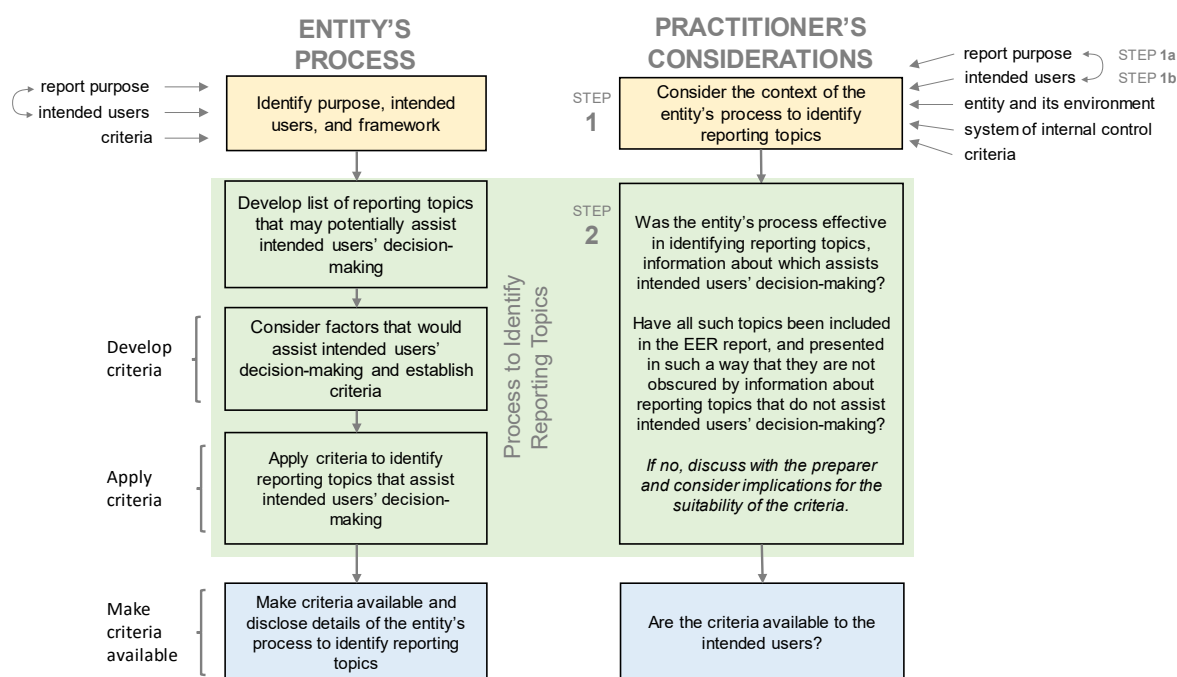
to specific indicators. However, they may be important considerations in the context of determining whether an assurance engagement has a rational purpose.

224. When applicable to an EER assurance engagement, the flowchart below may assist the practitioner in considering the entity’s process to identify reporting topics. The steps a preparer might be expected to follow are provided on the left-hand side for reference. These are explained in this Guidance to illustrate what the practitioner may expect when considering the entity’s process to identify reporting topics. The suggested thought process for the practitioner is shown on the right-hand side of the diagram and then explained in the guidance paragraphs below.

**Step 1: Consider the Context of the Entity’s Process to Identify Reporting Topics**

225. The practitioner may begin by considering the context of the entity’s process to identify reporting topics, including aspects of the engagement circumstances, such as the:

- (a) EER report purpose (step 1a);
- (b) Intended users (step 1b);
- (c) Entity and its environment;
- (d) System of internal control (see G.Ch5); and
- (e) Criteria (EER framework or entity-developed) (see G.Ch4)



**Diagram 8 – Entity’s Process to Identify Reporting Topics**

226. When a preparer has documented their process to identify reporting topics and the decisions they have made, the documentation may provide a useful starting point for the practitioner’s consideration. In the absence of such documentation, the practitioner may be able to understand the entity’s process through inquiry of the preparer. If the preparer has not undertaken an appropriate process to determine the content of the EER report, the practitioner may need to consider whether this suggests the preconditions for an assurance engagement are not all present.

227. Some EER frameworks may establish the EER report purpose and identify who the intended users are. Others may not specify this, leaving the preparer to make these determinations.

228. Where an EER framework is being used by a preparer, the practitioner may need to consider any direction on the considerations to identify material reporting topics included in the EER framework to consider whether the process undertaken by the preparer is appropriate.

## EXAMPLE

When reporting on human rights in accordance with the United Nations Guiding Principles on Business and Human Rights, the topics to be included are focused on risks to people impacted by the activities of an entity, not solely on the risks to the entity.

Some EER frameworks interpret what would assist intended users' decision-making as things that may create a financial risk to the entity, for example the SASB conceptual framework says that "information is material if there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available".

Other EER frameworks focus considerations about what would assist intended users' decision-making on the effect an organization has on the economy, the environment or society. For example, the Global Reporting Initiative (GRI) determines that 'material' topics are those that reflect the organization's significant economic, environmental and social impacts, or substantively influence the assessments and decisions of stakeholders.

229. The following paragraphs provide further guidance for how the practitioner may consider the EER report purpose (step 1a) and the intended users (step 1b). Further considerations relating to the practitioner's consideration of the criteria more generally, and the system of internal control are set out in G.Ch4 and G.Ch5, respectively.

#### **Step 1a: Has the Preparer Adequately Identified the Purpose of the EER Report?**

230. The purpose will be to report certain information about an underlying subject matter to a group(s) of intended users. Some examples of EER report purposes might include:
- (a) To report the entity's impact on the natural environment
  - (b) To describe the entity's activities over a period and how they contribute to the entity's objectives
  - (c) To describe how the entity creates 'value'
  - (d) To describe what the entity plans to do in the future, or how it expects to perform

231. The practitioner may need to consider the EER report purpose as context when considering the judgments made by the preparer.

#### **Step 1b: Has the Preparer Appropriately Identified the EER Report's Intended Users?**

232. The practitioner may consider whether the preparer has obtained and documented an understanding of the general nature of decisions the intended users are likely to take based on, or influenced by, the information in the EER report. If so, the practitioner may consider that in the context of their understanding of the engagement circumstances.
233. A distinction is made between intended users and stakeholders. A stakeholder in the entity may:
- (a) have a relationship and interactions with the entity, 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. When a stakeholder is not an intended user, their interests may be taken into account by other parties who are intended users. It should not be assumed that, just because a class of stakeholders that would have a legitimate interest in the EER report is not expected to use the report, information about reporting topics that would meet their information needs would not be relevant to the other classes of intended users, particularly when the categories of intended users are diverse.

**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.

234. A single EER report may have multiple groups of intended users, with potentially different information needs. An EER report cannot focus on the needs of each individual intended user, unless there is only a single intended user, however a preparer may need to consider where individuals within a group of intended users have common information needs.
235. The Standard'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" (S.A16). This might be useful, subject to any particular requirements in the EER framework, when the EER report is published without specifying the intended users, effectively for the benefit of society as a whole.
236. Different intended user groups may have different information needs or attitudes; something that assists decision-making by one group of intended users may be trivial to another.

**EXAMPLE**

An EER report prepared by a state-run hospital on its clinical performance might have users including:

- Government, which 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, who want to know whether the hospital is available to provide care to the community, playing its role in controlling diseases, and whether it is clinically safe.
- Cancer patient, who has a self-interest about whether the hospital has the capabilities to treat the patient successfully.

In this example, the top two user groups might be the intended users, but the individual patient might on his or her own not be, although such patient may be a member of the collective group of patients.

237. Merely reading the information in the EER report is a valid use by intended users; the outcome may be that they decide to take no action based on the information reported. They would still have a legitimate need for the information to assist them in reaching that conclusion and so relevance does not depend on intended users acting based on the reported information.

238. 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 as a starting point for considering whether the preparer appropriately identified the intended users of their EER report by considering the groups in the table and further considering entity-specific user groups. It is not necessary for the practitioner to consider a detailed list of the intended users – the aim is to have an awareness of the broad groups of intended users as context in making professional judgments about the entity’s process to identify reporting topics.

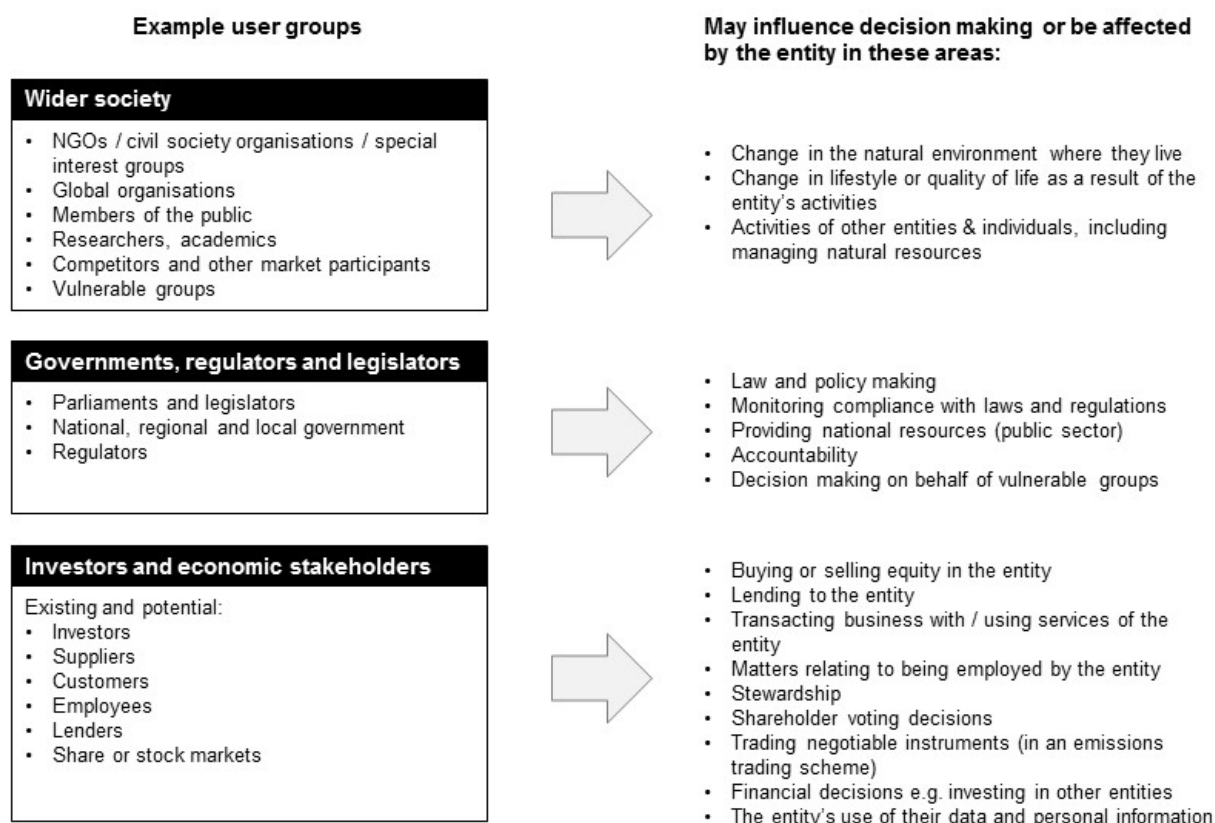


Diagram 9 – User Groups and Decision Needs

**Step 2: Consider Selection of Reporting Topics to Include in the EER Report**

239. The practitioner may consider how the preparer identified reporting topics that assist intended users’ decision-making in the context of the underlying subject matter. A preparer may have done so in multiple stages, taking into account the EER framework(s) used, the purpose of the EER report and the intended users, and filtering an initially longer list of potential reporting topics to end up with those that are considered to assist decision-making by intended users.

240. Criteria for identifying reporting topics are likely to be relevant if the information resulting from applying them contributes to decision-making by the intended users and achieves the purpose of the EER report.

*Considering interest to the intended users*

241. To consider whether something would assist decision-making by intended users, one approach is to consider directly whether it is of interest to the intended users.

242. The information that would be of interest to intended users may be expected to be reasonably (but not absolutely) aligned with what would assist their decision-making. This could reflect the

extent to which the intended users perceive something will impact their own interests in the context of the purpose of the EER report.

243. If considering whether something is of interest to intended users, examples of circumstances that might increase its relevance include:

- (a) It is likely to cause investors to buy or sell equity in the entity
- (b) It is likely to change the entity's share price or enterprise value
- (c) There has been media coverage relating to it, or disclosure of it would likely result in media interest (local / national / global)
- (d) There have been a large number of complaints relating to it (for example from customers, suppliers or other stakeholders)
- (e) It has been mentioned unprompted by several stakeholders
- (f) There is a high level of wider societal interest in it, or particularly high levels of public sensitivity

**EXAMPLE**

A few examples in some circumstances might include human rights issues, reported incidences of the entity's involvement in corruption, amounts of tax paid in jurisdictions of operation, and executive remuneration.

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

*Considering 'impact'*

244. When it is not possible to evaluate sufficiently what would assist intended users' decision-making by identifying directly what would be of interest to them, an alternative or supplementary approach is to consider the significance of the potential reporting topics. Depending on the purpose of the EER report, the significance of the potential reporting topics may be considered in the context of the entity's performance (in achieving its strategic objectives) or its impact on other entities. This approach is sometimes referred to as considering 'impact'.

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



## EXAMPLE

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

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

*Other considerations*

247. Some preparers present on a scatterplot the results of their analysis of reporting topics that, in the context of the purpose of the EER report, would be of 'interest to intended users' and that would have an 'impact'. Such a scatterplot positions the reporting topics relative to two axes, which represent 'interest to intended users' and 'impact', for each reporting topic.
248. The judgments made in positioning such reporting topics relative to each axis may be influenced by considering both the likelihood that each reporting topic exists or occurs and the magnitude of their significance, in terms of their 'interest to intended users' or 'impact' (as a proxy for considering the relative potential of information about such reporting topics to assist intended users' decision making), if they were to exist or occur. Consideration of the combined influence of their likelihood and magnitude of significance on their potential to assist intended users' decision-making, may be illustrated on a graph that plots reporting topics relative to separate axes for their likelihood and the magnitude of their significance:
- (a) If something is certain or factual, its likelihood of occurrence is at the maximum level and the magnitude of its significance is the only variable.
  - (b) The likelihood assessment may consider whether a matter is inside or outside the control of the entity or management.
249. The chosen timescale being considered in terms of impact or interest to the intended users is often also an important consideration.

## 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. While there may not be any physical impact for the next five years, this information may assist decision-making by an intended user, irrespective of whether they have a short-term interest in the entity (for example an investor expecting to invest for three years) or a longer term interest (for example, a bank that has issued a loan, secured on the factory site maturing in ten years' time) as these considerations are likely to be priced into the investment. The practitioner may need to consider whether the timescale chosen by the preparer for inclusion of information is appropriate and whether there is sufficient disclosure of this in the EER report.



250. Stakeholder engagement activities can be an important part of a preparer identifying reporting topics. An open dialogue with stakeholders may give better results than passive interaction or asking them to comment on an existing list of reporting topics, however there may be a need to adequately inform stakeholders about the entity and its activities to enable them to engage effectively with the process.
251. A practitioner could use some of the following sources in considering the completeness of the criteria. Criteria about topics to be included in the EER report are likely to be complete if the information resulting from applying them does not omit relevant factors about such topics:

Internal sources:

- (a) Discussions with management and those charged with governance
- (b) Previous reporting by the entity
- (c) Agendas and minutes from board or senior management meetings and committees
- (d) Risk assessments
- (e) Strategy documents prepared by the entity

External sources (see also G.Ch5 and G.Ch8):

- (a) Reporting by peers and competitors
- (b) Survey results (of the entity, peers or the industry)
- (c) Interviews with stakeholders, outreach activities, stakeholder engagement
- (d) Web and social media searches
- (e) Expert views on global megatrends
- (f) Sustainable Development Goals

252. The practitioner may make the following key judgments in considering the relevance and completeness of the criteria used by the preparer in selecting reporting topics to include in the EER report:

**CONSIDERATIONS  
FOR THE  
PRACTITIONER**

Was the entity's process effective in identifying reporting topics, information about which assists intended users' decision-making?

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

253. In doing so, the practitioner exercises professional judgment and professional skepticism to evaluate the preparer's decisions and may focus particularly on how the preparer decided to include or exclude items and the reasons for their decisions.

### Considering Reporting Topics Collectively

254. It may be appropriate not just to consider the suitability of criteria for identifying individual reporting topics that assist user decision-making but also reporting topics that assist user decision-making only when taken together with other reporting topics, for example because one or more reporting topics are related.

**EXAMPLE**

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



### Disclosure of the Entity's Process to Identify Reporting Topics

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

## Chapter 7 Using Assertions

### Matters Addressed by the Guidance in this Chapter

256. This Chapter provides guidance on how assertions may be used by a practitioner as a tool to consider the different types of potential misstatements that may occur in the subject matter information, and to assist the practitioner in designing assurance procedures to obtain evidence about whether the subject matter information has been prepared in accordance with the criteria, or whether it is misstated.
257. If the practitioner does not use assertions, the practitioner may consider the potential types of misstatements that may occur by firstly considering the nature of a misstatement of the subject matter information that would result from improper application of each relevant criterion to each aspect of the underlying subject matter. The practitioner may secondly consider the similarities and differences between all such potential misstatements. This approach may enable the practitioner to identify and categorize all the potential misstatements into types.

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

258. The underlying subject matter, and criteria may be diverse, and may require different characteristics of the resulting subject matter information than required by applicable financial reporting frameworks that are applied to prepare financial statements or the criteria used to measure greenhouse gas emissions. Consequently, the question may arise as to whether the assertions used by an auditor or practitioner, as described in IAASB standards other than the ISAs and ISAE 3410, apply to EER subject matter information or whether assertions that may be used by a practitioner in an EER assurance engagement may be different.

### Using Categories of Assertions

#### *The meaning of assertions*

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

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

260. When performing a reasonable assurance engagement, the Standard requires the practitioner to form a conclusion about whether the subject matter information is free of material misstatement, which may be expressed as whether the subject matter information is prepared, in all material respects, in accordance with the applicable criteria. When performing a limited assurance engagement, the Standard requires the practitioner to form a conclusion stating that no matter has come to the attention of the practitioner that causes the practitioner to believe that the subject matter information is not prepared, in all material respects, in accordance with the applicable criteria, based on the procedures performed and evidence obtained.
261. Although the practitioner is not required to use assertions under the Standard, when designing procedures, a practitioner may find it helpful to use assertions to consider the different types of potential misstatements that may occur (refer to G.268) in both reasonable and limited assurance engagements. If so, the practitioner may begin by considering the assertions used in other IAASB

standards. Such assertions are described as “categories of assertions” (for example, see paragraph A129 of ISA 315 (Revised) and paragraph A82 of ISAE 3410). Categories is a general term used in many different circumstances in the IAASB’s standards to mean different classes, classifications, types or groups of various things. In the context of assertions, a category is a group of assertions that address a characteristic such as “completeness”.

262. The table below sets out the categories of assertions that are included in ISA 315 (Revised) and in ISAE 3410. Those in ISA 315 (Revised) relating to classes of transactions, other events and conditions are shown as ‘period’ and those relating to account balances are shown as ‘point in time’. The categories of assertions in ISAE 3410 all relate to emissions which occur in a ‘period’.

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

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

263. The categories of assertions in these Standards may be used by the practitioner to consider the types of potential misstatement that may occur in subject matter information about the underlying subject matter or aspects of it. For example, the ‘period of time’ assertions in ISA 315 (Revised) relate to classes of transactions, other events or conditions, which are aspects of the underlying subject matter. The applicable criteria may require such aspects to be measured or evaluated at a level of disaggregation. If so, the categories of assertions may be used to identify potential types of misstatement of the subject matter information measured or evaluated at that level of disaggregation.
264. The nature of the assertions in the categories in the rows in region A of the Table is that they are assertions that may be expressed in the form: “the subject matter information would be properly prepared in accordance with the criteria if the subject matter information [X]”, where “[X]”:
- “Only relates to aspects of the underlying subject matter that have **occurred**, or that have **occurred** and for which the entity is **responsible**, or that **exist** and represent **rights or obligations** of the entity” (referred to below as “appropriate aspects of the underlying subject matter”);
  - “Is **complete**, in that it relates to all appropriate aspects of the underlying subject matter”; or
  - “Reflects appropriate **cut-off**, in that it has been presented as relating to the appropriate periods of time in which the appropriate aspects of the underlying subject matter **occurred** and for which the entity is **responsible** or at the point in time at which the appropriate aspects **existed** and represented **rights or obligations** of the entity”.

265. The nature of the assertions in the categories in the rows in region B of the Table is that they are assertions that can be expressed in the form “the subject matter information would be properly prepared in accordance with the criteria if the subject matter information [X]”, where “[X]” :
- (a) “Results from the proper measurement or evaluation of the appropriate aspects of the underlying subject matter information, in that the outcome of the application of the measurement or evaluation criteria to such aspects is **accurate**, or where applicable gives rise to a reasonable **valuation** or an appropriate **allocation**”;
  - (b) “Is appropriately **classified** as to the aspects of the underlying subject matter that it relates to”; and
  - (c) “Includes the **disclosures** required by the criteria and is **presented** in accordance with the requirements of the criteria”.
  - (d) Has been measured or evaluated and presented in a **consistent** way from period to period.
266. The categories of assertions in the table are broad categories and, in general, it is likely that assertions that result from the requirements of the criteria in most EER assurance engagements can be classified into one of these categories or that one of these categories can be adapted to include them.
267. It may be helpful for the practitioner to consider the assertions at the level of disaggregation at which aspects of the underlying subject matter are required to be measured or evaluated in accordance with the criteria.

#### Types of potential misstatement

268. The assertions allow the practitioner to consider the different types of potential misstatements that may occur, as when an assertion is not true in subject matter information, the information is misstated. Some examples of different types of possible misstatement include:
- (a) Omission of information (failure of a ‘completeness’ assertion)
  - (b) False claims in information (may be failure of an ‘existence’ or ‘occurrence’ assertion)
  - (c) Misleading or unclear representation of information (may be failure of a ‘presentation or disclosure’ assertion)
  - (d) Bias in information so that positive aspects of performance are focused on and negative aspects are omitted (failure of a ‘presentation and disclosure’ assertion)
269. If a practitioner identifies a misstatement when performing the planned procedures on the subject matter information, the practitioner is required to make a judgment as to whether the misstatement is material, which will then determine the appropriate action. Refer to G.Ch9 for more guidance.
270. There may be other ways in which the practitioner categorizes relevant assertions, and this is a matter of choice for the practitioner as long as the types of misstatements that may occur are considered. For example, the criteria may include a required principle of ‘connectivity’, such that the criteria require disclosures in, and presentation of, the subject matter information in a manner that demonstrates connectivity between aspects of the underlying subject matter. The practitioner may treat assertions about disclosure and presentation that result from applying criteria that meet the principle of connectivity as a category of ‘connectivity’ assertions or may treat them as subsumed in the category of presentation and disclosure assertions.

## Chapter 8: Obtaining Evidence

### Matters Addressed by the Guidance in this Chapter

271. This Chapter provides guidance on the requirements of S.48L/R-60 to obtain evidence, and on determining how much evidence is enough in both limited and reasonable assurance engagements. It also set out considerations for practitioners on what evidence may be needed and available, and considerations when designing and performing procedures, and when evaluating the sufficiency and appropriateness of evidence.

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

272. As discussed in the Introduction, the underlying subject matter(s) of EER reporting, and the way in which it is measured or evaluated and presented may be diverse. EER subject matter information may include both non-financial (including non-monetary) information and financial information, and information presented in qualitative or quantified terms. Subject matter information may be presented in different formats, for example, text, charts, graphs, diagrams, images or embedded videos.

273. EER reporting may also include information obtained from sources external to the entity, for example, from other entities within the entity's supply chain, from agencies such as carbon offset registries, organizations providing information such as CO<sub>2</sub> conversion factors used in calculating or valuing the underlying subject matter, or organizations providing industry benchmarking data. The entity may also outsource some of its activities to third party organizations, for example to carry out surveys on its behalf, or to analyze the quality of effluent from its operations.

274. As discussed in G.Ch5, the entity's process to prepare the EER report and other components of the entity's system of internal control relevant to the preparation of the EER report may often be less than fully developed, particularly when an entity first starts to prepare. In addition, there may not be the same rigor of control over qualitative information as over quantitative information.

275. Although not unique to EER reporting, there may also be circumstances when the use of innovative technologies, for example, the use of drones or satellite images to capture and record information relevant to the entity's EER reporting, may be more prevalent due to the nature and location of the underlying subject matter(s).

276. All of these factors can create challenges for practitioners in designing and performing evidence-gathering procedures, and in deciding on how much evidence is enough to support the assurance conclusion.

### Determining How Much Evidence is Enough in Limited and Reasonable EER Assurance Engagements

277. S.46 sets out the requirement for a practitioner to obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to:

- (a) Enable the practitioner to identify and assess the risks of material misstatement (in a reasonable assurance engagement) or to identify areas where a material misstatement of the subject matter information is likely to arise (in a limited assurance engagement); and
- (b) Thereby, provide a basis for designing and performing procedures to respond to those risks or to address those areas and to obtain the level of assurance (limited or reasonable) needed to support the practitioner's conclusion.

278. S.48L/R-60 set out the requirements for obtaining evidence, differentiating between limited and reasonable assurance in some respects. Where the Standard does not differentiate, the requirements are the same for both limited and reasonable assurance.
279. However, rather than considering limited and reasonable assurance as two discrete types of assurance, it may be useful to consider them as being differently positioned on a scale that reflects the level of assurance to be obtained by the practitioner, in the specific circumstances of the engagement. In both limited and reasonable assurance engagements:
- (a) The collective persuasiveness of the evidence obtained establishes the actual level of assurance obtained (see the International Framework for Assurance Engagements, paragraphs 63-64, and SupA.II.80-87, for further guidance on the persuasiveness of evidence);
  - (b) The level of assurance obtained, and conveyed in the assurance report, is intended to enhance the degree of confidence of intended users in the subject matter information; and
  - (c) The enhanced degree of confidence of intended users is likely to vary with the level of assurance obtained and conveyed in the assurance report, and therefore with the persuasiveness of the evidence obtained.
280. In both limited and reasonable assurance engagements, the practitioner also aims to obtain evidence with enough collective persuasiveness to reduce engagement risk to a level that is acceptable in the circumstances (for a limited assurance engagement) or acceptably low (for a reasonable assurance engagement), a level that is likely to enhance intended users' confidence to a degree that is sufficiently meaningful in the circumstances of the engagement. When limited assurance has been obtained, the level of assurance is required to be at least meaningful (i.e. the assurance obtained is likely to enhance intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential). What is meaningful in a limited assurance engagement can range from just above 'clearly inconsequential' to just below what would be meaningful in a reasonable assurance.
281. Decisions about 'how much evidence is enough?' therefore depend on the persuasiveness of the evidence obtained in reducing assurance risk to the level that is acceptable in the specific circumstances of the engagement, including who the intended users are, what their needs are, and the nature of the risks, or areas of greater likelihood, of the subject matter information being materially misstated. Such decisions will require the exercise of professional skepticism and professional judgment and other assurance skills and experience. For examples of how much may be enough evidence in different circumstances, see SupB.7, 9 and 10.
282. The nature, types and sources of available evidence may be different in an EER assurance engagement from that available in a financial statement audit. However, the key thought processes followed by a practitioner in designing and performing evidence-gathering procedures are likely to be common to any type of subject matter information, including those in an EER report, whether qualitative, quantitative (monetary or non-monetary), historical or future-oriented. The thought process set out below may assist practitioners in designing and performing procedures to obtain evidence related to any subject matter information and in evaluating the evidence obtained.
283. The particular challenges in obtaining evidence related to qualitative and future-oriented information are considered further in G.Ch11 and G.Ch12, respectively.
284. The following considerations may assist the practitioner when determining what evidence is needed and available, when designing and performing procedures to obtain sufficient appropriate



evidence, and when evaluating the sufficiency and appropriateness of evidence obtained, in relation to the subject matter information in any EER report. In practice, the evidence-gathering process is iterative, and the considerations below may be revisited as new information comes to light:

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

- (a) What practitioner decision (what assertion) does the evidence need to relate to:
- (i) Does the evidence needed relate to the subject matter information directly (i.e. relates to whether it is materially misstated)?
  - (ii) If not, how does the evidence needed relate indirectly to the subject matter information, such as when the evidence needs to be about whether controls over the subject matter information are designed or operated effectively or about the likelihood or magnitude of risks of material misstatement?
  - (iii) If the evidence needed does not relate to the subject matter information at all, what does it relate to (for example, does it relate to characteristics of a source of evidence or to the competence or objectivity of an other practitioner)?

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

- (b) In what way(s) could the underlying subject matter not be properly measured or evaluated, presented or disclosed in the subject matter information (the 'type(s) of misstatement' or 'what can go wrongs')? G.Ch7 provides guidance on using assertions to consider the types of potential misstatement that could occur.
- (c) What might cause a type of potential misstatement to occur – i.e. what could cause a risk of material misstatement of that type?
- (d) How does the entity manage and mitigate a risk of material misstatement, taking into account the potential cause(s) for that type of potential misstatement? For example, what governance and oversight structures, systems, processes and controls are in place to prevent or to detect and correct misstatements, taking into account their potential causes G.Ch5 provides guidance on understanding the entity's system of internal control.
- (e) Is management aware of any actual, suspected or alleged intentional misstatement or non-compliance with laws or regulations that may increase the likelihood or magnitude of potential types of misstatement?
- (f) In the context of the particular engagement and particular decision to be made, how precise, detailed and extensive does the evidence need to be, for example, is the subject matter information capable of precise measurement or evaluation or is it subject to estimation and uncertainty?
- (g) Does the entity have an internal audit function and, if so, what work have they performed in relation to the subject matter information, and what are their findings? How does that affect the assessment of risk?

- (h) What are the available sources of evidence? How do the characteristics of the source affect the persuasiveness of the evidence and nature of the assurance procedures that can be performed? For example, is the evidence in digital, written or oral form, related to a point in time or for a period, obtained from an external information source or internally generated, recorded systematically in the entity's books and records, does it relate to the operation of controls or is it substantive in nature, and how reliable is it?
- (i) Does the evidence needed relate to subject matter information about a single-location entity or to a multi-location organization or a supply chain (upstream, downstream or both) and how does that affect the ability to obtain appropriate evidence?
- (j) Would procedures to obtain or evaluate the evidence need the application of specialist subject matter expertise?
- (k) What sources of that expertise or specialist knowledge are available and what will that mean for the direction, supervision and review of their work and the interaction between any practitioner's expert(s) and the assurance practitioners on the team (see G.Ch1)?

*B. Considerations when designing and performing procedures to obtain sufficient, appropriate evidence may include the following:*

- (a) What is the purpose of the procedure – i.e. what will the procedure achieve? For example, will it provide evidence about the whether the subject matter information is complete, or relates to the reporting period?
- (b) Is aggregation risk and performance materiality a relevant consideration in designing or performing the procedure? (see G.287-298)
- (c) How much evidence would need to be obtained and from which of the available sources? For example, when the risk of material misstatement is high, or if each available source provides only some, but not enough, evidence on its own, the practitioner may seek to obtain more evidence than when the risk of material misstatement is low, or may seek to obtain evidence from more than one available source.
- (d) How relevant and reliable would the evidence need to be, and will the evidence from available sources provide that degree of relevance and reliability? If not, are there alternative or additional procedures that can be performed?
- (e) What is the nature, timing and extent of the procedures and how might that affect the resources needed on the engagement team, and planning and communications with the preparer?
- (f) What arrangements are there in place for documenting the work done and evidence obtained, and when will the documentation be available to review?
- (g) Who will perform the procedures and who will direct, supervise and review them, and when?

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

- (a) Was the planned evidence able to be obtained?
- (b) Has any new information come to attention that differs from that expected or that contradicts other evidence obtained? If so, has the appropriateness of the planned procedures been re-evaluated in light of the new information?
- (c) Has the evidence obtained from different sources been considered in an unbiased manner?
- (d) Does the level of exceptions or misstatements identified differ from expectation?
- (e) Is more evidence needed and how will that be obtained?
- (f) Have any difficult professional judgments been appropriately reviewed and has appropriate consultation on difficult or contentious matters taken place, if needed?
- (g) Has appropriate assurance and subject matter competence and specialist expertise been applied?
- (h) Has the exercise of professional skepticism and professional judgment been appropriate in performing the procedures and evaluating the evidence, including in understanding the work of subject matter experts, the assumptions and methods they have used, the basis for their conclusions, and the implications of their findings on the subject matter information and any other aspects of the engagement?
- (i) Has the effect of uncorrected misstatements on the subject matter information been considered, both individually and in aggregate, and both quantitatively and qualitatively? For guidance on the materiality of misstatements, see G.Ch9 and, in the context of qualitative and future-oriented information, also G.Ch11 and G.Ch12, respectively.
- (j) Has the persuasiveness of the evidence (its sufficiency, and its relevance, and reliability) been considered?
- (k) Where evidence represents information that was not verifiable to a high degree of precision, is the range from which the reported information was selected appropriate?
- (l) Have events subsequent to the reporting period been considered, as well as their implications, if any, for the assurance engagement?
- (m) In the face of challenge, would the evidence obtained stand up to scrutiny, and are the evidence and the documentation of that evidence sufficient and appropriate to support the assurance conclusion and to meet the requirements of the Standard?

285. The considerations are illustrated in SupB.7 by applying it to a case when the subject matter information is quantitative information. For further considerations in applying it to narrative and future-oriented subject matter information, see G.Ch11 and G.Ch12 and SupB.9 and10.

*Other information*

286. The practitioner is required by S.62 to read all 'other information' in the EER report to identify material inconsistencies between the subject matter information and the other information. If a material inconsistency or a material misstatement of fact in the 'other information' is identified, the practitioner is required to discuss this with the preparer and take further action as appropriate. 'Other information' includes any information in the EER report that is not within the perimeter of the subject matter information. For further guidance on 'other information' in the context of a whole EER report, which includes both qualitative and quantitative information, refer to G.Ch11 *Addressing Qualitative EER Information*.

**Addressing Aggregation Risk in an EER Assurance Engagement***Nature of aggregation risk and how it arises in designing and performing procedures*

287. In designing and performing procedures in an EER assurance engagement, there is a risk that the aggregate of uncorrected and undetected misstatements exceeds overall materiality or, when applicable, materiality at a disaggregated level. This concept is hereafter referred to as 'aggregation risk' (see SupA.II.114-139)

288. Aggregation risk arises because:

- (a) The subject matter information may be divided into separate pieces (disaggregated) by the preparer, for the purposes of applying the criteria, or by the practitioner, for the purpose of designing and performing assurance procedures;
- (b) Assurance procedures may be designed and performed:
  - (i) To detect only individually material misstatements; and
  - (ii) To obtain evidence only about misstatement of separate pieces of the subject matter information (i.e., at a disaggregated level).

289. Designing and performing procedures to detect only individually material misstatements may mean that misstatements whose significance<sup>8</sup> is less than materiality may not be detected due to the design of the procedures.

290. Designing and performing procedures to obtain evidence only about misstatement of separate pieces of the subject matter information would result in evidence that addresses the significance of detected misstatements, considered individually. In order to assess whether misstatements are material, when considered in combination with each other, it is necessary to consider the aggregate significance of detected misstatements.

291. Taken together, designing and performing procedures in this way may overlook the possibility that the aggregate significance of individually immaterial misstatements, which are detected but not corrected may cause the subject matter information to be materially misstated.

*Mitigating aggregation risk in designing and performing assurance procedures*

292. The practitioner is required to accumulate uncorrected misstatements identified that are not clearly trivial (S.51) and to evaluate whether they are material individually or in the aggregate (S.65). Evaluating the significance of uncorrected misstatements to determine if they are material may involve considering the influence of quantitative or qualitative factors on the significance of

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<sup>8</sup> See IAASB Glossary

such misstatements and considering whether their significance rises to the threshold of being material, either individually or in the aggregate (SupA.II.132-135).

293. Performance materiality is an approach that may be used by practitioners to reduce “aggregation risk” in the design and performance of assurance procedures, when the subject matter information is disaggregated.
294. In considering materiality in an EER assurance engagement, the practitioner may determine materiality or performance materiality at the level of the subject matter information as a whole or, when applicable, may (but is not required to) determine materiality or performance materiality at a disaggregated level.
295. Performance materiality is not explicitly addressed in the Standard. However, the ISAs and other ISAEs provide guidance that may be useful (S.A22). The practitioner may therefore find it helpful to consider how those standards address materiality and performance materiality. (SupA.II.136-139)
296. As defined in those standards, performance materiality is a quantitative concept. It involves designing and performing procedures to identify misstatements the significance of which rises to a quantitative threshold that is less than quantitative materiality for the subject matter information as a whole. It is this level that is referred to as performance materiality and it is set to reduce aggregation risk to an appropriately low level.
297. Using performance materiality to perform procedures increases the likelihood that the procedures will result in the identification of misstatements that are not individually material in quantitative terms. Compared with applying the same procedures using materiality as the threshold for identification, this increases the likelihood that the procedures will identify misstatements that, when accumulated and their aggregate significance is considered, are material in the aggregate in quantitative terms.
298. Performance materiality does not address misstatements that would be material solely or principally due to qualitative factors that affect their significance. ISA 320<sup>9</sup> notes that it is not practicable to design audit procedures to detect all misstatements that could be material solely because of their nature. However, in designing procedures to increase the likelihood that misstatements that are material solely or principally because of qualitative factors, to the extent it is possible to do so, may also assist the practitioner in reducing aggregation risk.

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<sup>9</sup> ISA 320, *Materiality in Planning and Performing an Audit*, paragraph 6

## Chapter 9: Considering the Materiality of Misstatements

### Matters Addressed by the Guidance in this Chapter

299. This Chapter provides guidance on the practitioner’s responsibilities when misstatements are identified during the performance of the assurance engagement, and on how to accumulate such misstatements. It also sets out considerations for the practitioner when evaluating the materiality of misstatements, including those that arise in subject matter information that is subject to inherent variability or uncertainty. This chapter does not address the concept of performance materiality, which is addressed in Chapter 8 (G.287-298)

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

- 300. The nature of underlying subject matter(s) of an EER report may be diverse, the subject matter information may be measured and presented in quantified terms or evaluated and presented in qualitative (narrative or descriptive) terms or in other forms such as charts, graphs, diagrams, images or similar forms (see Introduction to this Guidance), and it may be able to be measured with precision or may be subject to varying degrees of measurement or evaluation uncertainties.
- 301. The perimeter of the subject matter information for an EER assurance engagement may be all or only part(s) of an EER report, such as specific indicators.
- 302. The intended users of the EER report may also be diverse, with different information needs, and different considerations that might affect their decision-making.
- 303. These factors may present challenges to the practitioner in determining what may be material in the context of the engagement circumstances, and in evaluating the effect of identified misstatements in relation to those parts of the EER report that are within the perimeter of the subject matter information (S.A99) taken as a whole). Considerations relating to performance materiality are discussed in G.Ch8; this Chapter provides guidance on considerations when evaluating the materiality of misstatements in planning or performing the engagement or in forming the assurance conclusion.

### Practitioner Responsibilities

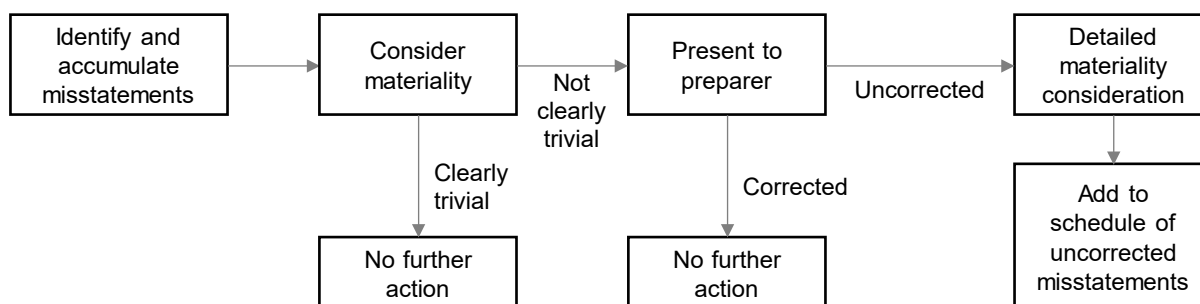


Diagram 10 - Practitioner Responsibilities in Relation to Identified Misstatements

- 304. If during the assurance engagement the practitioner identifies a misstatement within subject matter information included in the EER report, the practitioner is required to make a judgment as to whether the misstatement is material.
- 305. Misstatements may need to be evaluated in different ways given that subject matter information in EER takes such a variety of forms (for example quantitative and qualitative, different units of account).

306. For parts of subject matter information that are quantitative (for example a KPI expressed in numerical terms), the starting point for materiality decisions is to establish materiality thresholds, often by using a percentage<sup>10</sup>. If the EER framework specifies a percentage threshold for materiality, it may provide a frame of reference to the practitioner in determining materiality for the engagement.
307. Having identified a misstatement, the practitioner may consider whether it is clearly trivial or not. Where the misstatement is not clearly trivial, depending upon the circumstances of the engagement, the practitioner is required to accumulate it (see G.310-316). The practitioner is likely to communicate accumulated misstatements to management and request that they correct the misstated information. The practitioner may also consider whether the nature of the misstatement may indicate that other misstatements may exist in other parts of the EER report.
308. “Clearly trivial” is not another expression for “not material.” Misstatements that are clearly trivial will be of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, and will be misstatements that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the misstatement is considered not to be clearly trivial.

**EXAMPLE**

A misstatement so small that, even if it were to occur in all of the measurements, would not affect the rounding of the quantitative subject matter information, might be considered to be ‘clearly trivial’ under certain circumstances.

On the other hand, a large number of small misstatements all affecting the same area, even if they are quantitatively ‘clearly trivial’ may be an indication of weaknesses in internal controls, or that a measuring instrument may need recalibrating, i.e. there may be qualitative considerations to bear in mind when considering whether misstatements are clearly trivial.



309. If the preparer does not correct some or all of the accumulated misstatements, the practitioner may need to undertake a more detailed consideration of whether the accumulated misstatements are material, individually or in combination with others, and may take into account the considerations below. The practitioner may obtain an understanding of the preparer’s reasons for not making the corrections and take that understanding into account when forming the assurance conclusion. The practitioner may need to consider carefully the reasons for the preparer not wanting to make the corrections and whether they are justifiable in the engagement circumstances.

### Accumulating Misstatements

310. After considering misstatements individually, the practitioner may need to consider misstatements in combination with others. The practitioner is unlikely to be able to accumulate misstatements and consider them together in the same way as a financial statement audit for an EER report comprising diverse and varied underlying subject matter. However, the practitioner may still need to consider whether there are misstatements that relate to the subject matter information as a whole (such as misstatements relating to presentation of the subject matter

<sup>10</sup> There are instances where this would not be appropriate, perhaps where the number is often very small (for example, number of fatalities).

information), where related criteria may apply in the context of the subject matter information as a whole.

311. When the scope of the EER assurance engagement is a number of indicators or KPIs, each relating to a different underlying subject matter, the practitioner may evaluate the materiality of misstatements separately for each different indicator as (i) intended users may have different tolerances for misstatement in each different indicator and (ii) there may not be a common basis for aggregating misstatements.

**EXAMPLE**

An entity's sustainability report includes subject matter information on greenhouse gas emissions, water usage, hazardous and non-hazardous waste, employee work-related accident and illness, and community investment. Each of these underlying subject matters is likely to influence user decisions in different ways and at different thresholds. User tolerance for misstatement is likely to be higher for non-hazardous, degradable waste, than it would be for radioactive or other hazardous waste, so there may not be a reasonable basis for aggregating misstatements of hazardous waste and misstatements of non-hazardous waste.



312. The practitioner is required to accumulate all the uncorrected misstatements identified during the engagement, other than those that are clearly trivial(S.51). This can be documented on a schedule so that the uncorrected misstatements can be considered collectively. While it will not be possible to add up non-numerical misstatements, or those relating to different aspects of the EER report, it may be possible to group the misstatements according to the aspects in the EER report. Alternatively, the misstatements could be grouped according to the type of misstatement. Misstatements of subject matter information in narrative form may need to be concisely described.
313. The practitioner may choose to give each of the misstatements a rating (for example, low, medium or high) to indicate the significance of the misstatement, particularly where the misstated subject matter information is in narrative form. The criteria may give further guidance in this area. For further guidance on evaluating the materiality of misstatements in qualitative information, see G.Ch11.
314. It may be appropriate for the practitioner to consider whether the misstatements identified affect any other parts of the EER report (both those parts within and outside of the assurance engagement scope) and look for any contradictions or inconsistencies.
315. The practitioner may also consider whether the EER report as a whole may be misstated, even though, taken individually, each constituent aspect of the EER report may not be materiality misstated. This may occur, for example, when the overall message is misleading or biased, or when subject matter information is presented with greater or lesser priority than is warranted.
316. The practitioner is required to form a conclusion about whether the subject matter information is free from material misstatement (S.65), including whether the uncorrected misstatements are material, individually or in the aggregate. Where the subject matter information is materially misstated, the practitioner follows the requirements in S.74-77.

### **Other Considerations in Relation to Accumulated Misstatements**

#### *Implications of misstatements due to fraud*

317. When the reporting of EER information has not been developed by an entity to the same level as for other more mature areas of reporting such as financial reporting, controls may be relatively



less mature, governance may be more limited, and available criteria may be less comprehensive. Such factors may increase the risk of fraud, particularly when there are pressures to conform to publicly announced goals.

318. Misstatements due to fraud in EER reports may relate to matters such as:
- (a) KPIs relating to penalties or fines, potentially aggressive internal or external goals, product or corporate public statements or claims, performance or compensation.
  - (b) Falsification of records.
  - (c) Understatement of health or safety incidents or work-related illnesses.
  - (d) Paying officials to facilitate approvals or secure rights in developing countries, or to minimize fines or avoid negative publicity.
319. The practitioner may wish to consider the extent to which the risk of material misstatement due to fraud is relevant to the engagement (S.A86), remain alert, throughout the engagement including when considering accumulated misstatements, to the possibility that misstatements due to fraud may occur, and respond appropriately if there are indicators that there may be material misstatements of the subject matter information due to fraud.

*Implications for practitioner’s understanding on entity’s system of internal control*

320. For reasonable assurance engagements, the practitioner may also wish to consider whether accumulated misstatements may be related to control deficiencies. Specifically, the practitioner may consider whether the nature or extent of the accumulated misstatements cause the practitioner to change their understanding of the entity’s system of internal control relevant to the preparation of the subject matter information (S.47R), including their understanding of the entity’s control.

**Materiality Considerations**

321. G.322-324 set out practitioner considerations that may be appropriate when considering materiality. They provide examples of matters that could assist a practitioner in considering whether a misstatement is material. Misstatements are generally considered to be material if they could reasonably be expected to influence relevant decisions of intended users (S.A94). Therefore, the practitioner takes into account the extent to which the intended users could reasonably be expected to make a different decision if the subject matter information was not misstated. The considerations below are not exhaustive; ultimately, professional judgment will be required to conclude based on the specific circumstances.
322. Materiality is considered in the context of qualitative and, where applicable, quantitative factors. Qualitative factors that may indicate that a misstatement is more likely to be material, include:

Underlying subject matter

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

External factors

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

EXAMPLE

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

Other users, for example, local communities affected by an entity's breach of environmental regulations related to the disposal of hazardous waste may not be concerned so much with the size of the penalty, but with whether the breach of the regulations has endangered their health or welfare.



- (c) The misstated information relates to underlying subject matter that has implications for a large number of the entity's stakeholders. However, there may be situations when the underlying subject matter has implications for only a small number of stakeholders but may have material implications.

EXAMPLE

A small community affected by radioactive contamination of their water supply from effluent from an entity's operations may open a class action lawsuit which could have a material impact on the entity and its other stakeholders.

Nature of the subject matter information

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

EXAMPLE

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

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



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

Presentation

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

Preparer’s behavior

- (h) The misstatement has arisen as a result of an intentional act by the preparer to mislead.
  - (i) The preparer is reluctant to correct the misstatement for reasons other than they consider it immaterial.
323. Many of the considerations listed as examples in G.322 may apply to both quantitative and qualitative information. For information that is quantitative, the factors can be used in considering materiality thresholds, which influences the level of performance materiality, including the level of misstatement that may be tolerated in performing procedures using sampling of a population (see G.Ch8 for guidance on performance materiality). For qualitative information, the factors similarly help a practitioner decide whether a misstatement is material based on the level of sensitivity of intended users’ decision-making to such a misstatement.
324. Knowing the context may be important before making materiality judgments – for example understanding the objective or purpose of the disclosure, and how the criteria intended the underlying subject matter to be measured. The practitioner can then consider whether (i) the disclosure is consistent with the objective, and (ii) whether it is clear and understandable.

**Measurement or Evaluation Uncertainty**

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

EXAMPLE

The criteria may specify that actual distances flown by company personnel on company business, together with aircraft type (commercial or private) are to be used in calculating the entity’s Scope 3 GHG emissions. However, the company estimates this by categorizing flights as either long-haul or short haul (whether on commercial or private aircraft) and applying different average distances to the number of flights in each category. The uncertainty is not inherent in this example. Rather it results from using an estimate to apply the criterion. To the extent the estimation method does not properly apply the criterion, this may result in an estimation error, which is a misstatement.



## Chapter 10: Preparing the Assurance Report

### Matters Addressed by the Guidance in this Chapter

328. This Chapter provides guidance on how the practitioner may communicate effectively, in the written assurance report, their assurance conclusion about the subject matter information so that users are able understand:
- (a) What has been assured;
  - (b) How the underlying subject matter has been measured or evaluated; and
  - (c) The degree of confidence they may have in the subject matter information.

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

329. As discussed in the Introduction to this Guidance, an EER report may cover underlying subject matters that are diverse in nature. Even when the underlying subject matters are relatively homogeneous, the characteristics of the underlying subject matter, the nature of the criteria and the presentation format of the subject matter information may give rise to complexity, or inherent measurement or evaluation uncertainties.
330. Such matters could be impediments to understandability of the assurance report, depending on the specific circumstances of the engagement and whether the assurance report is a short or long form report (see S.A160 and G.334), if their implications are not clearly communicated to the intended users. These matters may include:
- (a) The scope of the underlying EER report and how it is presented. For example, it may be in the form of a traditional standalone report or may be spread across various pages on a website with hyperlinks between pages;
  - (b) The identification and diversity of intended users and the decisions they expect to make based on the EER report;
  - (c) The diversity and characteristics of aspects of the underlying subject matter. For example, whether they are:
    - (i) Qualitative or quantitative
    - (ii) Subjective or objective
    - (iii) Future-oriented or historical

and the complexities and uncertainties associated with their measurement, evaluation or, in the case of future-oriented information, whether they will occur;
  - (d) The criteria used, including when the criteria may be based on a framework but needed further development by the entity in order to be suitable, whether the criteria were selected from multiple frameworks, or whether the criteria were entity-developed;
  - (e) The practitioner's considerations of materiality, such as whether those considerations are in the context of a whole report or less than the whole report, and whether they are in respect of qualitative or quantitative subject matter information;
  - (f) The range of competencies that were needed to perform the engagement and how they have been deployed on the engagement;
  - (g) Whether the engagement is a reasonable or limited assurance engagement, or the assurance report includes separate limited or reasonable assurance for a number of

different aspects of the subject matter information, resulting in multiple separate assurance conclusions;

- (h) The professional and ethical standards under which the engagement has been performed, for example, whether the assurance engagement is performed under more than one assurance standard or under ethical or quality control standards other than those issued by the IAASB or IESBA.
331. The assurance report is the only means by which the practitioner communicates the outcome of the assurance engagement to the intended users. Clear communication in the assurance report may help minimize expectation gaps between the assurance the practitioner has obtained through the performance of their assurance procedures, and the confidence in the subject matter information and the assurance conclusion that intended users may believe is warranted.

### **Communicating Effectively in the Assurance Report**

332. In performing an assurance engagement, an objective of the practitioner is to express one or more conclusion(s) regarding the outcome of the measurement or evaluation of one or more aspects of the underlying subject matter(s), through a written report. The assurance report conveys the assurance conclusions and describes the basis for that conclusion(s).
333. The practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion(s) designed to enhance the confidence of intended users about the subject matter information. The assurance report is the only means by which the practitioner communicates the outcome of the assurance engagement to the intended users.
334. Although the Standard specifies basic elements that are required to be included in assurance reports at a minimum, it does not require a standardized format for assurance reports. The Standard allows assurance reports to be tailored to the specific engagement circumstances (S.68-69), which enables the practitioner to include information in addition to the basic elements, to explain the basis, and provide appropriate context, for the assurance conclusion. Such tailoring involves the exercise of professional judgment. To facilitate effective communication to the intended users, the practitioner may choose a short-form or long-form style of report. A short form report usually only includes the basic elements that are required to be included in the report. A long-form report may include a wide range of additional elements.
335. An assurance conclusion expressed in a binary manner may not be able to communicate the complexities discussed above sufficiently without further contextual information to aid the intended users' understanding.
336. Considerations that may assist the practitioner in exercising professional judgment to prepare an assurance report that facilitates effective communication to the intended users and the achievement of the practitioner's objective may include whether, in the specific circumstances of the engagement, the report (SupA.II.149):
- (a) Contains all the information that is useful to intended users in reaching appropriate conclusions about the nature and level of assurance the practitioner obtained (is relevant and complete);
  - (b) Contains only information that can be relied upon by the intended users to convey what it purports to convey (is reliable);
  - (c) Conveys that information in an unbiased manner (is neutral); and
  - (d) Clearly communicates to the intended users both the meaning and significance of the information it seeks to convey (is understandable).

337. A key consideration for the practitioner is whether the report will convey sufficiently clearly to the intended users:
- (a) Who the assurance report is intended for, and for what purpose;
  - (b) What information has been assured and what has not been, when the scope of the assurance is not the whole EER report;
  - (c) The nature and extent of the procedures performed in obtaining assurance as context for the assurance conclusion;
  - (d) The criteria, by reference to which the assurance has been obtained;
  - (e) The level of assurance that has been obtained and how that may affect the confidence that a user can have in the subject matter information.
338. Setting the context for the assurance conclusion in a clear, informative way may assist in enhancing the intended users' understanding of the assurance engagement and the confidence they can justifiably have in the subject matter information, particularly if that context:
- (a) Keeps a clear focus on the intended users; and
  - (b) Neither omits information that would assist the user nor includes information that obscures the messages.

### **Assurance Report Content**

339. G.340-374 provide guidance and examples that may assist practitioners in making judgments about information that may be added to the assurance report in respect of certain basic elements to facilitate effective communication with the intended users (G.334). The Guidance and examples are not intended to indicate the only approach that a practitioner may take. Each of the basic elements addressed is indicated in italics in a heading below, which includes the subparagraph of S.69 that requires that element. The discussion for each element addressed explains why it has been addressed in the Guidance.

#### *A title (S.69.a)*

340. The title identifies that the report is an independent assurance report, distinguishes it from a non-assurance report and delineates it from information for which the preparer is responsible and which has been included within a wider document prepared by the preparer. It may be helpful for the title to include enough informational content to make it clear whether it is a limited or reasonable assurance report and what the assurance report is on - i.e. what the subject matter information is. This guidance is provided because intended users may not otherwise readily understand these matters.

#### *An addressee (S.69.b)*

341. An addressee identifies to whom the assurance report is directed. This may be done, for example, by referring to the intended users in the title of the assurance report, or in the body of the report.
342. The assurance report is usually addressed only to the engaging party or the directors, management or other stakeholders. However, if users are not identified, the context for the assurance conclusion being expressed in terms of 'in all material respects' is incomplete as materiality considerations take account of what could reasonably be expected to influence the

decisions of intended users. The practitioner may consider stating who the intended users are as a group (limited to those with significant and common interests as identified by the entity).<sup>11</sup>

**EXAMPLE**

In the body of the assurance report, an explanation of who the intended users are might read:

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

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

343. Such identification:

- (a) Indicates to users the level of assurance obtained in relation to the subject matter information (the degree of confidence they can have in the subject matter information).
- (b) Identifies the subject matter information and, when appropriate, the underlying subject matter, making it clear what has been assured, and linking the output of the engagement to the scope of the engagement.

344. This information is provided because it may not be clear to the intended users what the difference is between a limited and reasonable assurance engagement. This may create an expectation gap between the assurance actually obtained and what the user believes has been obtained. The users may therefore take an inappropriate degree of comfort from the assurance report when making decisions.

345. The practitioner may consider it helpful to users to include in the assurance report an indication of the differences between limited assurance and reasonable assurance to aid user understanding. It may also be useful to explain that, in a reasonable assurance engagement, procedures are described only briefly because, in a reasonable assurance engagement, in all cases where an unmodified report is issued, sufficient appropriate evidence has been obtained to enable the practitioner to express an opinion. In a limited assurance engagement, because the level of assurance obtained by the practitioner varies, the practitioner's report contains an informative summary of the procedures performed, i.e., the procedures are described more fully.

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<sup>11</sup> ISAE 3410 paragraph A47

## EXAMPLE

*This engagement is a limited assurance engagement.*

*In an assurance engagement, the level of confidence the intended users of our report can have in the information addressed by our report is greater when the assurance procedures have been performed to obtain more persuasive evidence than when more limited procedures have been performed. We determine the level of assurance we seek to obtain based on our professional judgment as to what is appropriate in the circumstances of the engagement.*

*In performing limited assurance engagements, our aim is to obtain sufficiently persuasive evidence (a sufficient level of assurance) such that our conclusion enhances confidence of the intended users of our assurance report, to a degree that is meaningful to them but is not a high level. A higher level of assurance is obtained in a reasonable assurance engagement. The nature, timing and extent of procedures performed in limited assurance engagements, and therefore the persuasiveness of the evidence obtained, varies depending on the level of assurance we seek to obtain.*

*This report is based on performing a limited assurance engagement. We have included a description of the procedures we performed to assist the intended users of our report to understand how confident they can be in the subject matter information, based on the nature, timing and extent of our procedures and therefore the persuasiveness of the evidence we have obtained.*

346. When the subject matter information is not the whole EER report, clear identification of both the information subject to assurance as well as the excluded information is needed so that intended users can understand which parts of the EER report they are justified in having confidence in and which parts have not been subject to assurance procedures.

*Identification of the applicable criteria (S.69.d)*

347. Identification of the criteria in the assurance report allows the user to understand the benchmarks used to measure or evaluate the underlying subject matter.
348. As discussed in G.3 and G.Ch4, it is a precondition for assurance that the criteria are available to intended users so that users can understand the basis on which the subject matter information has been prepared. It may be useful for the practitioner to remind the preparer at the start of the engagement that the preparer is responsible not only for the identification of the criteria and the measurement or evaluation of the underlying subject matter against the applicable criteria, but also for making the criteria available to the intended users.
349. If the criteria are not available publicly, for example when the entity has used its own criteria to identify, record and report the subject matter information or has applied a process to further develop the high level principles of a reporting framework, those entity-developed criteria need to be made available to the intended users in one of the other ways set out in paragraph S.A51.



The assurance report may refer to the criteria in different circumstances, as follows:

(A) When the entity has used an established, publicly available framework with suitable criteria, including criteria requiring disclosure of the measurement or evaluation policies used by the company to prepare its subject matter information, in order to enhance comparability between entities using the same framework:

*The KPIs subject to assurance, set out on pages [xx] to [yy] of [name of entity's EER report], need to be read and understood together with [name of, and link to, reporting framework] and the basis of preparation set out in notes [x] to [y] of [name of entity's] EER report.*

The basis of preparation can be used to identify either more details than included in the framework criteria or to address optional aspects of the criteria (e.g., which energy index was utilized).

(B) When the entity has developed its own criteria for its EER reporting:

*The information subject to assurance, set out on pages [xx] to [yy] of [name of entity's EER report] needs to be read and understood together with the Criteria on pages [x] to [y] of that report, which [name of entity] has developed and applied to prepare the subject matter information.[The absence of a significant body of established practice on which to draw to evaluate and measure the subject matter information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.]*

It would likely not be appropriate to refer to a preparer's description of the criteria in this manner in the assurance report, if the preparer's description of the criteria refers to entity developed criteria in an ambiguous manner. For example, it would likely not be appropriate if the description were to imply that the criteria are framework criteria or could mislead a user in suggesting that, for example the entity developed criteria were 'influenced' or 'inspired' by a framework. Similarly, simply stating that the entity has 'selectively applied' criteria from a framework may be insufficient for a user to understand the differences between the framework criteria and the criteria used by the entity.

(C) When the entity has selected criteria from one or more frameworks and has developed its own additional criteria:

*The KPIs subject to assurance set out on pages [xx] to [xx] of the [name of entity's EER report] need to be read and understood together with criteria selected from [name of framework 1] and [name of framework 2], and those developed by [name of entity], as set out on pages [x] to [y] of the [name of the entity's EER report].* In this case, it is clear to the user that the entity has not prepared the subject matter information solely 'in accordance with' the framework(s), but has applied the framework(s), or aspects of the framework and developed additional criteria.

In all cases, the paragraphs illustrated above may be included in a statement that describes the respective responsibilities of the preparer and the practitioner as required by S.69 (g).

350. If the preparer does not want to make the criteria available, then the preconditions for assurance will not have been present and either the assurance engagement cannot be accepted (if discovered before acceptance (S.25)) or the matter is required to be addressed in accordance with S.42-43 (if subsequently discovered). When subsequently discovered, the practitioner is required to discuss the matter with the preparer to see if it can be resolved to the practitioner's satisfaction. If the practitioner continues with the engagement and the matter is not resolved, the practitioner is required to determine whether and if so how to communicate the matter in the assurance report.
351. When the criteria are not included in the subject matter information or not otherwise made available in a suitable manner by the preparer (G.Ch4), the practitioner may need to include them in the assurance report to enable the intended users to understand how the subject matter information has been prepared and to meet the requirements of the Standard. However, this may need to be in the same detail as if had they been made publicly available or made available within the preparer's report. Including, in the assurance report, only a brief summary of the criteria may not enable the intended users to understand the basis of preparation of the subject matter information. However, it is the preparer's responsibility to make the criteria available to the intended users; including them in the assurance report is not ideal.
352. Criteria need to be made available to intended users publicly or in a clear manner; it should not be difficult for the intended users to find the criteria that are needed to understand how the subject matter information has been prepared. For example, a hyperlink from the preparer's report to an entity's home web page may not be enough if the user then has to navigate from the home page to another page if it is not clear from that other page what comprises the criteria.
353. In order to enhance the intended users' understanding of the assurance report, it may be helpful for the practitioner not only to identify the criteria used, but also to indicate where they may be found, and to identify them by name, date or version number. Changes may be made by the preparer to the criteria over time and is important that the assurance report identifies the criteria that were used in performing the assurance engagement.

**EXAMPLE**

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

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

354. Sometimes preparers may report the subject matter information using more than one framework. In such a case, user understanding is likely to be enhanced if the preparer makes available the criteria relating to each framework separately, rather than being summarized or combined. The practitioner can then separately identify the criteria in their assurance report.
355. A preparer may not wish to disclose the criteria on the grounds that they are confidential or commercially sensitive. Without the criteria being made available, the intended user would not be able understand how the underlying subject matter had been measured or evaluated and the requirements of the Standard would not have been met (see G.Ch4). In such a situation, the rational purpose of the engagement may also be called into question. If there is sensitive information that only a few may be party to (for example in a contractual arrangement), then it may be expected the assurance report would be made available only to those users who are party to the contract, and would not be more widely available. In such case, the criteria could be made available to the intended users. When the criteria will not be made available to the intended

users or when they are so summarized that they are not likely to be regarded as suitable, the preconditions for the assurance engagement will not have been met (see G.Ch3).

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

356. The practitioner may find it useful to consider this requirement in conjunction with the requirement in S.69.c as it may be clearer to refer to any inherent limitations when describing the subject matter information, particularly if that description includes the characteristics of the underlying subject matter, rather than in a separate, isolated paragraph.
357. In some cases, inherent limitations can be expected to be well-understood by the intended users of an assurance report, in other cases it may be appropriate to make explicit reference to them in the assurance report (S.A166).
358. Some inherent limitation wordings may have become standard, for example those relating to measurement methods applied to greenhouse gases, for which examples can be found in ISAE 3410. However, it may be unclear to a user what impact the described limitations have on the assurance conclusion, for example, whether the assurance conclusion ‘stands’ or whether the inherent limitations weaken the practitioner’s conclusion and, if so, in what way and by how much. To enhance user understanding, the practitioner may consider:
- (a) When inherent limitations can be expected to be well-understood, whether it is necessary to include them as standard language in the assurance report;
  - (b) Whether it may be helpful to explain not only that there are limitations, but also the impact on the assurance procedures and the assurance conclusion;
  - (c) Whether there are unusual subject matter specific limitations that may need to be described in more detail to be understood by the intended users and how the description of such limitations can be worded so that it avoids ‘boilerplate’ language and helps the intended users to understand the implications in the specific context of the subject matter information and assurance engagement.

**EXAMPLE**

*As described in [insert reference – e.g., non-financial information] the Subject Matter is subject to measurement uncertainties resulting from limitations inherent in the nature and the methods used for preparing such data. The selection of different but acceptable measurement techniques can result in materially different measurements. The precision of different measurement techniques may also vary.*

359. It may also be important that any description of inherent limitations is clearly separated from the practitioner’s conclusion so that such a description is not interpreted by users as modifying the assurance conclusion.

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

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

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

361. A statement to identify the responsible party informs the intended users who is responsible for the underlying subject matter and the measurement or evaluation of the underlying subject matter against the applicable criteria, and that the practitioner's role is to independently express a conclusion about the subject matter information (S.A169).
362. It may help to enhance users' understanding of the boundaries of the respective roles, and avoid the perception that assurance may be there to 'fill the gaps', by explaining in the assurance report why the assurance practitioner cannot become involved in the preparation of the subject matter information in an assurance engagement, i.e., assurance is designed to give an independent conclusion over the subject matter information.

**EXAMPLE**

The *Directors ABC PLC* are responsible for:

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

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

*A statement that the engagement was performed in accordance with ISAE 3000 (Revised) or a subject-matter specific ISAE (S.69.h)*

363. Such a statement enables users to understand which standard is governing the conduct of the engagement.
364. Performance of the engagement under the Standard requires compliance with all of the applicable requirements of the Standard. Where a subject matter specific ISAE (e.g. 3400, 3410), is used, compliance with both that standard and ISAE 3000 (Revised) is required.
365. Practitioner's statements that contain imprecise or limiting language (for example "the engagement was performed by reference to ISAE 3000") may mislead users of assurance reports (S.A171). Users are not likely to be able to differentiate between an assurance engagement carried out 'in accordance with' the Standard and an assurance engagement carried out 'by reference to' or 'based on' the Standard. While the former meets all the requirements of the Standard; the latter may apply only certain aspects of the Standard and the user would not necessarily be aware of this. If all the requirements of the Standard have not been complied with, then no reference to the Standard is permitted to be made in the assurance report.

## EXAMPLE

*A statement as follows is acceptable:*

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

*Statements such as the following are not in line with the requirements of the Standard:*

*'We performed our work having regard to ISAE 3000 (Revised)' or 'Our assurance engagement was performed on the basis of ISAE 3000 (Revised)'*

366. If the practitioner has been engaged under two different standards, for example, both ISAE 3000 (Revised) and AA1000 AS, the practitioner may need to consider whether the requirements of both are able to be met, or whether the other standard may conflict with the requirements of ISAE 3000 (Revised). If they do not conflict, and it is clear that any additional information set out in the other standard does not affect the assurance conclusion, as required by ISAE 3000 (Revised), (see G.373), then the practitioner may want to refer to both standards in their assurance report. As discussed above, when reference is made to ISAE 3000 (Revised), then all the requirements of that Standard need to be met.

## EXAMPLE

*We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information', and, in respect of the greenhouse gas emissions, in accordance with both International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements' issued by the International Auditing and Assurance Standards Board, and AA1000AS (Type 1, moderate).*

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

367. S.A172 sets out an example statement regarding the applicable quality control requirements, which informs users which quality control standards the firm applies, and what those quality controls standards require.

*A statement that the practitioner complies with the independence and other ethical requirements... (S.69.j)*

368. S.A173 sets out an illustrative statement regarding compliance with ethical requirements.

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

369. Such a summary enables the intended users of the assurance report to understand what has been done in the context of the particular engagement as the basis for the practitioner's conclusion. For many assurance engagements, infinite variations in procedures are possible in theory, making it difficult to communicate clearly and unambiguously. S.A177 sets out factors to consider in determining the level of detail to be provided in the summary of work.

370. It is important that the summary be written in an objective way that allows intended users to understand the work done as the basis for the practitioner's conclusion. In most cases, this will not involve detailing the entire work plan, but on the other hand it is important for it not to be so summarized as to be ambiguous, nor written in a way that is overstated or embellished (S.174). 'Boilerplate' language is unlikely to aid the intended users' understanding; describing the work performed in sufficient detail for a user to understand both the nature and extent of the procedures and what that means in terms of their ability to have confidence in the subject matter information is likely to be more helpful. However, a description that is too detailed may detract from the users' understanding.
371. The procedures for limited assurance may appear to a user to be more comprehensive than the procedures described for a reasonable assurance engagement so it may be helpful for the practitioner to explain why this is the case.

## EXAMPLE

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

- *Held discussions with key management of ABC PLC to understand the governance over their reporting of the [identified subject matter information], and the processes, systems and controls they use to identify, record, check and report the [identified subject matter information]*
- *Traced one example of each [transaction] through the system from recording to reporting to confirm our understanding of the governance, systems, processes and controls management had described to us, but we did not test the design of the internal controls or whether they operated effectively over the reporting period*
- *Visited eight manufacturing sites out of a total of sixty sites. Selection of these sites was made on the basis of their inherent risk and materiality to the group*
- *Tested, at each site visited, [describe what was tested]*
- *Considered the presentation and disclosure of the [identified subject matter information]*
- *[Add other procedures as necessary]*

372. When experts are used, it may be helpful to include information relating to the extent of specialized skill or knowledge needed to apply assurance procedures to address a particular matter or to evaluate the results of those procedures. If the practitioner refers to the work of an expert, the wording in the assurance report cannot imply that the responsibility for the practitioner's conclusion is reduced because of the involvement of the expert (S.70), S.A187 notes that additional wording may be needed when such wording is included in a short form report to prevent the assurance report implying that the practitioner's responsibility is reduced because of the involvement of an expert. In a short form report the potential for misunderstanding may be higher than in a long form report.

*The practitioner's conclusion (S.69.1)*

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

- (a) Users may not readily understand the ‘negative form’ of wording used in the Standard to express a limited assurance conclusion (see G.345). It may be helpful for the practitioner to explain that the ‘negative form’ conclusion reflects a lower level of assurance than reasonable assurance because of the limited nature of procedures performed (nothing has come to our attention). It does not mean that there is nothing that could have come to the attention of the practitioner but, rather, that the procedures would not necessarily have been expected to result in anything coming to their attention due to the limited nature of the procedures. The Standard also permits a limited assurance conclusion to be expressed as ‘we are not aware of’, as an alternative to ‘nothing has come to our attention...’.
- (b) The Standard requires the conclusion to be expressed in one of two ways. Conclusions expressed in a different way, for example, by referring to ‘moderate’ or ‘high’ levels of assurance or stating ‘We conclude that...’ do not meet the requirements of the Standard and may not assist users’ understanding.
- (c) As discussed in G.342, the concept of ‘in all material respects’ may not be understood, especially if it is unclear who the intended users are.
- (d) Conclusions may not be clearly delineated from other information in the assurance report, so it is unclear what the conclusion is.
- (e) Some practitioners may want to include recommendations and other observations within the assurance report. While this is permitted under the Standard, considerations relevant to deciding whether to include such observations in the assurance report may include whether their nature is relevant to the information needs of intended users.
- (f) Including observations of ‘good practice’ may be misunderstood by users to be part of the assurance conclusion, which may exacerbate the lack of clarity arising from the matter discussed in (d) above. Including those matters where recommendations have been made may raise questions in a user’s mind as to whether or not they have not been appropriately dealt with in preparing the subject matter information or may be misunderstood as a qualification of the practitioner’s conclusion on the subject matter information.<sup>12</sup>

**EXAMPLE**

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

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

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

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

<sup>12</sup> ISAE 3410 paragraph A151

374. When parts of the EER report are subject to limited assurance and other parts are subject to reasonable assurance, to aid users' understanding of what has been subject to limited assurance and what has been subjected to reasonable assurance, clear identification of both the subject matter information subjected to each different level of assurance will be needed. The practitioner may also consider delineating the procedures performed for each level of assurance so that it is clear to the users what procedures were performed in relation to the subject matter information. The conclusions relating to each also need to be made clear to the intended users.

## EXAMPLE

The preparer may identify the subject matter information subject to limited assurance with one identifying mark, or in one column or table titled 'Subject Matter Information subject to limited assurance' and may separately identify the subject matter information subject to reasonable assurance with a different identifying mark or in a table titled 'Subject Matter Information subject to reasonable assurance'. The wording below is an example of how the practitioner may then refer to where the subject matter is identified, so that it is clear what each conclusion is, and which subject matter information it relates to:

**Limited assurance conclusion**

*Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the selected sustainability information [identified with an identifying mark/set out in the table 'Subject Matter Information subject to limited assurance')] in the Subject Matter Information paragraph of this report for the year ended [x] is not prepared, in all material respects, in accordance with the reporting criteria.*

**Reasonable assurance conclusion**

*In our opinion, the selected sustainability information set out in the Subject Matter Information paragraph [and identified with a different identifying mark or set out in a different column or table] for the year ended [x] is prepared, in all material respects, in accordance with the reporting criteria.*

375. The practitioner may also consider it appropriate to include other information in a long form report, for example, information about materiality considerations so that it is transparent to the intended user what tolerance for misstatement has been applied in conducting the assurance engagement.

## EXAMPLE

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

*Scope 1 greenhouse gas emissions: 5% of ABC PLC's reported Scope 1 greenhouse gas emissions.*

*This threshold means that a misstatement of x tonnes of CO<sub>2</sub> equivalents (CO<sub>2</sub>e) either as an individual misstatement or as an aggregate of smaller misstatements would lead us to conclude that the Scope 1 emissions had not been prepared in all material respects with the stated criteria.*

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



## **Chapter 11: Addressing Qualitative EER Information**

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

376. This Chapter provides guidance on the nature of qualitative EER information, and on specific considerations in the context of qualitative EER information:
- (a) In determining suitability of criteria;
  - (b) In obtaining evidence;
  - (c) In evaluating misstatements;
  - (d) When presented alongside other information; and
  - (e) When communicating in the assurance report.

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

377. There is often a high degree of uncertainty inherent in the measurement or evaluation of EER underlying subject matters, which gives rise to subjectivity in their measurement or evaluation and a greater range of possible measurement or evaluation outcomes.
378. When the measurement of EER underlying subject matter(s) is purely quantitative, even when there is inherent uncertainty in the measurement of the underlying subject matter, the practitioner may be more readily able to determine the suitability of the criteria used in its measurement than when the underlying subject matter is qualitative. The evidence needed may also be more readily available and more persuasive, even if it involves the use of estimates or proxies, or the use of subject matter experts in obtaining or evaluating it. It is also possible to aggregate the effect of identified misstatements on the subject matter information and evaluate their materiality in combination, to the extent their measurement outcomes are expressed in common units.
379. However, when underlying subject matter cannot be measured and expressed in quantified terms, it may be more susceptible to being more reflective of, and more variable with, the views of those reporting it. This may raise questions about the suitability of the criteria, including whether there are additional disclosure criteria that may be needed for the subject matter information to be understandable and for the criteria to be capable of reasonably consistent evaluation of the underlying subject matter (reliable).
380. A number of challenges may also arise in the context of obtaining evidence for qualitative subject matter information because the underlying subject matter may not be capable of direct evaluation, and it may be difficult for the entity's EER reporting process to capture data and information about the subject matter information.
381. The processes and controls to identify, record, process and report the subject matter information may not be sufficiently developed or effective in providing a reasonable basis for the qualitative subject matter information. This may have implications for the ability of the practitioner to obtain the evidence needed when assurance procedures other than testing of controls (hereafter referred to as 'substantive procedures'), alone, may not be sufficient.
382. The way in which qualitative information is presented may also give rise to challenges in delineating the perimeter between subject matter information and 'other information'.

### The Nature of Qualitative EER Information

383. Qualitative EER information is subject matter information expressed in qualitative terms rather than in quantitative terms (numbers). Qualitative information is essentially non-numerical information. Non-numerical information may, for example, be narrative information, descriptions, categorizations or ratings. The subject matter information for some aspects of the underlying subject matter may be expressed primarily in qualitative terms, rather than in quantified terms. However, even when an aspect of the underlying subject matter is expressed primarily in quantitative terms, other parts of the subject matter information relating to that aspect (such as related disclosures) may be expressed in qualitative terms. For example, an entity's governance structure, business model, goals or strategic objectives may be described in qualitative terms, although there may also be some supporting quantitative disclosures.
384. Qualitative information is often expressed predominantly using written words, although it may be presented in an EER report in other forms, such as embedded video or sound recordings. However, words are not always non-numerical, since numbers can also be expressed in words. What makes information qualitative rather than quantitative is its non-numerical nature.
385. Qualitative information included in EER reports may be:
- factual (directly observable); or
  - inherently subjective (not directly observable and variable with the views of those reporting it).

#### EXAMPLE

Examples of factual qualitative subject matter information:

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

Examples of subjective EER information:

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

These particular examples of subjective information may be overly vague and unsubstantiated, as the underlined claims may be interpreted in different ways by different people. As such, it is unlikely that the criteria would be suitable, and those claims would not constitute subject matter information. Further development of the criteria by the preparer would be needed so that the application of those criteria result in information that could be reasonably consistently measured or evaluated (i.e. would result in subject matter information).

For the first example of subjective EER information above, ‘healthy food for children’ could be defined for the purpose of reporting as ‘food containing less than x g of salt and less than x g of sugar per 100g portion. Then, if those criteria were made available, the ‘healthy food for children’ might be suitable for assurance. However, there may also need to be disclosure if the entity produced unhealthy food for children in another product range (completeness of information or balance). The practitioner may also consider whether the entity’s definition of ‘healthy’ could be misleading, for example, if the definition is inconsistent with internationally accepted norms.



### Specific Considerations for Determining the Suitability of Criteria for Qualitative Information

386. Subject matter information expressed in words may result from criteria representing different aspects of the underlying subject matter compared to numerical subject matter information, however the requirements for criteria to be suitable remain the same.
387. Reliable criteria for qualitative information need to be well-defined and therefore reasonably unambiguous so as to allow reasonably consistent measurement or evaluation of the underlying subject matter.

#### EXAMPLE

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



388. It is particularly important for qualitative information that the criteria result in subject matter information that is understandable (including being unambiguous as to its intended meaning) and neutral, as words and images can be inherently ambiguous in their meaning, or may be presented out of context. Most importantly, the criteria cannot result in subject matter information that is misleading to the intended users (S.A50).
389. When the criteria are not suitable and the resulting EER information is subjective and therefore not capable of being assured, the practitioner may discuss this with the preparer so that the preparer has the opportunity to amend the subjective information.
390. If the preparer is unwilling to change the qualitative information that does not result from applying suitable criteria (i.e. is not subject matter information), the practitioner may request the preparer to move such information out of the EER report, otherwise clearly identify it as 'other information' not subject to assurance, or further develop the criteria relating to the underlying subject matter, to result in subject matter information that is capable of being assured. If the preparer is unwilling to:
- (a) remove such information,
  - (b) clearly delineate it as 'other information' or
  - (c) develop suitable criteria,
- the practitioner may need to consider carefully what that means for the assurance conclusion.

EXAMPLE

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

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

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



### Specific Considerations for Obtaining Evidence about Qualitative Information

391. A number of challenges may arise in the context of obtaining evidence for qualitative subject matter information, including:

- (a) The effectiveness or otherwise of an entity’s EER reporting process (see G.Ch5). Substantive testing alone may be insufficient to obtain evidence about qualitative information, as it may not provide evidence as to the completeness and balance of the subject matter information. The practitioner may therefore need to consider whether they will be able to obtain evidence through performing tests of controls. In accepting an engagement, the practitioner determines that the preparer has a reasonable basis for the subject matter information. Accordingly, the preparer’s EER reporting process and related controls may provide the practitioner with a reasonable expectation of being able to obtain the evidence needed to support the practitioner’s conclusion. If the engagement circumstances are not complex, there may be relatively informal or simple controls; the greater the complexity the more complex the EER reporting process and related controls may be.
- (b) The use of internal sources as a basis for reporting the information, for example, information may be entered directly into the entity’s system on a real time basis without any hard copy documentation to support it, or may be obtained through informal communication by way of telephone calls, email or other internal communications. The practitioner may need to consider what evidence can be obtained to support the information being recorded or gathered in this way as these sources, alone, may not be sufficient. For example, when information is being captured by the entity directly onto a computerized system, the practitioner may need to understand and confirm the physical and logical security and access controls in place around the entry of information, and the basis for the entries being made. Where information is gathered through informal communications, the preparer’s underlying books and records may need to include sufficient evidence to back up those communications.

## EXAMPLE

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

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



- (c) The timeliness with which qualitative information is prepared. Preparers may focus on providing quantitative information to the practitioner, but it may be important for the practitioner to obtain the entity's draft EER report early in the engagement. Obtaining the report early allows for sufficient time for the practitioner to evaluate the suitability of the criteria, and to plan and perform procedures to obtain evidence in relation to both the quantitative and non-quantitative (i.e. qualitative) subject matter information, and for the preparer to consider making adjustments to the subject matter information, if appropriate. Whether the scope of the assurance engagement is an entire EER report, or part of an EER report, which includes both qualitative and quantitative representations and related disclosures, the qualitative subject matter information is as much part of the subject matter information as the quantitative subject matter information.
392. Assertions embodied in the qualitative information may be explicit or implicit. Different categories of assertions may be used for qualitative information from those used for numerical subject matter information, but this will depend on the criteria being used. Even in situations where the same assertions are applicable, there may be more focus on assertions such as understandability and comparability for qualitative information, as well as consistency with other information presented by the entity in the same document. For further guidance on the use of assertions, see G.Ch7 and the example in SupB.6.
393. When testing and documenting the practitioner's work in relation to qualitative information, it may be helpful to the practitioner to break up long pieces of text and consider sections, paragraphs or sentences separately when these address different things. It is likely that different assertions will be applicable to each. When the scope of the assurance engagement is the entire EER report, then qualitative information may need to be subject to the same rigor as numerical information when obtaining evidence. Some of the evidence may be available from procedures performed in respect of related quantitative information, but additional work is likely to be needed.
394. Individual claims or indicators in the subject matter information can be individually significant and can be tested separately, particularly where they are part of wider sections of qualitative subject matter information (not all of which might be as significant). In other circumstances paragraphs of text comprising related qualitative and quantitative subject matter information may need to be considered together.

395. Practical methods of doing this may include highlighting the text in different colors or by drawing boxes around sentences or sections of significant qualitative information in the practitioner's documentation of the work done and evidence obtained. The practitioner can perform procedures on each one, and ultimately the assurance working papers can be referenced to the related parts of the text in the subject matter information. See SupB.8; 9; 10 and 12 for examples of considerations in relation to qualitative information.

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

396. To evaluate whether misstatements in qualitative subject matter information are material, the considerations on materiality in G.Ch9 may be relevant because numerical thresholds are not appropriate. S.A96 also sets out various qualitative factors that may be considered when evaluating the materiality of misstatements. When evaluating a misstatement in qualitative subject matter information, the same considerations may be used to conclude whether the misstatement is material, focusing on whether the misstatement could reasonably be expected to influence decision-making by the intended users. Misstatements in qualitative subject matter information may arise through:
- (a) The inclusion of inappropriate information, for example, information that does not meet the criteria or that obscures or distorts information required by the criteria;
  - (b) The inclusion of information that is not supported by the available evidence, or the omission of information for which there is evidence that suggests it should have been included;
  - (c) The omission of information required by the criteria, for example, information relating to a significant subsequent event that would be likely to change the decisions of users but has not been disclosed;
  - (d) Misstatements of fact;
  - (e) Ambiguous statements or statements the meaning of which is unclear;
  - (f) Presenting in vague terms information that is capable of being determined precisely;
  - (g) Changes since the previous reporting period to disclosures or presentation without reasonable justification for doing so or without disclosure of the reasons for doing so; or
  - (h) The manner in which the information is presented. For example, it may be presented out of context, distorted, or given greater or lesser prominence than is warranted, based on the available evidence.
397. When misstatements are identified in qualitative (i.e. non-quantifiable) information, the practitioner may record them by listing them or by marking up or highlighting them in a copy of the subject matter information presented in the EER report. Irrespective of how misstatements are accumulated during the engagement, when evaluating the evidence obtained and in forming the assurance conclusion, the practitioner needs to consider not only individually material uncorrected misstatements, but also individually immaterial misstatements that, when considered collectively, may have a material impact on the subject matter information. However, where the subject matter information is not quantifiably measurable, it is not possible to simply add the misstatements together to determine their effect in aggregate.
398. When the qualitative subject matter information relates to one underlying subject matter, it may be relatively straightforward to evaluate the combined effect of individually immaterial misstatements on the subject matter information, as the misstatements are considered within the context of that subject matter information only.

399. When the subject matter information is an entire EER report covering a wide range of underlying subject matters, it may be more challenging to find a way of evaluating the combined effect of uncorrected qualitative misstatements on the EER report when the criteria consider materiality for the report as a whole. There may not be a common factor linking the various parts of the subject matter information, different emphasis may have been given to different aspects of the information included in the EER report, or different aspects may be more significant than others to intended users.
400. The practitioner's understanding of who the intended users are and what aspects of the subject matter information are likely to be important may be essential to the practitioner's ability to exercise professional judgment about which misstatements are material. Depending on the definition of materiality, materiality judgments are made from the perspective of the intended users.
401. It may be possible, once all non-quantifiable misstatements have been listed, to group them together, for example, by whether they relate, in common, to particular aspects of the underlying subject matter or to particular criteria. For example, in an entity's ESG report, there may be one or more individually immaterial misstatements in the qualitative statements management has made about the health and safety of its workforce and another immaterial misstatement relating to employee diversity. As health and safety and diversity both relate to the social aspect of an ESG report, the practitioner may be able to group these misstatements together and consider their combined effect on the social dimension of the entity's ESG report. Similarly, a number of immaterial misstatements in the reported water usage information and another immaterial misstatement relating to waste generated may be able to be considered together as they both relate to the environmental aspect of the ESG report.
402. However, the ability for the practitioner to do this may depend on the level of aggregation or disaggregation required by the criteria. If the criteria require the ESG reporting to be at the social dimension 'level', then considering the combined effect of misstatements arising in aspects of the social dimension may be appropriate; if the criteria require reporting of the subject matter information on a more disaggregated basis, then misstatements arising in relation to each disaggregated aspect may need to be considered in relation to each individual aspect.
403. A further consideration for the practitioner is whether misstatements that are immaterial in the context of each individual aspect of the subject matter information may, in aggregate, result in a material misstatement of the subject matter information as a whole.
404. Even if there are misstatements that are not be able to be grouped together by underlying subject matter or other common factor, they may exhibit a common 'direction' or trend. For example, if the effect of the misstatements is to make the subject matter information, taken as a whole, look better than it really is, or all the misstatements overstate the positive efforts and impacts of the company's actions, and downplay the negative aspects, that may add up to give a biased and misleading picture to a user of the subject matter information taken as a whole.
405. Understanding the underlying cause of identified misstatements may also help the practitioner to evaluate their materiality to the subject matter information. For example, qualitative misstatements may be due to misunderstanding, oversight or error by an employee preparing the subject matter information, or may be because management has intentionally taken a decision to misrepresent facts. The former may not be considered to be material, whereas the latter may be.
406. As with any other misstatements, the practitioner may encourage the preparer to correct them. In the case of subject matter information expressed in narrative form, this may frequently involve either re-wording or removing the misstated text. If the preparer declines to correct them, the

practitioner is required to consider whether an unmodified conclusion is appropriate. For examples see SupB.9 and 10.

#### **Specific Considerations When Qualitative Information Presented Alongside Other Information**

407. When the subject matter information is part, but not all of an EER report (e.g. only part of the preparer's EER report is subject to assurance), but that part comprises both qualitative and quantitative information, then the part that is subject to assurance (both the qualitative and quantitative aspects of it) are the subject matter information, and any information outside of that subject matter information is 'other information'. It will be important that the information subject to assurance is clearly delineated from the 'other information' so that it is clear to the intended users what has, and what has not, been assured.
408. 'Other information' in an EER report may also include images or other visual enhancements to the report.
409. The practitioner may need to consider whether such 'other information' is congruent with the messages in the qualitative information presented in narrative form in the EER report, or whether they give a conflicting impression. For example, it may be incongruent for the preparer to show images of happy communities where the company is reporting that it has relocated a community to make way for new production facilities.
410. When an entity's EER reporting is integrated with its financial reporting, the practitioner's responsibility to read the 'other information' as required by the Standard will extend to the information contained within the same document(s) as the EER report – i.e. to the financial statements and narrative related to those financial statements. The practitioner is required to consider the consistency of that other information with the subject matter information. There may be legitimate differences between the subject matter information included in an EER report and the 'other information' related to the same underlying subject matter, depending on the criteria used, but the differences may need to be explained or reconciled by the preparer and disclosed so that a user of the EER report can understand the reasons for the differences. See SupB.8; 9; 10.

#### **Specific Considerations for Communicating in Assurance Report on Qualitative Information**

411. As discussed in G.Ch10, the aim of the practitioner is to obtain sufficient appropriate evidence to be able to express a conclusion designed to enhance the degree of confidence of the intended users about the outcome of the measurement or evaluation of the underlying subject matter(s) against the criteria.
412. When the underlying subject matter is not able to be quantified, the way in which it is evaluated may be subject to more variability or open to greater interpretation than if it were able to be quantified, which may result in subject matter information that could be misunderstood or misinterpreted by intended users. Consequently, it may be particularly important for intended users to have an understanding of the criteria used to evaluate the underlying subject matter, and for their attention to be drawn to this in the assurance report.



## Chapter 12: Addressing Future-Oriented EER Information

### Matters Addressed by the Guidance in this Chapter

413. This Chapter provides guidance for the practitioner on specific considerations in the context of future-oriented EER information in:
- (a) Determining suitability of criteria;
  - (b) Obtaining evidence
  - (c) Evaluating misstatements; and
  - (d) Communicating in assurance report.
414. The focus of the Guidance is future-oriented subject matter information that is subject to estimation or occurrence uncertainty.
415. While qualitative information is considered separately in Chapter 11, qualitative and future-oriented information are not mutually exclusive. For example, qualitative information may be future-oriented or historically-oriented, and future-oriented information may be expressed in either qualitative or quantitative terms. The practitioner may find it helpful to consider the guidance in this chapter together with the guidance in Chapter 11.

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

416. EER reports may contain different forms of future-oriented subject matter information, such as:
- (a) Information about future conditions or outcomes. This may include forecasts, projections, and information about future risks and opportunities.
  - (b) Information regarding the entity's intentions or future strategy.
417. While future-oriented information results from applying criteria to the underlying subject matter, just as for any other subject matter information, the underlying subject matter (a future event, occurrence or action) may be subject to greater uncertainty, and generally able to be evaluated with less precision than historical underlying subject matter(s). As a result, it can be challenging to determine whether the criteria for its evaluation are suitable, because there may be a wide range of possible assumptions and outcomes. It is difficult to know what the subject matter information should be, or what may be of consequence to a user's decision-making, when a range of different, yet possibly acceptable, outcomes may be possible.
418. Evidence may be available to support the assumptions on which the future-oriented subject matter information is based, but 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.
419. As a result of the inherent uncertainties relating to the underlying subject matter(s), the criteria and assumptions used to evaluate it, and the speculative nature of the available evidence, which give rise to a wide range of possible outcomes, it can also be difficult to identify whether there is a material misstatement of the subject matter information.
420. Some future-oriented information is factual and therefore does not contain a significant degree of uncertainty, for example the debt maturity profile of an entity that is determined by contractual terms. As performing an assurance engagement on this type of information is not considered to

pose a particular challenge for a practitioner, the remainder of this chapter of the document only considers future-oriented information subject to estimation or occurrence uncertainty.

### The Nature of Future-Oriented EER Information

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

#### EXAMPLE

The difference between observable and hypothetical subject matter information is illustrated by the difference between a forecast and a projection (as based on definitions in ISAE 3400<sup>13</sup>, paragraphs 4-5):

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

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

### Specific Considerations for Determining the Suitability of Criteria for Future-Oriented Information

424. The criteria may require, or be designed to obtain, different information about the underlying subject matter from that obtained in relation to historical information, for example, a description of the future state or condition of an aspect of the underlying subject matter, or a future change in state or condition over time.
425. Whether the criteria from which future-oriented information results are suitable or not can be determined in the same way as any other criteria as described in G.Ch4.
426. For subjective future-oriented information, the practitioner may conclude that, in order for the criteria to be suitable, disclosure criteria are needed for the assumptions made, and the nature, sources and extent of uncertainty. It may still be possible to obtain assurance on uncertain subject

<sup>13</sup> International Standard on Assurance Engagements (ISAE) 3400 (Revised), *The Examination of Prospective Financial Information*

matter information if it is supported by adequate disclosure such that the uncertainty is adequately conveyed to the intended users.

### **Specific Considerations for Obtaining Evidence about Future-Oriented Information**

427. Considerations for future-oriented subject matter information are likely to be similar to historical subject matter information with inherent measurement, evaluation or occurrence uncertainty, and therefore the guidance in G.Ch7 and the thought process set out in G.Ch8 are broadly applicable. When future-oriented information is more subjective, considerations relating to neutrality, presentation and understandability may become relatively more important when designing procedures, due to the risk of management bias.
428. When criteria require a statement of intended future strategy, a target, or other intentions of an entity (an explicit assertion), a practitioner can design procedures to evaluate whether management or those charged with governance have an intention to follow that strategy, or that the target or intention exists. 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.
429. There is likely to be a further implied assertion that the entity has the capability to carry out its intent, or will develop the means to do so, or there may be separate explicit criteria addressing capability. While there is not likely to be evidence available that the outcome will be achieved, the practitioner can design procedures to obtain evidence as to whether the preparer has a reasonable basis for making the assertions that are being made about future actions or events, for example, by considering the processes, systems, controls over the development of the assumptions, and the source data on which they are based.
430. Similarly, where criteria require information about future risks and opportunities to be reported, the risks of material misstatement at the assertion level (for a reasonable assurance engagement) will likely include that the risks and opportunities exist (existence assertion) and that the list of risks and opportunities is complete (or relating to the completeness assertion) with respect to the risks and opportunities which would assist intended users' decision-making. Appropriate evidence could be obtained in the form of reference to the entity's risk register or records of discussions of those charged with governance. However, it is important that the processes and controls in place over the maintenance of the risk register and the minuting of discussions provide a reasonable basis for using these sources as evidence. See G.Ch5 for further guidance on considering the entity's system of internal control.
431. A practitioner is ordinarily not able to obtain assurance on whether the risks and opportunities will materialize or not, however it may be possible in some circumstances to obtain assurance on information about the nature of the risks and opportunities, for example their likelihood or potential impact. Whether this is possible will depend on whether the applicable criteria are suitable and the availability of appropriate evidence. A common challenge is that the likelihood of and potential impact of risks and opportunities can change significantly and quickly due to factors that may be unknown by the entity or outside of its control.
432. Subject matter information predicting future conditions or outcomes 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. It is not possible for the practitioner to determine whether the results or outcomes forecasted, or projected will be achieved or realized. The practitioner may instead focus on whether any assumptions are reasonable, are supported by evidence, and that the subject matter information has been properly prepared in accordance with the applicable criteria. However, the practitioner may need to bear in mind that the such evidence may, itself, be

speculative in nature, and it may be necessary to perform sensitivity analyses to consider how significantly the outcomes might change if the assumptions were to change.

433. When considering subject matter information predicting future conditions or outcomes, the same thought process as was considered in G.Ch8 can be applied. The practitioner may ask what decision is to be made, why the representations being made by the entity may not be true, how the risks of material misstatement might arise of those representations not being true, and how management of the entity manages and mitigates those risks.
434. The practitioner's considerations in relation to the evidence that may be available may include, amongst other matters:
- (a) What governance and oversight the entity has in place over the reporting of the subject matter information, and whether there are systems, processes and internal controls that provide a reasonable basis for the assumptions made by the entity and for the data or other information used as basis for its forecasts (see G.Ch5);
  - (b) What sources of information the preparer has used as basis for the assumptions made, and the reliability of those sources;
  - (c) What statistical, mathematical or computer-assisted modelling techniques, if any, the preparer has used, and what methods for developing and applying the assumptions have been used;
  - (d) How reliable those techniques and methods are, and how relevant they are to the underlying subject matter being forecast;
  - (e) The preparer's previous experience and competence in making forecasts;
  - (f) The accuracy of previous forecasts made by the preparer and the reasons for significant differences between the forecast outcome and the actual outcome. When the preparer has a history of making reasonably reliable forecasts, that may reduce the risk of the future-oriented representations made by the entity being materially misstated. However, that may not be the case if the underlying subject matter is inherently volatile or subject to change. Even when conditions have been fairly stable or predictable in the past, that may not continue to be the case. For example, there may be more volatility in economic conditions than has been the case, historically, or matters such as the impacts of climate change may make it difficult to predict whether existing conditions will continue to prevail, whether there may be a change and, if there is, how significant that change might be or when it might occur;
  - (g) The time period being covered by the future-oriented information. The longer the time period covered, the more speculative the assumptions become as the ability to make a best estimate decreases;
  - (h) The inherent susceptibility of the underlying subject matter to change and the sensitivity of the assumptions to changes that may occur;
  - (i) The extent to which the future conditions are solely or partly under the entity's own control or whether they are outside of the entity's control;
  - (j) The evidence and documentation the preparer has in place to support both the assumptions made and the proper preparation of the subject matter information from those assumptions and how persuasive the evidence is; and
  - (k) Whether there is a need for subject matter or other expertise on the engagement team and, if so, the sources of that expertise.

435. The considerations when designing and performing the procedures to obtain sufficient, appropriate evidence and when evaluating the sufficiency and appropriateness of evidence obtained are similar to those set out in G.Ch8 and, where future-oriented information is presented in narrative form, also to the considerations set out in G.Ch11.
436. However, it may be more difficult to determine the persuasiveness of evidence when it is more speculative in nature than when it is factual. While written representations from management do not take the place of sufficient, appropriate evidence, it may be relatively more important in the context of an engagement to assure future-oriented information to obtain written representations from those charged with governance of the entity confirming that the assumptions as of the date of the assurance report remain appropriate even though the underlying information may have been accumulated over time.
437. As future-oriented information is subject to greater uncertainty than historical information, it may also be acceptable to evaluate whether the outcome is within a reasonable range of possible outcomes.
438. Presentation and disclosures may be particularly important in the context of future-oriented information to enable a user to understand the context for the subject matter information and the inherent uncertainties involved. The practitioner's considerations on whether the presentation and disclosures in the subject matter information are appropriate may include whether:
- (a) The presentation of the future-oriented information is informative, neutral and not misleading;
  - (b) The assumptions used and the basis for those assumptions are clearly disclosed;
  - (c) The basis for establishing points in a range is disclosed and the range is not selected in a biased or misleading manner when the future-oriented EER subject matter information is expressed in terms of a range;
  - (d) The date as of which the future-oriented information was prepared is clear and there is a statement that the assumptions are appropriate as at that date;
  - (e) The uncertainties and sensitivities involved are disclosed, enabling a user to understand the implications of 'what if?'
  - (f) Where comparatives are presented, whether there have been any changes in the current period to the assumptions made or the basis on which the underlying subject matter has been prepared, the changes are disclosed together with the reasons for those changes and their effect on the subject matter information
439. For an example of obtaining assurance on future-oriented information with both qualitative and quantitative aspects, and including disclosures; see SupB.10

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

440. As discussed in G.417, future-oriented information is generally subject to greater measurement, estimation, or evaluation uncertainty than historical information. As a result, there may be a broad range of possible measurement or evaluation outcomes, and it can be more difficult to evaluate whether there is misstatement in the subject matter information, and the materiality of such a misstatement.
441. For the purposes of evaluating the effect of uncorrected misstatements, and based on the evidence obtained, it may be helpful for the practitioner to distinguish between misstatements that are:

- (a) Misstatements about which there is no doubt (factual misstatements)
  - (b) Differences arising from the preparer's judgments concerning estimates or forecasts that the practitioner considers unreasonable, or the selection or application of assumptions and methods that the practitioner considers inappropriate (judgmental misstatements)
  - (c) The practitioner's best estimate of quantitative misstatements in a population, involving the projection of misstatements identified in samples, selected by the practitioner for the purpose of performing their procedures, to the entire population from which the sample was drawn (projected misstatements).
442. In some cases, misstatement could arise as a result of a combination of these circumstances, making separate identification difficult.
443. The practitioner may also consider whether there are indicators of possible management bias in the selection of assumptions, methods or in the way in which the subject matter information is presented that may have implications for the rest of the EER assurance engagement. For example, when the preparer has:
- (a) changed the assumptions or methods used, or has made a subjective assessment that there has been a change in circumstances, without reasonable justification
  - (b) used assumptions that are inconsistent with observable marketplace assumptions, or has
  - (c) selected significant assumptions that favor management's objectives, or that may indicate a pattern or trend.
444. The practitioner may also consider whether the preparer has made adequate disclosures about the assumptions used in measuring or evaluating the subject matter information, and the uncertainties involved, to enable the intended users to understand the implications for their decision-making, and do not result in misleading subject matter information.

#### **Specific Considerations for Communicating in Assurance Report on Future-Oriented Information**

445. As discussed in G.Ch10 and G.Ch11, the aim of the practitioner is to obtain sufficient appropriate evidence to be able to express a conclusion designed to enhance the degree of confidence of the intended users about the outcome of the measurement or evaluation of the underlying subject matter(s) against the criteria.
446. When the underlying subject matter is subject to a high degree of estimation or evaluation uncertainty, there may be more variability or it may be open to greater interpretation than when there is less uncertainty. This may result in subject matter information that could be misunderstood or misinterpreted by intended users. Consequently, it may be particularly important for intended users to have an understanding of the criteria used to evaluate the underlying subject matter, and for their attention to be drawn to this in the assurance report, for example by describing the inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria (see S.69.e)

EXAMPLE

For example,

*[Name of entity] has prepared its forecast of expected outcomes related to [identified subject matter information] using a set of assumptions that include hypothetical assumptions about future events and management's actions. Actual outcomes are likely to be different from those forecast as anticipated events frequently do not occur as expected and the difference between the forecast outcome and the actual outcome may be material.*

## Appendix 1

## Terms Used in this Guidance

Terms used	How described in the Guidance
<b>Aggregation risk</b>	The risk that the aggregate of uncorrected and undetected misstatements exceeds overall materiality or, when applicable, materiality at a disaggregated level. G.287
<b>Assurance competence</b>	The competence needed to perform an assurance engagement, including competence in both assurance skills and techniques. G.24
<b>EER</b>	Extended external reporting. G.1
<b>EER assurance engagement</b>	An assurance engagement on EER. G.2
<b>EER information</b>	Information about the financial and non-financial consequences of an entity's activities included in an entity's EER report. G.5
<b>EER report</b>	EER information presented as one or more section(s), report(s) or statement(s). G.7
<b>EER reporting process</b>	An entity's process to collect data and information, apply the criteria to the underlying subject matter and report information relevant to the preparation of the EER subject matter information. G.66
<b>Entity developed criteria</b>	Criteria developed by the entity. G.8
<b>External information source</b>	An external (external to the preparer) individual or organization that provides data or information that is used by the preparer in the preparation of an EER report. G.191
<b>Financial information</b>	Information about an entity's economic resources or obligations, or changes therein, as a consequence of the entity's transactions and other events and conditions. G.6
<b>Framework criteria</b>	Criteria in EER frameworks, standards or guidance established by law or regulation, by international or national standard setters, or by other bodies. G.8



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<b>Terms used</b>	<b>How described in the Guidance</b>
<b>Performance materiality</b>	A quantitative threshold that is less than quantitative materiality for the subject matter information as a whole that is set to reduce aggregation risk to an appropriately low level. G.296
<b>Perimeter of the subject matter information</b>	Subject matter information for the engagement that is only part(s) of entity's EER report. G.65
<b>Preparer</b>	A responsible party who is also the measurer or evaluator.
<b>Reporting topics</b>	Relevant (aspects of) underlying subject matter. G.124
<b>Subject matter competence</b>	Competence in the underlying subject matter of the engagement and in its measurement or evaluation. G.24
<b>Subject matter experts</b>	Experts in the underlying subject matter and its measurement or evaluation. G.30
<b>Substantive procedures</b>	Assurance procedures other than testing of controls. G.381

## Appendix 2

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

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

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