Supplemental Information to the Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements
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SUPPLEMENTAL INFORMATION TO THE DISCUSSION PAPER
SUPPORTING CREDIBILITY AND TRUST IN EMERGING FORMS OF
EXTERNAL REPORTING: TEN KEY CHALLENGES FOR ASSURANCE
ENGAGEMENTS

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This supplementary information is intended for stakeholders that would like to explore the concepts in
the Discussion Paper (DP) Supporting Credibility and Trust in Emerging Forms of External Reporting:
Ten Key Challenges for Assurance Engagements.

Emerging forms of external reporting are referred to as “EER”.

Further information is also provided in the Frequently Asked Questions and table of prominent EER
bodies, affiliations and initiatives on the Integrated Reporting Working Group project page.
Appendix A: Supplemental Information to Section III of the Discussion Paper: Factors Enhancing Credibility and Trust

1. This Appendix provides supplementary discussion of factors that may enhance credibility and trust, and should be read in conjunction with the material in Section III in the Discussion Paper (DP).

Factor 1: Sound Reporting Framework

2. As can be seen in the supplemental information on the Integrated Reporting Working Group (IRWG) project page,¹ the objectives of different EER frameworks can vary significantly. The closeness of fit between the objectives of the reporting framework and the user’s needs is an important credibility factor. Transparency about the reporting objectives is therefore important.

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

4. Where applicable, the need for such judgments and the potential for ambiguity in those criteria may make the framework inherently more susceptible to the risk of preparer bias. For example, under a principles-based requirement:
   - Identifying content elements and depiction methods can involve significant judgments about what to report and the appropriate depiction methods to use. Clear principles for determining these matters (such as a strong materiality principle and a requirement for stakeholder engagement to enable it to be applied effectively), and transparency about these matters and about the processes to implement them, can be important credibility factors for an EER report.
   - Applying depiction methods can involve addressing significant uncertainties in making estimates and qualitative evaluations or assessments and can therefore require significant judgments by preparers. Frameworks may address such uncertainties and judgments by requiring related disclosures and by establishing a neutrality principle to be applied in making such judgments to counter the inherently greater susceptibility to preparer bias risk.

Factor 2: Strong Governance

5. Oversight by those charged with governance (TCWG),² who are responsible for overseeing the strategic direction of the entity and its obligations related to accountability, includes overseeing the entity’s external reporting process, which historically has been primarily focused on the financial statements. The responsibilities of TCWG may become broader as EER continues to evolve. In listed companies and other large entities, much of the work related to overseeing the entity’s external reporting process is often undertaken by an audit committee. A transparent and constructive relationship between management and TCWG will enhance credibility of the external report. In

² See the Glossary of Terms in the IAASB Handbook. For some entities in some jurisdictions, TCWG may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.
executing their responsibilities, TCWG (including audit committees where they exist) may engage with intended users to obtain their perceptions of the usefulness and quality of external reporting.

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

7. A strong internal control system is founded on:

- A control environment in which the oversight function (TCWG) and management actively support high-quality external reporting, and embed a culture in the entity that engenders effective internal control;
- An effective information system for obtaining and processing relevant information to enable the depiction of content elements;
- Identification and assessment of risks that may threaten the quality of external reporting and the design, implementation and effective operation of appropriate responses in the form of control activities;
- Regular overall monitoring of controls to determine that such controls are effective; and
- Adequate information and communication, including more broadly on the business processes.

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

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

10. Stakeholder dialogue is an important part of the process for defining an entity’s strategy, identifying the most material issues to address, and disclosing them in external reports. The importance of such engagement is reflected in many EER frameworks as part of the entity’s EER materiality process. Entities may also include stakeholder representatives in their governance structures, such as in their non-executive board, or may have a separate expert advisory group to advise the board on such matters.

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

Factor 3: Consistent Wider Information

12. Factors affecting the credibility of that wider information – such as the perceived independence and objectivity of the ultimate source of the information, the medium through which it is communicated (for example, a respected news agency), or the fact that the information was obtained in the past and

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3 Institute of Internal Auditors (2013) in *Integrated Reporting and the Emerging Role of Internal Auditing*. 
was already perceived as credible – may influence whether the EER report or the wider information is determined to be most credible by users when there are inconsistencies between them.
Appendix B: Supplemental Information to Section IV: Examples of the Nature and Scope of Assurance Engagements

13. This Appendix supplements the information in paragraphs 90-91 of Section IV of the DP. Below examples are provided of the types of assurance engagements that may be performed in accordance with ISAE 3000 (Revised)\(^4\), as shown in Figure 1.\(^5\) Hypothetical illustrative conclusions that might be included in the assurance reports are also provided to clarify each example.

Figure 1: Overview of the Nature and Scope of Potential Assurance Engagements

Color code: the full report (orange), particular elements from the report (green) or the reporting process (blue)

14. Example 1 addresses assurance on the full EER report against all the principles and content elements of the reporting framework. Accordingly, this represents a full scope assurance engagement. An illustrative reasonable assurance conclusion for such scope is: 

\[ \ldots the \ EER \ report \ is \ properly \ prepared, \ in \ all \ material \ respects, \ in \ accordance \ with \ XYZ \ criteria \ as \ explained \ in \ Note \ YY \ of \ the \ EER \ report. \]

An illustrative limited assurance conclusion for such scope is: 

\[ Based \ on \ the \ procedures \ we \ have \ performed \ and \ the \ evidence \ we \ have \ obtained, \ nothing \ has \ come \ to \ our \ attention \ that \ causes \ us \ to \ believe \ that \ the \ EER \ report \ for \ the \ year \ ended \ December \ 31, \ 20xx \ is \ not \ prepared, \ in \ all \ material \ respects, \ in \ accordance \ with \ XYZ \ criteria \ as \ explained \ in \ Note \ YY \ of \ the \ EER \ report. \]

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\(^4\) International Standards on Assurance on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

\(^5\) This figure is also included as Figure 4 in the DP, Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements.
15. Although limited assurance engagements on the full EER report are performed, it must be noted that reasonable assurance engagements still only rarely occur in practice. Example 2 addresses situations where the scope of subject matter information of the assurance engagement is one or more components of the report, such as:

(a) The historical information;
(b) The policy and key performance indicators (KPIs) around particular topics; or
(c) The KPIs and related disclosures.

As it does not include the entire EER report, particular principles related to the full report, such as the connectivity principle, may be excluded from the scope of the assurance engagement. However, they are applied within the subject matter information, for example, the respective information needs to be complete. The other types of information will be read for any inconsistencies, but are not covered by the assurance engagement. The added value to the intended users is that the practitioner obtains assurance and reports on the specified subject matter information against the criteria used.

The choice of selecting the policy and KPIs, or only the KPIs and related disclosures for the subject matter information of an assurance engagement, is often made in practice when the criteria for measurement and presentation are for these matters in particular more robust, as are the underlying reporting processes. Some companies, for example, choose to include a KPI overview similar to the financial statements. If the scope of the assurance engagement does not address the full report, transparency should also be given as to what was not covered by the assurance engagement.

An illustrative conclusion is: …the historical information/information on policy and performance as described on pages xx to yy / information on key performance as described on pages xx to yy in the EER report for the year ended December 31, 20xx is properly prepared, in all material respects, in accordance with XYZ criteria as explained in Note YY of the EER report. We have not obtained any assurance with respect to the other topics and, accordingly, we do no express a conclusion or any other form of assurance on the other topics.

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

An illustrative conclusion is: …the EER report includes the relevant topics to depict ZZ as explained in Note YY of the EER report and the historical information/information on policy and performance on the topics as described on pages xx to yy/information on key performance as described on pages xx to yy in the EER report for the year ended December 31, 20xx is properly prepared, in all material respects, in accordance with XYZ criteria. We have not obtained any assurance with respect to the other topics and, accordingly, we do no express a conclusion or any other form of assurance on the other topics.

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

An illustrative conclusion is: ….in all material respects, the applicable reporting process and related internal controls for [applicable reporting process] are adequately designed to achieve the objective set by management [for a specific period] in accordance with XYZ criteria as explained in Note YY of the EER report on reporting process and internal control.
18. Example 5 addresses the design and operation of the reporting system. The added value is that in addition to example 4, evidence is also obtained on whether the reporting system has been placed in operation.

An illustrative conclusion is: "in all material respects, the applicable reporting process and related internal controls for [applicable reporting process] are adequately designed to achieve the objective set by management, in accordance with XYZ criteria as explained in Note YY of the EER report on reporting process and internal control and have been implemented as designed [for a specific period]."

19. Example 6 addresses the design, operation and effectiveness of the reporting system. The added value is that evidence is also obtained as to whether the intended outcome of the reporting system against the criteria is achieved. An illustrative conclusion is: "in all material respects, the applicable reporting process and related internal controls for [applicable reporting process] are adequately designed to achieve the objective set by management, in accordance with XYZ criteria as explained in Note YY of the EER report on reporting process and internal control and have been implemented as designed and operated effectively [for a specific period]."
Appendix C: Supplemental Information to Section V of the Discussion Paper: The Ten Key Challenges in Relation to EER Assurance Engagements

19. This appendix provides for those interested in a more in-depth discussion supplementary information of the ten key challenges in relation to EER assurance engagements as included in Section V of the DP Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements.

20. The appendix explores whether international standard setting or other guidance, such as implementation guidance, may be necessary to support EER assurance engagements.

Challenge 1: Determining the Scope of an EER Assurance Engagement Can Be Complex

Understanding the Challenge

21. The potential scope of an EER assurance engagement may be broader and more diverse than the scope of an audit of financial statements, reflecting the much greater diversity in the information in EER reports, which by nature may be more judgmental and require more flexibility and less standardization than in relation to audits of financial statements. The various challenges in establishing strong governance related to key differences between financial reporting and EER frameworks may result in difficult acceptance judgments in a number of areas or in the costs outweighing the benefits for full scope assurance engagements. These challenges appear to be a key barrier to full scope assurance engagements being performed at this time. As indicated in Section II of the DP, while some new forms of engagements appear to be emerging, there is also a desire to consider alternative (lesser scope) assurance engagements in these circumstances, subject to there being a rational purpose for such an engagement. However, for many, this appears to be a complex possibility to address and the necessary considerations are not always well understood.

22. Table 1 illustrates potential assurance engagements relating to integrated reporting, identifying for each the underlying subject matter, the criteria, the resulting subject matter information and the terms in which the assurance conclusion might be expressed. Similar options arise for other forms of EER reporting. Figure 4 in Section IV of the DP and the supplemental information in Appendix B above provide an overview of the types of assurance engagements that may be performed in accordance with ISAE 3000 (Revised).
Table 1: Examples of Potential Assurance Engagements Regarding Integrated Reporting

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subject Matter</strong></td>
<td>Value creation over time</td>
<td>Aspects of performance</td>
<td>Reporting process</td>
</tr>
<tr>
<td>Criteria</td>
<td>International &lt;IR&gt; Framework</td>
<td>Performance Indicators Criteria</td>
<td>Internal control criteria</td>
</tr>
<tr>
<td><strong>Information</strong></td>
<td>Integrated report</td>
<td>Key performance indicators (KPIs)</td>
<td>Internal control or management assertion about the internal control over the preparation and presentation of the integrated report</td>
</tr>
</tbody>
</table>

How the IAASB’s International Standards Address the Challenge

23. We note that ISAE 3000 (Revised) already enables considerable flexibility in the scope of assurance engagements in relation to EER reports, which may be needed to address the variety of subject matters in EER reports, subject to meeting the conditions for accepting an assurance engagement (see paragraphs 68–78 in the DP). Examples include flexibility in:

- The nature and scope of the assurance engagement. For example, the scope of an assurance engagement may be limited to part of the integrated report as illustrated in Table 1.

- The criteria used in the assurance engagement. The criteria may be suitable because they are established (e.g., by law or regulation or by a recognized body following due process) or may be specifically developed by the entity to meet the conditions for suitable criteria (see paragraphs 48 and 69 in the DP; and Challenge 2 below).

- The content of the assurance report itself (see paragraph 75 in the DP; and Challenge 10 below).

In addition it may be possible to overcome some of the specific challenges identified, for example through establishing entity-developed criteria for reporting or through more informative assurance reports.
What We Propose to Explore Further

24. While we believe the engagement acceptance considerations in ISAE 3000 (Revised) continue to be reasonable, they are expressed in general terms. Given the wide range of potential acceptance issues identified above in relation to EER assurance engagements, we propose to explore further:

- The need for guidance on addressing the difficult acceptance considerations relating to the above challenges and their implications for the practitioner determining the scope of an assurance engagement that would be possible (i.e., a less than full scope assurance engagement) and that has a rational purpose. Such guidance could consider what the appropriate scope for an assurance engagement might be when acceptance challenges arise in relation to the performance of a full scope assurance engagement.
- How flexibility in the assurance engagement can be further facilitated while at the same time maintaining comparability between assurance engagements and clarity for the users and preparers.

Challenge 2: Evaluating the Suitability of Criteria in a Consistent Manner

Understanding the Challenge

25. The characteristics of suitable criteria (see paragraph 69 in the DP) are closely aligned with the characteristics of an EER framework that are likely to engender credible reporting (see Table 1 in the DP). As described in paragraphs 80–82 in the DP, EER frameworks are often less prescriptive about content elements and depiction methods, and therefore more ambiguous about the determination of these items. Given the diverse nature of the content elements, there is considerable opportunity for management bias in making these determinations. There is therefore considerable need for the application of professional judgment and professional skepticism by the practitioner in addressing the suitability of criteria in an EER assurance engagement.

26. The judgments the practitioner has to make include not only whether the characteristics of suitable criteria have been met, but also whether the information resulting from applying them is capable of being assured (see paragraph 70 in the DP). The practitioner has to address both criteria in law or regulation or in the EER framework, as well as entity-developed criteria. Given the preponderance of the latter in relation to EER frameworks, and the extent to which there is opportunity for management bias in selecting them, there are significant challenges in evaluating the suitability of criteria in a consistent manner.

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

28. In contrast, financial reporting frameworks, such as International Financial Reporting Standards (IFRS), are generally at a more advanced stage of development and often prescribe in a greater degree of detail the required contents, and the recognition and measurement methods, presentation formats and related disclosures of a financial report. In doing so, key elements of judgment that would otherwise need to be made by report preparers have been subsumed by the due process used to develop the framework.
29. Areas of uncertainty, ambiguity and judgment can be addressed by the reporting framework establishing adequate disclosure and neutrality principles to counter the risk of management bias. In practice, this often results in an EER assurance engagement being performed on the basis of criteria that include both “established criteria” and criteria that are developed by the entity exercising its own judgment. For example, paragraph 4.41 of the IIRC’s International <IR> Framework requires the disclosure of the “basis of preparation and presentation” of an integrated report, which may include measurement criteria from other EER frameworks and criteria established by the entity such as:

- A summary of the entity’s EER materiality process;
- A description of the reporting boundary and how it has been determined; and
- A summary of significant methods used to quantify or evaluate material matters.

30. A comparison of criteria that may be established by an EER framework versus criteria that may be established by the entity is provided in Table 2.

Table 2: Criteria for the Assurance Engagement

<table>
<thead>
<tr>
<th>Criteria established by the EER framework</th>
<th>Criteria developed by the entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective (scope, user, use)</td>
<td>Entity’s application of materiality assessment</td>
</tr>
<tr>
<td>Reporting principles/ qualitative characteristics</td>
<td>Entity’s application of reporting boundary policies</td>
</tr>
<tr>
<td>Content elements (topics) and depiction of elements</td>
<td>Measurement protocols/ methodologies for particular performance indicators that are not covered by the established criteria</td>
</tr>
<tr>
<td>Common performance indicators; recognition, measurement and presentation</td>
<td></td>
</tr>
</tbody>
</table>

31. The practitioner in an EER assurance engagement needs to consider whether both the criteria established by the EER framework and those developed by the entity are suitable criteria for an EER assurance engagement. To enable consistency in making judgments about whether the criteria for an EER assurance engagement are suitable consistent approaches in doing so will be needed.

How the IAASB’s International Standards Address the Challenge

32. The IAASB’s International Standards adopt a framework-neutral approach and effectively define the boundaries of an assurance engagement through the acceptance conditions described above. These are necessarily described at a general level since ISAE 3000 (Revised) was established to cover a wide variety of underlying subject matters.

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

7 The components of established criteria and reporting policy mentioned in this diagram are indicative only; they are not complete, and whether particular components are part of the established criteria or part of the reporting policy will vary with the circumstances.
33. ISAE 3000 (Revised) notes that established criteria\(^8\) are, in the absence of indications to the contrary, presumed to be suitable. Examples of a number of EER frameworks, which in the context of a particular EER assurance engagement may represent established criteria, are included in the additional background information on the IRWG project page. With respect to criteria developed by the entity, ISAE 3000 (Revised)\(^9\) indicates that they would not be suitable if they result in subject matter information or an assurance report that is misleading to the intended users, and that it is desirable for the intended users or the engaging party to acknowledge such criteria are suitable for the intended users’ purposes. ISAE 3000 (Revised) does not describe in detail how to assess the suitability of criteria, regardless of whether they are established criteria or criteria developed by the entity. Rather, it necessarily addresses these matters in a subject-matter neutral manner.

34. Entity-developed 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. Practitioners must therefore make judgments about the adequacy of their transparency.

35. ISAE 3000 (Revised) notes that criteria are made available to the intended users in one or more of the following ways:

- Publicly (which will typically be the case for established criteria).
- Through disclosure in a clear manner in the presentation of the subject matter information (which will typically be the case for the entity’s reporting policy).
- Through disclosure in a clear manner in the assurance report (for example, paragraph A164 of ISAE 3000 (Revised) notes that it may be relevant in the circumstances for the assurance report to disclose: measurement or evaluation methods used when the applicable criteria allow for choice between a number of methods, or any significant interpretations made in applying the applicable criteria in the engagement circumstances).
- By general understanding, for example, the criterion for measuring time in hours and minutes.

36. Accordingly, the practitioner needs to consider not only whether criteria are suitable, but also whether they have been disclosed with sufficient detail and clarity that they can be said to be “available”. Suitability and availability may need to be assessed together when the criteria are not disclosed in one single place.

**What We Propose to Explore Further**

37. We propose to explore whether additional guidance may be needed to assist practitioners in assessing the suitability of criteria for EER engagements and whether the criteria have been made appropriately transparent to the intended users.

38. Guidance could address factors that may affect a practitioner’s professional judgment about the suitability of criteria and availability of these criteria in an EER environment:

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

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\(^8\) Established criteria comprise criteria prescribed by law or regulation and criteria issued by authorized or recognized bodies of experts that follow a transparent due process if they are relevant to the intended users’ information needs.

\(^9\) ISAE 3000 (Revised), paragraph A50.
• How expectations about balancing principles (such as balancing conciseness with completeness, and measurement or evaluation uncertainty with relevance and materiality or timeliness) have been taken into account.

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

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

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

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

• How these matters may be addressed through the entity’s EER materiality process.

Challenge 3: Addressing Materiality for Diverse Information with Little Guidance in EER Frameworks

Understanding the Challenge

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

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

41. The scope of an EER assurance engagement may be broader, for example, regarding the intended users and the subject matter. The perspective of a wider range of users may need to be considered

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10 In some cases, accountability may be the key purpose of the framework.

11 Statement of Common Principles of Materiality, 2016, by the Corporate Reporting Dialogue. See also Materiality in Integrated Reporting, 2015, by the IIRC and IFAC. Both of these publications address materiality under different reporting frameworks.
in applying the concept of materiality. As noted above, there are more areas where judgment is required in applying EER frameworks and a greater risk of management bias. In applying the concept of materiality, there will likely be a need for an entity’s EER materiality process to ensure these judgments reflect the broader and more diverse user perspective often encountered. If the entity does not have an effective EER materiality process, it may be difficult for a practitioner performing an EER assurance engagement to obtain sufficient appropriate evidence about whether all relevant content elements have been included in the EER report. As a result, there could be engagement acceptance issues.

42. The content of EER reports is generally less comprehensively specified and more judgmental in EER frameworks than in financial reporting. A key challenge, therefore, in an EER assurance engagement is how to assess what would be material, when both the users and their information needs can be diverse or even unknown. EER framework do not always provide less direction on materiality. This may be particularly challenging when considering whether misstatements have arisen in making judgments in applying an EER framework, in the greater number of areas referred to in the previous paragraph. The practitioner is therefore likely to need to pay close attention to the entity’s EER materiality process to determine what content elements should be included in the report and how they should be depicted in the EER report (measurement or evaluation and presentation methods and related disclosures), including the extent and nature of its interaction with its stakeholders in doing so.

43. Another key challenge is that, compared with financial statements, EER has no common unit of measurement or evaluation in which to express each of the content elements relating to the underlying subject matter. Therefore, making overall materiality judgments is more difficult to benchmark. In financial statements, all the content elements can be measured (or estimated) in a common monetary unit and each identified quantitative misstatement in the recognition or measurement of a content element can be measured in that unit. This enables the determination of whether all such misstatements are material in quantitative terms, both individually and in the aggregate, using an overall quantitative materiality benchmark. The nature of subject matter information is discussed further in Figure 2.
A depiction expresses or communicates one or more characteristics (conditions, factors or traits) of a content element that can exist in different amounts or types. Those characteristics can represent the present, past or future condition, factor or trait of the content element at a point in time, or a change therein over a historical or future period of time (i.e., the depiction may relate to a point in time or a period of time and may be historical or future-oriented).

The condition, factor or trait may be the real condition, factor or trait of the content element or one that would have existed in the past or present or that would in the future exist in some hypothetical scenario. For example, it may be the price of an item in a real transaction or it may be the price of an item in a hypothetical transaction between a willing buyer and seller. Some characteristics can be observed (factual) whereas some are not (yet) observable and need to be predicted (predictive).

A characteristic is quantitative if it can exist in different amounts, that is, numbers that can be subjected to mathematical operations such as add, subtract, multiply, divide. Such characteristics can be measured. Measurements are expressed in quantitative units that are standardized or generally accepted. For example, in financial statements, measurements of content elements are made in common currency units and in greenhouse gas statements, greenhouse gas emissions are often measured in CO2-equivalents. Many content elements in EER reports are not measurable in currency units and many others are not quantifiable at all.

A characteristic is qualitative when it does not exist in different amounts but its expressions exist in different types, each with common qualitative attributes (e.g., expressions of color can be categorized into types such as blue, green, yellow). An EER report might include a description of an entity’s ability to create value over time or of its economic, environmental or social impact. It may not be possible to measure the characteristics of such a description but it may be possible to evaluate them. Evaluation involves making a judgment about the characteristics using an evaluation method.

In its simplest form, an evaluation method can take the form of observation of a content element and the development of a description, in narrative form (narrative information), of its qualitative characteristics. Not all characteristics are readily observable and their evaluation may require some testing of the condition, factor or trait. In addition, the characteristic being evaluated may be inherent (or latent) in the content element and may need to be provoked to observe its response or impact in testing. For example, evaluating whether a control activity is operating effectively necessarily involves testing aspects of its operation in conditions where the control would be challenged.

The subject matter information that results from a testing-based approach sets out the results of that testing, and is therefore more evaluative (i.e., provides not only the outcome of the evaluation but also the basis for that evaluation) than descriptive. It may comprise both qualitative and quantitative information about the basis and results of testing.

The type assigned to a qualitative characteristic as a result of observation or testing of the content element is based on a comparison of the observation or results of testing with a standard representation of possible types for that characteristic. Making such comparisons may be more or less subjective and the testing methods used may be more or less effective in evaluating the characteristic. Therefore the nature of the subject matter information comprising the narrative description or results of testing may vary from more objective to more subjective.
44. In EER reports, there is a variety of content elements that relate to diverse phenomena and their depictions may have very diverse natures (see above). The subject matter information that results from their depiction may have a range of characteristics which may vary on a number of dimensions (see paragraphs 72 and 73 of the DP). Narrative information and future-oriented information are further addressed in Challenges 6 and 7 below.

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

How the IAASB’s International Standards Address the Challenge

46. ISAE 3000 (Revised) requires the practitioner to consider materiality when planning and performing the assurance engagement (including when determining the nature, timing and extent of procedures), and when evaluating whether the subject matter information is free from material misstatement.\(^{12}\)

47. ISAE 3000 (Revised) notes that considering materiality is a matter of professional judgment, which is made in the light of surrounding circumstances, both qualitative and quantitative, including the practitioner’s perception of the common information needs of intended users as a group.\(^{13}\) Given that ISAE 3000 (Revised) has to be framework-neutral, it provides only high-level guidance on materiality that would need to be taken into account if the concept is not well-defined in the EER framework.

48. ISAE 3000 (Revised)\(^{14}\) clarifies that professional judgments about materiality are not affected by the level of assurance; materiality reflects the user perspective, therefore what is material is the same in both limited and reasonable assurance engagements.

What We Propose to Explore Further

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

- Evaluating the entity’s EER materiality process, including the extent and nature of stakeholder engagement;
- Considering the overall materiality of misstatements in the aggregate, in the context of different types of measurement units; and
- Considering materiality for qualitative depictions including for narrative descriptions and future-oriented information.

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\(^{12}\) See ISAE 3000 (Revised), paragraph 44.

\(^{13}\) See ISAE 3000 (Revised), paragraphs A92-A100.

\(^{14}\) See ISAE 3000 (Revised), paragraph A92.
Challenge 4: Building Assertions for Subject Matter of a Diverse Nature

Understanding the Challenge

50. The diverse nature of EER subject matter information compared with that contained in financial statements makes it more challenging to develop appropriate assertions (see paragraph 86-88 of the DP).

51. The assertions established in the International Standards on Auditing (ISAs) and in ISAE 3410 may not be sufficient in the EER environment since:

   - These assertions are focusing on content elements that are depicted primarily as a measured quantity of a characteristic of the content elements, together with related disclosures, whereas EER reports also include depictions of content elements that are not depicted in this way (and many that are not depicted in quantitative terms at all).
   - Some EER frameworks include principles for communication, such as connectivity, which are not used in relation to financial statements or greenhouse gas statements. There may be a need for different assertions to address these.

How the IAASB’s International Standards Address the Challenge

52. Since ISAE 3000 (Revised) is framework neutral, it cannot comprehensively set out all possible assertions for all EER frameworks. The assertions in the ISAs were amended in the IAASB’s Disclosures Project: (i) to combine the assertions for account balances and for classes of transactions and events with those for the presentation of those items and related disclosures; and (ii) to recognize that, in relation to disclosures in the financial statements not related to those items, the revised assertions for those items may need to be adapted as appropriate.

53. Since the ISAs and ISAE 3410 are subject-matter specific, they do include assertions used in financial statement audits and assurance engagements on greenhouse gas statements, respectively. Assertions are defined in ISAE 3410 as representations by the entity, explicit or otherwise, that are embodied in the greenhouse gas statement and are used by the practitioner to consider the different types of potential misstatements that may occur.

54. The assertions in these two cases are, however, broadly comparable. Despite the fact that they address quite different subject matters (i.e., economic phenomena and physical phenomena, respectively), the nature of their subject matter information is similar. In each case, the information relates to content elements that exist at a point in time, and changes in them over a period, which can be measured in a common unit (i.e., currency units and CO₂-equivalents, respectively).

What We Propose to Explore Further

55. We propose to explore (i) whether additional guidance is needed to develop a methodology that could be used to build and classify relevant assertions for the different types of information that are prevalent in EER reports, having regard to the types of depiction methods and communication principles commonly encountered in EER frameworks, and (ii) whether the assertions are intended to support the practitioner’s identification of potential types of misstatements at the level of the EER report or at the level of the presentation of content elements.

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Challenge 5: Lack of Maturity in Governance and Internal Control over EER Reporting Processes

Understanding the Challenge

56. Many entities seeking to apply EER frameworks may not yet have sufficiently robust EER reporting systems, controls and oversight in place (see paragraph 97 in the DP). There may be a weak control environment with higher levels of control risk. The entity’s EER materiality process may not be effectively structured and judgments made about the matters that are most relevant for inclusion in the EER report may be highly subjective in nature. As a result the EER report may not be readily capable of being assured or the cost of performing the assurance engagement may be prohibitive. These matters may in turn give rise to assurance engagement acceptance issues.

57. Given the variety of subject matter in an EER report, the information is often compiled using less developed information systems, where fewer controls may exist than for financial statement preparation. The maturity of governance and internal control around reporting processes may have implications for the availability of procedures to obtain sufficient appropriate evidence. Despite the initial assessment at the engagement acceptance stage, the practitioner may find that the controls are lacking or are not operating effectively and alternative procedures cannot be performed to obtain sufficient appropriate evidence. In such cases, the practitioner evaluates the consequences for the completion of the assurance engagement and the assurance report.

58. Given the variety of topics in an EER report, the information is often compiled using different information systems that may have been designed for other purposes. The reporting process in relation to a particular content element may involve various departments in the reporting entity, rather than being linked to specific transactions, and it may therefore be difficult for the entity to implement an effective control process.

59. In some cases, TCWG may not yet be involved in the EER reporting process. As a result, the communication between the practitioner and TCWG may be less effective. This may have implications for the practitioner’s evaluation of the control environment.

60. Stakeholder engagement plays a much more prominent role in the EER governance processes and is often explicitly addressed in the different EER frameworks. The entity’s stakeholder engagement process may not yet be structured. As a result, the judgment about the matters that are relevant for inclusion in the EER report may be highly subjective in nature. The practitioner needs to consider whether the outcome of the stakeholder engagement process is suitable for aspects of the assurance engagement, in particular for assessing the assertion that all relevant topics are included in the EER report.

How the IAASB’s International Standards Address the Challenge

61. ISAE 3000 (Revised) would require the practitioner in a reasonable assurance engagement to obtain an understanding of internal control over the preparation of the subject matter information relevant to the engagement, and to evaluate the design of those controls relevant to the engagement and determine whether they have been implemented by performing procedures, in addition to inquiry of the personnel responsible for the subject matter information. In contrast, for a limited assurance engagement, ISAE 3000 (Revised) requires that the practitioner consider the process used to prepare the subject matter information to identify areas where a material misstatement of the subject matter information is likely to arise.
62. Table 3 provides an overview of where, in the assurance process, consideration of the maturity of corporate governance and internal control is relevant.

Table 3: Considerations with Respect to the Maturity of Corporate Governance and Internal Control in the Assurance Process

<table>
<thead>
<tr>
<th>Engagement Acceptance</th>
<th>Evidence-Gathering Process</th>
<th>Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial assessment and identification of topics for which the immaturity may result in the inability to obtain sufficient appropriate evidence</td>
<td>Consideration of the appropriate mix of procedures to obtain insight and plan further procedures (different for reasonable and limited assurance engagements)</td>
<td>Consideration of the impact of any consequences of immaturity of corporate governance on the assurance conclusion</td>
</tr>
</tbody>
</table>

What We Propose to Explore Further

63. Given that EER processes may be less formal and less mature compared to financial reporting processes, we propose to explore whether further guidance may be needed in the context of EER reporting to address:

- How to evaluate the maturity of reporting systems, controls and oversight;
- Factors to consider in determining which controls are relevant to the assurance engagement and the circumstances in which a more formal reporting process with more extensive internal controls may be needed to provide a reasonable basis for preparing the EER report;
- Circumstances when it may be necessary to adopt an engagement strategy that involves obtaining sufficient appropriate evidence as to the operating effectiveness of relevant controls and what to consider when testing controls;
- Addressing the consequences of weaknesses in reporting systems, controls and oversight when alternatives to placing some reliance on the operating effectiveness of controls are not available.

Challenge 6: Narrative Information

Understanding the Challenge

64. EER reports include a significant amount of narrative information, such as on the strategy of the entity, its governance, risk and opportunity management, and future prospects. Narrative information in EER reports may be factual (more observable and therefore more readily captured by reporting systems) or more subjective (less observable and more susceptible to being reflective of the views of those reporting it). Narrative information may also include management judgments and be more susceptible to management bias. The nature of such subject matter information in EER assurance engagements may make it more challenging to design effective assurance procedures (see also the explanation in paragraphs 72, 73, 81 and 82 of the DP, and challenges 2 and 3 above).

65. Narrative information may include:\(^{16}\)

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\(^{16}\) See IIRC *Assurance on <IR> an Exploration of Issues*, 2014 paragraph 4C: 4.32 and 4.33.
• Factual narrative—information that is supported by events that have occurred, which may be evidenced in a number of ways, including reporting systems and their resulting reports, or in information reported externally by other organizations. This information is likely to be more observable and therefore more readily captured by reporting systems.

• Subjective narrative—information that is less observable or less supportable by observable data and therefore is more reflective of, and variable with, the views of the individuals reporting it; it may contain views or judgments of management and TCWG. The evidence supporting narrative information may be reflected in various reports, internal communications, and the entity’s internal or external websites, and in the entity’s operating practices. This information is likely to be less measurable and more susceptible to being reflective of, and more variable with, the views of those reporting it.

66. Some EER frameworks may include compliance with principles for which there may be no agreed upon or generally accepted standards. This could make it more challenging for preparers and practitioners to be consistent in making judgments about such matters.

67. The key challenge in relation to narrative information is how to address the inherent subjectivity and increased risk of management bias and to manage potentially unrealistic expectations of the intender users about the extent to which the practitioner can reduce the inherent subjectivity. For example, users might expect that the assurance conclusion not only addresses the reliability of the information and its consistency with the requirements of the EER framework, but also, for example: (i) the achievement of predicted outcomes included in the EER report; or (ii) the sufficiency of the entity’s strategies, compared to identified risks and opportunities, as described in the EER report. User expectations can be managed by including caveats in the report that clarify what the report does not cover when the practitioner believes that users may misunderstand the report without such caveats.
68. Table 4 provides an overview of various considerations made with respect to narrative information in the assurance process.

Table 4: Various Considerations with Respect to Narrative Information in the Assurance Process

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

How the IAASB’s International Standards Address the Challenge

69. There are no specific standards for addressing narrative information as part of the subject matter information in an assurance engagement. For financial statement audits, the IAASB’s Disclosures project addressed narrative information within the financial statement audit. Disclosures with respect to financial statements comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference.17

70. ISAE 3000 (Revised) implicitly addresses narrative information in addressing “other information” if this is not included in the scope of the assurance engagement, in a manner similar to ISA 72018 (Revised) for financial audits (see also paragraph 23-24 in the DP). However, there is no explicit guidance when narrative information is part of the subject matter information of the assurance engagement.

What We Propose to Explore Further

71. We propose to explore whether further guidance may be needed, in the context of narrative information in EER reports to address: (i) assessing the suitability of criteria; (ii) building appropriate assertions; (iii) considering materiality; and (iv) relevant considerations in seeking to obtain sufficient appropriate evidence.

17 ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, paragraph 13(f).
18 ISA 720, The Auditor’s Responsibilities Relating to Other Information.
Challenge 7: Obtaining Assurance with Respect to Future-Oriented Information

Understanding the Challenge

72. Future-oriented information is more common in EER reports than in financial reports. It addresses future conditions, events, outputs and outcomes (performance or impact), in relation to which there is generally greater uncertainty and these matters may therefore be more difficult to depict.

73. Future-oriented information is predictive, yet with uncertainty, and can be about qualitative characteristics in narrative descriptive or evaluative form or about quantitative characteristics (see also the explanation in paragraphs 72, 73, 81, 82 in the DP). Predicted events may not occur and unknown events may arise. This makes future-oriented information inherently more uncertain in nature.

74. Additional disclosure can be provided in the subject matter information about (i) the nature and extent of such uncertainty, or (ii) the range within which the measurements or evaluations of the content elements are affected by it. However, a challenge may still remain in considering the balance between the reduced reliability of such measurement or evaluation in the face of such inherent uncertainty and the relevance and usefulness of such information to the intended users.

75. EER frameworks may address the type of future-oriented information that is relevant to include in an EER report. However, they often do not address the boundaries of acceptable assumptions made in making the measurements or evaluations that give rise to the subject matter information. A key challenge is that there may not be suitable criteria and an assurance engagement may not be possible unless, for example, the scope of the assurance engagement is restricted to obtaining evidence about the process used in arriving at the future-oriented information. Such evaluation may result in a conclusion that: (i) it is not possible to obtain sufficient appropriate evidence on the future-oriented information itself; (ii) the scope of the assurance engagement should be restricted to obtaining evidence and providing an assurance conclusion about the process used in arriving at the future-oriented information and whether the future-oriented information is presented in accordance with the relevant financial reporting framework; or (iii) there are no suitable criteria at all.

How the IAASB’s International Standards Address the Challenge

76. ISAE 3400\(^\text{10}\) includes the most pertinent available guidance in this area. It addresses prospective financial information, focusing on evidence gathering as to:

- The reasonableness of management assumptions;
- Whether the prospective information has been properly prepared on the basis of the assumptions;
- Proper presentation of the prospective financial information and disclosure of all material assumptions, including an indication of whether they are best estimate or hypothetical in nature; and
- Whether prospective information is consistent with historical financial statements, using appropriate accounting principles.

\(\text{10\ ISAE\ 3400, The Examination of Prospective Financial Information.}\)
77. The description of the scope of ISAE 3400, however, explicitly excludes its application to the examination of prospective financial information expressed in general or narrative terms, such as that found in management’s discussion and analysis in an entity’s annual report, although many of the procedures outlined therein may be suitable for such an engagement. It must also be noted that ISAE 3400 has a narrow scope and does not provide any guidance on evidence-gathering with respect to the data itself.

78. The approach in ISA 540\textsuperscript{20} may also be relevant by analogy in addressing how to obtain sufficient appropriate evidence about the reasonableness of accounting estimates (which may be future-oriented) in financial statements and evaluating the adequacy of related disclosures.

**What We Propose to Explore Further**

79. We propose to explore whether further guidance is needed in assessing future-oriented information in an EER assurance engagement, including:

- Whether the requirements of the EER framework provide an adequate basis for suitable criteria regarding future-oriented information and therefore whether such information can be included within the scope of an assurance engagement;
- How to address subjectivity and management bias;
- How to consider the management’s process for preparing future-oriented information;
- Whether the future-oriented information has been properly presented in the EER report; and
- How practitioners can report on such information without creating unrealistic user expectations (for example, about the achievability of predicted performance or impact).

**Challenge 8: Professional Skepticism and Professional Judgment**

*Understanding the Challenge*

80. There are more areas that require judgment in applying EER frameworks than in applying financial reporting frameworks and more areas where the judgments in preparing the subject matter information are susceptible to subjectivity and management bias. There are therefore generally more areas where there is a need to apply professional judgment and professional skepticism in EER assurance engagements. At the same time, given the broader and more diverse subject matters addressed, it may be more challenging for the practitioner to obtain the competence needed to support the application of professional judgment and professional skepticism in relation to such engagements.

81. The professional skepticism exercised by practitioners on an engagement team is influenced by education, training and experience of the individual, the actions of the firm’s leadership, the actions of the engagement partner, as well as the culture and business environment of the firm. Impediments to professional skepticism range from excessive workload and deadline pressures to weak “tone at the top” and firm culture.

\textsuperscript{20} ISA 540, *Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures.*
How the IAASB’s International Standards Address the Challenge

82. Professional judgment and professional skepticism are interrelated and play a fundamental role in assurance engagements. The IAASB in conjunction with the International Education Standards Board for Accountants and the International Accounting Education Standards Board, is currently exploring how best to emphasize the importance of exercising professional skepticism within a financial statement audit, including whether changes are needed to the ISAs or whether other action may be necessary.

What We Propose to Explore Further

83. Given the ongoing efforts in relation to professional skepticism, we propose to defer exploring this challenge in the specific context of EER assurance engagements until we can consider this further in light of exploring how the ISAs may be enhanced.

Challenge 9: Obtaining the Competence Necessary to Perform the Engagement

Understanding the Challenge

84. The broader, deeper and often more complex nature of the underlying subject matter addressed in EER assurance engagements, as well as the greater number of areas where judgment is required, call for broad specialized subject matter competence (skills, knowledge and experience) in practitioners performing such engagements, in order to be able to challenge management effectively, and may also call for greater use of the work of experts. The practitioner will also need the competence to address the perspectives of a wider range of intended users in applying the concept of materiality and in using the work of a broader range of experts. Key areas of competence that may be more challenging to acquire include understanding and evaluating the entity’s business model and the ability to work effectively in multi-disciplinary teams.

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

86. In contrast to using an expert in a specialized area of accounting or auditing as in the financial statements, the complexity of the underlying subject matter information in the EER context may require multi-disciplinary skills. Various professional firms already include such skills in their engagement teams. Where they do not, however, this multi-disciplinary expertise may also be obtained externally.

87. The practitioner may also plan to use the work of the internal audit function. In those entities where the internal audit function is involved in the EER reporting process, the internal audit function also needs to include a variety of competencies to support the quality of such internal audit work.
88. Table 5 provides an overview of various considerations with respect to competencies and using experts in different capacities during the different stages of the assurance process.

Table 5: Considerations of Competencies in the Assurance Process

<table>
<thead>
<tr>
<th>Engagement Acceptance</th>
<th>Evidence-Gathering</th>
<th>Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Consideration of the various competences needed in the assurance engagement team.</td>
<td>• Consideration of quality control at engagement level, including sufficient communication between various subject matter experts in the engagement team.</td>
<td>• Consideration of how to provide transparency on multi-disciplinary teams.</td>
</tr>
<tr>
<td>• Consideration of compliance with ethical and quality control requirements.</td>
<td>• Consideration of work by external experts</td>
<td></td>
</tr>
</tbody>
</table>

How the IAASB’s International Standards address the Challenge

89. ISAE 3000 (Revised) addresses competence in general terms, including the potential need to consult a practitioner’s expert and to work in multi-disciplinary teams.\(^{21}\) ISAE 3000 (Revised) states that the engagement partner may decide to consult an expert to provide advice on an individual matter. The greater the significance of the practitioner’s expert’s work in the context of the engagement, the more likely it is that the expert will work as part of a multi-disciplinary team comprising subject matter experts and other assurance personnel. ISAE 3000 (Revised) also provides guidance for those engagements where practitioners use the work of internal audit.\(^{22}\)

90. ISAE 3410\(^{23}\) describes in more detail the type of competence required, including the type of expertise, to perform a greenhouse gas statement assurance engagement. This guidance could be adapted for application to the EER environment.

What We Propose to Explore Further

91. We propose to explore whether further guidance is needed to address the competence expected of professional accountants performing EER assurance engagements. Such guidance could be based on the application material already included in ISAE 3410 adapted to the EER environment. It could also address, in the context of using the work of others, ethical and quality control considerations, the ability to obtain evidence about the varied nature of subject matter information encountered, the communications between the practitioner and other experts, the timing of the work performed by others, and the materiality used in the context of the engagement and how this is determined.

92. It could also explore through further dialogue whether there is a need to communicate explicitly about the competence of the engagement team in the assurance report and whether this would be helpful in enhancing confidence and trust in the EER assurance report. For example, an EER assurance report could state that the engagement is performed by a multi-disciplinary team and provide details on their particular type of expertise. We would like to explore how this might be done in a manner

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\(^{21}\) ISAE 3000 (Revised), paragraphs 52–55 and ISAE 3410, paragraph 16.

\(^{22}\) See also paragraph 55 of ISAE 3000 (Revised).

\(^{23}\) ISAE 3410, paragraphs A18-A19.
that does not mislead the user about the practitioner taking sole responsibility for the assurance conclusion expressed.

**Challenge 10: Communicating Effectively in the Assurance Report**

*Understanding the Challenge*

93. Given the breadth and diversity of the subject matter information included in EER reports, it is challenging to effectively communicate the practitioner’s conclusions about this information in a binary opinion other than in a general manner that is not tailored to the nature of the different types of information presented (e.g., “has been properly prepared, in all material respects, in accordance with the XYZ criteria).

94. The practitioner may need to adapt the structure and content of the assurance report to reflect the diversity in assurance engagement scope, users, subject matter and the nature of the subject matter information (particularly when this gives rise to factors that affect the inherent precision of measurement or evaluation of the subject matter or the inherent ability to obtain sufficient appropriate evidence). The nature of the assurance report may be more judgmental and is likely to require more flexibility and less standardization than in relation to auditor’s reports, given few jurisdictional requirements for EER assurance engagements.

95. We understand that assurance reports are sometimes viewed by users as ambiguous, in particular with respect to information on the scope of the work performed and conclusions reached. Users indicated that they found it difficult to properly interpret assurance reports. Limited assurance reports can vary in the description of the depth and types of procedures performed but may be longer and more descriptive, therefore some users found them to be more useful than reports for reasonable assurance engagements.

*How the IAASB’s International Standards Address the Challenge*

96. ISAE 3000 (Revised) describes the required content elements of an assurance report. In addition to the basic report elements required by ISAE 3000 (Revised) the inclusion of additional information in the assurance report is allowed, for example:

- The terms of the engagement.
- The criteria being used.
- Findings relating to particular aspects of the engagement.
- Details of the qualifications and experience of the practitioner and others involved with the engagement.
- Disclosure of materiality levels.
- Recommendations.

97. It should be noted, however, that such additional information is not intended to contradict the practitioner’s conclusion and whether to include any such information depends on the practitioner’s consideration of the significance to the information needs of the intended users.
98. As a framework-neutral standard, ISAE 3000 (Revised) allows for flexibility in preparing and structuring assurance reports. This includes allowing for:

- The depth of an informative summary of the work performed as the basis for the practitioner’s conclusion, which forms one of the basic report elements. Since a limited assurance engagement can vary along a range of a level of assurance to be obtained by the practitioner, the procedures performed also may vary in nature and depth.

- The inclusion of additional information in the report, such as terms of the engagement, the criteria, findings relating to particular work performed, the competences of individuals involved, materiality levels, or recommendations;

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

- The wording selected for the assurance conclusion. ISAE 3000 (Revised) only provides examples of how the type of reporting framework influences the assurance conclusion. Examples of these are as follows:
  - For compliance engagements—“in compliance with” or “in accordance with.”
  - For engagements when the applicable criteria describe a process or methodology for the preparation or presentation of the subject matter information—“properly prepared.”
  - For engagements when the principles of fair presentation are embodied in the applicable criteria—“fairly stated.”

99. The IAASB has recently published new and revised standards on auditor reporting that require the auditor to report on key audit matters (KAM) in the auditor’s report on financial statements of listed entities. Communication of KAM may be required by law or regulation for entities other than listed entities, or may be communicated voluntarily for other entities. KAMs are those matters that, in the auditor’s judgment, were of most significance in the audit of the current period financial statements. During our information-gathering activities, some practitioners suggested that reporting on key assurance matters may also become relevant in a similar way in the context of EER. While KAM do provide further insight in the assurance process, they would not solve the user perceived ambiguity of assurance reports.

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24 See also paragraphs 67–78 of ISAE 3000 (Revised).
25 See also paragraph 69 (k) of ISAE 3000 (Revised).
26 See also paragraph A5 of ISAE 3000 (Revised).
27 See ISAE 3000 (Revised), paragraph A181.
28 See also the different IAASB resources on the website.
What We Propose to Explore Further

100. To resolve the ambiguity experienced by users in interpreting EER assurance reports, we propose to explore whether further guidance is needed in the context of the assurance report, in particular to address:

- The summary of work performed;
- Communicating about inherent limitations in the assurance that can be obtained by the practitioner;
- Referring to other assurance practitioners;
- The way the assurance conclusion is expressed;
- When and how to use long form reports rather than short form reports;
- Whether there is a need for a more prescriptive standard for EER assurance reports (for example, aimed at fixing the elements and ordering of the assurance report or specifying particular wording to be used in certain circumstances);
- Clarifying the scope of the engagement (particularly when it is not full scope).

101. In practice, EER information is increasingly included in annual reporting along with the financial statements. Although the auditor’s report on the financial statements and an assurance report on the EER information are often separate, during our outreach to date, investors expressed the need for a single, simple long form report with “consistent” paragraphs on the EER assurance aspects. Therefore, we would also like to explore whether, in those cases where the financial statements and the EER report are included in one document, it would be appropriate for the practitioner to issue one assurance report covering both the financial statement audit and the assurance engagement, and, if so, what guidance would be needed to facilitate this.

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29 See for example the combined auditor’s and assurance report on page 163 of the integrated report of KPN.
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