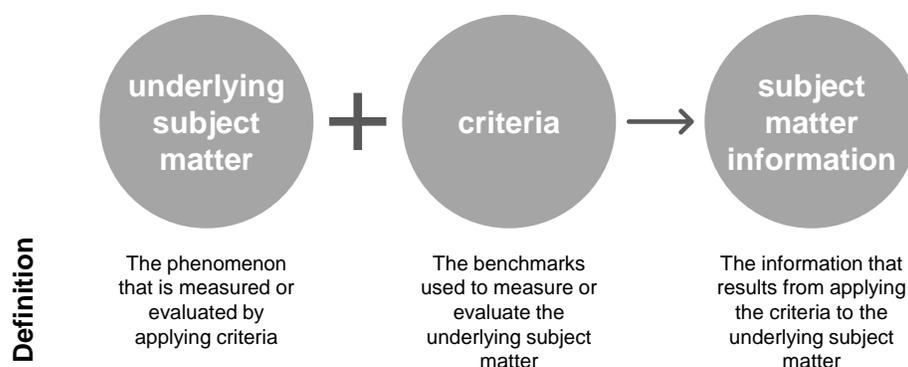


## Criteria & Assertions guidance skeleton

## Agenda Item 4-B

### Suitability of Criteria

1. Criteria specify both:
  - the nature and scope of the topics and related resources to be included in the report; and
  - how these resources should be represented (depicted) in the report, including the qualities of the resources that should be described, and the methods to be used in measuring or evaluating those qualities.



2. The criteria need to be able to provide a representation of the entity's 'resources' (including the causes of change in resources) that is appropriate in the context of achieving the purpose of the report.
3. As detailed in ISAE 3000 (Revised), criteria are required to have certain characteristics to be suitable for an assurance engagement<sup>1</sup>. Practitioners must check that criteria are:
  - a) Relevant
  - b) Complete
  - c) Reliable (equivalent to 'accurate' or 'free from error')
  - d) Neutral
  - e) Understandable
4. Suitable criteria are a precondition for being able to undertake an assurance engagement under ISAE 3000 (Revised), and therefore this should be considered during the acceptance phase of the engagement. If it is discovered after the engagement has been accepted that some or all of the criteria are unsuitable, the practitioner should follow the requirements in ISAE 3000 (Revised) paragraph 43.

<sup>1</sup> ISAE 3000 (Revised) paragraph A45

5. The definitions of each of the required characteristics for criteria<sup>2</sup>, along with some factors the practitioner may find helpful to consider in their assessment of whether the criteria are suitable, are as follows:

6. Relevance

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

[guidance under development]

7. 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.*

[guidance under development]

8. 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.*

[guidance under development]

9. Neutrality

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

[guidance under development]

10. Understandability

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

[guidance under development]

11. An overarching principle in ISAE 3000 (Revised) is that criteria developed by the entity would not be suitable if they result in subject matter information or an assurance report that is misleading to the intended users<sup>3</sup>.

12. 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. Paragraphs A51-A52 of ISAE 3000 (Revised) describe ways in which this can be done. Practitioners must assess the

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<sup>2</sup> ISAE 3000 (Revised) paragraph A45

<sup>3</sup> ISAE 3000 (Revised) paragraph A50.

adequacy of the preparer's transparency, considering whether they have been disclosed with sufficient detail and clarity that they can be said to be "available".

13. ISAE 3000 (Revised) states that where criteria are established, they are presumed to be suitable in the absence of indications to the contrary<sup>4</sup>. Refer to the background information [under development] for discussion of differences between financial reporting and EER frameworks with respect to criteria.
14. Concluding on whether the criteria are suitable clearly requires judgment. When making this judgment, the following factors may need to be considered:
  - a) The nature of the entity's process for developing the reporting policy and criteria, including the governance around it and the inclusion of intended users in this process.
  - b) The balance which has been struck between opposing principles, such as balancing conciseness with completeness, and measurement or evaluation uncertainty with relevance and materiality or timeliness.
  - c) Any 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.
  - d) 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 topics are reported by different organizations.
  - e) 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 need to be allowed for preparers to select what information to include, what information to exclude and how to present information, for example, identifying the reporting boundary for a concise integrated report.
  - f) 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 annual report, it may be unreasonable to burden it with excessive detail about reporting policies.

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<sup>4</sup> See ISAE 3000 (Revised) paragraph A49 for details of the definition of established criteria.

## Building Assertions

15. Assertions are a tool which can be used by practitioners to assist in designing assurance procedures which are appropriate in the context of the engagement in obtaining evidence about whether the subject matter information has been prepared in accordance with the criteria, or is misstated. ISAE 3000 (Revised) does not require the practitioner to use assertions, and it therefore does not prescribe or identify specific assertions to be used, as these may vary from one engagement to another depending on the subject matter and the reporting framework (including the criteria).
16. Assertions may apply at different 'units of account'. For example, subject matter information about a quality of a resource could in some cases be provided for a class of such resources that have similar characteristics (e.g. minor breaches of water quality regulations), or in other cases it may be appropriate to provide such information for an individual resource (e.g. a major breach of water quality regulations which caused a community's water supply to be cut off). The practitioner designs appropriate procedures to test the assertions for appropriate units of account, in the context of the criteria.
17. When building assertions, practitioners may find it helpful to begin with the requirements for suitable criteria. There is a logical flow from these five requirements (reliability, completeness, understandability, relevance and neutrality) to the characteristics which should be exhibited by subject matter information, misstatements in which may then be tested by the practitioner, with the assistance of assertions. Practitioners may consider how these assertions are relevant in the context of the specific engagement.
18. Practitioners may then consider whether it is appropriate to add additional assertions depending on the specific nature of an engagement. These additional assertions may arise from requirements in the reporting framework. Frameworks may use different terminology for the characteristics for subject matter information (for example 'guiding principles').
19. Some examples of assertions which may be applicable for EER engagements include:

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

This is not intended to be an exhaustive list, nor is it expected that all of these examples will apply to a single engagement. The assertions that are appropriate for each engagement may vary depending on the reporting framework, underlying subject matter, criteria and assurance scope.

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

21. When an assertion is not valid, the information is misstated. Some examples of different types of possible misstatement include:
- a) Omission of information (failure of a 'completeness' assertion)
  - b) False claims in information (failure of an 'existence' or 'occurrence' assertion, or of a more general 'free from error' assertion)
  - c) Misleading or unclear representation of information (failure of an 'understandability' or 'presentation' assertion)
  - d) Bias in information so that positive aspects of performance are focussed on and negative aspects are omitted (failure of a 'neutrality' or 'presentation' assertion)
22. If a practitioner identifies a misstatement, they are required to make a judgment as to whether the misstatement is material which will then determine the appropriate action. Refer to Part 2 of the materiality framework guidance.