



International Auditing  
and Assurance  
Standards Board

## Agenda Item

# 1-A

**Meeting:** IAASB

**Teleconference Date:** January 31, 2019

### **EER Assurance – Draft Guidance**

The following is a draft of the guidance being developed by the EER Task Force as at January 23, 2019.

**INTERNATIONAL ASSURANCE ENGAGEMENT PRACTICE NOTE  
(IAEPN) [XXXX]**

**APPLYING ISAE 3000 (REVISED) TO EXTENDED EXTERNAL  
REPORTING (EER)**

	Page
<b>Chapter 1: Introduction .....</b>	<b>4</b>
Background .....	4
Purpose of this IAEPN .....	4
Terminology .....	5
<b>Chapter 2: Overview of an EER Assurance Engagement .....</b>	<b>6</b>
<b>Chapter 3: Determining Preconditions and Agreeing the Scope .....</b>	<b>10</b>
Preconditions for Assurance .....	10
Agreeing the Scope of an EER Assurance Engagement .....	14
<b>Chapter 4: Applying Appropriate Skills .....</b>	<b>15</b>
<b>Chapter 5: Exercising Professional Skepticism and Professional Judgment .....</b>	<b>15</b>
<b>Chapter 6: Considering the System of Internal Control .....</b>	<b>15</b>
Introduction .....	15
Understanding the Entity's System of Internal Control .....	16
Consideration of the Entity's Size, Complexity and Nature .....	19
Response where the Preconditions are not Present .....	19
Impact on Engagement Strategy .....	20
<b>Chapter 7: Determining the Suitability of Criteria .....</b>	<b>21</b>
Introduction .....	21
Requirements for Suitable Criteria .....	23
Established Criteria .....	31
Availability of the Criteria .....	32
Consequences where Criteria are not Suitable or Available .....	32
<b>Chapter 8: Considering the Entity's 'Materiality Process' .....</b>	<b>34</b>
Introduction .....	34
Step 1: Review the Context of the Preparer's 'Materiality Process' .....	36
Step 1a: Has the Preparer Adequately Identified the Purpose of their Report? .....	37
Step 1b: Has the Preparer Adequately Identified the EER Report's Intended Users? .....	37
Step 2: Review Selection of Topics and Related Elements to Include in the EER Report .....	39

Dealing with Confidential Information .....	43
Considering Topics and Related Elements Collectively .....	43
Other Information .....	44
Disclosure of the 'Materiality Process' .....	44
<b>Chapter 9: Performing Procedures and Using Assertions .....</b>	<b>45</b>
Introduction .....	45
The Nature of Assertions .....	45
Identifying Categories of Assertions that may be Used .....	46
Using Categories of Assertions .....	48
Types of Misstatement.....	48
<b>Chapter 10: Assuring Narrative information .....</b>	<b>49</b>
Introduction .....	49
Specific Considerations for Determining the Suitability of Criteria .....	49
Specific Considerations for Using Assertions & Testing Narrative Information .....	50
Specific Considerations for Evaluating Misstatements .....	52
<b>Chapter 11: Assuring Future-Oriented Information .....</b>	<b>53</b>
Introduction .....	53
Specific Considerations for Determining the Suitability of Criteria .....	54
Specific Considerations for Using Assertions and Testing Future-Oriented Information .....	54
<b>Chapter 12: Considering the Materiality of Misstatements .....</b>	<b>56</b>
Introduction .....	56
Practitioner Responsibilities.....	56
Materiality Considerations.....	56
Accumulating Misstatements .....	58
Measurement or Evaluation Uncertainty.....	59
<b>Chapter 13: Preparing the Assurance Report .....</b>	<b>59</b>
<b>Appendix 1: The Ten Key Challenges .....</b>	<b>60</b>
<b>Acknowledgements .....</b>	<b>61</b>

## Chapter 1: Introduction

### Background

1. '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 environmental, social and governance (ESG) matters. EER includes non-financial information and information that goes beyond that which is contained in traditional financial statements that focus on the entity's financial position, financial performance and impact on its financial resources.
2. EER reports may be required by law or regulation, or alternatively may be produced by entities voluntarily. They may be prepared using frameworks, standards and guidance established by law or regulation, by international or national standard setters, or by other bodies (referred to in this IAEPN as 'EER frameworks'). EER can be less structured in comparison to financial statement reporting. There may also be diversity in the criteria used to prepare the EER report given the wide selection of EER frameworks, and because entities often develop their own criteria either in addition to, or instead of, using EER frameworks.
3. EER tends to be more diverse than financial statement reporting, both in format and subject matter. The reporting can also be more qualitative; the information can comprise more description (narrative information) alongside financial and non-financial numbers. The processes and aspects of the internal control system related to the preparation of EER may often be less developed, particularly when an entity first starts to prepare EER.
4. The IAASB issued a discussion paper<sup>1</sup> in 2016 identifying ten areas where a practitioner may find guidance useful in applying ISAE 3000 (Revised) (sometimes alternatively referred to as "the standard" in this IAEPN) to assurance engagements over EER. In response to broad agreement with this assessment from respondents, the scope of this IAEPN is to provide guidance in these specific areas. See [Appendix 1](#) for further background information.
- 4A. The IAEPN's intended audience is primarily practitioners carrying out EER assurance engagements, although it may also be useful for preparers of EER reports.

### Purpose of this IAEPN

5. The purpose of this IAEPN is to provide practical assistance to a practitioner carrying out assurance engagements over EER in the form of guidance on the application of the standard. ISAE 3000 (Revised) is intended to be applied to a wide range of subject matters. This IAEPN is designed to assist with engagements over a broad range of EER subject matters, relating to EER reports about entities of all sizes, prepared under a variety of different EER frameworks. Although the guidance in this IAEPN may be helpful in performing other types of assurance engagements, it has not been developed with such engagements in mind.
6. [deleted]
7. As non-authoritative guidance, this IAEPN does not introduce any further requirements beyond those in ISAE 3000 (Revised). Similarly, none of the contents of this IAEPN remove or change any of the requirements or application material in ISAE 3000 (Revised).

---

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

8. [moved to paragraph 17]
9. [moved to paragraph 20A]
10. ISAE 3000 (Revised) can be used in both direct and attestation engagements<sup>2</sup>, however, like the standard, this IAEPN is written in the context of attestation engagements. It may be applied to direct engagements, adapted and supplemented as necessary in the engagement circumstances.

## Terminology

11. Terminology in this IAEPN is consistent with ISAE 3000 (Revised), as defined in paragraph 12 of the standard. It is noted however that as EER is a developing area, different terms may be used around the world with broadly equivalent meaning.
12. The Appendix of ISAE 3000 (Revised) provides guidance on the roles and responsibilities of different parties in an assurance engagement, which include the responsible party, the measurer or evaluator, the engaging party and the practitioner. In many circumstances in an attestation engagement, the responsible party is also the measurer or evaluator. For simplicity, this IAEPN uses the term 'preparer' to mean a responsible party who is also the measurer or evaluator.
13. This IAEPN refers to 'subject matter elements' (or 'elements') and their 'qualities' in the context of an EER report. These terms are not defined or used in ISAE 3000 (Revised). However, the standard recognizes the underlying subject matter has 'aspects'. For the purposes of this IAEPN:
  - a) References to 'subject matter elements' or 'elements' are analogous to 'assets', 'liabilities', 'income' or 'expenses', which are aspects of the underlying subject matter information (the entity's financial condition and performance) to which criteria are applied in preparing financial statements.

The subject matter elements to which criteria are applied in preparing EER reports may comprise very diverse phenomena. They may include, for example, different natural resources, individual employees, individual customer relationships, or features of the entity's strategy or of its governance, management, risk management and internal control infrastructure.
  - b) References to 'qualities' of elements are analogous to the financial 'value' of elements of the financial statements, which is measured for different elements using measurement bases specified in the criteria.

The qualities of elements measured or evaluated using measurement or evaluation bases specified in the criteria for an EER report may be very diverse, depending on the nature of the elements. They might include, for example, when the underlying subject matter is water, the entity's 'intake volume' or 'discharge volume' of water.

---

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

## Chapter 2: Overview of an EER Assurance Engagement

14. This chapter provides an overview of what undertaking an EER assurance engagement under ISAE 3000 (Revised) and the International Framework for Assurance Engagements involves. It can be used to navigate this IAEPN as it refers to later chapters that contain more detailed guidance. The subheadings reflect the sections in the standard and include the paragraph references in the standard. As this IAEPN only provides guidance on selected areas where it is likely to be most useful, the subheadings below are marked as follows:

- = Sections with guidance in this IAEPN
- = Sections without guidance in this IAEPN

### **Conduct of an Assurance Engagement in Accordance with ISAE ○** Paragraphs 14-19

15. This section of the standard explains various requirements the practitioner is required to adhere to when using it, including that the practitioner shall not represent compliance with the standard unless they have complied with all of its requirements.

### **Ethical Requirements ○** Paragraph 20

16. A practitioner undertaking engagements under ISAE 3000 (Revised) is required to comply with the IESBA Code related to assurance engagements, or other requirements that are at least as demanding.

### **Acceptance and Continuance ●** Paragraphs 21-30

17. Similar to a financial statement audit, the practitioner is required to undertake appropriate acceptance (for a new engagement) or continuance (for a recurring engagement) procedures prior to accepting any assurance engagement in accordance with ISAE 3000 (Revised).
- 17A. These include confirming that the preconditions for the engagement are present<sup>3</sup> (many of which are discussed further in this IAEPN in the context of EER) and that the practitioner has no reason to believe the relevant ethical requirements, including independence, will not be satisfied.
- 17B. Paragraph 24 of the standard sets out the preconditions required to be present before the practitioner can accept or continue the engagement. Appropriate procedures regarding the acceptance and continuance of client relationships are also required to have been followed<sup>4</sup>.
18. Concluding on whether these preconditions are present may not be straightforward, particularly in a first-year engagement. However, insufficient attention to these areas by the practitioner at the acceptance or continuance stage may result in issues arising later in the engagement. Refer to [Chapter 3](#) of this IAEPN for further guidance on the preconditions for an assurance engagement. [Chapter 6](#) gives more detailed guidance on the system of internal control, including the entity's governance, and how this relates to the preconditions, and [Chapter 7](#) provides guidance specifically in relation to the precondition that the criteria are suitable.

---

<sup>3</sup> ISAE 3000 (Revised) paragraph 24

<sup>4</sup> ISAE 3000 (Revised) paragraph 21

19. When agreeing the terms of engagement between the parties, one of the important areas for an EER engagement is to agree the scope of the assurance engagement. The scope may vary from the whole EER report to specific sections or even to specific measures or indicators in the EER report. From the practitioner’s perspective, narrowing the assurance scope may increase the risk of the engagement lacking a rational purpose or misleading readers of the EER report. This is explored further in [Chapter 3](#).

### **Quality Control ●**

Paragraphs 31-36

20. This section of the standard sets out the requirements of the engagement partner to have appropriate competence and capabilities, and explains their other responsibilities.
- 20A. The engagement partner is also required to be satisfied that those who are to perform the engagement collectively have the appropriate competence and capabilities<sup>5</sup>. Carrying out EER assurance engagements typically requires significant professional judgment and the broad range of subject matter in EER may mean specialized skills and experience are required.
- 20B. It is acknowledged that it may be necessary for a practitioner to involve experts in the engagement, and in some cases for the firm providing assurance services to appoint an engagement quality [control] reviewer. In phase 2, further guidance on applying appropriate skills in an EER assurance engagement will be included in [Chapter 4](#) of this IAEPN.

### **Professional Skepticism, Professional Judgment, and Assurance Skills and Techniques ●**

Paragraphs 37-39

21. The standard requires the practitioner to apply professional skepticism and exercise professional judgment in planning and performing the engagement. In phase 2, further guidance will be included in [Chapter 5](#) of this IAEPN.

### **Planning and Performing the Engagement ●**

Paragraphs 40-47

22. Some of the engagement planning activities may follow on from work completed as part of the acceptance and continuance stage, for example considering in more detail whether the criteria are suitable (see [Chapter 7](#)).
23. The other main requirement in this phase is to obtain an understanding of the underlying subject matter and other engagement circumstances. This phase will provide the practitioner with a frame of reference for exercising professional judgment throughout the engagement by understanding the context of the engagement, the entity and its activities. This includes the entity’s process to prepare the EER report to the extent required by paragraphs 47L and 47R of the standard for limited and reasonable assurance engagements respectively. The nature of the preparer’s system of internal control will likely also influence the practitioner’s assurance strategy. Refer to [Chapter 6](#) for more guidance on considering the system of internal control.
24. Some EER frameworks require the preparer to determine what the important matters are to include in the EER report because the criteria from the EER framework do not specify this in sufficient detail. Where this is the case, these judgments made by the preparer are often referred to as a ‘materiality

---

<sup>5</sup> ISAE 3000 (Revised) paragraphs 22(b) and 32

process'. In determining whether the criteria are suitable for the engagement circumstances<sup>6</sup> (particularly whether they are relevant), for some engagements the practitioner may need to review and evaluate such a 'materiality process' undertaken by the preparer. What the practitioner is required to do may be determined by the scope of the assurance engagement. Refer to [Chapter 8](#) for detailed guidance on considering an entity's 'materiality process'.

25. The practitioner is required to consider materiality in determining the nature, timing and extent of procedures (performance materiality) [to be considered further as part of phase 2], as well as in evaluating the materiality of misstatements (see under 'Forming the Assurance Conclusion' below and [Chapter 12](#)).

### **Obtaining Evidence ●**

Paragraphs 48-60

26. Prior to designing and performing assurance procedures in a reasonable assurance engagement, the standard requires the practitioner to identify and assess the risks of material misstatement, or in a limited assurance engagement, identify areas where a material misstatement is likely to arise<sup>7</sup>.
27. In designing procedures, the practitioner may find it helpful to use assertions to consider the possible types of misstatement of the information that may occur. Refer to [Chapter 9](#) for further guidance.
28. The extent of the procedures required for a reasonable assurance engagement is likely to be greater than for a limited assurance engagement. The nature and timing of the procedures may also vary between reasonable and limited assurance engagements. The standard sets out the different requirements.
29. The standard explains that a reasonable assurance engagement may involve testing the operating effectiveness of controls relevant to the engagement, but also acknowledges that a fully substantive approach to the engagement may be appropriate.
30. EER may include narrative and future-oriented information. Guidance on how a practitioner may approach this is included in chapters [10](#) and [11](#) respectively.
31. Evidence is obtained from performing the designed procedures. Any misstatements identified, other than those that are corrected by the preparer or that are clearly trivial, are accumulated by the practitioner<sup>8</sup>. These are later evaluated as part of 'Forming the Assurance Conclusion' (see paragraph 36).
32. The standard also includes requirements relating to the use of experts or the work of another practitioner and requesting written representations. These are outside the scope of this IAEPN.

### **Subsequent Events ○**

Paragraph 61

33. The standard requires the practitioner to consider the effect of any subsequent events up to the date of the assurance report and respond appropriately to subsequent events that become known to the practitioner after the date of the assurance report.

---

<sup>6</sup> ISAE 3000 (Revised) paragraph 41

<sup>7</sup> ISAE 3000 (Revised) paragraphs 48L and 48R

<sup>8</sup> ISAE 3000 (Revised) paragraph 51

## **Other Information ○**

Paragraph 62

34. In circumstances where the scope of the assurance engagement does not cover an entire document, a practitioner has responsibilities in respect of ‘other information’ that is published alongside information that has been subject to assurance. In phase 2, some applicable guidance about agreeing the scope of assurance will be included in [Chapter 3](#) of this IAEPN, however further guidance on the requirements specifically in relation to other information is outside the scope of this IAEPN.

## **Description of Applicable Criteria ○**

Paragraph 63

35. A preparer may need to refer to or describe the applicable criteria as part of meeting the requirement to make them available to the intended users<sup>9</sup>. The standard requires the practitioner to evaluate whether this has been done.

## **Forming the Assurance Conclusion ●**

Paragraphs 64-66

36. The standard requires the practitioner to evaluate whether the evidence obtained is sufficient and appropriate, as well as form a conclusion about whether the subject matter information is free from material misstatement<sup>10</sup>. Guidance relating to considering the materiality of misstatements is included in [Chapter 12](#) of this IAEPN.

## **Preparing the Assurance Report ●**

Paragraphs 67-71

37. There are requirements for the minimum basic elements to be included in an assurance report that are set out in the standard. In phase 2, further guidance on preparing the assurance report will be set out in [Chapter 13](#).

## **Unmodified and Modified Conclusions ●**

Paragraphs 72-77

38. The standard explains the various conclusions that a practitioner can form, as well the circumstances where it may be necessary to include an ‘emphasis of matter’ or ‘other matter’ paragraph in the assurance report. In phase 2, further guidance on this will also be included in [Chapter 13](#) of this IAEPN.

## **Other Communication Responsibilities ○**

Paragraph 78

39. The standard contains a requirement for the practitioner to consider whether any matters need to be communicated to the preparer, the engaging party, those charged with governance or others.

## **Documentation ○**

Paragraphs 79-83

40. The standard includes requirements for the practitioner to prepare and retain documentation during the engagement.

---

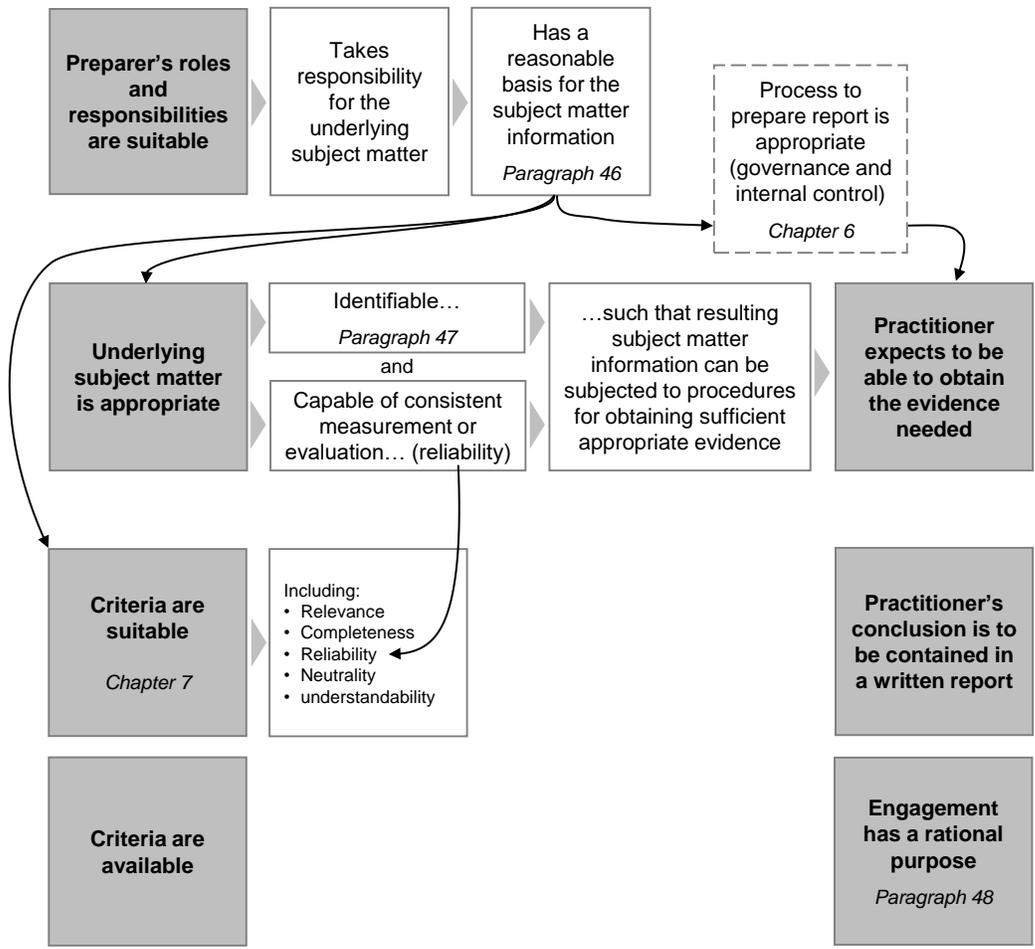
<sup>9</sup> ISAE 3000 (Revised) paragraph 24(b)(iii)

<sup>10</sup> ISAE 3000 (Revised) paragraphs 64 and 65

### Chapter 3: Determining Preconditions and Agreeing the Scope

#### Preconditions for Assurance

41. The practitioner is only permitted to accept or continue an assurance engagement when, amongst other matters, the basis on which the engagement is to be performed has been agreed. This is established through identifying that the preconditions for an engagement are present, based on a preliminary knowledge of the engagement circumstances and discussion with the preparer.
42. [was paragraph 46] For a recurring engagement, the same preconditions are required, however the continuance process may be more straightforward as the practitioner will already have good knowledge of the entity and the engagement circumstances with which to determine if the preconditions are present.
43. [was paragraph 48] The preconditions need to be present for all assurance engagements, regardless of whether limited or reasonable assurance is being obtained. In order for a limited assurance engagement to be possible, the practitioner must be able to accept a reasonable assurance engagement, because the preconditions are the same.
44. [was paragraph 41] The preconditions are set out in paragraph 24 of the standard, which are summarized in the seven grey shaded boxes:



**Key**



Precondition for assurance (paragraph 24 of the standard).



Based on requirements or application material in the standard relating to preconditions connected by → arrows.



Incremental guidance in this IAEPN, based on the principles in the standard and the International Framework for Assurance Engagements.

45. [was paragraph 49] The following considerations for the practitioner include questions (based on the preconditions for an assurance engagement) which are designed to illustrate how the practitioner may make some of the judgments involved in the acceptance or continuance decision.

**CONSIDERATIONS FOR THE PRACTITIONER**

- a) 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?
  - i) Is the underlying subject matter appropriate (see (b) below)?
  - ii) Are the criteria suitable (see (c) below)?
  - iii) Is the preparer's process to prepare the information adequate and appropriately supported by related aspects of the entity's system of internal control (see guidance in Chapter 6)?
- b) Is the underlying subject matter appropriate?
  - i) Is it identifiable (see paragraph 47); and
  - ii) Is it capable of consistent measurement or evaluation against the applicable criteria;  
  
such that the resulting subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence?
- c) Are the criteria you (as the practitioner) expect to be applied by the preparer suitable for the engagement circumstances (see guidance in Chapter 7)?
  - i) Does the preparer have an appropriate process in place for developing and reviewing the criteria?
- d) Will the criteria that you (as the practitioner) expect to be applied by the preparer be available to the intended users?
- e) Do you (as the practitioner) expect to be able to obtain the evidence needed to support your assurance conclusion?
- f) Is your practitioner's conclusion going to be contained in a written report?
- g) Does the engagement have a rational purpose (see paragraph 48)?

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

46. [deleted]

*Underlying subject matter is identifiable*

47. [was paragraph 44] Identifiable underlying subject matter means that the subject matter elements are well-defined and distinct from other things.

**EXAMPLE**

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

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

*The engagement has a rational purpose*

48. [was paragraph 43] The purpose of an assurance engagement is established in the definition of an assurance engagement in paragraph 12(a) of the standard. The meaning of the term 'rational' is not explicitly addressed in the standard. However, an assurance engagement may be considered to have a rational purpose if the practitioner's conclusion is designed "to enhance the degree of confidence of the intended users ... about the subject matter information". It may be expected that it is designed to do this in a way that is logical, coherent and appropriate in the engagement circumstances. In this context, the application material in paragraph A56 of the standard sets out certain considerations that may be relevant in determining whether the purpose of a proposed assurance engagement is rational.

**CONSIDERATIONS FOR THE PRACTITIONER**

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

- Whether the intended users have been appropriately identified, including taking into account whether the applicable criteria were designed for a general or specific purpose and whether the EER report or the assurance report will be used or distributed more broadly than to the identified intended users.
- Whether the engagement is expected to address the significant information needs of the intended users, including whether any aspects of the subject matter information are expected to be excluded from the assurance engagement and the reason for their exclusion.
- Whether the criteria have been appropriately designed to meet the information needs of the intended users, including whether and the extent to which the intended users or other parties were involved in selecting or designing the criteria and the degree of

judgment and scope for bias where parties other than the intended users were involved in doing so.

- Whether the level of assurance that the practitioner plans to obtain (and therefore what would constitute sufficient appropriate evidence) is expected to reduce engagement risk to an acceptable level in the circumstances of the engagement, having regard to the extent of the consequence to the intended users of an inappropriate conclusion by the practitioner.
- Where the engagement is a limited assurance engagement, whether the level of assurance the practitioner plans to obtain is sufficient to be meaningful to the intended users – in some circumstances, the intended users’ need for assurance may even be so great that a reasonable assurance engagement is needed to obtain a meaningful level of assurance.
- Whether the scope of the practitioner’s work is expected to be limited significantly, such that the practitioner’s conclusion may not sufficiently enhance the degree of confidence of the intended users in the EER report, in the engagement circumstances.
- Whether, when the engaging party, responsible party and the measurer or evaluator are not all the same party, the characteristics of the relationships between these parties could undermine the purpose of the engagement.
- Whether the practitioner believes that the preparer intends to associate the practitioner’s name with the underlying subject matter or the EER report in an inappropriate manner.

*Assurance Readiness Engagements and “Maturity Assessments”*

49. [was paragraph 73] In some circumstances, for example in larger or more complex engagements, the practitioner may choose to determine whether the preconditions are present as part of an ‘assurance readiness’ process prior to committing to an assurance engagement. This may be a separate (non-assurance) engagement that would not be performed under ISAE 3000 (Revised). If it is found by the practitioner that the preconditions for assurance are present, the entity can then choose to proceed with requesting an assurance engagement.
- 49A. [was paragraph 74] As well as assisting the practitioner in managing a preparer’s expectations, this approach may also be beneficial to the entity because the practitioner may communicate findings, conclusions and recommendations about the entity’s readiness for an assurance engagement to those charged with governance or management, as appropriate. Such communications may encourage those charged with governance or management, as appropriate, to take steps to improve the process to prepare EER reports.
- 49B. [was paragraph 75] A practitioner may alternatively undertake a ‘maturity assessment’ to evaluate (against practitioner-defined criteria) the appropriateness of the maturity of the entity’s system of internal control related to the process to prepare the EER report. This may include considering the design and implementation or effectiveness of the system as a whole, or aspects of it, such as the relevance of performance measures the entity is developing and considering whether they are sufficiently well-established to provide intended users with the appropriate information they need to assist their decision-making.

- 49C. [was paragraph 76] Although these engagements and assessments can also provide insights that may assist the entity in further developing its EER processes, the practitioner may need to consider the risk of a self-review threat to their independence if planning to undertake a subsequent EER assurance engagement or where the practitioner is also providing an audit or other assurance engagement.

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

50. This topic has been allocated to phase 2 of the project, however the results of Task Force discussions to date are included below.
51. There is a wide variety of practice in setting the scope of assurance engagements carried out in accordance with ISAE 3000 (Revised). The scope of an engagement can be an entire report or only part(s) of an EER report.
52. ISAE 3000 (Revised) can be applied to a variety of engagements provided that the preconditions in paragraph 24 of the standard are met. If considering a particularly narrow scope for the assurance engagement, for example only covering specific measures or indicators in isolation, careful consideration may be needed to determine whether the engagement has a rational purpose (see paragraph 48).
53. In circumstances where the proposed scope of the engagement is not an entire EER report, a practitioner may need to consider whether the reasons for excluding parts of the subject matter information from the assurance engagement are appropriate in determining whether the engagement has a rational purpose<sup>11</sup>. For example, the engagement may be more likely to have a rational purpose if the parts of the EER report within the scope of the assurance engagement are those which are most important in assisting decision-making by the intended users. Selecting only parts of the EER report that are easy to subject to an assurance engagement or that present the entity in a positive way may mean the assurance engagement does not have a rational purpose.

### *Other Information*

54. Anything in an EER report not within the scope of the assurance engagement is classed as 'other information'. Regardless of the engagement's scope, the practitioner is required by paragraph 62 of the standard to read all 'other information' in the EER report to identify material inconsistencies between the subject matter information included in the scope of the engagement and the other information that is not in that scope. If a material inconsistency or an unrelated material misstatement of fact in the 'other information' is identified, the practitioner is required to discuss this with the preparer and take further action as appropriate.
55. [Guidance on agreeing the scope of an EER assurance engagement is to be developed further in phase 2]

---

<sup>11</sup> ISAE 3000 (Revised) paragraph A56

## Chapter 4: Applying Appropriate Skills

[Guidance to be developed in phase 2]

## Chapter 5: Exercising Professional Skepticism and Professional Judgment

[Guidance to be developed in phase 2]

## Chapter 6: Considering the System of Internal Control

### Introduction

56. [deleted]

56A. To accept an assurance engagement, the practitioner is required to determine that the preparer has a reasonable basis for the subject matter information in the EER report as part of the precondition that the roles and responsibilities of the preparer are suitable<sup>12</sup>. The practitioner is also required to determine that they expect to be able to obtain sufficient appropriate evidence. Whether these preconditions are present will depend on the extent to which the entity's system of internal control is adequate, taking into account the nature, extent and complexity of the underlying subject matter and criteria.

57. Entities producing EER reports typically implement changes to their system of internal control to support such reporting gradually as it becomes more established and formal. At an early stage, the system of internal control will include processes to collect and report the underlying data and information. As EER becomes more established for the entity, changes may be introduced to make the reporting process subject to specific control activities and greater governance and oversight, or to bring it more formally within the entity's risk assessment process and process to monitor the system of internal control. In considering engagement acceptance or continuance, practitioners may encounter entities at varying stages of development of their system of internal control.

58. [deleted]

59. In addition to considerations that may assist the practitioner in establishing whether the preconditions for an assurance engagement are present, the standard requires the practitioner<sup>13</sup>:

- a) to consider the process used to prepare the subject matter information, to enable identification of areas where a material misstatement is likely to arise, in a limited assurance engagement;  
or

---

<sup>12</sup> This would be the responsibility of the measurer or evaluator in circumstances where this role is distinct from the responsible party – see the Appendix to ISAE 3000 (Revised).

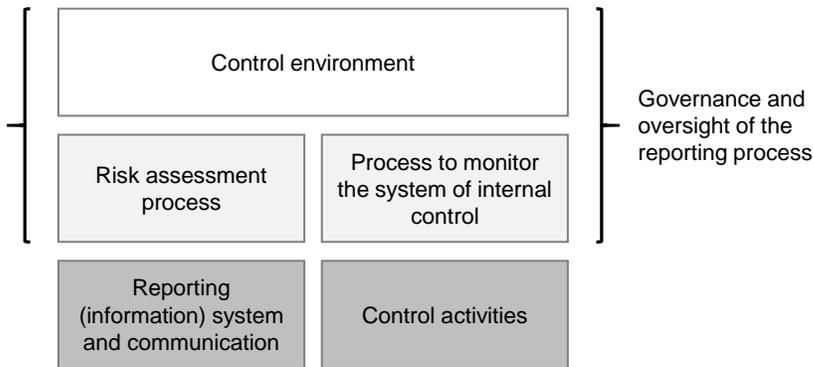
<sup>13</sup> ISAE 3000 (Revised) paragraphs 46L, 46R, 47L and 47R

- b) to obtain an understanding of internal control over the preparation of the subject matter information, including evaluating the design of the controls relevant to the engagement and whether they have been implemented, to enable identification and assessment of the risks of material misstatement, in a reasonable assurance engagement.

59A. Having a highly sophisticated or developed system of internal control is not a precondition for an assurance engagement. The guidance in this chapter mainly relates to considering the system of internal control in relation to the preconditions. It may also assist the practitioner in meeting the requirements referred to in paragraph 59. Separate considerations for the practitioner relating to the engagement strategy, including whether to test controls or to obtain evidence solely from substantive procedures, are discussed further in paragraph 80.

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

60. An entity’s system of internal control typically has five inter-related components<sup>14</sup>:



- 61. The level of sophistication of the reporting (information) system and communication and the control activities components may vary according to the size and complexity of the entity, and the nature and complexity of the underlying subject matter and criteria. Similarly, the level of formality of the risk assessment process and the process to monitor the system of internal control may also vary for differently sized entities.
- 62. The ISAE 3000 (Revised) application material notes that “in some cases, a formal process with extensive internal controls may be needed to provide the [preparer] with a reasonable basis that the subject matter information is free from material misstatement”<sup>15</sup>. Equally, in other circumstances, extensive internal controls may not be needed.
- 63. Some examples of aspects of the components of an entity’s system of internal control are given below, which a practitioner may consider in establishing whether the preconditions are present. The three components shown in the top three boxes above (the control environment, the risk assessment process and the process to monitor the system of internal control) are considered together under the heading ‘governance and oversight of the reporting process’.
- 64. The examples are not meant to be an exhaustive list of aspects that may be appropriate for an entity. As noted above, some entities may require extensive internal controls and processes in order for the preparer to be able to take responsibility for the subject matter information being free from material

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

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

misstatement. The practitioner may need to consider the engagement circumstances, including the size and complexity of the entity, when concluding whether the level of development of the system of internal control is adequate. Further guidance is given in paragraphs 70 to 72.

*Reporting (Information) System and Communication*

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

<b>CONSIDERATIONS FOR THE PRACTITIONER</b>	<ul style="list-style-type: none"><li>a) Processes to select or develop criteria, including a 'materiality process' if applicable (see Chapter 8), to identify the elements to be included in the EER report;</li><li>b) Processes to select or develop criteria for the measurement or evaluation of the elements, including their presentation or disclosure;</li><li>c) Processes to capture, record, process, correct and include in the EER report subject matter information about those elements;</li><li>d) Records and source documentation to support the preparation of the subject matter information relating to those elements. These are ideally stored and accessible so that they can be used as evidence by the practitioner;</li><li>e) Process to prepare the EER report; and</li><li>f) How the entity uses IT to support the above.</li></ul>
--	---

66. The preparation of EER reports is likely to involve the use of IT to collect or process the data. Entities may use complex IT applications, simple spreadsheets or paper-based records, or a combination of these. Identifying which tools are being used by the preparer to prepare the EER report may be an important part of the practitioner obtaining the understanding required by paragraphs 47L and 47R of the standard.
67. Further considerations may be necessary where information comes from an external information source. An external information source is an external individual or organization that provides information that has been used by the preparer in the preparation of the EER report<sup>16</sup>. An example might be the results of an independent survey of customer satisfaction, or an external laboratory test of effluent quality from a production facility. A key consideration may be whether the criteria for measurement or evaluation used by the external information source are relevant because the information would assist decision-making by the intended users. Determining this may require judgment, including taking account of the entity's ability to influence the external information source.

*Control Activities*

68. Types of control activities that the practitioner may consider include:

---

<sup>16</sup> Conforming and Consequential Amendments to ISA 500, paragraph 5(cA), arising from the revision of ISA 540.

CONSIDERATIONS FOR THE PRACTITIONER

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

*Governance and Oversight of the Reporting Process*

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

CONSIDERATIONS FOR THE PRACTITIONER

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

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

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

**EXAMPLE**

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

72. Considering other factors that may affect the nature of the entity and its environment, for example its physical location, may assist the practitioner in considering whether the system of internal control is adequate for the practitioner to establish that the preconditions are present.
73. [moved to paragraph 49]
74. [moved to paragraph 49A]
75. [moved to paragraph 49B]
76. [moved to paragraph 49C]

### Response where the Preconditions are not Present

77. Where the practitioner concludes that the preconditions for an assurance engagement are not present, they may discuss this with the potential engaging party (management or those charged with governance). If changes cannot be made to meet the preconditions, the practitioner is not permitted to accept the engagement as an assurance engagement<sup>17</sup>.
78. If it is not possible to accept the assurance engagement, the practitioner may engage with the entity to undertake an assurance readiness assessment (see paragraphs 49 to 49C above). This may give the practitioner the opportunity to report their findings and conclusions on the internal control environment in a management letter to assist those charged with governance and senior management. The preparer may be encouraged to take steps to improve the controls and level of oversight such that an assurance engagement is possible in future.
79. In circumstances where the preparer has not met its responsibilities and the practitioner cannot decline the engagement due to its acceptance being required by law or regulation, the practitioner may need to consider whether it is necessary to express a qualified conclusion or disclaim a conclusion. An engagement conducted under such circumstances does not comply with ISAE 3000 (Revised). Accordingly, the practitioner shall not include any reference within the assurance report

<sup>17</sup> ISAE 3000 (Revised) paragraph 25

to the engagement having been conducted in accordance with ISAE 3000 (Revised) or any other ISAE(s)<sup>18</sup>.

**EXAMPLE**

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

**Impact on Engagement Strategy**

- 80. The nature of the entity’s system of internal control may also affect the practitioner’s strategy for designing appropriate assurance procedures, including tests of controls. Where the practitioner is unable to test controls, expects that the controls are not operating effectively, or it is not cost-efficient to test controls, the practitioner may adopt a fully substantive approach.
- 80A. In other circumstances, the practitioner may need to obtain sufficient appropriate evidence that certain controls are operating effectively when other procedures cannot alone provide sufficient appropriate evidence<sup>19</sup>, for example because substantive procedures are not possible or practicable due to the nature of the underlying subject matter or the source information.

---

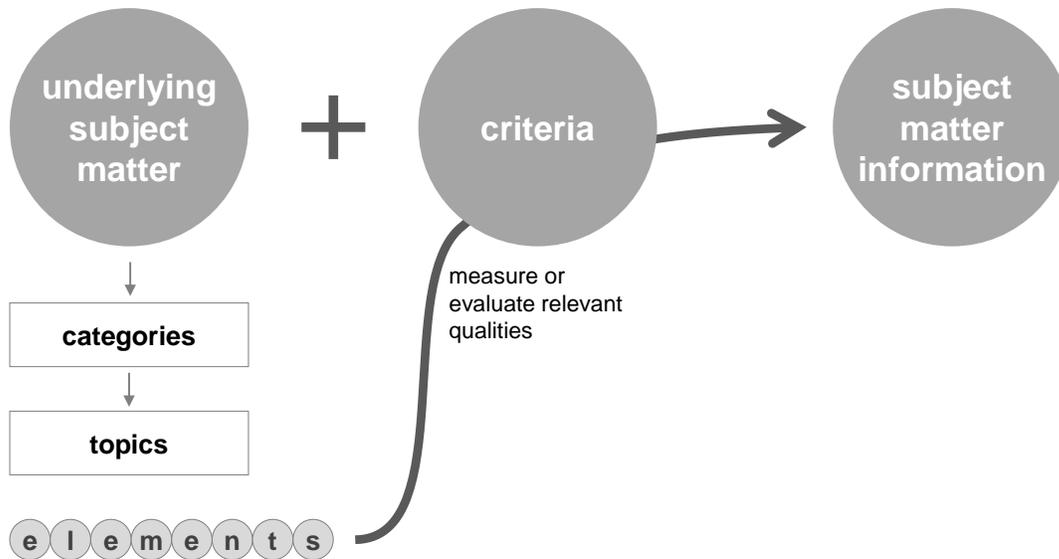
<sup>18</sup> ISAE 3000 (Revised) paragraph 25

<sup>19</sup> ISAE 3000 (Revised) paragraph 48R

## Chapter 7: Determining the Suitability of Criteria

### Introduction

81. [moved to paragraph 85A]
82. Criteria determine the content of the EER report and its basis of preparation. In simple terms they may be reporting requirements from an EER framework or from the entity’s own policies. More fully, criteria specify both:
- The identification of the nature and scope of the topics and related elements of the underlying subject matter to be represented in the EER report; and
  - The identification of the qualities of such elements to be measured or evaluated against the criteria to prepare the information to be included in the EER report, and the benchmarks to be used in measuring or evaluating those qualities.



#### ISAE 3000 (Revised) Definitions

Underlying subject matter	Criteria	Subject matter information
The phenomenon <sup>20</sup> that is measured or evaluated by applying criteria.	The benchmarks used to measure or evaluate the underlying subject matter.	The information that results from applying the criteria to the underlying subject matter.

83. All assurance engagements have an underlying subject matter, which is related to the purpose and intended use of the EER report. Certain qualities of the underlying subject matter are measured or evaluated against the criteria. The underlying subject matter is required to be appropriate (see Chapter 3). The criteria may be applied at the level of the underlying subject matter as a whole but often are applied at the level of specific elements of the underlying subject matter or at the level of

<sup>20</sup> The term 'phenomenon' is used in the standard in the sense of a 'thing' that is perceived or considered, rather than in the sense of something that is remarkable or rare.

groups of particular types of such elements, when information about those specific elements or groups assists decision-making by the intended users. The terms ‘categories’ and ‘topics’ are sometimes used to describe such groups.

84. The criteria specify how to identify, and measure or evaluate, elements that assist decision-making by the intended users, in the context of achieving the purpose of the EER report. The standard refers to the criteria as ‘benchmarks’. In effect, they identify how to measure or qualitatively evaluate qualities of elements such that the resulting information assists decision-making by the intended users. They include, for example, the definitions of performance indicators, measurement or evaluation bases and other reporting policies, and more widely the whole basis of preparation of the EER report.

<b>EXAMPLE</b>	An illustration of these terms in a financial reporting context:			
	<i>Underlying subject matter</i>	<i>Elements Qualities</i>	<i>Criteria</i>	<i>Subject matter information</i>
	Financial condition, performance and cash flows of Entity X.	Economic resources (for example assets) and claims on those resources (for example liabilities), and transactions, other events and conditions (for example income, expenses or equity).  The financial value of such assets, liabilities, income, expense or equity.	The measurement bases and related disclosures set out in IFRS <sup>21</sup> , as further described in the notes to the financial statements.	The measures used in the primary financial statements and the related disclosures in the notes.

<b>EXAMPLE</b>	A specific example to illustrate these terms from non-financial statement reporting:			
	<i>Underlying subject matter</i>	<i>Elements Qualities</i>	<i>Criteria</i>	<i>Subject matter information</i>
	Environmental, social and governance matters about Entity X. ↓ Social / human matters ↓ Staff diversity	Entity X’s employees.  The gender of those employees.	Requirement to report the number of employees of Entity X at a specific point in time, split by gender.	Gender A: 500 employees Gender B: 510 employees Gender C: 15 employees etc.

<sup>21</sup> International Financial Reporting Standards

In order to be suitable, the criteria in this example may need to be more specific, for example giving definitions of the gender categories and the term “employee”. Details of how to measure the underlying subject matter by means of a formula may be necessary. In this example, details specifying whether contractors are employees, or how to treat part-time employees, may be needed.

85. Criteria used in a particular assurance engagement (applicable criteria) can either be taken from an EER framework or be developed by the entity itself. In practice, many entities use criteria from one or more EER frameworks and supplement these with their own entity-developed criteria where an EER framework lacks the necessary detail or is not sufficiently comprehensive.
- 85A. EER frameworks are often less prescriptive about the content of an EER report or methods to represent its subject matter elements compared to financial reporting frameworks, and are therefore less precise about the determination of these items. In financial reporting, criteria are typically well established, and are supported by accounting policies specific to the entity. Given the diverse nature of the underlying subject matter in EER, there may be considerable opportunity for management bias in determining the content of an EER report and the methods used to represent its subject matter elements. The practitioner may need to exercise considerable professional judgment and professional skepticism in determining the suitability of criteria in an EER assurance engagement.

#### Requirements for Suitable Criteria

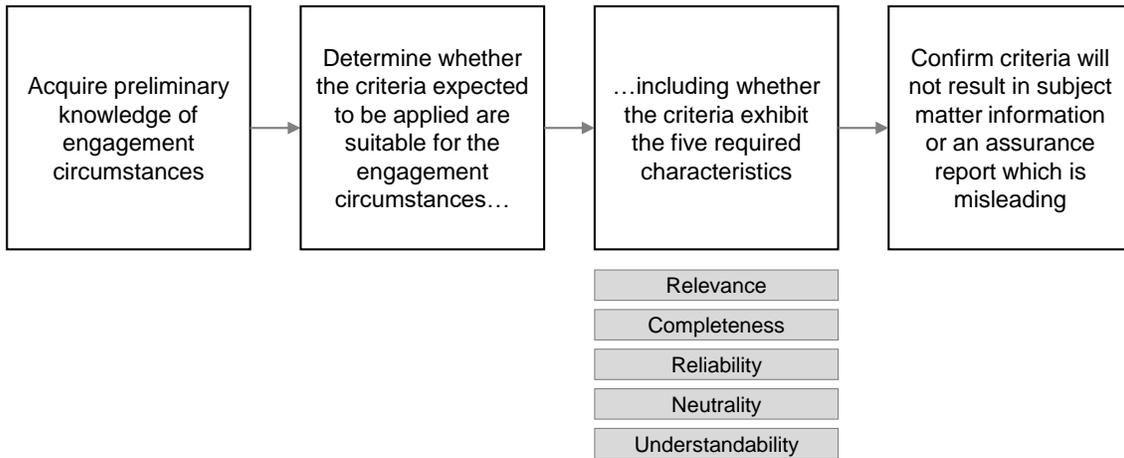
86. As detailed in Chapter 3, it is a precondition for an assurance engagement that the practitioner determines that the applicable criteria are suitable, based on a preliminary knowledge of the engagement circumstances. The practitioner is further required to determine whether the criteria are suitable in planning and performing the engagement. When the scope of the assurance engagement is not a whole EER report, the criteria to be applied in the preparation of those parts of the EER report which are within the scope of the assurance engagement are subject to the suitable criteria precondition. Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment<sup>22</sup>. Suitability is judged in the context of the engagement circumstances. Without suitable criteria, the subject matter information may be open to individual interpretation where there is undue subjectivity, increasing the risk of misunderstanding.
87. Suitable criteria are required to exhibit each of five characteristics. The descriptions of these characteristics specify attributes of the subject matter information that necessarily result from applying the suitable criteria<sup>23</sup>. The practitioner is required to determine whether the criteria exhibit each of the five characteristics, which are<sup>24</sup>:
- a) Relevance;
  - b) Completeness;
  - c) Reliability;

<sup>22</sup> ISAE 3000 (Revised) paragraph A10

<sup>23</sup> ISAE 3000 (Revised) paragraph A45

<sup>24</sup> ISAE 3000 (Revised) paragraph 41

- d) Neutrality; and
  - e) Understandability.
88. In addition to exhibiting these five characteristics, an overarching principle in the standard is that criteria developed by the entity would not be suitable if they result in subject matter information or an assurance report that is misleading to the intended users<sup>25</sup>. It may therefore be logical to expect that suitable criteria give rise to subject matter information that is not overly subjective.
89. The five characteristics are in many cases inter-related. Each must be exhibited in all cases, but the relative importance of each and the degree to which they are exhibited such that the criteria are suitable will vary according to the engagement circumstances.
90. The following diagram shows steps the practitioner may follow in determining the suitability of criteria:



91. The descriptions in the standard of each of the required characteristics for criteria<sup>26</sup>, along with some factors the practitioner may find helpful to consider in determining whether the criteria are suitable, are set out in paragraphs 94 to 113 below.
92. The engagement circumstances may include use of an EER framework that implicitly or explicitly requires different or more specific characteristics of the applicable criteria than the five characteristics of suitable criteria required by ISAE 3000 (Revised). For example, characteristics such as conciseness and comparability (see paragraphs 103 and 100) may be seen as more specific aspects of understandability and relevance respectively.
93. Where an EER framework includes such additional or more specific characteristics of criteria, it is still necessary for the applicable criteria to exhibit each of the five required characteristics of suitable criteria. Many of the commonly-used EER frameworks in some cases use different terms to describe similar concepts to the five characteristics required by ISAE 3000 (Revised). Additionally, some 'qualitative characteristics' may be implicit in the reporting requirements rather than being explicitly identified in an EER framework.

<sup>25</sup> ISAE 3000 (Revised) paragraph A50

<sup>26</sup> ISAE 3000 (Revised) paragraph A45

Relevance

**ISAE 3000 (Revised) paragraph A45(a)**

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

94. Considering relevance involves considering whether the criteria will result in subject matter information that assists intended users' decision-making in the context of the purpose of the EER report.
95. 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 might take based on the EER report and the information that would assist them in doing so; and
    - ii) Considered whether the applicable criteria would enable the preparer to identify the elements and their qualities, and changes in them, such that the resulting subject matter information would assist intended users' decision-making in the context of the purpose of the EER report.
  - b) If the preparer has considered the matters in (a), evaluating the conclusions of the preparer on those matters; and
  - c) If not, asking the preparer to consider those matters, and if necessary considering whether the practitioner has a reasonable expectation of being able to address the matters in (a) directly.
96. Where entity-developed criteria are the result of a rigorous internal process, involving input directly from both the intended users and those charged with governance, they are more likely to be relevant.
97. Relevance of criteria (and hence the resulting subject matter information) may be affected by the inherent level of measurement or evaluation uncertainty in applying them in the circumstances of the engagement. When subject matter information is subject to high inherent measurement or evaluation uncertainty, the related criteria may be relevant only if they require additional supporting information about the nature and extent of the uncertainty.

**EXAMPLE**

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

Refer also to discussion of ‘accuracy’ and ‘precision’ in paragraph 105 below, and further consideration of measurement uncertainty in paragraphs 219 to 221.

98. Subject matter information must result from applying criteria that are relevant. Such criteria identify qualities of elements and measurement or evaluation basis that, when applied to them, result in subject matter information that assists intended users’ decision-making. The practitioner considers relevance in determining whether the criteria are suitable. Whether an applicable criterion is or isn’t relevant is not binary. Instead, the degree to which it assists intended users’ decision-making may be considered to be on a scale that varies depending on the circumstances of the engagement.
- 98A. Materiality is considered by the practitioner in the context of potential and identified misstatements in the circumstances of the engagement. It includes considering whether such misstatements could reasonably be expected to affect intended users’ decision-making. It also includes considering whether the subject matter information is free from material misstatements made by the preparer in applying relevant criteria. Materiality is a threshold of significance to decision-making considered by the practitioner in relation to potential and identified misstatements, in the circumstances of the engagement.

EXAMPLE

Financial reporting example:

For most companies, revenue for all classes of transactions would typically assist decision-making by intended users, by enhancing their understanding of the company’s financial performance during the year, however in some circumstances a misstatement omitting the financial value of revenue from a particular class of transactions from the company’s reported revenue may not be *material*.

EER example:

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

99. A further consideration is the requirements of the criteria to disaggregate or aggregate information as this may affect the context for materiality considerations for misstatements. EER frameworks do not always specify in detail the required level of aggregation or disaggregation (sometimes referred to as the unit of account). They may, however, include principles for determining an appropriate level in particular circumstances.
100. In many cases it may be useful to intended users if the criteria are consistent from one reporting period to the next to aid comparability. Where criteria change, disclosure of the change with an explanation of the reasons for the change may be expected for the criteria to be relevant in the year of the change. Information about the impact of the change, for example re-stating comparative information (where possible and cost-effective), may also be expected for the criteria to be relevant in the year of the change. However, in other circumstances, a temporary reduction in comparability may be appropriate to improve relevance in the longer term.

100A. [was paragraph 107] 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), where permitted by the EER framework adopted and those criteria are made available.

### *Completeness*

#### **ISAE 3000 (Revised) paragraph A45(b)**

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

101. Criteria are required to be complete so that the intended user is able to make informed decisions by having access to subject matter information that does not omit relevant factors that are material in the context of the circumstances of the entity and the purpose of the EER report.
102. The application of complete criteria is expected to result in subject matter information that includes all relevant factors that are material, including information that represents negative aspects of what is being reported on (also see 'neutrality' below).
103. 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*

#### **ISAE 3000 (Revised) paragraph A45(c)**

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

104. Reliable criteria may need to be based on strong definitions with little or no ambiguity, if the resulting subject matter information is to be capable of reasonably consistent measurement or evaluation.
105. Reliable criteria are likely to result in subject matter information that is capable of reasonably consistent measurement or evaluation with the necessary degree of accuracy (such that it is free from error) and precision such that the criteria are also relevant. Accuracy is not the same as precision. Subject matter information can be sufficiently accurate if it is as precise as is reasonably possible, if it results from applying a well-defined process without error, and if it includes information about the inherent limitations in its precision.

**EXAMPLE**

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

106. 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 complete, accurate and neutral and for it to be collected and processed in a manner that maintains its integrity. Unsubstantiated claims in the subject matter information are unlikely to meet this requirement.
107. [moved to paragraph 100A]

*Neutrality*

**ISAE 3000 (Revised) paragraph A45(d)**

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

108. Neutral criteria would normally be designed to cover all aspects of the underlying subject matter that assist intended users' decision-making with suitable emphasis, including both favorable and unfavorable aspects in an unbiased manner.

**EXAMPLE**

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

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

*Understandability*

**ISAE 3000 (Revised) paragraph A45(e)**

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

- 111. Understandable criteria typically result in subject matter information that will enable the intended users to identify readily the main points being made and to infer appropriately whether they are sufficiently significant to affect their decision-making. This is likely to be assisted by a clear layout and presentation of the subject matter information in a way that effectively summarizes and draws attention to these points.
- 112. The criteria ideally result in the EER report being coherent, easy to follow, clear and logical.
- 113. Understandable criteria may require subject matter information to be at a level of aggregation that is sufficient for it to assist decision-making by the intended users while also being sufficiently concise to be understood by the intended users.

*Example*

113A. The following worked example shows how a practitioner could approach determining the suitability of criteria, including that the criteria exhibit the five characteristics:

<b>EXAMPLE</b>	<p>An EER framework may include criteria which require the entity to report “water intake in the reporting period”.</p> <p>Intake in the reporting period is a quality of the subject matter element ‘water’, a natural resource, that assists intended users’ decision-making. The commonly-used and well-understood measurement basis for water intake is volume, measured in units of liters.</p> <p>In determining whether the criteria are suitable, the practitioner may consider questions such as:</p> <ul style="list-style-type: none"><li>• Would the water intake information assist decision-making by the intended users? (relevance)<ul style="list-style-type: none"><li>○ A consideration might be how significant water is to what the company does, although most companies are likely to use at least some water. Water intake may be more significant for a manufacturer than perhaps a software developer, or more significant when obtained from certain sources such as surface water or groundwater. It may be more significant for entities with operations in water-scarce regions than for those operating in regions where water is more abundant.</li><li>○ Answering this would require some knowledge of who the intended users are and what might assist their decision-making.</li><li>○ The purpose of the EER report may also be a consideration; water intake may be more likely to assist intended users’ decision-making when the purpose of the EER report is to describe the entity’s impact on the environment but may be less likely to assist intended users’ decision-making if the purpose is to describe the entity’s governance processes.</li></ul></li><li>• Do the criteria require everything about water (the subject matter element) that would assist intended users’ decision-making in the context of the purpose of this EER report to be disclosed? (completeness)</li></ul>
----------------	---

- This indicator is only measuring water intake over a defined period. This may be the potential quality of interest to the intended users (rather than the water's temperature or weight), but information about other qualities of water may assist intended users' decision-making in other circumstances (for example water intake from specific sources such as surface water or groundwater over a defined period, or a water-quality indicator (such as dissolved oxygen) for water discharge or the water discharged to specific destinations).
- There is an assumption that the criteria require reporting of all the water intake across the whole company and all of its sites.
- Do the criteria provide a methodology for calculation which allows reasonably consistent measurement? (reliability)
  - This may be where the entity must supplement the reporting requirement to suit their specific circumstances.
  - A company may calculate their water intake using water meters and collect readings at the beginning and end of the period. For municipal water this is information which would also be used for billing by the water company.
  - Considerations for the practitioner may therefore be focused around completeness as explained above - whether this approach will cover all of the water intake by the company (for example considering if all water flows through a meter that data can be collected from).
  - Other considerations may include when the water meters were last expertly calibrated, and on what days the readings are expected to be taken. Further consideration may be required if the methodology uses estimates and data required for doing so are not fully available. This may be the case where readings are not taken at exactly the start and end of the reporting period.
  - In the case of water intake, measuring it in units of liters is likely to be appropriate. This is likely to make it possible to compare the information to other periods and entities, assuming that the calculation is straightforward.
- Will the criteria result in information which is free from bias? (neutrality)
  - There is unlikely to be significant risk of management bias if the information is based on water meter readings, however further consideration may be required if the calculation methodology is more complex or involves estimation, or if the water intake definition used by the entity is restricted to specific sources which have a lower environmental impact.
- Will the criteria result in information which can be understood by the intended users? (understandability)
  - In most cases, water usage would be easily understood, although the practitioner may need to consider whether the criteria result in the information being presented and disclosed appropriately in the EER report.

## Established Criteria

114. Where criteria are:

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

they are presumed to be suitable in the absence of indications to the contrary and are known as 'established criteria'<sup>27</sup>. Where indications exist that the criteria may not be suitable, the practitioner may need to consider further whether the criteria are suitable.

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

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

**EXAMPLE**

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

117. Where a preparer is using an EER framework that contains established criteria and chooses to modify or adjust those criteria with the result that they are different to what is commonly used in the entity's sector, this may be an indicator of potential management bias and of a risk that the resulting subject matter information could be misleading to the intended users. In such circumstances, the

<sup>27</sup> See ISAE 3000 (Revised) paragraph A49 for details of the definition of established criteria.

practitioner applies 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. The more mature the type of reporting or the EER framework being used is, the less likely it is that changes made by an entity to measurement methods and related disclosures from commonly-accepted practice adopted by other similar entities will be appropriate. It may be desirable for the intended users to acknowledge that the entity-developed criteria are suitable for their purposes.

### Availability of the Criteria

118. 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. A practitioner may evaluate the adequacy of the transparency of the criteria, considering whether the criteria have been disclosed with sufficient detail and clarity such that they are available.
119. The criteria may be made available outside of the EER report, for example if an established, publicly available EER framework has been used. In the case of entity-developed criteria, the entity may choose to publish the criteria and reporting policies in a separate EER report or on its website, which is then cross-referred to as at a particular date, in the EER report. This may be a preferable option where an EER report is intended to be concise.
120. The more familiar the intended users are with the type of reporting, the less likely it will be necessary to disclose detailed explanations of the reporting policies and measurement or evaluation methods, as these will be available by ‘general understanding’ to the intended users.

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

### Consequences where Criteria are not Suitable or Available

121. Where, prior to accepting or continuing the engagement, the practitioner concludes that the applicable criteria are not suitable or available, the practitioner cannot accept the engagement, unless:
  - a) They are mandated to do so under law or regulation; or
  - b) The preparer makes the applicable criteria suitable and available to the practitioner’s satisfaction, allowing the engagement to be accepted; or
  - c) The scope of the assurance engagement can be restricted to one or more aspects of the underlying subject matter for which the criteria are suitable and available<sup>28</sup>.

<sup>28</sup> ISAE 3000 (Revised) paragraph A36

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

## Chapter 8: Considering the Entity's 'Materiality Process'

### Introduction

123. As the content of EER reports is generally less comprehensively specified in EER frameworks than in financial reporting frameworks, the practitioner may need to review the appropriateness of judgments made by the preparer to determine more comprehensively the appropriate basis of preparation of the content. EER frameworks commonly refer to these judgments as relating to 'materiality', but the focus of such judgments is effectively considering more comprehensive bases for preparing subject matter information (referred to as 'criteria' in the standard) that assists decision-making by intended users (such that the criteria exhibit the characteristic of relevance).
- 123A. For example, the preparer may need to make such judgments where the criteria from an EER framework do not specify in sufficient detail what topics and related elements are to be included in the EER report. A process that a preparer undertakes to do so is commonly referred to as a 'materiality process'.
124. EER frameworks do not always provide direction for a preparer making such judgments. It can be challenging for both a preparer making these judgments and for a practitioner reviewing their appropriateness when both the intended users and their information needs can be diverse or even unknown. There will likely be a need for an entity's 'materiality process' to reflect the broader and more diverse user perspective often encountered.
- 124A. Where criteria from an EER framework do not specify what topics and related elements would assist the decision-making of the intended users of the EER report, the criteria may not be considered to be suitable on their own as they may lack the characteristic of relevance. In undertaking a 'materiality process', the preparer is effectively extending and developing the criteria further such that they exhibit the characteristic of relevance and the resulting subject matter information assists the decision-making of the intended users.

**EXAMPLE**

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

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

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

EXAMPLE

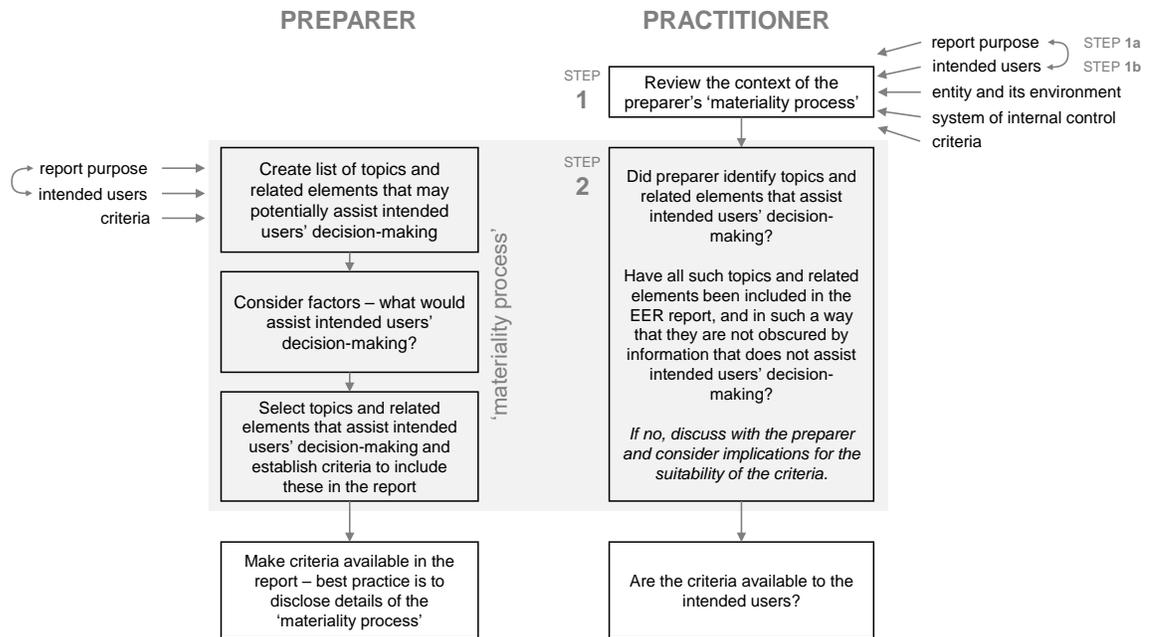
A different EER framework may require the disclosure of specific indicators, such as the time spent by its employees on training during the period, measured in hours. Detailed instructions on how to calculate this are provided.

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

125. The practitioner may need to review an entity's 'materiality process' as part of determining whether the criteria are suitable (see Chapter 7). The practitioner is also required to consider the process used to prepare the subject matter information in a limited assurance engagement, or to obtain an understanding of internal control over the preparation of the subject matter information in a reasonable assurance engagement<sup>29</sup>. This may also involve reviewing an entity's 'materiality process' where the preparer has undertaken one. Reviewing a 'materiality process' may also assist a practitioner to identify areas where a material misstatement of the subject matter information is likely to arise, or to identify and assess the risks of material misstatement in the subject matter information, as required in limited and reasonable assurance engagements respectively<sup>30</sup>.
126. The extent to which the practitioner needs to review the appropriateness and outcomes of the entity's 'materiality process' may depend on the scope of the assurance engagement, as it is more likely to be important where the assurance engagement covers a whole EER report than where the scope of the assurance engagement is only specific indicators. However, understanding such outcomes may also be an important consideration when agreeing the assurance scope for certain types of EER, and as part of determining whether an assurance engagement has a rational purpose.
127. Where applicable to the engagement, the flowchart below may assist the practitioner with reviewing the preparer's 'materiality process'. The steps a preparer might be expected to follow are provided on the left-hand side for reference. These are explained in this IAEPN to illustrate what the practitioner may expect when they come to review a 'materiality process'. The suggested process for a practitioner is shown on the right-hand side of the diagram and then explained in the guidance paragraphs below. The guidance focuses on the 'materiality process' identifying the relevant criteria to determine the topics and related elements to include in the report, but a similar approach may be used to then identify relevant criteria for indicators or metrics about those topics and related elements.

<sup>29</sup> ISAE 3000 (Revised) paragraphs 47L and 47R

<sup>30</sup> ISAE 3000 (Revised) paragraphs 46L and 46R



### Step 1: Review the Context of the Preparer's 'Materiality Process'

128. The practitioner may begin by reviewing the context of the preparer's 'materiality process' including consideration of the:
- EER report purpose (step 1a);
  - Intended users (step 1b);
  - Entity and its environment;
  - System of internal control; and
  - Criteria (EER framework or entity-developed).
129. It would be helpful if a preparer documents their 'materiality process' and the decisions they have made so that it can be considered by the practitioner. In the absence of written documentation, the practitioner may be able to understand the preparer'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.
130. 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.
131. Where an EER framework is being used by a preparer, the practitioner may need to consider any direction on 'materiality' considerations included in the EER framework to determine 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 ‘material’ topics 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.

132. The following paragraphs provide further guidance for how the practitioner may consider the EER report purpose (step 1a) and the intended users (step 1b). No further specific guidance is considered necessary in respect of considering the entity and its environment, the system of internal control or the criteria beyond what is included in ISAE 3000 (Revised).

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

133. The purpose will be to report certain information about an underlying subject matter to a group(s) of intended users. A few examples of the EER report purpose might include:
- To report the entity’s impact on the natural environment
  - To describe the entity’s activities over a period and how they contribute to the entity’s objectives
  - To describe how the entity creates ‘value’
  - To inform the intended users of the financial position, financial performance and cashflows of the entity
  - To describe what the entity plans to do in the future, or how it expects to perform

134. 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 Adequately Identified the EER Report’s Intended Users?**

135. In order to make criteria relevant, it may be important for the preparer to understand the general nature of decisions the intended users<sup>31</sup> are likely to take based on, or influenced by, the information in the EER report. The practitioner therefore may also use this as context when considering the judgments made by the preparer.
136. A distinction is made between intended users and stakeholders. A stakeholder in the entity may

---

<sup>31</sup> The ‘intended users’ are defined by ISAE 3000 (Revised) as the individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report (paragraph 12(m)).

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

**EXAMPLE**

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

- 137. A single EER report may have multiple groups of intended users, with potentially different information needs. An EER report cannot focus on the particular 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.
- 138. [paragraphs merged]
- 139. 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"<sup>32</sup>. This might be useful, subject to any particular requirements in the EER framework, where EER reports are published without specifying the intended users, effectively for the benefit of global society.

**EXAMPLE**

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

- Government – needs to know whether citizens are being provided with adequate healthcare and whether resources are being used efficiently.
- Groups of patients (current or potential), the general public and the wider world – want to know whether the hospital is available to provide care to the community, playing its role in controlling diseases, and if it is clinically safe.
- Cancer patient – self-interest about whether the hospital has the capabilities to treat them successfully.

In this example, the top two user groups might be the intended users, but the individual patient might not be.

- 140. 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.

<sup>32</sup> ISAE 3000 (Revised) paragraph A16

141. Merely reading the information in the EER report is a valid use by intended users; the outcome may be that they make a decision to take no action based on the information reported. They would still have a legitimate need for the information to assist them in reaching that conclusion and so relevance does not depend on intended users taking action based on the reported information.
142. Some examples of possible user groups are included in the table below – this is not intended to be an exhaustive list, but it could be considered by a preparer as a starting point for identifying the intended users of their EER report by potentially selecting some from the below table and adding entity-specific user groups. It is not necessary for a preparer or practitioner to create a detailed list of the intended users – the aim is to have an awareness of the broad groups of intended users as context in making judgments in a ‘materiality process’.

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

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

143. Taking into account the EER framework(s) used, the purpose of the EER report and the intended users, a preparer may often create a list of topics and related elements that assist intended users’ decision-making in the context of the underlying subject matter. A preparer may do this in multiple stages, filtering an initially longer list of possible topics and related elements to end up with those that are considered to assist decision-making by intended users.
144. [deleted]
145. Criteria about topics and related elements are likely to be relevant if the information resulting from applying them contributes to decision-making by the intended users and achieves the purpose of the EER report.
146. [moved to paragraph 156A]
147. [moved to paragraph 156B]

148. [deleted]

*Considering Interest to the Intended Users*

149. To consider whether something would assist decision-making by intended users, one approach is to consider whether it is of interest to the intended users.
150. 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.
151. If considering whether something is of interest to intended users, examples of circumstances that might increase its relevance include:
- a) It is likely to cause investors to buy or sell equity in the entity
  - b) It is likely to change the entity's share price or enterprise value
  - c) There has been media coverage relating to it, or disclosure of it would likely result in media interest (local / national / global)
  - d) There have been a large number of complaints relating to it (for example from customers, suppliers or other stakeholders)
  - e) It has been mentioned unprompted by several stakeholders
  - f) There is a high level of wider societal interest in it, or particularly high levels of public sensitivity

**EXAMPLE**

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

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

*Considering 'Impact'*

152. When it is not possible to evaluate sufficiently what would assist intended users' decision-making by identifying directly what would be of interest to them, an alternative or supplementary approach is to consider the significance, in the context of the purpose of the EER report, of the subject matter elements (whether they represent 'conditions' or 'causes of change') on the entity's performance (in achieving its strategic objectives) or its impact on other entities. This approach is sometimes referred to as considering 'impact'.

'Other entities' could include individuals, organizations, wider society or the environment as is appropriate in the context of the purpose of the EER report. The impacts could occur either directly

due to the actions and decisions of the reporting entity's management, indirectly through relationships of the reporting entity, or by the direct or indirect effect of forces external to the reporting entity.

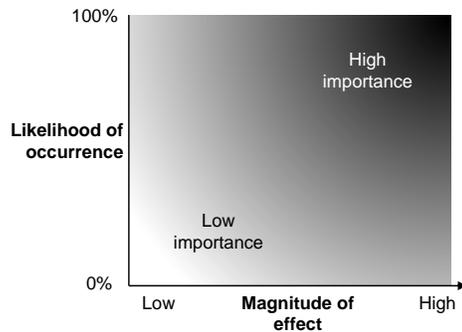
**EXAMPLE**

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

153. 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*

154. Some preparers present the results of their analysis of topics and related elements that, in the context of the purpose of the EER report, would be of 'interest to intended users' and that would have 'impact' on a scatterplot, which positions such topics and related elements in terms of their 'interest to intended users' and their 'impact', on separate axes.
155. The judgments made in positioning such topics and related elements on each axis may be influenced by considering both the likelihood of such topics and related elements existing or occurring, and the magnitude of their significance, in terms of their 'interest to intended users' or 'impact' (as a proxy for considering the relative potential of information about such topics and related elements to assist intended users' decision making), if they were to exist or occur. Consideration of both likelihood and magnitude, and the importance of their potential to assist intended users' decision-making, may be illustrated on a diagram:



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

**EXAMPLE**

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

- 156A. [was paragraph 146] When evaluating whether the list of topics and related elements to be included in the EER report includes all such topics and related elements, information about which assists intended users' decision-making (is complete), a practitioner could use some of these sources:

- Discussions with management and those charged with governance
- Previous reporting by the entity
- Reporting by peers and competitors
- Strategy documents prepared by the entity
- Survey results (of the entity, peers or the industry)
- Interviews with stakeholders, outreach activities, stakeholder engagement
- Web and social media searches
- Global megatrends
- Sustainable Development Goals

- Agendas and minutes from board or senior management meetings and committees
- Risk assessments

156B. [was paragraph 147] Stakeholder engagement activities can be an important part of a preparer identifying topics and related elements, information about which assists intended users' decision-making. An open dialogue with stakeholders may give better results than passive interaction or asking them to comment on an existing list of topics and related elements, however there may be a need to adequately inform stakeholders about the entity and its activities to enable them to engage effectively with the process.

157. The practitioner may make the following key judgments:

<b>CONSIDERATIONS FOR THE PRACTITIONER</b>	<p>How effective was the preparer in identifying topics and related elements, information about which assists intended users' decision-making, as part of their process?</p> <p>Have all such topics and related elements been included in the EER report, and in such a way that they are not obscured by information that does not assist intended users' decision-making?</p>
--	--

158. The practitioner uses professional judgement and professional skepticism to evaluate the preparer's judgments and may focus particularly on what the preparer chose to exclude and the reasons for their decisions.

### Dealing with Confidential Information

159. Information about topics and related elements that assists intended users' decision-making, which the preparer has not included in the EER report on the basis that it is confidential or would potentially damage the entity's reputation, would ordinarily be treated as a misstatement. The materiality of this misstatement would then be considered as per the guidance in Chapter 12, and the practitioner would then respond accordingly. Non-disclosure of such information (either in the EER report or the assurance report) may be justified in extremely rare circumstances where the adverse consequences of disclosure would reasonably be expected to outweigh the public interest benefits of such communication, if permitted by the applicable criteria. If non-disclosure of the confidential information is not permitted by the applicable criteria, the practitioner may need to consider the implications for the assurance report. There may also be rare circumstances where law or regulation precludes public disclosure of information by either the preparer or the practitioner, for example something that might prejudice an investigation into an actual, or suspected, illegal act.

### Considering Topics and Related Elements Collectively

160. It may be appropriate not just to consider topics and related elements individually as there may be circumstances where information about multiple topics or related elements may in aggregate assist intended users' decision-making.

**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.

**Other Information**

161. Some information in an EER report may not result from criteria which are suitable or available. In many cases, this information may be of little consequence and may be unlikely to influence decision-making by the intended users.
- 161A. Where the information does not result from any criteria, the practitioner may consider this to be 'other information' and would then follow the requirements in paragraph 62 of the standard.
- 161B. If the information results from criteria which are not suitable or not available, at least one of the preconditions for an assurance engagement would not be present, and the practitioner follows the requirements in paragraphs 42 and 43 of the standard if this is discovered after the engagement has been accepted.

**Disclosure of the 'Materiality Process'**

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

## Chapter 9: Performing Procedures and Using Assertions

### Introduction

163. Assertions are a tool that may be used by a practitioner to assist in designing assurance procedures to obtain evidence about whether the subject matter information has been prepared in accordance with the criteria, or is misstated. If used, they are a way for the practitioner to consider the different types of potential misstatements that may occur.
- 163A. ISAE 3000 (Revised) does not specifically require the practitioner to use assertions, and it therefore does not prescribe or identify specific assertions to be used, as these may vary from one engagement to another depending on the underlying subject matter and the criteria. However, a practitioner may use assertions in both reasonable assurance engagements and limited assurance engagements.

### The Nature of Assertions

164. Assertions are defined in certain IAASB standards as:
- “Representations by [the measurer or evaluator], explicit or otherwise, that are embodied in the [subject matter information], as used by the [practitioner] to consider the different types of potential misstatements that may occur.”<sup>33</sup>
- 164A. The proper application of the applicable criteria necessarily results in many individual representations, explicit or otherwise, that are embodied in the subject matter information by the preparer. The application material in IAASB standards that address certain types of underlying subject matter indicates categories into which assertions relating to such underlying subject matter may fall, and ways in which those categories may be expressed<sup>34</sup>.
- 164B. For example, the applicable criteria may require that the preparer includes in the subject matter information defined measures and disclosures about defined types of elements. Proper application of the criteria implies a representation that the subject matter information includes all such measures and disclosures about all such elements, i.e. that the related subject matter information is ‘complete’. Similarly, proper application of the criterion also implies a representation that those measures and disclosures have been accurately measured or developed, i.e. that the related subject matter information is ‘accurate’.
- 164C. Proper application of criteria is likely to result in representations that many different aspects of the subject matter information are ‘complete’ in different ways (representations that address ‘completeness’) or ‘accurate’ in different ways (representations that address ‘accuracy’). These two types of representations are respectively referred to as categories of assertions that are expressed as ‘completeness’ and ‘accuracy’ in the IAASB standards that address assertions<sup>34</sup>.
- 164D. Categories of assertions are analogous to what is sometimes known in EER frameworks as ‘guiding principles’ for, or ‘qualitative characteristics’ of, the information to be included in an EER report.
- 164E. Assertions are used by the practitioner at the level of the categories into which they fall rather than at the level of detailed assertions about aspects of the subject matter information. These categories correspond with the types of potential misstatements that may occur. For example, for an assertion

---

<sup>33</sup> ISA 315 paragraph 4(a) and ISAE 3410 paragraph 14(b)

<sup>34</sup> ISA 315 (Revised) paragraph A129 and ISAE 3410 paragraph A82

that falls into the category of completeness, the corresponding type of potential misstatement is an omission.

165. For the avoidance of doubt, the term ‘assertions’ is used in this IAEPN consistent with the definitions of assertions in certain IAASB standards<sup>33</sup>, in the context of their use by the practitioner to consider the different types of potential misstatements that may occur, and to design assurance procedures accordingly. They are conceptually different from the ‘written representations’ that may be obtained from the preparer in accordance with paragraphs 56 to 60 of the standard. The term ‘assertions’ is also not used in this IAEPN in the sense that the preparer may ‘assert’ something by writing it in their EER report.

### **Identifying Categories of Assertions that may be Used**

166. The categories of assertions that may be used by the practitioner in an EER assurance engagement result from the requirements of the applicable criteria. If the criteria are suitable, subject matter information resulting from their proper application will have attributes consistent with the attributes of subject matter information resulting from criteria that exhibit the five required characteristics of suitable criteria. This is because the characteristics of suitable criteria are defined in terms of the attributes of the resulting subject matter information. Chapter 6 of this IAEPN describes the attributes of subject matter information resulting from criteria that exhibit those characteristics (relevance, completeness, reliability, neutrality and understandability). For example, the proper application of criteria that exhibit ‘completeness’ requires representations that are of a type that assert that the subject matter information is ‘complete’.
167. The criteria, whether from an EER framework or developed by the entity itself, may also have characteristics other than the required characteristics of suitable criteria. Such characteristics may imply attributes of the resulting subject matter information of types other than those implied by the characteristics of suitable criteria. The assertions required by entity-developed criteria may be more likely to result from representations about the subject matter information required implicitly, rather than explicitly, by such criteria.
168. Taken together, categories of assertions that result from representations about the subject matter information implied by the characteristics of suitable criteria and categories of assertions that result from other characteristics of the applicable criteria, are the categories of assertions that the practitioner may use in the assurance engagement.

169. Some examples of categories of assertions that may be used in EER engagements include:

- |                    |   |   |
|--------------------|---|---|
| a) Accurate        | } | related to assertions required by reliability       |
| b) Free from error |   |   |
| c) Connectivity    | } | related to assertions required by relevance         |
| d) Consistency     |   |   |
| e) Cutoff          |   |   |
| f) Existence       |   |   |
| g) Occurrence      |   |   |
| h) Presentation    | } | related to assertions required by understandability |
| i) Classification  |   |   |

This is not intended to be an exhaustive list, nor is it expected that all of these examples might apply to a single engagement. The categories of assertions in the list are not in any particular order. It may be considered that some or all of these are more detailed categories of, or are related to, the categories of assertions required by one of the five characteristics of suitable criteria. If so, it may not be necessary to identify these as separate categories of assertions.

170. The category of assertions that address neutrality (or 'freedom from bias') may be considered in combination with other categories of assertions in considering the potential types of misstatements that may occur. For example, the practitioner may consider whether there may be a type of misstatement of the 'completeness' assertion in the resulting subject matter information due to preparer bias in deciding which topics and related elements should be addressed in the EER report. Similarly, a practitioner may consider whether there is a type of misstatement of the 'accuracy' assertion in the resulting subject matter information due to preparer bias in measuring elements that require subjective judgments.

171. Assertions may be used to consider the types of misstatements that may occur at different 'units of account'. The practitioner may design appropriate procedures to test for misstatement of the assertions for appropriate units of account, in the context of the criteria.

**EXAMPLE**

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

171A. [was paragraph 175] The practitioner may need to design procedures that include 'standing back' and considering whether there are categories of assertions about, and therefore potential types of misstatement of, the EER report as a whole. A situation may arise where each individual piece of subject matter information is free from material misstatement, but the overall message is misleading

or biased. This is one example of how assertions may apply at different levels or units of account in the EER report.

### Using Categories of Assertions

- 171B. ISAE 3000 (Revised) requires the practitioner to form a conclusion about whether the subject matter information is free from material misstatement<sup>35</sup> and about whether the subject matter information is prepared, in all material respects, in accordance with the applicable criteria.
- 171C. When designing procedures, a practitioner may begin by considering the categories of assertions about the subject matter information that result if the applicable criteria were applied appropriately and the corresponding types of potential misstatements that may have occurred if they were not applied appropriately. The practitioner may then design procedures to test whether the subject matter information is misstated with respect to the identified assertions. If the assertions are not misstated, this provides evidence that the information is properly prepared in accordance with the applicable criteria.
172. As in a financial statement audit, a single procedure or test may be designed to test whether subject matter information exhibits more than one assertion. Decisions on the extent and nature of procedures that the practitioner plans to perform may be informed both by the nature of the assertions being tested and by the practitioner's assessment of the risks of material misstatement of that assertion (in a reasonable assurance engagement).

### Types of Misstatement

173. The assertions allow the practitioner to consider the different types of potential misstatements that may occur, as when an assertion is not present in subject matter information, the information is misstated. Some examples of different types of possible misstatement include:
- a) Omission of information (failure of a 'completeness' assertion)
  - b) False claims in information (failure of an 'existence' or 'occurrence' assertion, or of a more general 'free from error' assertion)
  - c) Misleading or unclear representation of information (failure of an 'understandability' or 'presentation' assertion)
  - d) Bias in information so that positive aspects of performance are focused on and negative aspects are omitted (failure of a 'neutrality' or 'presentation' assertion)
174. 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 Chapter 12 for more guidance.
175. [moved to paragraph 171A]

---

<sup>35</sup> ISAE 3000 (Revised) paragraph 65

## Chapter 10: Assuring Narrative information

### Introduction

176. Narrative information is commonly understood to be subject matter information expressed predominately using words, although numbers may still be included. The information is typically qualitative rather than quantitative.
177. Narrative information in EER reports may be:
- factual (directly observable and therefore more readily captured by the reporting system); or
  - inherently subjective (not directly observable and susceptible to being more reflective of, and more variable with, the views of those reporting it).

**EXAMPLE**

Examples of purely factual narrative subject matter information:

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

Examples of subjective narrative subject matter information:

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

These particular examples of subjective narrative subject matter information may be overly vague and unsubstantiated such that it is unlikely that the criteria would be reliable, and hence it may be difficult to obtain assurance over them.

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

### Specific Considerations for Determining the Suitability of Criteria

179. Subject matter information expressed in words may result from criteria representing different qualities of the subject matter elements compared to numerical subject matter information or metrics, however the requirements for criteria to be suitable remain the same.
180. Reliable criteria for narrative information may 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 subject matter information may not result from reasonably consistent evaluation of the underlying subject matter). It is unclear whether the criteria require the entity merely to disclose that it has such a policy in place (either formally written or not), or that its behavior complies with that policy or that the policy is effective in helping it achieve its objectives.

181. It is particularly important for narrative information that the criteria result in subject matter information that is understandable (including being unambiguous as to its intended meaning) and neutral, as subject matter information in narrative form may be at particular risk of failing to exhibit these characteristics. This is often because words can be inherently ambiguous in their meaning and definitions. Most importantly, the criteria cannot result in subject matter information that is misleading to the intended users<sup>36</sup>.

EXAMPLE

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

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

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

### Specific Considerations for Using Assertions & Testing Narrative Information

182. Different assertions may be applicable or more important for narrative information compared to numerical subject matter information, however this will depend on the criteria being used. Even in situations where the same assertions are applicable, there may be more focus on assertions such as understandability and comparability for information in narrative form.
183. When testing narrative information, it may be necessary to break up long pieces of text and consider sections, paragraphs or sentences separately where these talk about different things. It is likely that different assertions will be applicable to each.

<sup>36</sup> ISAE 3000 (Revised) paragraph A50

- 184. Individual claims or indicators in the subject matter information can be individually significant and can be tested separately, particularly where it is part of wider sections of narrative information (not all of which might be as significant). In other circumstances a paragraph of text comprising related information may need to be considered together.
- 185. Practical methods of doing this may include highlighting the text in different colors or by drawing boxes around sentences or sections of significant narrative information. The practitioner can then test each one, and ultimately the assurance working papers can be referenced to the related parts of the text in the subject matter information.

**EXAMPLE**

Below is an example of information which may be included in an EER report. The sentences have been numbered in brackets. For this example, assume the criteria included a requirement to report “the water intake by the company in the reporting period, the change from the previous reporting period, and an explanation for the change”.

“(1) Water is needed to support all life, and yet it can be a scarce resource in some parts of the world, requiring us to use water responsibly for all our operations.

(2) We monitor the water we use across all our sites for manufacturing, cooling, sanitation and landscaping, so that we can develop effective approaches to conserve water. (3) In 20X8, our water intake was 400 million gallons; an increase of 5 percent on the previous year. (4) This was mainly caused by growth in manufacturing across all our sites.”

Sentence (1) is vague and may be unsubstantiated. It does not directly relate to what the criteria require as described above, and hence may be considered to be ‘other information’. Most readers may not pay much attention to it, and hence it is unlikely to warrant the practitioner’s attention unless it is clearly incorrect or misleading.

Sentence (2) is more specific to the entity, more factual and less subjective, however again it does not address the criteria. The practitioner may be able to confirm if it is a true statement easily (and hence whether it is not misleading), perhaps from existing knowledge or work.

Sentence (3) contains quantitative information which, along with sentence (4), is likely to be the focus of the practitioner’s testing and work effort. The practitioner may accordingly highlight it or draw a box around it, and reference supporting workpapers where the testing is documented.

Sentence (4) is an explanation that may fulfil the requirements of the criteria if it is accurate, complete and free from bias. The practitioner may attempt to corroborate this with data on manufacturing levels.

- 186. Purely factual narrative subject matter information is more straightforward to test for misstatement (by direct observation) than subjective narrative subject information. In this case, the practitioner’s primary focus may be on whether the subject matter information is correct or incorrect (free from error assertion), although other assertions such as completeness and neutrality may also be a consideration.
- 187. More judgement may be required by a practitioner to test assertions for subjective narrative subject matter information. This is because the information cannot be directly observed, and its preparation

is the result of an indirect process that the practitioner would then verify. Whether the subject matter information is neutral and free from bias may become more of an area of focus for the practitioner due to the subjectivity. As noted in paragraph 170, neutrality may be identified as a separate assertion or as an aspect of other assertions.

### **Specific Considerations for Evaluating Misstatements**

188. Evaluating whether misstatements in subject matter information in narrative form are material may require use of the materiality considerations in Chapter 12 as numerical thresholds are not appropriate.
189. When evaluating a misstatement within narrative subject matter information, whether factual or subjective, the same considerations may be used to conclude whether the misstatement is material, focusing on whether the misstatement will affect decision-making by the intended users.
190. As with any other misstatements, the practitioner may encourage the preparer to correct them. In the case of narrative information, this may frequently involve either re-wording or removing the misstated text.
191. [Further guidance in relation to obtaining evidence in relation to narrative information is to be developed in phase 2.]

## Chapter 11: Assuring Future-Oriented Information

### Introduction

192. EER may contain a variety of different forms of future-oriented subject matter information, which may fall into one of these categories:
- Information predicting future conditions or outcomes. This may include forecasts, projections, and information about future risks and opportunities.
  - Information regarding the entity's intentions or future strategy.
193. In all cases, the subject matter information will be the result of applying criteria to the underlying subject matter, which require description of the future state or condition, or a future change in state or condition over time, of a subject matter element.

**EXAMPLE**

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

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

194. Future-oriented subject matter information may describe:
- things that will be subsequently observable; or
  - hypothetical things that will never be observable.

For subsequently observable future-oriented information, it will be possible at a later point in time to observe the precision with which the forecast, projection, prediction, or intention reflected the subsequent reality, or the extent to which anticipated and unanticipated future risks or opportunities materialized. Hypothetical information includes a condition on the projection, prediction or intention. For example, a projection could be made, conditional on an entity winning a particular contract, that the entity's profit would increase 5% next year.

EXAMPLE

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

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

195. As with narrative information, some future-oriented information is factual and therefore does not contain any degree of uncertainty, for example the debt maturity profile of an entity that is determined by contractual terms. An alternative example is where future-oriented information is repeated from an external source (for example, a central bank's inflation forecast), as the claim being made by the preparer is likely to only be that it is in a third party's information, which itself is verifiable.

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 IAEPN only considers future-oriented information subject to estimation uncertainty, referred to as subjective information.

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

196. Future-oriented information results from applying criteria to the underlying subject matter, just like any other subject matter information. However, the criteria will ask different questions about the subject matter elements, often asking for description of the future state or condition of the element, or a future change in state or condition over time (see paragraph 193 for an example).
197. Whether the criteria from which future-oriented information results are suitable or not can be determined in the same way as any other criteria as described in Chapter 7.
198. For subjective future-oriented information, the criteria may need to require detailed description of the assumptions and the nature, sources and extent of uncertainty in order to be suitable. It may still be possible to obtain assurance over uncertain subject matter information if it is supported by adequate disclosure such that the uncertainty is adequately conveyed to the intended users.

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

199. Assertions for future-oriented subject matter information are likely to be similar to historical subject matter information with inherent measurement or evaluation uncertainty, and therefore the guidance in Chapter 9 is broadly applicable. Where future-oriented information is more subjective, assertions such as neutrality may become more of the focus for testing due to the risk of management bias. Presentation or understandability assertions may also be a focus where good disclosure of assumptions and the context of subjective information is necessary.

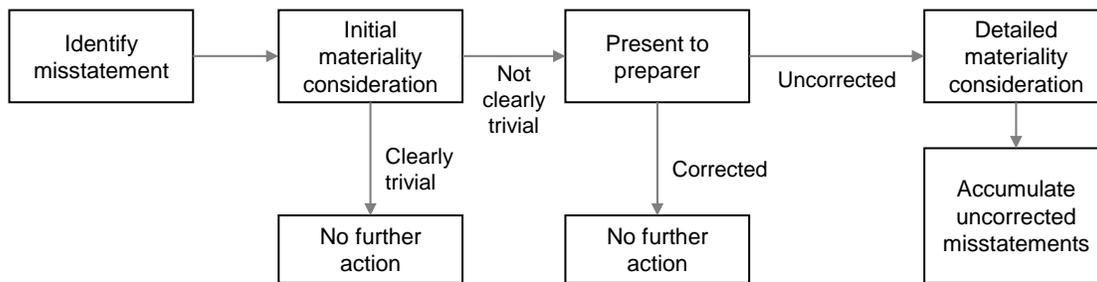
200. Where criteria require a statement of intended future strategy, a target, or other intentions of an entity, the explicit material assertion that a practitioner can test is whether management or those charged with governance have an intention to follow that strategy or that the target or intention exists (existence assertion). Appropriate evidence could be obtained in the form of documentation of board meetings or actions that management have already taken to work towards adopting the strategy or agreeing the target. There is likely to be a further implied assertion that the entity has the capability to carry out its intent, or will develop the means to do so, or there may be separate explicit criteria addressing capability. A practitioner is ordinarily not in a position to 'predict the future' to obtain assurance on whether the intended outcomes of a strategy or a target will be achieved or not.
201. Similarly, where criteria require information about future risks and opportunities to be reported, the assertions to be tested will likely include that the risks and opportunities exist (existence assertion) and that the list of risks and opportunities is complete (completeness assertion) with respect to such risks and opportunities information relating to which would assist intended users' decision-making. The completeness assertion may be tested by reference to the entity's risk register or records of discussions of those charged with governance. The existence assertion is closely related to the underlying subject matter needing to be identifiable (see paragraph 47). A practitioner is ordinarily not able to obtain assurance on whether the risks and opportunities will materialize or not, however it may be possible in some circumstances to obtain assurance on information about the nature of the risks and opportunities, for example their likelihood or potential impact. Whether this is possible will depend on whether the exact criteria are suitable and the availability of appropriate evidence. A common challenge is that the likelihood of and potential impact of risks and opportunities can change significantly and quickly due to factors that may be unknown by the entity or outside of its control.
202. Subject matter information predicting future conditions or outcomes (for example, forecasts, projections and predictions) relates to events and actions that have not yet occurred and may not occur, or that have occurred but are still evolving in unpredictable ways. As above, the practitioner is ordinarily not in a position to 'predict the future' and express an opinion as to whether the results or outcomes forecasted, projected or predicted will be achieved or realized. The practitioner may instead focus on whether any assumptions are reasonable and that the subject matter information has been properly prepared in accordance with the applicable criteria.
203. The practitioner may need to consider that while evidence may be available to support the assumptions on which the future-oriented subject matter information is based, such evidence is itself generally future-oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in relation to historical events and conditions.
204. [Further guidance in relation to obtaining evidence in relation to future-oriented information is to be developed in phase 2.]

## Chapter 12: Considering the Materiality of Misstatements

### Introduction

205. If during the assurance engagement the practitioner identifies a misstatement within subject matter information included in the EER report for material topics and related elements, the practitioner is required to make a judgment as to whether the misstatement is material.
206. 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).
207. 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>37</sup>. If the EER framework specifies a percentage threshold for materiality, it may provide a frame of reference to the practitioner in determining materiality for the engagement.

### Practitioner Responsibilities



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

### Materiality Considerations

210. Below is a series of 'materiality considerations' that a practitioner may use when considering materiality initially or in a detailed manner. They are examples of matters that could assist a practitioner in considering whether a misstatement is material. Misstated information which would affect decision-making ordinarily means the misstatement is material. Therefore, the practitioner takes into account whether the intended users would 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.

<sup>37</sup> There are instances where this would not be appropriate, perhaps where the number is often very small (for example, number of fatalities).

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

Underlying subject matter

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

External factors

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

**EXAMPLE**

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

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

Nature of the subject matter information

- d) It is a key performance indicator known to be used by intended users that is misstated, perhaps which 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.
212. The majority of the considerations listed as examples in paragraph 211 may apply to both quantitative and qualitative information. For information that is quantitative, the factors can be used to set the materiality thresholds, which determines what level of error will be tolerated. For qualitative information, the factors similarly help a practitioner decide whether a misstatement is material based on the level of sensitivity of intended users' decision-making to such a misstatement.
213. Knowing the context may be important before making materiality judgments – for example understanding the objective or purpose of the disclosure, and how the criteria intended the underlying subject matter to be measured. The practitioner can then consider whether (i) the disclosure is consistent with the objective, and (ii) whether it is clear and understandable.

### **Accumulating Misstatements**

214. After considering misstatements individually, the practitioner may need to consider misstatements in combination with others. The practitioner is unlikely to be able to accumulate misstatements and consider them together in the same way as a financial statement audit for an EER report comprising diverse and varied underlying subject matter. However, the practitioner may still need to consider whether there are misstatements of assertions that relate to the EER report as a whole (such as criteria relating to presentation of the EER report), where such criteria apply in the context of the engagement.
215. The practitioner is required to accumulate all the uncorrected misstatements identified during the engagement, other than those that are clearly trivial<sup>38</sup>. This can be documented on a schedule so that the uncorrected misstatements can be considered collectively. While it will not be possible to add up non-numerical misstatements, or those relating to different elements, it may be possible to group the misstatements according to the elements in the EER report. Alternatively, the misstatements could be grouped according to the type of misstatement or the assertion that was not present. Misstatements of subject matter information in narrative form may need to be concisely described.
216. It may be helpful for the practitioner to give each of the misstatements a rating (for example, low / medium / high) to indicate the significance of the misstatement, particularly where the misstated subject matter information is in narrative form. The criteria may give further guidance in this area.
217. 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.
218. The practitioner is required to form a conclusion about whether the subject matter information is free from material misstatement<sup>39</sup>, including whether the uncorrected misstatements are material, individually or in the aggregate. Where the subject matter information is materially misstated, the practitioner follows the requirements in ISAE 3000 (Revised) paragraphs 74 to 77.

---

<sup>38</sup> ISAE 3000 (Revised) paragraph 51

<sup>39</sup> ISAE 3000 (Revised) paragraph 65

### **Measurement or Evaluation Uncertainty**

219. 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.
220. Subject matter information with inherent variability may be sufficiently accurate if it is as precise as it reasonably can be and information about the inherent uncertainty is also disclosed. Supporting disclosures can give important context necessary to help the intended users understand the uncertainty. Without this, the criteria might not be suitable, and the subject matter element may not be represented appropriately.
221. 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.

### **Chapter 13: Preparing the Assurance Report**

222. [Guidance to be developed in phase 2]

## Appendix 1: The Ten Key Challenges

The IAASB issued a discussion paper in 2016 titled *Supporting Credibility and Trust in Emerging Forms of External Reporting*. This identified ‘Ten Key Challenges’ for a practitioner applying ISAE 3000 (Revised) to assurance engagements over EER which have formed the content of this IAEPN. The challenges were as follows, along with the corresponding chapters of guidance in this IAEPN:

1. Determining the Scope of an EER Assurance Engagement Can Be Complex (Chapter 3)
2. Evaluating the Suitability of Criteria in a Consistent Manner (Chapter 7)
3. Addressing Materiality for Diverse Information with Little Guidance in EER Frameworks (Chapters 8 and 12)
4. Building Assertions for Subject Matter Information of a Diverse Nature (Chapter 9)
5. Lack of Maturity in Governance and Internal Control over EER Reporting Processes (Chapter 6)
6. Obtaining Assurance with Respect to Narrative Information (Chapter 10)
7. Obtaining Assurance with Respect to Future-Oriented Information (Chapter 11)
8. Exercising Professional Skepticism and Professional Judgment (Chapter 5)
9. Obtaining the Competence Necessary to Perform the Engagement (Chapter 4)
10. Communicating Effectively in the Assurance Report (Chapter 13)

As this guidance is being developed in two phases, approximately half of the issues relating to the challenges have been addressed in phase 1, with the remaining issues due to be addressed in phase 2.

As explained in Chapter 2, this IAEPN only provides guidance for some parts of ISAE 3000 (Revised) corresponding to those areas where the discussion paper identified the greatest challenges for a practitioner.

## Acknowledgements

This guidance has been produced by the International Auditing and Assurance Standards Board (IAASB) and is the result of a project run with the support of the World Business Council for Sustainable Development (WBCSD), which has provided grant funding through a collaboration established by the Gordon and Betty Moore Foundation.

The objective of the **IAASB** is to serve the public interest by setting high-quality auditing, assurance, and other related services standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

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).

**WBCSD** is a global, CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world. It helps make its member companies more successful and sustainable by focusing on the maximum positive impact for shareholders, the environment and societies.

WBCSD member companies come from all business sectors and all major economies, representing a combined revenue of more than \$8.5 trillion and 19 million employees. WBCSD's global network of almost 70 national business councils gives its members unparalleled reach across the globe. WBCSD is uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, WBCSD is the leading voice of business for sustainability: united by its vision of a world where more than 9 billion people are all living well and within the boundaries of the planet, by 2050. Visit [wbcSD.org](http://wbcSD.org).

The **Gordon and Betty Moore Foundation** fosters path-breaking scientific discovery, environmental conservation, patient care improvements and preservation of the special character of the San Francisco Bay Area.

Visit [Moore.org](http://Moore.org) or follow @MooreFound.