SPECIAL CONSIDERATIONS IN PERFORMING ASSURANCE ENGAGEMENTS ON EXTENDED EXTERNAL REPORTING
SUPPLEMENT A: BACKGROUND AND CONTEXTUAL INFORMATION

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INTRODUCTION

1. This Supplement contains information that practitioners may find useful as background and context to the IAASB’s non-authoritative Guidance: Special Considerations in Performing Assurance Engagements on Extended External Reporting (hereafter “the Guidance”). The Guidance addresses areas where practitioners commonly encounter challenges in applying ISAE 3000 (Revised) (hereafter referred to as “the Standard”) in EER assurance engagements (G.App1), the nature of which is explained in the introduction to the Guidance.

2. Section I of this Supplement explores the concept of credibility and trust in relation to EER reports and introduces four factors that may enhance their credibility. It aims to show how external assurance may have a role as part of a wider context of factors that can support credibility, and therefore the users’ trust in EER information (G.App1).

3. Section II of this Supplement provides background and contextual information about general assurance concepts and other matters, which is relevant to the Guidance. In some cases, the explanations of general concepts in this Supplement draw comparisons between EER (G.App1) and more established forms of reporting and explains how these relate to key assurance concepts reflected in the Standard.

4. Some of the material below relates to the role of a preparer of such EER reports, rather than to the role of a practitioner. However, an appropriate understanding of the nature of the preparer’s role in preparing an EER report, and how it relates to assurance concepts, is likely to assist practitioners in performing effective EER assurance engagements.

5. To aid navigation, the discussion in Section II follows the same order as the chapters set out in the Guidance. Cross references, with hyperlinks, are provided between this Supplement and the Guidance when the explanations in this Supplement may provide useful context to the concepts discussed in the Guidance.

6. An additional Supplement, Supplement B: Special Considerations in Performing Assurance Engagements on Extended External Reporting Supplement B: Illustrative Examples includes a number of examples designed to illustrate practical aspects of the Guidance, which practitioners may also find useful in applying the Guidance.

7. The terminology used both in the Guidance and in this Supplements is consistent with that used in the Standard, when the concepts being discussed are addressed in the Standard. When necessary, other terms are identified and explained in the Guidance, which are set out in Appendix 1: ‘Terms Used in This Guidance’ to the Guidance, or in this Supplement, which are set out in Appendix 1 to this Supplement. Cross-references in this Supplement follow the same format as cross-references in the Guidance (G.11A). When terms defined in the Standard or explained in an Appendix to the Guidance or this Supplement, are first used in this Supplement, they are cross-referenced (as applicable) to the Standard or relevant Appendix.
I FOUR KEY FACTOR MODEL FOR CREDIBILITY AND TRUST IN RELATION TO EER REPORTS

Introduction

1. This paper explores the concept of credibility and trust in relation to EER reports and introduces four factors that may enhance their credibility. It aims to show how external assurance may have a role as part of a wider context of factors that can support credibility, and therefore the users' trust in EER information.

2. The paper may be of relevance to assurance practitioners, preparers of EER, and users of EER.

3. Credibility is a user-perceived attribute of information that engenders in the mind of the user an attitude of trust in the information. Factors other than credibility can also affect user trust in information. For example, a strong track record of an entity delivering on its promises can increase trust, but a perception of self-interest – or conflicts of interest – by the entity can diminish trust.

4. In the context of EER reports, credibility is likely to be enhanced if there is:
   - A Sound EER Framework—that is transparent and in which the user has confidence that the output of applying the EER framework (the EER report) provides a sound basis for meeting their needs.
   - Strong Governance over the Reporting Process—that satisfies the user that robust processes and controls were applied with appropriate oversight, and that the people involved were competent and not influenced by conflicts of interest.
   - Consistent Wider Information—that satisfies the user that the EER report is internally consistent and consistent with the user's wider knowledge.
   - External Professional Services and Other Reports—独立的外部专业服务报告和其他外部输入，与EER报告相关，用户可以访问。

5. As these factors show, external assurance is only one means of enhancing the credibility of EER reports, and its benefit is greatest when the other factors are present too.

Four Key Factors

6. The four factors identified above that may enhance the credibility of EER reports are illustrated in Figure 1 and discussed below. We refer to these as the “Four Key Factors”.

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Page 4
How Credibility and Trust Are Established

Four Key Factors

1. **Sound EER framework** – Essential first and foremost is the EER framework – the objectives of which are closely aligned with the user’s information needs.

2. **Strong governance** – Reporting processes, controls, and potentially external professional services engagements, are initiated under strong governance oversight.

3. **Consistent wider information** – Users perform their own evaluation of the consistency of the EER report with wider available sources of information to which they have access.

4. **External professional services and other reports** – Users also have access to any published reports issued under external assurance or other professional services engagements that relate to the EER report.

Outcomes and Output

Together, transparency about these Four Key Factors enhances and engenders **external user credibility and trust** in the EER report (outcome).

Transparency for internal users about how the credibility of the EER report has been established – through strong governance to establish that the EER report has been produced in accordance with a sound EER framework (including in key judgment areas) – enhances and engenders **internal user credibility and trust** (outcome) that the EER report is a **high-quality external report** (output) that is fit for publication.

External transparency about these matters and publication of the EER report and of any external professional services report(s) enables external users to confirm the consistency of the EER report with wider available information.

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**Figure 1: Overview of Credibility and Trust**

Key:
- Four Factors
- Output
- Outcomes

- Criteria - who, what, why, when, where and how of the report
- Oversight and management functions
- Effective system of internal control, with "Lines of Defense", including internal audit
- Obtaining external professional services

- Transparency of:
  - Reporting framework
  - Governance

- Internal and external sources of information

- Publication of professional services report(s):
  - Assurance
  - Other
Factor 1: Sound EER Framework

7. Management is responsible for ensuring that the external report is prepared in accordance with an applicable EER framework. The user’s perception of the credibility of an EER report can be influenced by the qualities and transparency of the EER framework used for its preparation.

8. A sound EER framework guides preparers in ensuring that the EER report is an effective communication and gives users confidence that the EER report will meet their needs. EER frameworks therefore typically address:
   - **Reporting Objectives**: intended users, scope and use (the who; the high level what, when and where; and the why of the EER report);
   - **Content Elements** to be included in the EER report (the more detailed what, when, and where of the EER report); and
   - **Qualitative Characteristics of the Information**, including:
     - **Depiction Methods** for the content elements (measurements, quantitative or qualitative evaluation or assessment techniques, and descriptions) (the technical aspects of the “how”); and
     - **Principles for Communicating** effectively in the EER report (the communication aspects of the “how”).

9. The table below summarizes the characteristics of the features of an EER framework that are likely to engender credible reporting, and their relationship to the characteristics of suitable criteria set out in S.A.45.

<table>
<thead>
<tr>
<th>Characteristics of an EER Framework that are Likely to Engender Credible Reporting</th>
<th>IAASB’s Characteristics of Suitable Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has an objective that reflects the users’ expectations as to the scope, intended users and intended use of the EER report</td>
<td>Relevance</td>
</tr>
<tr>
<td>Consistently includes and reliably depicts all relevant reportable content elements that are material to the intended users in the context of the intended purpose of the EER report</td>
<td>Relevance, completeness, reliability</td>
</tr>
<tr>
<td>Recognizes areas of uncertainty, ambiguity and judgment that give rise to inherently greater susceptibility to preparer bias risk and establishes adequate disclosure and neutrality principles to counter this</td>
<td>Neutrality, completeness</td>
</tr>
<tr>
<td>Promotes transparent (open), clear (unambiguous) and concise (readily understandable) reporting of these matters, and enables effective comparability both with other pertinent entities and over time</td>
<td>Relevance, reliability, understandability</td>
</tr>
</tbody>
</table>

10. The credibility of EER reports can also be enhanced when there is user confidence in the quality of the EER framework applied because:
   - The due process for developing the EER framework involves interaction with stakeholders to ensure that the interests of the intended users and other stakeholders are appropriately reflected;
• There is effective governance over the development of the EER framework that addresses potential conflicts of interest; and
• The EER framework is well-known, commonly understood, and has broad stakeholder acceptance.

11. The objectives of different EER frameworks can vary significantly. The closeness of fit between the objectives of the EER framework and the user’s needs is an important credibility factor. Transparency about the reporting objectives is therefore important.

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

13. Where applicable, the need for such judgments and the potential for ambiguity in those criteria may make the EER framework inherently more susceptible to the risk of preparer bias. For example, under a principles-based requirement:

• Identifying content elements and depiction methods can involve significant judgments about what to report and the appropriate depiction methods to use. Clear principles for determining these matters (such as a strong materiality principle and a requirement for stakeholder engagement to enable it to be applied effectively), and transparency about these matters and about the processes to implement them, can be important credibility factors for an EER report.

• Applying depiction methods can involve addressing significant uncertainties in making estimates and qualitative evaluations or assessments and can therefore require significant judgments by preparers. EER frameworks may address such uncertainties and judgments by requiring related disclosures and by establishing a neutrality principle to be applied in making such judgments to counter the inherently greater susceptibility to preparer bias risk.

14. The existence of a multiplicity of EER frameworks covering similar areas may lead to confusion amongst users of EER reports and may also reduce the ability of users to compare entities effectively.

**Factor 2: Strong Governance**

15. Strong governance includes sound governance structures that oversee a strong internal control system, including effective risk management and high-quality reporting processes. Management and, in some jurisdictions, those charged with governance (TCWG)\(^1\) are responsible for establishing internal control as necessary to ensure that the information in the EER report is reliable and available on a timely basis. Management or TCWG may be required to, or may voluntarily make, an explicit assertion in the external report on their responsibility.

16. The competence and accountability of management and TCWG is therefore an important element of the strong governance that is required to enhance credibility and trust. Underpinning this is a need for preparers to behave in a way that is consistent with the spirit of the objectives of the relevant EER framework to present EER information faithfully and without bias. In some circumstances, the use of external specialists may be appropriate, and may enhance credibility further.

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\(^1\) See the *Glossary of Terms* in the IAASB Handbook. For some entities in some jurisdictions, TCWG may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.
17. Oversight by TCWG, who are responsible for overseeing the strategic direction of the entity and its obligations related to accountability, includes overseeing the entity’s external reporting process, which may historically have been primarily focused on the financial statements. The responsibilities of TCWG may become broader as EER continues to evolve. In listed companies and other large entities, much of the work related to overseeing the entity’s external reporting process is often undertaken by an audit committee. A transparent and constructive relationship between management and TCWG will enhance credibility of the external report. In executing their responsibilities, TCWG (including audit committees where they exist) may engage with intended users to obtain their perceptions of the usefulness and quality of external reporting.

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

19. A strong internal control system is founded on:

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

20. Many entities use internal audit for their operational audits or to assist in the audit of the external reporting process or the external report itself. Internal auditors are also exploring how their role may evolve along with the maturity of the EER processes within the entity. Professional services providers may also be engaged to perform assurance engagements or other external professional services, reporting to TCWG, to support internal credibility and trust in the EER reporting process or in the resulting EER report.

21. Stakeholder engagement also forms an important part of governance processes, informing an entity’s strategy and identification of material issues for disclosure.

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

23. Stakeholder dialogue is an important part of the process for defining an entity’s strategy, identifying the most material issues to address, and disclosing them in external reports. The importance of such engagement is reflected in many EER frameworks and therefore influences the entity’s EER ‘materiality process’. Entities may also include stakeholder representatives in their governance structures, such as

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in their non-executive board, or may have a separate expert advisory group to advise the board on such matters.

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

Factor 3: Consistent Wider Information

25. Inconsistencies between the various sources of information about the entity and its environment available to users may impact the credibility of the EER report. EER reports also need to describe all relevant issues and be complete if they are to be consistent with other information available about the entity.

26. Ensuring the consistency of information in the EER report with other sources of information likely to be available to users of the EER report, or explaining apparent inconsistencies, may enhance the credibility of the EER report.

27. Factors affecting the credibility of that wider information – such as the perceived independence and objectivity of the ultimate source of the information, the medium through which it is communicated (for example, a respected news agency), or the fact that the information was obtained in the past and was already perceived as credible - may influence whether the EER report or the wider information is determined to be most credible by users when there are inconsistencies between them.

Factor 4: External Professional Services and Other External Inputs

28. Entities seek to enhance the credibility of their external reports not only through strong governance, but also through obtaining professional services or other external inputs. Credibility can come from a variety of professional services and other external inputs obtained from various types of providers, not just professional accountants (such as engineers). Such professional services may result in reports under assurance or other professional services engagements or other external inputs that are either made publicly available or restricted to internal parties involved in the engagement (SuA.I.20).

29. The type of professional service that is most appropriate in the circumstances and most relevant to users will depend on users’ needs (which may be quite different between internal and external users), the nature of the external input and the maturity of the entity’s EER processes.

30. The way such professional services and other external inputs may enhance the credibility of the EER report is dependent on the particular characteristics of such inputs and the personal traits of those providing them, for example:
   - Competence that is demonstrated or generally well known;
   - Objectivity and independence;
   - Professional skepticism and professional judgment;
   - Quality in the performance of the engagement;
   - Quality control, where applicable, at the engagement and firm level by the practitioner and firm that perform the engagement;
• Professional standards applicable to the practitioner;
• Regulatory oversight and supervision of professional services, where applicable; and
• Clarity of reporting, and transparency about the work performed.

31. Although the necessary competence may be different depending on the particular form of professional services or other external input and the complexity of the entity, in general competence likely needs to include:
   • Knowledge of the relevant EER framework;
   • Knowledge of the underlying subject matter; and
   • Knowledge of the professional standards that apply.

32. Transparency about the competence of those performing the professional service or other external input may add to the credibility of the EER report. Particular types of engagements (for example, assurance engagements) also require the practitioner to meet independence and other relevant ethical requirements.

33. The manner in which the outcome of the external professional services or other external input is reported can influence the degree to which the external service or input adds credibility to the EER report. Key characteristics of a communication that may add such credibility include that such communication is understandable and clearly structured, well balanced, not biased and, where applicable, comparable between reporting periods and with other entities that prepare EER reports.

34. An explicit reference to national or international standards for quality control of the practitioner’s firm and for the performance of the engagement, as well as to relevant ethical requirements, may also enhance the degree to which the external input adds credibility to the EER report.

35. Whether the credibility of information is enhanced may be affected by the users’ understanding of the external professional services, including assurance. There may be a need to educate users about the nature of such services and the levels of assurance that can be obtained from them.

36. Without experience of how to read assurance reports to understand the scope and level of assurance being provided, there is a danger of user confusion and misunderstanding, particularly given the range of services that practitioners can provide and the differing professional standards that assurance providers work to.
II EER ASSURANCE ENGAGEMENTS – BACKGROUND AND CONTEXT

Subject Matter Information, Underlying Subject Matter and Criteria

Introduction


<table>
<thead>
<tr>
<th>Definitions in the Standard (S. 12.y, 12.x, 12.c)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underlying subject matter</strong></td>
</tr>
<tr>
<td>The phenomenon that is measured or evaluated by applying criteria.</td>
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</tbody>
</table>

2. [5] These definitions and the terms ‘measurement’ and ‘evaluation’, which are used more widely in the Standard and in the International Framework for Assurance Engagements, express fundamental assurance concepts.

3. In the definition of ‘underlying subject matter,’ ‘phenomenon’ is used in the sense of an attribute(s) of a ‘thing(s)’ that is perceived or considered, rather than in the sense of something that is remarkable or rare. In this context, ‘attribute’ is used in the sense of a quality or feature that is regarded as a characteristic or inherent property of the thing(s) (SuA.App1). ‘Attribute’ is used rather than ‘characteristic’ because the Standard uses ‘characteristics of the underlying subject matter’ as a term of art, which refers to the characteristics that different underlying subject matters exhibit when measured or evaluated (S.A42).

4. In the definition of ‘criteria,’ ‘benchmark’ is used in the sense of a convention, a standard, or a set of category descriptions, which may serve as a point of reference against which an attribute(s) of a thing(s) may be compared.

5. In the definition of ‘subject matter information’, ‘applying the criteria’ is used in the sense of comparing the attribute(s) of the thing(s) that comprise the underlying subject matter, against the applicable conventions, standards or sets of category descriptions required by the criteria.

6. [7] In the context of an EER assurance engagement, terms (in which “EER” may be replaced by words or phrases such as “Sustainability”, “Integrated”, “Non-financial”, “Annual”, “Environmental, Social and Governance” or “Strategic”) commonly used to describe matters such as those addressed in SuA.II.1-5 include the following:
   - The entity’s [EER] report (‘subject matter information’)
   - Measurement or estimation (‘measurement’), assessment or appraisal (‘evaluation’)
   - The entity’s economic, environmental, social or governance state, condition, prospects, performance or impact (‘underlying subject matter’)
   - [EER] Framework or Standards or an entity’s [EER] reporting policies (‘criteria’)
   - Metrics or measurement protocols (‘benchmarks’ for measurement)
• The entity’s economic, environmental, social or governance resources, claims and
  relationships, and the entity’s actions or activities, and other events and conditions, that
  cause such states, conditions or prospects to change (performance) or that cause other
  entities’ states, conditions or prospects to change (impact) ([EER] phenomena).

7. [6] The concept of an assurance engagement is essentially a generalization of the concept of a
  financial statement audit. In a financial statement audit, equivalent terms to those described in
  Su.A.II.6 may include:
• The entity’s financial statements (‘subject matter information’)
• Measurement, valuation and estimation (‘measurement’) or disclosure about the nature of
  measurement uncertainty (‘evaluation’)
• The reporting entity’s financial position and performance (‘underlying subject matter’)
• Financial reporting standards and accounting policies (‘criteria’)
• Measurement, recognition, presentation and disclosure bases (‘benchmarks’)
• Elements of the financial statements: the reporting entity’s economic resources and claims
  against the reporting entity (i.e. assets, liabilities and equity) and the effects of transactions
  and other events and conditions that change those resources and claims (i.e. income and
  expenses) (the economic ‘phenomena’).

How Underlying Subject Matter and Criteria result in Subject Matter Information

8. [149] [81] Each EER assurance engagement has an underlying subject matter, which comprises the
  attribute(s) of the EER ‘thing(s)’ of interest in the context of the purpose and intended use of the
  subject matter information. The attribute(s) of the underlying subject matter is measured or evaluated
  against the criteria. The resulting EER information is the subject matter information of such an
  engagement.

Nature of Underlying Subject Matter

9. The underlying subject matter of an EER assurance engagement is required to be appropriate (see
  G.Ch2). An underlying subject matter may be capable of disaggregation. If so, the disaggregated
  parts may consist of one or more types, and there may be one or more units of any such type. A
unit(s) of such a type of disaggregated part of the underlying subject matter is referred to hereafter as a ‘subject matter element(s)’ (SuA.App1). The criteria may be applied to a subject matter element(s) either at the level of the underlying subject matter as a whole, or at a level of disaggregation of the underlying subject matter, when information about the specific subject matter element(s) assists decision-making by the intended users. For example, the criteria may be applied at the level of a reporting topic or at the level of items such as individual elements (such as employees or intellectual assets) or causes of change (such as greenhouse gas emissions).

10. [13] An attribute of a subject matter element(s), such as its color, value, size or (in the case of a group of things) the number of its members, is an aspect of the underlying subject matter as a whole or at a level of disaggregation. An individual subject matter element(s) may exhibit an attribute in different ways (e.g., an item’s color may be red, yellow, blue, etc.).

   EXAMPLE
   An apple may be described as red or green or brown, which are different ways that an attribute called 'color' can be exhibited by an item. In some cases, an attribute may itself have another attribute. For example, the attribute 'color' may be exhibited by a thing(s) with further attributes known as a tint, a tone or a shade.

11. [14] An attribute may describe characteristics or properties of a subject matter element(s) such as:
   - *where*, *when*, or *how* it is deployed or occurs
   - *what* its nature is, *what* its relations to other subject matter elements are, or (if the attribute is quantifiable) *how many* of the subject matter element(s) there are or *how much* of the attribute it exhibits
   - *how* it can cause a change, *how* it can be changed by a cause or *what* the effect on it is, of a cause of change.

**Nature of Criteria**

12. [148] [80] Criteria establish the basis of preparation of the EER report and therefore determine its content. They may be reporting requirements taken from an EER framework or reporting policies that the entity has itself developed. Criteria specify both:
   a) The identification of the nature and scope of the underlying subject matter, information about which is to be presented in the EER report; and
   b) The types of information about the identified reporting topics (G.App1) that are to be presented in the EER report, and the way that information is to be presented.

13. [150] [82] The criteria specify how to measure quantifiable attributes of the underlying subject matter or how to evaluate qualitative attributes (attributes that are not quantifiable) of the underlying subject matter, such that the resulting EER information assists decision-making by the intended users. The following examples illustrate criteria for measurement or evaluation in the context of EER reporting and, by way of comparison, in the context of financial reporting.
### EER example

<table>
<thead>
<tr>
<th>Underlying subject matter</th>
<th>Subject matter elements</th>
<th>Criteria</th>
<th>Resulting subject matter information</th>
</tr>
</thead>
</table>
| Environmental, social and governance matters about Entity X. | Entity X’s 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. |
| Social or human matters | The gender of those employees. | | |
| Staff diversity | | | |

**Note:** In order to be suitable, the criteria in this example may need to be more specific, for example by providing descriptions 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.

### Financial reporting example:

<table>
<thead>
<tr>
<th>Underlying subject matter</th>
<th>Subject matter elements</th>
<th>Criteria</th>
<th>Resulting subject matter information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial condition, performance and cash flows of Entity X.</td>
<td>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).</td>
<td>The measurement bases and related disclosures set out in IFRS, and the entity’s accounting policies as disclosed in the financial statements.</td>
<td>The accounting values in the primary financial statements and the related disclosures in the notes.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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3 International Financial Reporting Standards
14. [151] [83] Criteria used in a particular EER assurance engagement are referred to in the Standard as the ‘applicable criteria’. In practice, many entities use criteria from one or more EER frameworks and supplement these with their own entity-developed criteria (G.App1) where an EER framework lacks the necessary detail or is not sufficiently comprehensive to comprise suitable criteria on its own (see G.Ch5).

15. [152] [84] EER frameworks are often less prescriptive about the reporting topics (G.App1) to be included in an EER report or methods to measure or evaluate its subject matter element(s), as compared to financial reporting frameworks, and are therefore often less precise about the determination of these matters. In financial reporting, criteria are typically well established, and include both requirements of the applicable financial reporting framework standards and 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 reporting topics and the methods used to measure or evaluate the underlying subject matter. The practitioner may need to exercise considerable professional judgment and professional skepticism in determining the suitability of criteria in an EER assurance engagement.

16. [9] A subject matter element(s) may be presented in the subject matter information by measuring or evaluating its attribute(s) and presenting the outcome of that measurement (i.e., a measure) or evaluation (e.g., a category description) in the EER report, together with information about how the measurement or evaluation was made. A subject matter element(s) may therefore be presented principally in quantified terms or principally in qualitative (narrative or descriptive) terms. In either case, the principal presentation may be accompanied by related disclosures.

17. [10] A subject matter element(s) of appropriate underlying subject matter is identifiable and can therefore be distinguished from other subject matter element(s). As in financial reporting, a subject matter element(s) may be measured or evaluated individually or collectively (for similar items) at different levels of disaggregation of the underlying subject matter information. Such a level is referred to as the ‘unit of account’ in financial reporting. The appropriate level may depend on what is relevant to the information needs of the intended users. A simple non-EER example is used here to illustrate this.
An apple is an individual item, distinct from other types of fruits etc. It has several different parts (such as ‘pips’; ‘flesh’; ‘skin’; and ‘stalk’) each of which may have several different attributes (such as their color). It may also be a part of ‘a fruit basket’ that contains other types of fruits that have different attributes.

If such a fruit bowl were a subject matter of interest to intended users of a report about it, then depending on those users’ information needs the fruit bowl may be measured or evaluated to provide information about the fruit at the level of the bowl of fruit as a whole, at the level of the individual fruits in it or at the level of the parts of the individual fruits.

Depending on the nature of the benchmarks for such measurement or evaluation, doing so, may result in a description of the apple (including its color, or its different types of parts and the numbers of each type, or the nature of the bowl and the numbers of each type of fruit it contains, to be included in such a report.

18. [11] Another way of thinking about criteria is that they embody the questions that need to be addressed when evaluating or measuring a subject matter element(s).

If the subject matter element(s) was a machine in a factory, some questions that might underpin the criteria and, in brackets, the type of resulting subject matter information, include:

a) When was the machine built? (description of time)
b) Where is the machine? (description of location)
c) What color is it? (description of an attribute)
d) What is the maximum number of widgets it can produce in an hour? (description of a capability to act so as to cause change)
e) What is the actual number of widgets produced in the last year? (description of performance or outcome of an action that caused change)
f) What is its accounting value at a point in time? (a quantity or measure)
g) What has been the change in value over the last year? (description of the outcome of a change in an attribute of the machine – its state or condition)
h) How did the change in value happen? (description of the cause of a change)
i) Why have the directors decided to sell the machine? (description of management intent behind an action to cause a change)
If the subject matter element was a river next to a company’s factory that the company has access to. Questions that might underpin the criteria include:

a) Where is the river? (description of location)
b) How much water flows through the river? (description of a condition of the river)
c) How polluted is the river in terms of the chemical composition of the water? (a measure of the river’s condition at a point in time)
d) How has the water quality changed over a period of time? (description of a change in the river’s condition over a period of time)
e) What is the impact of the factory on the water quality of the river? (description of the factory’s activities and its cause of change in condition of the river)

Nature of Evaluation and Measurement

19. [15] Evaluation involves comparing the particular way in which a subject matter element(s) exhibits a qualitative attribute(s), with benchmarks that describe the categories of possible ways in which the attribute can be exhibited. Those benchmarks are identified by the criteria. Such a comparison yields a categorization of the subject matter element(s), by reference to those categories. Such a classification provides information about the attribute(s) of the subject matter element(s) evaluated or measured, which could be answers to questions about the subject matter element(s) of types such as those referred to in the examples in SuA.II.8.

20. [16] The benchmarks for evaluation are descriptions of the categories. They may be expressed in words or may be labelled using letters, numbers, nouns, adjectives or adverbs. Some benchmarks for qualitative attributes have no natural ordering (e.g., red, blue, yellow), whilst others may have some degree of natural ordering (e.g., small, medium, large).

21. [17] Measurement is a special case of evaluation that describes evaluation of an attribute(s) in quantified terms. In that case, the benchmarks used are standardized quantities or measures. When making a measurement, the measuring instrument may be physical (a meter) or a defined process. In either case, the instrument must be aligned with the standardized measure (a process known as calibration).

22. [18] There are different types of standardized measures. What they have in common is a specified point of reference, which has a defined relationship to a unit of measurement that is sufficiently precise for its purpose. For physical attributes, like length and time, the point of reference is usually a reference example of an item that exhibits the attribute that the measure relates to that is available for comparison and calibration (e.g. a meter of length is defined as the distance travelled by light in a vacuum, in a specified fraction of a second of time).

23. [19] In the case of another type of attribute to be measured, it may not be directly observable or directly measurable. This is often the case, for example, for attributes of human, social, economic and intellectual resources (e.g. intelligence is a quality that cannot be observed or measured directly, and economic value is not always observable or measurable directly).

24. [20] In such cases, a generally accepted measurement model is needed, which may be used to establish the benchmarks or to measure the attribute as exhibited by a particular subject matter element(s). Such a model is generally based on a well-defined concept that defines observable
indicators of the attribute, standards for the measurement or evaluation of such indicators, and a mathematical or logical process that generates repeatable measures when applied.

**EXAMPLE**

Intelligence tests are designed to obtain measures or indicators of the quality 'intelligence'. Standard measures of intelligence are defined by sufficiently precise estimates of the distribution of measures of individual intelligence across a relevant population. These estimates are inferred from the results (scores) of a defined intelligence test (measuring instrument) taken by a sufficiently large sample of members of the population.

Accounting values are measured in currency units, but currency units may be used to measure different concepts of value. The benchmarks used for accounting value measurements that are not directly observable may be values that can be observed in historical outcomes of similar items, in defined circumstances that correspond with the accounting value concept being used (the measurement basis). Those benchmarks may be used to calibrate a defined measurement model (method) that uses data and assumptions about defined indicators of the accounting value (valuation attributes) and a defined process (method) to make measurements of the defined accounting value.

25. [21] In practice, all measurement instruments, whether physical or a defined process, have an inherent limit of precision in their ability to discriminate differences in measures. The limit of precision is established by the smallest quantitative difference that can be discriminated using the instrument. For example, on a meter or ruler the smallest measurement that can be discriminated is determined by the closeness of the hatch marks. When the measurement instrument is a process, the degree of precision will be affected by inherent limitations in available data and knowledge to make measurements, which requires the use of assumptions.

**Level of Assurance to be Obtained**

26. [43] The level of assurance to be obtained in an assurance engagement is inversely related to the acceptable, or acceptably low level, of engagement risk for the engagement – the risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated. In a reasonable assurance engagement, the practitioner aims to reduce engagement risk to an acceptably low level in the circumstances of the engagement as a basis for the practitioner’s conclusion (S.12.a.i.a). Reducing engagement risk to zero is very rarely attainable or cost beneficial and, therefore “reasonable assurance” is less than absolute assurance. This is due to factors such as the use of selective testing, the inherent limitations of internal control, the fact that much of the evidence available to the practitioner is persuasive, rather than conclusive, the use of professional judgment in gathering and evaluating evidence and, in some cases, the characteristics of the USM when evaluated or measured against criteria (S.A14).

27. [45] Generally, the greater the consequence to intended users of receiving an inappropriate conclusion when the subject matter is materially misstated, the greater the assurance that would be needed in order to be meaningful to them and the lower the engagement risk the practitioner would be willing to accept in carrying out their assurance procedures. 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.
28. As the level of assurance that the practitioner plans to obtain is not ordinarily susceptible to quantification (S.A4), determining whether the purpose of the engagement is ‘rational’ in the context of the level of assurance to be obtained may require considerable skill in the exercise of professional judgment and professional skepticism. Across the range of limited assurance engagements, what is meaningful can vary from just above assurance that is likely to enhance the intended users’ confidence about the subject matter information to a degree that is clearly more than inconsequential to just below reasonable assurance (S.A5). What is meaningful in a particular engagement represents a judgment within that range that is dependent on the particular circumstances of the engagement, including the information needs of intended users as a group, the criteria, and the underlying subject matter of the engagement.

29. What is an acceptably low level of engagement risk may vary according to the circumstances of the engagement. The practitioner may therefore consider what is an acceptably low level of engagement risk in the context of possible levels of assurance that could be obtained. Doing so may include considering the information needs of intended users as a group, the criteria, and the underlying subject matter of the engagement as well as the consequence to users of receiving an inappropriate conclusion in the circumstances of the engagement.

**Competence Requirements in an EER Assurance Engagement**

**Introduction**

30. In a financial statement audit, the collective competence of the engagement team includes expertise in the fields of accounting and auditing. Certain aspects of financial accounting may require specialist knowledge and skills and, in such a situation, the audit engagement team may include a person, whether engaged or employed by the firm, using expertise in a specialized area of accounting or auditing to perform audit procedures, or a person with such expertise may be involved in the engagement in a consultation capacity only (S.A10). Neither of these is defined as an expert in the ISAs.

**Competence Arrangements Differ from Audit of Financial Statements**

31. In the context of a financial statement audit, an auditor’s expert is an individual who has expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. A key difference between a financial statement audit and an assurance engagement performed in accordance with the Standard is therefore that in a financial statement audit subject matter competence (G.App1) (expertise in the field of accounting, whether in a general or specialized area) is treated as a core competence of the audit practitioner whereas in an EER assurance engagement subject matter competence (expertise in the field of EER reporting) beyond a general level of such competence is not treated as a core competence of an EER assurance practitioner.

32. Assurance competence (G.App1) is the key competence of an assurance practitioner in an EER assurance engagement. Assurance skills and techniques include those planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner that are distinct from expertise in the underlying subject matter of any particular assurance engagement or its measurement or evaluation (S.12.b); they include the application of professional skepticism and professional judgment, obtaining and evaluating evidence, understanding information systems and the role and limitations of internal control, and linking the consideration of materiality and engagement risks to the nature, timing and extent of
procedures. Accordingly, they involve far more than the application of subject matter expertise.

33. An EER engagement may be undertaken in relation to a wide range of subject matters, many of which may require extensive subject matter expertise, for example, scientific or engineering skills, to be able to perform the engagement. While the assurance practitioner may have some subject matter expertise, the higher levels of such expertise and the expertise in specialized areas of the subject matter that may be needed to perform the engagement may go beyond those ordinarily possessed by most assurance practitioners. This may be more likely to be the case when the EER report addresses broader or more complex underlying subject matter.

34. Consequently, in broader or more complex engagements, a significant proportion of the assurance work may need to be performed by assurance practitioners who also have relevant subject matter expertise or may depend on the practitioner using the work of a practitioner’s expert. Such experts may have some assurance competence but may not possess the extensive assurance competence required to perform an assurance engagement in accordance with the Standard.

35. The extent to which it is necessary to use the work of practitioner’s experts will be a matter of judgment, but the more complex the engagement the more necessary it may be to closely integrate the work of those experts with the work of the assurance practitioners. The Standard requires assurance skills and techniques to be applied during the conduct of the assurance engagement. Although such expertise is the core competence of an assurance practitioner, having a certain level of subject matter expertise is likely to be essential to enable the assurance practitioners’ assurance competence to be applied effectively in performing the engagement.

36. While the subject matter expert (G.App1) has specialized skills and knowledge that may enable an informed and knowledgeable view on the underlying subject matter, they may not have the extensive assurance skills required by the Standard or may not be bound by their professional requirements to comply with those requirements even if they do have the skills.

**Engagement Partner Competence**

37. The IESBA Code requires that the practitioner should only undertake engagements where the firm is competent to perform the engagement and has the capabilities to do so (S.A68). Accordingly:

a) An EER assurance engagement performed in accordance with the Standard is led by an engagement partner who is an assurance practitioner with an appropriately high level of assurance competence, and cannot be led by an individual with a high level of subject matter expertise who does not have the appropriately high level of assurance competence necessary to comply with the requirements of the Standard;

b) The engagement partner should have sufficient understanding of, and competence in, the subject matter to be able to apply professional skepticism to the work of the expert and assess its appropriateness as evidence in forming the assurance conclusion; and

c) The engagement partner and engagement team subject matter competence may vary depending on the engagement circumstances, and also may vary relative to each other.

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4 IESBA Code paragraph 210.6
Professional judgment and professional skepticism

Introduction

38. The nature of professional judgment and professional skepticism is addressed in the Guidance (G.Ch3).

39. The exercise of professional judgment is required in applying all of the requirements of the International Standards issued by the IAASB, including the Standard.

40. In an assurance engagement, information obtained in complying with the requirements is evidence as it is used by the practitioner in reaching the practitioner’s conclusion (S.12.i). All decisions to be made in applying the requirements of the standards, for example the decisions around determining, evaluating and assessing information, are “about courses of action that are appropriate in the circumstances of the engagement”, and are informed by the evidence obtained by the practitioner.

41. In an assurance engagement, professional judgment applies relevant training, knowledge and experience, within the context provided by assurance and ethical standards (S.12.t), in making those informed decisions about the courses of action that are appropriate in the circumstances of the engagement.

42. Independence includes a mindset or attitude that avoids influences that might compromise the exercise of professional judgment in forming an assurance conclusion, and that might therefore compromise that conclusion. It also allows the practitioner to act with integrity and exercise objectivity and professional skepticism effectively in forming an assurance conclusion (S.A33).

43. Professional skepticism is exercised throughout the engagement, in performing procedures and in making decisions. It is an attitude (of mind), and the definition in the Standard highlights three aspects of that attitude: a questioning mind; being alert to conditions which may indicate possible misstatement; and a critical evaluation of evidence (S.12.u).

44. The ability to apply professional skepticism is also supported by the effective exercise of other skills, such as being willing to consider points of view to check their own, acting with the courage to challenge, where necessary, and the ability to suspend drawing conclusions in decision-making and follow through with inquiry and challenge until the practitioner is satisfied that the explanations and other evidence obtained support the decision being made.

45. Professional skepticism and professional judgment are closely linked with each other, and their effective exercise depends on the practitioner having the competence necessary to perform the engagement.

46. Assurance skills and techniques include the application of professional judgment and professional skepticism. Competence in exercising them, as for all assurance skills and techniques, is developed through extensive training and practical application (S.31.b).

47. Practical experience is a particularly important element in acquiring such skills, including through the good example of engagement partners and more experienced engagement team members.

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5 IAASB Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements 2018 Edition Volume 1, Preface paragraph 17

6 IAASB Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements 2018 Edition Volume 1, Glossary of Terms Independence
providing appropriate direction, supervision and review. Those involved in the engagement with responsibility for complying with the requirements of the Standard in planning or performing the engagement need time to develop their competence in exercising professional judgment and professional skepticism and in applying other assurance skills that support their effective exercise, to a level appropriate to their role in the engagement (G.Ch2).

48. The level of competence (in such skills) of those who have such responsibility is likely to vary and they may therefore be subject to different degrees of direction, supervision and review by others with greater competence, which is an important aspect of engagement quality management at the engagement level (G.Ch2).

49. The exercise of professional skepticism importantly involves being able to stand back, suspend decision-making and critically assess the evidence related to the decision being made with professional judgment in complying with the requirements of the Standard. A critical assessment requires an appropriate level of subject matter competence, in the circumstances of the engagement, and involves understanding and addressing the impediments to professional skepticism that may need to be overcome in making that decision.

50. Although the attitude of professional skepticism is a constant, the degree of competence and the actions needed to exercise it can vary, both between assurance engagements (considering the circumstances of particular engagements) and within a particular assurance engagement (depending on the nature of the decisions being made).

Needs for, and impediments to, the exercise of professional skepticism and professional judgment on an EER assurance engagement

51. The actions needed in exercising professional judgment and professional skepticism on an engagement will vary with the nature and difficulty of the decisions that are required to be made and the difficulty in performing procedures to comply with the requirements of the Standard; the greater the complexity or difficulty, the greater the skills and competence that are likely to be needed to be able to exercise professional judgment and professional skepticism and to take actions that are appropriate in the circumstances.

52. Understanding the impediments on the engagement in relation to the ability to exercise professional judgment and professional skepticism, including how the application of these skills may be different in the context of an EER engagement compared to a financial statement audit engagement, is helpful in understanding the actions that may be needed to overcome those impediments.

Needs for competence to exercise professional judgment and professional skepticism

Subject matter expertise on EER engagements

53. An EER engagement may be undertaken in relation to a wide range of underlying subject matters, many of which will require specialized subject matter competence, for example, scientific or engineering skills. As a result, it may be necessary to involve a relatively higher proportion of experts in an EER assurance engagement than in a financial statement audit, where the assurance practitioner is trained in the underlying subject matter competence (financial accounting) relevant to an audit engagement.

54. While subject matter experts may well need to apply a questioning mindset, be alert to possible error
or bias in their work, and be able to critically assess evidence, the exercise of those skills in their work as an expert may be different from applying those skills in making decisions in applying the requirements of the Standard. Although some subject matter experts involved in an EER assurance engagement may also have experience and some level of competence in exercising professional judgment and professional skepticism and other assurance skills, it is not necessary for such an expert to have such experience or competence during the conduct of their work as an expert used by a practitioner in the context of an assurance engagement.

55. However, if such an expert is also responsible for applying a requirement(s) in the Standard, they will require some level of competence in assurance skills (including professional judgment and professional skepticism) and will, in that respect be a member of the engagement team, whose work is subject to direction, supervision and review under the oversight of the engagement partner. This is discussed further in G.Ch2 Applying Appropriate Competence and Capabilities.

Using the work of a management’s expert

56. In the context of an EER engagement, management may employ their own subject matter expert(s) to assist in the preparation of the subject matter information, giving rise to a number of risks, including that their work may reflect management bias.

57. If information to be used as evidence has been prepared using the work of a responsible party’s or preparer’s expert, the practitioner is required to evaluate the competence, capabilities and objectivity of that expert, obtain an understanding of the work of that expert and evaluate the appropriateness of that expert’s work as evidence.

58. The skills and competence needed in exercising professional judgment and professional skepticism in making such evaluations may vary depending on the circumstances of the engagement; for example, where the subject matter is complex or subject to a high degree of measurement uncertainty, a high degree of assurance competence and skills as well as an appropriate degree of competence in the subject matter are likely to be needed to be able to exercise professional judgment and professional skepticism in assessing the risks involved and in determining an appropriate course of action to address the assessed risks.

59. Where there is a high degree of measurement uncertainty associated with the subject matter, in addition to having an appropriate degree of competence in the subject matter, the practitioner may also need significant assurance skills and experience as well as knowledge of the entity and its business to be able to consider whether there could be pressures or incentives for management to misstate the subject matter information or apply bias when measuring the subject matter, and to be able to question whether the expert has considered all the evidence expected to be available to them, whether the assumptions and methods used to measure the subject matter are reasonable, and to determine the nature and extent of further procedures that may be needed to understand and assess the work of that expert.

Assurance skills and competence

60. Practitioners without significant assurance experience may not have acquired the level of competence to apply a critical, questioning and objective mindset to all aspects of the planning or performance of the engagement, including in reviewing the work of others. For example, they may have insufficient confidence to question or challenge the judgments and assumptions of a preparer (G.App1), or of a management’s or practitioner’s expert, particularly where they lack the necessary
level of subject matter competence.

61. To address this, engagement team members with appropriate levels of competence should be assigned to those areas of the engagement for which their skills are appropriate, and the direction, supervision and review of their work flexed accordingly. Assigning direction, supervision and review responsibilities to members of the engagement team will require consideration of the competence of those performing the direction, supervision and review, as well as the competence of the engagement team member performing the tasks.

Impediments to the exercise professional judgment and professional skepticism

62. In addition to the impediments discussed in G.118-120, impediments to the exercise of professional judgment or professional skepticism in EER engagements may include:

a) Immature reporting frameworks for the EER subject matter information, such that there may be a broad range of possible approaches and acceptable criteria that could be applied by preparers of the subject matter information, necessitating a greater degree of skill and competence by the practitioner in exercising professional judgment and professional skepticism in making decisions about the course of action that is appropriate in the circumstances, particularly in relation to the entity’s materiality process and assessing the suitability of the criteria.

b) Fee pressures that may arise as a result of differences in circumstances between EER and audit engagements, which may be an impediment to being able to apply the appropriate resource to the engagement or to perform the engagement in accordance with applicable technical and professional standards and due care, including those needed to exercise professional judgment and professional skepticism.

Exercising professional judgment and professional skepticism throughout the engagement

Acceptance or continuance decision

63. In determining whether to accept or continue an engagement, the practitioner considers whether the preconditions for assurance are met, including whether the engagement has a rational purpose (S.24.b.vi), and considers whether the team, collectively, have the appropriate competence and skills to perform the engagement and to enable an assurance report that is appropriate in the circumstances to be issued (S.32.a).

64. Considering whether the engagement has a rational purpose, of necessity, involves being able to understand the intended users’ perspective and to make judgments about what is likely to influence the decisions of those intended users.

65. Before accepting or continuing the engagement, the engagement partner exercises professional judgment to be satisfied that there is no reason to believe that relevant ethical requirements, including independence, will not be satisfied and that those persons who are to perform the engagement collectively have the appropriate competence and capabilities to do so (S.22.a-b). This may involve considering a broad range of matters, such as:

a) The reputation of the entity and its management;

b) The purpose of the engagement;

c) The intended users;
d) Whether there may be fee or time pressures and the effect those may have on the quality of the assurance engagement;

e) Whether or not there is a well-developed reporting framework;

f) The complexity of the subject matter and its measurement;

g) Whether there is sufficient knowledge, experience and ability to perform the engagement;

h) Whether and where additional expertise may be needed; and

i) Whether there are other factors that may contribute to the decision to either accept or decline the engagement.

66. The acceptance decision may also involve considerations, by the engagement partner, of whether the practitioner’s firm has developed a methodology to help support the performance of an EER engagement and reinforce expectations around the exercise of good judgment.

Assessing risk and materiality

67. During the planning stage of an engagement, the appropriate exercise of professional skepticism is likely to be enhanced by a practitioner’s knowledge and understanding of the industry and environment in which the entity operates, its business processes, supply chain, customers and other factors. With such knowledge and understanding, the practitioner will be better placed to ask questions that need to be asked.

68. For example, a practitioner, with their knowledge of the business, and sufficient competence in the criteria, may be able to ask whether the subject matter information is complete, whether there is a heightened risk of misstatement of the subject matter information due to fraud, non-compliance with laws and regulations, lack of preparer competence or management bias. An experienced assurance practitioner has the ability to recognize what could create challenges in preparing the subject matter information and to ask the ‘right’ questions to obtain an understanding of where the risks may lie, the possible causes of those risks, and to design assurance procedures to address those risks.

69. The exercise of professional judgment and professional skepticism also assists in obtaining an understanding of who the users are and what is likely to influence their decisions when assessing materiality for the engagement.

Designing and performing evidence-gathering procedures

70. Having understood who the users of the subject matter information are, and what is likely to influence their decisions, and having assessed the risk of the subject matter information being materially misstated, the practitioner uses their judgment to consider whether the risk assessment procedures performed provide an appropriate basis for the design of further assurance procedures.

71. During the evidence-gathering stage of the engagement, assurance skills are applied, for example, in assessing information that may bring into question the reliability of documents and responses to inquiries to be used as assurance evidence, or whether there are circumstances that suggest the need for additional assurance procedures, and to reduce the risks of overlooking unusual circumstances, using inappropriate assumptions in determining the nature, timing and extent of assurance procedures and over generalizing when drawing conclusions from assurance observations.
Evaluating the sufficiency and appropriateness of evidence

72. At the conclusion of the engagement the exercise of professional judgment includes consideration of the sufficiency and appropriateness of assurance evidence obtained to support the assurance conclusion. A critical self-assessment of the work done in the light of the circumstances allows the practitioner to stand back and, again, to consider the subject matter information and the evidence obtained from the perspective of what would be likely to influence the users’ decision-making, considering both evidence that supports the conclusion and evidence that may be contradictory to that conclusion.

Assertions

Nature of assertions

73. [167] 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.”

74. [168] 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.

75. [169] 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’.

76. [170] 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.

77. [171] 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.

78. [172] 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 that falls into the category of completeness, the corresponding type of potential misstatement is an omission.

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7 ISA 315 paragraph 4(a) and ISAE 3410 paragraph 14(b)
8 ISA 315 (Revised) paragraph A129 and ISAE 3410 paragraph A82
Categories of Assertions May Be Identified from the Applicable Criteria

79. [174] 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 8 of the Guidance 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’.

80. [175] 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.

81. [176] Categories of assertions that reflect representations about the subject matter information implied by the characteristics of suitable criteria, and by any other characteristics of the applicable criteria, are the categories of assertions that the practitioner may use in the assurance engagement.

82. [179] The practitioner may use categories of assertions to identify potential types of misstatement at an appropriate level of disaggregation of the underlying subject matter, consistent with the requirements of the criteria (see SuA.II.9).

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<th>EXAMPLE</th>
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<td>Subject matter information could be about an attribute(s) of a class of subject matter elements that have similar characteristics, when it has been prepared by applying the criteria to the underlying subject matter at that level of disaggregation. For example, the subject matter information may include a measure of the average time taken to rectify multiple minor breaches of water quality regulations following their discovery.</td>
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In other cases, the subject matter information may be about an attribute(s) of an individual subject matter element. For example the subject matter information may be about the time taken to rectify a single major breach of water quality regulations that caused a community’s water supply to be cut off.

In the first case, categories of assertions may be used by the practitioner to identify potential types of misstatement in the information about the class of subject matter element(s), such as whether it is complete (the average includes information about all minor breaches). In the second case, categories of assertions may be used by the practitioner to identify potential types of misstatements about the single subject matter element, such as whether it is accurate (the time to rectify has been properly measured).

83. [180] There may also be categories of assertions about, and therefore potential types of misstatement of, the EER report as a whole. For example, in some circumstances, even when each
individual piece of subject matter information is free from material misstatement, the overall message may be misleading or biased.

**Obtaining Evidence**

**Fundamental significance of evidence in an EER assurance engagement**

*Introduction*

84. Evidence is a fundamental concept that defines the nature of an assurance engagement, one in which a practitioner aims to obtain sufficient appropriate evidence in order to express an assurance conclusion (S.12.a). The assurance conclusion is about whether the subject matter information is free from material misstatement (S.65). Evidence is the information used by the practitioner in arriving at the assurance conclusion (S.12.i). Evidence is primarily obtained from procedures performed during the course of the engagement but may include information obtained from other sources (S.A146). Ordinarily, evidence available will be persuasive rather than conclusive.

85. A misstatement is a difference between the subject matter information and the appropriate measurement or evaluation of the underlying subject matter in accordance with the criteria. Misstatements can be qualitative or quantitative in nature and include omissions (S.12.o). The materiality of misstatements is addressed in G.Ch10.

86. The significance of evidence in an assurance engagement is emphasized in the preconditions for accepting an assurance engagement, which include that the practitioner establishes that:

- The underlying subject matter is appropriate, such that the subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence to support an assurance conclusion (S.24.b.i, S.A40); and
- The practitioner expects to be able to obtain the evidence needed to support the assurance conclusion (S.24.b.iv).

87. The exercise of professional judgment and of professional skepticism is critical in obtaining sufficient appropriate evidence through performing procedures. Professional judgment is required to be exercised (in making informed decisions about appropriate courses of action) in planning and performing the engagement, including determining the nature, timing and extent of procedures (S.12.t). Assurance engagements are required to be planned and performed with an attitude of professional skepticism, in order to obtain sufficient appropriate evidence.

88. Areas of decision-making in the conduct of an assurance engagement, where professional judgment is necessary include decisions about:

- Materiality and engagement risk.
- The nature, timing and extent of procedures to be performed to meet the requirements of the Standard.
- Whether sufficient appropriate evidence has been obtained and in the case of a limited assurance engagement whether a meaningful level of assurance has been obtained.
- Whether the objectives of the Standard have been met.
- Whether the applicable criteria have been properly applied to the underlying subject matter.
- Whether the applicable criteria that have been selected or developed are suitable in
89. In performing procedures to comply with the requirements of the Standard, the practitioner makes decisions that ultimately support the assurance conclusion. Making such decisions involves making choices about courses of action or conclusions that can be drawn. For example, the practitioner may have to decide if a risk of material misstatement exists or if an assertion about a class of transactions or balance is misstated or if a control operated effective. These decisions are supported by the application of professional judgment and professional skepticism in determining the courses of action that are appropriate in the circumstances of the engagement., whether in making the acceptance decision or during the performance of the engagement, and either directly to support a decision about whether or not an assertion implicit in the subject matter information is corroborated (true) or contradicted (false), or, indirectly, in relation to another matter that supports the assurance conclusion, for example, in relation to the assessment of risk or materiality.

90. Other procedures may involve decisions that are less directly related to the assurance conclusion. For example, those procedures that involve making decisions about aspects of engagement quality, such as the competence of those who are to perform the engagement or the sufficiency or effectiveness of direction, supervision and review procedures.

Characteristics of persuasive evidence

91. The nature, timing and extent of the procedures designed to be performed determine the persuasiveness of the evidence that is available to be obtained by performing a procedure. Different underlying subject matters have different characteristics, including the degree to which subject matter information about them is qualitative or quantitative, objective or subjective, historical or prospective, and relates to a point in time or covers a period. These characteristics may also affect the persuasiveness of available evidence (S.A42).

92. The persuasiveness of evidence actually obtained by performing procedures may also be affected by matters such as the competence of the individuals assigned to perform them and the effectiveness of the direction, supervision and review of those individuals.

93. The characteristics of persuasive evidence are its appropriateness (relevance and reliability) and sufficiency. The relevance and reliability of evidence relate to the quality of evidence, while the sufficiency of evidence relates to the quantity of evidence. These characteristics are not binary but are expressed in different degrees. The sufficiency of evidence relates to both the extent of the evidence obtained (e.g., from more than one source; the extent of sampling) and the strength of the relevance and reliability of the evidence.

94. The relevance of evidence relates to how closely it pertains to, assists in making, or contributes to, the decision being made in performing the procedure. It is closely related to the purpose of the procedure performed. Relevance has the characteristic of corroborating or contradicting the appropriateness of options for courses of action or conclusions that can be taken or drawn in making the decision – i.e. it is the ‘right’ evidence to consider in light of the decision to be made.
95. The reliability of evidence relates to its informational validity (sometimes referred to as representational faithfulness or authenticity), which includes its completeness, accuracy neutrality (lack of bias), and the precision with which the evidence can be obtained (sometimes referred to as its verifiability). The reliability of evidence is influenced by its nature and source and is affected by the individual circumstances under which the evidence is obtained.

96. For example, generally, evidence is more reliable when:
   - It is obtained from sources external to the preparer;
   - If it is generated by the preparer, if related controls are effective;
   - Obtained directly by the practitioner rather than indirectly or by inference; and
   - It exists in documentary form.\(^\text{10}\)

However, such generalizations are subject to important exceptions. For example, evidence obtained from an external source may not be reliable if the source is not knowledgeable or objective.\(^\text{11}\) Obtaining evidence from different sources or of a different nature may either corroborate other evidence or indicate that an individual item of evidence is not reliable.\(^\text{12}\)

97. Sufficiency of evidence is a measure of the extent of the evidence obtained and the strength of its relevance and reliability. More evidence that has some relevance and some reliability, or evidence that has more relevance or more reliability, will be more persuasive in corroborating or contradicting the appropriateness of options for courses of action or conclusions that can be taken or drawn in making the decision under consideration (or the level of assurance it provides about the decision).

98. The persuasiveness of the evidence that is necessary to conclude that sufficient appropriate evidence has been obtained depends on the level of assurance that needs to be obtained in the circumstances of the engagement, and the components of engagement risk that the practitioner does not directly influence (those components of the risks of the subject matter information being materially misstated that exist prior to audit, i.e. inherent risk and control risk) (S.A12). The higher these components of risk are, the more persuasive the evidence that will need to be obtained to reduce engagement risk to an acceptably low level in the circumstances of the engagement. However, obtaining more evidence may not compensate for the evidence having low relevance or reliability and may not therefore result in sufficient appropriate evidence (S.A147).

### Nature of a procedure and how it affects the characteristics of the evidence obtained

99. Procedures performed in an assurance engagement vary in nature. The nature of a procedure refers both to its purpose and to its type. Purpose reflects relevance to the decision that the practitioner is to address in performing the procedure (i.e. the relevance to making the decision, of the evidence needed). The purpose also influences the reliability of the evidence needed to be obtained by the practitioner by performing the procedure. The type of a procedure refers to the manner in which the procedure is performed (to achieve its purpose). The type of procedure also influences the relevance and reliability of the evidence that is obtained by performing the procedure.

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\(^{10}\) International Framework for Assurance Engagements, paragraph 63

\(^{11}\) International Framework for Assurance Engagements, paragraph 63

\(^{12}\) International Framework for Assurance Engagements, paragraph 64
Purpose of a procedure and its relationship to decision making

100. For all procedures that the practitioner performs in complying with the requirements of the Standard, the ultimate purpose is to contribute to the reduction of detection risk by enabling the practitioner to obtain evidence about conclusions that collectively support the assurance conclusion.

101. Classes of procedure that by their nature have different purposes contribute to the reduction of detection risk in different ways. Evidence obtained from performing such procedures is about conclusions that may support the assurance conclusion in a relatively more or less direct manner. Evidence about conclusions that support the assurance conclusion relatively less directly is often required to be responded to appropriately by designing and performing other procedures that provide evidence about conclusions that support the assurance conclusion relatively more directly.

102. For example, the practitioner is required to design and perform procedures, with the purpose of obtaining an understanding of the engagement circumstances (evidence) sufficient to provide a basis for the practitioner to design and perform other procedures (S.46L.a, S.46R.a). The practitioner is required to respond appropriately to the understanding (evidence) obtained, by designing and performing procedures, on the basis of that understanding, with the purpose of identifying and assessing the risks of material misstatement (in a reasonable assurance engagement) or of identifying areas where a material misstatement is likely to arise (in a limited assurance engagement) (S.48L.a, S.48R.a). Responding appropriately means that the design and performance of those procedures is expected to enable the practitioner to identify such risks or areas where material misstatements are likely to arise. The classes of procedures by nature described in this paragraph may be referred to collectively as risk assessment procedures.

103. The evidence obtained by performing such risk assessment procedures is also required to be responded to by procedures, which may be referred to as further procedures,\(^\text{13}\) with specific purposes which may be to obtain evidence about the operating effectiveness of a control or to obtain evidence about whether a material misstatement exists. Such further procedures are required to respond appropriately to the identified and assessed risks of material misstatement or to the identified areas where a material misstatement is likely to arise. Responding appropriately means that the design (the nature, timing and extent) and performance of the further procedures is expected to enable the practitioner to obtain sufficient appropriate evidence about whether the subject matter information is materially misstated.

104. The practitioner is also required to perform procedures, with the purpose of evaluating whether sufficient appropriate evidence has been obtained, from the performance of further procedures and other sources, about whether the subject matter information is materially misstated. Evidence obtained from the performance of the further procedures and those described in this paragraph is about conclusions that support the assurance conclusion in a relatively more direct manner (at the level of assertions or misstatements).

105. The practitioner is also required to perform procedures with many other purposes, in the conduct of an engagement. For example: procedures to consider engagement acceptance; procedures to evaluate the competence and capabilities of an expert, another practitioner, or the internal audit function, when their work is to be used as evidence; or to report in accordance with the Standard. Many of these procedures may contribute to the reduction of detection risk relatively less directly (more pervasively at the level of the engagement as a whole).

\(^{13}\) ISAE 3410, paragraph 14(l)
Types of procedure and their effect on the characteristics of persuasive evidence

106. The manner of performance of a procedure (its type) may, for example, be inspection; observation; confirmation; re-calculation; re-performance; analysis (substantive or otherwise); or inquiry. The quality of evidence obtained may vary with the type of procedure. The reliability of evidence obtained from two types of procedure with the same purpose may be very different. For example, in obtaining evidence about the implementation of a control, evidence obtained by observation may be more reliable than evidence obtained by inquiry, which is obtained indirectly or by inference.

107. Depending on the precision that is required, one type of procedure may be more appropriate than another in seeking to comply with a particular requirement of the Standard. Often evidence may be gathered to support the same purpose by performing more than one type of procedure. In this context, the Standard notes that evidence obtained by inquiry alone is not sufficient to determine whether a relevant control has been implemented or whether it is operating effectively. Professional judgment is required to make decisions about the types of procedures that are appropriate in complying with a particular requirement of the Standard.

Types of procedure performed in a limited assurance engagement

108. Another area where the Standard provides guidance in relation to the type of procedures to be performed is in limited assurance engagements. The guidance is in the context of the level of assurance to be obtained, which must be at least meaningful. The Standard notes (S.A3) that: “the emphasis placed on the nature of various procedures as a source of evidence will likely differ, depending on the engagement circumstances. For example, the practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on inquiries of the entity’s personnel and analytical procedures, and relatively less emphasis, if any, on testing of controls and obtaining evidence from external sources than may be the case for a reasonable assurance engagement.”

Thought process for obtaining and evaluating evidence

109. The Guidance includes a thought process intended to assist practitioners in addressing challenges in obtaining and evaluating evidence in EER assurance engagements, particularly those relating to evidence about narrative and future-oriented information. The basis underpinning each of the three steps in that process are discussed in the following paragraphs.

Determining the evidence needed and available

110. The first stage of the thought process considers the characteristics of the evidence needed and of the available evidence. The first step is to identify and understand the nature of the decision that is to be made. This may be a decision that more directly relates to the assurance conclusion (e.g., whether an assertion about the subject matter information is materially misstated or a relevant control is operating effectively), or one that relates more indirectly to the assurance conclusion (e.g., the assessment of the risks of material misstatement or whether a practitioner’s expert has the necessary competence, capabilities and objectivity for the practitioner’s purposes).

111. In considering the relevance of the evidence needed, the practitioner identifies possible outcomes of the decision that has to be made and factors that may indicate which of the possible decision outcomes is appropriate. For example, when the decision to be made is whether an assertion is misstated, the possible outcomes of the decision are either that it is misstated or that it is not misstated.
112. Factors that may indicate whether it is misstated or not may depend on the nature of the assertion. For example, when the assertion is that an assumption is reasonable (accuracy), relevant factors may include past experience and other circumstances that may corroborate or contradict the reasonableness of the assumption. Factors of particular interest are those that may corroborate or contradict a possible outcome of the decision to be made and that, in doing so, would, directly or indirectly, support or undermine an unmodified assurance conclusion, because such a decision outcome would have implications for the engagement. The practitioner may then consider what reliable information (evidence) about the relevant factors is needed to make the decision.

113. The practitioner then considers whether the evidence needed to make the decision is available, and the sources from which it could be obtained. Consideration of the characteristics of the relevant factors and sources of available evidence, of the nature of the evidence available, and of the conditions under which the evidence could be obtained from the available sources, may assist the practitioner in evaluating the reliability of the available evidence.

Designing and performing procedures to obtain sufficient appropriate evidence

114. The second stage of the thought process addresses the design and performance of procedures. It assists the practitioner in identifying the purpose of the procedure in light of the understanding of the decision developed in the first stage.

115. The thought process then moves on to consider the type of procedures that it would be feasible to perform to obtain the evidence needed. Since the type(s) of procedure performed affect the reliability of the evidence that can be obtained by performing them, the practitioner considers what types of procedure could feasibly be used to obtain available reliable evidence.

116. The practitioner also considers the level of precision and detail with which the procedure needs to be performed. This may depend on the nature of the decision to be made, the nature and complexity of the underlying subject matter, the nature of the criteria to be applied, the risk of misstatement in the subject matter information, what is likely to affect the decisions of intended users, the nature and source of available evidence, and the level of assurance to be obtained.

117. The degree of sufficiency, relevance and reliability of the evidence needed to make the decision with the appropriate level of assurance is also considered in designing the procedure(s).

118. The practitioner considers the sufficiency of the evidence needed to be obtained, i.e. the quantity of evidence needed to be obtained, and the necessary degree of relevance and reliability that it needs. The practitioner is then able to determine the nature, timing and extent of the procedure(s) to be performed, to obtain sufficient appropriate evidence.

119. The thought process also identifies considerations that are relevant to the performance of the engagement. These may include decisions to be made about the need to exercise assurance and subject matter competence, the significance of the professional judgments and of the exercise of professional skepticism that is likely to be needed in performing the procedures. These decisions have implications for quality control at the engagement level.

Evaluating the sufficiency and appropriateness of the evidence obtained

120. The third stage of the thought process addresses the evaluation of the evidence obtained. If the design and performance of procedures has been properly addressed, the evaluation should be able to focus primarily on differences from expectations. Such differences may relate to the results of the procedures (particularly where those results indicate that the evidence contradicts a potential
outcome of a decision that would support an unmodified conclusion). Differences from expectation may also relate to new information. The assurance engagement is an iterative, systematic engagement process, which requires the practitioner to re-evaluate earlier decisions in light of new information, exercising professional skepticism, throughout the engagement.

Communicating Effectively in the Assurance Report

Introduction

121. There is a need for clear communication in the assurance report, to meet the information needs of users, which provides linkage to the rational purpose of the engagement. It is helpful to consider the purpose of the assurance report in the context of the purpose (S.12.a) and objectives of an assurance engagement (S.10).

122. The aim, or purpose, of an assurance engagement is to convey a conclusion designed to enhance the degree of confidence of the intended users about the subject matter information. The preconditions for an assurance engagement emphasize the significance of this purpose. They include that the assurance conclusion is expected to be included in a written report and that engagement has a rational purpose. A key consideration in establishing whether the engagement has a rational purpose is how it will enhance user confidence.

123. In meeting this purpose, the assurance report conveys the assurance conclusion to the individual(s) or organization(s), or group(s) that the practitioner expects will use the assurance report (the intended users), and the practitioner’s objectives include:

a) Obtaining reasonable or limited assurance and forming an assurance conclusion as to whether the subject matter information is free from material misstatement; and

b) Conveying their assurance conclusion in the assurance report.

124. The practitioner’s objectives also include communicating further as required by the Standard or any other relevant ISAE, including in the assurance report.

125. The primary purpose of the assurance report is to communicate, to the intended users, information about the assurance conclusion (including its basis) in a manner that is designed to enhance the confidence of those users in the subject matter information.

126. Interpretation challenges and expectation gaps for the intended users are most likely to be minimized if the assurance report includes the information that would be useful to intended users in determining whether and to what extent their enhanced confidence in the subject matter information would be justified, based on the engagement.

127. It is therefore important for the assurance conclusion to be framed and expressed from the point of view of the intended user’s information needs, and from the perspective of the common information needs of the intended users as a group. These needs may include not only the nature and basis of the assurance conclusion, and their key elements, but also the significance of these items.

128. In considering the common information needs of users, it may be reasonable for the practitioner to assume that the intended users:

a) Have a reasonable knowledge of the nature of assurance engagements, and a willingness to study the assurance report with reasonable diligence;
b) Understand that the assurance report includes only information that could reasonably be expected to influence the relevant decisions of intended users about the assurance they can take from the assurance conclusion, taken on the basis of the assurance report;

c) Understand any inherent limitations involved in performing the assurance engagement; and

d) Make reasonable decisions about the assurance that they can take from the assurance conclusion conveyed in the assurance report, on the basis of the assurance report taken as a whole.

129. Considering the needs of the intended users may not only help to address the challenges experienced by users in interpreting EER assurance reports and minimize expectation gaps, but may also assist practitioners in applying, more consistently and appropriately, the considerable flexibility in preparing and structuring assurance reports that the Standard permits.

130. The Guidance (G.339-372A) includes guidance and examples to assist the practitioner in exercising professional judgment to prepare an assurance report that facilitates effective communication to the intended users and achieves the practitioner’s objectives (SuA.122), based on:

a) Principles for addressing the common information needs of the intended users in preparing and structuring assurance reports (hereafter referred to as “practitioner reporting principles” – see SuA.App1);

b) Focus on the perspective of the intended users;

c) Practitioner reporting requirements in the international assurance standards; and

d) Understanding impediments to users’ understanding of the assurance report.

Practitioner reporting principles

131. Given that the assurance report is a communication with the intended users of an EER assurance engagement, the information included in the assurance report may be considered to bear as similar relationship to the subject matter information of the engagement as the assurance conclusion bears to the underlying subject matter of the engagement and practitioner reporting principles might bear to the applicable criteria.

132. On this basis, the characteristics of suitable criteria, suitably adapted, may provide an appropriate basis for practitioner reporting principles that could assist practitioners in meeting the purpose of an assurance report and in addressing expectation gaps that could undermine that purpose.

133. For example, practitioner reporting principles might be considered appropriate, if they exhibit each of the following characteristics:

a) Relevance – Relevant practitioner reporting principles result in information in the assurance report that assists decision-making by the intended users about their confidence in the subject matter information.

b) Completeness – practitioner reporting principles are complete when information in the assurance report is prepared and structured in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users about their confidence in the subject matter information made on the basis of that information. Complete practitioner reporting principles include where relevant benchmarks for presentation of the information and disclosures about the basis for the assurance conclusion.
c) Reliability – Reliable practitioner reporting principles allow reasonably consistent preparation and structuring of the information in the assurance report including, where relevant, reasonably consistent presentation of the information and reasonably consistent disclosures about the basis for the assurance conclusion, when used in similar circumstances by different practitioners.

d) Neutrality – Neutral practitioner reporting principles result in information in the assurance report that is free from bias as appropriate in the engagement circumstances; and

e) Understandability – Understandable practitioner reporting principles result in information in the assurance report that can be understood by the intended users.

134. In considering what information may assist decision-making by the intended users, the Guidance considers how additional information relating to the key elements of the assurance conclusion and the basis for that conclusion might be included in the assurance report to assist intended users in deciding about their confidence in the subject matter information.

135. Key elements of the assurance conclusion itself that may be relevant may include, for example:

a) The level of assurance obtained;

b) The identification of the subject matter information (and of the underlying subject matter and applicable criteria from which it is prepared);

c) The nature of misstatements (of the assertions required by the applicable criteria); and

d) How the concept of materiality was applied to misstatements.

136. Similarly, key elements of the basis for the assurance conclusion that may be relevant may include, for example:

a) The scope of the engagement;

b) The identity of the intended users;

c) The ‘rational purpose’ of the assurance engagement;

d) The use of entity-developed criteria;

e) The identity and competence of the engagement partner;

f) The work performed and where the work effort was directed;

g) The use of other assurance practitioners and their identity;

h) The use of experts and their identity; and

i) Inherent limitations in the assurance that could be obtained.

Focus on perspective of intended users

137. Intended users are the individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report. The responsible party (i.e. the party responsible for the underlying subject matter (S.12,v) who may also be the measurer or evaluator, and the engaging party (S.A37)) can be one of the intended users, but not the only one.\footnote{International Framework for Assurance Engagements, paragraph 35}
138. In some cases, there may be intended users other than those to whom the assurance report is addressed. The practitioner may not be able to identify all those who will read the assurance report, particularly where a large number of people will have access to it. In such cases, particularly where possible users have a broad range of interests in the underlying subject matter, users may be limited to major stakeholders with significant and common interests (S.A16).

139. ISAE 3410\textsuperscript{15} notes that intended users and their information needs may include, for example:

a) Investors and other stakeholders such as suppliers, customers, employees, and the broader community, whose information needs may relate to decisions to buy or sell equity in the entity; lend to, trade with, or be employed by the entity; or make representations to the entity or others, for example, politicians.

b) Market participants, whose information needs may relate to decisions to trade negotiable instruments (such as permits, credits or allowances) created by a trading scheme.

c) Regulators and policy makers in the case of a regulatory disclosure regime to monitor compliance with the disclosure regime.

d) Management and those charged with governance of the entity who use information for strategic and operational decisions.

140. In some cases, intended users, such as regulators, impose a requirement on, or request the appropriate party(ies) to arrange for an assurance engagement to be performed for a specific purpose. When engagements use criteria that are designed for a specific purpose, the Standard requires a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users (S.A18).

141. In the context of a financial statement audit, the subject matter information is prepared in accordance with a recognized framework, and the intended users of the information and the purpose for which it is prepared are identified in the framework and are well understood. In the context of an EER engagement, there may be a broad range of subject matters, and a large number of different frameworks from which to select in preparing and reporting the subject matter information. Possible users may have a broad range of interests in the underlying subject matter. In the context of an EER engagement it may, therefore, be relatively more important to identify in the assurance report who the intended users are and the purpose for which the EER report is prepared.

142. It is essential that the criteria are suitable so that the subject matter information will assist intended users in their decision-making. However, even when the criteria are suitable, are adequately disclosed and available to intended users, many users do not find assurance reports easily understandable, particularly information included in them that is intended to limit the reliance users should place on them.

Practitioner reporting requirements

143. The Standard identifies basic elements the assurance report is to include, rather than requiring a standardized format for reporting. It recognizes the need to tailor assurance reports to the specific circumstances (S.A159). The Standard also allows the practitioner to choose a “short-form” or “long-form” style of reporting to facilitate effective communication to the intended users. “Short-form” reports ordinarily include only the basic elements. “Long-form” reports include other information and

\textsuperscript{15} ISAE 3410, paragraph A47
explanations that are not intended to affect the practitioner’s conclusion.

144. In addition to the basic elements, long-form reports may describe in detail the terms of the engagement, the applicable criteria being used, findings relating to particular aspects of the engagement, details of the qualifications and experience of the practitioner and others involved with the engagement, disclosure of materiality levels, and, in some cases, recommendations. The practitioner may find it helpful to consider the significance of providing such information to common information needs of the intended users (S.A160).

Understanding impediments to users’ understanding

145. Where such additional information is included, there is a requirement that it is clearly separated from the practitioner’s conclusion and phrased in such a manner so as make it clear that it is not intended to detract from that conclusion (S.68). While long-form reports may be useful in providing explanations in more comprehensive terms, they may also reduce comparability between entities and be more difficult for intended users to understand the assurance that has been obtained.

146. ISA 700 (Revised) notes that while there is a need for an appropriate balance between the need for consistency and comparability in auditor reporting and the need to increase the value of auditor reporting by making the information provided in the auditor’s report more relevant, consistency in the auditor’s report promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote user’s understanding and to identify unusual circumstance when they occur.16 The broader range of subject matters and criteria make it relatively more important in the context of EER reporting for assurance reports to allow for comparability to assist users’ understanding.

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16 ISA 700 (Revised) paragraph 4
Appendix 1

Terms used in this Supplement

<table>
<thead>
<tr>
<th>Terms used</th>
<th>How described in the Supplement</th>
</tr>
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<tbody>
<tr>
<td>Attribute</td>
<td>A quality or feature of the underlying subject matter that is regarded as a characteristic or inherent property of the underlying subject matter. (SuA.II)</td>
</tr>
<tr>
<td>Practitioner reporting principles</td>
<td>Principles for addressing the common information needs of the intended users in preparing and structuring assurance reports. (SuA.II)</td>
</tr>
<tr>
<td>Standard</td>
<td>ISAE 3000 (Revised)</td>
</tr>
<tr>
<td>Subject matter element(s)</td>
<td>A unit(s) of a type of disaggregated part of the underlying subject matter. (SuA.II)</td>
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