

NON-AUTHORITATIVE SUPPORT MATERIAL: ILLUSTRATIVE EXAMPLES OF SELECTED ASPECTS OF EXTENDED EXTERNAL REPORTING (EER) ASSURANCE ENGAGEMENTS

CONTENTS

Introduction	2
Example 1: Illustrating practitioner judgments about the competence of the engagement team	3
Example 2: Illustrating an EER assurance engagement that may not have a rational purpose	6
Example 3: Illustrating a ‘rolling program’ of assurance that may have a rational purpose	8
Example 4: Illustrating practitioner considerations when determining the suitability of criteria	9
Example 5: Illustrating the entity’s process to identify reporting topics to be included in its sustainability report, prepared using GRI Standards as criteria.....	11
Example 6: Illustrating how the practitioner might use assertions in considering the type of misstatements that might arise in the subject matter information	18
Example 7: Illustrating practitioner considerations in obtaining evidence relating to public sector reporting on the quality of healthcare in a hospital	22
Example 8: Illustrating whether the information in the EER report results from the application of the criteria or whether it is ‘other information’	27
Example 9: Illustrating practitioner considerations when the subject matter information comprises both non-financial and financial information included in an entity’s Management Commentary, prepared using criteria based on both territory legislation and the GRI Standards.....	30
Example 10: Illustrating considerations for the practitioner in using the Integrated Reporting Framework as criteria	38
Example 11: Illustrating practitioner considerations in the context of a public sector performance statement.....	48
Example 12: Illustrating the practitioner’s determination of the suitability of the criteria for preparing qualitative and quantitative subject matter information about an entity’s Intellectual Capital	51
Example 13: Illustrating practitioner considerations when obtaining evidence, including for information used by the preparer from external and multi-site information sources	57
Example 14: Illustrating qualitative information that does not result from applying suitable criteria, or results from misapplying the criteria, and practitioner considerations about ‘other information’	65
Example 15: Illustrating considerations related to future-oriented, qualitative, and ‘other information’ using SASB Standards as criteria	68
Example 16: Illustrating considerations for the practitioner in the context of an engagement related to an entity’s disclosures to address the Recommendations of the Task Force on Climate-related Financial Disclosures (‘TCFD’)	74
Example 17: Illustrating practitioner considerations when evaluating quantitative and qualitative misstatements in EER subject matter information	79

Introduction

1. This Supplement to the IAASB non-authoritative Guidance: [*Non-Authoritative Guidance on Applying ISAE 3000 \(Revised\) to Extended External Reporting \(EER\) Assurance Engagements*](#) (the 'Guidance') provides further practical examples of the application of aspects of the Guidance. The examples provided in the Guidance are generally short examples, which illustrate the concepts discussed in the Guidance as they may be applied in less complex engagement circumstances. The more comprehensive examples in this Supplement are additional examples designed to illustrate the concepts discussed in the Guidance as they may be applied in the context of:
 - a) More complex engagement circumstances; and
 - b) A range of reporting frameworks.
2. Each example sets out a 'fact pattern' explaining the circumstances used in that example, including, to the extent relevant to the example:
 - a) Which reporting framework(s) the entity has used to prepare its EER report;
 - b) The industry in which the entity operates;
 - c) The circumstances of the particular engagement, including whether limited assurance or reasonable assurance is to be obtained; and
 - d) The concept(s) that the example is designed to illustrate.
3. Not all concepts discussed in the Guidance are illustrated in the examples. Each example may illustrate one or more aspects of the Guidance and different examples may illustrate different aspects. **The examples are not intended to suggest either 'best practice' or the only way of addressing the matters set out in the fact pattern; they are included for illustrative purposes only. The examples are also not exhaustive as they illustrate only a selection of procedures the practitioner may perform in relation to the fact pattern set out.**
4. To aid navigation, references, with hyperlinks, are provided from this Supplement to the Guidance when the examples in this Supplement may provide additional useful material in the context of concepts discussed in the Guidance. References in this Supplement are to chapters or paragraphs of the Guidance unless otherwise indicated.
5. The terminology used both in this Supplement and in the Guidance is consistent with that used in International Standard on Assurance Engagements (ISAE) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (hereafter 'the Standard') when the concepts being illustrated in the examples are addressed in the Standard. When necessary, other terms are identified and explained and, in respect of the Guidance, are set out in Appendix 1: '*Terms Used in This Guidance*'. Further within the examples the demonstration of **professional skepticism** or the exercise of **professional judgment** is identified by the symbols:



Example 1: Illustrating practitioner judgments about the competence of the engagement team

(Illustrates application of the Guidance at: Chapter 1)

Fact Pattern													
<p>A company producing pulp and paper reports annually on its ESG activities and impact.</p> <p>It produces both bleached and unbleached pulp in a continuous production process that uses various energy sources. Water meters are installed on site to record the company's water consumption. The meters are checked and calibrated annually by the utility company. Wastewater is discharged by the company into sewers.</p> <p>The company has recently expanded its production facilities and water treatment plant, and has installed a reverse osmosis ('RO') membrane to deal with increased demand.</p> <p>The preparer has explained that, in the short term, in order to handle the increased sewer flow, the entity is pumping part of the wastewater into the sewers directly and a very small part directly into a nearby river, by-passing the treatment system. The intention is that, by the end of the first quarter of the next reporting period, all wastewater will flow through the treatment system, rather than some of the wastewater bypassing it. The treatment system includes a mass flowmeter. The flows recorded by the flowmeter are reported to the local authority, which uses the information to calculate sewer charges.</p> <p>The company's sustainability report is prepared on a voluntary basis, other than the information on biochemical oxygen demand ('BOD'), which is required by regulation to be reported and independently assured (reasonable assurance). The environment agency uses the information to reassess the company's permit to operate.</p> <p>In the past, the company has been in compliance with its permit conditions, but new legislation, which became effective in the current year, required a reduction in BOD levels. The company uses its own scientists to carry out the BOD testing and calculations.</p> <p>The engagement partner has been the financial statement audit partner of the company for a number of years and has good industry knowledge and experience. This will be the first year of the engagement partner leading the EER engagement.</p> <p>The company has requested assurance over the subject matter information set out in the table below.</p>													
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding: 5px;">Subject matter information</th> <th style="text-align: left; padding: 5px;">Level of assurance requested</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">Scope 1 GHG emissions (tonnes of CO₂e)</td> <td style="padding: 5px;">Limited</td> </tr> <tr> <td style="padding: 5px;">Scope 2 GHG emissions (tonnes of CO₂e)</td> <td style="padding: 5px;">Limited</td> </tr> <tr> <td style="padding: 5px;">Water abstracted (m³)</td> <td style="padding: 5px;">Limited</td> </tr> <tr> <td style="padding: 5px;">Wastewater (m³)</td> <td style="padding: 5px;">Limited</td> </tr> <tr> <td style="padding: 5px;">Average biochemical oxygen demand (BOD) (mg/L)</td> <td style="padding: 5px;">Reasonable</td> </tr> </tbody> </table>	Subject matter information	Level of assurance requested	Scope 1 GHG emissions (tonnes of CO ₂ e)	Limited	Scope 2 GHG emissions (tonnes of CO ₂ e)	Limited	Water abstracted (m ³)	Limited	Wastewater (m ³)	Limited	Average biochemical oxygen demand (BOD) (mg/L)	Reasonable	
Subject matter information	Level of assurance requested												
Scope 1 GHG emissions (tonnes of CO ₂ e)	Limited												
Scope 2 GHG emissions (tonnes of CO ₂ e)	Limited												
Water abstracted (m ³)	Limited												
Wastewater (m ³)	Limited												
Average biochemical oxygen demand (BOD) (mg/L)	Reasonable												

In this example, the engagement partner has competence in assurance engagements, and a good knowledge of the company and its industry from experience as the financial statement audit partner, but does not have previous experience with the EER engagement. The engagement partner may find it necessary to include on the engagement team one or more individuals with appropriate subject matter competence in the measurement or evaluation of water pollution and greenhouse gas emissions. The engagement partner may be able to identify one or more individuals who collectively have such subject matter competence as well as appropriate assurance competence to perform the assurance procedures on the GHG emissions. However, if not, the engagement partner may need to commission work by a separate practitioner's expert.



Water abstracted is metered and billed by the local authority, so it is likely to be relatively straightforward for the engagement team to obtain the evidence for this key performance indicator ('KPI').

In relation to the wastewater and BOD KPIs, the company has installed the new RO system during the year (new processes and controls), the wastewater and BOD KPIs are subject to scrutiny by the local authority and environment agency (users who may have low tolerance for misstatement of the information), the BOD test is subject to a number of variations and potential interferences, and the testing methods and calculation are complex (complex subject matter, subject to uncertainties), so, for the purposes of the BOD KPIs, the engagement partner considers that a subject matter expert will be needed.



The company's own scientists (management experts) carry out the BOD tests, and it may be possible for the engagement team to use the work of those experts, but before doing so, they will need to evaluate the competence, capabilities and objectivity of those experts, obtain an understanding of the work of those experts, and evaluate the appropriateness of their work as evidence - see paragraph 54 of the Standard.



As management's experts carry out the BOD testing and calculations (lack of independence and the possibility of bias), the engagement partner may judge it necessary to engage a practitioner's expert to evaluate the work of the management's expert and the assumptions and methods used by that expert. In such a case, they are also required by paragraph 52 of the Standard, to evaluate the practitioner's expert's competence, capabilities and objectivity, obtain sufficient understanding of the field of expertise of the practitioner's expert, agree on the nature, scope and objectives of that expert's work, and evaluate the adequacy of that work for their purposes. See paragraphs A121-135 of the Standard for further application and other explanatory material on these requirements.



In this example, the engagement partner, based on:

- The engagement team's evaluation;
- Their own understanding of the entity and its business; and
- Identification of who the intended users of the assurance report are

has identified the following areas where a misstatement is likely to arise (for GHGs, water abstracted and wastewater) or where there is a risk of material misstatement (BOD). These have been communicated to the engagement team and to any practitioner's experts, so that the assurance procedures can be designed and performed to address the areas identified (limited assurance) or to respond to the assessed risks (reasonable assurance), as appropriate :

- The possibility that the estimated volume of water bypassing the RO treatment system is materially misstated; it is also unclear:
 - How much of the wastewater is being discharged directly into the nearby river;



- Whether the local authority requires all wastewater to be disposed of into sewers rather than directly into water courses; and
- Whether there are implications of discharging wastewater directly into the river other than an undercharge by the local authority to the company for wastewater.
- The possibility that the BOD of water bypassing the waste treatment system is not being measured and reported at all, and may be significantly higher than the reported result, possibly breaching permit conditions; this risk may be exacerbated by the requirement to reduce BOD in the current year.
- Management's use of its own scientists to measure and calculate the BOD, and considerations around the appropriateness of assumptions and methods used, and the potential for management bias due to their lack of independence. As part of evaluating incentives to misstate, the engagement team may want to consider how close the reported BOD is to breaching the acceptable limit and what the consequences would be if the limit were to be breached.



In this example, all misstatements identified during the performance of the assurance procedures by members of the engagement team are to be accumulated (if necessary categorized by each aspect of the subject matter information to which they relate) and discussed with the engagement team and any practitioner's external experts to enable them to consider whether there may be implications for other areas of the engagement. The engagement partner may also consider whether there is a need to alter the level of direction, supervision and review of the engagement team's and any practitioner's expert's work and to consider whether they understand the implications of the risks identified.



Example 2: Illustrating an EER assurance engagement that may not have a rational purpose

(Illustrates application of the Guidance at: Chapter 3; paragraph 94)

Fact Pattern
<p>A large, multinational beverage company voluntarily reports its environmental, social and governance performance in its EER report.</p> <p>The report includes a number of key performance indicators for its operations worldwide, including greenhouse gas emissions, water intake, wastewater, waste recycled, waste to landfill, accident lost time, and community investment, amongst other subject matters. It reports for the benefit of its shareholders, customers and suppliers to show that it is taking its corporate social responsibility seriously.</p> <p>The company has asked for assurance over all of these indicators, which are reported as aggregated information for all its operations, but would like to exclude from the scope of assurance the water intake and wastewater for its African operations as, due to the geographical spread and the fact that all the records are held at the local branches, it will be difficult and costly for the assurance practitioner to obtain the evidence needed. These operations are small compared with those in Europe and the United States.</p> <p>The framework criteria used by the entity for preparing the subject matter information specify for measurement the water intake and the wastewater for all operations over which the entity has operational control in all geographic regions.</p>

In this example, the practitioner is determining whether the preconditions are present, including whether the criteria are suitable and there is a rational purpose to the engagement. The criteria, which meet the completeness and neutrality characteristics of suitable criteria, specify that the water intake and wastewater for all of the company's operations need to be within scope, rather than for only a selection of its operations, but the preparer has asked that the subject matter information for the assurance engagement for these two indicators should not include the information for the African operations.

While the intended users may well be more interested in the large operations, there are three factors in this example that may give rise to concern regarding the African operations:

- Water is scarce in parts of Africa; it is likely that the indicators related to water consumption and wastewater may be of interest to users, particularly if the intake is higher than it should be or if the quality of effluent is putting local communities at risk (i.e., even if quantitatively not material, the water consumption for the African operations is likely to be qualitatively material in this example);
- The indicators are reported as aggregate figures for all of the operations, rather than by country, so the African operations are not separately identifiable in the report; and
- The fact that other indicators for the African operations are included within the proposed scope of assurance, but the preparer wants to exclude water, raises a question.

Selecting only those parts of the information included in the EER report that are easier to assure or that present the entity in a favorable light may call into question whether the completeness and neutrality of the criteria have been appropriately applied, and the rational purpose of the engagement. The subject matter information, criteria and underlying subject matter should have an appropriately coherent relationship (i.e., using the applicable criteria to measure or evaluate the underlying subject matter ought to result in subject



matter information that is within the scope of the assurance engagement). The other preconditions for acceptance of the proposed assurance engagement also need to be present.

Example 3: Illustrating a ‘rolling program’ of assurance that may have a rational purpose

(Illustrates application of the Guidance at: Chapter 3; paragraphs 99-106)

Fact Pattern
<p>A company with operations in different geographical locations wishes to obtain assurance on a ‘rolling’ basis by stage of its projects relating to its rolling community investment program. The program allocates funds to social improvement projects in different parts of the world. The programs are generally to provide health and primary education infrastructure and training.</p> <p>Once the infrastructure is in place, and local communities have been provided with training to be able to run the programs themselves, the company focuses on setting up a program in a different geographical location. Typically, the set-up phase of projects is between two and three years.</p> <p>After set-up, the company continues to provide a lower level of ongoing funding, for which the local communities account to the company’s head office on an annual basis. The project set-up costs and ongoing funding for each project are separately disclosed in the company’s EER report.</p> <p>The users of the company’s EER report are primarily interested in the projects in the set-up phase, to understand whether the funding allocated has resulted in established projects that are capable of being run by the communities.</p> <p>Consequently, for each new project launched, the company proposes to include the subject matter information within the scope of assurance each year until the end of the set-up phase of each project. Thereafter, it is proposed that the information relating to the ongoing projects be assured only once in a three-year cycle in order to save costs. The information relating to the ongoing funding of each project will be reported in the EER report each year, but will not be subject to assurance in the intervening years within the three-year cycle.</p>

In this example, in determining whether the preconditions are present, the practitioner determines whether the criteria are suitable and will be made available to the intended users to enable them to understand the basis on which the subject matter information has been prepared and assured. As part of determining the suitability of the criteria, the practitioner may need to consider, among other matters:

- The intended users;
- The reporting needs of those intended users; and
- Whether the ‘rolling program’ assurance engagement is likely to meet those needs.

Consideration of these matters may also assist the practitioner in determining whether the engagement has a rational purpose. The practitioner may also consider whether the EER report might be distributed more widely than to the intended users, and for what reason. In this example, there may be a rational purpose to the proposed rolling basis of assurance, but, in other circumstances, a ‘rolling program’ may not fulfill the relevance criterion by meeting the needs of the intended users, or the ‘rational purpose’ test. The practitioner would need to consider the particular engagement circumstances in each case.

An example of when a ‘rolling program’ of assurance may not reflect the appropriate application of the criteria or a rational purpose is set out in paragraph 106 of the Guidance.



Example 4: Illustrating practitioner considerations when determining the suitability of criteria






(Illustrates application of the Guidance at: Chapter 5)

Fact Pattern
<p>An entity is preparing an EER report in accordance with an EER framework that includes criteria that require the entity to report its 'water intake in the reporting period'.</p> <p>Water intake in the reporting period is an aspect of the underlying subject matter – the entity's impact on natural water resources. Water intake is a quantitative attribute of the entity's activities (the volume of 'water', a natural resource taken in by the entity's activities). Information about water intake may assist intended users' decision-making about an entity's impact on natural water resources. The commonly used and well-understood benchmark (or measurement basis) for water intake is a standard unit of volume, such as a litre or gallon.</p>

In determining whether the criteria are suitable, the practitioner may consider questions such as:

1. Would the water intake information assist decision-making by the intended users in the circumstances of the engagement? (relevance)
 - A consideration might be how significant water is to what the entity does, although most entities are likely to use at least some water. For example:
 - Water intake may be more significant for a manufacturer than perhaps a software developer, or more significant when obtained from certain sources such as surface water or groundwater.
 - It may be more significant for entities with operations in water-scarce regions than for those operating in regions where water is more abundant.
 - Answering this would require some knowledge of who the intended users are and what might assist their decision-making.
 - The purpose of the EER report may also be a consideration. For example, water intake:
 - May be more likely to assist intended users' decision-making when the purpose of the EER report is to describe the entity's impact on the environment.
 - Would be unlikely to assist intended users' decision-making if the purpose is to describe the entity's governance processes.
2. Do the criteria require information about attributes of water intake that would assist intended users' decision-making in the context of the purpose of this EER report to be disclosed? (completeness)
 - This indicator is only measuring water intake over a defined period. This may be the quantitative attribute of primary interest to the intended users (rather than the water's temperature or weight). However, information about other attributes of water intake may assist intended users' decision-making in the engagement circumstances. For example, such attributes may include:
 - The types of sources from which the water intake occurred, such as surface water or groundwater over a defined period; or



- An attribute relevant to water-quality (which may be measured using a quantitative indicator, such as dissolved oxygen) for water taken in or discharged, or the volume of water discharged to specific destinations.
 - There is an assumption that the criteria require reporting of all the water intake across the whole company and all of its sites, and the practitioner may wish to question whether this is so. 
3. Do the criteria provide a methodology for calculation that allows reasonably consistent measurement or evaluation, including, where relevant, presentation and disclosure? (reliability)
- This may be where the entity must supplement the framework criteria with additional entity-developed criteria tailored to their specific circumstances.
 - An entity may calculate their water intake using water meters and collect readings at the beginning and end of the period. For municipal water this is information that would also be used for billing by the water company.
 - Considerations for the practitioner may therefore be focused around completeness as explained above - whether this approach will cover all of the water intake by the company (for example considering if all water flows through a meter that data can be collected from). 
 - Other considerations may include when the water meters were last expertly calibrated, and on what days the readings are expected to be taken. Further consideration may be required if the methodology uses estimates and data required for doing so are not fully available. This may be the case where readings are not taken at exactly the start and end of the reporting period. 
 - In the case of water intake, measuring it in units of liters is likely to be appropriate. This is likely to make it possible to compare the information to other periods and entities, assuming that the calculation is straightforward.
4. Will the criteria result in information that is free from bias? (neutrality)
- There is unlikely to be significant risk of management bias if the information is based on water meter readings.
 - However, further consideration may be required if the calculation methodology is more complex or involves estimation, or if the water intake definition used by the entity is restricted to specific sources that have a lower environmental impact. 
5. Will the criteria result in information that can be understood by the intended users? (understandability)
- In most cases, water intake would be easily understood, although the practitioner may need to consider whether the criteria result in the information being presented and disclosed appropriately in the EER report. 

Example 5: Illustrating the entity’s process to identify reporting topics to be included in its sustainability report, prepared using GRI Standards as criteria (Note that GRI’s use of the term ‘material’ is similar to the concept of ‘relevance’ of suitable criteria used in the Standard. The term ‘material’ is therefore placed within inverted commas in this example to distinguish it from the materiality concept as used in the Standard)

(Illustrates application of the Guidance at: Chapter 4; paragraphs 141-164)

Fact Pattern
<p>An oil and gas company applies the GRI Standards to report its impacts on sustainable development in a sustainability report. The GRI Standards require the company to perform a ‘materiality’ assessment to identify its ‘material’ reporting topics and related impacts. ‘Material’ reporting topics are those that reflect the company’s significant impacts on the economy, environment, and people or are significant to its stakeholders. The GRI Standards do not mandate the reporting topics a company must include, but they do require organizations using the GRI Standards to:</p> <ul style="list-style-type: none">• Apply specific principles when identifying their ‘material’ topics;• Report management’s ‘materiality’ process to identify ‘material’ reporting topics; and• Include specific disclosures detailed in the GRI Standards in respect of each identified ‘material’ reporting topic and how each topic is managed. <p>The GRI Standards also include Sector Standards which provide specific guidance relevant to a sector on what topics are likely to be ‘material’.</p> <p>The company has identified the activities it carries out, and the context in which those activities take place, by gathering information about, and recording:</p> <ul style="list-style-type: none">• The locations of its operations.• The number of workers involved in the company’s activities.• The company’s products and services, and markets where these are delivered.• The sector(s) in which it operates.• Details of its business relationships, including with entities in its value chain, and other business partners, and the nature of these relationships and their geographic location.• The company’s mission and vision, governance structure, and values, principles, standards, and norms of behavior.• Economic conditions, societal issues, and environmental challenges at local, regional, or global level.• The company’s responsibility in relation to expectations expressed in industry specific and other international standards, and guidance for example, The Extractive Industries Transparency Initiative (EITI) Standard 2019, International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability, OECD Due Diligence Guidance for Meaningful

EER Support Material: Illustrative Examples of Selected Aspects of EER Assurance Engagements

Stakeholder Engagement in the Extractives Sector, IPIECA¹, API², IOGP³ Sustainability reporting guidance for the oil and gas industry.

The company has identified its stakeholders, and has set out how it engages with them to find out the reporting topics, and relevant information about them (i.e., information that would influence intended users' decision-making), as follows:

Stakeholder group	Engagement activities
Employees	Annual employee engagement survey, local employee forums, works councils, intranet
Investors	Roadshows, investor forums, AGM, analyst briefings
NGOs (local and international)	Meetings to discuss sustainability impacts
Communities	Public consultations, meetings with community representatives
Governments	Policy debates and consultations
Contractors and suppliers	Dialogue sessions on safety, workers' rights, code of conduct.
Media	Public relations discussions

The company has reviewed peer sustainability reports, relevant media reports, industry publications (e.g., oil and gas industry guidance on voluntary sustainability reporting issued by IPIECA), and its social and environmental impact assessments. It also engages an external review panel to obtain external feedback on what matters to the company's stakeholder groups. Based on these activities, the company has identified the following 'material' reporting topics.

Climate change	Human Rights
Water and effluents	Occupational health and safety
Waste	Labor practices
Biodiversity	<p>Anti-corruption</p> <p><i>The company reports on its Anti-bribery and Corruption Program and its Code of Conduct, and how it has implemented these in its business operations and activities (including training and briefing of employees, business partners and governing body members and monitoring).</i></p>

¹ Originally the 'International Petroleum Industry Environmental Conservation Association', now 'IPIECA'

² American Petroleum Institute

³ International Organisation of Oil and Gas Producers

Plastics (new topic this reporting period) <i>The company produces the raw materials for making plastics further downstream in the value chain.</i>	Transparency of tax payments
Spills and leaks	Governance

The company has requested limited assurance on its sustainability report with the ‘applicable criteria’ being the GRI Standards, and the company’s basis of preparation, which sets out how it has further developed the criteria set out in the GRI standards as part of its process to identify its relevant reporting topics.

The practitioner is currently at the planning stage of the engagement and is considering the entity’s process to identify ‘material’ reporting topics, to determine whether the criteria developed by the company to apply the principles of the GRI Standards can be considered as suitable (see paragraph 41 of the Standard). The practitioner is satisfied that criteria developed by the company to identify its reporting topics should be suitable if they are consistent with the reporting principles in the GRI Standards. The company-developed criteria are applied by the company to determine:

- Which topics are to be included in the company’s sustainability report;
- What information is to be included about the identified topics; and
- How that information is to be measured, evaluated and presented in the report.

Practitioner considerations in relation to the company’s process to identify reporting topics (also referred to by the company as its ‘materiality assessment’)

In this example, the engagement partner has already accepted the engagement. The engagement partner has highlighted a number of questions for the engagement team to think about in relation to the design of the entity’s reporting process, and how it was implemented and applied. These questions are set out below under the headings ‘Identifying stakeholders’, ‘Identifying ‘material’ (i.e., relevant) reporting topics’, and ‘What information is to be reported for identified ‘material’ (i.e., relevant) reporting topics?’ These questions are intended to assist the engagement team in identifying and considering the suitability of the criteria for:

- Identifying ‘material’ topics and the information to be reported about them, as developed and embedded in the company’s ‘materiality’ process; and
- Measuring or evaluating relevant aspects of those topics to develop such information, as required by the GRI Standards, or as selected from other frameworks or developed by the company.

Identifying stakeholders:

- Does pre-acceptance information about the company’s reason for preparing the report remain valid - who it is for, and the company’s purpose in reporting to the intended users and other stakeholders?
- What process and routine interactions does the company follow to identify its stakeholders and engage with them - does the company’s process specify how new stakeholders are to be identified, or how stakeholders who are no longer impacted are to be removed from the list of stakeholders?



- Are the intended users of the assurance report and other stakeholders the company engages with included on the company provided list of stakeholders? Should there be different stakeholders on the list, and which of the stakeholders identified are actually impacted by the entity's activities? For example, is 'media' an appropriate stakeholder? They are not significantly affected by the company's activities, rather they act as an intermediary to communicate the company's activities, so on what basis have they been included?
- Will it be clear in the report who the intended users are, as not all stakeholders may be intended users. Consider what this means for the consideration of materiality, including determining performance materiality, the procedures to be performed, and communicating in the assurance report.

Identifying 'material' (i.e., relevant) reporting topics

Does the company's reporting process or methodology:

- Define what is to be regarded as an 'impact' by the company;
- Specify what sources of information, internal and external, are to be used to identify potentially relevant reporting topics based on understanding the relative significance of the entity's impacts (e.g., severity and likelihood) and the relative significance of those impacts to stakeholder decision-making;
- Cover how the external review panel is to conduct its stakeholder engagements - for example, does it specify:
 - The frequency and format of meetings or surveys;
 - How the output of those meetings and surveys is to be recorded and communicated to the company's management by the third party; and
 - How that output is to be taken account of by management when determining the company's relevant reporting topics;
- Set out how to prioritize (rank) potentially relevant topics according to their relative significance, and how to categorize topics as 'high', 'medium' or 'low' priority; and
- Establish the basis for determining which potentially relevant topics identified are not to be considered 'material' when preparing the report?

Are there potentially relevant topics that were not identified and considered – for example, those used by other companies in the oil and gas industry, those with high media attention, or those where the company may be facing legal claims? Research in these areas may include speaking to the company's press office and legal team and searching publicly available external data sources.

What information is to be reported for identified relevant reporting topics?

Does the company's reporting process or methodology specify the following in relation to each identified relevant reporting topic, to allow for reliable information to be reported and assured:

- The reporting boundary to be used - for example:
 - Is the entire value chain to be considered when understanding the company's impacts, or does the company draw a narrower organizational boundary for reporting;



- Is the boundary consistent across all relevant reporting topics or are there different boundaries for different topics; and
- If the latter, does the methodology specify how each different boundary is to be determined and disclosed?
- The level at which to report on the relevant reporting topics, and how these impacts will be measured or evaluated and presented – for example, both climate change and human rights are broad topics, and users may be interested in, and need information about, specific sub-topics at a disaggregated level, such as
 - Whether the climate change section of the report is to include:
 - GHG emissions generated in the use of the sold products;
 - GHG emissions from upstream flaring of natural gases; and
 - The impact of transitions to a low carbon economy, and impacts upon workers and communities; and
 - Whether the human rights section is to include impacts on indigenous communities, or potential modern slavery risks in the supply chain?
- The manner in which the information is to be presented and disclosed, for example:
 - Own company impacts separately disclosed from supply chain impacts;
 - Readily quantifiable impacts disclosed separately from estimated impacts;
 - Regional or local impacts separately disclosed from global impacts;
 - Whether the impact is likely to be in the short, medium or long term;
 - With prior year(s) comparatives;
 - Whether the data is to be presented as absolute or normalized data; and
 - How narrative statements and visual aids such as charts, graphs, or images are to be consistent with quantitative information presented, and what prominence is expected to be given to different aspects of the reported information?
- How changes in circumstances (for example changes in the company's activities or measurement methods used) are to be:
 - Identified, and their effect determined; and
 - Presented - for example, when restatement of comparatives will be appropriate and when not, and how restatements are to be calculated and presented?

The engagement partner has also raised a few specific questions about the reporting process and how the criteria might not be suitable, in relation to two of the 'material' reporting topics identified (Plastics and Anti-corruption).



Relevant matters identified through the stakeholder engagement process	Examples of how the criteria for measurement or evaluation and related disclosure and presentation might not be suitable
<i>Regarding the company's impact in relation to plastics</i>	
Company's relationship to the impacts of production, use and disposal of plastic	<p>Does the company's process for identifying relevant reporting topics specify how the impacts of production, use and disposal downstream are to be:</p> <ul style="list-style-type: none"> • Identified, measured or evaluated; and • Disclosed? <p>If not, in preparing the report:</p> <ul style="list-style-type: none"> • Information relevant to users' decision-making needs may be omitted. • Information may be at a level of disaggregation less or more detailed than stakeholders need. • There may be inconsistent measurement or evaluation of the information from period to period because of a lack of clear guidance on how to prepare the information, hindering comparability.
Future actions and technologies the company is exploring, particularly around chemical recycling of previously unrecyclable plastics, and the quantification of the potential future effect, if any, on the company's sustainability impacts.	<p>Does the company's process or methodology specify the time horizon, the assumptions and base data to be used, and the way in which the future-looking information is to be presented and disclosed? If not, then:</p> <ul style="list-style-type: none"> • An inappropriate time horizon might be used - for example, if the proposed development of the technologies is so far into the future, and the effects so uncertain, that they are little more than speculation, then there may be no basis for inclusion of this information in the report.

<i>In relation to the company's activities to combat corruption</i>	
<p>Significant risks relating to corruption in the company, based on its business activities, contracts, transactions, locations, and business partners and how they are being managed by the company.</p>	<p>Do the company's policies, processes or methodologies specify what matters are to be covered in this section of the report, for example, do they cover the identification and management of typical issues in the oil and gas sector such as:</p> <ul style="list-style-type: none"> • Facilitation payments; • Bribes and kickbacks in procurement and contracts; • Negotiating licences for exploration rights; • Land access; and • Relationships with government officials in countries where the law is not consistently enforced; <p>and how actions taken by the company to prevent or manage these matters are to be identified and described.</p> <p>If not, then information about these matters:</p> <ul style="list-style-type: none"> • May not be identified for inclusion in the report (completeness). • May be presented in a biased way – for example, by overplaying the actions taken by the company, or underplaying the negative consequences of not having addressed the matters (neutrality). • May not be at the level needed for users' decision-making – for example, users may be interested not only in the quantifiable amounts, but also with whether there have been instances of non-compliance with laws or regulation that could have material impacts even where quantitative amounts are not material (relevance).

Example 6: Illustrating how the practitioner might use assertions in considering the type of misstatements that might arise in the subject matter information

(Illustrates application of the Guidance at: Chapters 7; 10; paragraph 338)

Fact Pattern
<p>A mining company reports, among other environmental, health and safety indicators, its lost time injury frequency rate (LTIFR). The company recognises that, as a lagging indicator, the LTIFR cannot predict the company's future safety performance, but does allow the company to assess the ongoing effectiveness of its workplace safety program and to take steps to prevent similar incidents in the future.</p> <p>The company uses a standard occupational health and safety calculation, and sets out the details of the criteria it has used in the 'Basis of Preparation' section of the company's EER report as follows:</p> <div style="border: 1px solid black; padding: 10px;"><p>Lost Time Injury Frequency Rate:</p><p><i>The lost time injury frequency rate (LTIFR) measures the number of lost time <u>injuries</u> occurring in our workplace per 1 million hours worked. Lost time injuries include all on-the-job injuries that require an employee to stay away from work for more than 24 hours, or which result in <u>death</u> or permanent <u>disability</u>. Incidents that happen 'off the clock' (i.e., when employees have clocked out and left the premises) that affect an employee's ability to work are not counted in this metric.</i></p><p><i>For the purpose of calculating this metric, 'our workplace' means any workplace within [defined organizational boundary] ('relevant company operation').</i></p><p><i>For the purpose of calculating this metric, employees include any full-time or part-time employee as well as any temporary contract worker ('relevant worker').</i></p></div> <p>Each year, the company engages a practitioner to obtain limited assurance on the company's reported environmental, health and safety key performance indicators (KPIs), including the LTIFR indicator. The practitioner performing the assurance engagement is currently in the planning stage of the engagement and is using assertions as a tool to help consider the different types of misstatement that might occur in the LTIFR indicator. The practitioner plans to use these assertions to help design the assurance procedures to address the areas where a misstatement is likely to arise.</p>

The practitioner's considerations for using assertions to consider different types of potential misstatements

Using the information set out in the company's criteria, an engagement manager has made some notes, which will be used to coach more junior members of the engagement team, and to help them design the assurance procedures to address the identified areas where potential types of misstatement might arise.



The LTIFR indicator:	A misstatement of the indicator might arise:
<p>Meets the accuracy assertion if:</p> <ul style="list-style-type: none"> • The ratio of (see Note 1): $\frac{\text{Number of lost time injuries}}{\text{Number of hours worked by relevant workers} \times 1,000,000}$ is arithmetically correct; and • The data underlying the numerator and denominator of this ratio have been properly compiled (i.e., if the underlying data meets the completeness, occurrence, cut-off and classification assertions – see below – when captured and has been processed with integrity), such that (see Notes 2 to 4): <ul style="list-style-type: none"> ○ The numerator is the number of actual lost time injuries for all relevant workers at all relevant company operations; and ○ The denominator is the number of actual hours worked by all relevant workers at all relevant company operations. 	<p>In the underlying data, due to incorrect data capture (completeness, occurrence, cut-off or occurrence) or a loss of integrity in data processing.</p> <p>In the calculation of the LTIFR, due to using incorrect values for the numerator or denominator, or due to an arithmetical error made in performing the calculation.</p>
<p>Underlying data meets the completeness assertion if it includes:</p> <ul style="list-style-type: none"> • All lost time injuries for all relevant workers at all relevant company operations; and • All hours worked by all relevant workers at all relevant company operations. 	<p>Due to some actual:</p> <ul style="list-style-type: none"> • Lost time injuries to some relevant workers at some relevant company operations not being included in the numerator; or • Hours worked by some relevant workers at some relevant company operations not being included in the denominator.

EER Support Material: Illustrative Examples of Selected Aspects of EER Assurance Engagements

The LTIFR indicator:	A misstatement of the indicator might arise:
<p>Underlying data meets the classification assertion when hours worked and injuries that have occurred have been properly classified in the underlying data as to:</p> <ul style="list-style-type: none"> • The name of a worker who worked the hours or was injured and whether they were or were not a relevant worker at the relevant time; or • The injury is or is not a lost time injury. 	<p>Due to an injury not being classified correctly as to whether it is a lost time injury. For example, an injury may be incorrectly classified as:</p> <ul style="list-style-type: none"> • Resulting in absence of less than 24 hours when, in fact, it resulted in absence of 24 hours or longer (or vice versa); or • Having occurred 'off the clock' when, in fact, it occurred 'on the job' (or vice versa).
<p>Underlying data meets the cut-off assertion when lost time injuries and hours worked by relevant workers are included in the underlying data for the reporting period in which they occurred.</p>	<p>Due to the inclusion of any lost time injuries or any hours worked by relevant workers, which occurred in an earlier or later reporting period, in the underlying data for the current reporting period.</p> <p>Due to the exclusion of any lost time injuries or any hours worked by relevant workers, which occurred in the current reporting period, from the underlying data for the current period.</p>
<p>Underlying data meets the occurrence and responsibility assertions when it only includes:</p> <ul style="list-style-type: none"> • Lost time injuries that have in fact occurred (are not fictitious) at a relevant company operation (within company responsibility); or • Hours worked by relevant workers that have in fact been worked (are not fictitious) at a relevant company operation (within company responsibility). 	<p>Due to lost time injuries included in the underlying data not having occurred, or not having occurred at a relevant company operation.</p> <p>Due to hours worked included in the underlying data not having been worked by a relevant worker at a relevant company operation.</p>

The LTIFR indicator:	A misstatement of the indicator might arise:
<p>The presentation and disclosure assertion is met if the LTIFR is presented in accordance with, and together with the disclosures required by, the applicable criteria, for example if the LTIFR is presented:</p> <ul style="list-style-type: none"> • At the required level of aggregation or disaggregation; • With comparatives, if required; or • Using a consistent basis from period to period, or disclosing the nature and impact of any change in basis, if required. 	<p>Due to a required disclosure not having been properly presented with the LTIFR indicator.</p> <p>Due to the LTIFR not having been properly presented in accordance with the applicable criteria, for example because:</p> <ul style="list-style-type: none"> • It has not been presented at the level of disaggregation required by the criteria; • Comparatives required by the criteria have not been presented; • A change in basis of measurement has been made and the comparatives have not been restated, or disclosures about the nature and impact of the change, required by the criteria have not been made; • It has been presented in a manner that is misleading or difficult for a user to understand.

Additional notes made by the engagement manager:

1. The company’s basis of preparation does not specify whether the LTIFR indicator is to be expressed in aggregate for all types of injury, or whether it is to be calculated and disclosed separately for minor injury, major injury, permanent disability, and death, or by category of employee. This may need to be established and the suitability of the criteria considered in that regard before completing the work to consider assertions, and to design and perform appropriate procedures.
2. Consideration may need to be given to the following types of records, and their relevance and reliability for purposes of performing tests of detail on the underlying data:
 - Site and office incident report records;
 - Payroll absence records; and
 - Timesheet records.
3. The company uses different systems at its different mining operations to record time worked and injury data, outputs from which are extracted to and processed in a spreadsheet at Head Office. Instructions will need to be developed for other practitioners to perform testing on the underlying data, and the Head Office engagement team may need to perform procedures on the final processing performed at Head Office. It may be necessary for component practitioners to identify and test the operating effectiveness of controls over time records. Worker access to the entity’s mining sites is likely to be subject to strong physical security and access records well-controlled.
4. Testing that underlying data has been included for all relevant company operations within the defined organizational boundary may need to be carried out by the Head Office engagement team.



Example 7: Illustrating practitioner considerations in obtaining evidence relating to public sector reporting on the quality of healthcare in a hospital

(Illustrates application of the Guidance at: Chapter 8; paragraphs 273-277)

Fact Pattern

A hospital is required, by its health regulator, to report, and obtain limited assurance, on a number of its key performance indicators relating to the quality of its patient care. The EER report is used by the regulator to consider whether any intervention is needed to improve patient care (i.e., the regulator is the intended user), but it is also made publicly available on the hospital's website.

One of the indicators reports the incidence of methicillin-resistant *S. aureus* (MRSA) infection acquired during an inpatient stay, based on the criteria established by the regulator. The incidence of infection is low and has declined since the previous year to 5 cases in the year.

The hospital follows a standard process, based on recommendations by its regulator, to identify health care acquired infections. MRSA swabs are carried out at least three days before admission as an inpatient. The computer system is designed to prevent an inpatient record being created unless the MRSA swab test field has been completed. Patients' swabs are laboratory tested. Patients who test positive (indicating the presence of the pathogen on the skin) are subject to antiseptic body and nasal treatment by their general practitioner and retesting prior to admission. Patients are only admitted if their initial or subsequent swab test is negative unless surgery is urgent. If so, admission is made subject to precautionary measures such as re-starting antiseptic treatments ahead of admission and seclusion on admission.

All inpatients are evaluated by a clinician at admission and during subsequent patient contact for suspected MRSA infection (based on the clinician's judgment) and blood tests are ordered if infection is suspected at any time during the patient's stay. There are no formal internal controls in place to make sure that blood tests ordered are carried out or sent to the laboratory. However, the incidence of infection is low and ward sisters have confirmed that they check the patient notes each day and would follow up if no blood test results were received back within 24 hours.

On receipt of the blood test results from the laboratory, a nurse enters the results directly into the computerized patient record system using a unique username and password. No review or check of these entries is undertaken, and the system does not automatically log out previous users after a period of inactivity. At year end, the administration department runs a report to extract all records coded as MRSA+ during the reporting period. Those that do not meet the criteria (for example, those tested positive within one day after admission, rather than the three days after admission required by the criteria) are removed by the administration manager.

Further information comes to light during the performance of the assurance procedures described below.

As the practitioner is to obtain limited assurance over the reported information, the requirements of paragraphs 45, 46L to 49L, and 50 and 51 of the Standard are relevant and the practitioner may apply the thought process, discussed in paragraphs 273-277 of the Guidance, as set out below.

The practitioner's thought process when determining what evidence is needed and available

The decisions that may need to be made include, among others (see Chapter 8; paragraph 273):

- Whether the incidences of MRSA infection have been reported completely (i.e., all instances of MRSA infection acquired during an inpatient stay have been identified and reported), accurately (e.g., the patient details and the date of the diagnosis is correct) and in the correct period (i.e., infections identified during a previous or subsequent period have been excluded) in line with the specified criteria.
- Whether the MRSA infection rate exceeds, meets or breaches the target set by the regulator.
- Whether the disclosure and presentation of the MRSA infection rate is appropriate and places the subject matter information in context so that users of the information can understand how it has been measured.



What could go wrong may include:

- The MRSA infection rate indicator may not have been prepared in accordance with the required criteria, or it may have been misstated in error or deliberately (e.g., negative blood test results may have been recorded as positive results, resulting in an overstatement of the number of MRSA cases, or positive blood test results may have been omitted, resulting in an understatement of the reported MRSA cases).
- The hospital reports that it has exceeded, met, or breached target when it has not.
- The disclosure may be insufficient to be relevant, or it may be misleading.



The reasons for these being areas where a misstatement is likely to arise may include, amongst others:

- The preparer's lack of awareness of changes made by the regulator to the criteria.
- Lack of segregation of duties of personnel such that errors or deliberate misstatements may not be discovered or corrected.
- Lack of oversight or adequate internal controls over both clinical staff and administration personnel that would prevent or detect missed cases of infection, or prevent inappropriate actions or inappropriate reporting in the case of suspected or confirmed infections.
- Time constraints preventing proper attention to presentation and disclosure.



For the purposes of this example, the engagement partner is of the view that, as blood test results are either positive or negative, with no estimation involved, the evidence needs to be precise. Due to the low target (five or fewer cases per year), even one misreported or omitted case is likely to be material.

No specialist knowledge is considered necessary on the engagement team as no clinical judgments need to be made, but a knowledge of the regulatory requirements and criteria by the engagement team are essential.







The engagement partner and team may consider the following available sources of evidence (paragraph 274 of the Guidance):



- Reports from the on-site independent laboratory: The laboratory is a well-controlled, state-of-the-art laboratory with a good reputation. It provides services only to this one hospital, but its revenues come directly from the Department of Health; no fees are paid by the hospital, so the engagement partner considers it to be sufficiently independent and not likely to be subject to pressures from the hospital



to misstate laboratory results. The engagement team has been granted access to the laboratory's patient records, identifiable only by patient number.

- Reports generated internally by the hospital administration department: The engagement partner considers that, in view of the apparent weaknesses in internal controls in place over the process to identify, record and report cases of MRSA, these reports are not likely to be sufficiently reliable to provide the engagement team with the evidence needed. 
- Patient complaints and legal or regulatory correspondence: Due to the volumes involved and the possibility that the hospital may not retain all patient complaint forms, these are unlikely to be an efficient way to obtain evidence. 
- Minutes of meetings of the governors: The engagement team considers that these are unlikely to be a useful source of evidence as the governors base their decisions on the same report that is to be subject to assurance procedures. 
- Media search: The engagement team intend to do a media search to help identify whether there is any information that comes to light that might suggest a likelihood of misstatement in the subject matter information (for example, reports of legal proceedings by the family of a patient who acquired MRSA during an inpatient stay at the hospital, or reports of increased MRSA cases in the community, when that hospital is the only hospital in the community). The engagement partner agrees that the media search may be useful to help identify in which areas a misstatement of the subject matter information is likely to arise, or as a supplementary source of evidence, but it is insufficient on its own. 

When designing and performing procedures to obtain sufficient appropriate evidence, the practitioner's thought process may lead to the following conclusions (see paragraph 275 of the Guidance)

- As all inpatients undergo a swab test before being admitted, the risk of over-stated infections (i.e., the incorrect inclusion of those cases that were present before admission) is low. However, due to the lack of internal controls in place, there is a possibility that not all positive MRSA results have been included.
- The purpose of the particular procedure being considered is to obtain evidence for whether all identified cases of MRSA during the period have been included in the subject matter information.
- Consequently, for this procedure, it will not be of use to design the procedure to check from the reported information to the laboratory's blood test reports; the team will need to perform procedures from the laboratory reports to the reported MRSA cases included in the administration department's report as this will tell the practitioner whether all positive MRSA blood tests that meet the criteria have been included in the subject matter information (completeness assertion). 
- As the processes at the laboratory have not been identified as an area where a misstatement of the subject matter information is likely to arise, the practitioner may wish to perform a walkthrough to confirm their understanding of the process and then ask the laboratory to run a report from the laboratory's system for all those blood test records tagged as MRSA positive during the period.
- The engagement team plans to compare the entries on this report with the hospital's subject matter information, using patient numbers as identifiers. Any missing from the subject matter information will be followed up and investigated. 

- For this particular test, the practitioner considers that this will provide the evidence needed. It is a relatively simple procedure that will be able to be performed by a less experienced team member under the direction, supervision and review of a more experienced assurance practitioner on the engagement.
- However, as the internal controls are weak and there is some subjectivity in the reliance on clinician suspicion of infection to undertake blood tests, evidence about the completeness of reported post-admission infections may not be able to be obtained from the laboratory reports alone.
- The engagement team may also consider discussing with management whether there is any pending or current legal action against the hospital in relation to MRSA cases, or the team may consider carrying out media searches to consider whether there is contradictory evidence indicating that the hospital's procedures do not always detect MRSA infections.

When evaluating the sufficiency and appropriateness of evidence obtained (see paragraph.276)

For the purpose of this example, all except two of the positive blood tests on the laboratory report had been included in the hospital's subject matter information; these were queried and it was found that one blood test had been taken on the first day of the reporting period and related to a suspected infection noticed by the clinician on the last day of the previous period; the other one had been missed off the reported information. These were followed up by an engagement team member:

- The previous period item was checked to the previous period's reporting; it had been correctly included in that year's subject matter information.
- No explanation could be given for the omitted test. The patient notes showed no record of a blood test having been ordered or performed. Investigation of the edit history on the patient record showed that the record had been closed a few days after the blood test results had been sent by the laboratory to the hospital, but had been reopened and edited several months later by the ward sister. It could not be determined what changes had been made or the reasons. The ward sister says she cannot remember the details, but that she was asked by the clinician to make the changes.

There are a number of considerations and decisions the engagement partner may need to make in light of this new information, including the materiality and implications of the omission, and whether there is a need to perform further procedures. The engagement partner may reach the following conclusions:

- 1 misstatement in the context of 5 reported cases is material, especially as it changes the 'met target' to 'breached target', which may affect the regulator's decisions, and may also be of interest to the wider public reading the report.
- The circumstances suggest that the omission may not be as result of error, but that there may have been a deliberate attempt to remove it from the records. This calls into question whether other records could have been tampered with and why that might be the case. If it is deliberate, attempts are likely to have been made to conceal any other such activity and so it may be difficult to obtain further evidence.
- As this is a regulatory report, withdrawal from the engagement is not possible but there are some difficult decisions to be made and the engagement partner may want to consult further.



In this example, if testing had been performed only from the reported information to the laboratory reports, rather than the other way around, it is likely that the omission may not have been discovered as the assurance procedures did not address the question: 'What could go wrong?' or 'What type of misstatement might occur in the subject matter information?'

Example 8: Illustrating whether the information in the EER report results from the application of the criteria or whether it is ‘other information’

(Illustrates application of the Guidance at: Chapter 10; paragraphs 332-336; paragraphs 353-356)

Fact Pattern
<p>An extract from an entity’s EER report is set out below. For the purposes of the discussion set out below this fact pattern, the sentences have been numbered in parentheses. The practitioner is required to obtain reasonable assurance on the EER report. For this example, assume the criteria included a requirement to report “the water intake by the company in the reporting period, the change from the previous reporting period, and an explanation for the change”.</p> <p><i>‘(1) Water is needed to support all life, requiring us to use water responsibly for all our operations. (2) We monitor the water we use across all our sites for manufacturing, cooling, sanitation and landscaping, so that we can develop effective approaches to conserve water. (3) In 20X8, our water intake was 400 million gallons; an increase of 5 percent on the previous year. (4) This was mainly caused by growth in manufacturing across all our sites.’</i></p>

In this example, the practitioner may consider that sentence (1) is a general statement of accepted truth about the impact of water use on society and why the entity needs to manage its use of water. However, the applicable criteria may not explicitly require such information. The practitioner may consider, based on inquiry of the preparer, that the sentence is intended to be additional contextual disclosure explaining why responsible use of water is appropriate, and therefore is subject matter information that results from the preparer applying a disclosure criterion not explicitly made available to the intended users. The practitioner may consider that such a criterion is suitable and has been made available to intended users by general understanding.

Alternatively, the practitioner might consider, based on such inquiry, that sentence (1) is ‘other information’. In that case, if it can be identified as not subject to assurance and not integral to the subject matter information, the practitioner would address it in performing the requirement to consider the ‘other information’. Otherwise, the practitioner may conclude that as it cannot readily be identified as not subject to assurance or is integral to the subject matter information, it should be subject to assurance.

Whether the practitioner considers the sentence is subject matter information or ‘other information’, the practitioner considers the procedures that may be appropriate. Given that there may be little likelihood of it being materially misstated or misleading in this case, and that intended users may not pay much attention to it, the practitioner may consider that engagement risk relating to sentence (1) is already below the acceptably low level for the engagement. As a result, the practitioner may determine that the sentence does not warrant any significant attention or procedures to obtain evidence to be performed by the engagement team.

However, numerous statements of this nature may obscure or detract from information that is important to the intended users, resulting in an EER report that includes information that is not relevant to the intended users’ decision-making or that is not readily understandable. The engagement team may need to be aware of this as they perform their assurance procedures with the intended users in mind, and, as discussed



below, may wish to ask the preparer to remove such information or move it to another section of the EER report that is not subject to assurance.

Further, if it is 'other information' it should be able to be separately identified from the EER information subject to assurance. In this particular instance, it may not warrant further attention by the engagement team, but there may be circumstances when the 'other information' is not capable of being substantiated as it does not result from suitable criteria. In such a case, it is important for that 'other information' to be clearly delineated from the information subject to assurance as, otherwise, the intended users may have unwarranted confidence in statements made by the preparer if they believe that those statements have been subjected to assurance procedures (paragraph 353 of the Guidance).

Delineating the 'other information' may be able to be done by asking the preparer to move it to a separate unassured section of the report or to clearly separate or mark the information subject to assurance so that is clear what has, and what has not, been assured. Alternatively, the preparer may elect to delete information that does not result from the application of suitable criteria.

Sentence (2) is more specific to the entity, more factual and less subjective. However, again, it does not directly address the criteria and is unclear as to what 'monitoring' entails and what the entity regards as an 'effective approach'. The practitioner may ask the preparer to define more clearly in the qualitative subject matter information what these terms mean, so that the engagement team are able to design procedures to obtain evidence about the subject matter information.

For example, the preparer may agree to set out a clear explanation of what is included and excluded from 'manufacturing', 'cooling', 'sanitation' and 'landscaping'. The preparer may also set out in the subject matter information what constitutes 'monitoring', for example, as follows: *'We monitor the water we use as follows: all sites have meters installed, which are read by the site engineers each month and the water consumption reported to head office.'*

The head office sustainability team compares the actual consumption against expected consumption and actual production runs, and any unexpected variations are checked with the site engineers and explanations obtained. When water consumption exceeds expected consumption by more than x% over two consecutive months, a member of the head office team visits the site to discuss and implement a program of water-saving measures.

Such measures may involve reusing water from cooling for landscaping and for some sanitation purposes, installing leak detectors and rain butts, channelling rainwater run-off to the planted areas, etc. ...We apply a ranking to the sites so that we prioritize sites in water-scarce areas for the introduction of water-saving measures. Once water-conserving measures have been implemented, the water consumption post-implementation is compared with that pre-implementation to assess whether the measures have been effective and have reduced the water used...'

The engagement team would now be able to design and perform procedures to obtain evidence for these statements made by the preparer. If the preparer was not willing to make changes, the statements regarding the entity's monitoring of their water consumption would not be capable of being subjected to evidence gathering procedures, and would represent a misstatement that would need to be accumulated, along with other misstatements, and evaluated.

Sentence (3) contains quantitative information and sentence (4) qualitative information, which appear to result from applying the criteria, and appear to be capable of being subjected to evidence-gathering procedures. Sentence (4) is an explanation that may fulfil the requirements of the criteria if it is accurate,



complete and free from bias. As part of the evidence-gathering procedures, the engagement team may decide to corroborate this with data on manufacturing levels across the entity's sites. The engagement team may also want to obtain an understanding, through inquiry of management, of what else might have contributed to the increased water consumption, and, if necessary, perform further procedures to obtain evidence in relation to what they have been told.

The way in which the entity is reporting on its water consumption may be misleading to intended users. There is an implication in the EER information that the entity has taken steps to reduce its water consumption. If there is an increase in water consumption for reasons other than the stated growth in manufacturing, it would be misleading to mask those reasons with an explanation attributing the increase to increased manufacturing. The team may want to obtain sufficient evidence to be able to assess whether there are other factors contributing to the increased water consumption and, if so, how material the impact of those other factors might be.

For documentation purposes, the practitioner may choose to mark up a copy of the information being assured by identifying each different statement or paragraph that has been subjected to evidence-gathering procedures, and referencing each separately identified part of the subject matter information to supporting workpapers where the testing is documented.



Example 9: Illustrating practitioner considerations when the subject matter information comprises both non-financial and financial information included in an entity's Management Commentary, prepared using criteria based on both territory legislation and the GRI Standards

(Illustrates application of the Guidance at: Chapters 5; 8; 10; paragraph 271; paragraphs 273-277; paragraphs 337-341; paragraphs 342-356)

Fact Pattern

Company A is a listed manufacturing group which supplies, among others, the automotive industry, through its global operations. Under newly introduced territory law where Company A is headquartered, the company is required to include the following non-financial and financial information in its management commentary in relation to its operations worldwide:

- The salary gap between women and men; and
- Disclosure of taxes paid on a country-by-country basis.

The report is intended for users of the annual report and accounts, and for wider stakeholders.

The purpose of the new rules on salary gaps is to provide information to the public that discloses the differences in hourly rates of pay for male and female employees, and enables informed public dialogue about gender diversity and fairness in pay, and related company policies and strategies.

The purpose of the new rules on tax reporting is for greater transparency on where multinationals make their profits and where they pay their taxes, to allow governments to tackle corporate tax avoidance, which costs countries considerable amounts each year.

This information, included within the management commentary statement, is required to be externally assured each year.

The introduction of this new reporting requirement presents a challenge to:

- The company in developing suitable criteria to determine what to report, how to measure or evaluate the underlying subject matter, and how to disclose it; and
- The practitioner in determining whether criteria are suitable and in obtaining evidence.

For the purpose of this example, it is assumed that: the assurance engagement scope has been agreed to be the new information about salary gaps and taxes paid; reasonable assurance is to be obtained; the preconditions have been met; and the engagement has been accepted by the practitioner.

Extracts from Company A's draft reporting on the salary gaps and payment of taxes are set out below:

Taxes Paid Country by Country (extract)

We contribute directly to public finances through a wide range of taxes on our company, on our subsidiary operations in 15 countries, and on our other entities and business activities in a further 18 countries. We also make a significant indirect contribution through the taxes paid both by our employees and by the suppliers that our businesses support. Our decisions to set up operations in different jurisdictions are influenced by a range of factors beyond the local tax environment. These include political, economic and social stability, the availability of skills and cost of local labor, compliance with international human rights conventions, and the effectiveness of transport links, all of which are key to our ability to operate.

Governments put in place measures to ensure that multinational companies are not subject to 'double taxation' by being taxed more than once in relation to the same economic activity. They also require multinational companies to apply 'transfer pricing' rules to inter-company activities to ensure that profits are attributed for tax purposes to the countries where the relevant economic activity takes place.

In the table below, the direct tax contributions to governments are reported on an annual actual cash paid basis for each local market as we believe this to be the most meaningful metric to consider when assessing a company's role in funding public services. Tax and its associated accounting are complex, reflecting a wide range of factors such as deferred taxation, losses, group-level taxation, and provisions for uncertain tax positions. The cash payments or reliefs arising from those factors may not be realised until several years in the future, so there can be significant variance between a company's statutory reported numbers and the actual cash paid. The columns in the table are explained below.

Corporation tax paid is tax actually paid in the year on company profits.

Other direct taxes paid reflects other direct taxes actually paid during the year including: employers' national insurance contributions or equivalent; local authority taxes; sector-specific taxes; stamp duty on transfer of immovable property; value added tax; and customs and vehicle excise duties.

Country	Corporation tax paid (US\$m)	Other direct taxes paid (US\$m)	Revenue from third party sales (US\$m)	Profit/loss before tax (US\$m)
Australia	114	120	8,000	2,130
Belgium	21	33	1,135	54
Brazil	140	238	6,342	(980)
Estonia	79	108	258	4
Luxembourg	(4)	3	403	(521)
Poland	7	12	1,750	48
United Kingdom	0	335	16,430	3,920
...				

The Gender Pay Gap

We are committed to:

- Employing a diverse workforce that reflects the communities it serves, and
- Creating an environment where all our people are recognized for their unique talents.

Being part of a historically male dominated automotive industry, the company has had an uneven gender split between men and women until recently. In the past two years we have made significant improvements, and we are proud to have women involved in all areas of our business.

The gender pay gap is the difference in the average hourly pay or bonus of men and women in our workforce. It does not take into account the seniority of employees, the jobs they perform, or their length of service. The gender pay gap is different to an equal pay comparison, which is about being paid equally for the same role.

The mean gender pay gap is calculated as the excess (positive) or deficit (negative) of the average hourly pay rates for a male employee over that for a female employee in our company, expressed as a percentage of the average hourly pay rate for a male employee in our company.

The median gender pay gap is calculated as the excess (positive) or deficit (negative) of the median hourly pay rate for a male employee over that for a female employee in our company, expressed as a percentage of the median hourly pay rate for male employees in our company. The median hourly pay rates for male and female employees are the hourly pay rates of the male and female employee who would be positioned at the mid-point of a list of male or female employees in our company, listed in order of the individual's hourly pay rate.

	202[X]	202[X-1]
Mean Gender Pay Gap	-1.1%	1.0%
Median Gender Pay Gap	-3.0%	2.0%

The mean bonus pay gap is calculated as...

The practitioner's planning considerations

In planning the assurance procedures, the practitioner identifies four key challenges for the engagement as follows:

- Whether the criteria are suitable;
- Obtaining evidence;
- Evaluating misstatements in relation to qualitative information; and
- Addressing the 'other information' in the annual report and accounts.

Suitability of criteria (Chapter 5; Chapter 10)

Determining the suitability of criteria in this example presents a challenge to the practitioner because, while the legislation and related guidance specify:



- How the numerical calculation of the gender pay gap is to be performed, they do not specify what is to be regarded as an employee, whether pay is gross or net, or whether it is base pay only, or should include benefits.
- That taxes paid on a country-by-country basis are to be reported for all entities controlled by the company, and recommends certain frameworks as examples of 'acceptable' frameworks, they do not:
 - Specify that any of the frameworks must be used;
 - Define 'control', or refer to a definition of what it means for an entity to be 'controlled';
 - Specify what are to be regarded as 'taxes', so it is unclear if taxes are corporation tax only, or also value added tax, and other taxes and levies;
 - Clearly state whether the taxes should be reported on a cash basis, accruals basis, or as cash paid plus accumulated tax credits; and
 - Specify criteria for related disclosures.

Company A has therefore had to reach its own interpretation of the legal requirements, select a framework or frameworks to follow, or develop its own criteria to prepare and report the subject matter information. In considering the suitability of the company's criteria, the practitioner may want to obtain an understanding of what the company has done to select and develop its criteria. For example:

- Has Company A obtained professional advice on the interpretation of the new legal requirements?
- Have the company's stakeholders expressed views about how any of the requirements should be addressed or about the company's tax policies for particular locations in which the company operates?
- Has the company kept in mind the purpose of the legislation, when selecting or developing the criteria – for example, are there criteria that require taxes on sales to third parties and on intra-group transactions to be disclosed separately?
- Has management been involved in industry dialogue, or considered how other entities in the industry are implementing the requirements?
- Is there a commonly used, recognized framework, or are there interpretations, selection of frameworks, and reporting diverse?
- Has management considered recognized frameworks or principles that could be used as a basis for the development of further criteria, for example, the UNGP for principles around gender equality, and the OECD's base erosion and profit shifting (BEPS) project, or the GSSB's standard *GRI 207: Tax* for reporting the company's country by country taxes; and
 - Are any frameworks or principles selected by management suitable on their own as criteria or did they need further development?
 - Has the company followed those principles or been selective in using them, particularly if it is claiming to have reported 'in accordance with' a particular framework?

- For example, the GRI standard requires a number of topic-specific disclosures to be made, which Company A has not made: number of employees, fixed assets, net turnover, and income tax accrued, as well as paid, in the current year. If Company A has used the GRI standard as a basis for developing its criteria, how does management justify its omission of the other information required by that standard?
- Do the criteria developed cover the degree of aggregation or disaggregation with which the information is to be presented – for example, regional differences may be obscured if gender pay gap data is presented in aggregate for all countries, when there are widely diverse pay levels in different countries combined with regional differences in gender diversity?
- Are the criteria complete and accurate, for example do they address all genders with which members of the workforce identify, and specify an appropriate basis for gender classification?
- Do the criteria cover the need to disclose any measurement uncertainties involved or to explain its interpretation of 'taxes', 'control', and the reason for selecting a cash basis, rather than an accruals basis?
- Are there criteria for the qualitative information to be included with the reported metrics? (paragraphs 332-336).



As the obligation to report these matters is new, is the company still refining its criteria as it prepares the subject matter information, and during the assurance process? If so, are any changes being made retrospectively to enhance the suitability of the criteria or to present the company in a particular way?



Obtaining evidence (Chapters 8;11)

Obtaining evidence presents a challenge to the practitioner because the requirements are relatively new and the company may not yet have an adequate reporting system and related controls in place to identify, measure and report the information from a large number of different territories, completely, accurately, and on a like-for-like basis. There may also be restrictions in some territories on making the information available. There are a number of questions, in addition to those about the reporting system and related controls in place, that the practitioner may want to consider:



In relation to country-by-country taxes paid:

- How is the information measured and reported – for example, is it extracted from the underlying accounting records or from audited financial statements, and is it extracted 'as is' or are there alterations made to it?
- If simply extracted, is the materiality applied in financial reporting appropriate in the new context? There may well be a different threshold for materiality than that used for financial statement purposes, if this information:
 - Is to be used by tax authorities;
 - Is non-compliant with legal requirements; or
 - If the company has fairly insignificant revenues and profits and taxes from a country, compared to other countries, but the taxes paid by the company are material within the context of that particular country.



- Are there any incentives for management to misstate or present the information in a biased way - for example, if it has had a policy of seeking tax planning incentives to reduce taxes in countries where there are high tax rates?
- In relation to qualitative subject matter information, does it result from the application of suitable criteria, is it able to be subjected to evidence-gathering procedures, and is it consistent with the numbers presented? For example, there may be criteria that require explanation about why taxes paid are particularly low relative to profits.

What evidence can be obtained for the statements about the company's decisions to set up operations in different jurisdictions, and how those decisions are influenced by the range of factors mentioned?

In relation to gender pay gap:

- Are the employees included in the calculation as defined in the criteria, or are there, for example, exclusions of eligible employees, or inclusions of ineligible ones? As part of the assurance procedures performed, the practitioner may want to check a sample of employees:
 - From the payroll records to check if the employees are included on the list of employees used for the gender pay gap calculation;
 - From the list used in the calculation to the underlying payroll records to check whether the employee is eligible for inclusion in line with the criteria; and
 - For classification correctly as a man or woman.
- Are the hours worked as defined in the criteria – for example do they exclude overtime when the criteria specify that overtime is excluded?
- Is the pay used to calculate the metric as defined in the criteria? Assurance procedures may include checking:
 - From the report used to calculate the metric to payroll records to check that only eligible pay is included; and
 - From payroll records to the report used to calculate the metric to check whether any eligible pay has been omitted from the total figure used in the calculation.
 - Whether the pay included in the calculation is pay that relates to the reporting?
- Are women and men's hours and pay included in the calculation on the same basis?
- Have the numbers in this metric been calculated in accordance with the 'rules' for calculation?
- Are the qualitative disclosures supported by evidence, and consistent with the numbers presented?

Evaluating misstatements in relation to qualitative information (paragraphs 342-352)

Evaluating misstatements in the qualitative information that accompanies the new metrics is challenging because there are incentives for the company to present their metrics in a favorable light. The relatively principles-based criteria afford management scope for bias in presenting the information in a manner that may be designed to influence user-decision making. Judgments about the significance to user decision-making may therefore be difficult.



For the purpose of this example, the practitioner has completed their work on the gender pay gap numbers and is satisfied that they have been calculated in accordance with the criteria, and there is evidence to support the aggregate numbers presented.

The practitioner has also done some work on the narrative description presented together with the numbers, and has raised a point for discussion with management. The practitioner has observed during a number of production site visits during the performance of the financial statement audit each year, that there did not appear to have been a noticeable increase in the number of female employees in the factory.

The practitioner was curious about this and, on checking the company's payroll records, noted that there was not a significant number of female employees on the production payroll records, yet the reported gender pay gap metrics were showing a marked decrease in the metric, and slightly higher female earnings. The narrative does not explain this.



The practitioner is of the view that the disclosure is not in line with the company's stated disclosure criteria to 'tell it like it is' and could be misleading to users. The practitioner expresses their concern to management and asks for the gender pay gap qualitative subject matter information to include sufficient disclosure to enable a proper understanding of the numbers by users of the information. The practitioner also raises with management whether the criteria for measurement are sufficiently relevant. For example, presenting the gender pay gap metrics at a lower level of disaggregation such as presenting metrics separately for employees in production and commercial functions.

Management agrees to make the amendment to their disclosure as marked up below (in strikethrough for deletions and blue text for additions) to meet their criterion for unbiased, informative narrative disclosure, but believes that the criteria do not need to be amended to present disaggregated metrics in light of such changes. The practitioner accepts management's position on the criteria but may want to consider whether any further work is needed to obtain further evidence about the amended disclosures.

We are committed to... [no change needed]

Being part of a historically male dominated automotive industry, the company has had an uneven gender split between men and women ~~but that has begun to change until~~ recently. In the past two years we have made ~~some significant~~ improvements, and we are proud to have more women involved in ~~all areas of~~ our business.

However, our analysis shows that women are most likely to join us at graduate level and work in our commercial functions, with good progression to management levels, with relatively high pay rates. The turnaround in our gender pay gaps reported in 202[X], which favour women, from those reported in 202[X-1], which favoured men, reflects a relatively low but growing female to male employee ratio, and an adjustment to staff pay in our commercial functions, particularly at senior levels, which are typically occupied by our female employees. We are working towards greater gender balance across the whole of our business, and continue to focus on addressing the gender pay gap. We acknowledge that it may take time to recruit, train and promote a more gender balanced workforce, but we remain committed to achieving a better balance across all areas of our business and at all levels of our workforce.

Addressing the 'other information' in the annual report and accounts (paragraphs 353-356)



Addressing the 'other information' in the annual report and accounts may be potentially challenging for the practitioner because the subject matter information (the gender pay gap information, and the information

on country-by-country taxes paid) is required to be reported within the 'Management Commentary' section of the company's annual report and accounts. Therefore, the information in the management commentary other than the subject matter information, as well as the financial statements and other reports included in the annual report and accounts, which are not audited or assured by the practitioner, will comprise other information. The practitioner may need to carefully address the following matters in relation to this extensive other information:

- Whether the subject matter information is clearly distinguished from the other information in the Management Commentary, so that it is clear to users of the practitioner's assurance report that such 'other information' is not addressed by the assurance engagement.
- The practitioner is required to read all the other information in the Management Commentary, and in the financial statements and other reports included in the annual report and accounts to identify material inconsistencies, if any, with the subject matter information. There are likely to be relationships between the subject matter information and various aspects of the other information.
- The practitioner may therefore find it helpful to consider where these relationships are most likely to exist in the other information. This may enable the practitioner to assign elements of the other information, where material inconsistencies, if any, are more likely to occur, to individuals with the appropriate subject matter competence, which may include any practitioner's expert whose work is being used.
- If the practitioner identifies any material inconsistencies or becomes aware of any material misstatements of fact in the other information, the practitioner is required to discuss the matter with the preparer and to take further action as appropriate. Determining what further action to take is appropriate may be challenging.
- For example, the practitioner may identify other statements in the management commentary or other reports in the annual report and accounts that address the company's strategic objectives and actions relating to workplace safety or gender diversity and related pay fairness.
- Reading those elements of the other information may lead the practitioner to identify a material inconsistency between qualitative disclosures in the other information about the company's employee gender diversity strategy, and related actions the company has been taking to address this, and the revised qualitative disclosures about the gender pay gap metrics management has proposed in response to the misstatement identified by the practitioner.
- Following discussion of such an inconsistency with management, and the performance of further procedures by the practitioner on the qualitative disclosures in the other information about gender diversity strategy and related actions, the practitioner may conclude that those disclosures contain a material misstatement of fact. The practitioner may consider that further action that would be appropriate in the circumstances would include requesting management to correct the misstatement.

Example 10: Illustrating considerations for the practitioner in using the Integrated Reporting Framework as criteria

(Illustrates application of the Guidance at: Chapters 3; 4; 5; 8; 10; 11; paragraphs 271; 273-277; 337-341; 342-356; 373-386)

Fact Pattern
<p>Entity A is a traditional retailer operating in-store in several countries and, more recently, online. Entity A competes in the fashion sector and is not considered to be a market leader. Entity A is listed in Country A, where the market capitalization ‘norm’ for market leaders in the retail sector is around 3 times net assets in the audited balance sheet. Entity A’s current multiple is 1.5 times its net assets, but management believe that Entity A’s true value is a further 20% premium to its current market capitalization. It attributes the undervaluation to the lack of full market awareness and understanding of, among other matters, Entity A’s:</p> <ul style="list-style-type: none"> • Quality of strategic management, governance and other key business processes, systems, people and controls; • Strategy to grow products and services, particularly through its fast-growing online business; and • Motivated and well-trained customer service teams. <p>As a relatively young retailer, Entity A reports internally on several strategic key performance indicators (KPIs) but, until recently, had not made much progress on reporting these externally, although it did report on one or two selected KPIs. Market leaders typically prepare external integrated reports that highlight their unique capabilities, including, among other matters:</p> <ul style="list-style-type: none"> • Digital and data capabilities, which they use to create a strong customer insight function; • Customer satisfaction; and • Engagement and strategic alignment of their people. <p>Entity A is less advanced than market leaders, in its digital capabilities, but is heavily focused on customer satisfaction and on ‘bringing its workforce along’ as it grows the business. However, unlike its competitors, it has not articulated its business processes and performance externally. Media reports and ‘Twitter’ feeds during the year have raised some concerns about Entity A, relating primarily to:</p> <ul style="list-style-type: none"> • Customer dissatisfaction; • Poor supply chain safety record; and • In light of Entity A’s perceived profile, executive directors being overpaid. <p>Entity A has dismissed these as uninformed speculation but has recognized the critical importance of effective communication with its shareholders on matters beyond the financial statements, and with a holistic focus on ‘The Business’ of Entity A. Entity A already has in place a comprehensive set of governance structures and practices, guided by the corporate governance principles of its regulator, to promote high ethical standards, rigorous internal review and deliberation, and sound decision-making in all key areas of Board activity.</p> <p>Entity A has continued to invest in its systems and processes, so that it is able to report externally in a way that will enhance investor and other stakeholder understanding of the value created by Entity A’s</p>

business, performance and prospects. Entity A believes that external integrated reporting will give rise to benefits, in terms of enhancing both its underlying business processes and the perceived value of Entity A. Entity A has prepared its first Integrated Report, for the current year, on a voluntary basis. The financial information included within it has been extracted from the audited financial statements. It has used the International Integrated Reporting Framework, supplemented with its own criteria set out in its basis of preparation, to prepare its integrated report, and has asked for reasonable assurance on the whole report.

The engagement partner has been the auditor of the financial statements of Entity A for a number of years and has a good knowledge of the business and its environment, system of internal control, and quality of the financial information. The engagement team also have a good knowledge of the business from their work as financial statement auditors and have good experience in the retail sector.

Like other retailers' integrated reports, Entity A's report is largely qualitative, setting out Entity A's description of its business model, strategic objectives, and external environment. It is presented on Entity A's website, with hyperlinks between sections of the report, and to other web pages, both internal and external to Entity A.

Three extracts of Entity A's integrated report, relating to Entity A's purpose and strategy (A), customer relationships (B) and Governance (C), are set out below. Entity A had previously reported externally on, among other selected KPIs, an employee safety KPI (the 'supply chain lost time due to injuries in factories' or 'SCLTI' KPI) also reported by its industry peers, but has not included this KPI in the current year's report.

A. Our Purpose, Our Strategy (extract)

As a retailer of fashion clothing, our business model is to procure merchandise from third-party suppliers, and to sell it to consumers through our network of retail stores and online platform. Our purpose is to provide exclusive and aspirational fashion brands to trend-setting consumers. Our business model distinguishes us from our industry peers in the countries where we operate.

We aim to expand our business to be a world-class multi-channel retailer of fashion clothing, accessories and homeware, operating across the globe. Our strategy is aimed at broadening our product portfolio and customer base to create a diversified earnings profile, and greater value for our shareholders and other stakeholders.

We have applied our strategy consistently during the reporting period, and it remains appropriate for the year ahead. Medium-term strategic plans are developed by the Board and are determined in relation to Entity A's: business model; vision and purpose; identified material issues and the related risks and opportunities; macroeconomic conditions; and competitive forces. Our key medium-term strategic plans are summarized below, together with how we are addressing them:

EER Support Material: Illustrative Examples of Selected Aspects of EER Assurance Engagements

Medium-term strategic plans	Optimize account activity	Develop multi-channel capability	Enhance supply chain management	Diversify portfolio
<i>How we delivered against our plans in 202X</i>	<p>New store card applications exceeded 2 million for the first time; approved applications increased by 25%</p> <p>Improved collections management; lower bad debts – see also: Financial ratios</p>	<p>Launched online platform with new website going live at the end of first quarter; turnover generated online in 9-month period equivalent to annual sales of a large flagship store – see also: Sales by store</p>	<p>Consolidation of raw material sourcing to improve value for customers</p> <p>Significantly increased local procurement and manufacturing to minimize transport costs and shorten lead times</p>	<p>Expanded presence in Europe with opening of two retail stores</p> <p>Acquired home accessories brand 'My LuXLife'</p>
<i>Plans and priorities for the coming year</i>	<p>Improve new accounts decision-making</p> <p>Integrate online activity to provide holistic view of customer profile to grow profit across both bricks and mortar and online businesses</p>	<p>My LuXLife to be e-commerce-enabled and new identity developed for website launch in third quarter</p>	<p>Offer better value to customers through continued focus on strategic fabric purchasing and supplier consolidation - see also: Our customers at a glance</p>	<p>Refine My LuXLife product offering and test new store concept</p>

B. Our Relationships (extract from customer relationship sub-section)

Our customers at a glance	
1.8 million active account customers	5.2 million loyalty program members
0.2 million online customers	
<i>What our customers like</i>	<ul style="list-style-type: none"> • Our trend-setting fashion • Our loyalty program rewards • Our visually appealing stores and store opening hours • Our easy-to-use website • Our customer service experience
<i>Where we could continue to improve</i>	<ul style="list-style-type: none"> • Merchandise pricing • Wider range of online merchandise
<i>How we are addressing areas for improvement</i>	<ul style="list-style-type: none"> • We are actively managing our supply chain to procure good value, sustainably sourced fabric, and are using mostly local manufacturers to manufacture our garments • We are widening the choice of online shopping • We have extensive engagement with our account and loyalty program customers through our in-store interaction and customer services call center. We have introduced a 'chatbot' function on our website to give customers instant access to the answers they need. Our resolution time for all customer queries will be under 24 hours, and we aim to maintain our customer rating consistently at 'very good' or above.

C. Governance (extract of Remuneration Committee Report)

The Remuneration Committee, comprising three independent non-executive directors, has oversight of Entity A's remuneration practices and policies. The committee is responsible for reviewing, recommending and approving the remuneration of both executive and non-executive directors. The committee reviews Entity A's remuneration strategy annually to ensure it remains aligned with the objective of enhancing shareholder value. The strategy focuses on attracting and retaining a high-performing executive team, and appropriate balance between guaranteed and variable remuneration,

and between short and longer-term performance and remuneration that reflects the short- and long-term objectives of Entity A.

Guaranteed remuneration is determined in relation to employment market norms. Entity A uses the services of a firm of independent professional advisors to benchmark our remuneration practices for both executive and non-executive directors against comparable listed companies. The current peer-listed retailers used as comparators are the following [peer companies listed]. Variable remuneration is set on the basis of...

Entity A's remuneration policy and implementation report are required to be approved by separate non-binding advisory votes at the AGM. Should 20% or more of the votes cast be against one or both of the associated resolutions, Entity A engages with shareholders to determine the reasons for the dissenting votes, and discloses the steps Entity A has taken to address legitimate and reasonable concerns in the following year's Remuneration Report. No material issues were raised by shareholders and therefore no action was required in the reporting period to address issues. The following salaries and allowances were paid to executive directors during the year ended xx 202X...

Part A: The practitioner's considerations pre-acceptance

The engagement partner is required to establish whether the preconditions for the assurance engagement are present. The key question in the engagement partner's mind is: 'Is Entity A ready for integrated reporting; does it have a reasonable basis for its integrated report?' The engagement partner already has a good knowledge of Entity A from the financial statement audit, but wishes to extend their knowledge before making a decision about accepting this engagement. The underlying subject matter is 'the business' of Entity A, which involves considerations wider than those in a financial statement audit. The engagement partner therefore suggests a separate non-assurance pre-acceptance engagement ('readiness assessment') to Entity A, to inform their acceptance decision. Entity A agrees to a separate engagement, during which the engagement partner plans to obtain an understanding of the governance, processes, systems and related controls in place to prepare the integrated report. This will include how the entity identifies reporting topics for inclusion in its report.

The engagement partner makes it clear that the purpose of the proposed assurance engagement would not be to provide an opinion on whether the strategy is the right one, or whether the reported outcome will be achieved, as it will not be possible to obtain evidence to support such conclusions, but to reach a conclusion on whether Entity A's integrated report has been prepared in accordance with Entity A's disclosed criteria. At the end of the pre-acceptance engagement, the engagement partner will make a decision about whether the preconditions are present and whether to proceed with the assurance engagement. If the preconditions are not present, Entity A has agreed that they will take remedial action to prepare for assurance in the following year. The engagement partner makes a few notes, including those below, for follow up during the pre-acceptance engagement:

- *Talk to CEO and Board about why they are preparing the integrated report and for whom.*
- *Ask for Entity A's documentation of its business – i.e., the 'What', 'With' 'How', and 'Why' of its value creation (purpose, strategy, risks and opportunities, resource allocation and relationship management, business model). For whom was the documentation prepared and how it is used internally by the company?*



- *Ask for criteria used for their Basis of Preparation and Presentation note in the integrated report, and in deciding what to include in the report, and documentation of how they identified reporting topics for inclusion, and what those topics are. Would we have expected to see anything else here, based on what we know from the audit?*
- *Discuss the governance, processes, systems and controls in place over (i) what is to be included, (ii) how it is to be evaluated and presented in the report and (iii) what evidence is retained. Ask for documentation of the information systems – e.g., are there flowcharts, policy manuals, organizational charts? How do the different financial and non-financial reporting systems underlying financial reporting, sustainability reporting and integrated reporting integrate with each other?*
- *Ask what third party information they use – I am aware that they use some industry benchmarks for comparison with their competitors – what benchmarks and source? We'll also need to understand how customer satisfaction surveys are carried out, and what expectation there is of being able to obtain evidence for the information prepared for Entity A by the third party.*
- *Document omissions or weaknesses that we identify as we'll want to report those to management.*

The engagement partner would like the same 'core' engagement team to perform the pre-acceptance engagement and the assurance engagement (if the assurance engagement is accepted), so that there is continuity of understanding, but would also like to include sufficient specialist integrated reporting assurance competence on the team as this is the first integrated reporting engagement the engagement partner is performing. Other subject matter expertise (e.g., in strategy, business process or risk management) that may be needed will be considered further during the planning stage of the assurance engagement.

For the purpose of part B of this example, it has been assumed that:

- The engagement partner has established that the preconditions for assurance are present, and the assurance engagement has been accepted, and
- Based on the documentation inspected and the walkthroughs that the engagement team decided to perform during the pre-acceptance engagement, there is an expectation that the system of internal control relevant to Entity A's integrated reporting process has operated effectively. This will allow the engagement team to test the relevant controls.

Part B: Practitioner considerations after accepting the assurance engagement

The practitioner's considerations

The engagement team planning discussion highlights that an integrated report is inherently a future-oriented report as it reports on an entity's ability to create value for its investors over time. This will have implications for the assurance approach, and the nature of the evidence that the team may need to obtain and consider. The engagement partner emphasizes that the engagement team's focus will be on obtaining evidence about:

- Whether the governance, processes and internal controls are appropriately designed, and have operated as designed throughout the reporting period to provide a reasonable basis for the subject matter information.
- In relation to future-oriented information (see paragraphs 373-386), that:
 - The assumptions used to prepare future-oriented information are reasonable – this may mean:



- Including subject matter experts on the engagement team when the underlying subject matter is complex or subject to a high degree of uncertainty; and
- If management has used their own experts, the need to consider the competence, capabilities and objectivity of those experts, obtain an understanding of the experts' work, and to evaluate its appropriateness as evidence, as required by paragraph 54 of the Standard.
- The base data used is reliable - the engagement team may be able to use the work of the financial statement audit engagement team, for example when the underlying data has been subject to assurance procedures as part of the financial statement audit, or when it comes from the financial reporting system or other reporting system where the internal controls have been found to be operating effectively.
- The future-oriented information presented has been calculated in accordance with the stated assumptions and basis of preparation.
- The information reported reflects the reality of Entity A's circumstances, for example:
 - The reported strategy is Entity A's real strategy as evidenced by their internal strategy documentation, minutes of meetings, focus of activities; and
 - The KPIs presented are those that management really uses to run the business, and have been measured and reported in line with the stated basis of preparation.
- Entity A's actual circumstances support the reported ongoing purpose and competitive advantage in light of, for example, known or expected changes in Entity A's external environment or planned operating model.

Governance and internal controls (Chapter 6)

The assurance approach will focus in more detail than during the readiness assessment on understanding the governance, processes and internal controls in place to prepare the subject matter information as Entity A's reporting structure is complex. The processes and controls to be considered by the team will be those over both qualitative and quantitative information. For example, the engagement team plans to:

- Understand the processes in place to identify, select, measure or evaluate, and collate the information in relation to each of the matters reported on, for example, strategic objectives, risks and opportunities, critical activities within key business processes, and outputs and outcomes.
- Confirm their understanding of the reporting systems over information about Remuneration Committee policies and processes in place, activities and decision-making, and whether they are likely to be a relevant and reliable source of evidence that the stated policies and processes were followed in practice, and information about them and related activities and decisions of the Committee have been appropriately disclosed.
- Consider what assurance procedures have been performed by the audit engagement team in relation to internal controls over financial reporting, the results of those procedures, and whether the operating effectiveness of different, or additional, controls may need to be tested.
- Evaluate the design of any relevant non-financial internal controls and determine whether they have been implemented. If so, test their operating effectiveness – the engagement team's preliminary view is that such controls may include those over the measurement and reporting of the number of new



customer applications, number of customer queries, time to resolution of customer queries, loyalty program numbers, the design and conduct of customer satisfaction surveys (whether conducted 'in house'; or outsourced to a third party).

- Consider whether internal controls over the interface between the financial and non-financial reporting systems may need to be tested as part of the team's evidence-gathering: for example, those over the transfer or extraction of the information from the audited financial statements, and around the level of aggregation or disaggregation of the subject matter information.
- Perform evaluation of design and implementation, and operating effectiveness testing, of internal controls over online activity as Entity A has only recently established its online presence and this is an area where substantive testing alone is unlikely to provide sufficient appropriate evidence.

Obtaining evidence (Chapters 8; 10-11)

Evidence from testing the operating effectiveness of relevant controls

Financial information

Relevant controls over Entity A's financial information tested during the financial statement audit, covering the same period as the integrated report, were found to be operating effectively and are expected to provide evidence that is relevant in concluding on the financial information included in the integrated report. However, additional substantive testing of certain specific financial information will be carried out as the underlying information processed is being presented on an adjusted basis in the integrated report, compared to its presentation in the financial statements.

Customer relationship information (non-financial)

The engagement team's testing of the operating effectiveness of internal controls over the non-financial customer relationship information has not resulted in any exceptions, and the engagement team were able to conclude that the relevant controls tested were operating effectively.

Supply chain safety information (non-financial)

When performing procedures to test the operating effectiveness of relevant controls over supply chain safety information, the team found one exception in the effectiveness of a management review control over the process for identification of relevant KPIs. The process identified the SCLTI KPI (see fact pattern above) as one commonly used across the industry, including by its peers, which was no longer being reported by Entity A, but there was no explanation for the omission of this KPI from the integrated report. It appears that the recent media reports are largely to do with the omission of this information.

The engagement team is concerned that: (i) the processes and internal controls did not prevent or detect and correct this omission; and (ii) this may have resulted in biased information being reported.

On further inquiry, management explained that Entity A had switched most of its procurement activities to its local manufacturers from its central procurement function during the year. Collaboration with local manufacturers to implement a safety education program for themselves and their suppliers, and putting in place health and safety audits for local manufacturers and their suppliers, has resulted in injury rates in the supply chain that were very low during the current year, under the new arrangements. Management is of the view that including the SCLTI KPI with comparative information would be more likely to appear biased than not including it at all, as it would in their view be misleading to compare performance on this KPI under



the new procurement and supply chain safety management arrangements with that under the previous arrangements, given the significant changes in the arrangements.

The engagement partner considers that this explanation raises a number of questions, and debates the new information provided by management amongst the engagement team. The engagement partner considers that omission of this information could influence user decision-making, and questions whether the criteria are sufficiently relevant if they do not require the current year performance to be reported.

The engagement team also questions management's view that it would be misleading to compare performance between the two years. Comparability relies on consistency of measurement but should result in different outcomes in different circumstances. Providing performance information on the same measurement basis for both years, together with disclosures about the changes to the procurement and supply chain safety management arrangements ('new supply chain arrangements'), would enable users to compare the efficacy of management's new arrangements in the new circumstances with that of the previous arrangements in the previous circumstances.



The engagement team also notes that the disclosures under "*How we are addressing areas for improvement*" in extract B above omit to mention the implementation of the new supply chain arrangements during the year, and instead simply state "*We are actively managing our supply chain ... and are using mostly local manufacturers to manufacture our garments*".

The engagement partner identifies a heightened need for professional judgment and professional skepticism, recognizing that there could be a motivation for Entity A to reduce comparability with other entities in the sector, to hide poor performance in the past by omitting the SCLTI KPI, comparative information and related disclosures. Given that this issue is identified by the Entity A as an area for improvement, it seems plausible to the engagement partner that Entity A's performance was weaker in this area in the prior year and that this weakness could have continued in the current year, at least prior to and during the transition to the new arrangements.



Based on further inquiries of management, the engagement team establishes that management has continued measuring this KPI for some years. Internal measurements show that performance in this area had deteriorated sharply over the last three years and that this had been the primary reason for implementing the new supply chain arrangements. The engagement partner concludes that in their view the criteria are not suitable because they would not be sufficiently relevant without disclosure of the SCLTI KPI with comparatives and related disclosures explaining the factors that contributed to the change in performance during the year.

The engagement team therefore asks management to change Entity A's reporting criteria to include the SCLTI KPI, together with comparative metrics and related disclosures. The engagement team also requests management to enhance the disclosures in extract B above to clearly describe the changes to the supply chain arrangements implemented during the year. In order to meet the principle of connectivity in the integrated reporting framework, the engagement team also requests that the criteria should call for linkage between these disclosures and the SCLTI metrics and related disclosures to be reported.

These requests are agreed to after a three-way discussion between the engagement partner and Entity A's management and those charged with governance. The engagement team plans further procedures to obtain evidence about the enhanced information to be included in the integrated report.

Evidence from performing substantive procedures

In line with the assurance engagement plan, the engagement team also plans to obtain evidence about the customer information in the Extracts above through performing substantive procedures to:

- Inspect company documentation, such as strategy documents and minutes of Board meetings to determine whether the reported information about Entity A's strategy, business model, risks and opportunities is in line with those documented and discussed internally, and is consistent with what the engagement team knows about Entity A's business, its industry, competitors, and economic conditions in the locations it operates in.
- Obtain evidence about the claim made by Entity A: 'Our business model distinguishes us from our industry peers in the countries in which we operate', and, if there is evidence to support it, whether there needs to be further disclosure made here to enhance understandability.
- Consider the consistency of reporting across different capitals, and, where there are different 'messages' whether those are appropriately explained. For example:
 - The integrated report states that bad debt is down, so the engagement team plans to confirm that this accords with the financial statements, and with financial ratios presented in the 'Financial Capital' section of the integrated report.
 - Reported sales have decreased, and the engagement team plans to consider any explanation in the integrated report that will enable users to understand why reported sales of merchandise have decreased despite an increase in customer account activity and significant online sales - for example, this could be explained by channel switching activity, a different customer profile, different merchandise on offer, or by a loss of sales to competitors.
 - The engagement team plans to establish whether the reported opening of two retail stores in Europe results from the acquisitions and disposals of businesses reported in the financial statements or from new store openings.
- Obtain evidence from the output of customer satisfaction surveys and whether these have been accurately and completely reported, and warrant inclusion in the 'What our customers like' section. The engagement partner is skeptical because, in the section 'How we are addressing areas for improvement' customer satisfaction is discussed. Further, the information in that section appears to be reported as an aspiration or 'as management would like it to be', rather than as it is.
- Consider the prominence given to what customers say they like as this may result in a misleading or confusing picture for users.
- Regarding the links provided within the reported information:
 - Consider whether the linked information forms part of the scope of the assurance engagement; and
 - If so, then appropriate assurance procedures will need to be performed; or
 - If not, appropriate procedures will be needed to consider the 'other information' and whether it has been segregated and identified as not being part of the assured information, so that users do not assume that is part of the assured information.



Example 11: Illustrating practitioner considerations in the context of a public sector performance statement

(Illustrates application of the Guidance at: Chapters 1; 3; 6; 8; 9)

Fact pattern
<p>A government health organization (Entity A) is required by law to report, and obtain reasonable assurance, on its statement of service performance. The service performance information is reported on four service types (for example, preventative services) and several measures are reported for each service type, recognising the funding received, government priorities and Entity A's priorities. The reported measures include the health targets set by the government. For the purposes of this example, the practitioner has obtained sufficient appropriate evidence for all reported measures except for the two identified below.</p> <p>Entity A is responsible for monitoring, evaluating and reporting to the government on service delivery, which has been provided by independent primary health care providers on behalf of Entity A, as well as services provided directly by Entity A. One of these government health targets is "Better Help for Smokers to Quit". Two measures against which Entity A evaluates health care performance provided on its behalf by independent primary health providers include:</p> <ul style="list-style-type: none"> • The percentage of patients, who identify as smokers, who have been offered advice from their primary health provider to stop smoking in the last 12 months; and • The percentage of pregnant women, who identify as smokers, who upon registration with their lead maternity carer were offered advice and support to quit smoking. <p>The health targets set by the government for the year were:</p> <ul style="list-style-type: none"> • 90% seen in primary care provided with advice to quit; and • 90% of newly registered pregnant women provided with advice to quit. <p>Entity A measures performance against agreed targets using a rating system. A rating of "Achieved", indicated by a green marker next to the performance measure, is presented where the measure is on target or better. A rating of "substantially achieved", indicated by a blue marker next to the performance measure, is presented where the measure is within a range of between 0.1% - 5% of its target.</p> <p>The measurements reported in the statement of service performance are 91% and 96% respectively, with Entity A reporting a rating of "achieved" (green) for both measures.</p> <p>These measures rely on information provided by independent primary health providers, including family doctors, about the numbers of patients seen or newly registered with them, on behalf of Entity A, who identify as smokers, and whether they were provided with the relevant advice during the reporting period. Entity A's control over this information is limited. The information provided by these independent primary health providers is not subject to an assurance engagement by the practitioner.</p>

The practitioner's considerations when determining whether the preconditions are present

The practitioner considered whether they expect to be able to obtain the evidence they need to conclude on whether the service performance metrics: reflect the advice actually offered; reflect all the advice offered; and accurately reflect the percentage of patients who were offered advice in the current reporting period.

(See paragraph 24(b)(iv) of the Standard). The practitioner considered whether Entity A or the government's health department had processes and controls over the accuracy of the information provided by independent primary health providers (Chapter 6; paragraph 225). The practitioner also considered whether they expected to be able to obtain evidence from external information sources (such as the patients themselves) about the accuracy of the information provided to Entity A by such independent primary health providers.

Given that this was a recurring engagement, the practitioner already had limited expectations that evidence could be obtained from external information sources (such as patients) with respect to the accuracy assertion, and the practitioner also understood that there were only limited processes or controls relevant to that assertion in place. As a result, the practitioner determined that they did not expect to be able to obtain the evidence needed to support a reasonable assurance conclusion for these measures.

The public sector audit organization is required by law to accept the assurance engagement of the public sector body, even though the practitioner could not determine that all the preconditions were present (see paragraphs 122-123). In his example, the practitioner expresses a qualified opinion on the identified measures, not considered to be pervasive throughout the service performance information, because of the limited controls on information from independent primary health providers. For example:

“Some significant performance measures of Entity A rely on information from independent primary health providers. The primary care measure that includes advising smokers to quit relies on information from family doctors that we are unable to independently test. Entity A's controls over this information is limited and there are no practical procedures to determine the effect of these limited controls.

In our opinion, except for the effects of the matters described above, the service performance information is presented, in all material respects in accordance with the identified criteria for the year ended [date].”

In addition, the practitioner raises the matter with Entity A's management and those charged with governance, and with the government health department, to consider what sources of evidence could be made available in future, and considers whether to use any additional legislative reporting mechanisms they may have that provide more extensive reporting powers to stakeholders in the public sector, such as parliamentary or other legislative committees, audit and risk committees and other stakeholders including the general public.

Through such discussion, the practitioner understands that, going forward, the government health department is updating its centralized processes and systems, to facilitate capture of the data required at source, for example during patient consultations.

The government health department's internal audit function also agrees that they will confirm to the government health department that the systems and controls are working appropriately, as they regularly audit information received from independent primary health providers.

The government health department's assurance practitioner agrees to perform work to confirm that the internal controls are working appropriately and will provide a report to the practitioner and other assurance providers of all health organizations, including Entity A, as to whether the controls can be relied upon.

As a result, the practitioner may be able to evaluate whether the work is adequate for the practitioner's purposes and in future may expect to be able to obtain the evidence needed through using the work of the government health department assurance practitioner and the work of the internal audit function .

The practitioner's considerations relating to materiality

The service performance information covers four service types, including several unrelated measures for each service type. The practitioner may determine materiality at a disaggregated level (i.e., for individual measures for each type of service). Similarly, the practitioner may determine and apply performance materiality at a disaggregated level (Chapter 8).

The practitioner designs procedures not only to detect individually material misstatements, but also to detect other less significant misstatements that could be material if considered in aggregate. By designing procedures to detect misstatements at a lower level of significance than materiality determined for the specific measure, the practitioner aims to mitigate the risk that individually immaterial misstatements may cause the service performance information to be materially misstated in the aggregate. The practitioner may need to aggregate misstatements for each measure and to consider their significance both individually and in aggregate.

Materiality is considered in the context of qualitative and quantitative factors. Paragraph 310 sets out considerations that may be appropriate when considering materiality, including whether the performance is accurately presented relative to the target. This is explained further in the next two paragraphs.

Compared with the government set health targets of 90%, the achieved scores reported show that 91% of enrolled patients who smoke, and 96% for pregnant women who smoke, were offered the relevant advice.

If the first measure was found to be overstated by 2 percentage points, the ranking would have been amended from achieved to substantially achieved, and the color of the marker would be amended from green to blue. In these circumstances a misstatement may be both qualitatively and quantitatively material. However, a two-percentage point difference in the score reported for pregnant woman who smoke would still rank as achieved and therefore may not be considered to be material on its own.



Example 12: Illustrating the practitioner's determination of the suitability of the criteria for preparing qualitative and quantitative subject matter information about an entity's Intellectual Capital

(Illustrates application of the Guidance at: Chapters 5;10;11; paragraphs 332-336)

Fact Pattern

Company Z specialises in the development of smart technologies for the home. It outsources most of its manufacturing and distribution functions, and focuses extensively on research and development, and patent sales and licensing. As such, it is an 'intangibles-intensive' company.

The company has produced an internal Intangibles Value Report for many years, which management uses to help it to understand the strengths, opportunities, risks, uncertainties and time lags associated with its intangibles, and to inform its business decision-making and strategy.

In recent years, the company has begun preparing a similar external report to provide its shareholders with information about its intangibles.

Company Z uses the WICI Framework⁴ as high level reporting principles to prepare its Intangibles Value Report. The Framework does not provide detailed reporting rules, but requires organizations to present their key performance indicators (KPIs) together with clear explanations of how they measured these indicators. Company Z provides information on its:

- Organizational Capital (information about the organization, its organizational climate, corporate culture and governance, employee engagement, business processes, innovation, and investment in R&D);
- Human Capital (information about the age, diversity, competencies, training and loyalty of its workforce); and
- Relational Capital (information about contractual relationships and synergies, and the image and reputation of the company);

to show how these create value for the company.

Company Z wishes to obtain assurance for the first time on its external Intangibles Value Report, as it considers that this will enhance the level of trust shareholders are able to have in that report, and has asked for reasonable assurance to be obtained. For the purpose of this example, the practitioner is satisfied that the preconditions are met, and has accepted the engagement. The practitioner's decision was based on their preliminary knowledge of the engagement circumstances, which, in part, was obtained from bringing forward some of the assurance procedures, normally performed at the planning stage, in relation to Company Z's system of internal controls.

Company Z has a well-established reporting process in place, and uses a common approach and systems across all of its facilities. The KPIs it reports on are the result of systematic analysis conducted:

- Using a rigorous methodology developed by the company for its own internal reporting; or
- In some cases, by outsourcing to external survey companies.

⁴ WICI Intangibles Reporting Framework Version 1.0

Historical data about its intangibles is provided for three years, consistent with the company's financial reporting, to show the trends in reported KPIs, rather than the current year performance in isolation. Financial information used in the calculation of KPIs is extracted from the audited financial statements. The assurance engagement team has access to the auditors and is able to discuss their work and results.

The practitioner is now in the early stage of the planning process, and determining, in greater depth than when considering whether the preconditions for assurance were present, whether the criteria are suitable for the engagement circumstances (see paragraph 41 of the Standard). The extracts of the company's Intangibles Value Report that engagement team members are currently working on are reproduced below. The extracts relate to each of the three intellectual capitals.

Organizational Capital (extract)

Innovative products proceeding to development:

This indicator expresses the number of innovative projects that advanced to applied development during the year as a percentage of the number of employees in our dedicated Creative Workforce Team.

While the picture below looks stronger than in previous years with 12% of product innovations proceeding to development in the current year, it should also be considered in light of the high staff turnover in the current year. While the innovative products indicator is positive in the short term, the high turnover of staff, and the consequent impact on the ability to deploy staff to different projects (see Flexibility Index) might affect the ability to sustain this level in the future.

Innovative Projects Proceeding to Development During the Year			
	2020	2019	2018
Group	2/17 = 12%	2/23 = 9%	3/29 = 10%

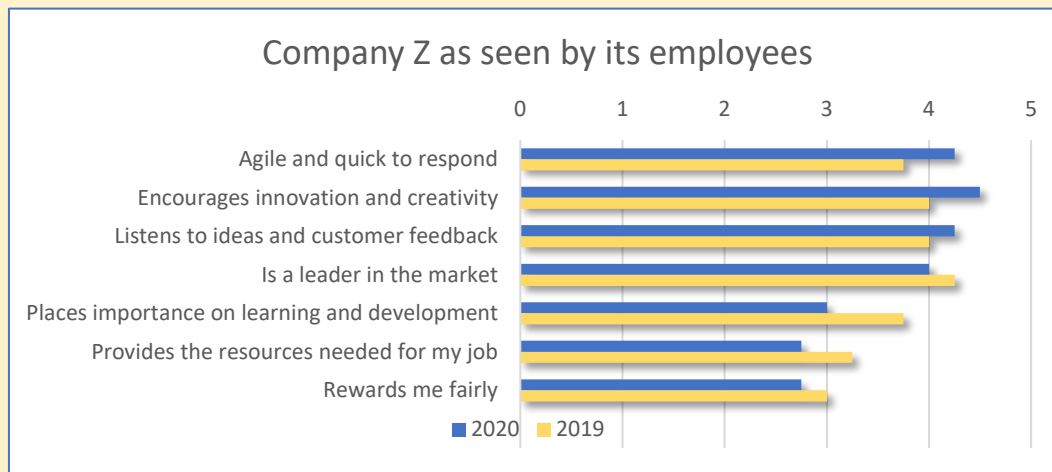
Human Capital (extract)

Our 2020 KPIs confirm that Company Z's employees have a high level of education, top level management is young compared to the industry average, and there is an increasing female representation in top management. Staff turnover is up for all grades, largely due to the sale of the Smart Outdoor division, which experienced steadily declining profits in recent years.

While relatively high turnover is expected in the market in which we operate, and does not necessarily pose challenges for a company operating in the business of new ideas, the effect may be felt in the ability to take innovations to the next stage with sufficient agility. Attracting and retaining talent is key to sustaining customer loyalty, and growing our market share in a fast-moving environment. It is important that we continue to focus on attracting talented creative designers, engineers and technicians, investing in training, recognising achievements, and rewarding our people fairly.

How our employees see us:

This KPI measures how Company Z's employees perceive the company with respect to a list of predetermined factors. The overall score (on a scale of 1-5, where 1 is 'not at all' and 5 is 'very') represents the average of the rankings for each factor. The survey is conducted by an external company, and involves all our employees in all our offices and facilities. The response rate has remained constant over the last 3 years at around 70%.



How we deploy our employees to different projects:

Our Flexibility Index measures the percentage of our workforce that can be deployed readily to more than one division (lighting, security, home) or to different aspects of a process (design, technical specification, build), or both, to meet demand.

Employees are tested across design, technical specification and build, across a range of products, and those who pass are rated as 'flexible'. In the current year, the figure shows a sharp fall compared to 2019, and continues a decreasing trend. This is largely due to the high staff turnover in 2020, which affected both the number of employees we reported as 'flexible', and the ability to provide on-the-job training to employees outside their 'home' division due to lower staff numbers.

Employee Flexibility Index			
	2020	2019	2018
	29%	56%	62%

Relationship Capital (extract)

How are sales are concentrated:

The Sales Concentration Index expresses the share of Company Z's sales to the ten major customers as a percentage of total company sales. The lower the percentage, the better, as it denotes a broad customer base, without over-reliance on any one customer. The results below

show a very healthy picture, especially in view of the fact that this market has low-cost entry, with numerous competitors and products, and a low domestic consumer awareness.

The largest change in this indicator comes from the security systems market as people are placing more importance than ever before on the security of their homes.

The smallest change has been in the home appliance market, which may be the result of both cost considerations, and low consumer awareness.

Sales Concentration Index			
	2019	2018	2017
Lighting and sound systems	49.5%	55.5%	67%
Security systems	52.1%	68.3%	71%
Home appliances	29.8%	33.8%	34 %

Determining the suitability and availability of the criteria

The engagement partner has noted a number of questions and considerations to discuss with the engagement team, and, where necessary, also with the company's Intangibles Value reporting team.

General questions in relation to Company Z's methodology (criteria)

- Does Company Z's methodology specify how the company selects the KPIs it reports on (Chapter 6)? Are those that are included the most relevant indicators for the company's own decision-making? These are also the indicators that shareholders are likely to be interested in when making decisions about how value is created through the intellectual capitals. (Relevance)
- Does the methodology specify how, and which, factors may need to be considered together where multiple factors may contribute to value creation and may be qualitatively material when considered together? For example, it may be relevant to users for matters such as the rate at which patents are brought to commercialization to be considered in conjunction with employee turnover in relevant departments.
- Does the methodology used by Company Z specify the level at which KPIs are to be considered, such as whether joint consideration is needed of a number of different KPIs to obtain a complete picture, or 'systemic' model, of factors related to the intellectual capitals that affect value creation? For example:
 - For reporting on customer relationships, the company's methodology (criteria) may include 'rules' that KPIs are to be reported for all of: customer satisfaction; customer loyalty; customer returns; and legal claims, and that they are to be considered and commented on holistically in the Intangibles Value Report.
 - For reporting on product innovation, the criteria may specify KPIs relating not only to new patents, but also to patents active in production, total patents applied for, innovations advanced to prototype and testing, available technical resource and training, and time lag between



innovation, patent registration, and sales, with commentary that links the various KPIs together in a coherent way.

And does the methodology specify that how the KPI is to be presented, and that commentary in relation to the reported KPIs should focus not only on past to present performance, but also consider the likely impact on sustainable value creation in the future? While the WICI Framework requires this, how does Company Z set out in their criteria how this is to be done (Completeness)?

- Does the company's methodology provide for reasonably consistent measurement or evaluation, minimizing the need for subjective judgment or personal opinion in applying it? This applies to both:
 - Determining historical information, and likely future impact; and
 - Numeric KPI calculation, and the associated presentation and narrative disclosure? (Reliability)
- Does the company's methodology include criteria for disclosures to be made as well as for the quantitative measures? Criteria for disclosures may be particularly important in the context of qualitative information – for example disclosures about precision and inherent measurement uncertainty in the subject matter information.
- Does the methodology give clear direction on:
 - What is to be included in the Intangibles Value Report; and
 - How it is to be presented and commented on to present the picture 'as is' (i.e., as it is understood by management), rather than being presented with 'spin' or bias;so that the resulting subject matter information is not biased in the selection of reporting topics, assumptions made, or in the way it is presented? (Neutrality)
- Does the methodology set out criteria for how the Intangibles Value Report should be prepared so that it is understandable to users of the report? For example, does it include any direction on:
 - How changes in circumstances, or in the way intangibles are measured, should be disclosed so that users can understand the effects on the Intangibles Value Report; or
 - The time period for which each reported KPI should be disclosed so that performance can be understood in the context of trends? (Understandability)

Specific questions the engagement partner has noted for engagement team follow up while reviewing the extracts of the Intangibles Value Report



Organizational Capital extract:

1. It is unclear from the disclosed basis of preparation what projects are classed as 'innovative projects'. How are these defined in the criteria? For example, is there a time limit for considering a project as 'innovative'? We need this information so that evidence can be obtained about the KPI calculation.
2. Do the criteria set out how the number of employees is determined in this calculation – is it an average over the year, or the number at year end, and does it include all full-time, part-time and temporary employees in the Creative Workforce Team, or are the latter two converted to full-time equivalents for the calculation?

3. The narrative information is also subject to the need to obtain evidence. The narrative makes connections with several other KPIs in the Intangibles Value Report. What do the criteria say is required to be connected and disclosed?

Human Capital extract:

1. Do the criteria specify what is considered to be a 'high level of education' and 'top management'?
2. Do the criteria specify how the industry average is determined?
3. The narrative includes some fairly far-reaching and subjective statements. What do the criteria say about how these are determined (e.g., by reference to what source)? If the source of these statements is not covered by the criteria, then it is difficult to see how we would obtain evidence. We may need to discuss with management whether they can modify the statements so that they are in line with the criteria set out in the methodology. For example, it may not be possible to obtain evidence-based assurance on whether or not high staff turnover poses challenges for a company operating in the business of new ideas. Alternatively, management may prefer to move this sort of statement to another section of the report that we do not assure.

Relational Capital extract:

1. Do the criteria specify whether the sales are sales based on audited financial information for the same period as the Intangibles Value Report, or some other source or period, and are the sales based on sales value or volume, gross sales or sales after rebates, discounts and returns? Are the numerator and denominator calculated on a like-for-like basis?
2. Do the criteria set out what the source of information is for the narrative statements – for example, the source of information that the company operates in a low-cost entry market, and there is low domestic consumer awareness of smart technology? Similar considerations apply as those noted in question 3 under Human Capital.
3. Some of the narrative is unlikely to be able to be covered by the company's criteria, in which case, we can't assure it. Let's talk to management about modifying or removing it. For example, it is not possible to obtain any evidence that people are placing more importance on the security of their homes than they ever have.

Overall comment about Availability of Criteria

While the KPIs are presented in Company Z's Intangibles Value Report together with reasonably clear explanations of how the KPIs have been measured (with some room for further clarification as noted above), it could also be clearer where the criteria are made available to the users, or whether these are the only criteria that the users will see.

If the latter, then it would be helpful to have them identified as such so that the assurance conclusion '*In our opinion, the Intangibles Value Report for the year ended x set out on pages y to yy is prepared, in all material respects, in accordance with the reporting criteria*' is able to be understood by the users as they will know what the report is referring to when it says 'the criteria'. This could be done, for example, by including a sub-heading under each KPI along the lines of 'The criteria used to prepare and report the information below'.

Example 13: Illustrating practitioner considerations when obtaining evidence, including for information used by the preparer from external and multi-site information sources

(Illustrates application of the Guidance at: Chapter 8; paragraphs 273-277)

Fact pattern


A large chocolate manufacturer has requested assurance on the proportion of sustainably sourced cocoa it has purchased during the year. It relies on information from farmers' co-operatives (external information sources) in cocoa-producing locations in preparing the subject matter information.




Co-operative A has sophisticated, well-controlled processes and systems in place. It works closely with local farmers to provide them with regular training and advice on farming methods, and regularly monitors farming practices as well as expected yields using drone and GPS technology to survey planting density across an extensive area.

Cocoa pods delivered by the farmers are weighed by the co-operative on regularly calibrated scales, and the weight is entered directly onto a computerized system against pre-populated details for each farmer. The details are checked by a manager from the co-operative confirming directly with the farmer, and are approved on the system using a unique identifier. Approval by the manager triggers an automatic request for payment, which is prepared by the administration department. Payment for cocoa is made by BACS directly into farmers' bank accounts within 3 days of delivery of the cocoa. The chocolate manufacturer has direct access to information on co-operative A's system, including to its own purchasing history, and to total orders of sustainably sourced and non-sustainably sourced cocoa fulfilled by the co-operative during the period (but without details of other customers). There are no paper records.





In another location, co-operative B has only just been set up, and has only simple processes in place to monitor the farms and prepare the subject matter information. It carries out an initial farm visit to approve the farm as 'sustainable', but approval is based on self-declaration by the farmers. Farmers supply their cocoa to the co-operative, where it is weighed, and the weight is entered onto a paper form (in duplicate). The calculation of weight multiplied by contract price is calculated by the person weighing the pods. Once all deliveries have been weighed for the day, the same person counts out the correct amount in local currency, and gives it directly to each farmer, who signs the paper form as acknowledgement that they have been paid. The co-operative retains one copy of the form, and the other copy is for the farmer. There is no computerized system. At the end of each period, the information is taken from the file of forms by an administration assistant, and collated into a manually prepared report, which is faxed to the chocolate manufacturer for its records.



In the tables below, the considerations for the practitioner (see paragraphs 273-276 in Chapter 8 of the Guidance) are replicated in the left-hand column of each table. In the right-hand column of each of the tables below is an example of what the practitioner may consider when planning and performing evidence-gathering procedures for the chocolate manufacturer's reported information about its sustainably sourced cocoa.





A. Risk considerations when determining what evidence is needed	
<p>In what way(s) could the underlying subject matter not be properly measured or evaluated, presented or disclosed in the EER information (the 'type of misstatement' or 'what can go wrongs')? See also Chapter 7 of the Guidance on using assertions.</p>	<p>Some examples of what could go wrong might include considerations along the entire supply chain, including that:</p>  <ul style="list-style-type: none"> • Farmers may not be using sustainable farming practices, but may seek to maximize yield in the short term to obtain a higher income, or may begin to encroach on rainforest to expand their farmland (not sustainable). • Farmers may not receive a fair price from the co-operative for their cocoa as may be required by the criteria for 'sustainably sourced' products. • Co-operatives may provide farmers with fertilizers to increase the yield of cocoa, but the fertilizers may contaminate water courses (not sustainable). • Co-operatives may have insufficient records to support their claims of sustainably sourced cocoa, or may falsify records to obtain a higher price if sustainably sourced cocoa attracts a higher price than cocoa that is not sustainably sourced (e.g., they may use drone footage of farms in a different location to support claims about their own location). • The chocolate manufacturer may not have processes in place to segregate information about cocoa purchased from different origins, or may be inclined to overstate the proportion of sustainably farmed cocoa to make itself look better than its competitors, or to appeal to a particular market.


<p>What might cause a type of potential misstatement to occur – i.e., what could cause a risk of material misstatement of that type?</p>	<p>In this example, among other matters, the</p> <ul style="list-style-type: none"> • Presence of incentives to misstate information coupled with opportunity to do so (e.g., because of a lack of segregation of duties or lack of monitoring), • Human error in manual recording, • Unauthorized access to computer systems or applications, or • Flaws in the processing logic of computerized systems <p>may give rise to misstatements in the reported sustainably sourced cocoa.</p> 
<p>How does the entity manage and mitigate the risk of material misstatement in its EER information, taking into account the potential cause(s) for that type of misstatement? For example, what governance and oversight structures, systems, processes and controls are in place to prevent or to detect and correct misstatements, taking into account their potential causes.</p>	<p>For example, the chocolate manufacturer may have:</p> <ul style="list-style-type: none"> • A contractual arrangement that the co-operative will exercise agreed governance and oversight over the farmers, carry out periodic farm visits, check that reported yields per farmer are reasonable, and have in place systems and processes for recording the source and weight of cocoa received, and the amounts paid to farmers • A contractual 'right to audit', which the chocolate manufacturer exercises from time to time to carry out its own checks on the co-operatives and farms • Its own systems and processes in place to record, for each purchase, the name of the co-operative, the weight of cocoa purchased and whether it is from a sustainable source or non-sustainable source; such a system may be also be linked, or reconciled, to the output of the chocolate manufacturer's financial systems, which record cost of sales and creditors for each purchase. 
<p>Does the entity have an internal audit function and, if so, what work have they performed in relation to the subject matter information, and what are their findings? How does that affect the assessment of risk?</p>	<p>The chocolate manufacturer may have an internal audit function that performs work on subject matter information at the manufacturer or along the supply chain.</p> 

EER Support Material: Illustrative Examples of Selected Aspects of EER Assurance Engagements




<p>Is management aware of any actual, suspected or alleged intentional misstatement or non-compliance with laws or regulations that may affect the assessment of risk?</p>	<p>For example, there may child labor used on the cocoa farms which may not be a sustainable practice in the longer term. </p> <p>The practitioner may also consider what processes management has in place to be able to answer this question.</p>
<p>In the context of the particular engagement and particular decision to be made, how precise, detailed and extensive does the evidence need to be, for example if the EER information is capable of precise measurement or evaluation, the evidence is likely to need to be more precise than if the EER information is subject to estimation and uncertainty.</p>	<p>As the quantities supplied by farmers are capable of sufficiently precise measurement, and are not subject to significant estimation or uncertainty, there may be an expectation of detailed evidence being available, with little need to estimate the information. However, whether or not farming practices are 'sustainable' and, therefore, whether the quantities are 'sustainably sourced' may be subject to evaluation uncertainties.  </p>
<p>Does the evidence needed relate to subject matter information about a single-location entity or to a multi-location organization or a supply chain (upstream, downstream or both)?</p>	<p>In this example, the upstream supply chain and the chocolate manufacturing entity's own systems and processes are being considered. </p>

B. Considerations when determining what evidence is available	
<p>Is the evidence:</p> <ul style="list-style-type: none"> • in digital, written or oral form, • related to a point in time or for a period, • obtained from an external information source or internally generated, • recorded systematically in the entity's books and records, • related to the operation of controls or is it substantive in nature, <p>and how reliable is it?</p> <p>If the evidence needed relates to subject matter information about a supply chain (upstream, downstream or both), how does that affect the ability to obtain sufficient appropriate evidence?</p> <p>How relevant and reliable would the evidence need to be, and will the evidence from available sources provide that degree of relevance and reliability? If not, are there alternative sources of evidence, or additional procedures that can be performed?</p>	<p>In this example, the practitioner may consider, among other matters, the following:</p>  <ul style="list-style-type: none"> • For co-operative A, as there is no hard copy evidence available, the practitioner may consider what evidence might be obtained from testing relevant internal controls, assuming the practitioner is permitted direct access to carry out procedures at co-operative A. Alternatively, the practitioner may consider whether the chocolate manufacturer has: <ul style="list-style-type: none"> ○ exercised its 'right to audit' and carried out its own testing, or used internal audit to perform testing at the co-operatives and farms, or ○ obtained a service organization's report on the processes and internal controls at co-operative A • For co-operative A, an additional source of evidence might be for the practitioner to request drone footage from the co-operative, or use its own drone technology (which may involve using the work of a practitioner's expert), and to check the average yield per hectare to available literature, in order to perform a reasonableness check on the sustainably sourced cocoa reported. • For co-operative B, paper records may be insufficient on their own. The lack of segregation of duties (the same person weighing the pods, recording the weight and paying the farmers) provides opportunity for fraudulent misstatement. The practitioner may consider it necessary to obtain evidence from several different sources, including a site visit to observe the procedures performed by personnel, to test paper records and, if necessary, to speak to staff and farmers, or to visit farms, to corroborate what the practitioner has been told. 

C. Considerations when designing and performing procedures to obtain sufficient appropriate evidence	
<p>What will the procedure achieve? For example, will it provide evidence about the whether the subject matter information has occurred or whether it is complete? The purpose of the procedure may also affect the 'direction' of the procedure, for example whether it is performed <u>from</u> the reported EER information to another source (occurred), or from the other source <u>to</u> the reported EER information (is complete).</p>	<p>In this example, using drone technology and average yield may be sufficient if the practitioner is looking for evidence of the reasonableness of the reported cocoa yield, but may not be sufficient evidence about farming practices, such as use of pesticides, fertilizers or water, and would serve no purpose in obtaining evidence of payment of a fair price to farmers. For the latter two, the practitioner would need to design additional or different procedures.</p> 
<p>Is aggregation risk and performance materiality a relevant consideration in designing or performing the procedure (see paragraphs 279-287 of the Guidance)?</p>	<p>In the case of a multi-location supply chain involving numerous farmers, and several co-operatives, the practitioner may judge aggregation risk to be high. As a result, they may set performance materiality at a low level.</p> 
<p>How much evidence would need to be obtained and from which of the available sources? For example, when the risk of material misstatement is high, or if each available source provides only some, but not enough, evidence on its own, the practitioner may seek to obtain more evidence than when the risk of material misstatement is low, or may seek to obtain evidence from more than one available source.</p>	<p>In this example, if the internal controls at co-operative A had been tested in a previous period with no weaknesses identified, and no change in the intervening period, the practitioner may assess the risk of material misstatement to be low, and may decide that performing analytical procedures to develop an expectation, compare it with the reported information, and to obtain explanations for significant differences, may be sufficient.</p> <p>By contrast, the evidence needed at co-operative B may need to be more extensive and involve substantive tests of details to address the higher risk of material misstatement.</p> 
<p>What is the nature, timing and extent of the procedures, and how might that affect the resources needed on the engagement team, including any practitioner's experts?</p>	<p>In a multi-location situation such as the one in this example, the practitioner may consider using the work of another practitioner, local to a particular site, or may use the work of practitioners' experts or internal audit.</p> 

D. Considerations when evaluating the sufficiency and appropriateness of evidence obtained	
Was the planned evidence able to be obtained?	For example, if co-operative B had lost a file of its paper records, and there was no other evidence available to support the chocolate manufacturer's reported volume of sustainably sourced cocoa, that would represent a limitation on the scope of the practitioner's work; the practitioner would need to consider the implications for their assurance conclusion as required by paragraph 66 of the Standard. 
Has any new information come to attention that differs from that expected or that contradicts other evidence obtained? If so, has the appropriateness of the planned procedures been re-evaluated in light of the new information? Has the evidence obtained from different sources been considered in an unbiased manner?	For example, co-operative A may claim that higher yields are due to better farming practices, but the practitioner may have become aware of recent protests against rainforest degradation as a result of cocoa farming. This may lead the practitioner to consider if higher yields could be the result of encroachment of farming onto rainforest margins. 
Is more evidence needed and how will that be obtained?	The practitioner may ask management of the chocolate manufacturer or the co-operatives whether and how they monitor whether there is encroachment of farmland onto rainforest. 
Have any difficult professional judgments been appropriately reviewed and has appropriate consultation on difficult or contentious matters taken place, if needed?	For example, the practitioner, on conducting a media search, may find information from a reputable source that suggests that, during the period, land has been cleared on rainforest margins to make room for cocoa farming. Management may argue that it is not material as there is only one farm involved, which is only a small part of the sustainably sourced cocoa reported. In this example, the practitioner would need to exercise their professional judgment and may wish to consult with others on the matter. 

EER Support Material: Illustrative Examples of Selected Aspects of EER Assurance Engagements

<p>Has the effect of uncorrected misstatements on the subject matter information been considered, both individually and in aggregate, and both quantitatively and qualitatively? For guidance on the materiality of misstatements, see Chapter 9 and, in the context of qualitative and future-oriented information, also Chapter 10 and Chapter 11, respectively.</p>	<p>For example, the practitioner may consider that, although quantitatively immaterial, the encroachment onto rainforest is qualitatively material to the intended users of the assurance report and, unless the misstated amount is adjusted by management, it is likely to affect the assurance conclusion.</p> 
<p>When evidence represents information that was not verifiable to a high degree of precision, is the range from which the reported information was selected appropriate?</p>	<p>In this example, as noted, there does not appear to be a need to estimate the quantitative information as it should be able to be measured to the degree of precision required by the criteria.</p> <p>However, whether the cocoa is sustainably produced may be subject to high evaluation uncertainty, which may need to be disclosed in the subject matter information.</p> 
<p>Have events subsequent to the reporting period been considered, as well as their implications, if any, for the assurance engagement?</p>	<p>For example, if after the period end, there has been large-scale clearing of rainforest by other farmers belonging to the co-operatives supplying cocoa to the chocolate manufacturer, the practitioner would need to consider the implications for the engagement and their assurance conclusion.</p> 

Example 14: Illustrating qualitative information that does not result from applying suitable criteria, or results from misapplying the criteria, and practitioner considerations about ‘other information’

(Illustrates application of the Guidance at: Chapters 5; 10)

Fact pattern

A practitioner is in the process of obtaining evidence for information on an entity’s HR practices included in the entity’s EER report, which the practitioner has agreed to assure. The information includes, among other qualitative information, the following paragraph, alongside its quantitative reporting on gender pay, and gender and ethnic representation at each grade across its workforce.

We are committed to fairness and equality. In every aspect of what we do, we seek to promote a culture of inclusiveness and to maximize the personal achievement of our staff at all levels. We strive for best practice in recruiting, developing and training our people, which, in turn, empowers us to deliver fair and equal services to our diverse community. We continually challenge ourselves to be role models of excellence.

The practitioner considers that either:

- The criteria are not suitable as they do not result in subject matter information that is reliable, neutral or understandable, in which case the preparer may be able to develop the criteria further, or



The information has not been prepared in accordance with criteria that are suitable, and needs to be revised by the preparer (as, if it is not prepared in accordance with the criteria, that represents a misstatement); if the preparer does not agree to revise it or remove it from the EER report, the practitioner will need to consider the materiality of this misstatement, along with that of other misstatements, in reaching their assurance conclusion on the whole EER report. The practitioner discusses the matter with the preparer, and the preparer chooses to further develop the criteria. Following further development of the criteria, the preparer updates the paragraph to read as follows:

Revised paragraph

Our governing board and our in-house legal team review our HR policies at least once a year to update the policies for changes in national human rights and labor legislation. We have followed our policies in recruiting and training our staff at all levels during the period. We monitor attendance at internal mandatory training events, and deploy staff to their areas of specialism in providing services.

We have continued to provide the following services to our diverse community during the period....We engage a third party to conduct quarterly surveys among local community residents to obtain feedback about our services and our frontline staff. In the last x surveys, our services and frontline staff have been rated as ‘excellent’ by x% of respondents.

For further details of how the surveys are compiled and conducted, and for latest results, see page x.

Although largely qualitative, the practitioner considers that this paragraph now contains factual statements capable of being subjected to evidence-gathering procedures. Sources of evidence may include, for example:



- Minutes of meetings of the governing board and legal team
- Documentary evidence of updates to the HR policies manual
- Minutes of interviews with potential recruits, and documentation of decisions made
- Documentary evidence of training course content, attendance registers, and evidence of follow up of any staff who have not attended mandatory training
- Evidence that staff are deployed to those services for which they have been trained, and that the stated services have been provided throughout the period
- Documentary evidence of third-party surveys, the questions asked, how the respondents were selected, how their responses were collated and reported, whether the reported rating is consistent with the survey results, and whether the methods used, and inherent uncertainties associated with the surveys have been appropriately disclosed.

For the purpose of this example, assume that the preparer would still like to include some of the original subjective information used in the original paragraph as they feel it helps to convey a sense of the 'tone at the top' and ethos of the company. The practitioner discusses with the preparer ways in which this may be done; the preparer's ideas include the following:

- Having a preamble to the EER report, which would not be subject to assurance, or
- Including a number of quotes and statements in colored boxes within the report, along with some images that convey the 'tone' the company would like to portray.

The practitioner may consider either of these suggestions to be suitable, provided it is clear that:

- The preamble or colored boxes and images have not been subject to assurance, and are therefore not covered by the assurance conclusion, and
- The preamble or colored boxes and images as 'other information' are not inconsistent with the information that is subject to assurance, including the revised narrative paragraph set out above.



The practitioner has obtained a draft of the final paragraph, which is set out below. As part of their work on this paragraph, the practitioner has highlighted a particular part of the text they are working on, and has made notes alongside that text to indicate what work they have performed. They intend to follow a similar approach for the remainder of the paragraph (currently not highlighted). They have also made notes about what they have done about the 'other information' in the dark blue shaded box, and how they intend to distinguish the information subject to assurance from that which has not been subject to assurance when they draft the assurance report.



As Chairman and CEO, I am proud to say: 'We are committed to fairness and equality. In every aspect of what we do, we seek to promote a culture of inclusiveness and to maximize the personal achievement of our staff at all levels'

Our governing board and our in-house legal team review our HR policies at least once a year to update the policies for changes in national human rights and labor legislation. We have followed our policies in recruiting and training our staff at all levels during the period. We monitor attendance at internal mandatory training events, and deploy staff to their areas of specialism in providing services.

We have continued to provide the following services to our diverse community during the period....We engage a third party to conduct quarterly surveys among local community residents to obtain feedback about our services and our frontline staff. In the last x surveys, our services and frontline staff have been rated as 'excellent' by x% of respondents.

For further details of how the surveys are compiled and conducted, and for latest results, see page x.

Information in blue shaded boxes is 'other information'. We have read it for consistency with the information we have assured...we'll need to be clear in our assurance report that our assurance engagement did not extend to information in shaded boxes, or to images or any embedded audio or video files

Obtained written confirmation from the third party of how respondents were selected and how surveys were conducted. For a copy of the survey questionnaire obtained from the third party, other details of work performed and results of procedures, see working paper A14.1

Example 15: Illustrating considerations related to future-oriented, qualitative, and ‘other information’ using SASB Standards as criteria

(Illustrates application of the Guidance at: Chapters 2; 8; 10; 11).

OilCo (the ‘Company’) is an integrated oil and gas company with global operations. Its primary activities include exploring for, extracting, or producing energy products, which comprise the upstream operations of the oil and gas value chain. The Company contracts with downstream parties, who obtain extraction equipment and oilfield services from the Company.

The Company faces significant transition risks related to climate change over the short, medium, and long term. The Company uses the SASB Standard *Oil & Gas – Exploration & Production* to prepare and disclose its EER information about the resiliency of its business model in the face of these risks, including actual or potential impacts on its reserves valuation and capital expenditures.

The Company has engaged the practitioner to obtain reasonable assurance on its EER information. The practitioner has been the auditor of OilCo’s financial statements and plans to leverage work already performed for the audit, including on OilCo’s system of internal controls. The practitioner also plans to perform substantive procedures to obtain further evidence for the EER information, including the disclosures. The example procedures set out below do not include the practitioner’s procedures in relation to estimates; the practitioner considers that those procedures will be an important part of obtaining evidence, but are not included for the purposes of this example.

Below is an extract of the Company’s disclosure in the EER information. The EER information is included in the same document as its financial reporting. The extract below is not exhaustive and presents only a section of the relevant metrics.

SASB Metric EM-EP-420a.1: Sensitivity of Hydrocarbon Reserve Levels to Future Price Projection Scenarios that Account for a Price on Carbon Emissions

Price Case Scenario	Proved Reserves		Probable Reserves	
	Oil MMbbls ¹	Gas MMscf ²	Oil MMbbls ¹	Gas MMscf ²
Current Policies(base)	435	5,828	757	7,200
New Policies	428	5,805	722	7,015
Sustainable Development	378	4,800	701	6,430
Rapid Electrification	326	4,950	623	6,590
Rapid Decarbonization	295	3,950	581	5,540

¹Million barrels (MMbbls)

²Million standard cubic feet (MMscf)

SASB Metric EM-EP-420a.2: Reserves Valuation & Capital Expenditures: Estimated CO₂ emissions embedded in proved hydrocarbon reserves

Metric	Year Ended December 31,		
	2017	2018	2019
Estimated CO ₂ emissions embedded in proved oil reserves (billions of kg of CO ₂)	834	880	904
Estimated CO ₂ emissions embedded in proved gas reserves (billions of kg of CO ₂)	147	194	206

SASB Metric EM-EP-420a.4: Impact of price and demand for hydrocarbons and carbon regulations on capital expenditure strategy for exploration, acquisition, and development

The operations of OilCo (the 'Company') require large capital investments, and the decision to invest depends heavily on the ability to recoup them. If the price of or demand for hydrocarbons falls substantially, the Company may find it financially infeasible to pursue extraction in some areas.

Many factors affect prices for oil and gas, including macroeconomic conditions, currency values, and the ability of some industry entities to influence prices. As a result, prices are difficult to predict accurately. However, the Company does make projections to facilitate decision making. The Company's current projections account for a wide variety of price scenarios; some of these scenarios factor in prices affecting hydrocarbons, which could include carbon taxes or cap-and-trade systems; for details of price scenarios see page x.

The Company also invests in projects and technologies to manage climate risk, and to capture opportunities, including in advanced biofuels, energy efficiency, water treatment and reprocessing, and the design and construction of facilities for extreme weather conditions. The Company's strategic and business planning considers the value of these projects in the context of its overall approach to climate change risk management.

Although the Company prepares for many scenarios, it believes that extreme reductions in demand for or prices of hydrocarbons are unlikely in the short term. Some of the countries in which the Company operates have yet to adopt carbon pricing regulations or systems. Although many countries are likely to institute at least some form of carbon-related regulation or pricing in the future, the Company believes that it will be able to recoup a significant share of its capital expenditures related to extraction before such pricing systems are fully implemented. The Company consistently monitors the potential for carbon regulation implementation and engages in scenario planning on a regular basis to better inform its operating- and capital expenditure - decisions.

Some of the practitioner's considerations when designing and performing procedures to obtain sufficient appropriate evidence

Obtaining an understanding of the underlying subject matter

The practitioner plans to obtain the reserves report and sensitivity analysis prepared by OilCo to support the reserves numbers disclosed in accordance with SASB Metric EM-EP-420a.1. The practitioner plans to review this information to prepare for a meeting with OilCo's personnel. In this meeting, the practitioner plans to obtain an understanding of the process and internal control over the preparation of the subject



matter information, in order to identify and assess the risks of material misstatement, thereby providing a basis for designing and performing procedures in response to those risks.

At the meeting, the practitioner plans to ask OilCo personnel the following questions:

- What is the process for developing the inputs for, and computation of, the sensitivity analysis of the reserves?
- What controls are there over that process that would prevent, or detect and correct inappropriate or erroneous inputs, or computational errors, whether manual or automated?
- What is the source of the information used to develop each price case scenario?
- What controls are in place to ensure the underlying base data is complete and accurate?
- How do you determine the assumptions are applied consistently among each price case scenario, as well as consistent with other projections prepared by OilCo or other market participants?
- As a management's expert is used to perform the analyses, who evaluates whether the assumptions selected by the expert are reasonable, and how is that evaluation performed?
- How do you evaluate alternative assumptions or outcomes, and what is your basis for rejecting them?
- How do you determine each price case scenario has been presented in accordance with SASB Metric EM-EP-420a.1?

Obtaining evidence as to the operating effectiveness of relevant controls

After the meeting with OilCo, the practitioner notes a relevant management review control in place to detect whether the reserves information is appropriate, uses correct data and assumptions, and follows the appropriate model, as follows:

CONTROL

On an annual basis, the reserves director reviews the reserves report and the sensitivity analysis prepared by management's expert, to evaluate whether the assumptions and inputs used are reasonable. The reserves director also reviews the scenarios used in order to check that they are (1) consistent with the company's policy, and (2) consistent with other projections. During the review, the reserves director also obtains an understanding of the reasons the assumptions were selected by the expert, the reliability of the sources and data used, and any alternative assumptions or conclusions that were rejected.

The practitioner plans to test the control as evidence to support their conclusion on the subject matter information. The practitioner plans to obtain evidence of the control taking place, including such evidence as communications and minutes from meetings with management's expert. The practitioner reviews this evidence to determine whether the performance of the controls adhere to established policies by management.

The practitioner considers the following questions when reviewing the meeting minutes:

- What happens when management considers that there may be an error or discrepancy in the work of the management's expert?



- How is the source of information and conclusions reached being questioned?
- What information is being used to support the conclusion reached by management and the expert in the meeting?

Further, the practitioner obtains evidence to support the assumptions and inputs used in the performance of the control, including such evidence as:

- Management's documented plans and budgets
- Historical data from the financial accounting IT system
- Relevant market and peer data

Obtaining further evidence by performing substantive procedures

The practitioner plans to use the work performed by management's expert as evidence to support their conclusion. The practitioner uses the following sources when evaluating the competence, capabilities and objectivity of management's expert:



- Discussions with that expert.
- Discussions with other practitioners or others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Published papers or books written by that expert.
- Whether that expert is bound by the ethical requirements of their professional body, or whether there are indications that their objectivity may be impaired, for example by personal relationships within the organization or as a result of incentive bonuses based on a particular performance outcome.



In addition, the practitioner plans to perform the following procedures to obtain further evidence:

- Agreeing beginning balances to the prior period reserve report, and end of the period balances to the current period reserve report to obtain evidence the reserves report is complete
- Obtaining supporting documentation for significant movements in reserves
- Agreeing production quantities to the quantities reflected in oil and gas sales.



Applying professional skepticism and professional judgement

The practitioner maintains professional skepticism throughout the engagement, which includes being alert to:

- Indicators of potential misstatements arising from bias, and
- Evidence that comprises both information that supports and corroborates aspects of the subject matter information, and any information that contradicts aspects of the subject matter information



The practitioner may identify misstatements:

- In the underlying data due to incorrect data capture or a loss of integrity in data processing
- In the calculation of the reserves, due to using incorrect inputs or to an arithmetical error

- Due to selection of assumptions of future events or risks that are not reasonable.

As a result of their procedures, the practitioner concludes that reserves disclosed under the New Policies scenario is overstated because they believe OilCo has incorrectly applied assumptions about future demand. The practitioner asks OilCo to correct it. OilCo disagrees that this is a misstatement because it arises only because of a difference in judgement. As the company will not make an adjustment to the reserves number, the practitioner accumulates this misstatement with other uncorrected misstatements the practitioner has identified to determine whether the uncorrected misstatements are material, individually or in the aggregate.



Obtaining evidence for qualitative information

The practitioner reads the narrative information and comes across the following statement:

'Although the Company prepares for many scenarios, it believes that extreme reductions in demand for or prices of hydrocarbons are unlikely in the short term.'

The practitioner asks the Company for evidence about the basis for this statement, including:

- the basis for the Company's 'belief',
- what management considers to be 'extreme reductions' (i.e., is 'extreme' defined?)
- the sources of information used by management as a basis for this statement, and whether assumptions used by management are internally consistent.



Similar considerations apply to the narrative that follows, for example, the practitioner may want to understand, and obtain evidence for:

- the basis on which the Company believes that it will be able to recoup a significant share of its capital expenditures before carbon pricing systems are fully implemented
- how it monitors the potential for the implementation of carbon-related regulation
- how frequently it carries out scenario analyses, and how those analyses are used to inform its operating and capital expenditure decisions.



For narrative that does not result from applying suitable criteria, the practitioner requests management to either:

- further develop the criteria,
- or move the narrative out of the EER information subject to assurance.

Management agrees to edit the narrative to:

'Trends in recent economic growth in GDP of 2% over the last six months indicates that reductions in demand for or prices of hydrocarbons are not anticipated in the short term (within one year).'

To support this narrative, the practitioner plans to obtain the evidence management used to make this statement, including evidence to support the 2% growth in GDP and their assumptions used to project the demand.



Considering consistency with the financial statements

The practitioner reads other information contained within the same document as the EER report – i.e., the financial statements and the notes to the financial statements in this case. If the practitioner identifies

material inconsistencies or becomes aware of material misstatements of fact that is unrelated to matters appearing in the document, the practitioner is required to discuss the matter with management and to take further action as appropriate. For example, if the entity is making claims about switching to 'green' technologies such as hydrogen electrolysis, the practitioner might expect to see R&D expenditure in the financial statements.



Example 16: Illustrating considerations for the practitioner in the context of an engagement related to an entity's disclosures to address the Recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD')

(Illustrates application of the Guidance at: Chapters 6; 8; 10; 11)

Fact pattern

A financial services entity that provides insurance and pensions has prepared its first statement to disclose climate-related risks and opportunities in line with the TCFD recommendations. Their disclosures focus on:

- assets that the entity directly owns, and
- assets for which the entity has control over investment strategy.

The extracts below are from the 'Governance', 'Strategy' and Risk Management' sections of their TCFD statement. The entity has asked for reasonable assurance on its first TCFD statement. For the purpose of this example, it is assumed that the preconditions for assurance are present and the engagement has been accepted.

Our Governance

Those charged with governance take ultimate responsibility for the oversight of climate-related risks and opportunities. We also have a comprehensive governance structure in place with roles described for the Group Risk Committee, Capital Committee, Asset and Liability Committee and Environmental Committee as follows...

...Additionally, senior executive and management responsibilities include responsibility for identifying and managing climate-related risks and opportunities, with the CEO being responsible for strategic direction, the CFO responsible for risk identification and management, and the CRO responsible for the approach to understand, identify, measure, monitor, control and report climate-related physical and transition risks in line with our risk strategy and risk appetite.

Our Strategy

We have a group policy committing to decarbonize the assets on our balance sheet to align with the objectives of the Paris Agreement.

In light of the scenario analysis assessment, we performed during the year (see under 'Our Risk Assessment' for further details), we have identified three key strategic resilience drivers to climate-related impacts as follows:

1. Adaptation by trading to the desired carbon position where necessary, following active engagement.

2. Focus on investment grade bonds where the price risk is substantively lower compared to equity exposure.
3. Diversification across different sectors.

However, while the analysis was a useful first step, its effectiveness may be limited because of inadequate disclosures by portfolio companies in which we invest. There is thus imperfect information on which to base our investment practices to preserve and enhance long-term investment values...

As part our investment strategy review, we also approved a 5% allocation to Global Sustainable Equities this year to increase our investment in sustainable companies. We commissioned research during the year that suggests that these allocations could lead to an extremely upbeat return impact on our investment portfolio, should sudden transition measures be introduced.

Our Risk Management

We consider the impact of climate-related risks on all assets in which we invest, but our main focus to date has been on equity exposure. We prefer to engage than to exclude in order to encourage better practices and disclosures by portfolio companies about their climate-related risks. For example, early last year, we wrote to over 60 of the largest companies that have the greatest potential impact on climate change, and in which we held investments. We asked to engage with them on their plans for a sustainable future and a transition to a low carbon economy. If the companies were not willing to engage or, after twelve months of engagement and regular dialogue, did not commit to viable plans to transition to a sustainable future, we took further steps to divest from such companies...The companies we excluded during the year are set out on page y of this Statement.

Through memberships of a number of institutional investor groups, we also aim to make a significant contribution towards wider public policy measures that will ensure an orderly and effective transition in line with the Paris Agreement.

We have undertaken a forward-looking scenario analysis, focused on two key warming scenarios: 'Paris' and a 'Business as Usual' scenario (BAU). The chosen scenarios approximately map:

- for 'Paris', to RCP 2.6 and IEA SDS (mitigation consistent with a 2°C warming pathway through aggressive transition measures)
- for BAU, to between RCP 6 and RCP 8.5 (little mitigation consistent with a 4°C or greater warming pathway).

These scenarios are used to show possible impact on the entity's investment portfolios under a given scenario. The entity prepares risk metrics - percentage change in portfolio value at 2030 and 2050 (see page x of our statement) - to demonstrate these impacts, but notes that, given uncertainty around the global energy transition, the associated warming path, weather outcomes, carbon prices and technological developments, the numbers should be treated as having a high degree of uncertainty.

The practitioner's considerations

The engagement team planning highlights that the entity's disclosures provide information primarily about the entity's processes, and future-oriented outcomes. The practitioner will not give a conclusion on the outcomes (whether the risks will materialize or the opportunities identified will be achieved). The engagement team's focus instead will be on:

- obtaining evidence to evaluate whether:
 - the processes followed by the entity are as described in the entity's report
 - the scenarios and assumptions used are consistent with the business decisions to be made, and have been applied appropriately to the base data or information
 - the base data and information used are appropriate, complete and accurate
 - quantitative future outcomes are appropriately calculated on the basis of the scenarios, assumptions, base data and other information
 - the disclosures made include those recommended by the TCFD, and adhere to the TCFD's seven principles for effective disclosures
- evaluating qualitative misstatements identified.

Obtaining evidence - internal controls

The engagement team intends obtaining an understanding of internal control over the preparation of the TCFD disclosures. They plan to evaluate the design of relevant controls and whether those controls have been implemented, and to test that the controls operated effectively throughout the period. This includes internal controls over, among other matters:

- sources of information used by management to identify climate-related risks and opportunities (e.g., for management to make sure that reputable sources are used, selection of sources is not biased, relevant risks are considered, and significant risks are not omitted)
- the communicating of identified climate-related risks and opportunities to the board and committees
- the prioritization of identified risks and opportunities, and of actions communicated and taken
- how climate scenarios are selected or developed, and applied, to make sure they are consistent with the business decisions to be made (e.g., to inform a decision about an investment portfolio's climate-related 'value-at-risk'), and include, at least, a scenario consistent with a 2°C warming pathway
- input parameters and assumptions selected by the entity including, for example:
 - discount rates, time horizons, assumptions about how carbon pricing may develop over time and across geographies or industry sectors, and
 - internal consistency of assumptions
- integrity of the base data or information to which assumptions are applied, and the application of assumptions to the base data for management to make sure that assumptions are appropriately applied and, where applicable, are arithmetically correct



- the calculation or evaluation of future outcomes on the basis of the scenarios, assumptions, base data and other information
- the collation of the information to be included in the TCFD disclosures, and review of the disclosures to make sure they reflect the reality of the processes performed, actions taken by the entity, and whether they address the TCFD recommendations.

Obtaining evidence - evaluating the disclosures

The engagement team considers the source, nature, quality and quantity of evidence that may be needed. In addition to making inquiries, they plan to obtain documentary evidence, including policy manuals, communications to and from the board and committees, and minutes of meetings to obtain evidence about the governance, strategy and risk management disclosures that the entity has made or should make, including, for example:

- processes by and frequency with which the board and board committees (e.g., audit, risk, or other committees) are informed about climate-related issues
- whether the board and board committees consider climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, and business plans as well as setting the organization's performance objectives, monitoring implementation and performance, and overseeing major capital expenditures, acquisitions, and divestitures.
- how the those charged with governance monitor and oversee progress against goals and targets for addressing climate-related issues.

Among their other evidence-gathering procedures, the engagement team have also planned to obtain evidence for:

- whether the scenarios stated in the entity's report are:
 - the scenarios actually used by the entity, are based on scenarios from an authoritative source (such as IPCC⁵ or IEA⁶), and are compatible with the decisions being made by the entity
 - internally compatible (e.g., a low carbon pathway would not be consistent with low expectation of introduction of climate-related policy and pricing measures)
 - consistent with regulatory requirements or guidance
 - appropriately applied (e.g., are physical risks appropriately considered by geographic location?)
- the disclosures about the entity's strategic resilience drivers; the engagement team is of the view that these disclosures may heighten the need for professional skepticism as the disclosures are unclear as to their meaning, and the basis for the statements made is not disclosed

⁵ Intergovernmental Panel on Climate Change

⁶ International Energy Agency



- whether the entity has written to over 60 companies, whether the basis for categorizing those companies as the 'largest' has been disclosed, whether the companies qualify as 'largest' under that definition, how the decision to divest was made and whether the companies remain divested
- what Global Sustainable Equities have been invested in, what research was carried out and what the basis was for the findings of that research
- what the entity is doing to identify climate-related risks in actuarial assumptions (e.g., longevity or mortality assumptions) included in pension scheme liabilities as there is no mention of this in the disclosures.



Evaluating qualitative misstatements identified

The engagement team is of the view that there are a number of misstatements, including omissions, in the disclosures, including that:

- while the entity has disclosed that it has defined responsibilities and policies in place, there is little about the processes undertaken to inform strategy, plans of action, policies, business plans and other matters recommended by the TCFD for disclosure (e.g., under 'Our Strategy', the entity states that they have a policy committing to decarbonize the assets on the balance sheet, but it is not clear what the process was to arrive at this commitment or how the entity intends to achieve the decarbonization, over what time horizon, or what assumptions have been used as a basis for the statement)
- the stated resilience drivers may be intended to achieve the decarbonization goals, but it is unclear how those drivers would achieve the goals, what assumptions have been used and what the basis is for the statements made
- some of the statements appear to be contradictory or unfounded, for example the statement that the investment in Global Sustainable Equities could lead to an 'extremely upbeat' return impact seems to be at odds with the statement that there is imperfect information on which to base investment practices
- the statement about membership of institutional investor groups makes inappropriate causal connection between membership of a group and achievement of an effective transition in line with the Paris Agreement; further, this statement does not appear to result from the application of suitable criteria, and the engagement team is of the view that it should be moved out of the information subject to assurance as it does not constitute subject matter information.



The engagement team notes that the entity has disclosed the inherent evaluation uncertainties, but does not consider that to be a reason to make only high-level disclosures that are not in line with the recommendations of the TCFD. They plan to discuss these qualitative misstatements, including omissions, with the preparer and ask the preparer to amend them so that they are in line with the recommendations of the TCFD.



Example 17: Illustrating practitioner considerations when evaluating quantitative and qualitative misstatements in EER subject matter information

(Illustrates application of the Guidance at: Chapter 9)

Fact pattern

A financial institution reports on and asks for assurance on its whole EER report, which is largely focused on information about:

- its 'green' financing of ecologically sustainable infrastructure projects, both as a \$ amount, and as a percentage of its total investment in infrastructure projects,
- climate-related risks relating to its loan division, and
- its provision of education bursaries for students from disadvantaged backgrounds, and sponsorship of community activities and sports events.

The narrative on financing of 'green' projects is presented in bold text and is extensive. Information on the entity's financing of other infrastructure projects is in non-bold text, with information on investment in a major oil pipeline limited to one line of text. The entity includes images of:

- eco-construction projects, forests and clear lakes in its report, to reinforce that it is committed to ecologically sustainable projects, and
- students from disadvantaged communities, to reflect its commitment to social matters through the provision of education bursaries.

Materiality is considered separately by the practitioner for each of the three aspects above, and also for the EER report as a whole.

During the performance of the engagement, the practitioner identifies the following quantitative and qualitative misstatements:

1. The 'green' financing of projects has been overstated by a \$ amount just below quantitative materiality, due to the misclassification of two infrastructure projects that do not meet the criteria for being 'green'. The percentage is unaffected as the misstatement in the \$ amount does not affect the 'rounding' of the percentage.
2. The narrative included in the report on climate-related transition risks may be understating the likely impact because the entity made a large loan at the end of the previous year to a construction company involved in a long-term contract for a major oil pipeline. There may be significant reduction in demand for oil in the future as consumers switch to low-carbon alternatives.
3. While no quantitative misstatements have been identified in the education bursaries paid, which are small compared to the entity's other sponsorship activities, there is:
 - a half-page of images of a disadvantaged housing area, alongside a smiling student graduating from a prestigious university, together with a few paragraphs of text, but
 - no information about sponsorship of an endurance motorsport event which, although not quantitatively material, has, in recent years, led to clashes with environmental groups and local communities due to the harmful impact of the event on fragile ecosystems.

The practitioner has other concerns about the presentational aspects of the EER information, including:

- the way in which narrative on the entity's financing of 'green' projects is presented, and the tone of the narrative, compared with narrative on its other projects and, in particular, the narrative about its investment in the major oil pipeline project
- images on the page about its investment in infrastructure projects are all of eco-construction projects, forests and clear lakes, although the amount invested in the oil pipeline and other 'non-green' projects is much larger than the amount invested in 'green' projects.

The practitioner considers that, although, individually, the quantitative amounts are either not misstated (bursaries) or the misstatements are below the quantitative threshold established during planning ('green' project financing and omission of motorsport sponsorship), the report as a whole presents a biased view of what the entity is doing, and of the risks it faces. Unless the preparer is willing to make adjustments, the practitioner may consider withdrawing from the engagement or, if that is not possible, is of the view that an adverse conclusion on the report as a whole would be needed.



The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants® or IFAC®.

The IAASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

International Standards on Auditing, International Standards on Assurance Engagements, International Standards on Review Engagements, International Standards on Related Services, International Standards on Quality Control, International Auditing Practice Notes, Exposure Drafts, Consultation Papers, and other IAASB publications are published by, and copyright of, IFAC.

Copyright © April 2021 by IFAC. All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: *“Copyright © April 2021 by the International Federation of Accountants® or IFAC®. All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback.”*

The ‘International Auditing and Assurance Standards Board’, ‘International Standards on Auditing’, ‘International Standards on Assurance Engagements’, ‘International Standards on Review Engagements’, ‘International Standards on Related Services’, ‘International Standards on Quality Control’, ‘International Auditing Practice Notes’, ‘IAASB’, ‘ISA’, ‘ISAE’, ‘ISRE’, ‘ISRS’, ‘ISQC’, ‘IAPN’, and IAASB logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

For copyright, trademark, and permissions information, please go to [permissions](#) or contact permissions@ifac.org.



**International Auditing
and Assurance
Standards Board**

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.iaasb.org