

**Consultation Paper
February 2019**

Comments due: June 21, 2019

**Extended External Reporting (EER)
Assurance**

**IAASB Consultation Paper
(February 2019)**

IAASB

**International Auditing
and Assurance
Standards Board**

Acknowledgements

This Consultation Paper was developed by the International Auditing and Assurance Standards Board (IAASB) as part of a project run with the support of the World Business Council for Sustainable Development (WBCSD). This work is part of a conservation and financial markets collaboration among Ceres, World Business Council for Sustainable Development, World Wildlife Fund and the Gordon and Betty Moore Foundation. For more information, please visit www.moore.org.

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

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC). Visit iaasb.org.

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REQUEST FOR INPUT

This Consultation Paper was developed by the International Auditing and Assurance Standards Board® (IAASB®).

Comments are requested by June 21, 2019.

Respondents are asked to submit their comments electronically through the IAASB website, using the [“Submit a Comment”](#) link. First-time users must register to use this feature. Please submit comments in both a PDF and Word file. Respondents are asked not to use tables in their responses as these create difficulties for analysis. All comments will be considered a matter of public record and will ultimately be posted on the website.

This publication may be downloaded from the IAASB website (www.iaasb.org).

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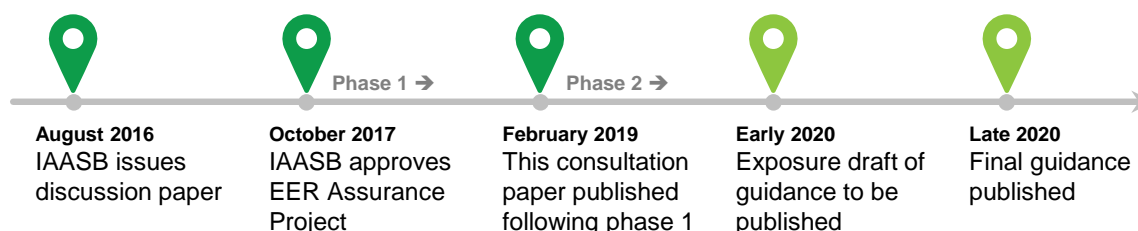
EXPLANATORY MEMORANDUM

Section 1 Introduction

1. This memorandum provides background to this consultation and the IAASB's [EER Assurance project](#).

Section 1-1 Background

2. EER encapsulates many different forms of reporting, including, but not limited to, integrated reporting, sustainability reporting and other reporting by entities about environmental, social and governance (ESG) matters. The IAASB is responding to EER becoming increasingly common and growing demand for assurance engagements in relation to it. Assurance engagements on EER are similar in concept to an audit (a specific type of assurance engagements) but they are performed on EER reports rather than on financial statements.
3. This project aims to enable more consistent and appropriate application of ISAE 3000 (Revised)¹ such that users of EER reports will have greater trust in the resulting assurance reports. The IAASB plans to achieve this primarily through the development of a document containing non-authoritative (non-mandatory) guidance (“the non-authoritative guidance document”) in applying ISAE 3000 (Revised) to EER.
4. Consistent with the [project proposal](#), the non-authoritative guidance document is being developed in two phases. Having completed phase 1, preliminary drafting of approximately half of the guidance has been developed (“the draft guidance” included in this consultation paper) and the IAASB is now seeking initial feedback from stakeholders on its work to date through this consultation paper.
5. This consultation paper does not include an exposure draft of the non-authoritative guidance document. It is an interim consultation on the draft guidance, and its purpose is to assist the IAASB in updating the draft guidance, and completing the non-authoritative guidance document, in phase 2. The final form of the complete non-authoritative guidance document following phase 2 is due to be determined by the IAASB during phase 2. During phase 2, an exposure draft of the complete non-authoritative guidance document (including the guidance developed in both phases) will be published for public comment, in accordance with the IAASB’s normal due process.



6. In addition to the draft guidance, this consultation paper includes two additional papers on which respondents to this consultation paper are also invited to comment:
 - a) Background and Contextual Information on Understanding How Subject Matter Information Results from Measuring or Evaluating Subject Matter Elements Against the Criteria; and
 - b) Four Key Factor Model for Credibility and Trust in Relation to EER.

¹ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

Section 2 Guide for Respondents

7. The IAASB welcomes comments on all matters addressed in this consultation paper, but especially those identified in the Request for Comments section below. Respondents are free to address only some of the questions from the Request for Comments section if they wish.
8. Comments are most helpful when they refer to specific chapters or paragraphs (where appropriate), include the reasons for the comments, and make specific suggestions for any proposed changes to wording. When a respondent agrees with the approach suggested in the draft guidance, it will be helpful for the IAASB to be made aware of this view as this cannot always be inferred when not stated.

Section 3 Significant Matters

Section 3-1 Scope of the Draft Guidance

9. The scope of the non-authoritative guidance document is only specific aspects of applying ISAE 3000 (Revised). These areas were decided as a result of responses to a [discussion paper](#)² issued by the IAASB in 2016 (“the 2016 discussion paper”) that identified ten areas (challenges) where a practitioner may find guidance useful. These are listed in [Appendix 1](#) of the draft guidance.
10. Draft guidance has now been developed for the following areas, wholly allocated to phase 1:
 - a) Evaluating the suitability of criteria in a consistent manner
 - b) Addressing materiality for diverse information with little guidance in EER frameworks
 - c) Building assertions for subject matter information of a diverse nature
 - d) Lack of maturity in governance and internal control over EER reporting processes

In addition, draft guidance has been developed for two other areas, obtaining assurance over ‘narrative’ and ‘future-oriented’ information, allocated to phase 1 insofar as they relate to areas (a) to (d) above.

11. Respondents are encouraged to comment on whether the draft guidance adequately addresses the challenges identified in the areas allocated to phase 1, based on the practical issues encountered by practitioners today (see Question 1 in section 4).
12. The draft guidance in this consultation paper is presented in a format that illustrates how the fully completed non-authoritative guidance document could be structured in phase 2. However, this means that, in this consultation paper, the chapters (and sections of chapters) intended to include guidance related to areas allocated to phase 2 have not yet been fully developed, as shown below:

Chapter	Status of development
1 Introduction	■ Drafted in phase 1.
2 Overview of an EER Assurance Engagement	■ Drafted in phase 1.

² Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements

Chapter	Status of development
3 Determining Preconditions and Agreeing the Scope	■ Guidance relating to the preconditions has been drafted in phase 1. 'Agreeing the Scope' is allocated to phase 2, although some initial guidance has been developed.
4 Applying Appropriate Skills	■ Not developed – allocated to phase 2.
5 Exercising Professional Skepticism and Professional Judgment	■ Not developed – allocated to phase 2.
6 Considering the System of Internal Control	■ Drafted in phase 1.
7 Determining the Suitability of Criteria	■ Drafted in phase 1.
8 Considering the Entity's 'Materiality Process'	■ Drafted in phase 1.
9 Performing Procedures and Using Assertions	■ Guidance on using assertions is developed. Guidance on performance materiality is to be developed in phase 2.
10 Assuring Narrative Information	■ Chapter is only partially developed as guidance relating to 'obtaining evidence' is allocated to phase 2.
11 Assuring Future-Oriented Information	■ Chapter is only partially developed as guidance relating to 'obtaining evidence' is allocated to phase 2.
12 Considering the Materiality of Misstatements	■ Drafted in phase 1.
13 Preparing the Assurance Report	■ Not developed – allocated to phase 2.

13. Please refer to [Appendix 1](#) of the draft guidance to see how the chapters in the draft guidance can be mapped to the ten areas identified in the 2016 discussion paper. [Chapter 2](#) of the draft guidance shows how the scope of the non-authoritative guidance document relates to the requirement paragraphs of ISAE 3000 (Revised).
14. The majority of respondents to the 2016 discussion paper supported the development of non-authoritative guidance but not a new assurance standard introducing mandatory requirements at this time, although the IAASB recognizes that the latter may be appropriate in the future.
15. The draft guidance is intended to be 'framework-neutral' such that it can be applied to assurance engagements over EER reports that are prepared using any EER framework, or entity-developed criteria. The draft guidance is therefore principles-based, however examples are included to illustrate how principles can be applied in the context of specific types of EER reports.

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Section 3-2 Form and Content of the Draft Guidance*Accessibility*

16. The draft guidance is intended to be accessible to practitioners such that it can be easily understood and is therefore a useful resource. Examples and diagrams are included to help make the guidance easier to understand.
17. While terminology is consistent with ISAE 3000 (Revised), the draft guidance acknowledges other terms used commonly in practice where practitioners with experience in this area will easily understand these – for example a ‘materiality process’. The draft guidance also introduces some additional terms not used in ISAE 3000 (Revised) such as ‘elements’ and ‘qualities’ (see [Chapter 1](#) of the draft guidance). The IAASB discussed whether this was appropriate, and some concern was raised that using such terms may not be easily understood and could in some cases be misleading, even if they are in common usage by practitioners with experience in this area. Respondents are therefore encouraged to comment on whether the terminology used is sufficiently simple and accessible, while maintaining the required level of technical accuracy and consistency with other IAASB literature in general and ISAE 3000 (Revised) in particular (see Question 2).

Structure

18. To make it straightforward for practitioners to find guidance in the areas they want, the draft guidance has been structured into chapters. Each chapter covers a different aspect of undertaking an assurance engagement. Respondents are asked if they support this proposed structure (see Question 3).

Relationship with ISAE 3000 (Revised)

19. In line with the project’s scope, the draft guidance does not introduce any further requirements beyond those in ISAE 3000 (Revised) and does not remove or change any of the requirements or application material in ISAE 3000 (Revised).
20. The draft guidance does however cover matters not addressed in ISAE 3000 (Revised), for example how to consider an entity’s ‘materiality process’ and whether or how to use assertions. This is because the IAASB agreed these were areas of challenge for practitioners in light of responses to the 2016 discussion paper.
21. While the draft guidance is intended to be primarily a resource for practitioners, in some areas it includes details about the preparer’s role in relation to an assurance engagement. This is because an appropriate understanding of the nature of the preparer’s role in preparing an EER report is likely to assist practitioners in performing effective EER assurance engagements. For example, Chapter 6 discusses the nature of the system of internal control (the responsibility of a preparer) as a practitioner may need to consider this in establishing whether the preconditions for an assurance engagement are present. Respondents are encouraged to comment on the matters in paragraphs 19-21 (see Questions 4 and 5).

Section 3-3 Preconditions for Assurance

22. Establishing whether the preconditions for an assurance engagement are present was not identified as a separate challenge for the practitioner in the 2016 discussion paper. However, the draft guidance includes a brief collective overview of the preconditions in [Chapter 3](#) as they are the starting point for discussing how some of the preconditions relate to identified challenges and associated matters, for

example the system of internal control (referred to as ‘governance and internal control’ in the 2016 discussion paper) and the suitability of criteria.

Section 3-4 System of Internal Control

23. The 2016 discussion paper suggested that governance and internal control over EER reporting processes often lacked maturity, particularly where EER was new. It noted that this may give rise to engagement acceptance issues.
24. The draft guidance discusses the entity’s governance and internal control in terms of a ‘system of internal control’ to be consistent with other IAASB standards and the COSO framework³. The draft guidance suggests that the practitioner may need to consider the system of internal control as part of establishing whether some of the preconditions for an assurance engagement are present. Two preconditions are drawn out as potentially being particularly relevant (see paragraph 58 of the draft guidance), however this is guidance that is incremental to the requirements and application material relating to those preconditions in ISAE 3000 (Revised). Respondents are invited to comment on the way the draft guidance covers this matter (see Questions 4 and 5). The draft guidance also suggests that the practitioner may consider it necessary to consider the entity’s system of internal control relating to its EER report, in fulfilling the requirements of ISAE 3000 (Revised), to obtain an understanding of the engagement circumstances.
25. To assist the practitioner with these considerations, [Chapter 6](#) of the draft guidance provides examples of aspects of each of the components of a system of internal control (in paragraphs 67, 70 and 71). The practitioner may use this guidance to consider whether the preparer’s system of internal control is adequate to support their determination as to whether the preconditions for an assurance engagement are present. Respondents are encouraged to suggest any pertinent items that may be missing from these lists of suggested considerations (see Question 1).
26. The draft guidance emphasizes that the system of internal control does not necessarily need to be ‘mature’ or ‘robust’, but it should be ‘adequate’ for the practitioner to determine that the preconditions for an assurance engagement are present. What is ‘adequate’ will be a judgment for the practitioner taking into account factors including the size and complexity of the specific entity. Respondents are encouraged to comment on how the draft guidance addresses this matter (see Questions 4 and 5).

Section 3-5 Criteria

27. A further area relating to the preconditions identified in the 2016 discussion paper was the practitioner evaluating the suitability of criteria in a consistent way. The IAASB considers that the draft guidance may be most useful for determining whether entity-developed criteria (rather than those from an EER framework) are suitable. However, in practice, the criteria often comprise a combination of criteria from one of more EER frameworks, as well as entity-developed criteria. The practitioner is required to determine whether the precondition that the criteria, whether they are from an EER framework or entity-developed, are suitable is present.
28. [Chapter 7](#) of the draft guidance first explains what criteria are in the context of ISAE 3000 (Revised), before giving more detailed guidance on what it means for criteria to be suitable, in particular how the five characteristics of suitable criteria may be understood in an EER context. A number of examples are included to assist practitioners in determining whether the criteria that they expect to

³ Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework*, May 2013

be applied in preparation of EER subject matter information are suitable for the engagement circumstances.

29. The IAASB recognizes that, in practice, the criteria used to prepare an EER report may not be clear or explicit as preparers often tend to think in terms of applying EER frameworks rather than in terms of selecting or developing and applying the assurance concept of criteria. Respondents are therefore encouraged to comment on whether the draft guidance sufficiently addresses the practical issues faced by practitioners in this regard (see Question 1).

Section 3-6 ‘Materiality Processes’

30. One aspect of preparing EER reports, which is practically different from preparing financial statements, is that the preparer commonly needs to decide how to make judgments about what to include in their EER report based on what will assist decision-making by the intended users. This may be because the criteria in an EER framework they are using do not adequately address how to make such judgments. This was described in the 2016 discussion paper, and is commonly described by practitioners, preparers and EER frameworks, as the preparer undertaking a ‘materiality process’. The practitioner’s consideration of the results of such a process was described as part of the challenge of ‘Addressing Materiality for Diverse Information with Little Guidance in EER Frameworks’ in the 2016 discussion paper.
31. Following further consideration by the IAASB, in the context of an ISAE 3000 (Revised) assurance engagement, undertaking a ‘materiality process’ effectively involves developing or extending the criteria such that they sufficiently exhibit the characteristics of relevance and completeness. However, the term ‘materiality’ is only used in ISAE 3000 (Revised) in the context of potential and identified misstatements.
32. [Chapter 8](#) of the draft guidance aims to guide practitioners through considering an entity’s ‘materiality process’, first by reviewing the context of the process and then reviewing the results of the process. Where this is applicable to the engagement, this would be part of the practitioner determining whether the criteria are suitable.
33. The IAASB recognizes that different EER frameworks, where they give direction in this area, can require different approaches to determining what will assist the intended users’ decision-making. The draft guidance aims to suggest an approach for practitioners that will be applicable regardless of any EER framework being used by the preparer. Respondents are encouraged to comment on whether this has been achieved (see Question 1).
34. Respondents are also asked to comment whether they agree with the use of the term ‘materiality process’ even though such a process does not relate to the concept of ‘materiality’ as used in ISAE 3000 (Revised) (see Question 2).

Section 3-7 Materiality

35. The practitioner’s consideration of the materiality of misstatements is covered in [Chapter 12](#) in response to the identified challenges of dealing with subject matter information that does not have a common unit of measurement or evaluation. The IAASB also recognizes the issue of considering misstatements in narrative information, and how such misstatements, when uncorrected, can be accumulated as required by ISAE 3000 (Revised). Respondents are asked to comment on whether the draft guidance is sufficient to address these issues (see Question 1).

Section 3-8 Assertions

36. The IAASB understands that assertions are a widely-used tool in assurance engagements and respondents to the 2016 discussion paper agreed that ‘building’ assertions was a key challenge for practitioners in relation to EER. However, as explained in the draft guidance, the use of assertions is not required by ISAE 3000 (Revised), and assertions are not mentioned in the standard. Respondents are therefore asked to comment whether the draft guidance discusses assertions in an appropriate way (see Questions 4 and 5).
37. [Chapter 9](#) of the draft guidance first explains what assertions are, based on the definitions in other IAASB standards (ISA 315 (Revised)⁴ and ISAE 3410⁵), as the IAASB recognizes that the term is sometimes used in different ways by practitioners. Respondents are asked to comment on whether this explanation is clear and easy to understand (see Question 2).
38. The draft guidance then explains how assertions (“representations ... embodied in the subject matter information ...”) result from the requirements of the applicable criteria. If the applicable criteria are properly applied, the resulting subject matter information will have attributes that reflect these assertions. In ISAE 3000 (Revised), the characteristics of suitable criteria are defined in terms of the attributes of subject matter information that results from applying them.
39. If the applicable criteria are suitable, it follows that the subject matter information will have some attributes that reflect assertions related to the characteristics of suitable criteria. The subject matter information may also have attributes that reflect assertions related to other characteristics of the applicable criteria. Identifying these attributes can help the practitioner in ‘building’ assertions, which involves identifying the categories of assertions that may be useful to the practitioner in considering the different types of potential misstatements that may occur in the context of a particular EER assurance engagement.
40. Respondents are invited to comment on whether the draft guidance will be helpful to practitioners in ‘building’ assertions and adequately addresses the challenges for practitioners in relation to using assertions where they choose to do so (see Question 1). Respondents are also invited to comment on whether explaining the above matters in paragraphs 38 and 39 may cause confusion about the distinct purposes of the characteristics of suitable criteria (in ISAE 3000 (Revised)) and of assertions (in other IAASB standards) (see Question 2). The purpose of the characteristics of suitable criteria is to assist the practitioner in evaluating the suitability of criteria, and the purpose of assertions is to assist the practitioner in considering the different types of potential misstatements that may occur in applying suitable criteria to prepare the subject matter information.

Section 3-9 Narrative and Future-Oriented Information

41. Draft guidance has been developed regarding assuring narrative and future-oriented information in relation to determining the suitability of criteria, using assertions and evaluating misstatements. Refer to Chapters [10](#) and [11](#) of the draft guidance. In the project proposal, assuring narrative and future-oriented information was considered to warrant specific guidance as such types of subject matter information are more common in EER reports than in financial statements. Respondents are invited to comment on whether the draft guidance developed so far addresses the challenges faced by

⁴ International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

⁵ International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*

practitioners (see Question 1), noting that guidance relating to ‘obtaining evidence’ is due to be developed in phase 2.

Section 3-10 Additional Papers

- 42. As noted above, in addition to the draft guidance, this consultation paper also includes two additional papers: ‘Background and Contextual Information on Understanding How Subject Matter Information Results from Measuring or Evaluating Subject Matter Elements Against the Criteria’ and the ‘Four Key Factor Model for Credibility and Trust’.
- 43. The first paper contains material that is mainly of an educational nature relating to aspects of how an EER report may be prepared.
- 44. The second paper introduces and explains a model developed by the IAASB explaining factors that may enhance the credibility of EER reports. It provides context to performing assurance engagements over EER. The model was previously presented in Section III of the 2016 discussion paper and has been updated to reflect positive feedback received from respondents to that discussion paper.
- 45. The IAASB plans to publish these as separate papers alongside the non-authoritative guidance document. Respondents are invited to comment on the content of these two papers, and on the IAASB’s plans to publish them (see Question 6).

Section 4 Request for Comments

- 46. The following is a summary of the questions for respondents with specific ‘significant matters’ highlighted for respondent consideration, along with a request for general comments.

Questions to Respondents

Question	Specific ‘Significant Matters’ Highlighted for Respondent Consideration
Q1) Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1? If not, where and how should it be improved?	References are to paragraphs in Section 3 above. Paragraphs 9-15 (scope of draft guidance) Paragraph 25 (preconditions and the system of internal control) Paragraph 29 (suitability of criteria) Paragraph 33 (‘materiality processes’) Paragraph 35 (materiality of misstatements) Paragraph 40 (assertions) Paragraph 41 (narrative and future-oriented information)
Q2) Is the draft guidance clear and easy to understand, including through the use of examples and diagrams, and the way terminology is used? If not, where and how should it be improved?	Paragraphs 16-17 (examples, diagrams and terminology) Paragraph 34 (term ‘materiality process’) Paragraphs 37 and 40 (assertions)

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Question	Specific ‘Significant Matters’ Highlighted for Respondent Consideration References are to paragraphs in Section 3 above.
Q3) Do you support the proposed structure of the draft guidance? If not, how could it be better structured?	Paragraph 18 (structure)
Q4) Do you agree that the draft guidance does not contradict or conflict with the requirements or application material of ISAE 3000 (Revised), and that the draft guidance does not introduce any new requirements?	Paragraphs 19-21 (relationship with ISAE 3000 (Revised)) Paragraphs 24 and 26 (linking preconditions and the system of internal control) Paragraph 36 (assertions)
Q5) Do you agree with the way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised)?	Paragraphs 19-21 (matters not addressed in ISAE 3000 (Revised) and including details on the preparer’s role and ‘materiality processes’) Paragraphs 24 and 26 (linking preconditions and the system of internal control) Paragraph 36 (assertions)
Q6) Do you agree that the additional papers contain further helpful information and that they should be published alongside the non-authoritative guidance document?	Paragraphs 42-45 (additional papers)

Request for General Comments

- Q7) In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:
- a) Stakeholder Perspectives—Respondents representing stakeholders such as preparers (including smaller entities) of EER reports, users of EER reports, and public sector entities are asked to comment on the questions above from their perspective.
 - b) Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in using the draft guidance in a developing nation environment.
 - c) Translation—Recognizing that many respondents may intend to translate the final guidance for adoption in their own environments, the IAASB welcomes comments on potential translation issues.

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DRAFT GUIDANCE IN APPLYING ISAE 3000 (REVISED) TO EXTENDED EXTERNAL REPORTING (EER) – PHASE 1

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Chapter 1: Introduction

Background

1. 'Extended external reporting' (EER) encapsulates many different forms of reporting, including, but not limited to, integrated reporting, sustainability reporting and other reporting by entities about environmental, social and governance (ESG) matters. EER includes non-financial information and information that goes beyond that which is contained in traditional financial statements that focus on the entity's financial position, financial performance and impact on its financial resources.
 2. EER reports may be required by law or regulation, or alternatively may be produced by entities voluntarily. They may be prepared using frameworks, standards and guidance established by law or regulation, by international or national standard setters, or by other bodies (referred to in this document as "EER frameworks"). EER can be less structured in comparison to financial statement reporting. There may also be diversity in the criteria used to prepare the EER report given the wide selection of EER frameworks, and because entities often develop their own criteria either in addition to, or instead of, using EER frameworks.
 3. EER tends to be more diverse than financial statement reporting, both in format and in the matters being reported on. The reporting can also be more qualitative; the information can comprise more description (narrative information) alongside financial and non-financial numbers. The processes and aspects of the internal control system related to the preparation of EER may often be less developed, particularly when an entity first starts to prepare EER.
 4. The IAASB issued a discussion paper⁶ in 2016 identifying ten areas where a practitioner may find guidance useful in applying ISAE 3000 (Revised) (sometimes alternatively referred to as "the standard" in this document) to assurance engagements over EER. In response to broad agreement with this assessment from respondents, the scope of this document is to provide guidance in these specific areas. See [Appendix 1](#) for further background information.
- ① This non-authoritative guidance document is being developed in two phases and this document includes only initial draft guidance developed in the first phase, covering approximately half of the guidance to be developed. The IAASB is now seeking initial feedback from stakeholders on the draft guidance developed to date, to assist the IAASB in updating it and in completing the development of an exposure draft of the non-authoritative guidance document, in phase 2.
5. The guidance's intended audience is primarily practitioners carrying out EER assurance engagements, although it may also be useful for preparers of EER reports.

Purpose of this Guidance

6. The purpose of this guidance document is to provide practical assistance to a practitioner carrying out assurance engagements over EER in the form of guidance on the application of the standard. ISAE 3000 (Revised) deals with assurance engagements other than audits or reviews of financial statements as described in the *International Framework for Assurance Engagements*. It is intended to be applied to a wide range of matters being reported on. This guidance is designed to assist with engagements over EER reports of entities of all sizes and a broad range of EER matters being reported on. Although the guidance may be helpful in performing other types of assurance engagements, it has not been developed with such engagements in mind.

⁶ Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements

7. As it is non-authoritative, this guidance does not introduce any further requirements beyond those in ISAE 3000 (Revised). Similarly, none of the contents of this guidance remove or change any of the requirements or application material in ISAE 3000 (Revised).
8. ISAE 3000 (Revised) can be used in both direct and attestation engagements⁷, however, like the standard, this guidance is written in the context of attestation engagements. It may be applied to direct engagements, adapted and supplemented as necessary in the engagement circumstances.

Terminology

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

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

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

⁷ Refer to ISAE 3000 (Revised) paragraph 12(a)(ii) for definitions of attestation and direct engagements.

Chapter 2: Overview of an EER Assurance Engagement

12. This chapter provides an overview of what undertaking an EER assurance engagement under ISAE 3000 (Revised) involves. It can be used to navigate this document as it refers to later chapters that contain more detailed guidance. The subheadings reflect the sections in the standard and include the paragraph references in the standard. As this document only provides guidance on the specific areas where it is likely to be most useful (see paragraph 4), the subheadings below are marked as follows:

- = Sections with guidance in later chapters
- = Sections without guidance in later chapters

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

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

Ethical Requirements ○ Paragraph 20

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

Acceptance and Continuance ● Paragraphs 21-30

15. Similar to a financial statement audit, the practitioner is required to undertake appropriate acceptance (for a new engagement) or continuance (for a recurring engagement) procedures prior to accepting any assurance engagement in accordance with ISAE 3000 (Revised).
16. These include establishing that the preconditions for the engagement are present⁸ (many of which are discussed further in this guidance in the context of EER) and that the practitioner has no reason to believe the relevant ethical requirements, including independence, will not be satisfied.
17. Paragraph 24 of the standard sets out the preconditions required to be present before the practitioner can accept or continue the engagement. Appropriate procedures regarding the acceptance and continuance of client relationships are also required to have been followed⁹.
18. Establishing whether these preconditions are present may not be straightforward, particularly in an initial engagement. However, insufficient attention to these areas by the practitioner at the acceptance or continuance stage may result in issues arising later in the engagement. Refer to [Chapter 3](#) of this document for further guidance on the preconditions for an assurance engagement. [Chapter 6](#) gives more detailed guidance on the system of internal control, including the entity's governance, and how this relates to the preconditions, and [Chapter 7](#) provides guidance specifically in relation to the precondition that the criteria are suitable.
19. When agreeing the terms of engagement between the parties, one of the important areas for an EER engagement is to agree the scope of the assurance engagement. The scope may vary from the whole EER report to specific sections or even to specific measures or indicators in the EER report. From the practitioner's perspective, narrowing the assurance scope may increase the risk of the

⁸ ISAE 3000 (Revised) paragraph 24

⁹ ISAE 3000 (Revised) paragraph 21

engagement lacking a rational purpose or misleading readers of the EER report. This is explored further in [Chapter 3](#).

Quality Control ●

Paragraphs 31-36

20. This section of the standard sets out the requirements of the engagement partner to have appropriate competence and capabilities, and explains their other responsibilities.
21. The engagement partner is also required to be satisfied that those who are to perform the engagement collectively have the appropriate competence and capabilities¹⁰. Carrying out EER assurance engagements typically requires significant professional judgment and the broad range of matters being reported on in EER reports may mean specialized skills and experience are required.
22. It is acknowledged that it may be necessary for a practitioner to involve experts in the engagement, and in some cases for the firm providing assurance services to appoint an engagement quality [control] reviewer. In phase 2, further guidance on applying appropriate skills in an EER assurance engagement will be included in [Chapter 4](#) of this document.

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

Paragraphs 37-39

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

Planning and Performing the Engagement ●

Paragraphs 40-47

24. Some of the engagement planning activities may follow on from work completed as part of the acceptance and continuance stage, for example considering in more detail whether the criteria are suitable (see [Chapter 7](#)).
25. The other main requirement in this phase is to obtain an understanding of the underlying subject matter and other engagement circumstances. This phase will provide the practitioner with a frame of reference for exercising professional judgment throughout the engagement by understanding the context of the engagement, the entity and its activities. This includes the entity's process to prepare the EER report to the extent required by paragraphs 47L and 47R of the standard for limited and reasonable assurance engagements respectively. The nature of the preparer's system of internal control will likely also influence the practitioner's overall engagement strategy. Refer to [Chapter 6](#) for more guidance on considering the system of internal control.
26. Some EER frameworks require the preparer to determine what the important matters are to include in the EER report because the criteria from the EER framework do not specify this in sufficient detail. Where this is the case, these judgments made by the preparer are often referred to as a 'materiality process'. In determining whether the criteria are suitable for the engagement circumstances¹¹ (particularly whether they are relevant and complete), for some engagements the practitioner may need to review and evaluate such a 'materiality process' undertaken by the preparer. What the practitioner is required to do may be determined by the scope of the assurance engagement. Refer to [Chapter 8](#) for detailed guidance on considering an entity's 'materiality process'.

¹⁰ ISAE 3000 (Revised) paragraphs 22(b) and 32

¹¹ ISAE 3000 (Revised) paragraph 41

27. The practitioner is required to consider materiality in determining the nature, timing and extent of procedures (performance materiality – to be included in [Chapter 9](#) in phase 2), as well as in evaluating the materiality of misstatements (see under ‘Forming the Assurance Conclusion’ below and [Chapter 12](#)).

Obtaining Evidence ●

Paragraphs 48-60

28. Prior to designing and performing assurance procedures in a reasonable assurance engagement, the standard requires the practitioner to identify and assess the risks of material misstatement, or in a limited assurance engagement, identify areas where a material misstatement is likely to arise¹².
29. In designing procedures, the practitioner may find it helpful to use assertions to consider the different types of potential misstatements of the information that may occur. Refer to [Chapter 9](#) for further guidance.
30. The extent of the procedures required for a reasonable assurance engagement is likely to be greater than for a limited assurance engagement. The nature and timing of the procedures may also vary between reasonable and limited assurance engagements. The standard sets out the different requirements.
31. The standard explains that a reasonable assurance engagement may involve testing the operating effectiveness of controls relevant to the engagement, but also acknowledges that a fully substantive approach to the engagement may be appropriate.
32. EER may include narrative and future-oriented information. Guidance on how a practitioner may approach this is included in Chapters [10](#) and [11](#) respectively.
33. Evidence is obtained from performing the designed procedures. Any misstatements identified, other than those that are corrected by the preparer or that are clearly trivial, are accumulated by the practitioner¹³. These are later evaluated as part of ‘Forming the Assurance Conclusion’ (see paragraph 38).
34. The standard also includes requirements relating to the use of experts or the work of another practitioner and requesting written representations. These are outside the scope of this guidance.

Subsequent Events ○

Paragraph 61

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

Other Information ○

Paragraph 62

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

¹² ISAE 3000 (Revised) paragraphs 48L and 48R

¹³ ISAE 3000 (Revised) paragraph 51

Description of Applicable Criteria ○ Paragraph 63

37. A preparer may need to refer to or describe the applicable criteria as part of fulfilling the requirement to make them available to the intended users¹⁴. The standard requires the practitioner to evaluate whether this has been done.

Forming the Assurance Conclusion ● Paragraphs 64-66

38. The standard requires the practitioner to evaluate the sufficiency and appropriateness of the evidence obtained, as well as form a conclusion about whether the subject matter information is free from material misstatement¹⁵. Guidance relating to considering the materiality of misstatements is included in [Chapter 12](#) of this document.

Preparing the Assurance Report ● Paragraphs 67-71

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

Unmodified and Modified Conclusions ● Paragraphs 72-77

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

Other Communication Responsibilities ○ Paragraph 78

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

Documentation ○ Paragraphs 79-83

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

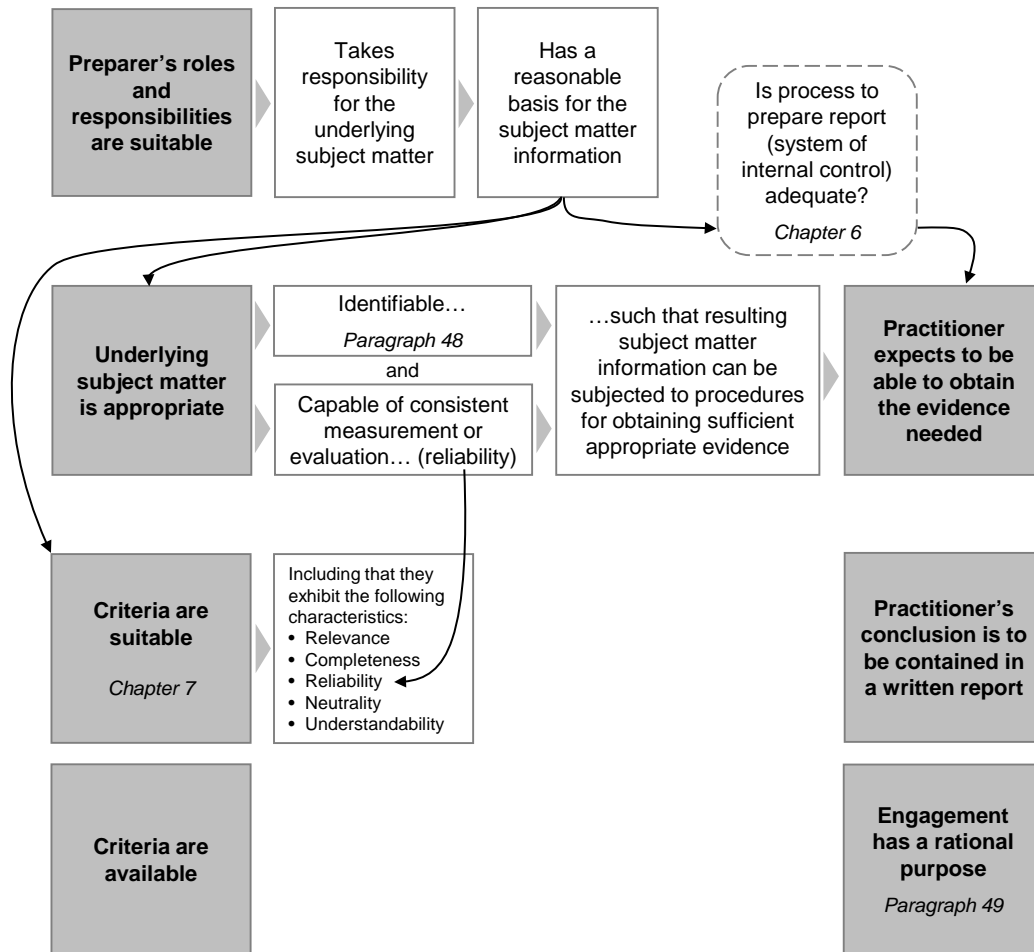
¹⁴ ISAE 3000 (Revised) paragraph 24(b)(iii)

¹⁵ ISAE 3000 (Revised) paragraphs 64 and 65

Chapter 3: Determining Preconditions and Agreeing the Scope

Preconditions for Assurance

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



Key



Precondition for assurance (paragraph 24 of the standard).



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



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

47. The following considerations for the practitioner include questions (based on the preconditions for an assurance engagement) that are designed to illustrate how the practitioner may make some of the judgments involved in the acceptance or continuance decision.

CONSIDERATIONS FOR THE PRACTITIONER

- a) Are the roles and responsibilities of the appropriate parties suitable, and has the preparer appropriately fulfilled its responsibility to have a reasonable basis for the subject matter information?
 - i) Is the underlying subject matter appropriate (see (b) below)?
 - ii) Are the criteria suitable (see (c) below)?
 - iii) Is the preparer’s process to prepare the information adequate and appropriately supported by related aspects of the entity’s system of internal control (see guidance in Chapter 6)?
- b) Is the underlying subject matter appropriate?
 - i) Is it identifiable (see paragraph 48); and
 - ii) Is it capable of consistent measurement or evaluation against the applicable criteria;

such that the resulting subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence?
- c) Are the criteria you (as the practitioner) expect to be applied by the preparer suitable for the engagement circumstances (see guidance in Chapter 7)?
 - i) Does the preparer have an appropriate process in place for developing and reviewing the criteria?
- d) Will the criteria that you (as the practitioner) expect to be applied by the preparer be available to the intended users?
- e) Do you (as the practitioner) expect to be able to obtain the evidence needed to support your assurance conclusion?
- f) Is your practitioner’s conclusion going to be contained in a written report?
- g) Does the engagement have a rational purpose (see paragraph 49)?

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

Explanatory Memorandum

Draft Guidance

Contextual Information

Credibility and Trust Model

Underlying subject matter is identifiable

48. Identifiable underlying subject matter means that the subject matter elements are well-defined and distinct from other things.

EXAMPLE	<p>The greenhouse gas emissions of an entity might be identifiable underlying subject matter because there are widely accepted definitions of greenhouse gas emissions (such that they are distinct from other things, for example other emissions to air). Additionally, methods exist to measure or estimate those greenhouse gas emissions that are attributable to the entity's activities.</p> <p>However, the impact of the entity's activities on global temperature change more broadly might not be identifiable underlying subject matter. This is because it is difficult to attribute global temperature changes to greenhouse gas emissions of specific entities and to separate the impact of greenhouse gas emissions from other factors causing such temperature changes (for example deforestation).</p>
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The engagement has a rational purpose

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

CONSIDERATIONS FOR THE PRACTITIONER	<p>In determining whether a proposed EER assurance engagement has a rational purpose, it may be appropriate for the practitioner to consider matters such as:</p> <ul style="list-style-type: none"> • Who the intended users are, including taking into account whether the applicable criteria were designed for a general or special purpose and whether the EER report or the assurance report will be used or distributed more broadly than to the identified intended users. • Assuming the subject matter information is expected to address the significant information needs of the intended users, whether any aspects of the subject matter information are expected to be excluded from the assurance engagement and the reason for their exclusion. • Who selected the criteria, including whether and the extent to which the intended users or other parties were involved in selecting or designing the criteria and the degree of judgment and scope for bias where parties other than the intended users were involved in doing so.
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- Whether the level of assurance that the practitioner plans to obtain (and therefore what would constitute sufficient appropriate evidence) is expected to reduce engagement risk to a level which is at least meaningful in the circumstances of the engagement, having regard to the extent of the consequence to the intended users of an inappropriate conclusion by the practitioner.
- Where the engagement is a limited assurance engagement, whether the level of assurance the practitioner plans to obtain is sufficient to be meaningful to the intended users – in some circumstances, the intended users’ need for assurance may even be so great that a reasonable assurance engagement is needed to obtain a meaningful level of assurance.
- Whether the scope of the practitioner’s work is expected to be limited significantly, such that the practitioner’s conclusion may not sufficiently enhance the degree of confidence of the intended users in the EER report.
- Whether, when the engaging party, responsible party and the measurer or evaluator are not all the same party, the characteristics of the relationships between these parties could undermine the purpose of the engagement.
- Whether the practitioner believes that the preparer intends to associate the practitioner’s name with the underlying subject matter or the EER report in an inappropriate manner.

Assurance Readiness Engagements and “Maturity Assessments”

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

53. Although these engagements and assessments can also provide insights that may assist the entity in further developing its EER processes, there may be a self-review threat to the practitioner's independence if, for example, the practitioner is advising on the further development of the entity's EER processes and then plans to undertake a subsequent EER assurance engagement or where the practitioner is providing an audit or other assurance engagement.

Agreeing the Scope of an EER Assurance Engagement

- ① Although this topic has been allocated to phase 2 of the project, some initial draft guidance has been developed.
54. There is a wide variety in the scope of assurance engagements carried out in accordance with ISAE 3000 (Revised), in practice. The scope of an engagement can be an entire report or only part(s) of an EER report.
55. ISAE 3000 (Revised) can be applied to a variety of engagements provided that the preconditions in paragraph 24 of the standard are met. If considering a particularly narrow scope for the assurance engagement, for example only covering specific measures or indicators in isolation, careful consideration may be needed to determine whether the preconditions are present, including that the engagement has a rational purpose (see paragraph 49).
56. In circumstances where the proposed scope of the engagement is not an entire EER report, a practitioner may need to consider whether the reasons for excluding parts of the subject matter information from the assurance engagement are appropriate in determining whether the engagement has a rational purpose¹⁶. For example, the engagement may be more likely to have a rational purpose if the parts of the EER report within the scope of the assurance engagement are those which are most important in assisting decision-making by the intended users. Selecting only parts of the EER report that are easy to subject to an assurance engagement or that present the entity in a positive way may mean the assurance engagement does not have a rational purpose.

Other Information

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

- ① Guidance on agreeing the scope of an EER assurance engagement is to be developed further in phase 2.

¹⁶ ISAE 3000 (Revised) paragraph A56

Chapter 4: Applying Appropriate Skills

- ① Guidance to be developed in phase 2.

Chapter 5: Exercising Professional Skepticism and Professional Judgment

- ① Guidance to be developed in phase 2.

Chapter 6: Considering the System of Internal Control

Introduction

58. To accept an assurance engagement, the practitioner is required to determine that the preparer has a reasonable basis for the subject matter information in the EER report as part of the precondition that the roles and responsibilities of the preparer are suitable¹⁷. The practitioner is also required to determine that they expect to be able to obtain sufficient appropriate evidence. Whether these preconditions are present may depend on the extent to which the entity's system of internal control is, in the practitioner's professional judgment, adequate to support those preconditions, taking into account the nature, extent and complexity of the underlying subject matter and criteria.
59. Entities producing EER reports typically implement gradual changes to their system of internal control to support such reporting as it becomes more established and formal. At an early stage, the system of internal control generally includes processes to collect and report the underlying data and information. As EER becomes more established for the entity, changes may be introduced to make the reporting process subject to specific control activities and greater governance and oversight, or to bring it more formally within the entity's risk assessment process and process to monitor the system of internal control. In considering engagement acceptance or continuance, practitioners may encounter entities at varying stages of development of their system of internal control.
60. Considering the entity's system of internal control may assist the practitioner in establishing whether the preconditions for an assurance engagement are present, as discussed above. The standard also requires the practitioner¹⁸:
- a) in a limited assurance engagement, to consider the process used to prepare the subject matter information, to enable identification of areas where a material misstatement is likely to arise; or
 - b) in a reasonable assurance engagement, to obtain an understanding of internal control over the preparation of the subject matter information, including evaluating the design of the controls relevant to the engagement and whether they have been implemented, to enable identification and assessment of the risks of material misstatement.

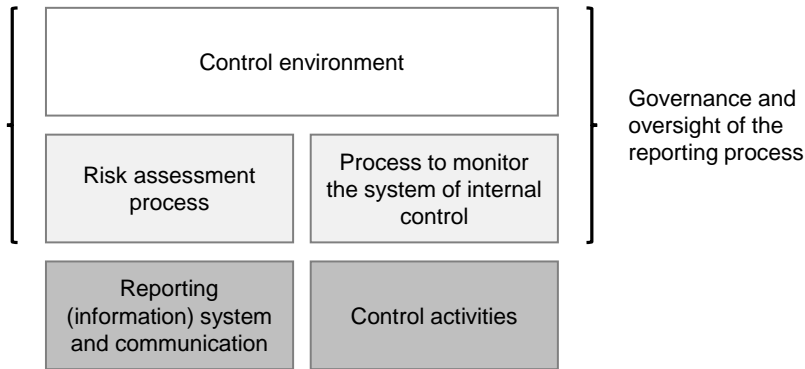
¹⁷ This would be the responsibility of the measurer or evaluator in circumstances where this role is distinct from the responsible party – see the Appendix to ISAE 3000 (Revised).

¹⁸ ISAE 3000 (Revised) paragraphs 46L, 46R, 47L and 47R

61. Having a highly sophisticated or developed system of internal control is not a precondition for an assurance engagement. The guidance in this chapter mainly relates to considering the system of internal control in relation to the preconditions. It may also assist the practitioner in meeting the requirements referred to in paragraph 60. Separate considerations for the practitioner relating to the overall engagement strategy, including whether to test controls or to obtain evidence solely from substantive procedures, are discussed further in paragraphs 78 and 79.

Understanding the Entity’s System of Internal Control

62. An entity’s system of internal control typically has five inter-related components¹⁹:



63. The level of sophistication of the reporting (information) system and communication and the control activities components may vary according to the size and complexity of the entity, and the nature and complexity of the underlying subject matter and criteria. Similarly, the level of formality of the risk assessment process and the process to monitor the system of internal control may also vary for differently sized entities.
64. The ISAE 3000 (Revised) application material notes that “in some cases, a formal process with extensive internal controls may be needed to provide the [preparer] with a reasonable basis that the subject matter information is free from material misstatement”²⁰. Equally, in other circumstances, extensive internal controls may not be needed.
65. Some examples of aspects of the components of an entity’s system of internal control that a practitioner may consider in establishing whether the preconditions are present are given below. The three components shown in the top three boxes above (the control environment, the risk assessment process and the process to monitor the system of internal control) are considered together under the heading ‘governance and oversight of the reporting process’.
66. The examples are not meant to be an exhaustive list of aspects that may be appropriate for an entity. As noted above, some entities may require extensive internal controls and processes in order for the preparer to be able to take responsibility for the subject matter information being free from material misstatement. The practitioner may need to consider the engagement circumstances, including the size and complexity of the entity, when concluding whether the level of development of the system of internal control is adequate. Further guidance is given in paragraphs 72 to 74.

¹⁹ Based on ED-ISA 315 (Revised) paragraph 16(l)

²⁰ ISAE 3000 (Revised) paragraph A39

Reporting (Information) System and Communication

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

CONSIDERATIONS FOR THE PRACTITIONER	<ul style="list-style-type: none"> a) Processes to select or develop criteria, including a ‘materiality process’ if applicable (see Chapter 8), to identify the elements to be included in the EER report; b) Processes to select or develop criteria for the measurement or evaluation of the elements, including their presentation or disclosure; c) Processes to capture, record, process, correct and include in the EER report subject matter information about those elements; d) Records and source documentation to support the preparation of the subject matter information relating to those elements. These are ideally stored and accessible so that they can be used as evidence by the practitioner; e) Processes to prepare the EER report; and f) How the entity uses IT to support the above.
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68. The preparation of EER reports is likely to involve the use of IT to collect or process the data. Entities may use complex IT applications, simple spreadsheets or paper-based records, or a combination of these. Identifying which tools are being used by the preparer to prepare the EER report may be an important part of the practitioner obtaining the understanding required by paragraphs 47L and 47R of the standard.

69. Further considerations may be necessary where information comes from an external information source. An external information source is an external individual or organization that provides information that has been used by the preparer in the preparation of the EER report. An example might be the results of an independent survey of customer satisfaction, or an external laboratory test of effluent quality from a production facility. A key consideration may be whether the criteria for measurement or evaluation used by the external information source are relevant because the resulting subject matter information would assist decision-making by the intended users. Determining this may require judgment, including taking account of the entity’s ability to influence the external information source.

Control Activities

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

CONSIDERATIONS FOR THE PRACTITIONER	<ul style="list-style-type: none"> a) Controls requiring segregation of duties between individuals involved in the reporting process, to the extent appropriate according to the size of the entity, for example between those preparing the information and those reviewing it; b) Controls to prevent the preparer inappropriately modifying underlying sources of data, information or documentation that the practitioner would use as evidence; c) IT controls to support any IT systems in being appropriately secure, robust, reliable and adequately maintained; and d) Controls to address management bias that may occur in the process to develop or apply the measurement or evaluation bases and other reporting policies.
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Explanatory Memorandum

Draft Guidance

Governance and Oversight of the Reporting Process

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

CONSIDERATIONS FOR THE PRACTITIONER	<ul style="list-style-type: none"> a) Involvement of those charged with governance and senior management at appropriate stages throughout the reporting process; b) Approval of the EER report by those charged with governance or senior management, as appropriate; c) The establishment of a subgroup of those charged with governance, such as an audit committee, charged with oversight responsibilities for the preparation of the EER report (for larger entities); d) Those charged with governance or senior management, as appropriate, setting an appropriate 'tone at the top' to encourage high quality reporting processes and a high standard of ethical practices; e) Key decisions made by those charged with governance or senior management, as appropriate, being recorded in written documentation, for example in minutes of board meetings; f) Assignment of authority and responsibility for the process to prepare the EER report, and enforcement of accountability for meeting such responsibility; g) The process undertaken to identify, assess and address risks related to the reporting process; and h) The process in place to monitor the system of internal control, including monitoring the effectiveness of control activities and the process to identify and remediate deficiencies.
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Contextual Information

Credibility and Trust Model

Consideration of the Entity’s Size, Complexity and Nature

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

EXAMPLE	For reporting on employee diversity, it may be appropriate for a small entity with 25 employees to record and store this data on a simple spreadsheet managed by one member of staff. However, in the case of a large entity with 20,000 employees across the world, a much more sophisticated process managed by HR teams may be required, likely supported by an appropriate IT system, in order to collect, collate and store data that is accurate and complete.
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- 74. Considering other factors that may affect the nature of the entity and its environment, for example its physical location, may assist the practitioner in considering whether the system of internal control is adequate for the practitioner to establish that the preconditions are present.

Response where the Preconditions are not Present

- 75. Where the practitioner establishes that the preconditions for an assurance engagement are not present, they may discuss this with the potential engaging party (management or those charged with governance). If changes cannot be made to meet the preconditions, the practitioner is not permitted to accept the engagement as an assurance engagement²¹.
- 76. If it is not possible to accept the assurance engagement, the practitioner may engage with the entity to undertake an assurance readiness assessment (see paragraphs 50 to 53 above). This may give the practitioner the opportunity to report their findings and conclusions on the system of internal control in a management letter to assist those charged with governance and senior management. The preparer may be encouraged to take steps to improve the controls and level of oversight such that an assurance engagement is possible in future.
- 77. In circumstances where the preparer has not met its responsibilities and the practitioner cannot decline the engagement due to its acceptance being required by law or regulation, the practitioner may need to consider whether it is necessary to express a qualified conclusion or disclaim a conclusion. An engagement conducted under such circumstances does not comply with ISAE 3000 (Revised). Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with ISAE 3000 (Revised) or any other ISAE(s)²².

²¹ ISAE 3000 (Revised) paragraph 25

²² ISAE 3000 (Revised) paragraph 25

EXAMPLE

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

Impact on Overall Engagement Strategy

78. The nature of the entity’s system of internal control may also affect the likelihood of material misstatements occurring and the practitioner’s strategy for designing appropriate assurance procedures, including tests of controls. Where the practitioner is unable to test controls, expects that the controls are not operating effectively, or it is not cost-efficient to test controls, the practitioner may adopt a fully substantive approach.
79. In other circumstances, the practitioner may need to obtain sufficient appropriate evidence that certain controls are operating effectively when other procedures cannot alone provide sufficient appropriate evidence²³, for example because substantive procedures are not possible or practicable due to the nature of the underlying subject matter or the source information.

Explanatory Memorandum

Draft Guidance

Contextual Information

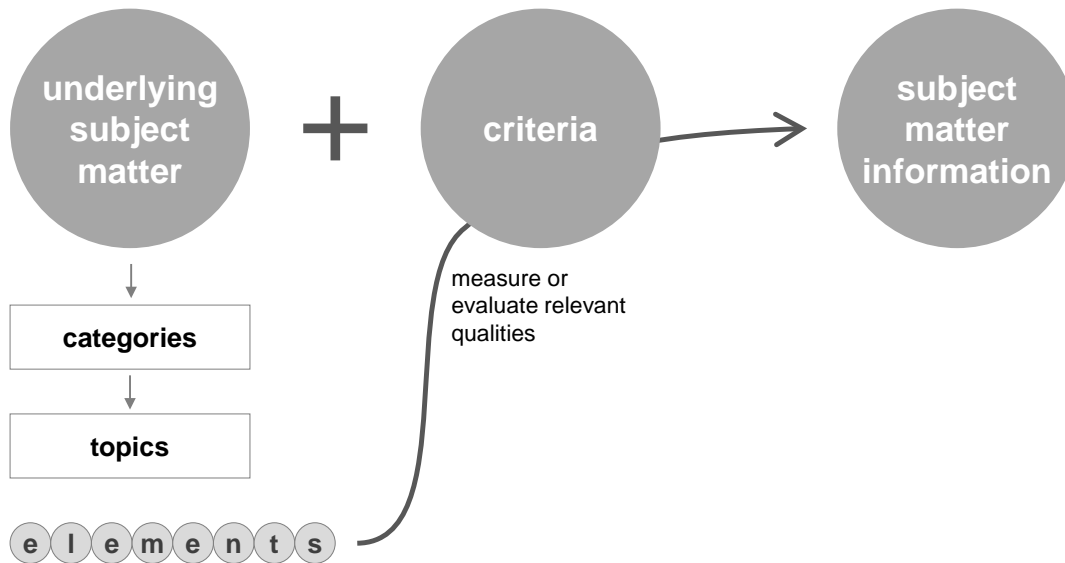
Credibility and Trust Model

²³ ISAE 3000 (Revised) paragraph 48R

Chapter 7: Determining the Suitability of Criteria

Introduction

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



ISAE 3000 (Revised) Definitions

Underlying subject matter	Criteria	Subject matter information
The phenomenon ²⁴ that is measured or evaluated by applying criteria.	The benchmarks used to measure or evaluate the underlying subject matter.	The information that results from applying the criteria to the underlying subject matter.

81. All assurance engagements have an underlying subject matter, which is related to the purpose and intended use of the EER report. Certain qualities of the underlying subject matter are measured or evaluated against the criteria. The underlying subject matter is required to be appropriate (see Chapter 3). The criteria may be applied at the level of the underlying subject matter as a whole but often are applied at the level of specific elements of the underlying subject matter or at the level of groups of particular types of such elements, when information about those specific elements or groups assists decision-making by the intended users. The terms 'categories' and 'topics' are sometimes used to describe such groups.

²⁴ The term 'phenomenon' is used in the standard in the sense of a 'thing' that is perceived or considered, rather than in the sense of something that is remarkable or rare.

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

EXAMPLE	An illustration of these terms in a financial reporting context:			
	<i>Underlying subject matter</i>	<i>Elements Qualities</i>	<i>Criteria</i>	<i>Resulting subject matter information</i>
	Financial condition, performance and cash flows of Entity X.	Economic resources (for example assets) and claims on those resources (for example liabilities), and transactions, other events and conditions (for example income, expenses or equity). The monetary value of such assets, liabilities, income, expense or equity.	The measurement bases and related disclosures set out in IFRS ²⁵ , and the entity's accounting policies as disclosed in the financial statements.	The accounting values in the primary financial statements and the related disclosures in the notes.

EXAMPLE	A specific example to illustrate these terms from non-financial statement reporting:			
	<i>Underlying subject matter</i>	<i>Elements Qualities</i>	<i>Criteria</i>	<i>Resulting subject matter information</i>
	Environmental, social and governance matters about Entity X. ↓ Social / human matters ↓ Staff diversity	Entity X's employees. The gender of those employees.	Requirement to report the number of employees of Entity X at a specific point in time, split by gender.	Gender A: 500 employees Gender B: 510 employees Gender C: 15 employees etc.
	In order to be suitable, the criteria in this example may need to be more specific, for example giving definitions of the gender categories and the term "employee". Details of how to measure the underlying subject matter by means of a formula may be necessary. In this example, details specifying whether contractors are employees, or how to treat part-time employees, may be needed.			

²⁵ International Financial Reporting Standards

83. Criteria used in a particular assurance engagement (applicable criteria) can either be taken from an EER framework or be developed by the entity itself. In practice, many entities use criteria from one or more EER frameworks and supplement these with their own entity-developed criteria where an EER framework lacks the necessary detail or is not sufficiently comprehensive to comprise suitable criteria on its own (see also Chapter 8).
84. EER frameworks are often less prescriptive about the content of an EER report or methods to represent its subject matter elements compared to financial reporting frameworks, and are therefore less precise about the determination of these items. In financial reporting, criteria are typically well established, and are supported by accounting policies specific to the entity. Given the diverse nature of the underlying subject matter in EER, there may be considerable opportunity for management bias in determining the content of an EER report and the methods used to represent its subject matter elements. The practitioner may need to exercise considerable professional judgment and professional skepticism in determining the suitability of criteria in an EER assurance engagement.

Requirements for Suitable Criteria

85. As detailed in Chapter 3, it is a precondition for an assurance engagement that the practitioner determines that the applicable criteria are suitable, based on a preliminary knowledge of the engagement circumstances. The practitioner is further required to determine whether the criteria are suitable in planning and performing the engagement. When the scope of the assurance engagement is not a whole EER report, the criteria to be applied in the preparation of those parts of the EER report which are within the scope of the assurance engagement are subject to the suitable criteria precondition. Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment²⁶. Suitability is judged in the context of the engagement circumstances. Without suitable criteria, the subject matter information may be open to individual interpretation where there is undue subjectivity, increasing the risk of misunderstanding.
86. Suitable criteria are required to exhibit each of five characteristics. The descriptions of these characteristics specify attributes of the subject matter information that necessarily result from applying the suitable criteria²⁷. The practitioner is required to determine whether the criteria exhibit each of the five characteristics, which are²⁸:
- a) Relevance;
 - b) Completeness;
 - c) Reliability;
 - d) Neutrality; and
 - e) Understandability.
87. In addition to exhibiting each of these five characteristics, an overarching principle in the standard is that criteria developed by the entity would not be suitable if they result in subject matter information or an assurance report that is misleading to the intended users²⁹. It may therefore be logical to expect

²⁶ ISAE 3000 (Revised) paragraph A10

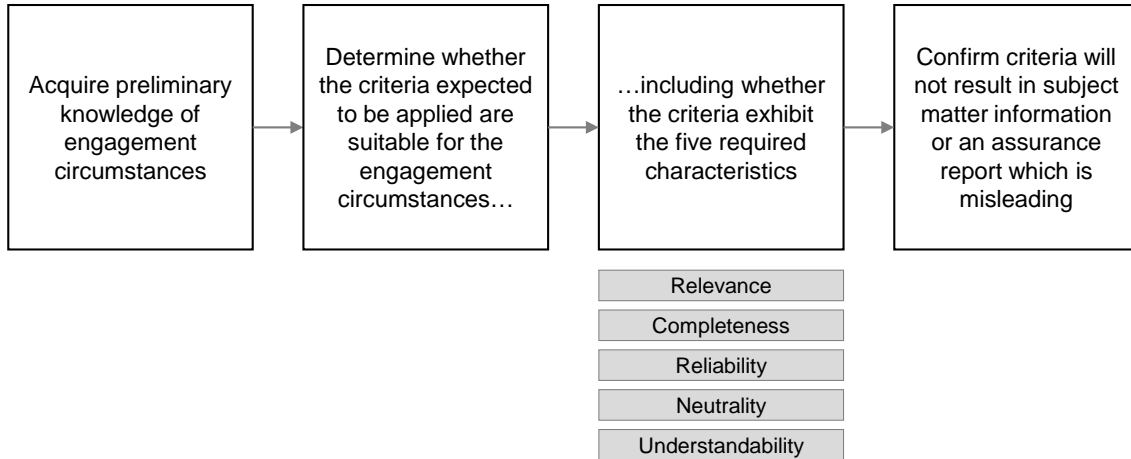
²⁷ ISAE 3000 (Revised) paragraph A45

²⁸ ISAE 3000 (Revised) paragraph 41

²⁹ ISAE 3000 (Revised) paragraph A50

that suitable criteria give rise to subject matter information that is not overly subjective (see paragraph 96).

88. The five characteristics are in many cases inter-related. Each must be exhibited in all cases, but the relative importance of each and the degree to which they are exhibited such that the criteria are suitable will vary according to the engagement circumstances.
89. The following diagram shows steps the practitioner may follow in determining the suitability of criteria:



90. The descriptions in the standard of each of the required characteristics for criteria³⁰, along with some factors the practitioner may find helpful to consider in determining whether the criteria are suitable, are set out in paragraphs 93 to 113 below.
91. The engagement circumstances may include use of an EER framework that implicitly or explicitly requires different or more specific characteristics of the applicable criteria than the five characteristics of suitable criteria required by ISAE 3000 (Revised). For example, characteristics such as comparability and conciseness (see paragraphs 100 and 104) may be seen as more specific aspects of understandability and relevance respectively.
92. Where an EER framework includes such additional or more specific characteristics of criteria, it is still necessary for the applicable criteria to exhibit each of the five required characteristics of suitable criteria. Many of the commonly-used EER frameworks use different terms to describe similar concepts to the five characteristics required by ISAE 3000 (Revised). Additionally, some 'qualitative characteristics' may be implicit in the reporting requirements rather than being explicitly identified in an EER framework.

Relevance

ISAE 3000 (Revised) paragraph A45(a)

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

93. Considering relevance involves considering whether the criteria will result in subject matter information that assists intended users' decision-making in the context of the purpose of the EER report.

³⁰ ISAE 3000 (Revised) paragraph A45

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

EXAMPLE

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

Refer also to discussion of ‘accuracy’ and ‘precision’ in paragraph 105 below, and further consideration of measurement uncertainty in paragraphs 227 to 229.

97. Suitable criteria identify qualities of elements and measurement or evaluation bases that, when properly applied to them, result in subject matter information that assists intended users’ decision-making. This is because suitable criteria must exhibit the characteristic of relevance. The practitioner considers relevance in determining whether the criteria are suitable. The degree of relevance of an applicable criterion is not binary. Instead, the degree to which it assists intended users’ decision-making may be considered to be on a scale that varies depending on the circumstances of the

engagement. Nevertheless, whether the criteria are relevant is a binary decision that the practitioner needs to make.

98. The concepts of relevance and materiality are not the same, although both refer to user decision-making. The concept of relevance is considered in evaluating the suitability of criteria, whereas materiality is considered by the practitioner in the context of potential and identified misstatements of the subject matter information. Materiality includes considering whether such misstatements could reasonably be expected to influence intended users' decision-making. It also includes considering whether the subject matter information is free from material misstatements made by the preparer in applying relevant criteria. Materiality is a threshold of significance to decision-making considered by the practitioner in relation to potential and identified misstatements, in the circumstances of the engagement.

EXAMPLE	<p><u>Financial reporting example:</u> For most companies, revenue for all classes of transactions would typically assist decision-making by intended users, by enhancing their understanding of the company's financial performance during the year, however in some circumstances a misstatement omitting the accounting value of revenue from a particular class of transactions from the company's reported revenue may not be <i>material</i>, if such omission could not reasonably be expected to influence intended user's decision-making based on the financial statements.</p> <p><u>EER example:</u> Information about total greenhouse gas emissions arising from a manufacturing company's activities may assist intended users' decision-making about the company's environmental impact, but a misstatement omitting, from the company's total reported emissions, information about emissions arising from its employees commuting to work might not be <i>material</i>. That may be the case, for example, if the omitted information was not sufficiently significant to influence intended users' decision-making, relative to information about the greenhouse gas emissions from the manufacturing activities of the entity.</p>
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99. A further consideration is the requirements of the criteria to disaggregate or aggregate information as this may affect the context for materiality considerations for misstatements. EER frameworks do not always specify in detail the required level of aggregation or disaggregation (sometimes referred to as the unit of account). They may, however, include principles for determining an appropriate level in particular circumstances.
100. In many cases it may be useful to intended users if the criteria are consistent from one reporting period to the next to aid comparability. Where criteria change, disclosure of the change with an explanation of the reasons for the change may be expected for the criteria to be relevant in the year of the change. Information about the impact of the change, for example re-stating comparative information (where possible and cost-effective), may also be expected for the criteria to be relevant in the year of the change. However, in other circumstances, a temporary reduction in comparability may be appropriate to improve relevance in the longer term.
101. Criteria may be more relevant and comparable across entities if they are consistent with established measurement bases and benchmarks that are generally recognized to be valid in the context of the entity's industry or sector. However, there may be good reasons not to use such criteria, for example where the entity can develop more relevant criteria (that are also reliable), where permitted by the EER framework adopted and where those criteria are made available.

Completeness

ISAE 3000 (Revised) paragraph A45(b)

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

102. Criteria are required to be complete so that the intended user is able to make informed decisions by having access to subject matter information that does not omit relevant factors that are material in the context of the circumstances of the entity and the purpose of the EER report.
103. The application of complete criteria is expected to result in subject matter information that includes all relevant factors, including information that represents negative aspects of what is being reported on (also see 'neutrality' below).
104. There may be a need for a balance to be struck between an EER report being overly comprehensive and it still being concise enough to remain understandable.

Reliability

ISAE 3000 (Revised) paragraph A45(c)

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

105. Reliable criteria are likely to result in subject matter information that is capable of reasonably consistent measurement or evaluation with the necessary degree of accuracy (such that it is free from error) and precision such that the criteria are also relevant. Accuracy is not the same as precision. Subject matter information can be sufficiently accurate if it is as precise as is reasonably possible, if it results from applying a well-defined process without undue error, and if it includes information about the inherent limitations in its precision.

EXAMPLE

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

106. Reliable criteria may need to be based on strong definitions with little or no ambiguity, if the resulting subject matter information is to be capable of reasonably consistent measurement or evaluation.
107. Reliable criteria would typically be expected to result in subject matter information that is capable of being subjected to an assurance engagement because sufficient appropriate evidence can be obtained to support the assertions that the subject matter information contains. This requires the underlying data and source information to be sufficiently accurate and complete and for it to be

collected and processed in a manner that is neutral and maintains its integrity. Unsubstantiated claims in the subject matter information are unlikely to meet this requirement.

Neutrality

ISAE 3000 (Revised) paragraph A45(d)

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

108. Neutral criteria would normally be designed to cover both favorable and unfavorable aspects of the underlying subject matter being reported on, in an unbiased manner.

EXAMPLE

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

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

Understandability

ISAE 3000 (Revised) paragraph A45(e)

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

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

Example

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

EXAMPLE	<p>An EER framework may include criteria that require the entity to report “water intake in the reporting period”.</p> <p>Intake in the reporting period is a quality of the subject matter element ‘water’, a natural resource, that assists intended users’ decision-making. The commonly-used and well-understood measurement basis for water intake is volume, measured in units of liters.</p> <p>In determining whether the criteria are suitable, the practitioner may consider questions such as:</p> <ul style="list-style-type: none"> • Would the water intake information assist decision-making by the intended users? (relevance) <ul style="list-style-type: none"> ○ A consideration might be how significant water is to what the company does, although most companies are likely to use at least some water. Water intake may be more significant for a manufacturer than perhaps a software developer, or more significant when obtained from certain sources such as surface water or groundwater. It may be more significant for entities with operations in water-scarce regions than for those operating in regions where water is more abundant. ○ 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; water intake may be more likely to assist intended users’ decision-making when the purpose of the EER report is to describe the entity’s impact on the environment but may be less likely to assist intended users’ decision-making if the purpose is to describe the entity’s governance processes. • Do the criteria require everything about water (the subject matter element) that would assist intended users’ decision-making in the context of the purpose of this EER report to be disclosed? (completeness) <ul style="list-style-type: none"> ○ This indicator is only measuring water intake over a defined period. This may be the potential quality of interest to the intended users (rather than the water’s temperature or weight), but information about other qualities of water may assist intended users’ decision-making in other circumstances (for example water intake from specific sources such as surface water or groundwater over a defined period, or a water-quality indicator (such as dissolved oxygen) for water discharge or the water discharged to specific destinations). ○ There is an assumption that the criteria require reporting of all the water intake across the whole company and all of its sites. • Do the criteria provide a methodology for calculation that allows reasonably consistent measurement? (reliability) <ul style="list-style-type: none"> ○ This may be where the entity must supplement the reporting requirement to suit their specific circumstances. 	Explanatory Memorandum
	Draft Guidance	Contextual Information
		Credibility and Trust Model

- A company may calculate their water intake using water meters and collect readings at the beginning and end of the period. For municipal water this is information 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.
- 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.
- 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.

Established Criteria

115. Where criteria are:

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

they are presumed to be suitable in the absence of indications to the contrary and are known as ‘established criteria’³¹. Where indications exist that the criteria may not be suitable, the practitioner may need to consider further whether the criteria are suitable.

116. Criteria contained in some commonly used EER frameworks are issued by global organizations that are recognized bodies of experts following a transparent due process, and criteria specified by these EER frameworks are often relevant to the intended users’ information needs. However, the often-

³¹ See ISAE 3000 (Revised) paragraph A49 for details of the definition of established criteria.

limited level of maturity or high-level approach used in developing criteria in such EER frameworks, including criteria prescribed by law or regulation, may mean that there are indications that such criteria, on their own, may not be suitable. Different EER frameworks specify the criteria to varying degrees of detail. Where the criteria in an EER framework are less detailed, for example where it does not specify detailed measurement or evaluation criteria, the practitioner may not be able to determine that the criteria are suitable, and the preparer may consider it necessary to develop more detailed supplementary criteria in the context of that entity and its report. The practitioner may then need to determine the suitability of the detailed criteria for measurement or evaluation that the entity has developed for use together with the overarching criteria in the EER framework.

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

EXAMPLE	Changes to criteria and measurement methods year-on-year may be expected for EER, particularly when an entity’s reporting processes are developing, and management are innovating year-on-year to improve their reporting. Such criteria may still be understandable and reliable if there is a reasonable basis for the change and it is sufficiently disclosed and explained in the EER report. Where an entity’s reporting is more mature, the rationale for changes to criteria might need to be stronger, and the explanation more detailed, to meet intended users’ expectations.
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118. Where a preparer is using an EER framework that contains established criteria and chooses to modify or adjust those criteria with the result that they are different to what is commonly used in the entity’s sector, this may be an indicator of potential management bias and of a risk that the resulting subject matter information could be misleading to the intended users. In such circumstances, the practitioner applies professional skepticism in determining the suitability of the criteria, and in considering whether there is a reasonable basis for the change and whether the change is sufficiently disclosed and explained in the EER report. The more mature the type of reporting or the EER framework being used is, the less likely it is that changes made by an entity to measurement methods and related disclosures from commonly-accepted practice adopted by other similar entities will be appropriate. It may be desirable for the intended users to acknowledge that the entity-developed criteria are suitable for their purposes.

Availability of the Criteria

119. Criteria need to be made available to the intended users to enable them to understand how the underlying subject matter has been measured or evaluated. Paragraphs A51-A52 of ISAE 3000 (Revised) describe ways in which this can be done. A practitioner may evaluate the adequacy of the transparency of the criteria, considering whether the criteria have been disclosed with sufficient detail and clarity such that they are available.
120. The criteria may be made available outside of the EER report, for example if an established, publicly available EER framework has been used. In the case of entity-developed criteria, the entity may

choose to publish the criteria and reporting policies in a separate EER report or on its website, which is then cross-referred to as at a particular date in the EER report. This may be a preferable option where an EER report is intended to be concise.

121. The more familiar the intended users are with the type of reporting, the less likely it will be necessary to disclose detailed explanations of the reporting policies and measurement or evaluation methods, as these will be available by ‘general understanding’ to the intended users.

EXAMPLE

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

Consequences where Criteria are not Suitable or Available

122. Where, prior to accepting or continuing the engagement, the practitioner concludes that the applicable criteria are not suitable or will not be available, the practitioner cannot accept the engagement, unless:
- a) They are mandated to do so under law or regulation; or
 - b) The preparer makes the applicable criteria suitable and available to the practitioner’s satisfaction, allowing the engagement to be accepted; or
 - c) The scope of the assurance engagement can be restricted to one or more aspects of the underlying subject matter for which the criteria are suitable and available³², and the other preconditions (including that the engagement has a rational purpose) are present.
123. The practitioner is also required to determine whether the criteria are suitable in planning and performing the engagement. If it is discovered after the engagement has been accepted that some or all of the applicable criteria are unsuitable, the practitioner is required to follow the requirements of ISAE 3000 (Revised) paragraphs 42 and 43. In circumstances where the practitioner is mandated to accept the engagement under law or regulation but the criteria are not suitable or available, the practitioner would follow the same requirements in paragraphs 42 and 43 of the standard to express a qualified or adverse conclusion, or disclaimer of conclusion, as appropriate in the circumstances.

³² ISAE 3000 (Revised) paragraph A36

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

Introduction

124. As the content of EER reports is generally less comprehensively specified in EER frameworks than in financial reporting frameworks, the practitioner may need to review the appropriateness of judgments made by the preparer to determine more comprehensively the appropriate basis of preparation of the content. EER frameworks commonly refer to these judgments as relating to 'materiality', but the focus of such judgments is effectively considering more comprehensive bases for preparing subject matter information (referred to as 'criteria' in the standard) that assists decision-making by intended users (such that the criteria exhibit the characteristic of relevance).
125. For example, the preparer may need to make such judgments where the criteria from an EER framework do not specify in sufficient detail what topics and related elements are to be included in the EER report. A process that a preparer undertakes to do so is commonly referred to as a 'materiality process'.
126. EER frameworks do not always provide direction for a preparer making such judgments. It can be challenging for both a preparer making these judgments and for a practitioner reviewing their appropriateness when both the intended users and their information needs can be diverse or even unknown. There will likely be a need for an entity's 'materiality process' to reflect the broader and more diverse user perspective often encountered.
127. Where criteria from an EER framework do not specify what topics and related elements would assist the decision-making of the intended users of the EER report, the criteria may not be considered to be suitable on their own as they may lack relevance or completeness. In undertaking a 'materiality process', the preparer is effectively extending and developing the criteria further such that they exhibit the characteristic of relevance and the resulting subject matter information assists the decision-making of the intended users (see paragraphs 83 and 84).

EXAMPLE

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

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

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

EXAMPLE

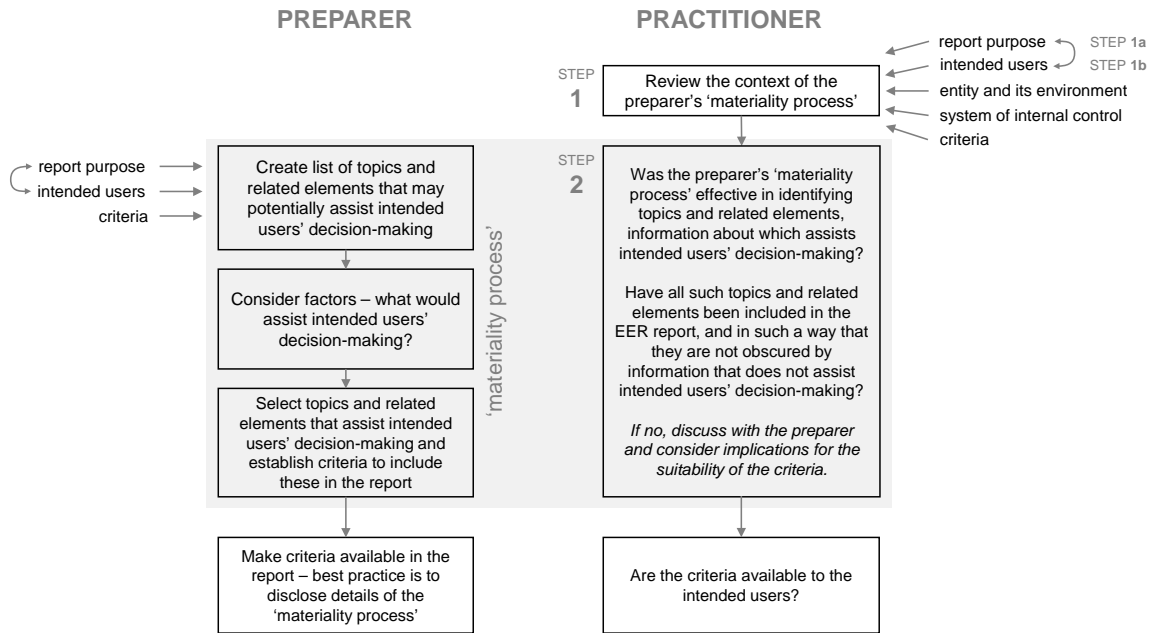
A different EER framework may require the disclosure of specific indicators, such as the time spent by its employees on training during the period, measured in hours. Detailed instructions on how to calculate this are provided.

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

128. The practitioner may need to review an entity’s ‘materiality process’ as part of determining whether the criteria are suitable (see Chapter 7). The practitioner is also required to consider the process used to prepare the subject matter information in a limited assurance engagement, or to obtain an understanding of internal control over the preparation of the subject matter information in a reasonable assurance engagement³³. This may also involve reviewing an entity’s ‘materiality process’ where the preparer has undertaken one. Reviewing a ‘materiality process’ may also assist a practitioner to identify areas where a material misstatement of the subject matter information is likely to arise, or to identify and assess the risks of material misstatement in the subject matter information, as required in limited and reasonable assurance engagements respectively³⁴.
129. The extent to which the practitioner needs to review the appropriateness and outcomes of the entity’s ‘materiality process’ may depend on the scope of the assurance engagement, as it is more likely to be important where the assurance engagement covers a whole EER report than where the scope of the assurance engagement is only specific indicators. However, understanding such outcomes may also be an important consideration when agreeing the assurance scope for certain types of EER, and as part of determining whether an assurance engagement has a rational purpose.
130. Where applicable to the engagement, the flowchart below may assist the practitioner with reviewing the preparer’s ‘materiality process’. The steps a preparer might be expected to follow are provided on the left-hand side for reference. These are explained in this guidance to illustrate what the practitioner may expect when they come to review a ‘materiality process’. The suggested process for a practitioner is shown on the right-hand side of the diagram and then explained in the guidance paragraphs below. The guidance focuses on the ‘materiality process’ identifying the relevant criteria to determine the topics and related elements to include in the report, but a similar approach may be used to then identify relevant criteria for indicators or metrics about those topics and related elements.

³³ ISAE 3000 (Revised) paragraphs 47L and 47R

³⁴ ISAE 3000 (Revised) paragraphs 46L and 46R



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

131. The practitioner may begin by reviewing the context of the preparer's 'materiality process' including consideration of the:
- EER report purpose (step 1a);
 - Intended users (step 1b);
 - Entity and its environment;
 - System of internal control; and
 - Criteria (EER framework or entity-developed).
132. It would be helpful if a preparer documents their 'materiality process' and the decisions they have made so that it can be considered by the practitioner. In the absence of written documentation, the practitioner may be able to understand the preparer's process through inquiry of the preparer. If the preparer has not undertaken an appropriate process to determine the content of the EER report, the practitioner may need to consider whether this suggests the preconditions for an assurance engagement are not all present.
133. Some EER frameworks may establish the EER report purpose and identify who the intended users are. Others may not specify this, leaving the preparer to make these determinations.
134. Where an EER framework is being used by a preparer, the practitioner may need to consider any direction on 'materiality' considerations included in the EER framework to determine whether the process undertaken by the preparer is appropriate.

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EXAMPLE

When reporting on human rights in accordance with the United Nations Guiding Principles on Business and Human Rights, the ‘material’ topics are focused on risks to people impacted by the activities of an entity, not solely on the risks to the entity.

Some EER frameworks interpret what would assist intended users’ decision-making as things that may create a financial risk to the entity, for example the SASB conceptual framework says that “information is material if there is a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available”.

Other EER frameworks focus considerations about what would assist intended users’ decision-making on the effect an organization has on the economy, the environment or society. For example, the Global Reporting Initiative (GRI) determines that ‘material’ topics are those that reflect the organization’s significant economic, environmental and social impacts, or substantively influence the assessments and decisions of stakeholders.

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

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

136. The purpose will be to report certain information about an underlying subject matter to a group(s) of intended users. A few examples of the EER report purpose might include:
- To report the entity’s impact on the natural environment
 - To describe the entity’s activities over a period and how they contribute to the entity’s objectives
 - To describe how the entity creates ‘value’
 - To inform the intended users of the financial position, financial performance and cash flows of the entity
 - To describe what the entity plans to do in the future, or how it expects to perform
137. The practitioner may need to consider the EER report purpose as context when considering the judgments made by the preparer.

Step 1b: Has the Preparer Adequately Identified the EER Report’s Intended Users?

138. In order to make criteria relevant, it may be important for the preparer to understand the general nature of decisions the intended users³⁵ are likely to take based on, or influenced by, the information in the EER report. The practitioner therefore may also use this as context when considering the judgments made by the preparer.
139. A distinction is made between intended users and stakeholders. A stakeholder in the entity may
- a) have a relationship and interactions with the entity, or

³⁵ The ‘intended users’ are defined by ISAE 3000 (Revised) as the individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report (paragraph 12(m)).

- b) be directly or indirectly affected by the entity’s actions.

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

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

140. A single EER report may have multiple groups of intended users, with potentially different information needs. An EER report cannot focus on the particular needs of each individual intended user, unless there is only a single intended user, however a preparer may need to consider where individuals within a group of intended users have common information needs.
141. The standard’s application material contains some further guidance, including that in some circumstances where there are a large number of possible users, it may be necessary to limit the intended users to “major stakeholders with significant and common interests”³⁶. This might be useful, subject to any particular requirements in the EER framework, where EER reports are published without specifying the intended users, effectively for the benefit of global society.

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

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

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

142. Different intended user groups may have different information needs or attitudes; something that assists decision-making by one group of intended users may be trivial to another.
143. Merely reading the information in the EER report is a valid use by intended users; the outcome may be that they make a decision to take no action based on the information reported. They would still have a legitimate need for the information to assist them in reaching that conclusion and so relevance does not depend on intended users taking action based on the reported information.
144. Some examples of possible user groups are included in the table below – this is not intended to be an exhaustive list, but it could be considered by a preparer as a starting point for identifying the

³⁶ ISAE 3000 (Revised) paragraph A16




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intended users of their EER report by potentially selecting some from the below table and adding entity-specific user groups. It is not necessary for a preparer or practitioner to create a detailed list of the intended users – the aim is to have an awareness of the broad groups of intended users as context in making judgments in a ‘materiality process’.

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

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

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

Considering Interest to the Intended Users

147. To consider whether something would assist decision-making by intended users, one approach is to consider whether it is of interest to the intended users.
148. The information that would be of interest to intended users may be expected to be reasonably (but not absolutely) aligned with what would assist their decision-making. This could reflect the extent to which the intended users perceive something will impact their own interests in the context of the purpose of the EER report.
149. If considering whether something is of interest to intended users, examples of circumstances that might increase its relevance include:
 - a) It is likely to cause investors to buy or sell equity in the entity

- b) It is likely to change the entity’s share price or enterprise value
- c) There has been media coverage relating to it, or disclosure of it would likely result in media interest (local / national / global)
- d) There have been a large number of complaints relating to it (for example from customers, suppliers or other stakeholders)
- e) It has been mentioned unprompted by several stakeholders
- f) There is a high level of wider societal interest in it, or particularly high levels of public sensitivity

EXAMPLE

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

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

Considering ‘Impact’

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

‘Other entities’ could include individuals, organizations, wider society or the environment as is appropriate in the context of the purpose of the EER report. The impacts could occur either directly due to the actions and decisions of the reporting entity’s management, indirectly through relationships of the reporting entity, or by the direct or indirect effect of forces external to the reporting entity.

EXAMPLE

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

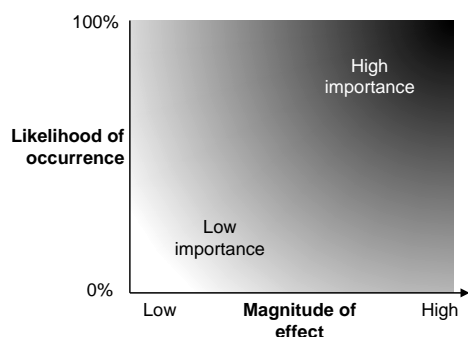
151. If considering the anticipated impact, examples of circumstances that might increase its relevance include:

- a) It has major risks or opportunities for the entity (including reputational, affecting the entity’s license to operate)

- b) It has direct material financial implications (as determined by financial statement materiality thresholds)
- c) It has, or will potentially have, a major effect on the entity's operational performance
- d) It has, or will potentially have, a major effect on other entities' operations or activities
- e) It has resulted, or will potentially result, in major direct irreversible damage to natural resources or the environment
- f) It relates to strategic opportunities for the entity to boost competitive position
- g) It relates to key organizational values, policies, strategies, operational management systems, goals and targets of the entity or its stakeholders

Other Considerations

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



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

EXAMPLE

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

155. Stakeholder engagement activities can be an important part of a preparer identifying such topics and related elements. An open dialogue with stakeholders may give better results than passive interaction or asking them to comment on an existing list of topics and related elements, however there may be a need to adequately inform stakeholders about the entity and its activities to enable them to engage effectively with the process.
156. Criteria about topics and related elements are likely to be complete if the information resulting from applying them does not omit relevant factors about such topics and related elements. In evaluating the completeness of the criteria, a practitioner could use some of the following sources:
 - Discussions with management and those charged with governance
 - Previous reporting by the entity
 - Reporting by peers and competitors
 - Strategy documents prepared by the entity
 - Survey results (of the entity, peers or the industry)
 - Interviews with stakeholders, outreach activities, stakeholder engagement
 - Web and social media searches
 - Global megatrends
 - Sustainable Development Goals
 - Agendas and minutes from board or senior management meetings and committees
 - Risk assessments
157. The practitioner may make the following key judgments in considering the relevance and completeness of the criteria used by the preparer in selecting topics and related elements to include in the EER report:

CONSIDERATIONS FOR THE PRACTITIONER

Was the preparer's 'materiality process' effective in identifying topics and related elements, information about which assists intended users' decision-making?

Have all such topics and related elements been included in the EER report, and in such a way that they are not obscured by information that does not assist intended users' decision-making?

158. In doing so, the practitioner uses professional judgement and professional skepticism to evaluate the preparer's decisions and may focus particularly on how the preparer decided to include or exclude items and the reasons for their decisions.

Dealing with Confidential Information

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

Considering Topics and Related Elements Collectively

160. It may be appropriate not just to consider the relevance and completeness of criteria for selecting topics and related elements individually as there may be circumstances where information about multiple topics or related elements may in aggregate contain relevant factors, even when information about such topics or related elements individually does not.

EXAMPLE	Information about members of staff leaving may not, on its own, assist intended users' decision-making, neither might be information about a few customer complaints or the termination of two supplier contracts. However, if when combined, information about these events turn out to be related and indicates serious problems with the entity's senior management, information about such events may assist decision-making by the intended users in the context of those problems.
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Other Information

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

Disclosure of the ‘Materiality Process’

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

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Chapter 9: Performing Procedures and Using Assertions

Introduction

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

The Nature of Assertions

167. Assertions are defined in certain IAASB standards as:

“Representations by [the measurer or evaluator], explicit or otherwise, that are embodied in the [subject matter information], as used by the [practitioner] to consider the different types of potential misstatements that may occur.”³⁷

168. The proper application of the applicable criteria necessarily results in many individual representations, explicit or otherwise, that are embodied in the subject matter information by the preparer. The application material in IAASB standards that address certain types of underlying subject matter indicates categories into which assertions relating to such underlying subject matter may fall, and ways in which those categories may be expressed³⁸.
169. For example, the applicable criteria may require that the preparer includes in the subject matter information defined measures and disclosures about defined types of elements. Proper application of the criteria implies a representation that the subject matter information includes all such measures and disclosures about all such elements, i.e. that the related subject matter information is ‘complete’. Similarly, proper application of the criterion also implies a representation that those measures and disclosures have been accurately measured or developed, i.e. that the related subject matter information is ‘accurate’.
170. Proper application of criteria is likely to result in representations that many different aspects of the subject matter information are ‘complete’ in different ways (representations that address ‘completeness’) or ‘accurate’ in different ways (representations that address ‘accuracy’). These two types of representations are respectively referred to as categories of assertions that are expressed as ‘completeness’ and ‘accuracy’ in the IAASB standards that address assertions³⁸.
171. Categories of assertions are analogous to what is sometimes known in EER frameworks as ‘guiding principles’ for, or ‘qualitative characteristics’ of, the information to be included in an EER report.
172. Assertions are used by the practitioner at the level of the categories into which they fall rather than at the level of detailed assertions about aspects of the subject matter information. These categories correspond with the types of potential misstatements that may occur. For example, for an assertion that falls into the category of completeness, the corresponding type of potential misstatement is an omission.

³⁷ ISA 315 paragraph 4(a) and ISAE 3410 paragraph 14(b)

³⁸ ISA 315 (Revised) paragraph A129 and ISAE 3410 paragraph A82

173. For the avoidance of doubt, the term ‘assertions’ is used in this guidance consistent with the definitions of assertions in certain IAASB standards³⁷, in the context of their use by the practitioner to consider the different types of potential misstatements that may occur, and to design assurance procedures accordingly. They are conceptually different from the ‘written representations’ that may be obtained from the preparer in accordance with paragraphs 56 to 60 of the standard. The term ‘assertions’ is also not used in this guidance in the sense that the preparer may ‘assert’ something by writing it in their EER report.

Identifying Categories of Assertions that may be Used

174. The categories of assertions that may be used by the practitioner in an EER assurance engagement result from the requirements of the applicable criteria. If the criteria are suitable, subject matter information resulting from their proper application will have attributes consistent with the attributes of subject matter information resulting from criteria that exhibit the five required characteristics of suitable criteria. This is because the characteristics of suitable criteria are defined in terms of the attributes of the resulting subject matter information. Chapter 6 of this document describes the attributes of subject matter information resulting from criteria that exhibit those characteristics (relevance, completeness, reliability, neutrality and understandability). For example, the proper application of criteria that exhibit ‘completeness’ requires representations that are of a type that assert that the subject matter information is ‘complete’.
175. The criteria, whether from an EER framework or developed by the entity itself, may also have characteristics other than the required characteristics of suitable criteria. Such characteristics may imply attributes of the resulting subject matter information of types other than those implied by the characteristics of suitable criteria. The assertions required by entity-developed criteria may be more likely to result from representations about the subject matter information required implicitly, rather than explicitly, by such criteria.
176. Taken together, categories of assertions that result from representations about the subject matter information implied by the characteristics of suitable criteria and categories of assertions that result from other characteristics of the applicable criteria, are the categories of assertions that the practitioner may use in the assurance engagement.
177. Some examples of categories of assertions that may be used in EER engagements include:
- | | | |
|--------------------|---|---|
| a) Accurate | } | related to the required ‘reliability’ characteristic of suitable criteria |
| b) Free from error | | |
| c) Connectivity | } | related to the required ‘relevance’ characteristic of suitable criteria |
| d) Consistency | | |
| e) Cutoff | | |
| f) Existence | | |
| g) Occurrence | | |
| h) Presentation | } | related to the required ‘understandability’ characteristic of suitable criteria |
| i) Classification | | |

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

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

EXAMPLE

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

180. The practitioner may need to design procedures that include 'standing back' and considering whether there are categories of assertions about, and therefore potential types of misstatement of, the EER report as a whole. A situation may arise where each individual piece of subject matter information is free from material misstatement, but the overall message is misleading or biased. This is one example of how assertions may apply at different levels or units of account in the EER report.

Using Categories of Assertions

181. ISAE 3000 (Revised) requires the practitioner to form a conclusion about whether the subject matter information is free from material misstatement³⁹, which may be expressed as whether the subject matter information is prepared, in all material respects, in accordance with the applicable criteria.
182. When designing procedures, a practitioner may begin by considering the categories of assertions about the subject matter information that result if the applicable criteria were applied appropriately and the corresponding types of potential misstatements that may have occurred if they were not applied appropriately. The practitioner may then design procedures to test whether the subject matter information is misstated with respect to the identified assertions. If the assertions are not misstated, this provides evidence that the information is properly prepared in accordance with the applicable criteria.
183. As in a financial statement audit, a single procedure or test may be designed to test whether subject matter information exhibits more than one assertion. Decisions on the extent and nature of

³⁹ ISAE 3000 (Revised) paragraph 65

procedures that the practitioner plans to perform may be informed both by the nature of the assertions being tested and by the practitioner’s assessment of the risks of material misstatement of that assertion (in a reasonable assurance engagement).

Types of Misstatement

184. The assertions allow the practitioner to consider the different types of potential misstatements that may occur, as when an assertion is not present in subject matter information, the information is misstated. Some examples of different types of possible misstatement include:
- a) Omission of information (failure of a ‘completeness’ assertion)
 - b) False claims in information (failure of an ‘existence’ or ‘occurrence’ assertion, or of a more general ‘free from error’ assertion)
 - c) Misleading or unclear representation of information (failure of an ‘understandability’ or ‘presentation’ assertion)
 - d) Bias in information so that positive aspects of performance are focused on and negative aspects are omitted (failure of a ‘neutrality’ or ‘presentation’ assertion)
185. If a practitioner identifies a misstatement, they are required to make a judgment as to whether the misstatement is material, which will then determine the appropriate action. Refer to Chapter 12 for more guidance.

① Guidance on performance materiality is to be developed in phase 2.

Chapter 10: Assuring Narrative Information

Introduction

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

EXAMPLE	Examples of purely factual narrative subject matter information:
	<ul style="list-style-type: none"> • “An audit committee comprised of non-executive directors was established in the year” • “We bought a factory in Canada”
	Examples of subjective narrative subject matter information:
	<ul style="list-style-type: none"> • “We produce healthy food for children” • “Our impact on the environment is minimal” • “We have successfully implemented flexible working throughout the organization”
	These particular examples of subjective narrative subject matter information may be overly vague and unsubstantiated such that it is unlikely that the criteria would be reliable, and hence it may be difficult to obtain assurance over them.

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

Specific Considerations for Determining the Suitability of Criteria

189. Subject matter information expressed in words may result from criteria representing different qualities of the subject matter elements compared to numerical subject matter information or metrics, however the requirements for criteria to be suitable remain the same.
190. Reliable criteria for narrative information may need to be well-defined and therefore reasonably unambiguous so as to allow reasonably consistent measurement or evaluation of the underlying subject matter.

EXAMPLE

In applying criteria requiring an entity to report the aspects of its strategy that will help it achieve its principal objectives, an entity may report that such an aspect is its policy to prioritize providing high standards of service to its customers. The criteria behind this information appear to be insufficiently defined as the information is ambiguous (hence the criteria may not be reliable because the resulting subject matter information may not result from reasonably consistent evaluation of the underlying subject matter). It is unclear whether the criteria require the entity merely to disclose that it has such a policy in place (either formally written or not), or that its behavior complies with that policy or that the policy is effective in helping it achieve its objectives.

191. It is particularly important for narrative information that the criteria result in subject matter information that is understandable (including being unambiguous as to its intended meaning) and neutral, as subject matter information in narrative form may be at particular risk of failing to exhibit these characteristics. This is often because words can be inherently ambiguous in their meaning and definitions. Most importantly, the criteria cannot result in subject matter information that is misleading to the intended users⁴⁰.

EXAMPLE

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

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

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

Specific Considerations for Using Assertions & Testing Narrative Information

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

⁴⁰ ISAE 3000 (Revised) paragraph A50

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

EXAMPLE	<p>Below is an example of information that may be included in an EER report. The sentences have been numbered in brackets. For this example, assume the criteria included a requirement to report “the water intake by the company in the reporting period, the change from the previous reporting period, and an explanation for the change”.</p>
	<p>“(1) Water is needed to support all life, and yet it can be a scarce resource in some parts of the world, requiring us to use water responsibly for all our operations.</p>
	<p>(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.”</p>
	<p>Sentence (1) is vague and may be unsubstantiated. It does not directly relate to what the criteria require as described above, and hence may be considered to be ‘other information’. Most readers may not pay much attention to it, and hence it is unlikely to warrant the practitioner’s attention unless it is clearly incorrect or misleading.</p>
	<p>Sentence (2) is more specific to the entity, more factual and less subjective, however again it does not address the criteria. The practitioner may be able to confirm if it is a true statement easily (and hence whether it is not misleading), perhaps from existing knowledge or work.</p> <p>Sentence (3) contains quantitative information that, along with sentence (4), is likely to be the focus of the practitioner’s testing and work effort. The practitioner may accordingly highlight it or draw a box around it, and reference supporting workpapers where the testing is documented.</p> <p>Sentence (4) is an explanation that may fulfil the requirements of the criteria if it is accurate, complete and free from bias. The practitioner may attempt to corroborate this with data on manufacturing levels.</p>

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

information is neutral and free from bias may become more of an area of focus for the practitioner due to the subjectivity. As noted in paragraph 178, neutrality may be identified as a separate assertion or as an aspect of other assertions.

Specific Considerations for Evaluating Misstatements

198. Evaluating whether misstatements in subject matter information in narrative form are material may require use of the materiality considerations in Chapter 12 as numerical thresholds are not appropriate.
199. When evaluating a misstatement within narrative subject matter information, whether factual or subjective, the same considerations may be used to conclude whether the misstatement is material, focusing on whether the misstatement could reasonably be expected to influence decision-making by the intended users.
200. As with any other misstatements, the practitioner may encourage the preparer to correct them. In the case of narrative information, this may frequently involve either re-wording or removing the misstated text.

① Further guidance in relation to obtaining evidence in relation to narrative information is to be developed in phase 2.

Chapter 11: Assuring Future-Oriented Information

Introduction

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

EXAMPLE

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

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

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

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

EXAMPLE

The difference between observable and hypothetical subject matter information is illustrated by the difference between a forecast and a projection (as based on definitions in ISAE 3400⁴¹, paragraphs 4-5):

A **forecast** is prepared on the basis of assumptions as to future events that management expects to take place and the actions management expects to take as of the date the information is prepared (best estimate assumptions).

A **projection** is based on hypothetical assumptions about future events and management actions that are not necessarily expected to take place, or a combination of hypothetical and best estimate assumptions. Such information illustrates the possible consequences as of the date the information is prepared if the events and actions were to occur. This may be known as a scenario analysis.

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

As performing an assurance engagement on this type of information is not considered to pose a particular challenge for a practitioner, the remainder of this chapter of the document only considers future-oriented information subject to estimation uncertainty, referred to as subjective information.

Specific Considerations for Determining the Suitability of Criteria

205. Future-oriented information results from applying criteria to the underlying subject matter, just like any other subject matter information. However, the criteria will ask different questions about the subject matter elements, often asking for description of the future state or condition of the element, or a future change in state or condition over time (see paragraph 202 for an example).
206. Whether the criteria from which future-oriented information results are suitable or not can be determined in the same way as any other criteria as described in Chapter 7.
207. For subjective future-oriented information, the criteria may need to require detailed description of the assumptions and the nature, sources and extent of uncertainty in order to be suitable. It may still be possible to obtain assurance over uncertain subject matter information if it is supported by adequate disclosure such that the uncertainty is adequately conveyed to the intended users.

Specific Considerations for Using Assertions and Testing Future-Oriented Information

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

⁴¹ International Standard on Assurance Engagements (ISAE) 3400 (Revised), *The Examination of Prospective Financial Information*

209. Where criteria require a statement of intended future strategy, a target, or other intentions of an entity, the explicit material assertion that a practitioner can test is whether management or those charged with governance have an intention to follow that strategy or that the target or intention exists (existence assertion). Appropriate evidence could be obtained in the form of documentation of board meetings or actions that management have already taken to work towards adopting the strategy or agreeing the target. There is likely to be a further implied assertion that the entity has the capability to carry out its intent, or will develop the means to do so, or there may be separate explicit criteria addressing capability. A practitioner is ordinarily not in a position to ‘predict the future’ to obtain assurance on whether the intended outcomes of a strategy or a target will be achieved or not.
210. Similarly, where criteria require information about future risks and opportunities to be reported, the assertions to be tested will likely include that the risks and opportunities exist (existence assertion) and that the list of risks and opportunities is complete (completeness assertion) with respect to the risks and opportunities which would assist intended users’ decision-making. The completeness assertion may be tested by reference to the entity’s risk register or records of discussions of those charged with governance. The existence assertion is closely related to the underlying subject matter needing to be identifiable (see paragraph 48). A practitioner is ordinarily not able to obtain assurance on whether the risks and opportunities will materialize or not, however it may be possible in some circumstances to obtain assurance on information about the nature of the risks and opportunities, for example their likelihood or potential impact. Whether this is possible will depend on whether the exact criteria are suitable and the availability of appropriate evidence. A common challenge is that the likelihood of and potential impact of risks and opportunities can change significantly and quickly due to factors that may be unknown by the entity or outside of its control.
211. Subject matter information predicting future conditions or outcomes (for example, forecasts, projections and predictions) relates to events and actions that have not yet occurred and may not occur, or that have occurred but are still evolving in unpredictable ways. As above, the practitioner is ordinarily not in a position to ‘predict the future’ and express an assurance conclusion as to whether the results or outcomes forecasted, projected or predicted will be achieved or realized. The practitioner may instead focus on whether any assumptions are reasonable and that the subject matter information has been properly prepared in accordance with the applicable criteria.
212. The practitioner may need to consider that while evidence may be available to support the assumptions on which the future-oriented subject matter information is based, such evidence is itself generally future-oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in relation to historical events and conditions.

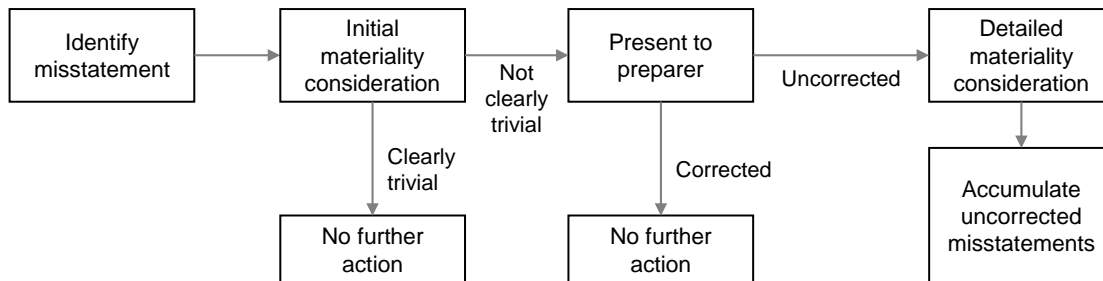
① Further guidance in relation to obtaining evidence in relation to future-oriented information is to be developed in phase 2.

Chapter 12: Considering the Materiality of Misstatements

Introduction

213. If during the assurance engagement the practitioner identifies a misstatement within subject matter information included in the EER report for material topics and related elements, the practitioner is required to make a judgment as to whether the misstatement is material.
214. Misstatements may need to be evaluated in different ways given that subject matter information in EER takes such a variety of forms (for example quantitative and qualitative, different units of account).
215. For parts of subject matter information that are quantitative (for example a KPI expressed in numerical terms), the starting point for materiality decisions is to establish materiality thresholds, often by using a percentage⁴². If the EER framework specifies a percentage threshold for materiality, it may provide a frame of reference to the practitioner in determining materiality for the engagement.

Practitioner Responsibilities



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

Materiality Considerations

218. Below is a series of ‘materiality considerations’ that a practitioner may use when considering materiality initially or in a detailed manner. They are examples of matters that could assist a practitioner in considering whether a misstatement is material. Misstatements are generally considered to be material if they could reasonably be expected to influence relevant decisions of intended users⁴³. Therefore, the practitioner takes into account the extent to which the intended users could reasonably be expected to make a different decision if the subject matter information was not misstated. The considerations below are not exhaustive; ultimately, professional judgment will be required to conclude based on the specific circumstances.

⁴² There are instances where this would not be appropriate, perhaps where the number is often very small (for example, number of fatalities).

⁴³ ISAE 3000 (Revised) paragraph A94

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

Underlying subject matter

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

External factors

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

EXAMPLE

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

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

Nature of the subject matter information

- d) It is a key performance indicator known to be used by intended users that is misstated, perhaps that is commonly used to compare the entity to its peers.
- e) It is in information reporting performance in relation to a target or threshold, where the magnitude of the error is comparable to the difference between the actual outcome and the target.

EXAMPLE

One of the performance targets determining a Chief Executive's bonus is achieving a customer satisfaction score of 75% or higher. The reported achieved score was 77% however this was found to be overstated by 3 percentage points, meaning the target was actually not met. It is likely that the misstatement in these circumstances would be material.

If however, the target was 90%, the misstatement may be considered to be immaterial as the target was not reported to be achieved even though the score was incorrect.

- f) The misstated information is reporting a significant change in a previously reported position, or a trend that has reversed.

Presentation

- g) It is a presentational misstatement that has arisen from subject matter information being misleading and the wording that has been used lacks clarity such that it could be interpreted in widely different ways. Accordingly intended users might make different decisions depending on their interpretation.

Preparer's behavior

- h) The misstatement has arisen as a result of an intentional act by the preparer to mislead.
- i) The preparer is reluctant to correct the misstatement for reasons other than they consider it immaterial.

220. The majority of the considerations listed as examples in paragraph 219 may apply to both quantitative and qualitative information. For information that is quantitative, the factors can be used to set the materiality thresholds, which determines what level of error will be tolerated. For qualitative information, the factors similarly help a practitioner decide whether a misstatement is material based on the level of sensitivity of intended users' decision-making to such a misstatement.
221. Knowing the context may be important before making materiality judgments – for example understanding the objective or purpose of the disclosure, and how the criteria intended the underlying subject matter to be measured. The practitioner can then consider whether (i) the disclosure is consistent with the objective, and (ii) whether it is clear and understandable.

Accumulating Misstatements

222. After considering misstatements individually, the practitioner may need to consider misstatements in combination with others. The practitioner is unlikely to be able to accumulate misstatements and consider them together in the same way as a financial statement audit for an EER report comprising diverse and varied underlying subject matter. However, the practitioner may still need to consider whether there are misstatements of assertions that relate to the EER report as a whole (such as criteria relating to presentation of the EER report), where such criteria apply in the context of the engagement.
223. The practitioner is required to accumulate all the uncorrected misstatements identified during the engagement, other than those that are clearly trivial⁴⁴. This can be documented on a schedule so that the uncorrected misstatements can be considered collectively. While it will not be possible to add up non-numerical misstatements, or those relating to different elements, it may be possible to group the misstatements according to the elements in the EER report. Alternatively, the misstatements could be grouped according to the type of misstatement or the assertion that was not present. Misstatements of subject matter information in narrative form may need to be concisely described.
224. It may be helpful for the practitioner to give each of the misstatements a rating (for example, low / medium / high) to indicate the significance of the misstatement, particularly where the misstated subject matter information is in narrative form. The criteria may give further guidance in this area.
225. It may be appropriate for the practitioner to consider whether the misstatements identified affect any other parts of the EER report (both those parts within and outside of the assurance engagement scope) and look for any contradictions or inconsistencies.
226. The practitioner is required to form a conclusion about whether the subject matter information is free from material misstatement⁴⁵, including whether the uncorrected misstatements are material, individually or in the aggregate. Where the subject matter information is materially misstated, the practitioner follows the requirements in ISAE 3000 (Revised) paragraphs 74 to 77.

Measurement or Evaluation Uncertainty

227. When measurement or evaluation uncertainty means there is inherent variability in subject matter information, this does not affect materiality considerations. Higher measurement or evaluation uncertainty also may not necessarily lead to an increased risk of misstatement.

⁴⁴ ISAE 3000 (Revised) paragraph 51

⁴⁵ ISAE 3000 (Revised) paragraph 65

228. Subject matter information with inherent variability may be sufficiently accurate if it is as precise as it reasonably can be and information about the inherent uncertainty is also disclosed. Supporting disclosures can give important context necessary to help the intended users understand the uncertainty. Without this, the criteria might not be suitable, and the subject matter element may not be represented appropriately.
229. When the uncertainty is not inherent, it may give rise to misstatements, perhaps because the preparer has not used the information available to measure or evaluate the underlying subject matter as precisely as would be possible.

Chapter 13: Preparing the Assurance Report

- ① Guidance to be developed in phase 2.

Appendix 1

The Ten Key Challenges

The IAASB issued a discussion paper in 2016 titled *Supporting Credibility and Trust in Emerging Forms of External Reporting*. This identified 'Ten Key Challenges' for a practitioner applying ISAE 3000 (Revised) to assurance engagements over EER. In response to broad agreement from respondents, those challenges have formed the content of this guidance, as explained in the [project proposal](#). The challenges were as follows, along with the corresponding chapters of guidance in this document:

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

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

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

BACKGROUND AND CONTEXTUAL INFORMATION ON UNDERSTANDING HOW SUBJECT MATTER INFORMATION RESULTS FROM MEASURING OR EVALUATING SUBJECT MATTER ELEMENTS AGAINST THE CRITERIA

Introduction

1. The information in this document explains how subject matter information in an EER report results from a preparer measuring or evaluating subject matter elements against the applicable criteria. This information is intended to provide context to practitioners in applying the draft guidance. It explains general concepts underlying EER reports, as a form of subject matter information, and how these relate to key assurance concepts reflected in ISAE 3000 (Revised), in particular the concepts of criteria and subject matter elements which are discussed in the first part of [Chapter 7](#) of the draft guidance.
2. Much of the material below relates to the role of a preparer of such EER reports, rather than to the role of a practitioner. However, an appropriate understanding of the nature of the preparer's role in preparing an EER report, and how it relates to assurance concepts, is likely to assist practitioners in performing effective EER assurance engagements.
3. Where possible, the explanations of general concepts in this section draw comparisons between EER and more established forms of reporting, as well as comparing and relating how these general concepts appear in some major EER frameworks.

Understanding the Terms Used

4. ISAE 3000 (Revised) defines subject matter information as the outcome of the measurement or evaluation of the underlying subject matter against the criteria, that is, the information that results from applying the criteria to the underlying subject matter. It also defines criteria as the benchmarks used to measure or evaluate the underlying subject matter, and the underlying subject matter as the phenomenon that is to be measured or evaluated against the criteria.
5. These definitions are or contain various 'terms of art' that are used widely in ISAE 3000 (Revised) and in the International Framework for Assurance Engagements: subject matter information – measurement or evaluation – underlying subject matter – criteria – benchmarks – phenomena.
6. The concept of an assurance engagement is essentially a generalization of the concept of a financial statement audit, in which equivalent terms used might be:
 - The entity's financial statements (subject matter information)
 - Measurement, valuation and estimation (measurement or evaluation)
 - The reporting entity's financial position and performance (underlying subject matter)
 - Financial reporting standards and accounting policies (criteria)
 - Measurement, recognition, presentation and disclosure bases (benchmarks)
 - Elements of the financial statements: the reporting entity's economic resources and claims against the reporting entity (i.e. assets, liabilities and equity) and the effects of transactions and other events and conditions that change those resources and claims (i.e. income and

expenses) ([economic] phenomena, which may be referred to as the elements of the financial statements).

7. More commonly in the context of an EER assurance engagement, equivalent terms used might be as follows (where “EER” might be replaced by terms such as “Sustainability”, “Integrated”, “Non-financial”, “Annual”, “Environmental, Social and Governance” or “Strategic”):
 - The entity’s [EER] report (subject matter information)
 - Measurement or estimation and assessment or appraisal (measurement or evaluation)
 - The entity’s economic, environmental, social or governance state, condition, prospects, performance or impact (underlying subject matter)
 - [EER] Reporting Framework or Standards and reporting policies (criteria)
 - Metrics or measurement protocols (benchmarks)
 - The entity’s economic, environmental, social or governance resources, claims and relationships, and the entity’s actions or activities, and other events and conditions, that cause such states, conditions or prospects to change (performance) or that cause other entities’ states, conditions or prospects to change (impact) ([EER] phenomena, which are referred to in this guidance as subject matter elements)

Understanding the Nature and Role of Criteria

8. Criteria specify both:
 - a) the identification of the nature and scope of the topics and related elements of the underlying subject matter to be represented in the EER report (which are dealt with in definitions, underlying concepts and reporting boundaries); and
 - b) the identification of the qualities of such elements to be measured or evaluated against the criteria to prepare the information to be included in the EER report, and the benchmarks to be used in measuring or evaluating those qualities.
9. Criteria establish the basis of preparation for the EER report. At its most simplistic, a subject matter element may be described in the EER report by measuring or evaluating a quality of a subject matter element and reporting the value of that measurement or the outcome of that evaluation in the EER report, together with how the measurement or evaluation was made.
10. Appropriate subject matter elements are identifiable (they can therefore be distinguished from other subject matter elements). However, as in financial reporting, subject matter elements may be measured or evaluated individually or collectively (for similar items) at different ‘units of account’, depending on what is relevant to the information needs of the intended users.

EXAMPLE

An apple is an individual item, distinct from all other individual apples and from all other individual fruits etc. It has several distinct parts: ‘pips’; ‘flesh’; ‘skin’; and ‘stalk’. It may also be a part of ‘a fruit basket’ that contains other individual fruits. Depending on the hypothetical information needs of the intended users, an EER report may be prepared on the apple, or its parts, or the fruit bowl by measuring or evaluating relevant qualities of the apple, its parts or the bowl against benchmarks and including the resulting information in the EER report.

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

EXAMPLE	<p>If the subject matter element was a machine in a factory some questions that might underpin the criteria and, in brackets, the resulting subject matter information, include:</p> <ul style="list-style-type: none"> a) When was the machine built? (expression of time) b) Where is the machine? (expression of location) c) What color is it? (expression of a quality) d) What is the maximum number of widgets it can produce in an hour? (expression of a capability to act so as to cause change) e) What is the actual number of widgets produced in the last year? (expression of performance or outcome of an action that causes change) f) What is its accounting value at a point in time? (expression of a quantity or measurement) g) What has been the change in value over the last year? (expression of the outcome of a change in the machine's state or condition) h) How did the change in value happen? (expression of the cause of a change) i) Why have the directors decided to sell the machine? (expression of the intent of an action to cause a change)
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EXAMPLE	<p>Another example of an element might be a river next to a company's factory that it has access to. Questions that might underpin the criteria include:</p> <ul style="list-style-type: none"> a) Where is the river? (expression of location) b) How much water flows through the river? (expression of characteristic) c) How polluted is the river in terms of the chemical composition of the water? (a measurement) d) How has the water quality changed over a period of time? (expression of change in condition) e) What is the impact of the factory on the water quality of the river? (explanation of cause of change in condition)
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12. The criteria can be selected or developed in a variety of ways, for example, they may be⁴⁶:
- a) Embodied in law or regulation
 - b) Issued by authorized or recognized bodies of experts that follow a transparent due process (for example, GRI or SASB standards)
 - c) Developed collectively by a group that does not follow a transparent due process

⁴⁶ ISAE 3000 (Revised) paragraph A48

- d) Published in scholarly journals or books
- e) Developed for sale on a proprietary basis
- f) Specifically designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement
- g) A combination of the above

Understanding the Nature of Qualities

13. A quality (such as color) is an aspect of a subject matter element. Individual subject matter elements may exhibit a quality in different ways (an item's color may be red, yellow, blue, etc.).

EXAMPLE

An apple may be described as red or green or brown, which are different ways that a quality called 'color' can be exhibited by an item. Some qualities may be modified by another quality. For example, color can be modified by qualities known as a tint, tone or shade.

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

Understanding the Nature of Evaluation and Measurement of Subject Matter Elements

15. Preparing subject matter information involves evaluating or measuring relevant qualities of relevant subject matter elements. Evaluation involves comparing the particular way in which a subject matter element exhibits a relevant quality with benchmarks that represent the known ways in which that quality can be exhibited. Those benchmarks are defined by the criteria. Such a comparison yields a classification of the subject matter element elements, by reference to the known ways in which the quality can be exhibited. Such a classification provides information about the qualities of the subject matter elements evaluated or measured, which could be answers to the types of questions about such elements referred to in the preceding paragraph.
16. Measurement is a special case of evaluation, in which the benchmarks used are standardized quantities or measures. In other cases, the benchmarks for evaluation are given category labels, such as letters, numbers, nouns, adjectives or adverbs. Some such non-quantitative benchmarks have no natural ordering (e.g., red, blue, yellow), whilst others may have different degrees of natural ordering (e.g., small, medium, large).
17. When making a measurement, the measuring instrument may be physical (a meter) or a defined process. In either case, the instrument must be aligned with the standardized measure (a process known as calibration).
18. There are different types of standardized measures but they are all based on a clearly specified point of reference, which has a defined relationship to a unit of measurement that is sufficiently

precise for its purpose. For physical qualities, like length and time, the point of reference is usually a reference example of the quality that can be observed consistently in a well-defined particular subject matter element, in well-defined circumstances (e.g. a meter of length is defined as the distance travelled by light in a vacuum, in a specified fraction of a second of time).

19. In other circumstances, the quality to be measured may be a concept that is not directly observable or measurable. This is often the case in the fields of social and economic knowledge (e.g. intelligence is a quality that cannot be observed or measured directly, and economic value is not always observable or measurable directly).
20. In such cases, a generally accepted measurement model is needed, which may be used to measure the benchmarks or the way the quality is exhibited by a particular subject matter element. Such a model is generally based on a well-defined concept that defines observable indicators of the quality, standards for the measurement or evaluation of such indicators, and a mathematical or logical process that generates repeatable measures when applied.

EXAMPLE

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

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

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

FOUR KEY FACTOR MODEL FOR CREDIBILITY AND TRUST IN RELATION TO EER

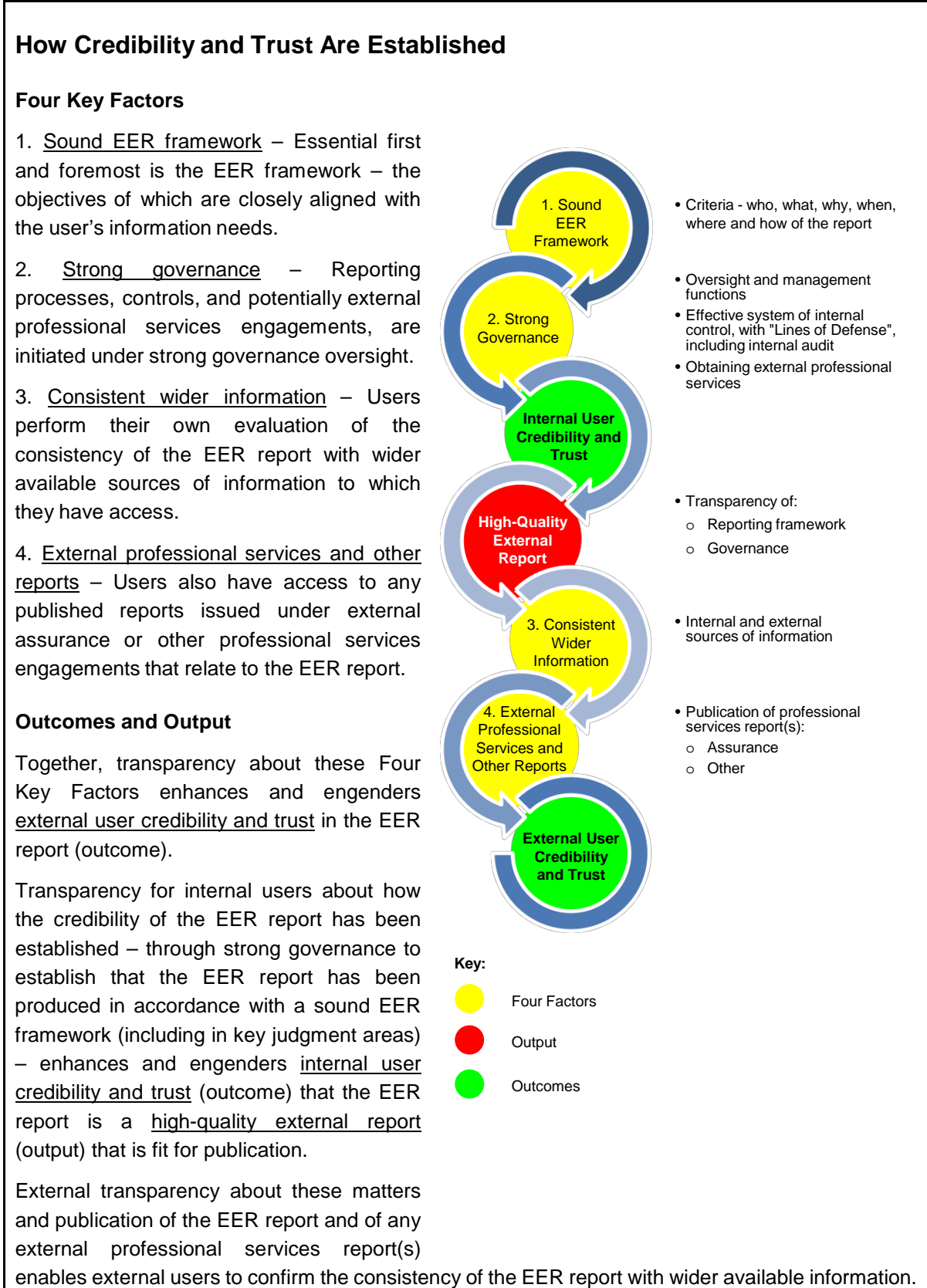
Introduction

1. This paper explores the concept of credibility and trust in relation to EER reports and introduces four factors that may enhance their credibility. It aims to show how external assurance may have a role as part of a wider context of factors that can support credibility, and therefore the users' trust in EER information.
2. The paper may be of relevance to assurance practitioners, preparers of EER, and users of EER.
3. Credibility is a user-perceived attribute of information that engenders in the mind of the user an attitude of trust in the information. Factors other than credibility can also affect user trust in information. For example, a strong track record of an entity delivering on its promises can increase trust, but a perception of self-interest – or conflicts of interest – by the entity can diminish trust.
4. In the context of EER reports, credibility is likely to be enhanced if there is:
 - A Sound EER Framework—that is transparent and in which the user has confidence that the output of applying the EER framework (the EER report) provides a sound basis for meeting their needs.
 - Strong Governance over the Reporting Process—that satisfies the user that robust processes and controls were applied with appropriate oversight, and that the people involved were competent and not influenced by conflicts of interest.
 - Consistent Wider Information—that satisfies the user that the EER report is internally consistent and consistent with the user's wider knowledge.
 - External Professional Services and Other Reports—independent external professional services reports and other external inputs relating to the EER report to which the user has access.
5. As these factors show, external assurance is only one means of enhancing the credibility of EER reports, and its benefit is greatest when the other factors are present too.

Four Key Factors

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

Figure 1: Overview of Credibility and Trust



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Factor 1: Sound EER Framework

7. Management is responsible for ensuring that the external report is prepared in accordance with an applicable EER framework. The user’s perception of the credibility of an EER report can be influenced by the qualities and transparency of the EER framework used for its preparation.
8. A sound EER framework guides preparers in ensuring that the EER report is an effective communication and gives users confidence that the EER report will meet their needs. EER frameworks therefore typically address:
 - *Reporting Objectives*: intended users, scope and use (the who; the high level what, when and where; and the why of the EER report);
 - *Content Elements* to be included in the EER report (the more detailed what, when, and where of the EER report); and
 - *Qualitative Characteristics of the Information*, including:
 - *Depiction Methods* for the content elements (measurements, quantitative or qualitative evaluation or assessment techniques, and descriptions) (the technical aspects of the “how”); and
 - *Principles for Communicating* effectively in the EER report (the communication aspects of the “how”).
9. The table below summarizes the characteristics of the features of an EER framework that are likely to engender credible reporting, and their relationship to the characteristics of suitable criteria set out in paragraph A45 of ISAE 3000 (Revised).

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

10. The credibility of EER reports can also be enhanced when there is user confidence in the quality of the EER framework applied because:

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- The due process for developing the EER framework involves interaction with stakeholders to ensure that the interests of the intended users and other stakeholders are appropriately reflected;
 - There is effective governance over the development of the EER framework that addresses potential conflicts of interest; and
 - The EER framework is well-known, commonly understood, and has broad stakeholder acceptance.
11. The objectives of different EER frameworks can vary significantly. The closeness of fit between the objectives of the EER framework and the user's needs is an important credibility factor. Transparency about the reporting objectives is therefore important.
 12. Where EER frameworks specify content elements and depiction methods, this can drive consistency in reporting but may also limit the ability of the preparer to tailor the EER report to the entity's specific circumstances. Where such tailoring is important in meeting the reporting objective, EER frameworks may specify principles-based requirements for judgments by preparers to determine relevant content elements or depiction methods.
 13. Where applicable, the need for such judgments and the potential for ambiguity in those criteria may make the EER framework inherently more susceptible to the risk of preparer bias. For example, under a principles-based requirement:
 - Identifying content elements and depiction methods can involve significant judgments about what to report and the appropriate depiction methods to use. Clear principles for determining these matters (such as a strong materiality principle and a requirement for stakeholder engagement to enable it to be applied effectively), and transparency about these matters and about the processes to implement them, can be important credibility factors for an EER report.
 - Applying depiction methods can involve addressing significant uncertainties in making estimates and qualitative evaluations or assessments and can therefore require significant judgments by preparers. EER frameworks may address such uncertainties and judgments by requiring related disclosures and by establishing a neutrality principle to be applied in making such judgments to counter the inherently greater susceptibility to preparer bias risk.
 14. The existence of a multiplicity of EER frameworks covering similar areas may lead to confusion amongst users of EER reports, and may also reduce the ability of users to compare entities effectively.

Factor 2: Strong Governance

15. Strong governance includes sound governance structures that oversee a strong internal control system, including effective risk management and high-quality reporting processes. Management and, in some jurisdictions, those charged with governance (TCWG)⁴⁷ are responsible for establishing internal control as necessary to ensure that the information in the EER report is reliable and available on a timely basis. Management or TCWG may be required to, or may voluntarily make, an explicit assertion in the external report on their responsibility.

⁴⁷ See the *Glossary of Terms* in the IAASB Handbook. For some entities in some jurisdictions, TCWG may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

16. The competence and accountability of management and TCWG is therefore an important element of the strong governance that is required to enhance credibility and trust. Underpinning this is a need for preparers to behave in a way that is consistent with the spirit of the objectives of the relevant EER framework to present EER information faithfully and without bias. In some circumstances, the use of external specialists may be appropriate, and may enhance credibility further.
17. Oversight by TCWG, who are responsible for overseeing the strategic direction of the entity and its obligations related to accountability, includes overseeing the entity's external reporting process, which may historically have been primarily focused on the financial statements. The responsibilities of TCWG may become broader as EER continues to evolve. In listed companies and other large entities, much of the work related to overseeing the entity's external reporting process is often undertaken by an audit committee. A transparent and constructive relationship between management and TCWG will enhance credibility of the external report. In executing their responsibilities, TCWG (including audit committees where they exist) may engage with intended users to obtain their perceptions of the usefulness and quality of external reporting.
18. Some entities also have as part of their governance process a separate disclosure committee that assists the Board of Directors and the audit committee in preparing the required disclosures and helps ensure that an entity's disclosure controls and procedures are properly implemented. These activities help to support the quality of external reporting.
19. A strong internal control system is founded on:
 - A control environment in which the oversight function (TCWG) and management actively support high-quality external reporting, and embed a culture in the entity that engenders effective internal control;
 - An effective information system for obtaining and processing relevant data and information of sufficient quality to support decision-making to enable the depiction of content elements;
 - Identification and assessment of risks that may threaten the quality of external reporting and the design, implementation and effective operation of appropriate responses in the form of control activities;
 - Regular overall monitoring of controls to determine that such controls are effective; and
 - Adequate information and communication, including more broadly on the business processes.
20. Many entities use internal audit for their operational audits or to assist in the audit of the external reporting process or the external report itself. Internal auditors are also exploring how their role may evolve along with the maturity of the EER processes within the entity.⁴⁸ Professional services providers may also be engaged to perform assurance engagements or other external professional services, reporting to TCWG, to support internal credibility and trust in the EER reporting process or in the resulting EER report.
21. Stakeholder engagement also forms an important part of governance processes, informing an entity's strategy and identification of material issues for disclosure.
22. Management routinely communicates and engages with intended users, particularly investors, in a number of ways. Visible, active engagement with users may provide an added motivation for management to achieve high-quality external reporting and may also enhance credibility.

⁴⁸ Institute of Internal Auditors (2013) in [Integrated Reporting and the Emerging Role of Internal Auditing](#).

23. Stakeholder dialogue is an important part of the process for defining an entity's strategy, identifying the most material issues to address, and disclosing them in external reports. The importance of such engagement is reflected in many EER frameworks and therefore influences the entity's EER 'materiality process'. Entities may also include stakeholder representatives in their governance structures, such as in their non-executive board, or may have a separate expert advisory group to advise the board on such matters.
24. For external users, the credibility of external reports may increase if the different elements of the governance system (structures, processes and people) that support the EER process are made transparent. This includes transparency about the individuals involved in the reporting process within an entity and those that govern these processes, as well as information pertinent to users' perception of those individuals' integrity and competence.

Factor 3: Consistent Wider Information

25. Inconsistencies between the various sources of information about the entity and its environment available to users may impact the credibility of the EER report. EER reports also need to describe all relevant issues and be complete if they are to be consistent with other information available about the entity.
26. Ensuring the consistency of information in the EER report with other sources of information likely to be available to users of the EER report, or explaining apparent inconsistencies, may enhance the credibility of the EER report.
27. Factors affecting the credibility of that wider information – such as the perceived independence and objectivity of the ultimate source of the information, the medium through which it is communicated (for example, a respected news agency), or the fact that the information was obtained in the past and was already perceived as credible - may influence whether the EER report or the wider information is determined to be most credible by users when there are inconsistencies between them.

Factor 4: External Professional Services and Other External Inputs

28. Entities seek to enhance the credibility of their external reports not only through strong governance, but also through obtaining professional services or other external inputs. Credibility can come from a variety of professional services and other external inputs obtained from various types of providers, not just professional accountants (such as engineers). Such professional services may result in reports under assurance or other professional services engagements or other external inputs that are either made publicly available or restricted to internal parties involved in the engagement (see paragraph 20).
29. The type of professional service that is most appropriate in the circumstances and most relevant to users will depend on users' needs (which may be quite different between internal and external users), the nature of the external input and the maturity of the entity's EER processes.
30. The way such professional services and other external inputs may enhance the credibility of the EER report is dependent on the particular characteristics of such inputs and the personal traits of those providing them, for example:
 - Competence that is demonstrated or generally well known;
 - Objectivity and independence;
 - Professional skepticism and professional judgment;

- Quality in the performance of the engagement;
 - Quality control, where applicable, at the engagement and firm level by the practitioner and firm that perform the engagement;
 - Professional standards applicable to the practitioner;
 - Regulatory oversight and supervision of professional services, where applicable; and
 - Clarity of reporting, and transparency about the work performed.
31. Although the necessary competence may be different depending on the particular form of professional services or other external input and the complexity of the entity, in general competence likely needs to include:
- Knowledge of the relevant EER framework;
 - Knowledge of the underlying subject matter; and
 - Knowledge of the professional standards that apply.
32. Transparency about the competence of those performing the professional service or other external input may add to the credibility of the EER report. Particular types of engagements (for example, assurance engagements) also require the practitioner to meet independence and other relevant ethical requirements.
33. The manner in which the outcome of the external professional services or other external input is reported can influence the degree to which the external service or input adds credibility to the EER report. Key characteristics of a communication that may add such credibility include that such communication is understandable and clearly structured, well balanced, not biased and, where applicable, comparable between reporting periods and with other entities that prepare EER reports.
34. An explicit reference to national or international standards for quality control of the practitioner’s firm and for the performance of the engagement, as well as to relevant ethical requirements, may also enhance the degree to which the external input adds credibility to the EER report.
35. Whether the credibility of information is enhanced may be affected by the users’ understanding of the external professional services, including assurance. There may be a need to educate users about the nature of such services and the levels of assurance that can be obtained from them.
36. Without experience of how to read assurance reports to understand the scope and level of assurance being provided, there is a danger of user confusion and misunderstanding, particularly given the range of services that practitioners can provide and the differing professional standards that assurance providers work to.

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**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