IAASB International Auditing and Assurance Standards Board

		Agenda Item
Meeting:	IAASB	
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Meeting Date:	December 10-14, 2018	

EER Assurance – Draft Guidance

The following is a draft of the IAEPN being developed by the EER Task Force as at November 23, 2018.

INTERNATIONAL ASSURANCE ENGAGEMENT PRACTICE NOTE [XXXX]

ADDRESSING CHALLENGES IN THE APPLICATION OF ISAE 3000 (REVISED) TO EER

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Chapter 1: Introduction

Background

1. At the date of this IAEPN, entities are increasingly producing reports which include non-financial information that go beyond the traditional financial statement focus on the entity's financial position, financial performance and impact on its financial resources. The IAASB refers to these as 'extended external reporting' (EER).

2. EER encapsulates many different forms of reporting, including, but not limited to, integrated reporting, sustainability reporting and other reporting about environmental, social and governance (ESG) matters. Such reports may be prepared under legislative or regulatory requirements, and established frameworks, standards and guidance issued by international or national standard setters and other bodies. EER is often not particularly standardized given the wide range of possible reporting frameworks available, and additionally entities often develop their own criteria.

3. EER tends to be more diverse than financial statement reporting, both in format and subject matter. It can also be more qualitative; the information can comprise more description (narrative information) alongside financial and non-financial numbers. At the date of this IAEPN, EER is typically less established and standardized than financial reporting. The processes and internal control system relevant to the preparation of EER are often also less developed.

4. The IAASB issued a discussion paper in 2016 identifying ten areas where assurance practitioners may find guidance useful in applying ISAE 3000 (Revised) ("the standard") to assurance engagements over EER. In response to broad agreement with this assessment from respondents, the scope of this IAEPN is to provide guidance in these specific areas. See Appendix 1 for further background information. Its intended audience is primarily assurance practitioners carrying out EER assurance engagements, although it may also be useful for preparers of EER reports.

5. ISAE 3000 (Revised) is intended to be applied to a wide range of subject matters. This IAEPN provides guidance on the application of the standard and is similarly designed to be broadly applicable to any subject matter and to reports prepared under any framework, however some examples are provided to illustrate how the guidance could be applied to some specific types of reporting.

Use of this IAEPN

6. Chapter 2 gives an overview of how an assurance engagement over EER can be conducted under the requirements of ISAE 3000 (Revised) and the International Framework for Assurance Engagements. This overview then refers to later chapters containing more detailed guidance in specific areas.

7. As non-authoritative guidance, this IAEPN does not introduce any further mandatory requirements on the practitioner beyond those in ISAE 3000 (Revised). Similarly, none of the contents of this IAEPN remove or change any of the requirements or application material in ISAE 3000 (Revised).

8. Prior to carrying out any assurance engagement in accordance with ISAE 3000 (Revised), the practitioner is required to undertake appropriate acceptance and continuance procedures. These

include confirming that the preconditions for the engagement are present[1] (many of which are discussed further in this IAEPN) and that the practitioner has no reason to believe the relevant ethical requirements, including independence, will not be satisfied.

9. The practitioner is also required to be satisfied that those who are to perform the engagement collectively have the appropriate competence and capabilities[2]. Carrying out assurance engagements typically requires significant professional judgment and the broad range of subject matter in EER may mean specialized skills and experience are required. One area in particular is the need to plan and perform the engagement with appropriate professional skepticism given the risks arising from assuring these new and maturing types of external reporting.

10. ISAE 3000 (Revised) can be used in both direct and attestation engagements[3], however, like the standard, this IAEPN contains material specific to attestation engagements. It may be applied to direct engagements, adapted and supplemented as necessary in the engagement circumstances.

Terminology

11. Terminology in this IAEPN is consistent with ISAE 3000 (Revised), as defined in paragraph 12 of the standard. It is noted that as EER is a developing area, different terms may be used around the world with broadly equivalent meaning which may be acknowledged in this IAEPN where appropriate.

12. The Appendix of ISAE 3000 (Revised) provides guidance on the roles and responsibilities of different parties in an assurance engagement. In many circumstances (in an attestation engagement), the responsible party is also the measurer or evaluator. For simplicity, this IAEPN uses the term 'preparer' to mean a responsible party who is also the measurer or evaluator.

13. This IAEPN refers to 'subject matter elements' or 'elements' in the context of an EER report. This term is not defined or used in ISAE 3000 (Revised). For the purposes of this IAEPN, references to 'subject matter elements' or 'elements' should be read in a similar way to how accountants would refer to elements of the financial statements such as 'assets', 'liabilities', 'income' or 'expenses', which are the economic phenomena (subject matter information) to which criteria are applied in preparing the financial statements. For EER, the subject matter elements may be very diverse, and may include, for example, natural resources, employees, customer relationships, the entity's strategy or the entity's governance, management, risk management and internal control infrastructure.

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[1]   ISAE 3000 (Revised) paragraph 24

[2]   ISAE 3000 (Revised) paragraph 32

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

Chapter 2: Overview of an EER Assurance Engagement

14.	This chapter gives an overview of what undertaking an EER assurance engagement under ISAE 3000 (Revised) involves. The subheadings reflect the sections in the standard and include the paragraph references in the standard. As this IAEPN only provides guidance on selected areas where it is likely to be most useful, the subheadings below are marked as follows:

	● = Sections with guidance in this IAEPN

	○ = Sections without guidance in this IAEPN

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

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

Ethical Requirements ○　　　　　Paragraph 20

16.	Assurance practitioners undertaking engagements under ISAE 3000 (Revised) are required to comply with Parts A and B of the IESBA Code related to assurance engagements, or other requirements that are at least as demanding.

Acceptance and Continuance ●　　　　　Paragraphs 21-30

17.	Similar to a financial statement audit, the first steps for the practitioner are undertaken prior to accepting the engagement and signing the engagement letter. The standard sets out a number of preconditions required to be present before the practitioner can accept (for a new engagement) or continue (for a recurring engagement) the engagement. Appropriate client relationship procedures are also required to have been followed[4].

18.	Two of the preconditions in the standard are likely to require the most consideration by the practitioner; whether the underlying subject matter is appropriate, and whether the criteria are suitable. Concluding on these may not be straightforward, particularly in a first-year engagement, however insufficient attention to these areas by the practitioner at the acceptance stage may result in issues arising later in the engagement. Whether these two preconditions are present are principally the responsibility of the preparer, and hence the practitioner may need to consider whether the preparer has properly fulfilled their responsibilities and has appropriate processes and an internal control system in place to support the report's preparation. Refer to Chapter 3 of this IAEPN for further guidance on the preconditions for an assurance engagement. Chapter 6 then gives more detailed guidance on governance and internal control systems, and Chapter 7 provides guidance specifically on determining the suitability of criteria.

19.	The terms of the engagement are agreed between the parties at this stage. For an EER engagement, one of the important areas is to agree the scope of assurance, as this may be anything from the whole report to only specific sections of it, or even only specific measures or indicators. From the practitioner's perspective, narrowing the assurance scope may increase the risk of the engagement lacking a rational purpose or misleading readers of the report. This is explored further in Chapter 3.

4	ISAE 3000 (Revised) paragraph 21

Quality Control ⬤   Paragraphs 31-36

20.   This section of the standard sets out the requirements of the engagement partner and assurance team to have appropriate competence and capabilities, and explains their other responsibilities. It is acknowledged that it may be necessary to involve experts to undertake the engagement, and in some cases to appoint an engagement quality control reviewer. Further guidance on applying appropriate skills in an EER assurance engagement is included in Chapter 4 of this IAEPN.

Professional Skepticism, Professional Judgment, and Assurance Skills and Techniques ⬤
                                                                             Paragraphs 37-39

21.   The standard requires the practitioner to apply professional skepticism and exercise professional judgment in planning and performing the engagement. Further guidance on this is included in Chapter 5 of this IAEPN.

Planning and Performing the Engagement ⬤   Paragraphs 40-47

22.   Some of the engagement planning activities may follow on from work completed as part of the acceptance stage, for example considering in more detail whether the criteria are suitable (see Chapter 7).

23.   The other main requirement in this phase is to obtain an understanding of the underlying subject matter and other engagement circumstances. This phase will provide the practitioner with a frame of reference for exercising professional judgment throughout the engagement by understanding the context of the engagement, the entity itself and its activities. This includes the process used to prepare the report to the extent required by paragraphs 47L and 47R of the standard for limited and reasonable assurance engagements respectively. The practitioner may have begun to obtain such an understanding at the engagement acceptance stage, but the maturity of the preparer's governance processes and internal control system may also influence the practitioner's assurance strategy. Refer to Chapter 6 for more guidance on the topic of governance and internal control.

24.   An often-complex area of consideration in multiple aspects of an engagement is materiality. Many general-purpose EER frameworks require the preparer to identify what are the significant matters to include in the report using some form of materiality process, in effect developing their own more detailed criteria beyond those in any framework being used. In determining whether the criteria are suitable for the engagement circumstances[5] (particularly whether they are relevant), for some engagements the practitioner may need to review and evaluate 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 the entity's materiality process.

25.   Note that materiality is also considered as part of determining the nature, timing and extent of procedures (performance materiality) [to be considered further as part of phase 2], as well as in considering the materiality of misstatements (see under 'Forming the Assurance Conclusion' below and Chapter 12).

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[5]   ISAE 3000 (Revised) paragraph 41

Obtaining Evidence ●   Paragraphs 48-60

26.   Prior to designing and performing assurance procedures, the standard requires the practitioner to (in the case of a reasonable assurance engagement) identify and assess the risks of material misstatement, or (in the case of a limited assurance engagement) identify areas where a material misstatement is likely to occur[6].

27.   In designing procedures that address these risks, the practitioner may find it helpful to build assertions to consider the possible types of misstatement of the information which may occur. Refer to Chapter 9 for further guidance.

28.   The extent of the procedures required for a reasonable assurance engagement is greater than for a limited assurance engagement. The standard sets out the different requirements.

29.   The standard explains that a reasonable assurance engagement may involve testing the operating effectiveness of relevant controls in some circumstances, but in others a fully substantive approach to the engagement may be appropriate.

30.   EER may include narrative and future-oriented information. Further guidance on how practitioners could approach this is included in chapters 10 and 11 respectively.

31.   Evidence is obtained from performing the designed procedures. Any misstatements identified, other than those which are corrected by the preparer or that are clearly trivial, are accumulated by the practitioner[7]. These are later evaluated as part of 'Forming the Assurance Conclusion' (see below).

32.   The standard also includes requirements relating to the use of experts or the work of another practitioner and requesting written representations. These are outside the scope of this IAEPN.

Subsequent Events ○   Paragraph 61

33.   The standard requires the practitioner to consider the effect of any relevant subsequent events and respond appropriately.

Other Information ○   Paragraph 62

34.   Where the assurance engagement's scope does not cover an entire document, practitioners have responsibilities over 'other information' which is published alongside that which has been subject to assurance. Some applicable guidance about agreeing the scope of assurance is included in Chapter 3 of this IAEPN, however further guidance on the requirements specifically in relation to other information is outside of its scope.

Description of Applicable Criteria ○   Paragraph 63

35.   Preparers are required to have referred to or described the applicable criteria as part of making them available to the intended users[8]. The standard requires the practitioner to evaluate whether this has been done.

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6   ISAE 3000 (Revised) paragraph 48L / 48R

7   ISAE 3000 (Revised) paragraph 51

8   Precondition in ISAE 3000 (Revised) paragraph 24(b)(iii)

Forming the Assurance Conclusion ●   Paragraphs 64-66

36.   The standard requires the practitioner to evaluate whether the evidence obtained is sufficient and appropriate, as well as form a conclusion about whether the subject matter information is free from material misstatement[9]. Guidance relating to considering the materiality of misstatements is included in Chapter 12 of this IAEPN.

Preparing the Assurance Report ●   Paragraphs 67-71

37.   There are requirements for the minimum basic elements in an assurance report which are set out in the standard. Further guidance on preparing the assurance report is set out in Chapter 13 [to be developed in phase 2].

Unmodified and Modified Conclusions ●   Paragraphs 72-77

38.   The standard explains the various conclusions which a practitioner can make, as well the circumstances where it may be necessary to include an 'emphasis of matter' or 'other matter' paragraph. Further guidance on this is also included in Chapter 13 of this IAEPN.

Other Communication Responsibilities ○   Paragraph 78

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

Documentation ○   Paragraphs 79-83

40.   The standard includes requirements to create documentation during the engagement.

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[9]   ISAE 3000 (Revised) paragraph 64.

Chapter 3: Determining Preconditions and Agreeing the Scope

Preconditions for Assurance

41.   The standard sets out in paragraph 24 the preconditions which must be present for a practitioner to perform any assurance engagement in accordance with ISAE 3000 (Revised). These are summarized in the six grey shaded boxes:

Preconditions for assurance
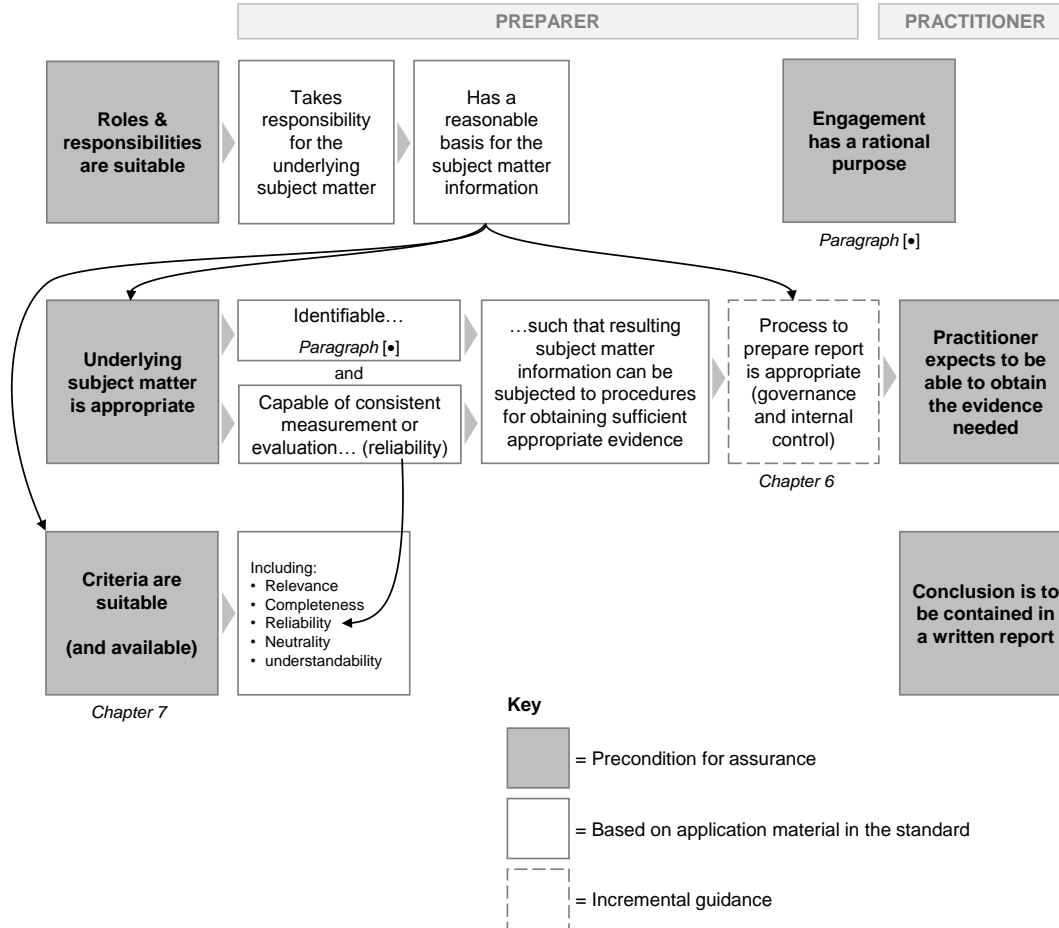
Text in the white boxes is based on the ISAE 3000 (Revised) application material. The white dotted-line box is incremental guidance in this IAEPN, based on the principles in the standard and the International Framework for Assurance Engagements.

Understanding Some of the Preconditions

42.   For the preparer to have a reasonable basis for the subject matter information (part of the precondition for the roles and responsibilities to be suitable), the practitioner might expect the following three conditions to be satisfied:

a)   The underlying subject matter is appropriate;

b)   The criteria are suitable (see Chapter 7); and

c) The preparer's process to prepare the information is appropriate. Aspects of the process may include its governance and system of internal control, for example its reporting (information) system, controls and oversight (see guidance in Chapter 6).

43. For an engagement to have a rational purpose, it will have an appropriate reason for being undertaken, which is linked to the purpose of the report. In turn, the purpose would ideally be useful and helpful to the intended users, such that the assurance engagement will enhance the degree of confidence that the intended users have in the subject matter information. For limited assurance engagements, the level of assurance needs to be meaningful[10]. Further considerations are provided in paragraph A56 of the standard.

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

EXAMPLE	The carbon emissions of an entity might be an identifiable underlying subject matter because there are widely accepted definitions of carbon emissions (such that they are distinct from other things, for example effluent). Additionally, methods exist to measure or estimate those carbon emissions which are attributable to the entity's activities.
	However, the impact of the entity's activities on global temperature change might not be identifiable. This is because it is difficult to attribute the temperature change to carbon emissions of specific entities and to separate the impact of carbon emissions from other factors causing temperature change (for example deforestation).

Practitioner's Responsibilities

45. When deciding whether to accept a new engagement for the first time, the practitioner is required to determine whether the preconditions for an assurance engagement are present. Making the acceptance decision will be based on a preliminary knowledge of the engagement circumstances and discussion with the preparer[11].

46. For a recurring engagement, the same preconditions are required, however the continuance process is likely to 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. The practitioner may therefore focus on whether there have been any changes since the previous acceptance or continuance decision was made.

47. 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. This may be a separate (non-assurance) engagement which would not be performed under ISAE 3000 (Revised).

Refer to paragraphs 73 to 76 for further guidance.

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[10] ISAE 3000 (Revised) paragraph 24(b)(vi)

[11] ISAE 3000 (Revised) paragraph 24

48. The preconditions need to be present for all assurance engagements, regardless of whether limited or reasonable assurance is being obtained. In order for a limited assurance engagement to be possible, the EER report must be capable of being subject to a reasonable assurance engagement.

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

    a) Is the underlying subject matter appropriate?

        i) Is it identifiable; 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?

    b) Are the criteria you (as the practitioner) expect to be applied suitable for the engagement circumstances?

        i) Does the preparer have an appropriate process in place for developing and reviewing the criteria?

    c) 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 above)?

        ii) Are the criteria suitable?

        iii) Is the preparer's process to prepare the information appropriate?

    d) Do you (as the practitioner) expect to be able to obtain the evidence needed to support your assurance conclusion?

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

Agreeing the Scope of an EER Assurance Engagement

50. This topic has been allocated to phase 2 of the project, however the results of Task Force discussions to date are included below.

51. The IAASB notes the wide variety of current practice in setting the scope of assurance engagements being carried out in accordance with ISAE 3000 (Revised). The scope of an engagement can be an entire report or only part, or specific aspects, of an EER report.

52. ISAE 3000 (Revised) can be applied to all these different engagements provided that the preconditions in paragraph 24 of the standard are met. If considering a particularly narrow scope for the assurance engagement, for example only covering specific measures or indicators in isolation, careful consideration may be needed to determine whether the engagement has a rational purpose. Careful consideration of rational purpose may also be needed if the practitioner believes the engaging party intends to associate the practitioner's name with the underlying subject matter or the subject matter information in an inappropriate manner[12].

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[12] ISAE 3000 (Revised) paragraph A56

53.   In circumstances where the scope of the engagement is not an entire report and the scope is to be determined by agreement between the preparer and the practitioner, one approach may be to include within the scope of the engagement the aspects of the report which will influence the decision-making of intended users most significantly. A practitioner may need to determine whether the reasons for excluding aspects of the subject matter information from the assurance engagement are appropriate such that the engagement still has a rational purpose[13]. Selecting aspects based on what is straightforward in terms of being subject to the assurance engagement or what presents the entity in a positive way may mean the assurance engagement does not have a rational purpose. The practitioner may need to determine whether they agree with the entity's assessment of what are the most significant aspects of a report if the assurance scope is to be based on the entity's assessment.

> Refer to Chapter 8 for more guidance on considering the entity's materiality process.

54.   Anything in an EER report not within the scope of the assurance engagement is classed as 'other information'. Regardless of the engagement's scope, the practitioner is required by paragraph 62 of the standard to read all 'other information' in the EER report to identify material inconsistencies between the subject matter information included in the scope of the engagement and the other information which 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 taken further action as appropriate.

55.   [Guidance on agreeing the scope of an EER assurance engagement is to be developed further in phase 2]

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[13]   ISAE 3000 (Revised) paragraph A56

Chapter 4: Applying Appropriate Skills

[Guidance to be developed in phase 2]

Chapter 5: Exercising Professional Skepticism and Professional Judgment

[Guidance to be developed in phase 2]

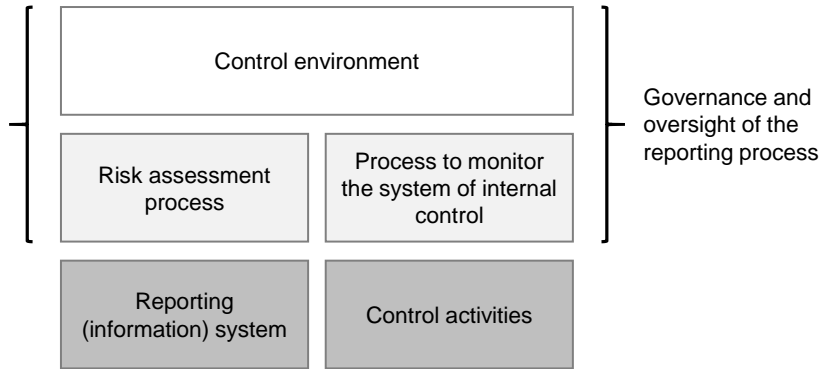## Chapter 6: Evaluating the Entity's Governance and Internal Control

Introduction

56.   Many entities seeking to apply EER frameworks may have a reporting system, controls and oversight in place for EER which are in the early stages of development. As discussed in Chapter 3, having an appropriate process to prepare the report may be a consideration in a practitioner determining whether the preconditions for an assurance engagement are present. The reporting system, controls and oversight do not necessarily need to be fully mature, but they do need to be adequate and developed to such a degree which is appropriate in the circumstances of the entity in order to support the performance of an assurance engagement.

57.   Entities producing EER reports typically develop the system and processes needed to support such reporting gradually over time as the reporting itself becomes more established and formal. These processes may include those to collect and report the underlying data and information reliably. Establishing internal controls and appropriate levels of oversight by senior management and those charged with governance also tends to happen over a period of time, partly due to the further effort and cost involved. Having effective internal controls and oversight may be important in providing the preparer with a reasonable basis for the preparation of the report.

58.   This guidance aims to help practitioners conclude whether the reporting system, controls and oversight are adequate such that the related preconditions for assurance are present.

59.   The standard also requires the practitioner to consider the process used to prepare the subject matter information (in a limited assurance engagement) or to obtain an understanding of internal control (in a reasonable assurance engagement)[14]. This guidance may assist the practitioner in meeting this requirement.

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[14]   ISAE 3000 (Revised) paragraph 47L / 47R

Understanding the Entity's System of Internal Control

60.   In order for the preparer[15] to have a reasonable basis for the subject matter information, some form of system of internal control is likely to be needed, even if it is informal. An entity's system of internal control can have five inter-related components[16]:

Control environment		Governance and oversight of the reporting process
Risk assessment process	Process to monitor the system of internal control	
Reporting (information) system	Control activities	

61.   The level of sophistication of the reporting system and the controls in the control activities component may vary according to the size and complexity of the entity, and the nature and complexity of the underlying subject matter and criteria. Similarly, the level of formality of the risk assessment process and the process to monitor the system of internal control may also vary for differently sized entities.

62.   The practitioner's role is to determine whether the preparer has a reasonable basis for the subject matter information. This may include considering whether the system of internal control is appropriate and adequate (in terms of its level of sophistication and formality) in the engagement circumstances. ISAE 3000 (Revised) 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"[17]. Equally, in simpler circumstances, extensive internal controls may not be needed.

63.   Some examples of aspects of the components of an entity's system of internal control that a practitioner might expect to be in place 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'.

64.   The examples are not meant to be an exhaustive list of the minimum requirements an entity must have in place. As noted above, some entities may require extensive internal controls and processes beyond these 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 appropriate. Further guidance is given in paragraphs 70 to 72.

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[15]   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).

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

[17]   ISAE 3000 (Revised) paragraph A39

Reporting (Information) System

65. Examples of aspects of a reporting system which a practitioner might seek to understand to consider whether it is appropriate in the engagement circumstances may include:

    a) Appropriate measurement or evaluation bases and other reporting policies in place to identify, recognize (where applicable), measure or evaluate, present and disclose the information about the subject matter elements consistently;

    > See also the requirements for suitable criteria.

    b) Processes to develop the measurement or evaluation bases and other reporting policies;

    c) Appropriate and consistent processes to capture the information and data required for measuring and evaluating the underlying subject matter;

    d) An appropriate 'materiality process';

    > Refer to Chapter 8.

    e) Appropriate records and source documentation to support the subject matter information. These are ideally stored and accessible so they can be used as evidence by the practitioner; and

    f) Appropriate use of IT to support the above.

66. The preparation of EER reports is likely to involve the use of IT to collect or process the data. Some entities may use complex IT software, while others may rely on simple spreadsheets or hard copy records. Identifying which tools are being used by the preparer to prepare the report may be an important part of the practitioner obtaining an understanding of the engagement circumstances as required by paragraph 47L / 47R of the standard.

67. Further considerations may be necessary where information comes from an external information source. An external information source is an external individual or organization that provides information that has been used by the preparer in the preparation of the report[18]. An example might be the results of an independent survey of customer satisfaction. A key consideration may be whether the information is suitable for assisting the decision-making of the intended users. Determining this may require judgment, including taking account of the entity's ability to influence the external information source.

Control Activities

68. Examples of areas of internal control relating to the reporting system for which a practitioner might consider whether the controls are appropriate in the engagement circumstances may include:

    a) Segregation of duties between individuals involved in the reporting process, to the extent appropriate according to the size of the entity. There would ideally be segregation between those preparing the information and those reviewing it;

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[18] Conforming and Consequential Amendments to ISA 500, paragraph 5(cA), arising from the revision of ISA 540.

b) Prevention of the preparer modifying underlying sources of data, information or documentation which the practitioner would use as evidence;

c) Appropriate IT controls such that any supporting IT systems are appropriately secure, robust, reliable and adequately maintained; and

d) Reducing management bias occurring in the process to develop the measurement or evaluation bases and other reporting policies.

Governance and Oversight of the Reporting Process

69. Examples of aspects of governance and oversight which a practitioner might consider their appropriateness in the engagement circumstances may include:

a) Involvement of those charged with governance and senior management at appropriate stages throughout the reporting process;

b) Approval of the 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 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 management, as appropriate, being recorded in written documentation, for example in minutes of board meetings; and

f) Effective processes for making the content of the report reflective of the strategy and operations of the business.

Consideration of the Entity's Size, Complexity and Nature

70. The level of formality required in terms of the entity's reporting system, controls and oversight to meet these requirements may largely depend on the entity's complexity and size. A small and non-complex entity may not require formal documented controls or processes in order for the preparer to meet their responsibilities. However, a larger entity or a multi-national company might require more detailed and formalized processes and controls supporting its external reporting.

71. The nature of the system, processes and records may vary such that it is appropriate for the size and complexity of the entity.

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

72.　Other factors that may affect the nature of the entity and its environment, for example its physical location, may be a relevant consideration for the practitioner in concluding whether the reporting system, controls and oversight are appropriate in the engagement circumstances.

Assurance Readiness Engagements and "Maturity Assessments"

73.　As noted in paragraph 47 above, the practitioner may choose to undertake the acceptance process as part of a separate engagement prior to committing to an assurance engagement. The typical aim is to determine whether the preconditions for assurance are present. Areas of focus of such an engagement may include whether the proposed criteria are suitable and whether the entity's reporting system, controls and oversight are adequate. If it is found that the preconditions for assurance are present, the entity can then choose to proceed with an assurance engagement.

74.　As well as assisting the practitioner in managing a preparer's expectations, this approach may also be beneficial to the entity because the practitioner would typically prepare a management letter (or similar) with its findings, conclusions and recommendations, which allows those charged with governance or management, as appropriate, to strengthen and improve its processes and controls.

75.　A practitioner may alternatively undertake a 'maturity assessment' to evaluate (against practitioner-defined criteria) the maturity of the EER process as a whole, or relevant aspects of it, such as whether the performance measures the entity is developing are sufficiently well-established to provide users with the appropriate information they need to support their decision-making.

76.　These separate engagements are not likely to be classed as 'assurance engagements' and cannot be performed under ISAE 3000 (Revised). Although these engagements and assessments can also provide insights that may assist the entity in further developing its EER processes, the practitioner is nevertheless required to comply with applicable ethical and independence requirements when planning to undertake a subsequent EER assurance engagement or where the practitioner is also providing an audit or other assurance engagement.

Response where Governance and Internal Control are not Appropriate

77.　Where the practitioner concludes that the entity's internal control environment and level of oversight is too weak such that the related preconditions for an assurance engagement are not present, they shall in the first instance discuss this opinion or judgment with the engaging party (management or those charged with governance). If changes cannot be made to meet the preconditions, the practitioner shall not accept the engagement as an assurance engagement[19].

78.　If it is not possible to accept the assurance engagement, the practitioner may engage with the entity to undertake an assurance readiness assessment (see paragraphs 73 to 76 above). This might give the practitioner the opportunity to report their findings and conclusions on the internal control environment in a management letter to assist senior management and those charged with governance. The preparer may be encouraged to take steps to improve the controls and level of oversight such that an assurance engagement is possible in future.

79.　In circumstances where the preparer has not met its responsibilities and the practitioner cannot decline the engagement due to its acceptance being required by law or regulation, the practitioner

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[19]　ISAE 3000 (Revised) paragraph 25

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)[20].

EXAMPLE	A practitioner may not be able to decline the engagement where acceptance of that engagement is required by law. This is commonly found in a public sector regulatory environment in some jurisdictions.

Impact on Engagement Strategy

80.   The nature of the internal control environment may also affect the practitioner's strategy for the assurance engagement in terms of testing controls and designing appropriate assurance procedures. Where the practitioner is unable to test controls or expects that the controls are not operating effectively, the practitioner may need to adopt a fully substantive approach.

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[20]   ISAE 3000 (Revised) paragraph 25

Chapter 7: Determining the Suitability of Criteria

Introduction

81. Reporting frameworks used for preparing EER reports are often less prescriptive about the content of a report and methods to represent its subject matter elements, and therefore more ambiguous about the determination of these items. In financial reporting, the criteria are typically well established, and are then supported by accounting policies specific to the entity. Given the diverse nature of the underlying subject matter in EER, there is considerable opportunity for management bias in determining the content of a report and the methods used to represent its subject matter elements. Consequently, the practitioner may need to exercise considerable professional judgment and professional skepticism in determining the suitability of criteria in an EER assurance engagement.

82. Criteria determine the content of the report and its basis of preparation. In simple terms they may be reporting requirements from a framework, regulation or the entity's own policies. More fully, criteria specify both:

   a) the nature and scope of the topics and related elements to be included in the report; and

   b) the qualities of such elements to be measured or evaluated against the criteria to prepare the information to be included in the report, and the benchmarks to be used in measuring or evaluating those qualities.
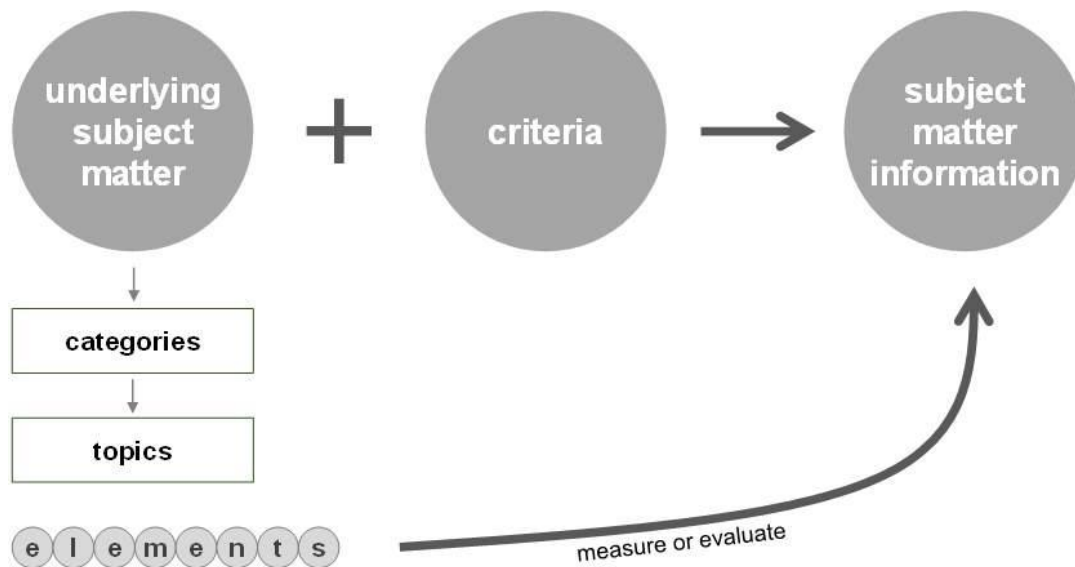
ISAE 3000 (Revised) Definitions		
Underlying subject matter	**Criteria**	**Subject matter information**
The phenomenon[21] that is measured or evaluated by applying criteria.	The benchmarks used to measure or evaluate the underlying subject matter.	The information that results from applying the criteria to the underlying subject matter.

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

83. All assurance engagements have an underlying subject matter, which is related to the purpose of the report, that is measured or evaluated against the criteria. 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 is relevant to the intended users. The terms 'categories' and 'topics' are sometimes used to describe such groups.

84. The criteria specify how to evaluate relevant elements to provide information that meets the needs of the intended users, in the context of achieving the purpose of the report. The standard refers to the criteria as 'benchmarks'. In effect, they identify how the relevant qualities of relevant elements are measured or evaluated qualitatively. They include, for example, the definitions of relevant performance indicators, measurement or evaluation bases and other reporting policies, and more widely the whole basis of preparation of the report.

EXAMPLE	An illustration of these terms in a financial reporting context:		

Underlying subject matter	*Criteria*	*Subject matter information*	*Elements*
Financial condition, performance and cash flows of Entity X.	The measurement bases set out in IFRS.	Accounting values in the primary financial statements and the related disclosures in the notes.	Economic resources (e.g. assets) and claims on those resources (e.g. liabilities), and transactions, other events and conditions (e.g. income and expenses).

EXAMPLE	A specific example to illustrate these terms from non-financial statement reporting:		

Underlying subject matter	*Criteria*	*Subject matter information*	*Elements*
Environmental, social and governance matters about Entity X. ↓ Social / human matters ↓ Staff diversity	Percentage of people employed by Entity X who are male at a specific point in time[22].	50% of employees are male.	Entity X's employees.

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[22] In order to be suitable, the criteria in this example may need to be more specific, for example giving a definition of an employee to specify whether contractors are included, or how to treat part-time employees.

85.   Criteria can either be taken from a reporting framework or be developed by the entity itself. In reality, many entities use criteria from one or more reporting frameworks and supplement these with their own entity-specific criteria where a reporting framework lacks the necessary detail or is not fully comprehensive.
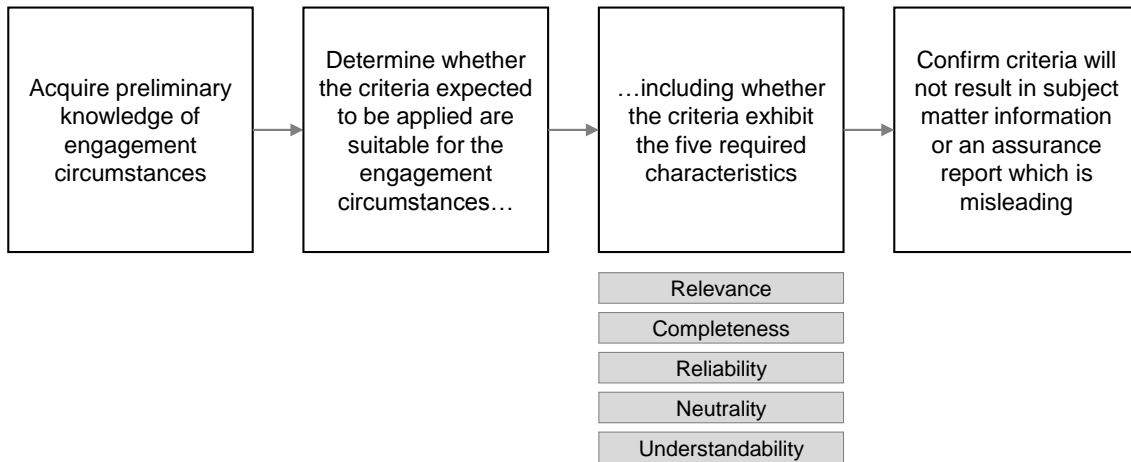
Requirements for Suitable Criteria

86.   As detailed in Chapter 3, it is a precondition for an assurance engagement that the criteria are suitable for the engagement circumstances. Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment[23]. Suitability is judged in the context of the engagement circumstances. Without criteria, the subject matter information may be open to individual interpretation where there is undue subjectivity, increasing the risk of misunderstanding.

87.   Suitable criteria are required to exhibit each of five characteristics. The description of these characteristics specify characteristics of the subject matter information that necessarily result from applying the suitable criteria. The practitioner is required to determine whether the criteria exhibit each of the five characteristics, which are[24]:

    a)   Relevance;

    b)   Completeness;

    c)   Reliability (broadly equivalent to 'accurate' or 'free from error');

    d)   Neutrality; and

    e)   Understandability.

88.   In addition to exhibiting these five characteristics, an overarching principle in the standard is that criteria developed by the entity would not be suitable if they result in subject matter information or an assurance report that is misleading to the intended users[25]. This is consistent with the expectation that suitable criteria give rise to subject matter information that is not overly subjective.

89.   The five characteristics are generic and are in many cases inter-related. Each must be exhibited in all cases, but the relative importance of each and the degree to which they are exhibited such that the criteria are suitable will vary according to the engagement circumstances.

90.   The following diagram shows steps the practitioner may follow in determining the suitability of criteria:

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[23]   ISAE 3000 (Revised) paragraph A10

[24]   ISAE 3000 (Revised) paragraph 41

[25]   ISAE 3000 (Revised) paragraph A50

Acquire preliminary knowledge of engagement circumstances	→	Determine whether the criteria expected to be applied are suitable for the engagement circumstances…	→	…including whether the criteria exhibit the five required characteristics	→	Confirm criteria will not result in subject matter information or an assurance report which is misleading

Relevance
Completeness
Reliability
Neutrality
Understandability

91. The descriptions in the standard of each of the required characteristics for criteria[26], along with some factors the practitioner may find helpful to consider in determining whether the criteria are suitable, are set out below[27].

    [Further examples of each of the characteristics to be developed]

92. The engagement circumstances may include use of a reporting framework which implicitly or explicitly requires different or more specific characteristics of the criteria to be used in preparing the subject matter information. Some examples and guidance relating to possible additional characteristics are included below, for example conciseness (see paragraph 103) and comparability (see paragraph 100), which may be seen as more specific aspects of understandability and relevance respectively.

93. Where a framework includes such additional characteristics of criteria, it is still necessary for the applicable criteria for the engagement to exhibit each of the ISAE 3000 (Revised) characteristics, at least in meaning if not by name. Many of the commonly-used frameworks in some cases use different terms to describe similar concepts to the required characteristics. It may be helpful for the practitioner to understand whether the additional criteria are more specific aspects of, or a different term for the same underlying concept, one of the characteristics required by ISAE 3000 (Revised). Some qualitative characteristics may be implicit in the reporting requirements rather than being explicitly identified in a reporting framework.

Relevance

ISAE 3000 (Revised) Definition
Relevant criteria result in subject matter information that assists decision-making by the intended users.

94. Considering relevance involves considering whether the criteria will result in subject matter information that could affect user decision-making in the context of the purpose of the report.

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[26] ISAE 3000 (Revised) paragraph A45

[27] Some factors based on *Exposure Draft NZAuASB 2017-2* (New Zealand Auditing and Assurance Standards Board, 2017)

95. Understanding how subject matter information could affect user 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 users might take based on the report and the information that would assist them doing so; and

        ii) Considered whether the applicable criteria would enable the preparer to identify the relevant elements and their relevant qualities, and relevant changes in them, and prepare subject matter information about these matters, that could influence user decision-making in the context of the purpose of the report.

    b) If the preparer has considered the matter in (a), evaluating the conclusions of the preparer on those matters; and

    c) If not, considering whether it is reasonably possible for the practitioner to address the matters in (a) directly.

96. Where entity-developed criteria are the result of a rigorous internal process, involving input directly from both the intended users and those charged with governance, they are more likely to be relevant.

97. Relevance of criteria (and hence the resulting subject matter information) may be affected by the inherent level of measurement or evaluation uncertainty. When subject matter information has high inherent measurement or evaluation uncertainty, that information may be relevant only if accompanied by supporting information about the nature and extent of the uncertainty.

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

98. Materiality is an aspect of relevance in the context of a specific entity. To affect user decision-making, subject matter information must be relevant in general, but it must also be material (relevant in the specific context of the entity and the specific purpose of the report). Whether a particular type of information is or isn't relevant is not binary, but instead its significance to decision-making may be considered to be on a scale which varies according to the context of different entities and purposes of reports. Materiality is a threshold of relevance (or <u>significance</u> to decision-making) in the context of a specific entity and purpose of the report, which has to be judged for all types of information.

> **EXAMPLE**
>
> Financial reporting example:
> Revenue would typically be *relevant* to understanding most companies' performance during the year, however in some circumstances the financial value of it may not be *material*.
>
> EER example:
> Carbon emissions arising from a manufacturing company's employees commuting to work may be *relevant* to the company's environmental impact, but at the same time they might not be *material* if they were much smaller than the carbon emissions from the manufacturing process itself.

99. A further consideration is the requirements of the criteria to disaggregate or aggregate information as this may affect materiality judgments. Reporting 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 users if the criteria are consistent from one reporting period to the next to aid comparability. Where criteria change, disclosure of this with an explanation of the reasons for the change might be expected. Re-stating comparative information (where possible and cost-effective) may also be beneficial to users, however, if necessary, a temporary reduction in comparability may be worthwhile to improve relevance in the longer term.

Completeness

ISAE 3000 (Revised) Definition
Criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter information. Complete criteria include, where relevant, benchmarks for presentation and disclosure.

101. Criteria are required to be complete so that the intended user is able to make informed decisions by having access to all relevant subject matter information (see above) in the context of the circumstances of the entity and the purpose of the report.

102. In order for the application of the criteria to result in complete subject matter information, their application is expected to give rise to all relevant subject matter information, including relevant information that represents negative aspects of what is being reported on (also see 'neutrality' below).

103. There may be a need for a balance to be struck between a report being overly comprehensive and it still being concise enough to remain understandable.

Reliability

ISAE 3000 (Revised) Definition
Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by different practitioners.

104. Reliable criteria would usually be based on strong definitions with little or no ambiguity, if the resulting subject matter information is to be useful in user decision-making.

105. Reliable criteria are those which are likely to result in subject matter information which represents what it purports to represent (sometimes referred to as faithful representation) sufficiently accurately (freedom from error) and without bias in selecting the information to report (neutrality). Accuracy is not the same as precision. A representation can be sufficiently accurate if it is as precise as is reasonably possible, if it results from applying a well-defined process without error, and if it includes information about the inherent limitations in its precision.

106. Reliable criteria would typically be expected to result in subject matter information that is capable of being subjected to an assurance engagement because sufficient appropriate evidence can be obtained to support the assertions that the subject matter information contains. This requires the underlying data and source information to be complete, accurate and neutral and for it to be collected

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

107. Reliable criteria may be more relevant and comparable across entities if they are consistent with established measurement bases and benchmarks, which 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 more relevant entity-specific criteria can be developed, where permitted by the framework adopted and adequate disclosures are made.

Neutrality

ISAE 3000 (Revised) Definition
Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.

108. Neutral criteria would normally be designed to cover all relevant aspects of underlying subject matter with suitable emphasis, including both favorable and unfavorable aspects in an unbiased manner.

109. Criteria are ideally not changed or modified arbitrarily from one reporting period to the next merely to remove negative aspects of performance. Doing so may not be consistent with the principles of neutrality and comparability (an aspect of relevance).

110. Practitioners 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) Definition
Understandable criteria result in subject matter information that can be understood by the intended users.

111. Understandable criteria typically result in subject matter information which will enable the intended users to identify readily the main points being made and to infer appropriately how significant they are to 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 report being coherent, easy to follow, clear and logical.

113. It may be useful for the criteria to require information to be at a level of aggregation that results in sufficiently relevant but concise subject matter information.

Established Criteria

114. Where criteria are:

   a)   prescribed by law or regulation; or

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

they are presumed to be suitable in the absence of indications to the contrary and are known as 'established criteria'[28].

115.   Some commonly used EER frameworks are issued by global organizations who are recognized bodies of experts following a transparent due process, and these frameworks are often relevant to the intended users' information needs. However, the often-limited level of maturity or high-level approach of these frameworks means that indications may exist that the criteria may not be suitable on their own. Different frameworks specify the criteria to varying degrees of detail. Where a framework is less detailed, for example where it does not specify detailed measurement or evaluation methods, it may often be necessary for the preparer 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 and measurement/evaluation methods the entity has developed for use within the overarching framework.

116.   Use of a new or developing framework or type of reporting does not necessarily mean that the criteria cannot be suitable, even if it is still maturing, or if the entity's reporting processes are new or developing year-on-year. The practitioner uses professional judgment to determine whether the criteria are suitable in the circumstances, including that they sufficiently exhibit the five required characteristics.

EXAMPLE	Changes to criteria and measurement methods year-on-year are to 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 report. Where an entity's reporting is more mature, the rationale for changes to criteria might need to be stronger, and the explanation more detailed, to meet intended users' expectations.

117.   Where a preparer is using an established framework and chooses to modify or adjust the criteria within the framework so that they are different to what is commonly used in the entity's sector, the practitioner applies professional skepticism due to the increased risk of management bias and the resulting subject matter information being misleading to the intended users. The more mature the type of reporting or the 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.

Availability of the Criteria

118.   Criteria need to be made available to the intended users to enable them to understand how the underlying subject matter has been measured or evaluated. Paragraphs A51-A52 of ISAE 3000 (Revised) describe ways in which this can be done. Practitioners usually evaluate the adequacy of the preparer's transparency, considering whether they have been disclosed with sufficient detail and clarity that they can be said to be "available".

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

119. The criteria may be made available outside of the EER report, for example if an established, publicly available 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 report or on its website which is then cross-referred to in the report. This may be a preferable option where a report is intended to be concise.

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

[Example to be added]

Consequences where Criteria are not Suitable or Available

121. Where the practitioner concludes that the applicable criteria are not suitable or available, the practitioner cannot accept the engagement, unless:

    a)   They are mandated to do so under law or regulation; or

    b)   The preparer resolves the issue to the practitioner's satisfaction, allowing the engagement to be accepted; or

    c)   The scope of the assurance engagement can be restricted to one or more aspects of the underlying subject matter for which the criteria are suitable and available[29].

122. 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 to express a qualified or adverse conclusion, or disclaimer of conclusion, as appropriate in the circumstances.

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[29]   ISAE 3000 (Revised) paragraph A36

Chapter 8: Considering the Entity's Materiality Process

Introduction

123. The content of EER reports is generally less comprehensively specified and requires more judgment in EER frameworks than in financial reporting. A key challenge, therefore, in an EER assurance engagement is how to consider what topics and related elements would be material, when both the users and their information needs can be diverse or even unknown. EER frameworks do not always provide direction on materiality. In applying the concept of materiality, there will likely be a need for an entity's EER materiality process to support these judgments so that they reflect the broader and more diverse user perspective often encountered.

124. In circumstances where the content of a report is not entirely specified by a framework, the preparer may need to make judgments to decide what topics and related elements are to be included in the report, based on what is material (undertaking a 'materiality process'). In simple terms, unless the criteria specify otherwise, something is material if it could "reasonably be expected to influence relevant decisions of intended users"[30]. Materiality is therefore linked to the report's criteria which determine the subject matter information. It is one aspect of the requirement for the criteria to be relevant such that they result in subject matter information which assists decision-making by the intended users[31].

> **EXAMPLE**
>
> The reporting requirements in a framework may say that the entity needs to include a description of the principal risks and uncertainties facing it.
>
> It is therefore left to the preparer to identify what the principal risks and uncertainties are for their entity (the material ones). In most cases, reporting frameworks cannot make this assessment 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 framework and then consider what the material things are for them (undertake a materiality process), otherwise the criteria will not be relevant (or complete).

> **EXAMPLE**
>
> Another reporting framework may be much more detailed and specific, perhaps requiring specific indicators to be reported and giving instructions on how these are to be calculated. In this case the criteria may already be suitable and the preparer may not need to undertake a materiality process because the framework-setter has already made a judgment about what the intended users want to know. This is common in reporting to meet regulatory requirements, but the SASB standards are an example where the framework-setter has assessed what indicators are likely to be material for specific industry sectors.

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[30] Based on concept in ISAE 3000 (Revised) paragraph A94

[31] ISAE 3000 (Revised) paragraph A45

125. As part of an ISAE 3000 (Revised) engagement, the practitioner is required to understand management's process to prepare the subject matter information or the internal control over it relevant to the engagement[32]. Preparing the subject matter information includes addressing materiality considerations where these are applicable to the engagement as described above.

126. The extent to which the practitioner needs to review the appropriateness and outcomes of the entity's materiality process may depend on the scope of the assurance engagement, as it is more likely to be important where the assurance covers a whole report than where its scope is only specific indicators. However, understanding what is material to an entity (the results of a materiality process) may be an important consideration when agreeing the assurance scope for certain types of EER, and as part of determining whether an assurance engagement has a rational purpose.

127. Where applicable to the engagement, the flowchart below may provide the practitioner with a framework to consider the preparer's materiality process. The steps a preparer might be expected to follow are provided on the left-hand side for reference. The suggested process for a practitioner is split into three steps as shown on the right-hand side of the diagram and then explained in the guidance paragraphs below.
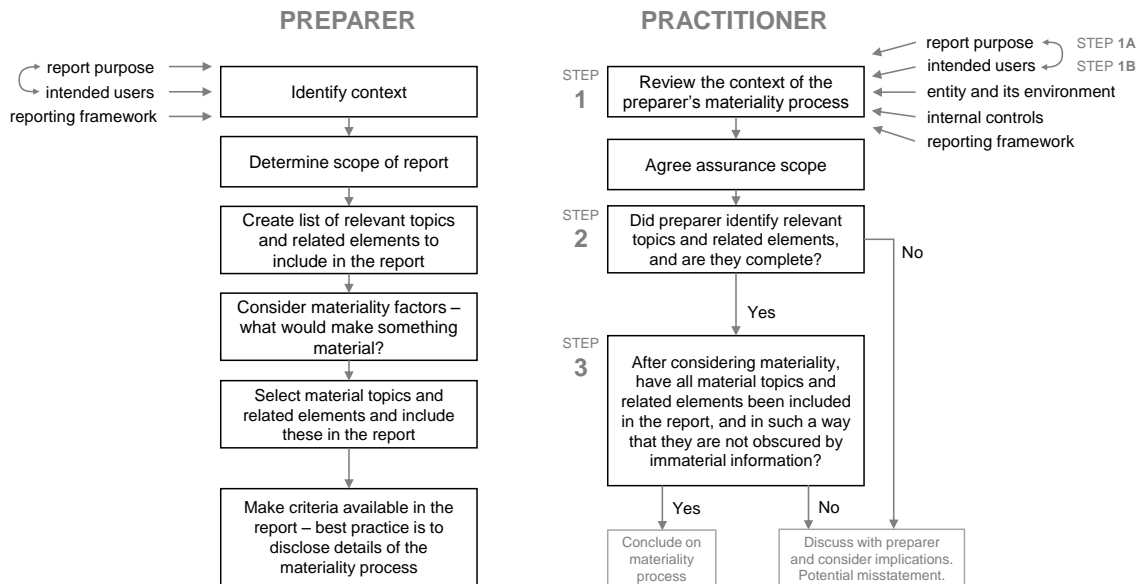
Step 1: Review the Context of the Preparer's Materiality Process

128. The practitioner may begin by reviewing the context of the preparer's materiality process including consideration of the:

   a)   Report's purpose (step 1a);

   b)   Intended users (step 1b);

   c)   Entity and its environment;

   d)   Internal controls; and

   e)   Reporting framework.

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[32]   ISAE 3000 (Revised) paragraph 47L / 47R

129. Ideally 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 consider the preparer's process through inquiry of the preparer. If the preparer has not undertaken an appropriate process to determine the content of the report, the practitioner may need to consider whether this suggests the preconditions for an assurance engagement are not all present.

130. Use of certain reporting frameworks may establish the report's purpose and identify who the intended users are. Frameworks may specify the underlying subject matter and the criteria to varying degrees. In some cases, this might include specifying the criteria for entities in specific industries to use based on what the framework-setter considers is likely to be material for particular groups of intended users.

131. However, it is often the case that EER frameworks do not provide a sufficient basis to support the preparer's materiality decisions, or that the preparer may be using entity-developed criteria.

132. The following paragraphs provide further guidance for how the practitioner may consider the report's 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, internal controls or the reporting framework beyond what is included in ISAE 3000 (Revised).

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

133. The purpose will be to report certain information about an underlying subject matter to a group(s) of intended users. A few examples of the report's purpose might include:

- To report the entity's impact on the natural environment

- To describe the entity's activities over a period and how they contribute to the entity's objectives

- To describe how the entity creates 'value'

- To inform the intended users of the financial position, financial performance and cashflows of the entity

- To describe what the entity plans to do in the future, or how it expects to perform

134. The practitioner may need to consider the report's purpose as context when considering the materiality judgments made by the preparer.

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

135. In order to make decisions based on materiality, it is important for the preparer to understand the general nature of decisions the intended users[33] are likely to take based on, or influenced by, the information in the report. The practitioner therefore also may use this as context when considering the materiality judgments made by the preparer.

136. 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

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

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[33] 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)).

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 report, and the stakeholder may not read or use the report themselves directly.

<table>
<tr><td>EXAMPLE</td><td>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.</td></tr>
</table>

137. A single report may have multiple groups of users, with potentially different information needs. Not all these users may be the intended users, but it is only the intended users which preparers and practitioners would normally be expected to focus on.

138. A report cannot focus on the particular needs of an individual user, unless there is only a single user, however a preparer may need to consider where individuals within a group of intended users have common information needs.

139. The standard's application material contains some further guidance, including that in some circumstances where there are a large number of possible users, it may be necessary to limit the intended users to "major stakeholders with significant and common interests"[34]. This might be useful, subject to any particular requirements in the EER framework, where reports are published without specifying the intended users, effectively for the benefit of global society.

<table>
<tr><td>EXAMPLE</td><td>A report by a state-run hospital reporting 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 would not be.</td></tr>
</table>

140. Different intended user groups may interpret materiality differently; something which is material to one group of intended users may be trivial to another.

141. Merely reading the information in the report is a valid use by an intended user; the outcome may be that they make a decision to take no action based on the information reported. They would still have

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[34] ISAE 3000 (Revised) paragraph A16

a legitimate need for the information to reach that conclusion and so materiality does not depend on an intended user taking action from the reported information.

142. Some examples of possible user groups are included in the table below – this is not intended to be an exhaustive list, but it could be considered by preparers as a starting point for identifying the intended users of their report by potentially selecting some from the below table and adding entity-specific user groups. It is not necessary for preparers or practitioners 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 materiality judgments.

Example user groups	**May influence decision making or be affected by the entity in these areas:**
Wider society • NGOs / civil society organisations / special interest groups • Members of the public • Researchers, academics • Competitors and other market participants • Vulnerable groups	• 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
Governments, regulators and legislators • Parliaments and legislators • National, regional and local government • Global organisations • Regulators	• Law and policy making • Monitoring compliance with laws and regulations • Providing national resources (public sector) • Accountability • Decision making on behalf of vulnerable groups
Investors and economic stakeholders Existing and potential: • Investors • Suppliers • Customers • Employees • Lenders • Share markets	• 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: Evaluate the List of Relevant Topics and Related Elements

143. Taking into account the reporting framework(s) used, the purpose of the report and the intended users, preparers may often create a list of topics and related elements relevant to users' decision-making in the context of the underlying subject matter.

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144. Likely key judgment for the practitioner:

How effective was the preparer in identifying <u>relevant</u> topics and related elements as part of their process and are there other matters the practitioner considers should have been on that list?

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145. Topics and related elements are likely to be relevant if they contribute to achieving the purpose of the report for the intended users.

146. When testing whether the list of relevant topics and related elements is complete, practitioners could refer to some of these sources:

• Discussions with management and those charged with governance

• Previous reporting by the entity

- Reporting by peers and competitors

- Strategy documents prepared by the entity

- Survey results (of the entity, peers or the industry)

- Interviews with stakeholders, outreach activities, stakeholder engagement

- Web and social media searches

- Global megatrends

- Sustainable Development Goals

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

- Risk assessments

147. Stakeholder engagement activities can be an important part of a preparer identifying material topics and related elements, and then considering their materiality. 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.

Step 3: Review Selection of Material Topics and Related Elements

148. Once preparers have a list of relevant topics and related elements, they may then select those which are material and are therefore expected to be included in the report.
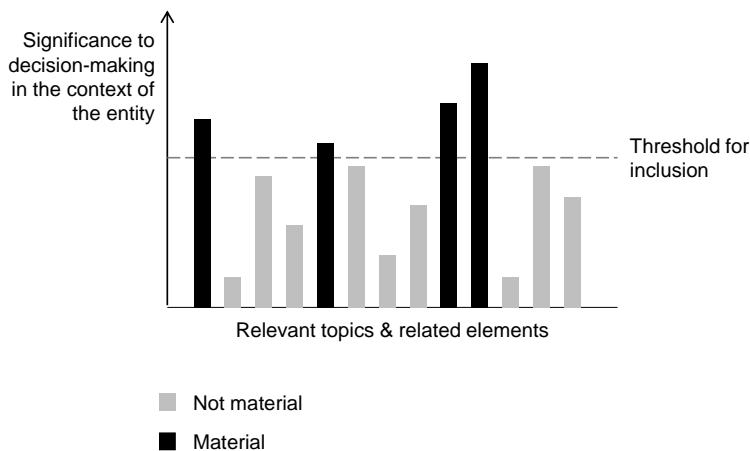
Practitioners may need to understand the report's purpose, the intended users, and any reporting framework being used as context for considering the materiality judgments made by the preparer.

149. To consider whether something is material (if it is reasonably expected to influence reasonable decisions of intended users), one approach is to consider whether it is of interest to the intended users.

150. The information which would be of interest to intended users is likely to be aligned to that which could reasonably be expected to influence their decision-making. This could reflect the extent to which the intended users perceive something will impact them.

151. If considering whether something is of interest to intended users, examples of matters that might cause something to be more likely to be material include that:

    a) It is likely to cause investors to buy or sell equity in the entity

    b) It is likely to change the value of 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 (e.g. 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 which may be widely reported by peers and competitors in the entity's sector

    i) It relates to non-compliance with relevant laws, regulations, international agreements, or voluntary agreements with strategic significance to the organization and its stakeholders

152. Where it isn't possible to evaluate sufficiently what would influence intended user 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 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 relevant in the context of the report's purpose. The impacts could occur either directly due to the actions and decisions of the entity's management, or by the direct or indirect effect of forces external to the entity.

    [Example to be added]

153. If considering the anticipated impact, examples of matters that might cause something to be more likely to be material include that:

    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

154.   Some preparers present the results of their analysis of what would be of 'interest to intended users' and the 'impact' on a scatterplot.

155.   The materiality judgment may be influenced by the <u>likelihood</u> of an event or circumstance occurring, and the <u>magnitude</u> of its significance to user decision making, determined by considering its interest to intended users, or its impact, if it were to occur. This may be illustrated on a diagram:
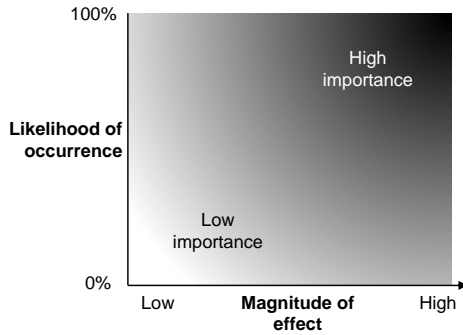
a)   If something is certain or factual, its likelihood of occurrence is at the maximum level and the magnitude is the only variable.

b)   The likelihood assessment may take into account whether a matter is inside or outside the control of the entity / management.

156.   The chosen timescale being considered in terms of impact or interest to the intended users is often also an important consideration. These may not be consistent, for example some 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 which will have a significant impact on the entity in the longer-term.

> **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 will not be material to an intended user with a short-term interest in the entity (e.g. an investor expecting to invest for three years). The issue is more material to a bank who has issued a loan secured on the factory site maturing in ten years' time. The preparer must decide over what timescale they are considering materiality and make sufficient disclosure of this in the report.

157. Likely key judgment for the practitioner:

How effective was the preparer in assessing the materiality of the identified topics and related elements? Have all the <u>material</u> topics and related elements been included in the report, and in such a way that they are not obscured by immaterial information?

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

Dealing with Confidential Information

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

Considering Topics and Related Elements Collectively

160. It may be appropriate not just to consider topics and related individually as there may be circumstances where multiple omissions of topics or related elements are in aggregate material.

> **EXAMPLE**
>
> Members of staff leaving may not be material on its own, neither might be a few customer complaints, or the termination of two supplier contracts. However, if when combined, these events turn out to be related and indicate serious problems with the entity's senior management, they may become more material.

Inclusion of Immaterial Information

161. Despite undertaking a process to identify material topics and related elements, preparers may choose to still include some information which is not material. The appropriate response for the practitioner may depend on the engagement scope, however the inclusion of immaterial information is only likely to be problematic if it is misleading or obscures material information. Intended users may be able to identify and ignore immaterial information[35]. However, if it is potentially misleading, the practitioner would consider this a misstatement due to an assertion not being present (e.g. the assertion of understandability or relevance), consider how material the misstatement is, and respond accordingly.

[Example to be added]

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[35] Based on assumptions (a) to (d) regarding intended users in ISAE 3000 (Revised) paragraph A94.

Disclosure of the Materiality Process

162. Users are likely to find it helpful in understanding the criteria, to also understand the materiality process the preparer uses in applying the criteria. Accordingly, practitioners may consider it appropriate to encourage preparers 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 report and what has been left out.

Chapter 9: Performing Procedures and Building Assertions

Introduction

163. Assertions are a tool which can be used by practitioners 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. They can be used by the practitioner to consider the different types of potential misstatements that may occur in the subject matter information.

164. Assertions are representations (sometimes referred to as 'truth-statements' or 'claims') that are inherent in the subject matter information, for example that it is 'complete' or 'relevant'. Assertions assert that the criteria have been applied properly, and as such the applicable (required) assertions derive from the qualitative characteristics of useful information required (either explicitly or implicitly) by the criteria. If an assertion is contradicted by the evidence obtained, then there is a misstatement.
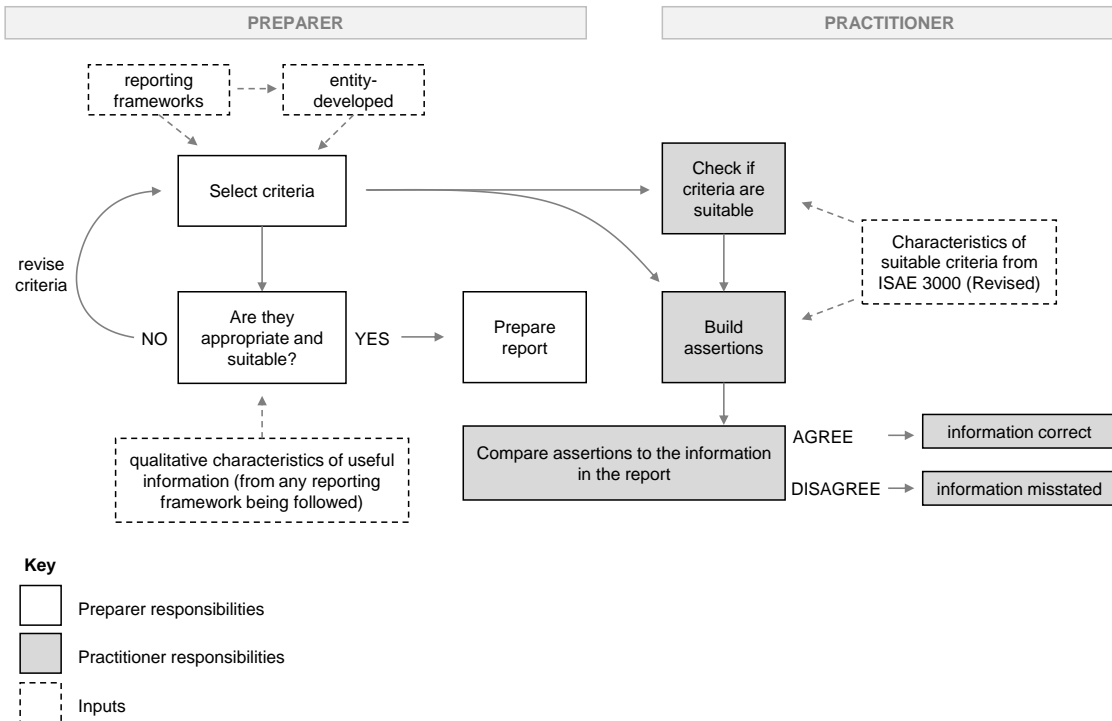
165. For the avoidance of doubt, the term 'assertions' is used in this IAEPN principally in the context of their use by the practitioner as above. They are conceptually different from the 'written representations' that may be obtained from the preparer in accordance with paragraphs 56 to 60 of the standard.

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, practitioners ordinarily use assertions in reasonable assurance engagements and often do in certain types of limited assurance engagements.

A Suggested Starting Point

167. When building assertions, practitioners may find it helpful to begin with the required characteristics for suitable criteria. These five characteristics (reliability, completeness, understandability, relevance and neutrality) are exhibited by subject matter information if the criteria are suitable.

168. Practitioners may then consider whether it is appropriate to add additional assertions depending on the specific nature of an engagement and the applicable criteria. These additional assertions may arise from requirements relating to the characteristics of useful information in the reporting framework. Frameworks may use different terminology to refer to such characteristics (for example 'guiding principles' or 'qualitative characteristics'). Alternatively the characteristics may be implicit, particularly where the criteria are entity-developed.
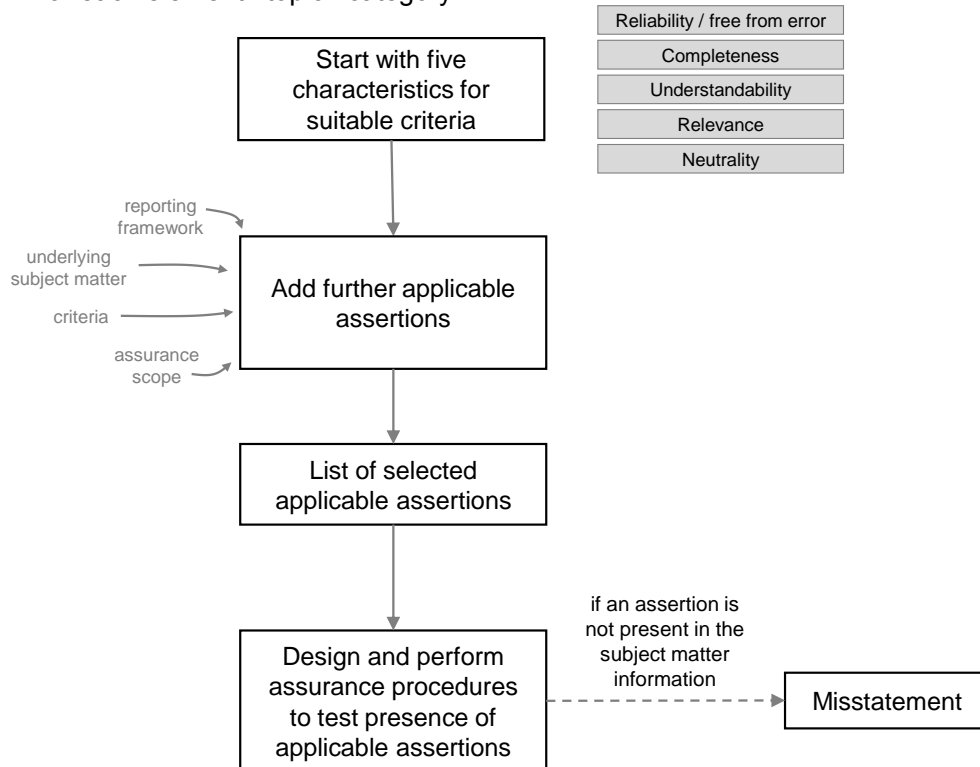
169. Some examples of further assertions, other than those which are the ISAE 3000 (Revised) required characteristics for suitable criteria, which may be applicable for EER engagements include:

a) Accuracy

b) Classification

c) Comparability

d) Consistency

e) Cutoff

f) Existence

g) Free from error

h)   Occurrence

i)   Presentation

This is not intended to be an exhaustive list, nor is it expected that all of these examples will apply to a single engagement. The assertions in the list are not in any particular order. The practitioner may select the assertions that are applicable in the circumstances which may vary for each engagement depending on the criteria and assurance scope.

170.   Neutrality (or 'freedom from bias') may not necessarily be identified as a separate assertion as this requirement may be an aspect of other assertions. For example, there may be a need for the preparer to avoid the resulting subject matter information being biased when deciding which topics and related elements should be addressed in the report (aspect of the 'completeness' assertion). Again, a preparer may need to consider whether the resulting subject matter information is free from bias in measuring elements that require subjective judgments (aspect of the 'free from error' assertion).

171.   Assertions may apply at different 'units of account'. The practitioner may design appropriate procedures to test the assertions for appropriate units of account, in the context of the criteria.

EXAMPLE	Subject matter information about a property of an element could in some cases be provided for a class of elements that have similar characteristics (e.g. 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 (e.g. a single major breach of water quality regulations which caused a community's water supply to be cut off).

Use of Assertions

172.   The practitioner designs assurance procedures to test whether each of the applicable assertions which have been selected is present within the subject matter information. As in a financial statement audit, a single test may be designed to test the validity of more than one assertion. Decisions on the extent and nature of procedures would normally be informed by the practitioner's assessment of the risks of material misstatement in the engagement as well as the assertions that have been identified. The practitioner then executes the procedures as designed.

173.   When an identified assertion is not present in subject matter information when it is tested, the information is misstated. Some examples of different types of possible misstatement include:

a)   Omission of information (failure of a 'completeness' assertion)

b)   False claims in information (failure of an 'existence' or 'occurrence' assertion, or of a more general 'free from error' assertion)

c)   Misleading or unclear representation of information (failure of an 'understandability' or 'presentation' assertion)

d)   Bias in information so that positive aspects of performance are focused on and negative aspects are omitted (failure of a 'neutrality' or 'presentation' assertion)

174. If a practitioner identifies a misstatement, they are required to make a judgment as to whether the misstatement is material which will then determine the appropriate action. Refer to Chapter 12 for more guidance.

175. The practitioner may need to design procedures which include 'stepping back' and considering 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.

Chapter 10: Assuring Narrative information

Introduction

176. Narrative information is commonly understood to be subject matter information expressed using words rather than numbers. These words may or may not be part of telling the 'story' (or 'narrative') of an entity. The information is typically qualitative rather than quantitative.

177. 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).

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EXAMPLE

Examples of purely factual narrative subject matter information:

- "An audit committee comprised of non-executive directors was established in the year"

- "We bought a factory in Canada"

Examples of subjective narrative subject matter information:

- "We produce healthy food for children"

- "Our impact on the environment is minimal"

These particular two 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.

</div>

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

Specific Considerations for Determining the Suitability of Criteria

179. Subject matter information expressed in words may result from criteria representing different qualities of the subject matter elements compared to numerical subject matter information or metrics, however the requirements for criteria to be suitable remain the same.

180. Reliable criteria for narrative information would be well-defined and therefore unambiguous so as to allow reasonably consistent measurement or evaluation of the underlying subject matter.

> **EXAMPLE**
>
> To fulfil criteria requiring an entity to report the aspects of its strategy that will help it achieve its principle objectives, an entity may report that it has a 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 and subject matter information would not be reliable). It is unclear whether the entity merely has a policy in place (either formally written or not), or if the entity is making a statement about their behavior or the effectiveness of the policy.

181. It is particularly important for narrative information that the criteria result in subject matter information which 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 which is misleading to the intended users[36].

> **EXAMPLE**
>
> The criteria require an entity to report its principle 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 conclude the criteria are not suitable.

Specific Considerations for Building Assertions & Testing Narrative Information

182. Different assertions may be applicable or more important for narrative information compared to numerical subject matter information, however this will depend on the criteria being used. Even in situations where the same assertions are applicable, there may be more focus on assertions such as understandability and comparability for information in narrative form.

183. Prior to identifying the applicable assertions, it may be necessary to break up long pieces of narrative information and consider sections, paragraphs or sentences separately where these talk about different things. It is likely that different assertions will be applicable to each.

184. Individual claims or indicators in the subject matter information can be individually material and can be tested separately, particularly where material information is part of wider sections of narrative information (not all of which might be material). In other circumstances a paragraph of text comprising related information may need to be considered together.

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[36]   ISAE 3000 (Revised) paragraph A50

185. Practical methods of doing this may include highlighting the text in different colors or by drawing boxes around sentences or sections of material narrative information. The practitioner can then identify the assertions applicable to each one, and ultimately the assurance working papers can be referenced to the relevant parts of the text. Text solely comprising immaterial information can in most cases be ignored, subject to the considerations in paragraph 161.

[Example to be added]

186. Purely factual narrative subject matter information is more straightforward to test for misstatement (by direct observation) than subjective narrative subject information. In this case, the practitioner's primary focus may be on whether the subject matter information is correct or incorrect (free from error assertion), although other assertions such as completeness and neutrality may also be a consideration.

187. More judgement may be required by practitioners 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 which the practitioner would then verify. Whether the subject matter information is neutral and free from bias becomes more of an area of focus for the practitioner due to the subjectivity. As noted in paragraph 170, neutrality may be identified as a separate assertion or as an aspect of other assertions.

Specific Considerations for Evaluating Misstatements

188. Evaluating whether misstatements in subject matter information in narrative form are material will require use of the materiality considerations in Chapter 12 as numerical thresholds are not appropriate.

189. When evaluating a misstatement within narrative subject matter information, whether factual or subjective, the same considerations can be used to conclude whether the misstatement is material, focusing on whether the misstatement will affect decision-making by the intended users. One of the main considerations is about whether the misstated subject matter information is expected to influence the decisions of intended users, and if this is considered likely, the misstatement will in most cases be considered material.

190. As with any other misstatements, the practitioner may encourage the preparer to correct them. In the case of narrative information, this may frequently involve either re-wording or removing the misstated text.

191. [Further guidance in relation to obtaining evidence in relation to narrative information is to be developed in phase 2.]

Chapter 11: Assuring Future-Oriented Information

Introduction

192.　EER may contain a variety of different forms of future-oriented subject matter information which may fall into one of these categories:

a)　Information predicting the future. This may include forecasts, projections, and information about future risks and opportunities.

b)　Information regarding the entity's intentions or future strategy.

193.　In all cases, the subject matter information will be the result of applying criteria to the underlying subject matter which require description of the future state or condition, or a future change in state or condition over time, of a subject matter element.

> **EXAMPLE**
>
> If the subject matter element was a forest under the control of the entity, the subject matter information might describe a forecast of the expected average growth of the trees over the next five years (future change in state over time), or the expected average height of the trees in five years' time (future state).
>
> The subject matter information might also describe the future risks of disease affecting the forest (which would change the future condition of it), or the entity's future intentions to chop down parts of the forest (again changing the future condition of it).

194.　Future-oriented subject matter information may describe things which will be subsequently observable or hypothetical things that will never be observable. For subsequently observable future-oriented information, it will be possible at a later point in time to observe the precision with which the forecast, prediction, or intention reflected the subsequent reality, i.e. the extent to which anticipated and unanticipated future risks or opportunities materialized. Hypothetical information includes a condition on the forecast, prediction or intention. For example, a forecast could be made, conditional on an entity winning a particular contract, that the entity's profit would increase 5% next year.

> **EXAMPLE**
>
> The difference between observable and hypothetical subject matter information is illustrated by the difference between a forecast and a projection (as based on definitions in ISAE 3400, paragraphs 4-5):
>
> A **forecast** is prepared on the basis of assumptions as to future events which 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 which are not necessarily expected to take place, or a combination of hypothetical and best estimate assumptions. Such information illustrates the possible consequences as of the date the information is prepared if the events and actions were to occur. This may be known as a scenario analysis.

195.　As with narrative information, some future-oriented information is factual and therefore does not contain any degree of uncertainty, for example the debt maturity profile of an entity which 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 practitioners, the remainder of this chapter of the IAEPN only considers subjective forward-looking information.

Specific Considerations for Determining the Suitability of Criteria

196. Future-oriented information results from applying criteria to the underlying subject matter, just like any other subject matter information. However, the criteria will ask different questions about the subject matter elements, often asking for description of the future state or condition of the element, or a future change in state or condition over time (see paragraph 193 for an example).

197. Whether the criteria from which future-oriented information results are suitable or not can be determined in the same way as any other criteria as described in Chapter 7.

198. For subjective future-oriented information, the criteria may need to require detailed description of the assumptions and the nature, sources and extent of uncertainty in order to be suitable. It may still be possible to obtain assurance over uncertain subject matter information if it is supported by adequate disclosure such that the uncertainty is adequately conveyed to the intended users.

Specific Considerations for Building Assertions and Testing Future-Oriented Information

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

200. Where criteria require a statement of intended future strategy, a target, or other intentions of an entity, the main relevant assertion which 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. A practitioner is ordinarily not in a position to 'predict the future' to obtain assurance on whether the intended outcomes of the strategy or the target will be achieved or not.

201. Similarly, where criteria require relevant future risks and opportunities to be reported, the relevant assertions will likely include whether the risks and opportunities exist (existence assertion) and whether the list of risks and opportunities is complete (completeness assertion). The existence assertion is closely related to the underlying subject matter needing to be identifiable (see paragraph 44). 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 which may be unknown by the entity or outside of its control.

EXAMPLE	Events or matters can suddenly come to light which have a significant effect on an entity or its reputation, perhaps as a result of media coverage. In some cases, these may be entirely unexpected by the entity's management. This can make developing suitable criteria more challenging where there are high levels of uncertainty (see above).

202. Subject matter information predicting the future (for example, forecasts, projections and predictions) relates to events and actions that have not yet occurred and may not occur, or that have occurred but are still evolving in unpredictable ways. As above, the practitioner is ordinarily not in a position to 'predict the future' and express an opinion as to whether the results or outcomes forecasted, projected or predicted will be achieved or realized. The practitioner may instead focus on whether any assumptions are reasonable and that the subject matter information has been properly prepared in accordance with the applicable criteria.

203. The practitioner may need to consider that while evidence may be available to support the assumptions on which the future-oriented subject matter information is based, such evidence is itself generally future-oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in relation to historical events and conditions.

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

Chapter 12: Considering the Materiality of Misstatements

Considering Misstatements

205. If during the assurance engagement the practitioner identifies a misstatement within subject matter information included in the report for material topics and related elements, the practitioner is required to make a judgment as to whether the misstatement is material.

206. Misstatements in different circumstances will need to be evaluated in different ways given that subject matter information in EER takes such a variety of forms (e.g. quantitative and qualitative, different units of account).

207. For parts of subject matter information which are quantitative (e.g. a KPI expressed in numerical terms), the starting point for materiality decisions is to establish materiality thresholds, often by using a percentage[37]. 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. For historical financial information which has been subject to an audit, the materiality threshold used for the audit may be another frame of reference.

Practitioner Responsibilities

208. Having identified a misstatement, the practitioner may consider whether it is clearly trivial or not. Where the misstatement is not clearly trivial, depending upon the nature of the engagement, the practitioner may present it to the preparer who then has the opportunity to correct the misstated information.

209. If the preparer does not want to correct the misstatement, the practitioner may need to undertake a more detailed consideration of whether the misstatement is material, and may take into account the considerations below.
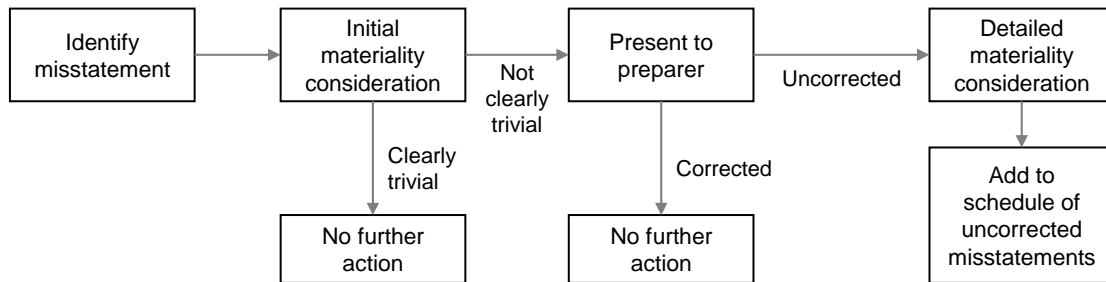
Materiality Considerations

210. Below is a series of 'materiality considerations' which a practitioner can use when considering materiality initially or in a detailed manner. These are examples of things that might be relevant when considering whether a misstatement is material. This may need consideration of whether the intended users would make a different decision if the subject matter information was not misstated. Misstated information which would affect decision-making means the misstatement is material. These

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

considerations are not exhaustive; ultimately, professional judgment will be required to conclude based on the specific circumstances.

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

Underlying subject matter

a)   The misstated subject matter information relates to an aspect of the underlying subject matter which 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 which attracted a large fine is more likely to be material than one where there was no significant penalty.

c)   A large number of people or entities (whether they are intended users or not) are affected by the misstated information.

Nature of the subject matter information

d)   It is a key performance indicator known to be used by intended users which is misstated, perhaps which is commonly used to compare the entity to its peers.

e)   It is in information reporting performance in relation to a target or threshold, where the magnitude of the error is comparable to the difference between the actual outcome and the target.

> **EXAMPLE**
>
> One of the performance targets determining a Chief Executive's bonus is achieving a customer satisfaction score of 75% or higher. The reported achieved score was 77% however this was found to be overstated by 3 percentage points, meaning the target was actually not met. It is likely that the misstatement in these circumstances would be material.
>
> If however, the target was 90%, the misstatement may be considered to be immaterial as the target was not reported to be achieved even though the score was incorrect.

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

Presentation

g)   It is a presentational misstatement which has arisen from subject matter information being misleading and the wording which 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 actions

h)   The misstatement has arisen as a result of an intentional act by the preparer to mislead.

i)   The preparer is reluctant to correct the misstatement for reasons other than they consider it immaterial.

212.   The majority of the considerations listed as examples in paragraph 211 apply to both quantitative and qualitative information. For information which 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 practitioners decide whether a misstatement is material based on the level of sensitivity of intended user decision-making to such a misstatement.

213.   Knowing the context is important before making materiality judgments – for example understanding the objective or purpose of the disclosure, and how the criteria intended the underlying subject matter to be measured. The practitioner can then consider whether (i) the disclosure is consistent with the objective, and (ii) whether it is clear and understandable.

Accumulating Misstatements

214.   After considering misstatements individually, the practitioner may need to consider misstatements in combination with others. The practitioner is unlikely to be able to accumulate misstatements and consider them together in the same way as a financial statement audit for a report comprising diverse and varied underlying subject matter. However, the practitioner may still need to consider whether assertions relating to the report as a whole have been met, where such criteria apply in the context of the engagement.

215.   A practitioner accumulates all the uncorrected misstatements identified during the engagement, other than those that are clearly trivial, on a schedule so that they can be easily considered collectively[38]. 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 report. Alternatively, the misstatements could be grouped according to the type of misstatement or the assertion which was not present. Misstatements of subject matter information in narrative form may need to be succinctly described.

216.   It may be helpful for the practitioner to give each of the misstatements a rating (for example, low / medium / high) to indicate the significance of the misstatement, particularly where the misstated subject matter information is in narrative form.

217.   It may be appropriate for the practitioner to consider whether the misstatements identified affect any other parts of the report (both those parts within and outside of the assurance engagement scope) and look for any contradictions or inconsistencies.

218.   The practitioner is required to make an overall conclusion on the report as to whether the uncorrected misstatements are in aggregate material or not and hence whether the subject matter information is free from material misstatement[39]. Where the subject matter information is materially misstated, the practitioner is required to follow the requirements in ISAE 3000 (Revised) paragraphs 74 to 77.

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[38]   ISAE 3000 (Revised) paragraph 51

[39]   ISAE 3000 (Revised) paragraph 65

Measurement or Evaluation Uncertainty

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

     [Example to be added]

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

221. When the uncertainty is not inherent, it may give rise to misstatements, perhaps because the preparer has not used the information available to measure or evaluate the underlying subject matter as precisely as would be possible.

Chapter 13: Preparing the Assurance Report

222. [Guidance to be developed in phase 2]

Appendix 1: The Ten Key Challenges

The IAASB issued a discussion paper in 2016 titled *Supporting Credibility and Trust in Emerging Forms of External Reporting*. This identified 'Ten Key Challenges' for assurance practitioners applying ISAE 3000 (Revised) to assurance engagements over EER. The challenges were:

1. Determining the Scope of an EER Assurance Engagement Can Be Complex

2. Evaluating the Suitability of Criteria in a Consistent Manner

3. Addressing Materiality for Diverse Information with Little Guidance in EER Frameworks

4. Building Assertions for Subject Matter Information of a Diverse Nature

5. Lack of Maturity in Governance and Internal Control over EER Reporting Processes

6. Obtaining Assurance with Respect to Narrative Information

7. Obtaining Assurance with Respect to Future-Oriented Information

8. Exercising Professional Skepticism and Professional Judgment

9. Obtaining the Competence Necessary to Perform the Engagement

10. Communicating Effectively in the Assurance Report

These challenges have formed the content of this IAEPN. 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.

The diagram below shows how the challenges are related to the various requirements of ISAE 3000 (Revised). It only shows the main relationships as some of the challenges relate to multiple sections of the standard's requirements. As explained in Chapter 2, this IAEPN only provides guidance for some parts of the standard corresponding to those areas where the discussion paper identified the greatest challenges for assurance practitioners.

ISAE 3000 (Revised) Requirements   **Contents of this IAEPN**

Discussion Paper challenge number

ISAE 3000 (Revised) Requirements	Contents of this IAEPN	#
Acceptance and Continuance		
Preconditions for the assurance engagement	Maturity in Governance & Internal Control	5
Agree on the terms of the engagement	Determining the Scope of an EER Assurance Engagement	1
Quality Control		
Characteristics and responsibilities of the engagement partner	Obtaining the Competence Necessary to Perform the Engagement	9
Assignment of the team		
Engagement Quality Control Review		
Professional Skepticism, Professional Judgment, and Assurance Skills and Techniques	Exercising Professional Skepticism and Professional Judgment	8
Planning and Performing the Engagement		
Determine whether the criteria are suitable	Evaluating the Suitability of Criteria in a Consistent Manner	2
Consider materiality	Using Materiality to Evaluate what is included in the Report	3
Obtain an understanding of the underlying subject matter and other engagement circumstances		
Obtaining Evidence		
Consider risks	Building Assertions	4
Design and perform procedures	Obtaining Assurance of Narrative Information	6
Work performed by those other than the practitioner	Obtaining Assurance of Future-Oriented Information	7
Written representations		
Subsequent Events	Performance Materiality	
Other Information		
Description of Applicable Criteria		
Forming the Assurance Conclusion		
Evaluate the sufficiency and appropriateness of the evidence obtained		
Evaluate whether uncorrected misstatements are material	Evaluating whether subject matter information is free from material misstatement	
Preparing the Assurance Report	Communicating Effectively in the Assurance Report	10

Appendix 2: Glossary

Defined terms from ISAE 3000 (Revised)

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Other terms

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Acknowledgements

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