

Meeting: IAASB
Meeting Location: New York, USA
Meeting Date: June 18-23, 2018

4

EER Assurance – Issues Paper

Objectives of Agenda Item

The objectives of this Agenda Item are to:

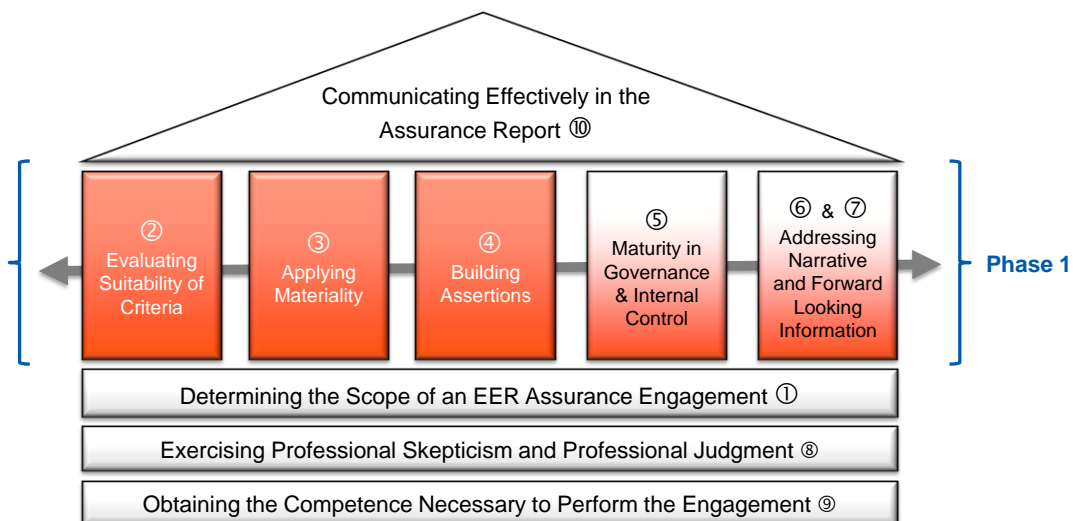
- Present the IAASB with the latest work of the EER Task Force to tackle the issues relating to three of the Ten Key Challenges.
- Receive feedback from the IAASB on the concepts and principles presented (rather than detailed drafting comments on the draft guidance).
- Provide an update on the progress of the project as a whole.

Introduction and Overview of the Agenda Items

1. Since the March 2018 IAASB meeting, the Task Force has held two three-day meetings and has now begun work on all the Key Challenges allocated to phase 1 of the project.

The Key Challenges are visualized in the EER Assurance House:

The EER Assurance House (under construction)



The challenges highlighted solid orange are most progressed, and initial work has begun on challenge 5 and the aspects of challenges 6 & 7 allocated to phase 1.

2. The Task Force's discussions to date on challenges 2, 3 and 4 are summarized in this issues paper. Further to this, two additional documents are provided:

- **Agenda item 4-A:** Materiality framework (relates to challenge 3)
- **Agenda item 4-B:** Criteria & Assertions guidance skeleton (relates to challenges 2 and 4)

These additional documents are extracts from early drafts of the non-authoritative guidance which the Task Force is developing. The guidance is likely to be in two sections – the first section will be practical application guidance for practitioners, and the second section will contain other relevant background information.

The Task Force has not yet decided the final form of the guidance but considers one option to be an international practice note.

3. The board meeting discussions will follow the structure of this issues paper, section by section, referring to the additional documents where these are referred to, and addressing the questions presented to the IAASB at the end of each section.

This issues paper is divided into the following sections:

- Generalized construct of an EER report and its relationship to assurance concepts
- Challenge 3: Addressing Materiality for Diverse Information with Little Guidance in EER Frameworks
- Challenge 2: Evaluating the Suitability of Criteria in a Consistent Manner
- Challenge 4: Building Assertions for Subject Matter Information of a Diverse Nature
- Appendix 1 – Project update and future meeting agenda topics
- Appendix 2 – Outreach
- Appendix 3 – Relevant extracts from ISAE 3000 (Revised)

The Task Force is looking for the Board's input on the proposals and tentative conclusions expressed in this issues paper which will drive the Task Force's further development of the structure and content of the guidance.

The first section covers some of the issues and thinking presented at the March 2018 IAASB meeting. We envisage spending more time in the Board meeting discussing the second section (Challenge 3 - materiality) than the other sections, as the Task Force's work in this area is the furthest progressed.

4. References to 'the report' in this issues paper and the additional documents refer to the EER report.

Matters for IAASB Consideration

- Q1. The IAASB is asked for its views on the possible form of the guidance.

Generalized construct of an EER report and its relationship to assurance concepts

Introduction

5. The Task Force has considered the conceptual and contextual background of various EER frameworks to ensure that the guidance can relate IAASB standards and assurance concepts to EER reports, in a way that reflects underlying EER concepts in a framework neutral manner. This section of the issues paper summarizes Task Force discussions and presents: a preliminary generalized construct of an EER report; how the construct relates to assurance concepts; and related terminology used in other sections of this issues paper. In addition, this section relates EER reporting concepts to financial reporting concepts, highlighting similarities and differences between them.

Generalized construct of an EER report

6. In general, an EER report (the subject matter information) describes (represents in words or numbers) certain qualities of elements of the underlying subject matter, based on applying the criteria to evaluate or measure these qualities. ISAE 3000 (Revised)¹ does not explicitly address elements of the subject matter or their qualities and does not use these terms.

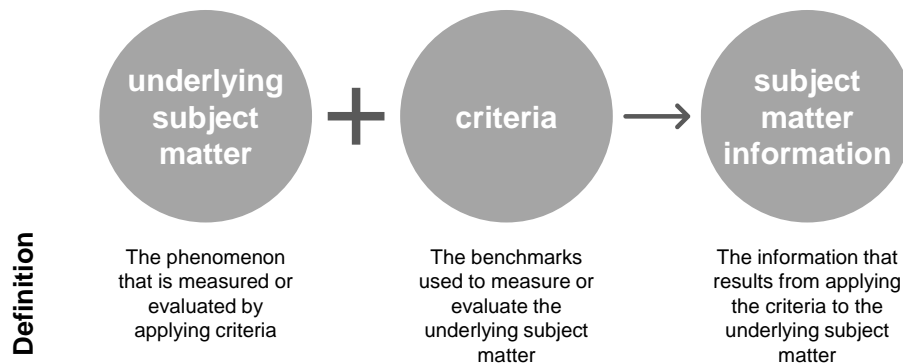
Comparison with financial reporting concepts (specifically financial statements)

7. This construct is similar, at a high level, to concepts in financial reporting (e.g., under the IASB framework and standards). In that case, the underlying subject matter is the financial condition and performance of an entity. The elements of that subject matter are economic phenomena: economic resources and claims on those resources; and transactions, other events and conditions, the effects of which give rise to changes in the economic resources and claims. However, EER underlying subject matter is often broader and more diverse.
8. A financial report (subject matter information) therefore ‘depicts’ or describes (represents in words or numbers) certain qualities of such elements of the subject matter. Those qualities are principally economic values, based on applying criteria (e.g., an established measurement basis) to measure them. These criteria are embodied in the applicable financial reporting framework and the entity’s accounting policies. The accounting values and related disclosures in the primary financial statements and notes are the subject matter information which result from applying the criteria to the underlying subject matter.

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

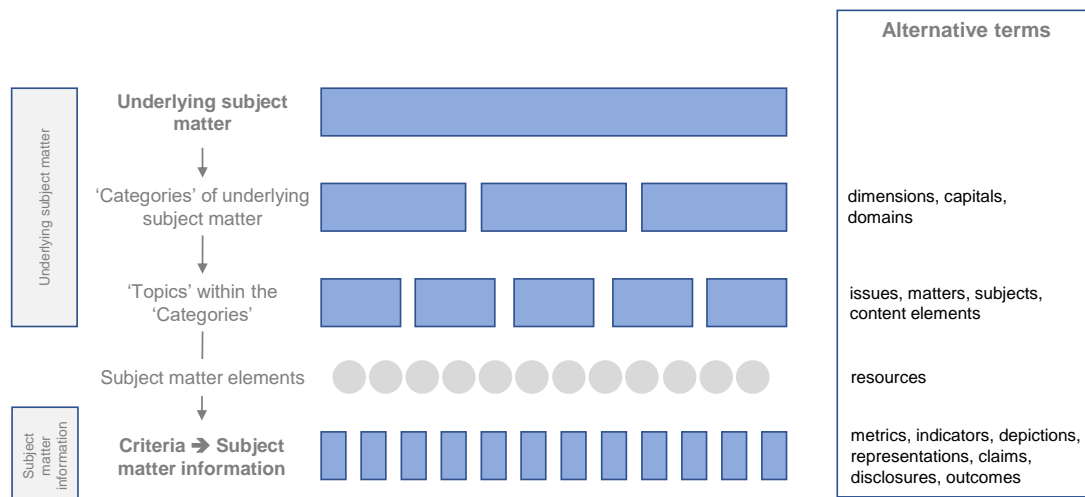
Relating the generalized construct to assurance standards and concepts

9. The generalized construct of an EER report can be related to assurance concepts as follows:



Analyzing categories and topics within underlying subject matter

10. The definitions in the above diagram are included in ISAE 3000 (Revised).² An EER report should have an underlying subject matter linked to the purpose of that report. However, particularly when broader and more diverse, EER subject matter may be broken down, in a hierarchical analysis, for example into various categories and topics, whilst recognizing that such categories and topics are often inter-related. Established EER frameworks use a range of terms to describe such analysis, and some of the terms used to describe them in such frameworks are included in the generalized diagram below. ISAE 3000 (Revised) requires the underlying subject matter to be appropriate³, which means that it is “identifiable and 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”⁴.



² ISAE 3000 (Revised) paragraph 12

³ ISAE 3000 (Revised) paragraph 24(b)(i)

⁴ ISAE 3000 (Revised) paragraph A40

11. Note that the terms ‘categories’ and ‘topics’ are not explicitly used in ISAE 3000 (Revised). The diagram is also intended to make the point that ‘topics’ can relate to more than one ‘category’ and a piece of subject matter information can relate to more than one ‘topic’.
12. Such a hierarchical analysis is useful both in structuring the EER report to make it understandable to users and in considering the information that should be included in the report to enable it to fulfil its purpose.
13. The diagram also shows that identifiable elements of the underlying subject matter lie at the heart of an EER report. However, in order to address the diversity of information included in EER reports, the concept of such elements in the case of EER reporting need to be much broader than simply the assets, liabilities, equity, income and expense addressed in financial reporting.

Subject matter elements and the related term “resources”

14. A generalized description of subject matter elements could, in the Task Force’s view, be:

‘resources available to, or affected by, the entity and the causes of change in those resources’, referred to as “resources” for convenience.

15. The Task Force believes that, to encompass the diverse scope of EER reports, the term ‘resources’ in this description would need to be very broad. It would need to include resources, both within and outside the legal and financial boundaries of the entity, which may be available to, or affected by, the entity in operationalizing its strategy and business model. Such a concept would, for example, need to include:
 - natural resources;
 - employees;
 - customer relationships;
 - goods and services provided by other entities or manufactured and delivered by the entity;
 - the entity’s strategy; and
 - the entity’s governance, management, risk management and internal control infrastructure, including its policies and procedures, processes and related resources.
16. Consistent with paragraph 14, the term ‘resources’ has been used in the draft outline materiality framework presented in **Agenda Item 4-A** and the guidance skeleton presented in **Agenda Item 4-B**, as an equivalent of ‘subject matter elements’.

Boundary of resources addressed in an EER report

17. In the case of a specific EER report, the boundary of the ‘resources’, and their qualities, that should be addressed in the report is defined by the purpose of the report, which addresses both the intended users, and their intended use, of the report.

Relating resources (elements) to categories and topics

18. Particularly where an EER report addresses a broad and diverse underlying subject matter, it is likely to address a broad and diverse range of resources (elements) covering many different categories and topics, as described above. In these cases, it may be helpful, both in preparing the report and in understanding how it has been prepared, to identify the elements that relate to each category and topic. For example, a sustainability report could be analyzed into categories of environmental, social, economic and governance information, each of which could address several topics. The environmental information could include reporting on several different “resources” affected by the entity, and related causes of change in those resources (elements) relevant to the underlying subject matter category ‘environmental’, such as natural resources (e.g. trees, raw materials, air, water).

General v special purpose EER frameworks and fair presentation v compliance EER frameworks

19. In its work to date as set out in this issues paper, the Task Force has only considered reports prepared under general purpose frameworks and recognizes that it needs to consider special purpose reporting. Additionally, the work to date has only considered reports prepared on a fair presentation basis, and further work is required with respect to compliance frameworks.

Including the general construct and above concepts and use of terminology in the guidance

20. The Task Force considers that this general construct of an EER report, and the related concepts referred to above, are an important element of the guidance, which should be included in the section of the guidance containing other relevant background information (see paragraph 2 above).
21. The Task Force also recognizes that, in addressing concepts underlying EER reporting frameworks and relating them to assurance concepts, it is important to use terminology that will both help practitioners to use the guidance in applying ISAE 3000 (Revised) consistently and in a framework neutral manner. It also recognizes that in addressing matters not explicitly addressed in ISAE 3000 (Revised) it is important to be consistent in the use of terminology in the guidance, even though different terms may be used for similar concepts in the context of different EER frameworks. The Task Force has already had significant comments from PAP members about terminology in this context and will continue to deliberate these matters.

Matters for IAASB Consideration

Q2. The IAASB is asked for its views on:

- a. The generalized construct of an EER report and related concepts presented above;
- b. The consistent use of terms in the guidance, particularly to refer (in a framework neutral way) to matters that either are not explicitly addressed in ISAE 3000 (Revised), such as ‘categories’ and ‘topics’, or are described diversely in EER frameworks, such as the term ‘resources’ to describe elements of the underlying subject matter; and
- c. The extent to which it is helpful to practitioners to further clarify similarities and differences between financial reporting and EER concepts.

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

Introduction and context

22. ISAE 3000 (Revised) contains only the requirement for the practitioner to “consider materiality when planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures; and evaluating whether the subject matter information is free from material misstatement”⁵.
23. Paragraphs A92 – A100 in ISAE 3000 (Revised) provide some further application material. A key concept in this is that materiality considerations are not affected by whether it is a reasonable or limited assurance engagement. It is also noted that “misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information”.

24. The 2016 discussion paper⁶ summarized the challenges faced by practitioners:

“The content of EER reports is generally less comprehensively specified and more judgmental in EER frameworks than in financial reporting. A key challenge, therefore, in an EER assurance engagement is how to assess what 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 ensure these judgments reflect the broader and more diverse user perspective often encountered. Another key challenge is that, compared with financial statements, EER has no common unit of measurement or evaluation in which to express each of the content elements relating to the underlying subject matter; therefore making overall materiality judgments is more difficult to benchmark.”

25. The Task Force proposes that there are two areas in an EER assurance engagement for which materiality must be considered:
- a) Evaluating which topics and related subject matter elements are to be included in the report; and
 - b) Evaluating whether the subject matter information included in the report for material topics and related subject matter elements is free from material misstatement.

26. This issues paper discusses matters which are the responsibility of the preparer as well as the practitioner. The draft guidance aims to make the different roles and responsibilities of preparer and practitioner clear, and to focus on providing guidance for the practitioner in that context.

Differences between financial reporting and EER

27. In traditional financial reporting, the first area (paragraph 25 (a)) is straightforward as the reporting frameworks (e.g. IFRS) substantively address it by specifying the underlying subject matter and its elements that should be reported, and this is widely understood by preparers, users and practitioners. As the DP explained, EER is more difficult as the subject matter elements

⁵ ISAE 3000 (Revised) paragraph 44

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

are generally less comprehensively specified by the reporting frameworks and there is currently a wide array of reporting practices and norms.

28. The second area (paragraph 25 (b)) applies for both financial reporting and EER, however it is more challenging to evaluate whether subject matter information is free from material misstatement when the subject matter elements are diverse in nature and are not all capable of being evaluated or measured in a common unit of measurement, as is very often the case for an EER report.

Consideration of content included in the report (Part 1 of the Materiality Framework)

Responsibilities of preparers and practitioners

29. It is principally the preparer's responsibility (as the measurer / evaluator) to determine what subject matter elements are material to include in the report, and what information about those content elements is included. In fulfilling its responsibilities for the subject matter information, in its roles as responsible party and as measurer or evaluator, the preparer would be expected to undertake some form of 'materiality process' to achieve this⁷. The degree of formality (including the extent to which it is documented) of the process may depend on the nature and size of the entity, the nature of the subject matter and the degree to which the EER framework addresses such considerations.
30. The criteria used by the preparer in making materiality determinations may not be addressed in the EER framework. Whether those criteria are suitable, and whether they have been made available to users, are likely to be important considerations for the practitioner. In addition, users are likely to find it helpful, in understanding the materiality criteria applied by the preparer, to also understand the process the preparer uses in applying them. Accordingly, preparers are often encouraged to disclose details of their materiality process in the report.
31. Through review of relevant documentation, and/or by enquiry with management and other procedures, the practitioner reviews the preparer's process to fulfil its responsibilities in ISAE 3000 (Revised) paragraph 47L / 47R, and the results of management's process.
32. While our guidance will be focused on assisting the practitioner in forming a view on the appropriateness of the results of an entity's materiality process, the Task Force believes it would be helpful to provide background information on what a practitioner might expect to see in such a process in an EER context.
33. In circumstances where the scope of the engagement is limited to certain parts of the report, the application of the materiality considerations will be applied in that context. The Task Force recognizes that further guidance will be needed in this regard.

EER frameworks

34. The starting point for the preparer's process to determine the content of their report should be the EER framework(s) being adopted. Frameworks may specify the underlying subject matter and the criteria to varying degrees, and may specify, or be based on assumptions about who the intended users are. EER frameworks differ widely in this respect. For example, a framework such as the <IR> framework only gives a high-level indication of the 'capitals' which may be relevant to the entity's creation of value and specifies broad 'content elements'. Others, for example SASB's

⁷ Refer to ISAE 3000 (Revised) paragraph A39

standards, provide much more granular criteria for underlying subject matter and subject matter information for entities in specific industries based on what the framework-setter considers is likely to be material for specified groups of intended users.

Purpose and intended users

35. In general, preparers would also be expected to begin their process by understanding both the purpose of their report and its intended users. The intended users are the individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report⁸. In order to make decisions about materiality, it is important for the preparer to understand the general nature of decisions the intended users are likely to take based on, or influenced by, the information in the report.
36. The purpose will be to report certain information about an underlying subject matter to a group(s) of intended users.
- a) Purpose → Condition and / or performance of the entity (within a specified domain or scope of interest)

and / or

The entity's impact on stakeholders (within a specified domain or scope of interest)
 - b) User → Needs information about purpose (to make decisions)
37. 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
38. A single report may have multiple groups of intended users, with potentially different information needs. The preparer may therefore need to apply different materiality considerations for different intended user groups. Something which is material to one group of intended users may be trivial to another. A report cannot focus on the particular needs of an individual user⁹, however a preparer may need to consider where individuals within a group of intended users have common interests.
39. ISAE 3000'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"¹⁰. This may be




⁸ International Framework for Assurance Engagements, paragraph 35

⁹ ISAE 3000 (Revised) paragraph A94

¹⁰ ISAE 3000 (Revised) paragraph A16

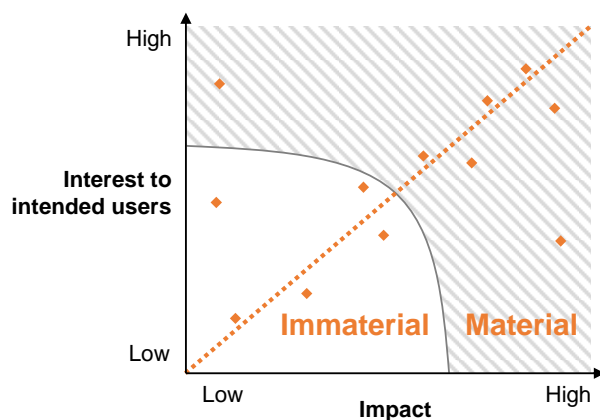
useful, subject to any particular requirements in the EER framework, where reports are published for the world as a whole, as sustainability reports of large companies often are.

40. 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 a legitimate need for the information to reach that conclusion.
41. Intended users may have a relationship and interactions with the entity, or may be directly or indirectly affected by the entity's actions, or may fall into both of these categories. When considering the intended users, it is also important that preparers and practitioners are aware that there may be intended users who would never read or use the report but may be stakeholders in, or affected by, the entity. The interests of these entities and individuals may however be shared or represented by an other entity(ies), which may be an intended user(s). An example might be a victim of child slavery involved in a company's manufacturing supply chain. The child would not be in a position to read the company's report, however their interests may be represented by a charity campaigning against child labor which is in a position to influence the company's customers.
42. 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:
<p>Wider society</p> <ul style="list-style-type: none"> • NGOs / civil society organisations / special interest groups • Members of the public • Researchers, academics • Competitors and other market participants • Vulnerable groups 	 <ul style="list-style-type: none"> • Change in the natural environment where they live • Change in lifestyle or quality of life as a result of the entity's activities • Trading negotiable instruments (in an emissions trading scheme) • Financial decisions (eg. investing) in other entities • Influences the activities of other entities & individuals, including managing natural resources
<p>Governments, regulators and legislators</p> <ul style="list-style-type: none"> • Parliaments and legislators • National, regional and local government • Global organisations • Regulators 	 <ul style="list-style-type: none"> • Law and policy making • Monitoring compliance with laws and regulations • Providing national resources (public sector) • Accountability • Decision making on behalf of vulnerable groups
<p>Investors and economic stakeholders</p> <p>Existing and potential:</p> <ul style="list-style-type: none"> • Investors • Suppliers • Customers • Employees • Lenders • Share markets 	 <ul style="list-style-type: none"> • Buy or sell equity in the entity • Lend to the entity • Transact business with / use services of the entity • Matters relating to being employed by the entity • Stewardship • Shareholder voting decisions • The entity's use of their data and personal information

The materiality process

43. Taking into account the adopted reporting framework(s), the purpose of the report and the intended users, preparers would often create a list of topics and related subject matter elements which are relevant to the underlying subject matter. They then select those which are material and should therefore be included in the report.
44. The Task Force considers that it may be helpful to determine how material something is by considering both its 'impact' and the level of interest of intended users. These two variables can be portrayed as axes on a scatterplot. Such a tool is consistent with, or similar to, guidance issued by a number of EER framework-setters and other relevant organizations, as well as methodologies used by preparers who have issued EER reports containing non-financial statement information. The same tool can be used initially by the preparer, and then by the practitioner to review the preparer's conclusion.



45. '*Interest to intended users*' is intended to capture the extent to which information could reasonably be expected to influence decision-making by intended users¹¹. This could reflect the extent to which the intended users perceive something will impact them. The collective views of intended user groups as a whole should be plotted at one point on the axis rather than making this assessment for individual users. The Task Force notes that some frameworks (for example, GRI) consider the whole of society across the world to be the intended users.
46. '*Impact*' refers to the extent to which the preparer anticipates something will impact on the entity's performance (in achieving its strategic objectives) or will impact on other entities (how the entity's activities is anticipated to affect other entities). This impact 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.
47. The result of the considerations in paragraphs 45 and 46 could be plotted on the scatterplot shown above. The scatterplot may be useful as a tool to compare the relative materiality of topics and related subject matter elements. Professional judgment is required to make the decision as to whether something is material or not as the diagram is only an illustration and not a numerical or mathematical model.
48. In a theoretical scenario where the *interest of intended users* in something was only affected by an accurate understanding of its expected *impact*, there would be a perfect correlation with all

¹¹ Taking into account the points made in paragraphs 40 and 41 of this issues paper.

items plotted along the dotted $x=y$ line. In reality some anomalies may well be expected, perhaps where intended users are considering different timescales, or where intended users are particularly sensitive to an issue by its nature (and therefore they have a high level of interest in it, for example executives' remuneration) even if the impact on the entity is not correspondingly high.

49. The Task Force proposes including further guidance to help practitioners to consider the placing of items on the scatterplot, mostly in the form of examples and 'factors' which might move items along the scales, and therefore allow preparers and practitioners to compare issues and place them in positions relative to each other.
50. When deciding where to position an item on either of the axes, it may be helpful to consider that position as a function of two variables; the likelihood of an event or circumstance occurring, and the magnitude of its interest to intended users, or of its impact, if it were to occur. If something is certain or factual, the likelihood is at the maximum level of the scale (100% chance of something occurring) and hence the magnitude is the only variable.

Further considerations

51. Careful consideration must be given to information which may be material to intended users in understanding or in making predictions or developing expectations about the future. For example, a small hole in a boat may not be a material piece of information about the condition of the boat at a particular time. However, it may be material to understanding the risk of the boat sinking in future. Knowing that the hole exists could change the decisions that a user would make about the risk.
52. Another factor is the timescale being considered in terms of impact or interest to the intended users. 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.
53. 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 assessing materiality and make sufficient disclosure of this in the report.
54. Once the preparer has assessed the relative materiality of all the identified topics and related subject matter elements, they must use select those which are to be included in the report. The practitioner must use professional judgment to challenge this judgment, particularly focusing on what the preparer chose to exclude and the reasons for their decisions.

Conclusions

55. Key questions for the practitioner:

- How effective was the preparer in identifying relevant topics and related subject matter elements as part of their process and are there other matters the practitioner considers should have been on that list?
- How effective was the preparer in assessing the materiality of the identified topics and related subject matter elements? Have all the material topics and related subject matter elements been included in the report, and the immaterial ones excluded?

56. It is likely that a report will contain some information which is not material. The appropriate response for the practitioner will depend on the engagement scope, however the inclusion of immaterial information is only likely to be problematic if it is misleading or obscures the material information, as in most cases intended users will be able to easily identify and ignore immaterial information¹².

Evaluating whether subject matter information is free from material misstatement (Part 2 of the Materiality Framework)

57. This section contains material relevant to the practitioner only as the preparer focusses not on misstatements but on including material information in the report.

58. If, during the assurance engagement, the practitioner identifies a misstatement, they are required to assess whether the misstatement is material. A misstatement arises when an identified assertion is not valid. We propose that the guidance should provide a framework to assist practitioners in making judgments as to whether a misstatement is material or not, and in considering the consequences for the practitioner's conclusions and reporting on the assurance engagement. The Task Force plans to consider guidance in relation to the assurance conclusions and report in phase 2 of the project.

59. 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).

60. 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 percentage¹³. 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 engagement¹⁴. For historical financial information which has been subject to an audit, it may be appropriate to use the materiality threshold used for the audit.

61. The Task Force proposes giving guidance in the form of a series of 'materiality considerations' which would act as examples of things that might be relevant for a practitioner to consider when assessing whether a misstatement is material. Part of the assessment will require the practitioner

¹² Based on assumptions (a) to (d) regarding intended users in ISAE 3000 (Revised) paragraph A94.

¹³ There are instances where this would not be appropriate, perhaps where the number is very small (for example, number of fatalities).

¹⁴ Based on ISAE 3410 paragraph A49

to consider how sensitive the intended users would be to misstatements. This is likely to be different for individual pieces of subject matter information. The guidance will only be able to support practitioners, ultimately professional judgment will be required to conclude based on the specific circumstances.

62. The practitioner is unlikely to be able to set an overall materiality (ISAE 3000, paragraph A98) for many EER engagements because the subject matter information very often does not have a common unit of account.
63. The practitioner is unlikely to be able to aggregate misstatements and consider them as a whole for a report comprising diverse and varied underlying subject matter. However, the practitioner still needs to consider whether assertions applying to the report as a whole (for example, completeness or neutrality) have been met, where such criteria apply in the context of the engagement.
64. **Agenda Item 4-A** is an early draft of extracts from the non-authoritative guidance which the Task Force is developing in relation to materiality.
65. The Task Force is still to consider the concept of performance materiality and how this can be applied to EER.

Matter for IAASB Consideration

Q3. The IAASB is asked for its views on:

- a. the conceptual thinking presented above;
- b. whether it is helpful to present aspects of materiality which are relevant for preparers as well as those relevant to practitioners; and
- c. the draft outline of the materiality framework presented in **Agenda Item 4-A**.

Challenge 2: Evaluating the Suitability of Criteria in a Consistent Manner

Background context

66. Criteria specify both:

- the nature and scope of the topics and related subject matter elements to be included in the report; and
- how these subject matter elements should be represented (depicted) in the report, including the qualities of the subject matter elements that should be described, and the methods to be used in measuring or evaluating those qualities.

At its most simplistic, the representing a quality of a subject matter element could involve measuring the quality and reporting the value of that measurement and how it was made, or describing the characteristics of the quality, or comparing them to a benchmark. Disclosures could also include qualities of the transactions, other events and conditions, the effects of which have resulted in changes to other subject matter elements (resources).

67. Causes of change in subject matter elements comprise:

- a) Transactions (involvement of another entity)
- b) Actions (taken either by the entity itself or by other entities)
- c) Other events and conditions (outside of the entity's control, e.g. a flood or weather conditions, not necessarily attributable to an action)

68. Criteria embody the questions that have to be addressed in evaluating or measuring a subject matter element. To take a simple example of a subject matter element (e.g. a machine in a factory), some questions which might underpin the criteria and, in brackets, the resulting subject matter information, might include:

- a) When was the machine built? (expression of time)
- b) Where is the machine? (expression of location)
- c) What color is it? (expression of a characteristic)
- d) What is the maximum number of widgets it can produce in an hour? (expression of capabilities)
- e) What is the actual number of widgets produced in the last year? (expression of performance)
- f) What is its financial value at a point in time? (a measurement)
- g) What has been the change in value over the last year? (expression of change in the resource's condition)
- h) How did the change in value happen? (explanation of the cause of change)
- i) Why have the directors decided to sell the machine? (explanation of the cause of change where there is intent)

69. The criteria can be selected or developed in a variety of ways, for example, they may be¹⁵:

- a) Embodied in law or regulation
- b) Issued by authorized or recognized bodies of experts that follow a transparent due process (e.g. GRI standards)
- c) Developed collectively by a group that does not follow a transparent due process
- d) Published in scholarly journals or books
- e) Developed for sale on a proprietary basis
- f) Specifically designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement
- g) A combination of the above

70. The criteria need to be able to provide a representation, of the subject matter elements (resources and causes of change), that is appropriate in the context of achieving the purpose of the report.

71. A typical report will in some way describe some or all of:

- the entity.
- The resources relevant to the report (as broadly defined earlier in this issues paper) and the condition of these at a point in time. This might include resources not (or only partly) under the control of the entity.
- changes in those resources (compared to a time in the past, or a forecast of how they will or may change in the future).
- the causes of those changes – e.g. the entity's activities, or other events and conditions.

72. The 2016 discussion paper summarized the challenge:

“EER frameworks are often less prescriptive about content elements and depiction methods, and therefore more ambiguous about the determination of these items. Given the diverse nature of the content elements, there is considerable opportunity for management bias in making these determinations. There is therefore considerable need for the application of professional judgment and professional skepticism by the practitioner in addressing the suitability of criteria in an EER-related assurance engagement.

The judgments the practitioner has to make include not only whether the characteristics of suitable criteria have been met, but also whether the information resulting from applying them is capable of being assured. The practitioner has to address both criteria in law or regulation or in the EER framework, as well as entity-developed criteria (reporting policy).”

¹⁵ ISAE 3000 (Revised) paragraph A48

Requirements of ISAE 3000 (Revised)

73. As detailed in ISAE 3000 (Revised), criteria are required to have certain characteristics to be suitable for an assurance engagement¹⁶. Practitioners must check that criteria are:

- a) Relevant
- b) Complete
- c) Reliable (interpreted by the Task Force to be equivalent to ‘accurate’ or ‘free from error’ – refer to paragraph 84 for further discussion)
- d) Neutral
- e) Understandable

The Task Force intends to develop guidance that provides a frame of reference in applying these terms in the context of EER reports, in the context of the definitions provided in ISAE 3000 (Revised).

74. An overarching principle in ISAE 3000 (Revised) 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 users¹⁷.

75. Entity-developed 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 must assess 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”.

76. In a financial statement audit, checking whether the criteria have these characteristics is not usually necessary since the criteria are generally well defined and accepted (and therefore established) in the applicable financial reporting framework (e.g. IFRS). ISAE 3000 (Revised) states that where criteria are established, they are presumed to be suitable in the absence of indications to the contrary¹⁸. This may, for example, include criteria from reporting frameworks such as the standards issued by GRI and SASB. The Task Force intends to consider what other factors may be relevant in considering whether criteria have been ‘established’ appropriately.

Further considerations for practitioners when criteria are not established

77. Concluding on whether the criteria are suitable clearly requires judgment. When making this judgment, the Task Force believes the following factors may need to be considered:

- a) The nature of the entity’s process for developing the reporting policy and criteria, including the governance around it and the inclusion of intended users in this process.
- b) The balance which has been struck between opposing principles, such as balancing conciseness with completeness, and measurement or evaluation uncertainty with relevance and materiality or timeliness.
- c) Any assumptions about the intended users’ familiarity with the type of EER. The more familiar they are, the more likely it is that they will understand variations in such things as

¹⁶ ISAE 3000 (Revised) paragraph A45

¹⁷ ISAE 3000 (Revised) paragraph A50.

¹⁸ See ISAE 3000 (Revised) paragraph A49 for details of the definition of established criteria.

measurement/evaluation methods and presentation formats without the need for detailed explanations of reporting policies.

- d) The level of maturity achieved in the particular type of EER. This can affect, for example, the acceptable level of variation in the way similar topics are reported by different organizations.
- e) The level of consistency or flexibility expected for the type of EER. For example, where an EER framework is aimed at each entity telling its individual “story,” criteria developed by the entity may need to be more explicit about such things as measurement methods for entity-specific KPIs. However, greater latitude may need to be allowed for preparers to select what information to include, what information to exclude and how to present information, for example, identifying the reporting boundary for a concise integrated report.
- f) Expectations about conciseness. If an external report is an intentionally concise account of a complex underlying subject matter, for example summary financial statements included in an integrated annual report, it may be unreasonable to burden it with excessive detail about reporting policies.

The Task Force will also consider further whether additional guidance is needed in addressing criteria about the nature and scope of the topics and related subject matter elements to be included in the report.

Matter for IAASB Consideration

- Q4. The IAASB is asked for its views on the above, in particular the usefulness of the factors presented in paragraph 77.

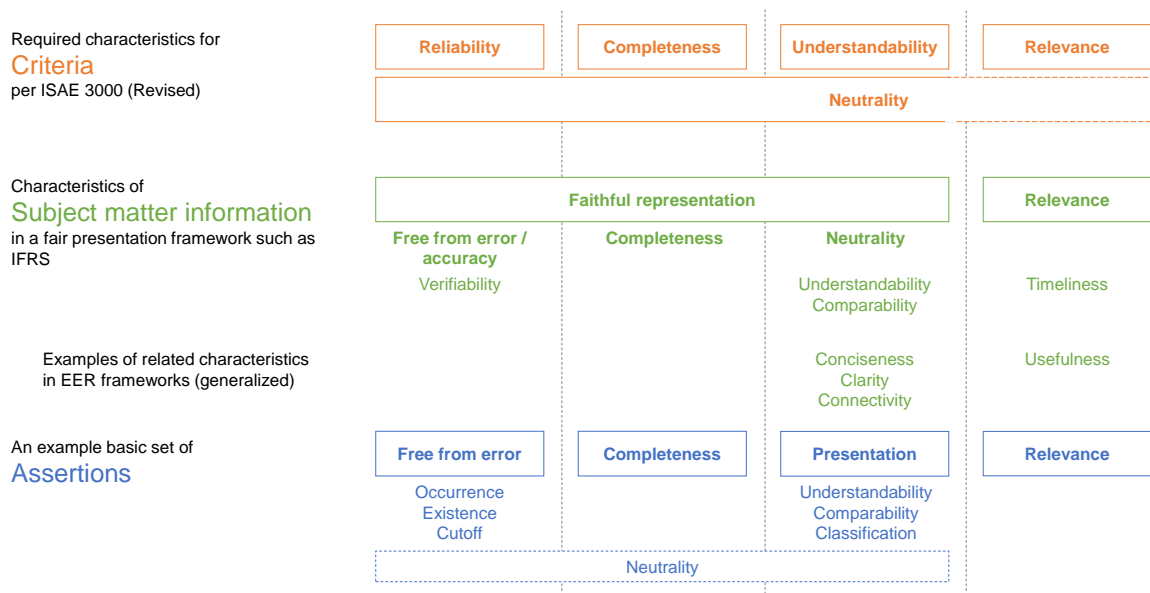
Challenge 4: Building Assertions for Subject Matter Information of a Diverse Nature

Background context

78. Assertions are a tool which can be used by practitioners to assist in designing assurance procedures which are appropriate in the context of the engagement in obtaining evidence about whether the subject matter information has been prepared in accordance with the criteria, or is misstated. ISAE 3000 (Revised) does not 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 subject matter and the reporting framework (including the criteria). ISAE 3410 does include details of assertions specific to Greenhouse Gas Statement engagements.
79. The discussion paper noted that “the diverse nature of EER subject matter information compared with that contained in financial statements makes it more challenging to develop appropriate assertions”.
80. When building assertions, the Task Force proposes that the guidance should recommend practitioners begin with the requirements for suitable criteria. There is a logical flow from these five requirements (reliability, completeness, understandability, relevance and neutrality) to the characteristics which should be exhibited by subject matter information, misstatements in which may then be tested by the practitioner, with the assistance of assertions.

Example reconciliation of required characteristics for criteria to assertions

81. As part of its considerations, the Task Force has used the diagram below to illustrate how the required characteristics for criteria (as defined in ISAE 3000 (Revised)) can be reconciled to a basic set of assertions:



The characteristics of subject matter information (middle row in green) shown in bold type are those specified by the IASB Conceptual Framework for financial reporting – these are shown on the diagram only to show how these can be reconciled into this model, not because they are

necessarily useful for EER. Further characteristics of subject matter information (not in bold) are also included, some of which are from established EER frameworks.

Considerations for the guidance

82. The Task Force believes that it is likely that a practitioner will identify the four assertions in blue boxes in most engagements, but would then add additional assertions depending on the specific nature of an engagement. These additional assertions may arise from requirements in the reporting framework (for example <IR>'s requirement for there to be connectivity between information in the report). Frameworks may use different terminology for the characteristics for subject matter information (for example 'guiding principles').
83. Neutrality (or 'freedom from bias') may not necessarily be identified as a separate assertion as this requirement is additive with all other assertions. For example, there is a need for the report preparers to ensure that the resulting subject matter information is not biased when deciding which topics and related subject matter elements should be addressed in the report (additive to the 'completeness' assertion). Again, a preparer should ensure that the resulting subject matter information is not biased in measuring subject matter elements that require subjective judgments (additive with the 'free from error' assertion).
84. As discussed at the March 2018 IAASB meeting, the use of the term 'reliability' has been subject to much debate since ISAE 3000 was revised. The IASB and IPSASB are now using 'faithful representation' which encompasses much of what was previously understood by 'reliability' with measurement / evaluation uncertainty incorporated in 'free from error'. The Task Force intends to acknowledge the different usage and understanding of the term in the proposed guidance.
85. Assertions may apply at different 'units of account'. For example, subject matter information about a quality of a subject matter element could in some cases be provided for a class of such elements that have similar characteristics (e.g. minor breaches of water quality regulations), or in other cases it may be appropriate to provide such information for an individual subject matter element (e.g. a major breach of water quality regulations which caused a community's water supply to be cut off). The practitioner designs appropriate procedures to test the assertions for appropriate units of account, in the context of the criteria.
86. Assertions also address the underlying subject matter both in terms of the topics and related subject matter elements to be included in the report and in terms of the subject matter information to be provided about such topics and related subject matter elements. This is consistent with the approach described for criteria in paragraph 66.
87. Agenda Item 4-B is an early draft of the non-authoritative guidance which the Task Force is developing in relation to challenge 2 (criteria) and challenge 4 (assertions).

Matters for IAASB Consideration

Q5. The IAASB is asked for its views on:

- a. Whether the approach proposed in paragraph 80 is a helpful starting point for practitioners;
- b. The other concepts presented above; and
- c. the guidance skeleton presented in **Agenda Item 4-B**.

Appendix 1 – Project update and future meeting agenda topics

Task Force

88. The Task Force members are listed on the [project page](#) on the IAASB website.
89. Three observers to Task Force meetings have been appointed; representatives from the World Business Council for Sustainable Development, the Corporate Reporting Dialogue, and Principles for Responsible Investment.
90. The Project Advisory Panel now has 26 members, with good representation across stakeholder groups and global regions. It has met three times via web conference since the March 2018 IAASB meeting, providing very valuable feedback and input on the Task Force's work to date.

Plan for Board Meetings in 2018

September 2018

- Presentation of issues for remaining phase 1 challenges (5, 6 and 7)
- Review of draft guidance on all phase 1 issues

December 2018

- Feedback from roundtables and updates to draft guidance
- Seek approval of exposure draft

Plan for Task Force Meetings in 2018

June 16, 2018 (New York)

- Update meeting

July 16-18, 2018 (Vancouver)

- Review of phase 1 guidance to present to Board in September

August 20, 2018 (Conference Call)

- To be determined, if any

October 9-10, 2018 (Tokyo)

- Preparation for regional roundtable events

November 13, 2018 (Conference Call)

- Discussion of feedback from roundtable events

Appendix 2 – Outreach

Outline Plan for Regional Roundtable Events

The Task Force is planning to hold a series of roundtable and outreach events in October and November 2018. The purpose is to obtain stakeholder feedback and input on the draft guidance produced, and to promote the work of the IAASB in this area ahead of issuing an exposure draft of the phase 1 guidance. All interested parties are invited and encouraged to attend an event most convenient to them. The locations and dates of the events are:

- Tokyo (October 11, 2018)
- New York (October 15, 2018)
- São Paulo (October 18, 2018)
- Johannesburg (October 23, 2018)
- Singapore (October 26, 2018)
- Auckland (October 30, 2018)
- Sydney (November 2, 2018)
- Brussels (November 8, 2018)

Further details are due to be posted on the IAASB website when available.

Outreach Activities to date

The Task Force Chair and IAASB Staff have undertaken the following outreach activities since the March 2018 board meeting:

- Three web-conferences with the Project Advisory Panel (PAP) – to discuss the materials from the March 2018 board meeting, the first draft of the materiality framework, and the work of the Task Force in relation to criteria and assertions.
- IAASB National Standard Setters' (NSS) Meeting – presented on the project and received feedback on activities related to EER at a national level.
- World Business Council for Sustainable Development (WBCSD) Assurance Working Group – provided an update on the project.
- WBCSD – meeting with Lois Guthrie to discuss wider WBCSD work streams and TCFD.
- Principles for Responsible Investment (PRI) – discussion with Fiona Reynolds and Mandy Kirby regarding future collaboration and involvement in the project.
- Institute of Chartered Accountants in England and Wales (ICAEW) – briefing of practitioners working group to enable future contribution to the project.
- Institut der Wirtschaftsprüfer (IDW) – discussion with Wolfgang Böhm regarding the German standard covering audit of the management report as part of the financial statement audit.

- ClientEarth – meeting with Daniel Wiseman (PAP member) to discuss ClientEarth’s work and the EER project.
- IASB – meeting with Yulia Feygina (Technical Principal) to discuss the IASB Management Commentary Practice Statement project.
- ERM Certification and Verification Services (ERM CVS) – meeting with Jennifer Iansen-Rogers (PAP member) to discuss key issues arising including materiality.
- Email correspondence and conference calls with various organizations and contacts to arrange the series of global roundtable events.

Appendix 3 – Relevant extracts from ISAE 3000 (Revised)

Definitions

12. For purposes of this ISAE and other ISAEs, unless indicated to the contrary, the following terms have the meanings attributed below. (Ref: Para. A27)
- (c) Criteria—The benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement. (Ref: Para. A10)
 - (m) Intended users—The individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report. In some cases, there may be intended users other than those to whom the assurance report is addressed. (Ref: Para. A16–A18, A37))
 - (o) Misstatement—A difference between the subject matter information and the appropriate measurement or evaluation of the underlying subject matter in accordance with the criteria. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions.
 - (r) Practitioner—The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this ISAE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used. (Ref: Para. A37)
 - (x) Subject matter information—The outcome of the measurement or evaluation of the underlying subject matter against the criteria, that is, the information that results from applying the criteria to the underlying subject matter. (Ref: Para. A19)
 - (y) Underlying subject matter—The phenomenon that is measured or evaluated by applying criteria.

Requirements

Acceptance and Continuance

Preconditions for the Assurance Engagement

24. In order to establish whether the preconditions for an assurance engagement are present, the practitioner shall, on the basis of a preliminary knowledge of the engagement circumstances and discussion with the appropriate party(ies), determine whether: (Ref: Para. A35–A36)
- (a) The roles and responsibilities of the appropriate parties are suitable in the circumstances; and (Ref: Para. A37–A39)
 - (b) The engagement exhibits all of the following characteristics:
 - (i) The underlying subject matter is appropriate; (Ref: Para. A40–A44)
 - (ii) The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances, including that they exhibit the following characteristics: (Ref: Para. A45–A50)
 - a. Relevance.
 - b. Completeness.
 - c. Reliability.
 - d. Neutrality.
 - e. Understandability.

- (iii) The criteria that the practitioner expects to be applied in the preparation of the subject matter information will be available to the intended users; (Ref: Para. A51–A52)
 - (iv) The practitioner expects to be able to obtain the evidence needed to support the practitioner’s conclusion; (Ref: Para. A53–A55)
 - (v) The practitioner’s conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is to be contained in a written report; and
 - (vi) A rational purpose including, in the case of a limited assurance engagement, that the practitioner expects to be able to obtain a meaningful level of assurance. (Ref: Para. A56)
25. If the preconditions for an assurance engagement are not present, the practitioner shall discuss the matter with the engaging party. If changes cannot be made to meet the preconditions, the practitioner shall not accept the engagement as an assurance engagement unless required by law or regulation to do so. However, an engagement conducted under such circumstances does not comply with ISAE. Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with this ISAE or any other ISAE(s).

Planning and Performing the Engagement

Materiality

44. The practitioner shall consider materiality when: (Ref: Para. A92–A100)
- (a) Planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures; and
 - (b) Evaluating whether the subject matter information is free from material misstatement.

Application and Other Explanatory Material

Definitions

Intended Users (Ref: Para. 12(m), Appendix)

- A16. In some cases, there may be intended users other than those to whom the assurance report is addressed. The practitioner may not be able to identify all those who will read the assurance report, particularly where a large number of people have access to it. In such cases, particularly where possible users are likely to have a broad range of interests in the underlying subject matter, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and the responsible party or engaging party, or by law or regulation.

Acceptance and Continuance

Suitability and Availability of the Criteria

Suitability of the criteria (Ref: Para. 24(b)(ii))

- A45. Suitable criteria exhibit the following characteristics:

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

- (b) Completeness: Criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter information. Complete criteria include, where relevant, benchmarks for presentation and disclosure.
 - (c) Reliability: Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by different practitioners.
 - (d) Neutrality: Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.
 - (e) Understandability: Understandable criteria result in subject matter information that can be understood by the intended users.
- A46. Vague descriptions of expectations or judgments of an individual's experiences do not constitute suitable criteria.
- A47. The suitability of criteria for a particular engagement depends on whether they reflect the above characteristics. The relative importance of each characteristic to a particular engagement is a matter of professional judgment. Further, criteria may be suitable for a particular set of engagement circumstances, but may not be suitable for a different set of engagement circumstances. For example, reporting to governments or regulators may require the use of a particular set of criteria, but these criteria may not be suitable for a broader group of users.
- A48. Criteria can be selected or developed in a variety of ways, for example, they may be:
- Embodied in law or regulation.
 - Issued by authorized or recognized bodies of experts that follow a transparent due process.
 - Developed collectively by a group that does not follow a transparent due process.
 - Published in scholarly journals or books.
 - Developed for sale on a proprietary basis.
 - Specifically designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement.

How criteria are developed may affect the work that the practitioner carries out to assess their suitability.

- A49. In some cases, law or regulation prescribes the criteria to be used for the engagement. In the absence of indications to the contrary, such criteria are presumed to be suitable, as are criteria issued by authorized or recognized bodies of experts that follow a transparent due process if they are relevant to the intended users' information needs. Such criteria are known as established criteria. Even when established criteria exist for an underlying subject matter, specific users may agree to other criteria for their specific purposes. For example, various frameworks can be used as established criteria for evaluating the effectiveness of internal control. Specific users may, however, develop a more detailed set of criteria that meet their specific information needs in relation to, for example, prudential supervision. In such cases, the assurance report:
- (a) Alerts readers that the subject matter information is prepared in accordance with special purpose criteria and that, as a result, the subject matter information may not be suitable for another purpose (see paragraph 69(f)); and
 - (b) May note, when it is relevant to the circumstances of the engagement, that the criteria are not embodied in law or regulation, or issued by authorized or recognized bodies of experts that follow a transparent due process.
- A50. If criteria are specifically designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement, they are not suitable if they result in subject matter information

or an assurance report that is misleading to the intended users. It is desirable for the intended users or the engaging party to acknowledge that specifically developed criteria are suitable for the intended users' purposes. The absence of such an acknowledgement may affect what is to be done to assess the suitability of the criteria, and the information provided about the criteria in the assurance report.

Availability of the criteria (Ref: Para. 24(b)(iii))

- A51. Criteria need to be available to the intended users to allow them to understand how the underlying subject matter has been measured or evaluated. Criteria are made available to the intended users in one or more of the following ways:
- (a) Publicly.
 - (b) Through inclusion in a clear manner in the presentation of the subject matter information.
 - (c) Through inclusion in a clear manner in the assurance report (see paragraph A164).
 - (d) By general understanding, for example the criterion for measuring time in hours and minutes.
- A52. Criteria may also be available only to intended users, for example the terms of a contract, or criteria issued by an industry association that are available only to those in the industry because they are relevant only to a specific purpose. When this is the case, paragraph 69(f) requires a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users (see paragraph A166–A167).

Planning and Performing the Engagement

Materiality (Ref: Para. 44)

- A92. Professional judgments about materiality are made in light of surrounding circumstances, but are not affected by the level of assurance, that is, for the same intended users and purpose, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of intended users.
- A93. The applicable criteria may discuss the concept of materiality in the context of the preparation and presentation of the subject matter information and thereby provide a frame of reference for the practitioner in considering materiality for the engagement. Although applicable criteria may discuss materiality in different terms, the concept of materiality generally includes the matters discussed in paragraphs A92–A100. If the applicable criteria do not include a discussion of the concept of materiality, these paragraphs provide the practitioner with a frame of reference.
- A94. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information. The practitioner's consideration of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the common information needs of intended users as a group. In this context, it is reasonable for the practitioner to assume that intended users:
- (a) Have a reasonable knowledge of the underlying subject matter, and a willingness to study the subject matter information with reasonable diligence;
 - (b) Understand that the subject matter information is prepared and assured to appropriate levels of materiality, and have an understanding of any materiality concepts included in the applicable criteria;
 - (c) Understand any inherent uncertainties involved in the measuring or evaluating the underlying subject matter; and
 - (d) Make reasonable decisions on the basis of the subject matter information taken as a whole.

Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered (see also paragraphs A16–A18).

- A95. Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative factors and quantitative factors when considering materiality in a particular engagement is a matter for the practitioner's professional judgment.
- A96. Qualitative factors may include such things as:
- The number of persons or entities affected by the subject matter.
 - The interaction between, and relative importance of, various components of the subject matter information when it is made up of multiple components, such as a report that includes numerous performance indicators.
 - The wording chosen with respect to subject matter information that is expressed in narrative form.
 - The characteristics of the presentation adopted for the subject matter information when the applicable criteria allow for variations in that presentation.
 - The nature of a misstatement, for example, the nature of observed deviations from a control when the subject matter information is a statement that the control is effective.
 - Whether a misstatement affects compliance with law or regulation.
 - In the case of periodic reporting on an underlying subject matter, the effect of an adjustment that affects past or current subject matter information or is likely to affect future subject matter information.
 - Whether a misstatement is the result of an intentional act or is unintentional.
 - Whether a misstatement is significant having regard to the practitioner's understanding of known previous communications to users, for example, in relation to the expected outcome of the measurement or evaluation of the underlying subject matter.
 - Whether a misstatement relates to the relationship between the responsible party, the measurer or evaluator, or the engaging party or their relationship with other parties.
 - When a threshold or benchmark value has been identified, whether the result of the procedure deviates from that value.
 - When the underlying subject matter is a governmental program or public sector entity, whether a particular aspect of the program or entity is significant with regard to the nature, visibility and sensitivity of the program or entity.
 - When the subject matter information relates to a conclusion on compliance with law or regulation, the seriousness of the consequences of non-compliance.
- A97. Quantitative factors relate to the magnitude of misstatements relative to reported amounts for those aspects of the subject matter information, if any, that are:
- Expressed numerically; or
 - Otherwise related to numerical values (for example, the number of observed deviations from a control may be a relevant quantitative factor when the subject matter information is a statement that the control is effective).
- A98. When quantitative factors are applicable, planning the engagement solely to detect individually material misstatements overlooks the fact that the aggregate of uncorrected and undetected individually immaterial misstatements may cause the subject matter information to be materially misstated. It may therefore be appropriate when planning the nature, timing and extent of procedures for the practitioner to determine a quantity less than materiality as a basis for determining the nature, timing and extent of procedures.

- A99. Materiality relates to the information covered by the assurance report. Therefore, when the engagement covers some, but not all, aspects of the information communicated about an underlying subject matter, materiality is considered in relation to only that portion that is covered by the engagement.
- A100. Concluding on the materiality of the misstatements identified as a result of the procedures performed requires professional judgment. For example:
- The applicable criteria for a value for money engagement for a hospital's emergency department may include the speed of the services provided, the quality of the services, the number of patients treated during a shift, and benchmarking the cost of the services against other similar hospitals. If three of these applicable criteria are satisfied but one applicable criterion is not satisfied by a small margin, then professional judgment is needed to conclude whether the hospital's emergency department represents value for money as a whole.
 - In a compliance engagement, the entity may have complied with nine provisions of the relevant law or regulation, but did not comply with one provision. Professional judgment is needed to conclude whether the entity complied with the relevant law or regulation as a whole. For example, the practitioner may consider the significance of the provision with which the entity did not comply, as well as the relationship of that provision to the remaining provisions of the relevant law or regulation.

Obtaining Evidence

Accumulating Uncorrected Misstatements (Ref: Para. 51, 65)

- A118. Uncorrected misstatements are accumulated during the engagement (see paragraph 51) for the purpose of evaluating whether, individually or in aggregate, they are material when forming the practitioner's conclusion.
- A119. The practitioner may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the practitioner expects that the accumulation of such amounts clearly would not have a material effect on the subject matter information. "Clearly trivial" is not another expression for "not material." Matters that are clearly trivial will be of a wholly different (smaller) order of magnitude than materiality determined in accordance with paragraph 44, and will be matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.