

## CHAPTER 1

IAASB's new guidance  
on EER Assurance  
Engagements**This article aims to:**

Provide an overview of the guidance issued by IAASB regarding assurance engagements such as sustainability or Environmental, Social and Governance (ESG) reporting, integrated reporting, reporting on corporate social responsibility, etc.

**Introduction**

Over the past decade, corporate reporting around the world has continuously been evolving. Investors and other stakeholders in the corporate ecosystem have increased their focus on non-financial information and disclosures relating to long-term value creation, sustainability reporting and the corporate social responsibilities reported by a company.

Many companies across the world provide Extended External Reporting (EER) e.g. sustainability or Environmental, Social and Governance (ESG) reporting, integrated reporting, reporting on corporate social responsibility, greenhouse gas statements, and service performance reporting in the public sector.

Currently, the EER reports are prepared under regulatory requirements or voluntary frameworks in accordance with the standards or guidance issued by organisations ranging from sector specific industry bodies to national or international standard setters.

As reporting evolves, there is a corresponding increase in demand for assurance engagements on such extended types of reporting.

**ISAE 3000 – An assurance standard**

The International Auditing and Assurance Standards Board (IAASB) issued the International Standard on Assurance Engagement (ISAE) 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. The ISAE 3000 was the first standard issued by a standard setter which provided guidance to practitioners over assurance engagements other than audits or reviews of historical financial information. The standard establishes requirements and application and other explanatory material specific to reasonable and limited assurance attestation engagements (including application to direct engagements) other than audits or reviews of historical financial information.

However, certain challenges were highlighted to IAASB regarding ISAE 3000 (Revised) in EER assurance engagements.

**Non-Authoritative Guidance on applying ISAE 3000 (Revised) to EER assurance engagements – an overview**

Recently, on 6 April 2021, the IAASB issued 'Non-Authoritative Guidance on applying ISAE 3000 (Revised) to EER assurance engagements'. This guidance responds to 10 key stakeholder identified challenges commonly encountered in assurance engagements other than audits or reviews of historical financial information. Two additional non-authoritative support material viz. 'Credibility and trust model relating to EER reporting' and 'Illustrative examples of selected aspects of EER assurance' have also been issued by the IAASB.

While the intended audience of the guidance is practitioners carrying out EER assurance engagements, other parties such as preparers and users of EER reports or regulators may take aid from the guidance.

Management is responsible for establishing suitable criteria for preparing the EER in accordance with an applicable framework. User's perception of the credibility of an EER report can be influenced by the qualities and transparency of the EER framework used in preparation. Similarly, a sound EER framework guides management in producing an EER report that is effective in communicating and gives users confidence of end use.



## Key consideration for the management/preparer

In the section below, we have highlighted some of the key considerations which would enable management/preparers of EER report in identification of relevance and suitability of potential process/procedures or systems, competence of assurance provider, forms of presentation of EER information, expectation over type of assurance in terms of limited or reasonable, diverse underlying subject matters, etc.:

**a. Applying appropriate competence and capabilities:** Preparers of the EER should have the subject matter competence since EER reporting can be complex comprising of both qualitative and quantitative disclosures. Also, the management and Those Charged With Governance (TCWG) should evaluate the competence of the EER assurance team and their skills and techniques in the underlying subject matter and their measurement or evaluation process. The more complex the engagement, the more necessary it would be for the management to consider the work of practitioners and specialists in performing the assurance engagement.

Without reasonable oversight and governance, EER may not be viewed in the same lens as reporting financial performance. Lack of oversight function by TCWG may lead to risks of material misstatements of fraud or errors.

**b. Selection of suitable criteria:** There exists numerous possible EER frameworks (such as the IIRC<sup>1</sup>, GRI<sup>2</sup>, SASB<sup>3</sup> etc.), criteria or bases of preparation for each underlying subject matter. The management should assess and evaluate to select the most suitable reporting criteria including appropriate assumptions and methods to be used. This may pose challenge when the EER subject matter information is voluntarily reported without

regulatory oversight. It is important that the criteria a company chooses for EER should also be relevant and consistent with those generally recognised in the context of the company's sector or industry. Further, the criteria selected is required to be complete so that the intended user is able to make informed decisions by having access to subject matter information in the context of the circumstances of the entity and the purpose of the EER report. Other factors to keep in mind in selecting a suitable criteria include reliability, neutrality and understandability of the criteria.

**c. Recognise unusual circumstances or omissions of information:** EER reporting frameworks are still evolving and allowing for different interpretations or applications of the criteria. While an entity's systems, processes and controls may still be developing or there may be less participation by management around EER related matters as compared to financial performance and strategy, robust process may be implemented by the management to prevent/detect/correct misstatements of information forming part of EER including omissions.

**d. Determining the scope of EER assurance engagement:** The company needs to clearly define the scope of the EER engagement including that there is a rational purpose to the engagement. In the initial stages of an entity's EER reporting, the company may not be able to provide assurance on all of the information included in the EER report. The company (preparer) may propose a scope for the EER assurance engagement that increases from period to period or one that varies in a 'rolling program' of assurance. Scope of the EER reporting can vary, for example - the whole EER report, specific topics or areas of information within the EER report (for example environmental or social matters) or individual items within specific topics or

areas of information within the EER report (for example waste generated within the 'environmental' topic or area, or gender pay within the 'social' topic).

**e. Process to identify reporting topics:** In certain cases, companies may have to deal with absence of an EER framework to follow or insufficient detailed direction in the framework to make reliable judgements about what reporting topics to address in an EER report. In those cases, the company ordinarily should establish a process to decide how to make judgements about what to include in their EER information considering the information needs of intended users. The entities may consider following process to identify reporting topics:

- i. Identify purpose, intended users and framework
- ii. Develop list of reporting topics that may potentially be relevant, complete and neutral
- iii. Consider and document factors that may be relevant, complete and neutral in the light of matters such as interest and impact
- iv. Identify reporting topics
- v. Make criteria available and where required, disclose details of the process.

Intended users may find it helpful to understand the process the preparer has been through to identify reporting topics, even if disclosure of the process is not required by the EER framework. It is important that the criteria to identify reporting topics are made available to the intended users along with other applicable criteria.

1. IIRC – International Integrated Reporting Council

2. GRI – Global Reporting Initiative

3. SASB – Sustainability Accounting Standards Board

**f. Internal control and governance matters:** A company's process to prepare EER information needs to provide a reasonable basis for the subject matter information. The company may involve the use of IT to collect or process data and information. As a company gains more experience in EER reporting, the company's internal control may become more sophisticated and new technologies may be used to record, process and report their EER information. The nature of the company's processes, controls and records in the company's system of internal control may vary with the size and complexity of the company.

The governance structure arrangements of a company preparing EER report over the management and reporting of its EER information may be less developed or less 'embedded' into its operations as compared to managing and reporting its financial performance. Therefore, it is important that the company establishes a formal level of the oversight and governance arrangements including the process of risk assessment to monitor the system of internal control.

**g. Qualitative and future-oriented EER information:** Qualitative information may be future-oriented or historically-oriented, and future-oriented information may be expressed in either qualitative or quantitative terms. A number of challenges may also arise in the context of providing evidence for qualitative subject matter information because it may be difficult for the entity's process

to prepare the EER information to capture data and information about the subject matter information. Although the process to prepare the subject matter information and related controls, may be sufficient to provide the company with a reasonable basis for the subject matter information, it may not be sufficient to provide the practitioner with the evidence needed to support the practitioner's conclusion.

**h. The assurance report:** The expression of an assurance conclusion is the objective of the assurance engagement. It is designed to enhance the degree of confidence of the intended users about the subject matter information. The standard provides guidance on how practitioners may communicate effectively to the users of EER report. This is done by issuing a written assurance report that complies with the requirements of ISAE 3000 so that users can understand to whom the assurance report has been issued, what is the subject of the EER assurance engagement, how the engagement was performed, what was the underlying subject matter and finally what has been the assurance conclusion. The guidance provides illustrative formats of various types of assurance reports for reference of companies and practitioners.

## Way forward

The IAASB have advanced towards a significant step in providing non-authoritative guidance on applying ISAE 3000 to EER engagements. The guidance provided by IAASB will help preparers, practitioner and users of EER report to build trust and credibility in relation to the EER reports and assurance reports thereof. It would further help in providing a consistent framework and open and transparent way of communicating with various stakeholders in the ecosystem. The guidance and the supporting material also provide illustrative examples for a user in the practical application of ISAE 3000 to EER reports and assurance engagements.

In India, recently on 25 March 2021, the Securities and Exchange Board of India (SEBI) in its board meeting approved amendments to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations). The amendment requires the new report Business Responsibility and Sustainability Report (BRSR) to be applicable to the top 1,000 listed entities instead of existing Business Responsibility Report (BRR) on a voluntary basis for financial year 2021- 22 and on a mandatory basis from financial year 2022-23 in the prescribed format. Large corporates in India and practitioners are likely to benefit from the new guidance provided by IAASB in seeking assurance on their EER reports.