

Proposed SAAEPS 1

November 2017

Comments requested by 29 March 2018



*South African Assurance Engagements Practice Statement
(SAAEPS) 1*

Sustainability Assurance Engagement Concepts: Evaluating the Rational Purpose, the Appropriateness of the Underlying Subject Matter and the Suitability of Criteria

WARNING TO READERS

*The content of this proposed SAAEPS 1 should under no circumstances be used
or relied upon until it is issued as a pronouncement by the IRBA*

REQUEST FOR COMMENTS

The Independent Regulatory Board for Auditors' (IRBA) Committee for Auditing Standards (CFAS) approved this proposed South African Assurance Engagements Practice Statement (SAAEPS) 1, *Sustainability Assurance Engagement Concepts: Evaluating the Rational Purpose, the Appropriateness of the Underlying Subject Matter and the Suitability of Criteria*, (proposed SAAEPS) in November 2017 for exposure for a period of 120 days for comment. This proposed SAAEPS may be modified in light of comments received before being issued in its final form.

This proposed SAAEPS has been prepared by a CFAS Task Group comprising technical staff representatives from auditing firms, the public sector, academia, the South African Institute of Chartered Accountants and the IRBA.

The IRBA's legislative mandate

The objects of the Auditing Profession Act, 2005 (Act No. 26 of 2005) (the Act), are set out in Section 2 and include, inter alia:

- (c) *"to approve the development and maintenance of internationally comparable ethical standards and auditing standards for auditors that promote investment and as a consequence employment in the Republic; and*
- (d) *to set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession".*

To give effect to the objects, Section 4 of the Act sets out the general functions of the Regulatory Board (the IRBA), that *"the Regulatory Board must, in addition to its other functions provided for in this Act"* take steps to meet certain specific requirements. These include Section 4(1), which specifies that the IRBA must:

- (c) *"prescribe standards of professional competence, ethics and conduct of registered auditors;" and*
- (e) *"prescribe auditing standards".*

To enable the IRBA to meet these requirements, Section 4(2)(a) states that *"the Regulatory Board may participate in the activities of international bodies whose main purpose is to develop and set auditing standards and to promote the auditing profession"*.

Statutory responsibility of the CFAS

The statutory responsibility of the CFAS is set out in Section 22(2), which requires that *"the CFAS must assist the Regulatory Board:*

- (a) *to develop, maintain, adopt, issue or prescribe auditing pronouncements;*
- (b) *to consider relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and*
- (c) *to promote and ensure the relevance of auditing pronouncements".*

This proposed SAAEPS may be downloaded for free from the [IRBA website](#).

REQUEST FOR COMMENTS

Comments should be submitted by **29 March 2018**.

Respondents are requested to submit their comments electronically in Word and PDF formats to standards@irba.co.za. All comments will be considered a matter of public record and will be posted on the [IRBA website](#).

Should you have any queries, or experience any technical difficulties in downloading the document, please email the Standards Department at standards@irba.co.za.

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SECTION 1: INTRODUCTION

This memorandum provides the background to and an explanation regarding the proposed South African Assurance Engagements Practice Statement (SAAEPS) 1, *Sustainability Assurance Engagement Concepts: Evaluating the Rational Purpose, the Appropriateness of the Underlying Subject Matter and the Suitability of Criteria* (proposed SAAEPS).

The proposed SAAEPS provides practical assistance to practitioners on evaluating certain aspects of the rational purpose of the sustainability assurance engagement, the appropriateness of the underlying subject matter and the suitability of the criteria applied in the preparation of the subject matter information, and the documentation thereof, when requested to accept a sustainability assurance engagement in accordance with the requirements of the International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

The Committee for Auditing Standards (CFAS) approved this proposed SAAEPS in November 2017 for exposure for a period of 120 days.

Background

ISAE 3000 (Revised), issued by the International Auditing and Assurance Standards Board (IAASB), became effective for assurance reports dated on or after 15 December 2015. Under the previous standard, ISAE 3000, the practitioner was only required to consider paragraph 17 of the previous *International Framework for Assurance Engagements* that sets out the preconditions for an assurance engagement. The preconditions for an assurance engagement have now been included in ISAE 3000 (Revised) as a requirement and have been expanded upon. This means practitioners need to perform a more robust *Acceptance and Continuance – Preconditions for the Assurance Engagement* phase of the assurance engagement.

ISAE 3000 (Revised) is an “umbrella standard” that covers assurance engagements other than audits or reviews of historical financial information. The IAASB has issued several subject-matter specific ISAEs, but has not developed a subject-matter specific ISAE on sustainability assurance engagements. Based on feedback received from practitioners, the *Acceptance and Continuance – Preconditions for the Assurance Engagement* phase of the assurance engagement is challenging and is applied inconsistently in practice. As such, the CFAS embarked on this project to provide practical assistance to practitioners in establishing whether the preconditions for an assurance engagement on sustainability information reported in an entity’s sustainability report are present.

In August 2016, the IAASB issued a discussion paper, [Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements](#), that explores, among other things, the challenges in relation to

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Emerging Forms of External Reporting (EER) assurance engagements. The IAASB received 39 comment letters on the discussion paper and has published these on its [website](#). At the October 2017 IAASB meeting, the IAASB members approved a project proposal to develop non-authoritative guidance to address key challenges, identified by the IAASB, which arise in the performance of assurance engagements over EER in applying ISAE 3000 (Revised). A feedback statement was also approved for issue that summarises what was heard in the responses to the discussion paper. It is expected that the approved project proposal and feedback statement will be published shortly on the its [website](#). An assurance engagement on sustainability information reported in an entity's sustainability report is currently the most commonly encountered form of EER in the South African market; as such, this proposed SAAEPS has been written in this context of that reality.

This proposed SAAEPS considers:

- The evaluation of the rational purpose of the sustainability assurance engagement;
- Whether the underlying subject matter is appropriate; and
- Whether the criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances.

As such, it attempts to address the following two internationally recognised challenges that were included in the discussion paper:

- Challenge 1: Determining the Scope of an EER Assurance Engagement Can Be Complex; and
- Challenge 2: Evaluating the Suitability of Criteria in a Consistent Manner.

Project timetable

Subject to comments received on exposure of this proposed SAAEPS, the CFAS intends to finalise this SAAEPS in the second quarter of 2018.

Effective date

Depending on comments received, the expectation is that the final SAAEPS may be approved and issued by the CFAS in June 2018, with such approval and issue being noted at the subsequent meeting of the IRBA Board.

It is expected that this proposed SAAEPS will be effective for the *Acceptance and Continuance – Preconditions for the Assurance Engagement* phase of the assurance engagement for periods beginning on or after 15 December 2018.

An effective date in the first year of implementation of this proposed SAAEPS would mean that the practitioner implements this proposed SAAEPS for the first *Acceptance*

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and Continuance – Preconditions for the Assurance Engagement phase of the assurance engagement for periods beginning on or after 15 December 2018.

ISAE 3000 (Revised) became effective for assurance reports dated on or after 15 December 2015, and this proposed SAAEPS does not establish new requirements or contain exemptions from the requirements of ISAE 3000 (Revised). However, given the challenging nature and inconsistent application in practice of the *Acceptance and Continuance – Preconditions for the Assurance Engagement* phase of the assurance engagement, it is necessary to provide practitioners with a six-month transitional period before the effective date of this proposed SAAEPS.

1. Does the recommended effective date permit sufficient time for the implementation of the guidance contained herein by practitioners performing such engagements?

SECTION 2: GUIDE FOR RESPONDENTS

The CFAS welcomes comments on all matters addressed in this exposure draft, especially those identified in the Request for Specific Comments section (Section 4) below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments and, where appropriate, make specific suggestions for any proposed changes to the wording. When a respondent agrees with the proposals in this exposure draft, it will be helpful for the CFAS to be made aware of this view as this cannot always be inferred when not stated.

SECTION 3: SIGNIFICANT MATTERS

The following matters have been deliberated by the CFAS and specific comments are requested from respondents on these matters. For ease of reference, the questions contained under each of the significant matters set out below have been repeated under the heading “Section 4: Request for Specific Comment”.

Practical assistance on certain aspects of ISAE 3000 (Revised)

This proposed SAAEPS provides practical assistance to practitioners on evaluating certain aspects of the rational purpose of the sustainability assurance engagement, the appropriateness of the underlying subject matter and the suitability of the criteria applied in the preparation of the subject matter information, and the documentation thereof, when conducting a sustainability assurance engagement in accordance with the requirements of ISAE 3000 (Revised).

For practical assistance, this proposed SAAEPS has been set out to first provide context to the subjects of:

- Intended users;
- Sustainability information;

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- Sound reporting infrastructure; and
- Underlying subject matter, subject matter information and criteria.

This is followed by guidance on establishing whether certain aspects of the preconditions for the assurance engagement dealt with in this proposed SAAEPS are present, and this is set out as follows:

- **Rational purpose assessment:** Guidance on the evaluation of the rational purpose of the sustainability assurance engagement; and
- **Appropriateness of underlying subject matter and suitability of criteria applied assessment:** Guidance on the evaluation of the appropriateness of the underlying subject matter and the suitability of the criteria applied in the preparation of the subject matter information in a sustainability assurance engagement.

2. Is the approach taken in setting out the process in addressing certain aspects of the preconditions for sustainability assurance engagements dealt with in this proposed SAAEPS consistent with the requirements, application and other explanatory material contained in ISAE 3000 (Revised)? If not, why? Can you suggest an alternative approach?

Focus on certain aspects of the preconditions for a sustainability assurance engagement

On the basis of a preliminary knowledge of the engagement circumstances, the practitioner is required to establish whether the preconditions for an assurance engagement set out in paragraphs 24-26 of ISAE 3000 (Revised) are present.

However, this proposed SAAEPS deals with only certain aspects of this phase in determining whether the engagement exhibits, among others, the following characteristics:

- A rational purpose:
 - Whether aspects of the subject matter information are expected to be excluded from the assurance engagement, and the reason for their exclusion.
 - Who selected the criteria to be applied to measure or evaluate the underlying subject matter, and what the degree of judgment and scope for bias is in applying them. The engagement is more likely to have a rational purpose if the intended users selected or were involved in selecting the criteria¹.

1. ISAE 3000 (Revised), paragraphs 24(b)(vi) and A56.

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- The underlying subject matter is appropriate²; and
- 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:
 - Relevance.
 - Completeness.
 - Reliability.
 - Neutrality.
 - Understandability³.

ISAE 3000 (Revised) contains requirements and application material on all the preconditions for an assurance engagement that are required to be present (those considered in terms of this SAAEPS and all other aspects considered that are beyond the scope of this SAAEPS). This SAAEPS provides practical assistance to practitioners on some of those preconditions.

As such, this proposed SAAEPS deals only with certain aspects of the sustainability assurance engagement that occur before planning and performing the engagement.

This proposed SAAEPS deals with certain considerations set out in paragraph 24(b) and paragraph A56 of ISAE 3000 (Revised) in evaluating whether the preconditions for an assurance engagement are present. All other aspects relating to the *Acceptance and Continuance – Preconditions for the Assurance Engagement* phase of the assurance engagement, although equally important and required to be considered, are beyond the scope of this proposed SAAEPS. However, the onus is on the practitioner to make a determination, based on a preliminary knowledge of the engagement circumstances, on whether these additional preconditions for the assurance engagement are present.

Additionally, in considering whether other aspects of paragraph A56 of ISAE 3000 (Revised) should be included in this proposed SAAEPS, the CFAS concluded that the other characteristics are more readily understood (considerations 1, 3, 5 and 6⁴).

2. ISAE 3000 (Revised), paragraph 24(b)(i).

3. ISAE 3000 (Revised), paragraph 24(b)(ii).

4. ISAE 3000 (Revised), paragraph A56: Consideration 1: “The intended users of the subject matter information and the assurance report (particularly, when the criteria are designed for a special purpose). A further consideration is the likelihood that the subject matter information and the assurance report will be used or distributed more broadly than to intended users”; Consideration 3: “The characteristics of the relationships between the responsible party, the measurer or evaluator, and the engaging party, for example, when the measurer or evaluator is not the responsible party, whether the responsible party consents to the use to be made of the subject matter information and will have the opportunity to review the subject matter information before it is made available to intended users or to distribute comments with the subject matter information”; Consideration 5: “Any significant limitations on the scope of the practitioner’s work”; and Consideration 6: “Whether the practitioner believes the engaging party intends to associate the practitioner’s name with the underlying subject matter or the subject matter information

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In concluding on whether the preconditions for an assurance engagement are present, the practitioner considers all aspects (those considered in terms of this proposed SAAEPS and all other aspects considered that are beyond the scope of this proposed SAAEPS).

3. Is the content of this proposed SAAEPS within the requirements of the preconditions for sustainability assurance engagements?
4. Do any of the other relevant considerations contained in paragraph A56 of ISAE 3000 (Revised) in determining whether the sustainability assurance engagement has a rational purpose need to be considered in this proposed SAAEPS?
5. Considering the scope of this proposed SAAEPS, the requirements, application and other explanatory material contained in ISAE 3000 (Revised) concerning this scope, has anything relevant been omitted from this proposed SAAEPS?

Evaluation of the rational purpose

The first part of the guidance on establishing whether certain aspects of the preconditions for the assurance engagement dealt with in this proposed SAAEPS are present provides guidance on the evaluation of the rational purpose of the sustainability assurance engagement.

The practitioner is required to use professional judgment at each stage of the rational purpose assessment. This is particularly important since reporting entities may be at varying stages of maturity in respect of generating/preparing sustainability information.

For example, in the early stages of a reporting entity generating sustainability information, the related assurance engagement may appear not to have a rational purpose. This being said, the reporting entity may still request an assurance engagement to be performed on such sustainability information. To illustrate this, in gathering sustainability information in the early stages, a reporting entity may focus its reporting on a particular operation because reporting systems have not been established and implemented at other operations. The assurance engagement may have a rational purpose if there are:

- Clear disclosures in the sustainability report of the facts and the reasons surrounding the decision that sustainability information on the other operations has been excluded. However, if the reporting entity excludes sustainability information on the other operations once the reporting systems are established and implemented, the engagement is unlikely to have a rational purpose; and
- The practitioner concludes that the disclosures provided will meet the information needs of the intended users.

in an inappropriate manner”.

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This proposed SAAEPS provides guidance in terms of ISAE 3000 (Revised), as follows:

- After completing the process as set out in the rational purpose assessment, the appropriateness of underlying subject matter and suitability of criteria applied assessment of this proposed SAAEPS, the practitioner determines whether these preconditions for a sustainability assurance engagement are present.
- If, in the practitioner's professional judgment, the preconditions for an assurance engagement are present (those considered in terms of this proposed SAAEPS and all other aspects considered that are beyond the scope of this proposed SAAEPS), the practitioner can accept or continue the sustainability assurance engagement.
- If the practitioner has concluded that the preconditions for an assurance engagement are not present, the practitioner shall discuss the matter with the reporting entity. If changes cannot be made to meet the preconditions, the practitioner shall not accept or continue the engagement as an assurance engagement.

6. Do you agree with the approach taken in the guidance contained in this proposed SAAEPS with regards to evaluating whether an engagement has a rational purpose?
7. Can you suggest an alternative approach that recognises – but still complies with ISAE 3000 (Revised) – that reporting entities are in varying stages of maturity in respect of generating/preparing sustainability information?

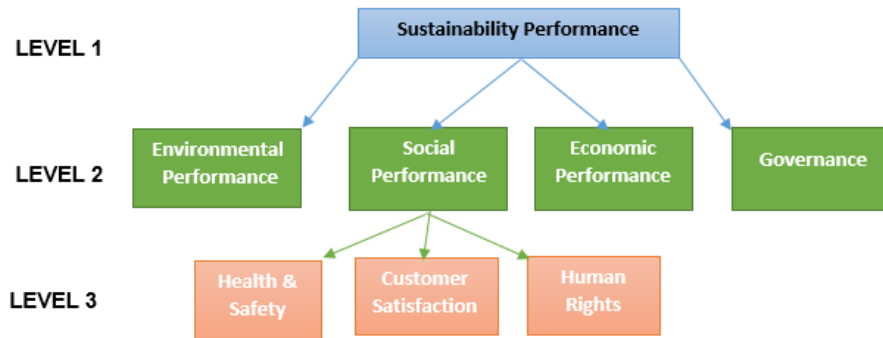
Underlying subject matter, subject matter information and criteria

The appropriate interpretation of the concepts of underlying subject matter, subject matter information and criteria is key in implementing the assessment of rational purpose, and in assessing the suitability of criteria.

In the context of sustainability reporting, the process of understanding the underlying subject matter can be disaggregated into multiple levels. To facilitate the consistent application of these concepts, this proposed SAAEPS provides a practical example, as depicted in **Figure 1**, and this is followed by an explanation. (A further example is provided in **Appendix C.**)

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Figure 1



Level 1: In the context of a sustainability report, the underlying subject matter will generally be considered to be sustainability performance.

Level 2: Sustainability performance can be disaggregated into environmental, social, governance and economic performance, which becomes the underlying subject matter at this level. In this example, social performance is the underlying subject matter.

Level 3: In disaggregating social performance further, the underlying subject matter at this level could be, for example, customer satisfaction, health and safety or human rights. Customer satisfaction is used in this example.

The definition of criteria contained in ISAE 3000 (Revised) refers to the benchmarks used to measure or evaluate the underlying subject matter. In the context of sustainability reporting, it is recommended to distinguish between criteria for developing reporting content (scoping criteria) and criteria for measurement (measurement or evaluation criteria). The two can be defined as follows:

- Scoping criteria: This considers which KPIs⁵ and/or disclosures will be used to evaluate performance pertaining to the underlying subject matter at the various levels; and which disclosed KPIs are scoped into the assurance engagement. This will typically be considered as part of the rational purpose assessment.
- Measurement or evaluation criteria: This considers measurement or evaluation protocols for identified KPIs and/or disclosures (i.e. the criteria used in the particular engagement to measure or evaluate the underlying subject matter). This will typically be considered as part of the suitability of criteria assessment.

In the context of providing assurance on sustainability information, the development of criteria is the responsibility of the reporting entity. The practitioner's responsibility is to assess the suitability of the criteria.

Using the example of customer satisfaction, the application of scoping criteria will result

5. Key performance indicators (KPIs) are not mentioned in ISAE 3000 (Revised), but typically, at this point in time, in a sustainability engagement the assurance scope is to report on selected KPIs.

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in the selection by management of the most appropriate KPIs in the context of the reporting entity. An example could be the number of customer complaints resolved to the acknowledged satisfaction of the customer or the number of repeat purchases in the three months following the initial purchase. The measurement or evaluation criteria will provide measurement protocols relevant to each of these KPIs.

An example of subject matter information in this case would be the actual number of customer complaints resolved to the acknowledged satisfaction of the customer (e.g. 20 customer complaints resolved) resulting from applying the relevant measurement or evaluation criteria.

8. Does the practical example (paragraphs 40-48 of this proposed SAAEPS) provide sufficient appropriate guidance on the terms underlying subject matter and subject matter information, so that the use of the terms throughout this proposed SAAEPS is understandable?
9. Do the definitions and explanations provided for scoping and measurement or evaluation criteria support or contradict your current understanding of their application in ISAE 3000 (Revised)?
10. Does this proposed SAAEPS provide sufficient appropriate guidance of the term criteria so that the use of the term throughout this proposed SAAEPS is understandable?

Practical examples, questions to consider and flowchart contained in the proposed SAAEPS

To assist the practitioner to meet the objective of this proposed SAAEPS in determining whether a sustainability assurance engagement exhibits certain characteristics (among other preconditions for an assurance engagement – paragraph 17 of this proposed SAAEPS), practical examples, questions to consider and a flowchart have been included. For example:

- Paragraphs 40-48 of this proposed SAAEPS provide a practical example of the multiple levels of underlying subject matter and the introduction of scoping and measurement or evaluation criteria. This example is used throughout this proposed SAAEPS (a further example is provided in **Appendix C**).
- The guidance in this proposed SAAEPS is supplemented by a series of questions that the practitioner can ask. After receiving the feedback, the practitioner can then consider (or evaluate) the responses collectively, and on a principle basis, to determine whether the engagement exhibits the characteristics set out in paragraph 17 of this proposed SAAEPS. The questions are designed in such a way that a NO answer at any point of the process may make the successful completion of the remaining questions more onerous. Furthermore, a NO answer or lack of information may mean that the preconditions of the sustainability assurance engagement, together with

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consideration of the other preconditions, are not present. The full list of questions to consider are set out in **Appendix A**.

- **Appendix B** contains a flowchart of the process to be followed by the practitioner in navigating through this proposed SAAEPS.

11. Do the practical examples, questions to consider and the flowchart provide sufficient assistance to the practitioner in meeting the objective of this proposed SAAEPS?

Documentation

Since this SAAEPS only deals with certain aspects of the sustainability assurance engagement that occur before planning and performing the engagement, guidance on the documentation of such activities is important to a practitioner.

ISAE 3000 (Revised) does include documentation requirements and application material. However, the standard does not include documentation requirements and application material specific to pre-engagement activities performed by a practitioner. The CFAS has interpreted the requirements and application material in terms of how it would apply to the *Acceptance and Continuance – Preconditions for the Assurance Engagement* phase of the assurance engagement (paragraphs 106-111 of this SAAEPS).

12. Do you agree with the guidance provided on documentation in this SAAEPS? If not, why? Can you suggest an alternative approach?

SECTION 4: REQUEST FOR SPECIFIC COMMENTS

Respondents are asked to comment on the clarity, understandability and practicality of application of the guidance in the exposure draft. In this regard, comments will be most helpful if they are identified with specific aspects of the exposure draft and include the reasons for any concern about clarity, understandability and practicality of application, along with suggested improvements.

The CFAS is seeking comments on the following specific matters:

1. Does the recommended effective date permit sufficient time for the implementation of the guidance contained herein by practitioners performing such engagements?
2. Is the approach taken in setting out the process in addressing certain aspects of the preconditions for sustainability assurance engagements dealt with in this proposed SAAEPS consistent with the requirements, application and other explanatory material contained in ISAE 3000 (Revised)? If not, why? Can you suggest an alternative approach?
3. Is the content of this proposed SAAEPS within the requirements of the

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preconditions for sustainability assurance engagements?

4. Do any of the other relevant considerations contained in paragraph A56 of ISAE 3000 (Revised) in determining whether the sustainability assurance engagement has a rational purpose need to be considered in this proposed SAAEPS?
5. Considering the scope of this proposed SAAEPS, the requirements, application and other explanatory material contained in ISAE 3000 (Revised) concerning this scope, has anything relevant been omitted from this proposed SAAEPS?
6. Do you agree with the approach taken in the guidance contained in this proposed SAAEPS with regards to evaluating whether an engagement has a rational purpose?
7. Can you suggest an alternative approach that recognises – but still complies with ISAE 3000 (Revised) – that reporting entities are in varying stages of maturity in respect of generating/preparing sustainability information?
8. Does the practical example (paragraphs 40-48 of this proposed SAAEPS) provide sufficient appropriate guidance on the terms underlying subject matter and subject matter information, so that the use of the terms throughout this proposed SAAEPS is understandable?
9. Do the definitions and explanations provided for scoping and measurement or evaluation criteria support or contradict your current understanding of their application in ISAE 3000 (Revised)?
10. Does this proposed SAAEPS provide sufficient appropriate guidance of the term criteria so that the use of the term throughout this proposed SAAEPS is understandable?
11. Do the practical examples, questions to consider and the flowchart provide sufficient assistance to the practitioner in meeting the objective of this proposed SAAEPS?
12. Do you agree with the guidance provided on documentation in this SAAEPS? If not, why? Can you suggest an alternative approach?

PROPOSED SOUTH AFRICAN ASSURANCE ENGAGEMENT PRACTICE
STATEMENT (SAAEPS) 1

SUSTAINABILITY ASSURANCE ENGAGEMENT CONCEPTS: EVALUATING THE
RATIONAL PURPOSE, THE APPROPRIATENESS OF THE UNDERLYING
SUBJECT MATTER AND THE SUITABILITY OF CRITERIA

(Effective for the *Acceptance and Continuance – Preconditions for the Assurance Engagement* phase of the assurance engagement for periods beginning on or after
15 December 2018)

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PROPOSED SOUTH AFRICAN ASSURANCE ENGAGEMENT PRACTICE
STATEMENT (SAAEPS) 1

SUSTAINABILITY ASSURANCE ENGAGEMENT CONCEPTS: EVALUATING THE
RATIONAL PURPOSE, THE APPROPRIATENESS OF THE UNDERLYING
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PROPOSED SOUTH AFRICAN ASSURANCE ENGAGEMENT PRACTICE
STATEMENT (SAAEPS) 1

SUSTAINABILITY ASSURANCE ENGAGEMENT CONCEPTS: EVALUATING THE
RATIONAL PURPOSE, THE APPROPRIATENESS OF THE UNDERLYING SUBJECT
MATTER AND THE SUITABILITY OF CRITERIA

This South African Assurance Engagements Practice Statement (SAAEPS) 1, *Sustainability Assurance Engagement Concepts: Evaluating the Rational Purpose, the Appropriateness of the Underlying Subject Matter and the Suitability of Criteria*, provides practical assistance to practitioners on evaluating certain aspects of the rational purpose of the sustainability assurance engagement, the appropriateness of the underlying subject matter and the suitability of the criteria applied in the preparation of the subject matter information when conducting a sustainability assurance engagement in accordance with the requirements of the International Standards on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

South African Practice Statements are developed and issued by the IRBA to provide practical assistance to auditors in the implementation of relevant International or South African *Standards on Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*. South African Practice Statements do not impose requirements on auditors beyond those included in the International or South African Standards or South African regulatory requirements and do not change the auditor's responsibility to comply, in all material respects, with the requirements of the International or South African Standards or with South African regulatory requirements relevant to the audit, review, other assurance or related services engagement.

An auditor is required to have an understanding of the entire text of every South African Practice Statement to enable the auditor to assess whether or not any particular South African Practice Statement is relevant to an engagement, and if so, to enable the auditor to apply the requirements of the particular International or South African Standard/s to which the South African Practice Statement relates, properly.

In terms of Section 1 of the Auditing Profession Act, No. 26 of 2005 (the Act), a South African Practice Statement is included in the definition of "auditing pronouncements" and in terms of the Act, the auditor must, in the performance of an audit, comply with those standards, practice statements, guidelines and circulars developed, adopted, issued or prescribed by the Regulatory Board.

PROPOSED SOUTH AFRICAN ASSURANCE ENGAGEMENT PRACTICE
STATEMENT (SAAEPS) 1

SUSTAINABILITY ASSURANCE ENGAGEMENT CONCEPTS: EVALUATING THE
RATIONAL PURPOSE, THE APPROPRIATENESS OF THE UNDERLYING
SUBJECT MATTER AND THE SUITABILITY OF CRITERIA

Introduction

1. This South African Assurance Engagements Practice Statement (SAAEPS) 1, *Sustainability Assurance Engagement Concepts: Evaluating the Rational Purpose, the Appropriateness of the Underlying Subject Matter and the Suitability of Criteria*, deals with certain aspects of evaluating the rational purpose of the sustainability assurance engagement, the appropriateness of the underlying subject matter and the suitability of the criteria applied in the preparation of the subject matter information, and the documentation thereof, when requested to accept a sustainability assurance engagement.
2. This SAAEPS provides practical assistance on the International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, developed by the International Auditing and Assurance Standards Board (IAASB).
3. This SAAEPS does not establish new requirements or contain exemptions from the requirements of ISAE 3000 (Revised), and should be read with ISAE 3000 (Revised). The practitioner shall not represent compliance with ISAE 3000 (Revised) unless the practitioner has complied with all the requirements of ISAE 3000 (Revised).
4. Although this SAAEPS has been written in the context of an assurance engagement on sustainability information reported in an entity's sustainability report, a practitioner may find this SAAEPS, if adapted as necessary, useful when conducting any other assurance engagement other than audits or reviews of historical financial information.
5. The evaluation referred to in paragraph 1 above forms part of the *Acceptance and Continuance – Preconditions for the Assurance Engagement*⁶ phase of the assurance engagement. On the basis of a preliminary knowledge of the engagement circumstances, the practitioner is required to establish whether the preconditions for an assurance engagement set out in paragraphs 24-26 of ISAE 3000 (Revised) are present.
6. However, this SAAEPS deals with only certain aspects of this phase in determining whether the engagement exhibits, among others, the following characteristics:

6. ISAE 3000 (Revised), paragraph 22(c)(i).

PROPOSED SOUTH AFRICAN ASSURANCE ENGAGEMENT PRACTICE
STATEMENT (SAAEPS) 1

SUSTAINABILITY ASSURANCE ENGAGEMENT CONCEPTS: EVALUATING THE
RATIONAL PURPOSE, THE APPROPRIATENESS OF THE UNDERLYING
SUBJECT MATTER AND THE SUITABILITY OF CRITERIA

- A rational purpose⁷:
 - Whether aspects of the subject matter information are expected to be excluded from the assurance engagement, and the reason for their exclusion.
 - Who selected the criteria to be applied to measure or evaluate the underlying subject matter, and what the degree of judgment and scope for bias is in applying them. The engagement is more likely to have a rational purpose if the intended users selected or were involved in selecting the criteria⁸.
- The underlying subject matter is appropriate⁹.
- The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances¹⁰, including that they exhibit the following characteristics:
 - Relevance.
 - Completeness.
 - Reliability.
 - Neutrality.
 - Understandability.

ISAE 3000 (Revised) contains requirements and application material on all the preconditions for an assurance engagement that are required to be present (those considered in terms of this SAAEPS and all other aspects considered that are beyond the scope of this SAAEPS). This SAAEPS provides practical assistance to practitioners on some of those preconditions.

7. As such, this SAAEPS only deals with certain aspects of the sustainability assurance engagement that occur before planning and performing the engagement.

7. ISAE 3000 (Revised), paragraph 24(b)(vi) and paragraph A56. [In full, ISAE 3000 (Revised), paragraph 24(b)(vi) states: “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**”. The part of the paragraph highlighted in **bold** is not addressed in this SAAEPS. The onus is on the practitioner to make such a determination based on preliminary knowledge of the engagement circumstances.]

8. ISAE 3000 (Revised), paragraph A56.

9. ISAE 3000 (Revised), paragraph 24(b)(i).

10. ISAE 3000 (Revised), paragraph 24(b)(ii).

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8. This SAAEPS deals with certain considerations set out in paragraph 24(b) and paragraph A56 of ISAE 3000 (Revised) in evaluating whether the preconditions for an assurance engagement are present. All other aspects relating to the *Acceptance and Continuance – Preconditions for the Assurance Engagement*¹¹ phase of the assurance engagement, although equally important and required to be considered, are beyond the scope of this SAAEPS. However, the onus is on the practitioner to make a determination, based on a preliminary knowledge of the engagement circumstances, on whether these additional preconditions for the assurance engagement are present. For the remainder of this SAAEPS, any references to preconditions for the [sustainability] assurance engagement are limited to only those matters discussed in paragraph 6 above.
9. In concluding on whether the preconditions for an assurance engagement are present, the practitioner considers all aspects (those considered in terms of this SAAEPS and all other aspects considered that are beyond the scope of this SAAEPS). Refer to paragraphs 102-105 below.
10. To assist the practitioner with the evaluation, this SAAEPS introduces guidance on the following matters under the heading “Concepts relevant to the guidance provided in this SAAEPS”:
 - Intended users (paragraphs 20-24 below);
 - Sustainability information (paragraphs 25-33 below);
 - Sound reporting infrastructure (paragraphs 34-38 below); and
 - Underlying subject matter, subject matter information and criteria (paragraphs 39-48 below).

11. ISAE 3000 (Revised), paragraph 24(a): “The roles and responsibilities of the appropriate parties are suitable in the circumstances”; (b)(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”; (b)(iv): “The practitioner expects to be able to obtain the evidence needed to support the practitioner’s conclusion”; and (b)(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 paragraph A56, consideration 1: “The intended users of the subject matter information and the assurance report (particularly, when the criteria are designed for a special purpose). A further consideration is the likelihood that the subject matter information and the assurance report will be used or distributed more broadly than to intended users”; 3: “The characteristics of the relationships between the responsible party, the measurer or evaluator, and the engaging party, for example, when the measurer or evaluator is not the responsible party, whether the responsible party consents to the use to be made of the subject matter information and will have the opportunity to review the subject matter information before it is made available to intended users or to distribute comments with the subject matter information”; 5: “Any significant limitations on the scope of the practitioner’s work”; and 6: “Whether 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”.

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11. This is followed by guidance on establishing whether certain aspects of the preconditions for the assurance engagement dealt with in this SAAEPS are present, and this is set out as follows:
- **Rational purpose assessment:** Guidance on the evaluation of the rational purpose of the sustainability assurance engagement; and
 - **Appropriateness of underlying subject matter and suitability of criteria applied assessment:** Guidance on the evaluation of the appropriateness of the underlying subject matter and the suitability of the criteria applied in the preparation of the subject matter information in a sustainability assurance engagement.

The guidance is supplemented by a series of questions that the practitioner can ask. After receiving the feedback, the practitioner can then consider (or evaluate) the responses collectively, and on a principle basis, to determine whether the engagement exhibits the characteristics set out in paragraph 17 below. These questions are included as part of the guidance under each respective heading. The questions are designed in such a way that a NO answer at any point of the process may make the successful completion of the remaining questions more onerous. Furthermore, a NO answer or lack of information may mean that certain aspects of the preconditions of the sustainability assurance engagement dealt with in this SAAEPS, together with consideration of the other preconditions outside of the scope of this SAAEPS, are not present. The full list of questions to consider are set out in **Appendix A**, along with a flow chart depicting the process included in **Appendix B**.

12. The process to establish whether the preconditions for an assurance engagement are present is not a linear process. The rational purpose assessment, the appropriateness of underlying subject matter and suitability of criteria applied assessment are considered individually and collectively. For the purposes of this SAAEPS, the guidance on establishing whether certain aspects of the preconditions for an assurance engagement are present is set out as described in paragraph 11 above. However, the interrelatedness of the assessments is acknowledged, since a conclusion relating to one assessment is unlikely to be reached in isolation of the other assessment.
13. This SAAEPS recommends that the rational purpose assessment be performed first, not because this is the most important precondition, but because the rational purpose assessment provides relevant information to be considered when performing the appropriateness of underlying subject matter and suitability of

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criteria applied assessment that follows in this SAAEPS.

14. In exceptional circumstances, the practitioner may judge it necessary to depart from certain aspects of this SAAEPS. In such circumstances, the practitioner is required to perform alternative procedures to achieve the aim of those aspects of this SAAEPS¹².

Scope

15. This SAAEPS provides practical assistance to practitioners on evaluating certain aspects of the rational purpose of the sustainability assurance engagement, the appropriateness of the underlying subject matter and the suitability of the criteria applied in the preparation of the subject matter information, and the documentation thereof, when requested to accept a sustainability assurance engagement in accordance with the requirements of ISAE 3000 (Revised).

Effective Date

16. This SAAEPS is effective for the *Acceptance and Continuance – Preconditions for the Assurance Engagement* phase of the assurance engagement for periods beginning on or after 15 December 2018.

Objective

17. The objective of a practitioner is to establish whether certain aspects of the preconditions for an assurance engagement are present by determining whether a sustainability assurance engagement exhibits the following characteristics (among other preconditions for an assurance engagement):
- A rational purpose;
 - The underlying subject matter is appropriate; and
 - The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances and to prepare appropriate engagement documentation thereon.

12. Adaptation of paragraph 18 of ISAE 3000 (Revised).

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Definitions

18. For purposes of this SAAEPS, the following terms defined in ISAE 3000 (Revised) have the same meanings attributed to them:

- Assurance engagement¹³.
- Criteria¹⁴.
- Engagement circumstances¹⁵.
- Intended users¹⁶.
- Subject matter information¹⁷.
- Underlying subject matter¹⁸.

Concepts Relevant to the Guidance Provided in this SAAEPS

19. The following concepts are relevant to the guidance provided in this SAAEPS:

- **Intended users:** Intended users is an important concept to consider and is relevant to the rational purpose assessment and the appropriateness of underlying subject matter and suitability of criteria applied assessment of this SAAEPS.
- **Sustainability information:** As stated in paragraph 4 above, this SAAEPS has been written in the context of an assurance engagement on sustainability information reported in an entity's sustainability report. As such, sustainability information forms the basis of the subject matter information that is dealt with in both the rational purpose assessment and the appropriateness of underlying subject matter and suitability of criteria applied assessment of this SAAEPS.
- **Sound reporting infrastructure:** Sound reporting infrastructure enables the production of accurate, relevant and complete sustainability information by the reporting entity and is key to the considerations contained in the

13. ISAE 3000 (Revised), paragraph 12(a).

14. ISAE 3000 (Revised), paragraph 12(c).

15. ISAE 3000 (Revised), paragraph 12(d).

16. ISAE 3000 (Revised), paragraph 12(m).

17. ISAE 3000 (Revised), paragraph 12(x).

18. ISAE 3000 (Revised), paragraph 12(y).

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rational purpose assessment of this SAAEPS.

- **Underlying subject matter, subject matter information and criteria:**
The multiple levels of underlying subject matter and the introduction of scoping and evaluation or measurement criteria are critical in understanding the process to be followed in the rational purpose assessment and the appropriateness of underlying subject matter and suitability of criteria applied assessment of this SAAEPS.

Intended users

20. Intended users is defined in ISAE 3000 (Revised) as 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 addressed¹⁹.
21. As stated in paragraph 20 above, 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 interests²⁰.
22. A stakeholder is defined as an “entity or individual that can reasonably be expected to be significantly affected by the reporting organisation’s activities, products and services, or whose actions can reasonably be expected to affect the ability of the organisation to successfully implement its strategies and achieve its objectives.

Note 1: *Stakeholders include entities or individuals whose rights under law or international conventions provide them with legitimate claims vis-à-vis to the organization.*

Note 2: *Stakeholders can include those who are invested in the organization (such as employees and shareholders), as well as those who have other relationships to the organization (such as other workers who are not employees, suppliers, vulnerable groups, local communities, and NGOs or other civil society*

19. ISAE 3000 (Revised), paragraph 12(m).

20. ISAE 3000 (Revised), paragraph A16.

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*organizations, among others)*²¹.

23. As such, this SAAEPS identifies intended users as:
- Intended users of the assurance report;
 - Intended users of the subject matter information; and
 - Intended users, who are a sub-set of the stakeholders.
24. Unless specified, when this SAAEPS refers to intended users, it refers to both the intended users of the assurance report and the intended users of the subject matter information.

Sustainability information

Nature of sustainability information

25. Sustainability information for the purposes of this SAAEPS includes performance information related to social, environmental, governance and economic aspects.
26. Sustainability information may comprise both monetary and non-monetary information.
27. Monetary information may be instances where that type of information is relevant, for example, key performance indicators (KPI)²² on training spend or rehabilitation costs.
28. Non-monetary information can be presented both quantitatively as KPIs, for example, litres of water consumed or tons of paper recycled; and qualitatively as narrative disclosures, for example, policy on stakeholder community engagement or fair labour practices.
29. The nature of sustainability information or reports and the underlying processes to prepare this information differ from financial statement information in the following ways:
- A sustainability report may be aimed at a significantly wider and less homogenous group of users than financial statements. The intended users or user groups of a sustainability report may differ considerably in terms of their aims and expectations regarding their legitimate information needs.
 - The reporting framework and criteria for reporting sustainability information

21. Source: [GRI Standards Glossary 2016](#), page 16.

22. Key performance indicators (KPIs) are not mentioned in ISAE 3000 (Revised), but typically, at this point in time, in a sustainability engagement the assurance scope is to report on selected KPIs.

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may be less formal than those applied to prepare financial statements.

- Reporting systems and controls are often less robust and exhibit a broader spectrum of maturity in achieving completeness and accuracy when compared to financial statements.

30. Examples of reports in which a reporting entity can incorporate sustainability information include the following:

- Sustainability report, corporate social responsibility report or environmental, social and governance report;
- GHG emissions schedule or statement; and
- Sustainability information in a broader report, such as a reporting entity's annual report or integrated annual report.

For the purposes of this SAAEPS, sustainability information is reported in a sustainability report.

31. Preparers of sustainability information have a wide variety of reporting frameworks/guidance/codes (or a combination thereof) to choose from in the preparation of this information, including:

- GRI Standards²³.
- Greenhouse Gas Protocol Reporting Standard²⁴.
- United Nations Global Compact Principles²⁵.

32. The reporting frameworks/guidance/codes – for example, those listed in paragraph 31 above – may not necessarily cater for all the relevant sustainability information needs. As such, management may need to apply judgment to develop, among others, additional criteria.

33. The practitioner in this instance needs to pay special attention to the sustainability report development process and how this impacts considerations on accepting a particular sustainability assurance engagement in relation to the reported information.

In light of this possibility, this SAAEPS introduces the concept of Sound

23. <https://www.globalreporting.org/standards/>.

24. <http://www.ghgprotocol.org/>.

25. <https://www.unglobalcompact.org/>.

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Reporting Infrastructure (paragraphs 34-38 below).

Sound reporting infrastructure

34. Sound reporting infrastructure is the combination of components enabling the production of accurate, relevant and complete sustainability information by the reporting entity, and it includes the following:

- Relevant reporting framework;
- Reporting policies and procedures;
- Reporting systems and controls; and
- Governance and oversight.

Relevant reporting framework

35. A relevant reporting framework consists of reporting principles applied to generate report content addressing, for example, stakeholder inclusiveness, completeness, reporting materiality and accuracy (refer to paragraphs 60-64 below).

Reporting policies and procedures

36. Reporting policies and procedures are developed by management to implement a reporting framework, and include bases, conventions and practices applied consistently by the reporting entity in identifying, recognising, measuring, presenting and disclosing sustainability information (refer to paragraphs 65-67 below).

Reporting systems and controls

37. Reporting systems and controls are used to gather, process and report sustainability information (refer to paragraphs 68-70 below).

Governance and oversight

38. Governance and oversight is the oversight function performed by the governing body and management at the reporting entity in the generation of sustainability information (refer to paragraphs 71-72 below).

Underlying subject matter, subject matter information and criteria

39. The appropriate interpretation of the concepts of underlying subject matter, subject matter information and criteria is key in the assessment of rational purpose (refer to paragraph 52 below), and in assessing the suitability of criteria (refer to paragraph 80 below).

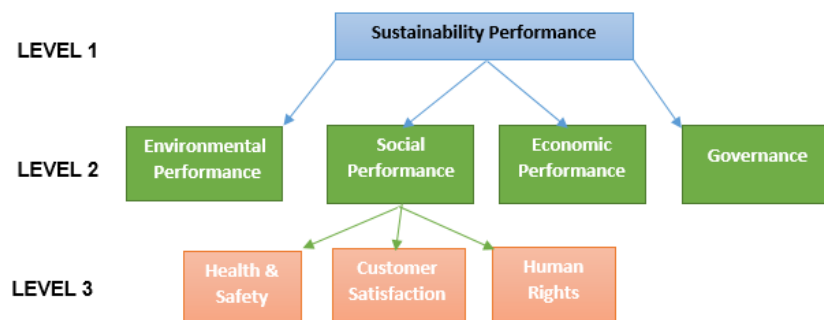
40. In the context of sustainability reporting, the process of understanding the

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underlying subject matter can be disaggregated into multiple levels. To facilitate the consistent application of these concepts, a practical example is depicted in **Figure 1** and described in paragraphs 41-48 below. A further example is provided in **Appendix C**. A three-level scenario is utilised to illustrate this.

Figure 1



41. Level 1: In the context of a sustainability report, the underlying subject matter will generally be considered to be sustainability performance.
42. Level 2: Sustainability performance can be disaggregated into environmental, social, governance and economic performance, which becomes the underlying subject matter at this level. In this example, social performance is the underlying subject matter.
43. Level 3: In disaggregating social performance further, the underlying subject matter at this level could be, for example, customer satisfaction, health and safety or human rights. Customer satisfaction is used in this example.
44. The definition of criteria contained in ISAE 3000 (Revised) refers to the benchmarks used to measure or evaluate the underlying subject matter²⁶. In the context of sustainability reporting, it is recommended to distinguish between criteria for developing reporting content (scoping criteria) and criteria for measurement (measurement or evaluation criteria). The two can be defined as follows:
 - Scoping criteria: This considers which KPIs and/or disclosures will be used to evaluate performance pertaining to the underlying subject matter at the various levels, and which disclosed KPIs are scoped into the assurance engagement. This will typically be considered as part of the rational

26. ISAE 3000 (Revised), paragraph 12(c).

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purpose assessment.

- **Measurement or evaluation criteria:** This considers measurement or evaluation protocols for identified KPIs and/or disclosures (i.e. the criteria used in the particular engagement to measure or evaluate the underlying subject matter). This will typically be considered as part of the suitability of criteria assessment.
45. Unless specified, when this SAAEPS refers to criteria, it refers to both the scoping criteria and measurement or evaluation criteria.
46. In the context of providing assurance on sustainability information, the development of criteria is the responsibility of the reporting entity. The practitioner's responsibility is to assess the suitability of the criteria.
47. Using the example of customer satisfaction (refer to paragraph 43 above), the application of scoping criteria will result in the selection by management of the most appropriate KPIs in the context of the reporting entity. An example could be the number of customer complaints resolved to the acknowledged satisfaction of the customer or the number of repeat purchases in the three months following the initial purchase. The measurement or evaluation criteria will provide measurement protocols relevant to both of these KPIs.
48. An example of subject matter information in this case would be the actual number of customer complaints resolved to the acknowledged satisfaction of the customer (e.g. 20 customer complaints resolved), resulting from applying the relevant measurement or evaluation criteria.

Preconditions to Sustainability Assurance Engagements

49. This section of this SAAEPS focuses on whether certain aspects of the preconditions for the assurance engagement dealt with in this SAAEPS are present, and this is set out as follows:
- **Rational purpose assessment:** Guidance on the evaluation of the rational purpose of the sustainability assurance engagement; and
 - **Appropriateness of underlying subject matter and suitability of criteria applied assessment:** Guidance on the evaluation of the appropriateness of the underlying subject matter and the suitability of the criteria applied in the preparation of the subject matter information in a sustainability assurance engagement.

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Rational purpose assessment

50. A rational purpose assessment focuses on the subject matter information (reporting content).
51. In determining whether an engagement has a rational purpose, there are a number of relevant considerations that the practitioner needs to consider in the generation of reporting content²⁷.
52. These considerations (among others)²⁸ include:
- Whether aspects of the subject matter information are expected to be excluded from the assurance engagement, and the reason for their exclusion.
 - Who selected the criteria to be applied to measure or evaluate the underlying subject matter, and what the degree of judgment and scope for bias is in applying them. The engagement is more likely to have a rational purpose if the intended users selected or were involved in selecting the criteria.
53. In consideration of the matters set out in paragraphs 6 and 52 above, an understanding of the following areas should be obtained to conclude on these two considerations:
- Underlying subject matter;
 - Entity context; and
 - Sound reporting infrastructure:
 - Relevant reporting framework;
 - Reporting policies and procedures;
 - Reporting systems and controls; and
 - Governance and oversight.

Underlying subject matter

54. To determine whether aspects of the subject matter information have been

27. ISAE 3000 (Revised), paragraph A56.

28. ISAE 3000 (Revised), paragraph A56, contains six considerations that may be relevant in determining whether the engagement has a rational purpose. Except for the two considerations dealt with in this SAAEPS, all other considerations are beyond the scope of this SAAEPS. The onus is on the practitioner to make such a determination, based on a preliminary knowledge of the engagement circumstances, to address the remaining four considerations.

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excluded from the sustainability assurance engagement, the practitioner will need to obtain an understanding of the underlying subject matter that is being reported on.

55. The underlying subject matter is the phenomenon that is measured or evaluated by applying criteria and may be one that is generally well-defined in the marketplace (e.g. financial performance or financial position) and has a high level of consensus as to its meaning, or it can be one where the reporting entity needs to specifically define its meaning (e.g. value creation over time).
56. The underlying subject matter of certain sustainability information may not necessarily be self-evident. In a case where the subject matter information is a judgmental statement/assertion by management, or possibly forward-looking information, the practitioner may have to direct a number of enquiries to management to understand the nature of the underlying subject matter. In cases where the practitioner cannot conclude on the nature of the underlying subject matter, it can transpire that the underlying subject matter may not be identifiable, or capable of consistent measurement or evaluation (refer to paragraphs 81-84 below).
57. The way that the underlying subject matter is defined within the reporting entity dictates the way that the underlying subject matter will be interpreted by the reporting entity. Without a clearly defined underlying subject matter, the selection of criteria and the application of the criteria to the underlying subject matter may be challenging.

Questions to consider

1. What is the underlying subject matter (phenomenon) to be reported on?
2. Does the reporting entity have a sound understanding of the underlying subject matter and how it relates to the information needs of the intended users?
3. Has the understanding of the underlying subject matter been formally adopted and documented by the entity?
4. Is there an indication of consistent interpretation and understanding of the underlying subject matter?

Entity context

58. The practitioner needs to obtain an understanding of the context within which the reporting entity operates, for example, by obtaining an understanding of the macro-economic factors, laws, regulations and industry practices within which

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the reporting entity operates, and the reporting entity's geographical locations and its structure. This understanding will enable the practitioner to identify and consider the issues that may be potentially relevant to the reporting entity's sustainability performance.

59. In this consideration, the practitioner should be alert to potential issues that may affect the scope of what could be reported on by the reporting entity and its stakeholder engagement.

Questions to consider

5. What are the relevant contextual issues that may impact considerations around the reporting content?
6. What are the issues to be considered when assessing the scope of what could be reported on and how it relates to the information needs of the intended users)?
7. Given the current understanding of the operations of the reporting entity, who are the stakeholders the reporting entity impacts or are impacted by these operations?

Sound reporting infrastructure

Relevant reporting framework

60. The practitioner needs to consider the reporting framework(s) that is utilised by the reporting entity to develop the report content. As stated in paragraph 35 above, a relevant reporting framework consists of reporting principles applied to generate report content addressing aspects such as stakeholder inclusiveness, completeness, reporting materiality and accuracy. The extent of management bias exercised in generating the report content can be viewed as existing on a scale.
61. At the one end of the scale, there is low potential for management bias in the preparation of information, for example, the preparation of financial statements where the reporting framework caters for recognition, measurement, presentation and disclosure of each content element in the financial statements (e.g. using International Financial Reporting Standards); and that caters for the majority of areas where the reporting entity needs to apply judgment. To a large degree, well developed reporting frameworks prescribe the reporting policies and procedures to be adopted by the reporting entity and they provide few alternatives.

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62. At the other end of the scale, the reporting framework provides only high level guidance (principles) on the potential content elements and areas to report on, for example, the preparation of a sustainability report (e.g. using GRI Standards). At this end of the scale, the reporting entity determines the majority of content to report on, and there is high potential for management bias. Since these reporting frameworks generally provide only high level guidance (principles), it is largely up to the reporting entity to develop reporting policies and procedures to apply these principles to its specific circumstances.
63. The risk associated with higher management bias is that the reported information may only meet the needs of the reporting entity and not those of the intended users of the information, or may be disproportionately biased to communicate a particular message (e.g. an overly favourable position or a message that lacks balance/neutrality).
64. However, as a general rule, reporting frameworks that rely on the judgment of the reporting entity to generate the majority of the content of the reported information will contain specific principles, among other things, that aim to mitigate the risk of management bias in preparing the report. In the case of sustainability reporting, these principles are embedded in the following areas:
- Engagement of stakeholders to determine their information needs;
 - Determination of the scope of what could be reported on;
 - Determining the material issues to report on; and
 - Defining processes to measure certain areas of performance.

Questions to consider

8. What are the reporting framework(s) that the reporting entity is utilising in reporting on the subject matter information?
9. What is the process the entity has followed to adopt the reporting framework(s)?
10. What level of management bias exists in the reporting framework(s) used by management in the selection of reporting content?
11. Are the following areas embedded in the reporting framework(s):
- Engagement of stakeholders to determine their information needs?
 - Determination of the scope of what could be reported on?

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- Determining the material issues to report on?
 - Defining processes to measure certain areas of performance?
- If not, how have these areas been addressed by the reporting entity?

Reporting policies and procedures

65. As stated in paragraph 36 above, reporting policies and procedures are developed by management to implement a reporting framework, and they include bases, conventions and practices applied consistently by the reporting entity in identifying, recognising, measuring, presenting and disclosing sustainability information. Reporting policies and procedures also generate the necessary criteria that the practitioner will use to consider whether the reported information is relevant and complete.
66. The engagement is more likely to have a rational purpose if the intended users selected or were involved in selecting the criteria (paragraph 6 above). As stated in paragraph 63 above, the risk associated with higher management bias is that the reported information may only meet the needs of the reporting entity and not those of the intended users of the information.
67. The level of potential management bias in selecting reporting policies and procedures will directly correlate with the amount of work that the practitioner will need to perform when considering the design of the reporting entity's reporting policies and procedures. It follows that a reporting policy and procedure with high level involvement from the intended users, and with a transparent due process, will provide higher levels of certainty to the practitioner that such a reporting policy and procedure has the potential to generate relevant and complete reported information. These reporting policies and procedures will also need to be available (or disclosed) to the intended users to enable them to understand the policies and procedures that have been applied in preparing the reported information and how the underlying subject matter has been measured or evaluated.

Questions to consider

Given the potential for management bias in the development of reporting content:

12. Does the reporting entity have formal reporting policies and procedures around:
- The engagement of stakeholders?

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- The scope of what could be reported on?
- Reporting materiality determination process?
- Measurement or evaluation?
- Other relevant reporting issues?

For each of the reporting policies and procedures identified in question 12 above, consider the following questions:

13. Is the reporting policy aligned to the reporting framework(s)?
14. Was a transparent due process followed in the development of the reporting policy?
15. To what extent were the intended users of the reported information involved in the development of the reporting policy?
16. Is this reporting policy made available to intended users of the report?
17. Does the design of the reporting policy facilitate the ease of implementation, and does it have the potential to generate relevant and complete information?
18. Has responsibility been assigned within the reporting entity to implement the reporting policy?
19. Are there any internal controls around the implementation and monitoring of the reporting policy?
20. Was the reporting policy developed internally or adopted from a pre-existing framework or other guidance?

In the absence of a formal reporting policy, consider the following:

21. Do management explanations satisfy the requirements of an effective reporting policy?
22. Are there processes that management has implemented?

Reporting systems and controls

68. As stated in paragraph 37 above, reporting systems and controls are used to gather, process and report sustainability information.
69. The reporting entity's ability to generate relevant and complete sustainability information is dependent on the effectiveness of its reporting systems and controls.
70. The reporting entity's reporting systems and controls over sustainability

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information may not be as robust or as mature as its financial reporting systems and controls. The practitioner's consideration of the effectiveness of less robust or less mature reporting systems and controls may prove challenging and require higher levels of professional judgment.

Question to consider

23. Are there reporting systems and controls in place that support the reporting entity's reporting policies and procedures?

Governance and oversight

71. As stated in paragraph 38 above, governance and oversight are functions performed by the governing body and management at the reporting entity in generating sustainability information.
72. The governing body and management should formalise their responsibilities by developing practices to be adopted in regard to approving reporting frameworks to be used; approving the materiality determination; and ensuring that the external reports meet the information needs of material stakeholders. The King IV Report on Corporate Governance for South Africa 2016²⁹ contains a section (*Strategy, Performance and Reporting*) that sets out the responsibilities of the governing body over external reports, for example, sustainability reports.

Question to consider

24. Are there governance and oversight functions in place that support the reporting entity in its approval processes?

Concluding on the rational purpose assessment

73. Based on the practitioner's obtained understanding of the three areas above (paragraphs 54-72), the practitioner is required to conclude on the two rational purpose considerations set out in paragraphs 6 and 52 above³⁰.
74. In order to determine if aspects of the subject matter information have been excluded from the sustainability assurance engagement, the practitioner should

29. [King IV Report on Corporate Governance for South Africa 2016](#), Part 5.2, Strategy, Performance and Reporting, Principle 5 Reporting Recommended Practices.

30. ISAE 3000 (Revised), paragraph A56, contains six considerations that may be relevant in determining whether the engagement has a rational purpose. Except for the two considerations dealt with in this SAAEPS, all other considerations are beyond the scope of this SAAEPS. The onus is on the practitioner to make such a determination, based on a preliminary knowledge of the engagement circumstances, to address the remaining four considerations.

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compare the proposed assurance scope to the practitioner's understanding of the information needs of the intended users, and the reporting entity's reasons for excluding the information.

75. The practitioner's consideration of underlying subject matter, entity context and sound reporting infrastructure will provide insight on whether the sustainability information produced aligns with the information needs of the intended users of subject matter information.
76. If the practitioner concludes that certain aspects of the subject matter information were excluded from the scope of the assurance engagement, the practitioner should use professional judgment to conclude on the impact of such omissions (including those for which the reporting entity has provided reasons/explanations) when concluding on whether the sustainability assurance engagement has a rational purpose. This is particularly important since reporting entities may be at varying stages of maturity in respect of generating/preparing sustainability information.
77. For example, in the early stages of a reporting entity generating sustainability information, the related assurance engagement may appear not to have a rational purpose. This being said, the reporting entity may still request an assurance engagement to be performed on such sustainability information. To illustrate this, in gathering sustainability information in the early stages, a reporting entity may focus its reporting on a particular operation because reporting systems have not been established and implemented at other operations. The assurance engagement may have a rational purpose if there are:
 - Clear disclosures in the sustainability report of the facts and the reasons surrounding the decision that sustainability information on the other operations has been excluded. However, if the reporting entity excludes sustainability information on the other operations once the reporting systems are established and implemented, the engagement is unlikely to have a rational purpose; and
 - The practitioner concludes that the disclosures provided will meet the information needs of the intended users.
78. Based on the practitioner's understanding obtained during the assessment of sound reporting infrastructure, the practitioner uses professional judgment to conclude on the impact of the expected involvement of the intended users in the criteria selection and the expected level of management bias that could affect the rational purpose of the engagement.

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**Appropriateness of underlying subject matter and suitability of criteria
assessment**

79. The process of establishing whether the sustainability assurance engagement has a rational purpose provides the context within which the practitioner evaluates the appropriateness of the underlying subject matter and the suitability of the criteria applied in the preparation of the subject matter information included in a reporting entity's sustainability report, and on which the practitioner has been requested to conduct an assurance engagement (within the assurance scope).
80. This SAAEPS recommends that the process of considering the appropriateness of the underlying subject matter and the suitability of criteria be performed in a two-step process:
- Step 1: Appropriateness of the underlying subject matter; and
 - Step 2: Suitability of criteria.

The practitioner should satisfy the requirements of the first step before moving on to the next step.

Step 1: Appropriateness of the underlying subject matter

81. The consideration of the appropriateness of the underlying subject matter at a high level is what is dealt with as part of the rational purpose assessment. The consideration of the appropriateness of the underlying subject matter at a detailed level is what is dealt with in step 1 of the appropriateness of underlying subject matter and suitability of criteria applied assessment of this SAAEPS.
82. To determine if the underlying subject matter is appropriate, the practitioner needs to assess whether:
- The underlying subject matter is identifiable; and
 - The underlying subject matter is capable of consistent measurement or evaluation³¹.
83. In an assurance engagement, the practitioner determines whether all aspects that form part of the assurance scope have an appropriate underlying subject matter. The practitioner will normally be requested to assure subject matter information; hence, the practitioner will use the subject matter information to determine what the underlying subject matter may be.
84. To illustrate how the evaluation of appropriateness of underlying subject matter

31. ISAE 3000 (Revised), paragraph A40.

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could work in practice, this guidance will use the ISAE 3000 (Revised)³² example. In the example, the measurement protocols used in relation to the number of customer complaints resolved to the acknowledged satisfaction of the customer is the measurement or evaluation criteria, and customer satisfaction is the underlying subject matter. In applying the two requirements to this example, the illustration is as follows:

- *Identifiable:* For customer satisfaction to be identifiable, it must be observable as existing or having occurred. It can be argued that customer satisfaction may take many forms, and its identifiability as an underlying subject matter may not be immediately apparent. However, if the practitioner notes that the underlying subject matter of customer satisfaction, in this case, is interpreted as the number of customer complaints resolved to the acknowledged satisfaction of the customer, this assists with the identifiability question because customer complaints can be identified and observed through the records of customer complaints. However, if the reporting entity requests the practitioner to, for example, assure a statement that reporting entity X has the highest level of customer satisfaction in its industry, the identifiability of the underlying subject matter is challenging. In this case, the practitioner does not have enough information to identify the actual underlying subject matter. The practitioner will have trouble identifying the specific aspect of customer satisfaction that can be said to be better than reporting entity X's competitors. Customer satisfaction could be interpreted as the number of repeat purchases in the three months following the initial purchase, customer complaints resolved to the acknowledged satisfaction of the customer or any other measurement. Without the detail of the measurement or evaluation criteria, the identifiability requirement cannot be met.
- *Capable of consistent measurement or evaluation:* In the case of the number of customer complaints resolved to the acknowledged satisfaction of the customer, it could be said that it is capable of consistent measurement or evaluation if a complaint is well defined and understood. The underlying subject matter must also be observable to the extent that it allows consistent measurement or evaluation. Considerations around consistent measurement or evaluation can also assist if consensus exists around accepted methodologies to measure or evaluate a specific

32. ISAE 3000 (Revised), paragraph A10.

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underlying subject matter. It would then appear as if an underlying subject matter that is identifiable should be capable of consistent measurement or evaluation. However, even though there might be no dispute around the identifiability of an underlying subject matter, the method to consistently measure or evaluate the underlying subject matter may be disputed.

Questions to consider

Given the nature of the subject matter information, is the underlying subject matter:

25. Clearly identifiable?

- Is it observable as existing or to have occurred?
- Is it sufficiently specific?

AND:

26. Capable of consistent measurement or evaluation?

- Is there an appropriate methodology or basis to measure or evaluate the underlying subject matter, or is it disputed (i.e. resulting in subject matter information that can be subjected to procedures to obtain sufficient appropriate evidence to support the assurance conclusion)?
- Is the underlying subject matter observable to an extent that allows consistent measurement or evaluation?
- Other considerations may include:
 - Are there uncertainties associated with the underlying subject matter?
 - Are there qualitative versus quantitative, objective versus subjective, historical versus prospective, and do they relate to a point in time or cover a period aspect of the subject matter information?

Step 2: Suitability of criteria

85. As stated in paragraph 44 of this SAAEPS, criteria are the benchmarks used to measure or evaluate the underlying subject matter and that result in subject matter information, i.e. the reported sustainability information in a reporting entity's sustainability report.
86. Suitable criteria exhibit the following characteristics, and the suitability of criteria for a particular engagement depends on whether they reflect these

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characteristics:

- *Relevance*: Relevant criteria result in subject matter information that assists decision-making by the intended users of the subject matter information.
- *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 of the subject matter information made on the basis of that subject matter information. Complete criteria include, where relevant, benchmarks for presentation and disclosure.
- *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.
- *Neutrality*: Neutral criteria result in subject matter information that is free from bias, as appropriate, in the engagement circumstances.
- *Understandability*: Understandable criteria result in subject matter information that can be understood by the intended users of the subject matter information³³.

87. In some cases, law or regulation prescribes criteria to be used for an engagement. In the absence of indications to the contrary, such criteria are presumed to be suitable, as are criteria issued by authorised or recognised bodies of experts that follow a transparent due process, if they are relevant to the information needs of the intended users of the subject matter information. Such criteria are known as established criteria³⁴.

88. Even when established criteria exist for an underlying subject matter, specific users may agree to use 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 needs³⁵.

33. ISAE 3000 (Revised), paragraph A45.

34. ISAE 3000 (Revised), paragraph A49.

35. ISAE 3000 (Revised), paragraph A49.

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General considerations

89. Sustainability information can be used in a variety of reporting formats, and it may be part of a report that is developed using a specific reporting framework. A reporting framework may contain some level of guidance (or criteria) as to how certain underlying subject matter should be interpreted.
90. However, many reporting frameworks provide limited (or no) guidance as to how certain underlying subject matter should be interpreted. The reporting entity would then need to either internally develop a way to interpret the underlying subject matter (internally developed criteria), or use pre-existing criteria from another reporting framework/guidance/standards/law or regulation.
91. When the reporting entity uses pre-existing criteria, the practitioner needs to consider the following to determine its suitability:
 - Are the intended users anticipated by the reporting framework similar to the intended users of the reporting entity's sustainability information?
 - Is the prescribed format of the reporting framework similar to the format of the intended subject matter information?
92. Based on the answers to the above questions, the practitioner assesses whether the reporting guidance can be accepted as suitable in its original form, or needs to be adapted to cater for different intended users or reporting format. These considerations would be included in the reporting policies and procedures of the reporting entity.
93. In many cases the reporting entity develops criteria internally to measure or evaluate certain underlying subject matter due to pre-existing criteria not being available. Depending on the complexity and nature of the underlying subject matter, the risk exists that management bias may result in criteria that produces subject matter information that does not meet the information needs of the intended users, or that does not otherwise exhibit all the characteristics of suitable criteria.
94. The considerations made in the rational purpose assessment on the stakeholder engagement, reporting materiality determination, scope of what could be reported on and reporting policy (refer to paragraphs 50-72 above) assist the practitioner in assessing whether the reporting policy on measurement or evaluation is sufficiently robust to produce suitable internally developed criteria.
95. A well-designed due process in developing a reporting policy with the involvement of intended users should consider these characteristics. Ideally, the

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reporting policy for measurement or evaluation of the underlying subject matter should illustrate how each of the characteristics of suitable criteria are satisfied for each individual piece of underlying subject matter (e.g. related to the selected KPIs) that contains internally developed (or adapted) criteria.

96. However, the practitioner is required to apply professional judgment in the assessment of the suitability of criteria in situations where a well-designed due process is not followed or where the intended users were not involved in the selection or development of the criteria.
97. Matters that the practitioner could potentially consider when exercising professional judgment are:
- The complexity of the underlying subject matter.
 - Other potentially more relevant criteria that could have been used to interpret the underlying subject matter in a more effective way; and reasons why those were not considered.
 - Reasons why the intended users were not involved in the selection/development of the criteria.
 - Potential misunderstanding of the resultant subject matter information by intended users.
 - Other uses of the subject matter information (e.g. link to management remuneration) and the financial/reputational/regulatory risk of misinterpretation of the subject matter information.
 - Knowledge of the reporting format, industry and reporting entity, among others, that may contribute to understanding potential misrepresentation of the underlying subject matter.

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Questions to consider

To consider the suitability of criteria, answer the following:

27. Who are the intended users who are interested in information about the underlying subject matter?
28. Were the criteria specifically designed to address:
 - The information needs of the intended users?
 - The relevant reporting context?

If the reporting entity uses criteria from an existing framework, answer the following:

29. Are the intended users anticipated by the reporting framework similar to the intended users of the reporting entity's sustainability information?
30. Is the prescribed format of the reporting framework similar to the format of the subject matter information?

Answer the following questions for internally developed criteria:

31. Are the criteria part of a formal reporting policy on measurement or evaluation?
32. To what extent were the intended users involved in the development of the policy/criteria?
33. Was an internal transparent due process followed to develop the policy?
34. Are the criteria available to the intended user?
35. Is the design of the criteria described sufficiently to produce relevant and complete subject matter information?

Measurement or evaluation criteria

98. In assessing the suitability of measurement or evaluation criteria, the characteristics of relevance, completeness, reliability, neutrality and understandability³⁶ need to be considered. In other words, all the relevant characteristics that could affect the decisions of the intended users should be included in the measurement or evaluation criteria. It should also yield consistent measurement or evaluation from period to period, have minimal susceptibility to management bias and be easily understandable.
99. The example of customer satisfaction (refer to paragraph 84 above) will be used to illustrate a typical assessment a practitioner may encounter in an assurance

36. ISAE 3000 (Revised), paragraph 24(b)(ii).

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engagement. In this example, the underlying subject matter is customer satisfaction and the subject matter information is the actual number of complaints resolved to the acknowledged satisfaction of the customer. In this case, the measurement or evaluation criteria would be the benchmarks (or measurement or evaluation protocols) used to arrive at the actual number of complaints resolved to the acknowledged satisfaction of the customer. The following considerations may be typically found in the reporting entity's reporting policies (or equivalent):

- *Relevance:* Is the way that the measurement or evaluation is defined relevant to assist the decision-making of the intended users? In this example, the relevant measure or evaluation is the resolution of the complaints to the acknowledged satisfaction of the customer, which is relevant since it measures or evaluates the resolution of the complaints to the acknowledged satisfaction of the customer. However, if the measure or evaluation was the number of returned calls to aggrieved customers, this is unlikely to be a relevant measure or evaluation because a return call may not have completely resolved the complaint.
- *Completeness:* Do the measurement or evaluation criteria omit any relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter information? For example, the measurement or evaluation of the number of complaints resolved to the acknowledged satisfaction of the customer may rely on information from a variety of sources. Complete criteria should include an appropriate description of all the sources that are to be included as part of the measurement or evaluation. Complete measurement or evaluation thereof would not omit information from any of the relevant sources.
- *Reliability:* This characteristic is more specific to the robustness of the actual measurement or evaluation protocol. The practitioner assesses whether the measurement or evaluation effectively describes the sources of information and how the calculation should be performed to ensure that results are consistent and not dependent on prior knowledge of the topic by the preparer or practitioner. In the example above, the way that the number of complaints resolved to the acknowledged satisfaction of the customer is defined may determine whether the practitioner is satisfied that the reliability characteristic is met.
- *Neutrality:* Management may define a specific measurement or evaluation

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in such a way that it slants the result and sheds a favourable light on a specific area of performance. For example, management may define the number of complaints resolved to the acknowledged satisfaction of the customer as a return call to a customer. However, a return call may not have completely resolved the complaint. Even though this definition may be reliable, it will not be free from bias and cannot be said to be neutral. Neutrality speaks to how information is required to be identified, collated, summarised, adjusted and presented (quantitatively and qualitatively), and how any bias in this is recognised and managed. Once again, a sound understanding of the information needs of users may assist the practitioner in this assessment.

- *Understandability:* To reach a conclusion on the understandability characteristic, the practitioner needs to match the information needs of intended users to the complexity of the measurement or evaluation. This judgment will be largely based on the knowledge of users and the industry of the reporting entity.

Questions to consider

With reference to the reporting entity's reporting policies (or equivalent):

Question related to relevance

36. Are the criteria relevant in relation to the underlying subject matter?

Question related to completeness

37. Are the criteria complete so that all factors that could affect users'/practitioners' conclusions about the underlying subject matter are identified?

Question related to reliability

38. Is the design of the criteria highly likely to result in consistent measurement?

Question related to neutrality

39. Is the risk of management bias known and can it be managed?

Question related to understandability

40. Are the criteria communicated clearly and not subject to significantly different interpretations by users?

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Conclusion on the appropriateness of underlying subject matter and suitability of criteria applied assessment

100. Based on the practitioner's understanding obtained of the appropriateness of underlying subject matter and suitability of criteria applied assessment above (paragraphs 79-99), the practitioner is required to conclude on the appropriateness of underlying subject matter and suitability of criteria applied assessment set out in paragraphs 6 and 52 above.
101. The practitioner applies professional judgment in determining whether these preconditions (the appropriateness of underlying subject matter and suitability of criteria applied assessment) for an assurance engagement are present.

Overall conclusions on the rational purpose assessment and the appropriateness of underlying subject matter and suitability of criteria applied assessment

102. After completing the process as set out in the rational purpose assessment, the appropriateness of underlying subject matter and suitability of criteria applied assessment of this SAAEPS, the practitioner determines whether these preconditions for a sustainability assurance engagement are present.
103. If, in the practitioner's professional judgment, the preconditions for an assurance engagement are present (those considered in terms of this SAAEPS and all other aspects considered that are beyond the scope of this SAAEPS), the practitioner can accept or continue the sustainability assurance engagement.
104. If the practitioner has concluded that the preconditions for an assurance engagement are not present, the practitioner shall discuss the matter with the reporting entity. If changes cannot be made to meet the preconditions, the practitioner shall not accept or continue the engagement as an assurance engagement³⁷.
105. However, the practitioner could assess a new assurance scope provided by the reporting entity to address the concerns raised during the rational purpose assessment, the appropriateness of underlying subject matter and suitability of criteria applied assessment. In addition, the fact that the rational purpose assessment, the appropriateness of underlying subject matter and suitability of criteria applied assessment were not met does not preclude the reporting entity from considering alternative forms of engagement types, for example, an agreed-

37. ISAE 3000 (Revised), paragraph 25.

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upon procedures engagement³⁸. The alternative forms of engagement types are generally performed to support the reporting entity in its journey to obtaining assurance over its sustainability report.

Documentation

106. ISAE 3000 (Revised) does include documentation requirements and application material. However, the standard does not include documentation requirements and application material specific to pre-engagement activities performed by a practitioner.
107. The practitioner is required to prepare on a timely basis engagement documentation that provides a record of the basis for the assurance report that is sufficient and appropriate to enable an experienced practitioner, having no previous connection with the engagement, to understand the nature, timing and extent of procedures performed to comply with this SAAEPS³⁹.
108. Documentation includes a record of the consideration and conclusions made by the practitioner, supplemented by the practitioner's collective responses to the series of questions discussed in paragraph 11 above, to determine whether the engagement exhibits the characteristics to establish whether the pre-conditions for an assurance engagement are present (those considered in terms of this SAAEPS and all other aspects considered that are beyond the scope of this SAAEPS).
109. Documentation includes a record of the practitioner's reasoning on all significant matters that require the exercise of professional judgment, and related conclusions. When difficult questions of principle or professional judgment exist, documentation that includes the relevant facts that were known by the practitioner at the time the conclusion was reached may assist in demonstrating the practitioner's knowledge⁴⁰.
110. In applying professional judgment to assessing the extent of documentation to be prepared and retained, the practitioner may consider what is necessary to provide an understanding of the work performed and the basis of the principal decisions taken (but not the detailed aspects of the engagement) to another practitioner who has no previous experience with the engagement. That other

38. ISRS 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*.

39. Adaption of ISAE 3000 (Revised), paragraph 79(a).

40. ISAE 3000 (Revised), paragraph A193.

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practitioner may only be able to obtain an understanding of detailed aspects of the engagement by discussing them with the practitioner who prepared the documentation⁴¹.

111. Documentation may include a record of, for example, discussions of significant matters with the appropriate party(ies) and others, including the nature of the significant matters discussed, and when and with whom the discussions took place⁴².

41. ISAE 3000 (Revised), paragraph A195.

42. Adaption of ISAE 3000 (Revised), paragraph A196.

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APPENDIX A: Questions to Consider

The guidance in the rational purpose assessment, the appropriateness of underlying subject matter and suitability of criteria applied assessment is supplemented by a series of questions that the practitioner can consider to determine whether the engagement exhibits the characteristics set out in paragraph 17 of this SAAEPS.

Questions to consider

Rational purpose assessment

Underlying subject matter

1. What is the underlying subject matter (phenomenon) to be reported on?
2. Does the reporting entity have a sound understanding of the underlying subject matter and how it relates to the information needs of the intended users?
3. Has the understanding of the underlying subject matter been formally adopted and documented by the entity?
4. Is there an indication of consistent interpretation and understanding of the underlying subject matter?

Entity context

5. What are the relevant contextual issues that may impact considerations around the reporting content?
6. What are the issues to be considered when assessing the scope of what is being reported on and how it relates to the information needs of the intended users)?
7. Given the current understanding of the operations of the reporting entity, who are the stakeholders the reporting entity impacts or are impacted by these operations?

Sound reporting infrastructure

Relevant reporting frameworks

8. What are the reporting framework(s) that the reporting entity is utilising in reporting on the subject matter information?
9. What is the process the entity has followed to adopt the reporting framework(s)?
10. What level of management bias exists in the reporting framework(s) used by management in the selection of reporting content?
11. Are the following areas embedded in the reporting framework(s):
 - Engagement of stakeholders to determine their information needs?

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- Determination of the boundary of the report?
- Determining the material issues to report on?
- Defining processes to measure certain areas of performance?

If not, how have these areas been addressed by the reporting entity?

Reporting policies and procedures

Given the potential for management bias in the development of reporting content:

12. Does the reporting entity have formal reporting policies and procedures around:

- The engagement of stakeholders?
- Boundary assessments?
- Reporting materiality determination process?
- Measurement or evaluation?
- Other relevant reporting issues?

For each of the reporting policies and procedures identified in question 12 above, consider the following questions:

13. Is the reporting policy aligned to the reporting framework(s)?
14. Was a transparent due process followed in the development of the reporting policy?
15. To what extent were the intended users of the reported information involved in the development of the reporting policy?
16. Is this reporting policy made available to intended users of the report?
17. Does the design of the reporting policy facilitate ease of implementation, and does it have the potential to generate relevant and complete information?
18. Has responsibility been assigned within the reporting entity to implement the reporting policy?
19. Are there any internal controls around the implementation and monitoring of the reporting policy?
20. Was the reporting policy developed internally or adopted from a pre-existing framework or other guidance?

In the absence of a formal reporting policy, consider the following:

21. Do management explanations satisfy the requirements of an effective reporting policy?
22. Are there processes that management has implemented?

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Reporting systems and controls

23. Are there reporting systems and controls in place that support the reporting entity's reporting policies and procedures?

Governance and oversight

24. Are there governance and oversight functions in place that support the reporting entity in its approval processes?

Appropriateness of underlying subject matter and suitability of criteria assessment

Step 1: Appropriateness of the underlying subject matter

Given the nature of the subject matter information, is the underlying subject matter:

25. Clearly identifiable?

- Is it observable as existing or to have occurred?
- Is it sufficiently specific?

AND:

26. Capable of consistent measurement or evaluation?

- Is there an appropriate methodology or basis to measure or evaluate the underlying subject matter, or is it disputed (i.e. resulting in subject matter information that can be subjected to procedures to obtain sufficient appropriate evidence to support the assurance conclusion)?
- Is the underlying subject matter observable to an extent that allows consistent measurement or evaluation?
- Other considerations may include:
 - Are there uncertainties associated with the underlying subject matter?
 - Are there qualitative versus quantitative, objective versus subjective, historical versus prospective, and do they relate to a point in time or cover a period aspect of the subject matter information?

Step 2: Suitability of criteria

General considerations

To consider the suitability of criteria, answer the following:

27. Who are the intended users who are interested in information about the underlying subject matter?

28. Were the criteria specifically designed to address:

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- The information needs of the intended users?
- The relevant reporting context?

If the reporting entity uses criteria from an existing framework, answer the following:

29. Are the intended users anticipated by the reporting framework similar to the intended users of the reporting entity's sustainability information?
30. Is the prescribed format of the reporting framework similar to the format of the subject matter information?

Answer the following questions for internally developed criteria:

31. Are the criteria part of a formal reporting policy on measurement or evaluation?
32. To what extent were the intended users involved in the development of the policy/criteria?
33. Was an internal transparent due process followed to develop the policy?
34. Are the criteria available to the intended user?
35. Is the design of the criteria described sufficiently to produce relevant and complete subject matter information?

Measurement or evaluation criteria

With reference to the reporting entity's reporting policies (or equivalent):

Question related to relevance

36. Are the criteria relevant in relation to the underlying subject matter?

Question related to completeness

37. Are the criteria complete so that all factors that could affect users'/practitioners' conclusions about the underlying subject matter are identified?

Question related to reliability

38. Is the design of the criteria highly likely to result in consistent measurement?

Question related to neutrality

39. Is the risk of management bias known, and can it be managed?

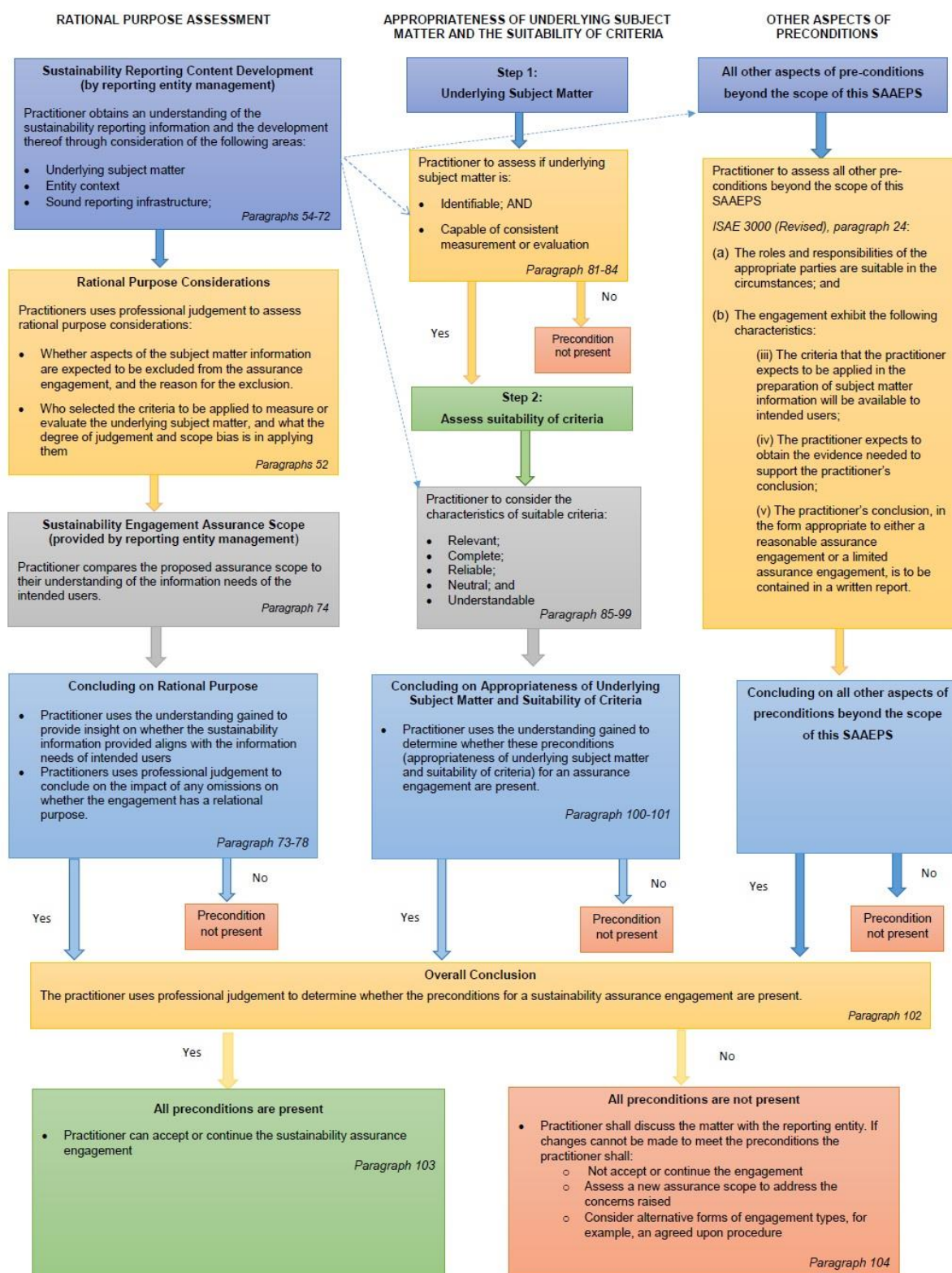
Question related to understandability

40. Are the criteria communicated clearly and not subject to significantly different interpretations by users?

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APPENDIX B: Flowchart



APPENDIX C: Practical Example

Underlying subject matter, subject matter information and criteria

An example on customer satisfaction is threaded throughout this SAAEPS. An additional practical example is provided to illustrate underlying subject matter, subject matter information and criteria.

Example of customer satisfaction used in this SAAEPS (Social)	Example of Water Performance (Environmental)
Paragraphs 40-48	
<p>40. In the context of sustainability reporting, the process of understanding the underlying subject matter can be disaggregated into multiple levels. To facilitate the consistent application of these concepts, a practical example is depicted in Figure 1 and described in paragraphs 41-48 below. A three-level scenario is utilised to illustrate this.</p> <p style="text-align: center;">Figure 1</p> <pre> graph TD SP[Sustainability Performance] --> EP[Environmental Performance] SP --> SocP[Social Performance] SP --> EcP[Economic Performance] SP --> G[Governance] SocP --> H&S[Health & Safety] SocP --> CS[Customer Satisfaction] SocP --> HR[Human Rights] </pre> <p>The diagram illustrates a three-level hierarchy for sustainability performance. At the top (Level 1) is a blue box labeled 'Sustainability Performance'. Below it (Level 2) are four green boxes: 'Environmental Performance', 'Social Performance', 'Economic Performance', and 'Governance'. Arrows point from 'Sustainability Performance' to each of these four boxes. At the bottom (Level 3) are three orange boxes: 'Health & Safety', 'Customer Satisfaction', and 'Human Rights'. Arrows point from 'Social Performance' to each of these three boxes.</p>	

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41. Level 1: In the context of a sustainability report, the underlying subject matter will generally be considered to be sustainability performance.	
42. Level 2: Sustainability performance can be disaggregated into environmental, social, governance and economic performance, which becomes the underlying subject matter at this level. In this example, social performance is the underlying subject matter.	Level 2: Sustainability performance can be disaggregated into environmental, social, governance and economic performance, which becomes the underlying subject matter at this level. In this example, environmental performance is the underlying subject matter.
43. Level 3: In disaggregating social performance further, the underlying subject matter at this level could be, for example, customer satisfaction, health and safety or human rights. Customer satisfaction is used in this example.	Level 3: In disaggregating environmental performance further, the underlying subject matter at this level could be, for example, water performance, carbon footprint or waste generated. Water performance is used in this example.
44. The definition of criteria contained in ISAE 3000 (Revised) refers to the benchmarks used to measure or evaluate the underlying subject matter. In the context of sustainability reporting, it is recommended to distinguish between criteria for developing reporting content (scoping criteria) and criteria for measurement (measurement or evaluation criteria). The two can be defined as follows: <ul style="list-style-type: none"> Scoping criteria: This considers which KPIs and/or disclosures will be used to evaluate performance pertaining to the underlying subject matter at the various levels and which disclosed KPIs are scoped into the assurance engagement. This will typically be considered as part of the rational purpose assessment. Measurement or evaluation criteria: This considers measurement or evaluation protocols for identified KPIs and/or disclosures (i.e. the criteria used in the particular engagement to measure or evaluate the underlying subject matter). This will typically be considered as part of the suitability of criteria assessment. 	
45. Unless specified, when this SAAEPS refers to criteria, it refers to both the scoping criteria and the measurement or evaluation criteria.	
46. In the context of providing assurance on sustainability information, the development of criteria is the responsibility of the reporting entity. The practitioner's responsibility is to assess the suitability of the criteria.	

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47. Using the example of customer satisfaction (refer to paragraph 43 above), the application of scoping criteria will result in the selection by management of the most appropriate KPIs in the context of the reporting entity. An example could be the number of customer complaints resolved to the acknowledged satisfaction of the customer or the number of repeat purchases in the three months following the initial purchase. The measurement or evaluation criteria will provide measurement protocols relevant to both of these KPIs.	Using the example of water performance (refer to paragraph 43 above), the application of scoping criteria will result in the selection by management of the most appropriate KPIs in the context of the reporting entity. An example could be the quantity of water recycled or the recycled water reintroduced into production. The measurement or evaluation criteria will provide measurement protocols relevant to both of these KPIs.
48. An example of subject matter information in this case would be the actual number of customer complaints resolved to the acknowledged satisfaction of the customer (e.g. 20 customer complaints resolved), resulting from applying the relevant measurement or evaluation criteria.	An example of subject matter information in this case would be the actual quantity of water recycled (e.g. 20,000 KI of water), resulting from applying the relevant measurement or evaluation criteria.
Paragraph 84	
84. To illustrate how the evaluation of appropriateness of underlying subject matter could work in practice, this guidance will use the ISAE 3000 (Revised) ⁴³ example. In the example, the measurement protocols used in relation to the number of customer complaints resolved to the acknowledged satisfaction of the customer is the measurement or evaluation criteria, and customer satisfaction is the underlying subject matter. In applying the two requirements to this example, the illustration is as follows:	In the example, the measurement protocols used in relation to the quantity of water recycled is the measurement or evaluation criteria, and water performance is the underlying subject matter. In applying the two requirements to this example, the illustration is as follows: <ul style="list-style-type: none"> • <i>Identifiable:</i> For water performance to be identifiable, it must be observable as existing or having occurred. It can be argued that water performance may take many forms, and its identifiability as an underlying subject matter may not be immediately apparent. However,

43 ISAE 3000 (Revised), paragraph A10.

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<ul style="list-style-type: none"> • <i>Identifiable:</i> For customer satisfaction to be identifiable, it must be observable as existing or having occurred. It can be argued that customer satisfaction may take many forms, and its identifiability as an underlying subject matter may not be immediately apparent. However, if the practitioner notes that the underlying subject matter of customer satisfaction, in this case, is interpreted as the number of customer complaints resolved to the acknowledged satisfaction of the customer, this assists with the identifiability question because customer complaints can be identified and observed through the records of customer complaints. However, if the reporting entity requests the practitioner to, for example, assure a statement that reporting entity X has the highest level of customer satisfaction in its industry, the identifiability of the underlying subject matter is challenging. In this case, the practitioner does not have enough information to identify the actual underlying subject matter. The practitioner will have trouble identifying the specific aspect of customer satisfaction that can be said to be better than reporting entity X's competitors. Customer satisfaction could be interpreted as the number of repeat purchases in the three months following the initial purchase, customer complaints resolved to the acknowledged satisfaction of the customer or any other measurement. Without the detail of the criteria, the identifiability 	<p>if the practitioner notes that the underlying subject matter of water performance, in this case, is interpreted as the quantity of water recycled, this assists with the identifiability question because the quantity of water recycled can be identified and observed through the water measurement records. However, if the reporting entity requests the practitioner to, for example, assure a statement that reporting entity X has the best water performance in the industry, the identifiability of the underlying subject matter is challenging. In this case, the practitioner does not have enough information to identify the actual underlying subject matter. The practitioner will have trouble identifying the specific aspect of water performance that can be said to be better than reporting entity X's competitors. Water performance could be interpreted as the quantity of water recycled, the recycled water reintroduced into production or any other measurement. Without the detail of the criteria, the identifiability requirement cannot be met.</p> <ul style="list-style-type: none"> • <i>Capable of consistent measurement or evaluation:</i> In the case of the quantity of water recycled, it could be said that it is capable of consistent measurement or evaluation if recycled water is well defined and understood. The underlying subject matter must also be observable to an extent that it allows consistent measurement or evaluation. Considerations around consistent measurement or evaluation can also assist if consensus exists around accepted methodologies to measure or evaluate a specific underlying subject

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<p>requirement cannot be met.</p> <ul style="list-style-type: none"> • <i>Capable of consistent measurement or evaluation:</i> In the case of the number of customer complaints resolved to the acknowledged satisfaction of the customer, it could be said that it is capable of consistent measurement or evaluation if a complaint is well defined and understood. The underlying subject matter must also be observable to an extent that it allows consistent measurement or evaluation. Considerations around consistent measurement or evaluation can also assist if consensus exists around accepted methodologies to measure or evaluate a specific underlying subject matter. It would then appear as if an underlying subject matter that is identifiable should be capable of consistent measurement or evaluation. However, even though there might be no dispute around the identifiability of an underlying subject matter, the method to consistently measure or evaluate the underlying subject matter may be disputed. 	<p>matter. It would then appear as if an underlying subject matter that is identifiable should be capable of consistent measurement or evaluation. However, even though there might be no dispute around the identifiability of an underlying subject matter, the method to consistently measure or evaluate the underlying subject matter may be disputed.</p>
Paragraph 99	

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<p>99. The example of customer satisfaction (refer to paragraph 84 above) will be used to illustrate a typical assessment a practitioner may encounter in an assurance engagement. In this example, the underlying subject matter is customer satisfaction and the subject matter information is the actual number of complaints resolved to the acknowledged satisfaction of the customer. In this case, the measurement or evaluation criteria would be the benchmarks (or measurement or evaluation protocols) used to arrive at the actual number of complaints resolved to the acknowledged satisfaction of the customer. The following considerations may be typical:</p> <ul style="list-style-type: none"> • <i>Relevance:</i> Is the way that the measurement or evaluation is defined relevant to assist the decision-making of the intended users? In this example, the relevant measure or evaluation is the resolution of the complaints to the acknowledged satisfaction of the customer, which is relevant since it measures or evaluates the resolution of the complaints to the acknowledged satisfaction of the customer. However, if the measure or evaluation was the number of returned calls to aggrieved customers, this is unlikely to be a relevant measure or evaluation because a return call may not have completely resolved the complaint. • <i>Completeness:</i> Do the measurement or evaluation criteria omit any relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject 	<p>The example of water performance (refer to paragraph 84 above) will be used to illustrate a typical assessment a practitioner may encounter in an assurance engagement. In this example, the underlying subject matter is water performance and the subject matter information is the actual quantity of water recycled. In this case, the measurement or evaluation criteria would be the benchmarks (or measurement or evaluation protocols) used to arrive at the actual quantity of water recycled. The following considerations may be typical:</p> <ul style="list-style-type: none"> • <i>Relevance:</i> Is the way that the measurement or evaluation is defined relevant to assist the decision-making of the intended users? In this example, the relevant measure or evaluation is recycled water that can be reused as drinking water, which is relevant since it measures or evaluates recycled water quality to a desired standard. However, if the measure or evaluation was the recycled water reintroduced into production, this is unlikely to be a relevant measure or evaluation because the quality standards relating to recycled water that is reintroduced into production may be different (higher/lower) from those needed for recycled water that can be reused as drinking water. • <i>Completeness:</i> Do the measurement or evaluation criteria omit any relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter information? For example, the measurement or evaluation of the quantity of water recycled may rely on information from a variety of

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<p>matter information? For example, the measurement or evaluation of the number of complaints resolved to the acknowledged satisfaction of the customer may rely on information from a variety of sources. Complete criteria should include an adequate description of all the sources that are to be included as part of the measurement or evaluation. Complete measurement or evaluation thereof would not omit information from any of the relevant sources.</p> <ul style="list-style-type: none"> • <i>Reliability:</i> This characteristic is more specific to the robustness of the actual measurement or evaluation protocol. The practitioner assesses whether the measurement or evaluation effectively describes the sources of information and how the calculation should be performed to ensure that results are consistent and not dependent on prior knowledge of the topic by the preparer or practitioner. In the example above, the way that the number of complaints resolved to the acknowledged satisfaction of the customer is defined may determine whether the practitioner is satisfied that the reliability characteristic is met. • <i>Neutrality:</i> Management may define a specific measurement or evaluation in such a way that it slants the result and sheds a favourable light on a specific area of performance. For example, management may define the number of complaints resolved to the acknowledged satisfaction of the customer as a return call to 	<p>sources. Complete criteria should include an adequate description of all the sources that are to be included as part of the measurement or evaluation. Complete measurement or evaluation thereof would not omit information from any of the relevant sources.</p> <ul style="list-style-type: none"> • <i>Reliability:</i> This characteristic is more specific to the robustness of the actual measurement or evaluation protocol. The practitioner assesses whether the measurement or evaluation effectively describes the sources of information and how the calculation should be performed to ensure that results are consistent and not dependent on prior knowledge of the topic by the preparer or practitioner. In the example above, the way that the quantity of water recycled is defined may determine whether the practitioner is satisfied that the reliability characteristic is met. • <i>Neutrality:</i> Management may define a specific measurement or evaluation in such a way that it slants the result and sheds a favourable light on a specific area of performance. For example, management may define the quantity of water recycled as the recycled water reintroduced into production. However, the recycled water reintroduced into production may not be reusable as drinking water. Even though this definition may be reliable, it will not be free from bias and cannot be said to be neutral. Neutrality speaks to how information is required to be identified, collated, summarised, adjusted and presented (quantitatively and qualitatively), and how any bias in this is

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<p>a customer. However, a return call may not have completely resolved the complaint. Even though this definition may be reliable, it will not be free from bias and cannot be said to be neutral. Neutrality speaks to how information is required to be identified, collated, summarised, adjusted and presented (quantitatively and qualitatively), and how any bias in this is recognised and managed. Once again, a sound understanding of the information needs of users may assist the practitioner in this assessment.</p> <ul style="list-style-type: none"> • <i>Understandability:</i> To reach a conclusion on the understandability characteristic, the practitioner needs to match the information needs of intended users to the complexity of the measurement or evaluation. This judgment will be largely based on the knowledge of users and the industry of the reporting entity. 	<p>recognised and managed. Once again, a sound understanding of the information needs of users may assist the practitioner in this assessment.</p> <ul style="list-style-type: none"> • <i>Understandability:</i> To reach a conclusion on the understandability characteristic, the practitioner needs to match the information needs of intended users to the complexity of the measurement or evaluation. This judgment will be largely based on the knowledge of users and the industry of the reporting entity.