

Guidance on Suitable Criteria and Other Assurance-Related Considerations for Developing Subject Matter Reporting Standards

Non-authoritative guidance to assist subject matter reporting standard setters to develop standards that have the characteristics necessary to enable independent assurance

June 2022



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Acknowledgements

This document has been prepared by the CPA Canada Data Standards Assurance Committee (the “Committee”).

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Introduction

Some bodies¹ develop standards for use by organizations to provide information to their stakeholders that enhances stakeholder decision making. These bodies may be governments, professions, industry associations, etc. Such information provided by organizations may be financial, non-financial, quantitative, or qualitative. In many cases, users of information provided by organizations that comply with these standards want to know that the information is credible and reliable for decision making. Assurance practitioners can lend credibility to such information by conducting assurance engagements on the subject matter information.² Usually, professional accountants³ in public practice perform assurance engagements; however, others may perform them too.

This document provides practical non-authoritative guidance to assist subject matter reporting standard setters to develop standards that have the characteristics necessary to enable an independent practitioner⁴ to perform an assurance engagement using the professional standards in the *CPA Canada Handbook - Assurance*.⁵

- 1 In this document, we refer to the standards that such bodies develop as “subject matter reporting standards” and the bodies as “subject matter reporting standard setters,” reflecting that standards deal with information on different subject matters.
- 2 Subject matter information is the outcome of the measurement or evaluation of the underlying subject matter against the criteria (i.e., the information that results from applying the criteria to the underlying subject matter).
- 3 Professional accountants in public practice are subject to professional standards and regulatory frameworks, including requirements for quality management, and the independence, ethics, and competence of the assurance practitioner.
- 4 The practitioner is the individual conducting the assurance engagement, which may be a professional accountant.
- 5 The specific standards in the *CPA Canada Handbook - Assurance* that practitioners would follow to obtain assurance over an entity’s conformity with subject matter reporting standards (“standards”) are (1) Canadian Standard on Assurance Engagements (CSAE) 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information* or (2) CSAE 3001, *Direct Engagements*.

Assurance Engagements

An assurance engagement is an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion about the outcome of the measurement or evaluation of an underlying subject matter against the applicable criteria.⁶ A practitioner can undertake an assurance engagement on a variety of subject matters. For example, management of an entity may request a practitioner to express an opinion on management's evaluation of whether the entity's system/tool/process meets the requirements of a specific subject matter reporting standard ("standard"). The standard forms the criteria against which management evaluates the entity's system/tool/process.

Before a practitioner can accept an assurance engagement, they must be satisfied that the criteria (such as the requirements in a standard) applied to the information reported by the entity exhibit the characteristics of **suitable criteria**. Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding.

To provide a benchmark for a reasonably consistent evaluation of the entity's system/tool/process, **suitable criteria** must exhibit the following characteristics: relevance, completeness, reliability, neutrality and understandability. Additionally, criteria need to be made available to the intended users to enable them to understand how the underlying subject matter has been measured or evaluated.

Considering criteria in an everyday context – for example, thinking of criteria as being similar to the rules of a game – may be helpful. To be useful to intended players so that they know how to play the game, the rules need to be **relevant** to the game (are relevant), and not include superfluous information such as how to play a different game. The rules allow for repeatability (are **reliable**) so that different players play the game in a consistent way. They include all the rules needed (are **complete**) so that players are not left with questions about what to do. They are not subjective or open to individual interpretations (are **neutral**) and are clear and unambiguous (are **understandable**) so that players and, if applicable, the referee can understand them. In addition, the rules need to be made **available** so that users can access them to understand how the game ought to be played.⁷

6 Criteria are the benchmarks used to measure or evaluate the underlying subject matter.

7 *Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting Engagements Assurance Engagements*, page 51, para. 176. International Auditing and Assurance Standards Board. April 2021.

In the context of a financial statement audit, the criteria applied are a general purpose, fair-presentation framework such as Accounting Standards for Private Enterprises (ASPE) or International Financial Reporting Standards (IFRS), which provide the criteria so that different entities can prepare financial statements consistently. In the same way, criteria (the benchmarks used to measure or evaluate the underlying subject matter) are necessary if the practitioner is to obtain assurance on subject matter information reported by the entity in relation to the standard. The criteria establish:

- what is reported (the underlying subject matter, including the “reporting topics”)
- how it is to be measured or evaluated
- how it is to be disclosed and presented⁸

In the absence of suitable criteria, conclusions about the information reported may be open to individual interpretations, increasing the risk that the intended users may misunderstand information or find it to be not useful.

8 *Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting Engagements Assurance Engagements*, page 40, para. 131. International Auditing and Assurance Standards Board. April 2021.

Types of Assurance Engagements

“Reasonable” Assurance vs. “Limited” Assurance

A practitioner can provide two levels of assurance engagements: (1) a reasonable assurance engagement (in some cases, referred to as an “audit”) and (2) a limited assurance engagement (in some cases, referred to as a “review”). The level of assurance is determined based on the type of engagement that best meets the needs of the intended users.

The definitions below illustrate the key difference between the two levels of assurance engagements:

- **Reasonable assurance** High level of assurance, but not absolute level of assurance⁹
- **Limited assurance** Lower than a reasonable level of assurance, but a level of assurance that is meaningful by enhancing users’ confidence to a degree that is clearly more than consequential about the subject matter being reported

The key difference between the two types of assurance is the evidence obtained and the type of conclusion or opinion expressed. In both cases, the suitability of the criteria is not contingent on the level of assurance. If criteria are not suitable for a reasonable assurance engagement, they would not be suitable for a limited assurance engagement either.

⁹ Reasonable assurance is not an absolute level of assurance because there are inherent limitations to any engagement which make most of the evidence from which the practitioner draws conclusions and bases their opinion *persuasive* rather than *conclusive*.

Characteristics of “Suitable Criteria” that Subject Matter Reporting Standards Must Exhibit

An assurance engagement requires several preconditions¹⁰ to be present to enable the practitioner to accept the engagement. One of those preconditions is that the standards serve as a basis for suitable criteria and exhibit the following characteristics:

1. **Relevance** - results in reported information that assists decision making by users
2. **Completeness** - results in reported information that does not omit relevant factors that could reasonably be expected to affect decision making of users
3. **Reliability** - results in a reasonably consistent evaluation of the underlying subject matter when used in similar circumstances by different organizations
4. **Neutrality** - results in reported information that is free from bias
5. **Understandability** - results in reported information that can be understood by users

¹⁰ CSAE 3000, para. 24.

Specific Considerations for Subject Matter Reporting Standards

This section includes matters that the subject matter reporting standard setter may consider in developing standards that exhibit characteristics of suitable criteria. The matters below are not meant to be exhaustive, and other matters may need to be considered.

The considerations are categorized as follows:

- Matters to consider in drafting the scope of the standard
- Matters to consider in drafting requirements of the standard
- Matters to consider before finalizing the standard (i.e., “stand-back” questions)

Matters to Consider in Drafting the Scope of the Standard

The scope section of each standard should describe the subject matter covered by the standard and include a clear statement(s) about the outcome that the organization is expected to achieve if they comply with the requirements of the standard. Set out below are considerations for drafting the scope section of the standards:

- Does the scope section set out the intended objective(s) of the standard and provide the context in which the requirements of the standard are set?
- Does the scope section set out the organizations that are expected to apply the standard?
- Is the scope section sufficiently detailed or specific for the organization to understand what is covered (and not covered) by the standard?
- Could the intended objective of the standard be subject to misinterpretation? If so, should the standard include additional contextual information?
- Does the objective specify how management would communicate its evaluation against the standard?

Matters to Consider in Drafting Requirements of the Standard

Set out below are considerations for drafting the requirements for standards to serve as the basis for suitable criteria:

Relevant

Results in reported information that assists decision making by users

- Is the requirement necessary to meet the intended objective(s) of the standard?
- Does the requirement clearly set out the actions an organization is required to take and the information to be provided on an evaluation against the standard?
- Is the requirement consistent with those generally recognized or understood as good practice in the industry (if applicable)?

Complete

Results in reported information that does not omit relevant factors that could reasonably be expected to affect decision making of users

- Are all relevant terms in the requirement defined by the standard? If not, are they defined by industry or well established in the industry, or defined by the organization?
- Consider whether the requirement has any gaps to achieve the objective(s) or may result in relevant information not being provided on an evaluation.
- Defining materiality – what information if omitted or misstated could reasonably influence decisions of users of subject matter information?

Reliable

Results in a reasonably consistent evaluation of the underlying subject matter when used in similar circumstances by different organizations

- Is the subject of the requirement capable of being consistently measured or evaluated?
- Are all terms/terminology used in the requirement clear and unambiguous (and defined where appropriate)? For example, different organizations may interpret subjective or vague terms in different ways.
- If relevant, does the requirement specify a clear time frame to organizations and is it appropriate in the circumstances?
- Does the entity's compliance with the requirement result in actions and evidence verifiable by other parties such as internal or external auditors?

Neutral

Results in reported information that is free from bias

- Will the requirement result in information that is free from bias? For example, due to subjectivity or opportunity for different interpretations, could information on the evaluation against the standard possibly mislead stakeholders?
- Could the requirement be perceived as subjective so that actions can be changed arbitrarily from one period to the next to remove negative aspects of performance?
- Is the requirement subject to significantly different interpretations?
- Does the requirement result in actions that could be misleading to the organization's governance process?

Understandable

Results in reported information that can be understood by users

- Does the requirement result in an understandable action that the organization is required to take?
- Is the requirement comprehensive and yet concise enough to remain understandable by all relevant parties?
- Does the requirement include terminology that is clearly defined?
- Is the requirement sufficiently clear that an organization would not have any further questions about what actions to take to meet it, or do assumptions need to be applied?
- Does the requirement obscure or detract from the proper understanding of the actions an organization is required to take to achieve the intended objective of the requirement?

Matters to Consider Before Finalizing the Standard

Set out below are “stand-back” considerations in finalizing the standard:

- Does the standard make clear what is (1) a required action, (2) an optional action or (3) guidance to support a required action?
- If an organization meets each requirement individually, will they have achieved the overall objective of the standard?
- Are all the requirements and other material in the standard presented in a coherent, easy-to-follow and logical way? Does the standard effectively summarize and draw attention to the main actions to be taken by organizations?
- Are there any implicit requirements?

- Is the standard scalable? For example, is the standard able to be consistently applied and be globally operable across entities of all sizes and regions, and does it allow the application of judgment and thoughtful consideration in light of the varying circumstances of the entity?
- Does the standard include relevant terms and definitions that provide context to a proper understanding of the standard?
- Does the standard provide a basis for an organization to be transparent and neutral (i.e., designed to cover both favourable and unfavourable aspects of the underlying subject matter being reported on, in an unbiased manner)?
- Does the standard specify the form, content or requirements for management's written representations or assertions? A representation may:
 - include that it has provided the practitioner with all information of which the appropriate party(ies) is aware that is relevant to the engagement
 - confirm the measurement or evaluation of the underlying subject matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information
- If the standard requires management's communication of the entity's conformity with the standard, is the required communication transparent and free of bias to avoid the incentive to mislead due to potential enforcement or penalties?
- Does the standard overall exhibit characteristics of relevance, completeness, reliability, neutrality, and understandability? The subject matter reporting standard setter may consider the following questions in the context of the standard overall:
 - Can readers consistently understand all requirements?
 - Are all key terms set out in the standard (requirements or guidance) defined? Is the language and terminology used applied consistently throughout the standard?
 - Are the requirements all necessary in the context of the standard?
 - Do all the requirements result in consistent evaluation or measurement?
 - Could requirements be interpreted differently when the standard is read as a whole?

General Considerations for Drafting Subject Matter Reporting Standards

The table below provides an overview of the principles and guidelines that may be helpful to the subject matter reporting standard setter in drafting standards, based on what the Auditing and Assurance Standards Board follows when drafting its standards for the *CPA Canada Handbook – Assurance*. These principles and guidelines aim to promote consistency, clarity and uniformity in drafting standards to enable a consistent and effective application of the standards.

Section	Explanation
Introduction/Scope	The introduction section of a standard includes information about the purpose and scope of the standard. It may also include other introductory material necessary to clarify the context of the standard. The scope should explain what the standard deals with and may expand by clarifying when the standard does and does not apply.
Effective date	The effective date sets out the effective date of the standard. Unless otherwise stated in the standard, early application of a standard is permitted.
Authority of the standard	<p>The authority of the standard sets out the purpose of the key sections of standard and their authority – for example:</p> <ul style="list-style-type: none"> • The standard contains the objectives of the entity in following the standard. The objectives provide the context in which the requirements of the standard are set, and are intended to assist the entity in understanding what needs to be accomplished. • The standard contains requirements, expressed using “shall,” that are designed to enable the entity to meet the stated objectives. • The standard contains introductory material, definitions, and application and other explanatory material that provide context relevant to a proper understanding of the standard. • The application and other explanatory material provide further explanation of the requirements and guidance for carrying them out. While such guidance does not impose a requirement, it is relevant to the proper application of the requirements.
Objective(s)	The objective serves to focus the entity on the desired outcome (i.e., what the entity aims to achieve by applying the standard). In many cases, the objective of the standard contains wording similar to that in the scope paragraph.

Section	Explanation
Definitions	The definition section includes definitions of terms used in the standard. If the term is fundamental to understanding the requirements of the standard or the standard itself, it is important to define the term.
Requirements	<p>The requirements of a standard are designed to enable the entity to meet the objectives of the standard. The requirements should follow a logical order. In most cases, this would be the order in which an entity typically approaches the design, implementation, operation, and maintenance of a system/tool/process (recognizing that it may be an iterative process).</p> <p>Requirements focus on “what” the entity needs to do. Requirements should not explain why the requirement is needed or how to apply the requirement. This may be set out in the application and other explanatory material. Requirement paragraphs use the term “shall” rather than “should,” “must” or “will.”</p> <p>When drafting a requirement, the following points are considered:</p> <ul style="list-style-type: none"> • whether the requirement is necessary to achieve the objective stated in the standard • whether there are any unintended consequences of the requirement – for example, <ul style="list-style-type: none"> • if the requirement may conflict with a requirement in another standard • when using “shall not” (the use of which is very rare in the standards), whether there could be negative public interest consequences • whether the requirement is expected to be applicable in virtually all circumstances to which the standard is relevant • whether it is appropriate to limit the application of a requirement, or to differentiate the requirement, for different types of entities based on complexity (e.g., listed entities) to make a standard more scalable • whether the requirements are clear, understandable and concise, and whether the required action is clear and can be documented

Section	Explanation
<p>Application and other explanatory material</p>	<p>Application and other explanatory material may be used to:</p> <ul style="list-style-type: none"> • explain more precisely WHAT a requirement means or is intended to cover • explain WHY a requirement is necessary • provide guidance, including examples, to help illustrate HOW to apply a requirement in a certain context (Examples may include procedures that may be appropriate in the circumstances.) <p>Be careful not to extend a requirement. For example, if a requirement says, “The entity shall (do something),” and the application material says, “(Doing something) includes doing X, Y and Z,” this is extending the requirement. If it is important to the clarity of the requirement, then include it as part of the requirement. If it is strictly application guidance, then be clear that the matters set out are examples only (e.g., “(Doing something) may include such matters as, for example ...”).</p> <p>Avoid using present tense phrases such as “The entity does (something)” or “The entity would do (something)” in the application material. Such wording implies that the procedure or action by the entity would be done in all circumstances. If this is the case, it should be a requirement.</p> <p>Examples of wording to use in application material may include:</p> <ul style="list-style-type: none"> • “The entity may consider the following (list of items)” rather than “The entity considers the following (list of items)” • “The entity may do (something)” • “Examples of procedures the entity may perform include ...” <p>To the extent possible, try to avoid using qualifiers in the application material relating to the activities of the entity, such as “ordinarily,” “normally” and “usually.” Such terms create ambiguity as to whether the activities are required.</p>
<p>Appendices</p>	<p>Appendices form part of the application and other explanatory material. An appendix can be used to provide a more detailed example than what would be appropriate to provide in the body of the standard.</p>



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