

Technical Bulletin

Environmental, Social and Governance (ESG) Assurance Reporting

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Technical Bulletin AATB 5 provides practical non-authoritative guidance to assist practitioners when performing assurance engagements on ESG information. Its purpose is set out in paragraph 2.3. The basis of the reporting framework is HKSAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* which is adapted from the IAASB's *Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Extended External Reporting (EER) Assurance Engagements*. The HKICPA has separately converged the IAASB's Non-Authoritative Guidance as Technical Bulletin AATB 6, *Non-Authoritative Guidance on Applying HKSAE 3000 (Revised) to Extended External Reporting (EER) Assurance Engagements*.

Technical Bulletin AATB 5 is tailored with reference to the ESG reporting circumstances in Hong Kong. It applies to an assurance engagement on ESG information prepared under the requirements of the Hong Kong Exchanges and Clearing Limited (HKEX).

Technical Bulletin AATB 6 covers a broad spectrum of EER assurance including information prepared outside the HKEX regime.

Use of the relevant Technical Bulletin should be determined with reference to the facts and circumstances of the engagement and the application of professional judgement.

* AATB 5 has been updated to reflect amendments to the HKEX ESG Reporting Code which came into effect in January 2025. This revised AATB 5 will be applicable for assurance engagements on ESG information prepared under the requirements of the HKEX ESG Reporting Code. It will become effective for periods ending on or after 31 December 2025.



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This Technical Bulletin *Environmental, Social and Governance (ESG) Assurance Reporting* includes extracts from *Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Extended External Reporting (EER) Assurance Engagements* of the International Auditing and Assurance Standards Board (IAASB), published by the International Federation of Accountants (IFAC) in April 2021 and is used with permission of IFAC.

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HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

TECHNICAL BULLETIN

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ASSURANCE REPORTING

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Chapter 1 Introduction

- 1.1 Globally, there is an increasing demand for environmental, social and governance (ESG) information by investors and stakeholders who pursue long-term investment in sustainable and socially responsible companies. Since 2016, the Hong Kong Exchanges and Clearing Limited (HKEX) requires all companies listed on the HKEX to issue an ESG report in accordance with its Environmental, Social and Governance Reporting Guide (HKEX ESG Reporting Guide). In December 2019, the HKEX released an enhancement to the HKEX ESG Reporting Guide to strengthen the leadership role and accountability of the issuer's board on ESG information. Following the publication of the "Consultation Conclusions on Enhancement of Climate-related Disclosures under the Environmental, Social and Governance Framework" in April 2024, the HKEX renamed the HKEX ESG Reporting Guide as the Environmental, Social and Governance Reporting Code¹ (HKEX ESG Reporting Code) and introduced new climate-related disclosures based on the IFRS S2 *Climate-related Disclosures*. The HKEX ESG Reporting Code is effective for issuers' financial years commencing on or after 1 January 2025, with a phased implementation approach which is discussed in Chapter 5.
- 1.2 Paragraph 9 of the HKEX ESG Reporting Code encourages issuers to seek independent assurance to strengthen the credibility of ESG information disclosed. An issuer may choose to obtain external assurance for all or part of its ESG report. While optional, the HKEX states that where independent assurance is obtained, the issuer should clearly describe in the ESG report the level, scope and processes adopted for the assurance given. Issuers may decide whether to disclose the name of the assurance practitioner².
- 1.3 Private companies may also prepare ESG information for various reasons and some may voluntarily seek assurance on the information disclosed. Practitioners may make reference to this non-authoritative technical bulletin (Technical Bulletin) when undertaking such engagements.
- 1.4 For the purposes of a practitioner's reporting on ESG information, the Institute's Auditing and Assurance Standards Committee (AASC) has determined that an assurance engagement in accordance with Hong Kong Standard on Assurance Engagements (HKSAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* be generally suitable for these engagements.
- 1.5 The Technical Bulletin does not amend or override HKSAE 3000 (Revised), the text of which alone is authoritative. The guidance and illustrative examples provided in this Technical Bulletin are not intended to be exhaustive and reference to HKSAE 3000 (Revised) should always be made when conducting the assurance engagement.
- 1.6 The Technical Bulletin will become effective for periods ending on or after 31 December 2025.

1 Appendix C2 to the HKEX Main Board Listing Rules or Appendix C2 to the HKEX GEM Listing Rules: <https://www.hkex.com.hk/listing/sustainability/esg-academy/rules-and-regulations>

2 In the interest of simplicity, the terms "practitioner" and "assurance practitioner" are used interchangeably throughout this Technical Bulletin.

Chapter 2 Assurance framework

- 2.1 An ESG report describes not only the ESG performances of an organization, but also the way an entity manages the most important topics, in terms of principles, values, policies and management systems. The entity should assess whether each of these aspects is material to its business operations and if so include them in its ESG report.
- 2.2 An ESG report should cover information on the underlying ESG subject matters which may be financial information or non-financial information. Financial information is linked to an entity's financial statements and is expressed in monetary terms. Non-financial information can be quantitative, such as tons of greenhouse gas (GHG) emission, or qualitative, such as an entity's organizational structure.
- 2.3 The purpose of this Technical Bulletin is to provide practical non-authoritative support material intended to assist practitioners in performing assurance engagements in accordance with HKSAE 3000 (Revised) on ESG information. Although this Technical Bulletin may also assist other parties on other assurance engagements, it has not been developed with the needs of such parties in mind. Practitioners applying this Technical Bulletin should have an understanding of HKSAE 3000 (Revised), the HKEX ESG Reporting Code and applicable ESG reporting frameworks. This Technical Bulletin is not a substitute for reading the HKSAE 3000 (Revised) in full and should be applied to practitioners' reporting based on specific facts and circumstances.
- 2.4 Practitioners following this Technical Bulletin to undertake an assurance engagement on ESG information under HKSAE 3000 (Revised), should:
 - (a) Comply with the provisions of the *Code of Ethics for Professional Accountants* (the Code) issued by the Institute related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding³. Further guidance on ethical requirements is set out in paragraphs A30 to A34 and A60 of HKSAE 3000 (Revised); and
 - (b) Comply with the engagement acceptance and continuance requirements set out in paragraphs 21 to 30 of HKSAE 3000 (Revised); further guidance is set out in paragraphs A35 to A59 of HKSAE 3000 (Revised).
- 2.5 The practitioner may also conduct the assurance engagement in accordance with HKSAE 3410, *Assurance Engagements on Greenhouse Gas Statements* issued by the HKICPA in relation to an entity's GHG statement.
- 2.6 In April 2021, the International Auditing and Assurance Standards Board (IAASB) issued *Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Engagements* (IAASB's EER Guidance)⁴ to assist practitioners on performing assurance engagements in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*⁵ on sustainability and other extended external reporting (EER) by entities of all sizes about a broad range of reporting topics. EER encapsulates many different types of reporting that provide information about the financial and non-financial consequences of any entity's activities. Where necessary, practitioners are encouraged to refer to the IAASB's EER Guidance for guidance when performing an assurance engagement over ESG information.

³ Paragraph 20, HKSAE 3000 (Revised).

⁴ It is available at: <https://www.iaasb.org/publications/non-authoritative-guidance-applying-isae-3000-revised-sustainability-and-other-extended-external>

⁵ HKSAE 3000 (Revised) issued by the HKICPA is based on and adopted from ISAE 3000 (Revised).

Chapter 3 Special features of ESG reporting

Qualitative and quantitative information

- 3.1 An ESG report is a way for entities⁶ to demonstrate their business activities in relation to their sustainability practices. Unlike audited financial statements, there are no standardized report formats and structures in presenting ESG information and an ESG report may contain a diversity of information including qualitative and quantitative information.

Qualitative information

- 3.2 An ESG report gives an overview on the entity's commitment towards sustainable development, enhancing engagement with stakeholders by providing transparent information regarding the entity's ESG performance and the approach in achieving sustainable objectives. In the report, an entity can define its own strategic direction on environmental and social topics, identify priorities and set an action plan (short to medium term) based on its concept of sustainability.
- 3.3 Most of the information in an ESG report is qualitative in nature and presented in narrative description about an entity's ESG practices. Some of this information may be verifiable if it reflects the actual fact of what the entity has done in a particular financial year in respect of ESG.
- 3.4 An ESG report may also contain some forward-looking information explaining how an entity integrates ESG elements into business processes and how to create long-term value through its business operation.
- 3.5 Some qualitative information may be subjective and difficult to be evidenced. In an ESG report, there may be situations where an entity may want to demonstrate the intangible benefits achieved through its ESG practices such as better brand image or reputation, enhanced relationship with stakeholders, aligning global sustainability goals, better employee sense of belonging due to ESG practices, future benefits of adopting certain ESG practices, etc.

Quantitative information

- 3.6 Apart from the qualitative information mentioned above, there is usually a lot of quantitative information in an ESG report such as key performance indicators (KPIs) under various aspects of environmental and social areas. The disclosure of KPIs information should be objectively based on supporting evidence captured from the entity's operating system and have gone through a review process to ensure they are correct, accurate and complete for disclosure.
- 3.7 Sometimes, quantitative indicators are used for goals setting and measuring the performance against a set of targets.
- 3.8 In certain situations, quantitative information may be difficult to assess. For example, when assessing the financial impact of climate change on business operations, an entity may need to identify different scenarios and make certain assumptions. As such, the resulting financial impact may be difficult to verify as there are variables and uncertainties.

⁶ In the interest of simplicity, the terms "issuer" and "entity" are used interchangeably throughout this Technical Bulletin. Practitioners reporting on ESG information for entities other than issuers listed on the HKEX should consider whether provisions relating to HKEX ESG Reporting Code in this Technical Bulletin is applicable to his/her engagement.

ESG reporting frameworks

- 3.9 Apart from the HKEX ESG Reporting Code, an entity may align its ESG reporting practices with international frameworks. These frameworks include the IFRS Sustainability Disclosure Standards, the Global Reporting Initiative Standard (GRI), The International <IR> Framework, United Nations Sustainable Development Goals, United Nations Global Compact, Sustainability Accounting Standards Board (SASB) Standards, and Task Force on Climate-related Financial Disclosures (TCFD). Due to the diversity of ESG information, there is yet to be a consistent global reporting framework on ESG information that will satisfy all users. The HKEX website has listed some commonly used ESG reporting frameworks:
<https://www.hkex.com.hk/Listing/Sustainability/ESG-Academy/External-References/ESG-Frameworks>

Different purpose

- 3.10 The purposes of these frameworks are not the same, and include providing a common language for non-financial information, assessing the financial impact of climate change, explaining to providers of financial capital how an organisation creates value over time, etc. Practitioners should understand the applicable ESG reporting frameworks in the context of entities' ESG reporting.

Principles-based

- 3.11 Many of these international frameworks are principles-based. Their intent is to strike an appropriate balance between flexibility and prescription that recognizes the wide variation in individual circumstances of different organizations while enabling a sufficient degree of comparability across organizations to meet relevant information needs.
- 3.12 The table below illustrates the principles of some frameworks:

HKEX ESG Reporting Code	GRI	The International <IR> Framework
Reporting principles • Materiality • Quantitative • Balance • Consistency	Reporting principles • Accuracy • Balance • Clarity • Comparability • Completeness • Sustainability context • Timeliness • Verifiability	• Strategic focus and future orientation • Connectivity of information • Stakeholder relationships • Materiality • Conciseness • Reliability and completeness • Consistency and comparability

- 3.13 Materiality is the principle most commonly adopted across different ESG reporting frameworks. Under the HKEX ESG Reporting Code, materiality is the threshold at which ESG information is determined by the board to be sufficiently important to investors and other stakeholders that it should be reported and considered in determining the scope and content of an entity's reporting. Depending on the business nature, industry, geographical location, scale and other factors, an entity may consider certain aspects to be material to its business, while others may not.

Entities should determine and prioritize material ESG information by conducting a materiality assessment. With a range of potential ESG factors to disclose, the accounting and legal construct of materiality is increasingly used to identify and prioritize (illustrating through materiality matrix) the matters covered by ESG disclosure. For the purpose of climate-related disclosures under Part D of the HKEX ESG Reporting Code, an issuer must disclose information about climate-related risks and opportunities that could reasonably be expected to affect its cash flows, its access to finance or cost of capital over the short, medium or long term.

- 3.14 Apart from material ESG information, an entity may decide to report on other elements that do not meet the threshold for materiality, but may still be relevant to the entity's operational and/or reputational (e.g. brand) performance as they may be significant to stakeholders. Therefore, when considering which ESG information to report, entities will need to clearly articulate how the concept of materiality has been applied.
- 3.15 Other commonly adopted principles include balance, reliability, consistency, completeness and comparability. The quantitative principle under the HKEX ESG Reporting Code further refers to measurable KPIs and setting of targets. Quantitative information should be accompanied by a narrative, explaining its purpose, impacts, and giving comparative data where appropriate. Comparisons can be made to, for example:
- (a) Historical company and industry trends
 - (b) Related corporate goals
 - (c) Relevant ratios
 - (d) Industry averages
 - (e) Financial results/performance

To make reporting more meaningful, an entity may also consider linking indicators to the entity's business strategy and financial performance.

- 3.16 These principles are relatively high level concepts which provide overall guidance to practitioners when preparing their ESG assurance reports. For example, the balance principle requires an ESG report to provide an unbiased picture of the issuer's performance according to the HKEX ESG Reporting Code. It is important for issuers and practitioners to determine whether the ESG information disclosed is unbiased and in accordance with the applicable criteria. An entity may consider factors including the following in determining whether the ESG information being disclosed is balanced:
- (a) Difficulties and challenges in preparing the ESG report
 - (b) Failure or accidents in ESG aspects
 - (c) Targets missed
 - (d) Awards received or achievement made
 - (e) Action plans in resolving the difficulties and challenges

Reporting areas and aspects

- 3.17 The ESG report content required by different frameworks may vary in terms of categorization and aspects to be reported.

HKEX ESG Reporting Code	GRI (areas/aspects not noted in the HKEX ESG Reporting Code)	The International <IR> Framework
<i>Environmental</i> • Emissions • Use of resources • The environment and natural resources • Climate change (for GEM issuers only) <i>Social</i> • Employment • Health and safety • Development and training • Labour standards • Supply chain management • Product responsibility • Anti-corruption • Community Investment <i>Climate</i> • Governance • Strategy • Risk Management • Metrics and Targets	<i>Economics</i> • Economic performance • Market presence • Indirect economic impact • Anti-competitive behaviour <i>Environmental</i> • Biodiversity • Supplier environmental assessment <i>Social</i> • Freedom of association and collective bargaining • Security practices • Rights of indigenous peoples • Human rights assessment • Supplier social assessment • Public policy	• Organization overview and external environment • Governance • Business model • Risks and opportunities • Strategies and resource allocation • Performance • Outlook • Basis of preparation and presentation

- 3.18 The HKEX ESG Reporting Code sets out the basic framework for issuers regarding ESG reporting, and is not meant to be an exhaustive list. Issuers may adopt international ESG reporting guidance, including the IFRS Sustainability Disclosure Standards, so long as they include comparable disclosures to those required under the HKEX ESG Reporting Code.

Reporting boundary

- 3.19 The HKEX ESG Reporting Code does not prescribe the criteria for which entities in an issuer's group or which operations should be included in its ESG report. The issuer should determine the scope of its ESG report and include a narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report. The setting of reporting boundaries should be based on the issuer's own criteria, depending on its business and circumstances. Some common methods for setting the boundary include: following the scope used in its annual report; applying a financial threshold (e.g. inclusion of subsidiaries or operations contributing to a certain percentage of the

issuer's total revenue or other benchmark); or risk level (e.g. inclusion of operations exceeding a certain risk level despite being a non-major business sector of the issuer). In some cases, the issuer may adopt different scopes for different areas, aspects or provisions.

- 3.20 Practical issues might limit the nature and extent of information presented in an ESG report. For example:
- (a) The availability of reliable data with respect to entities the financial reporting entity does not control
 - (b) The inherent inability to identify and quantify all risks, opportunities and outcomes that will materially affect the reporting entity
- 3.21 Entities may disclose such limitations, if any, and actions being taken to overcome them. It is also suggested that when determining the reporting boundaries, an entity may take into account of at least two sets of boundaries: timeframes and operations.
- (a) **Timeframes:** ESG information should match an entity's fiscal year and hence match the time period for the annual report. This allows users of an ESG report to cross-use the two different sets of information.
 - (b) **Operations:** ESG information should cover the entity in all material aspects. If an entity has partial ownership of certain subsidiaries, the information should be reported to accurately reflect the proportional exposure the entity has to these businesses.

ESG governance

- 3.22 The board of an entity is responsible for evaluating and determining the entity's ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. It also includes the board's oversight of ESG information and its management approach, including the process used to evaluate, prioritize and manage material ESG-related risks.

Identification of ESG risks

- 3.23 Entities should have an enterprise risk management process in place to identify risks that impact the business strategy and include them in the risk inventory. This process may include surveys, workshops and interviews with risk owners, executives and board members to confirm existing risks or understand new or emerging risks. Some companies may also apply quantitative and in-depth analytical procedures in identifying ESG-related risks, for example:
- (a) ESG materiality assessment
 - (b) Megatrend analysis
 - (c) Stakeholder engagement
 - (d) Media monitoring, web scraping
 - (e) Supply chain due diligence
 - (f) SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis
- 3.24 Entities may face practical difficulties when identifying ESG risks as it would be difficult to ensure that the risk inventory will be a complete list of ESG risk factors and

emerging ESG issues may happen from time to time and difficult to foresee. Entities may consider the following questions in identifying and defining ESG-related risks:

- (a) What is the nature of the risk?
- (b) What is the source of the risk?
- (c) What is the root cause of the risk?
- (d) How does it relate to the business?
- (e) Which business operations may be impacted by the risks?
- (f) What objectives are going to achieve by addressing those risks?

Assessing and prioritizing ESG risks

- 3.25 Having identified ESG risks, entities should make an assessment over each ESG risk factor in terms of impact and likelihood. Impact is the result or effect of a risk, whereas likelihood is the possibility that a given event will occur. Illustrative examples of impacts and likelihood are shown below:

Impacts	- Financial loss: []% of earnings before interest, taxes, depreciation and amortization (EBITDA) or more than []% impact on share price - International negative media coverage for more than six months that results in at least []% revenue loss - More than []% employee turnover - Prosecution, fines and litigation greater than []% of expenses - Threatened or actual loss of []% or more strategic customers
Likelihood	- Once a year or more frequent - More than []% chance of occurring

- 3.26 Following an assessment of the ESG risk, entities will prioritize and determine what ESG risks are acceptable to the entity with reference to their risk appetite and tolerance level. Risk appetite refers to the types and amount of risk, on a broad level, that an entity is willing to accept or reject in pursuit of value. Tolerance refers to the boundaries of acceptable variation in performance related to achieving business objectives.
- 3.27 There may be practical difficulties in carrying out the assessment and prioritization exercise as the whole process may involve subjectivity, unavailability of reliable data for the assessment, limitation in quantifying the impact of ESG risks, etc. Entities may consider additional criteria when prioritizing ESG risk in order to obtain a more complete understanding of the nature and extent of an entity's exposure. These criteria may include:
- (a) The capacity of the entity to adapt and respond to risks
 - (b) The scope and nature of a risk to the entity's success
 - (c) How long a risk impacts an entity
 - (d) The capacity of an entity to return to tolerance

Mitigating ESG risks

- 3.28 Entities are expected to establish adequate and effective internal controls such as policies and procedures and monitoring mechanism in addressing those ESG risk factors.
- 3.29 There is no one-size-fits-all internal control setting. The adequacy of internal controls depends on the judgement of the management of an entity with reference to its risk appetite and tolerance. When practitioners are assessing the adequacy of internal controls, they should consider the design of the control procedures as well as the effectiveness of implementation.
- 3.30 The concept of effectiveness is more straight forward. The internal controls in place should be effective in addressing and mitigating those ESG risks and are operating on an ongoing basis.
- 3.31 When establishing the risk management framework for ESG practices, entities may make reference to the *Applying Enterprise Risk Management to Environmental, Social and Governance-related Risks* jointly issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the World Business Council for Sustainable Development in October 2018.

Chapter 4 Appropriate competence and capabilities of the assurance practitioner

- 4.1 HKSAE 3000 (Revised) requires that the engagement partner of an assurance engagement is a member of a firm that applies Hong Kong Standard on Quality Management (HKSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, or other requirements that are at least as demanding as HKSQM 1, and has competence in two important areas, namely (i) assurance skills and techniques and (ii) the underlying ESG subject matter and its measurement and evaluation⁸.
- 4.2 Assurance skills and techniques include⁹:
- (a) Application of professional scepticism and professional judgement
 - (b) Planning and performing an assurance engagement, including obtaining and evaluating evidence
 - (c) Understanding information systems and the role and limitations of internal control
 - (d) Linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures
 - (e) Applying procedures as appropriate to the engagement (which may include inquiry, inspection, recalculation, reperformance, observation, confirmation, and analytical procedures)
 - (f) Systematic documentation practices and assurance report-writing skills
- 4.3 Assurance skills and techniques are developed through extensive training and practical application in audit and other assurance engagements¹⁰. A practitioner is not expected to be able to develop assurance competence that is adequate to become an engagement partner of an assurance engagement through patchy training or practical application in limited number of audit and assurance engagements.
- 4.4 Distinct from assurance skills and knowledge, expertise in underlying ESG subject matter in an ESG assurance engagement include:
- (a) Knowledge of ESG information and relevant reporting standards
 - (b) Knowledge of ESG information relating to the sector the entity operates
 - (c) Knowledge of the relevant environmental, social and/or employment law or protocols
 - (d) General understanding of relevant management systems, such as environmental management systems
- 4.5 In making the decision as to whether to accept an ESG assurance engagement, the engagement partner needs to consider whether they possess adequate assurance competence and ESG subject matter competence and whether the engagement team

⁷ Not used.

⁸ Paragraph 31 of HKSAE 3000 (Revised).

⁹ Paragraph A9 of HKSAE 3000 (Revised).

¹⁰ Paragraph 31(c) of HKSAE 3000 (Revised).

collectively has the appropriate competence and capabilities. Such decision may not be as straightforward as in the case of accepting an audit engagement because the following characteristics of an ESG reporting may increase the need for a high level of assurance competence and ESG subject matter knowledge¹¹:

- (a) The reporting may be diverse, both in format and in the matters being reported on
- (b) The reporting can be qualitative, comprising narrative description or qualitative information alongside financial and non-financial information
- (c) The frameworks and applicable criteria used to measure or evaluate the underlying ESG subject matter(s) of the ESG report may be in the early stages of development or developed internally
- (d) The governance, processes and internal control systems related to the preparation of ESG reports often may be less developed than in a financial reporting context

4.6 In instances where an ESG assurance engagement involves specialized ESG subject matter expertise which goes beyond the ESG subject matter knowledge possessed by the assurance practitioner, the assurance practitioner may need to use the work of a practitioner's expert in order to be satisfied that the engagement team collectively has the appropriate competence. Such an expert may not necessarily possess assurance competence. As the assurance practitioner retains sole responsibility for the assurance conclusion expressed, he needs to be sufficiently involved in the work of the practitioner's expert in order to accept responsibility for the assurance conclusion on the ESG report¹².

4.7 After taking on an ESG engagement, the engagement partner is responsible for managing the appropriate deployment of competence throughout the engagement, through direction, supervision and review of the engagement team members' work¹³.

11 Paragraph 26 of the IAASB's EER Guidance.

12 Paragraph 32(b) of HKSAE 3000 (Revised).

13 Paragraph 23 of the IAASB's EER Guidance.

Chapter 5 Specific considerations regarding the disclosure requirements under HKEX ESG Reporting Code

- 5.1 Performing an ESG report assurance engagement involves collecting and evaluating evidence about the ESG subject matter against suitable criteria to arrive at a set of findings and conclusions. The entity and assurance practitioner should agree the objective and the scope of ESG information to be assured for the assurance engagement.
- 5.2 The ESG information disclosed may carry different characteristics such as qualitative/quantitative; historical/prospective financial information and objective/subjective. Therefore, the assured areas should be easily identifiable and capable of being consistently evaluated or measured against the suitable criteria for assessing the information and evidence gathered. Entities may consider whether it would undertake external assurance on the whole ESG report or selected ESG information.
- 5.3 A phased approach is adopted for the implementation of the climate-related disclosures under Part D of the HKEX ESG Reporting Code. The following table provides an overview of the disclosure obligations and effective date of the climate-related disclosures.

	Disclosure on Scope 1 and Scope 2 GHG emissions	Disclosures other than Scope 1 and Scope 2 GHG emissions
Constituents of the Hang Seng Composite LargeCap Index (LargeCap Issuers)	Mandatory disclosure: Financial years commencing on or after 1 January 2025	• “Comply or explain”: Financial years commencing on or after 1 January 2025 • Mandatory disclosure: Financial years commencing on or after 1 January 2026
Main Board Issuers other than LargeCap Issuers		• “Comply or explain”: Financial years commencing on or after 1 January 2025
GEM Issuers		• Voluntary disclosure: Financial years commencing on or after 1 January 2025

Source: [Implementation Guidance for Climate Disclosures under HKEX ESG reporting framework](#)

Mandatory disclosure requirements

- 5.4 Under the HKEX ESG Reporting Code, an issuer is required to disclose the following information:

Part B of the HKEX ESG Reporting Code

- The issuer’s governance structure of ESG matters;
- A description on the application of reporting principles “materiality”, “quantitative” and “consistency” in the preparation of the ESG report;
- The reporting boundary of the ESG report;

Part D of the HKEX ESG Reporting Code

- (a) Scope 1 GHG emissions and Scope 2 GHG emissions for financial years commencing on or after 1 January 2025; and
 - (b) For LargeCap Issuers, climate-related disclosures required under Part D of the HKEX ESG Reporting Code, for financial years commencing on or after 1 January 2026.
- 5.5 The information disclosed may be supported by, but not limited to, the following:
- (a) ESG-related policies and procedures
 - (b) Organization structure and terms of reference for the ESG-related position or committee involved
 - (c) Discussions or meetings of the board and management relating to ESG issues oversight
 - (d) Descriptions of the approach and processes used to manage ESG-related issues, applying reporting principles, identifying significant stakeholders, setting ESG targets
 - (e) Documents reviewed by the board on ESG matters
 - (f) Stakeholders' engagement results.
- 5.6 Assurance practitioners may need to assess if the narrative statements or descriptions made by an issuer are consistent with the supporting evidence, adequate and comply with the mandatory disclosure requirements.

“Comply or explain” provision

- 5.7 Under the HKEX ESG Reporting Code, an issuer must either report on a “comply or explain” provision, or give considered explanations as to why not. Failure to comply without explanation is a breach of the HKEX Listing Rules.
- 5.8 The assurance practitioner should assess the following points when an issuer is explaining its reasons for not disclosing the required information:

Reason for non-disclosure	Points to note
Not material	Specify the reasons why this disclosure is considered to be not material
Confidentiality constraints	Describe the specific confidentiality constraints prohibiting this disclosure
Specific legal prohibitions	Describe the specific legal prohibitions
Information not available	Describe the specific steps being taken to obtain the information and the expected timeframe for doing so

- 5.9 The issuer should also meet the expectation of the HKEX for disclosing policies, compliance with relevant laws and regulations and KPIs. When disclosing policies, the issuer should provide a summary of its policies that cover the aspects containing relevant information. For information on compliance with relevant laws and regulations, the issuer should consider whether there are laws and regulations in respect of that aspect which may have a significant impact on the issuer.

- 5.10 There are two types of “comply or explain” provisions under Part C of the HKEX ESG Reporting Code, being general disclosure and specific KPIs, in respect of each aspect in both subject areas – Subject Area A: Environmental; and Subject Area B: Social.
- 5.11 For financial years commencing on or after 1 January 2025, Main Board Issuers must report on the climate-related disclosures (other than Scope 1 and Scope 2 GHG emissions) as set out in Part D of the HKEX ESG Reporting Code on a “comply or explain” basis¹⁴.

Information on KPIs

- 5.12 An issuer is expected to disclose the KPIs information in accordance with the specific requirements. If a particular KPI is not disclosed as it is considered to be irrelevant or not material to the issuer, the issuer should provide an explanation for not disclosing it.
- 5.13 The disclosure of KPIs may be supported by various information such as standards, methodologies, assumptions and/or calculation tools used, source of conversion factors used, operational data generated from management information system, etc.

KPIs targets and performance

- 5.14 While issuers may set targets for all KPIs that are material to them, Part C of the HKEX ESG Reporting Code only expressly requires disclosure of targets for KPIs A1.5, A1.6, A2.3 and A2.4¹⁵ on a “comply or explain” basis.
- 5.15 Targets may be actual numerical figures or directional, forward-looking statements. Depending on an issuer’s specific circumstances, its ESG targets may also feature a combination of numerical figures and directional statements.
- 5.16 Where an issuer has set climate-related targets, regardless of whether such targets are those required under Part C of the HKEX ESG Reporting Code or other additional climate-related targets, it should disclose the information set out in paragraphs 37 to 40 of Part D of the HKEX ESG Reporting Code regarding each climate-related target.
- 5.17 The board of an issuer is required to review the progress made against ESG goals and targets and make disclosures in accordance with the HKEX’s disclosure requirements. The assurance practitioner may need to assess whether the disclosed information is in line with the actual performance and the underlying calculation is supported, accurate and correct.

Other ESG reporting frameworks

- 5.18 As mentioned in Chapter 3, apart from the HKEX ESG Reporting Code, an issuer may choose to adopt other international ESG frameworks and integrate the information in its ESG report. There may be complications as the same piece of information may be satisfying the disclosure requirements of different reporting frameworks. In such situations, the issuer may need to provide explanations or references as to which reporting framework’s requirements the disclosure is addressing.

¹⁴ For Main Board Issuers that are LargeCap Issuers, reporting on climate-related disclosures under Part D of the HKEX ESG Reporting Code is mandatory for financial years commencing on or after 1 January 2026.

¹⁵ For details of the KPIs, please refer to the HKEX ESG Reporting Code:
<https://www.hkex.com.hk/listing/sustainability/esg-academy/rules-and-regulations>

Climate-related disclosures under Part D of the HKEX ESG Reporting Code

- 5.19 The following are specific considerations and illustrative examples in the context of obtaining evidence on certain climate-related disclosures under Part D of the HKEX ESG Reporting Code.

Climate-related risks and opportunities

- 5.20 Climate-related risks are typically categorized into physical risks (resulting from climate change that can be event-driven or from longer-term shifts in climatic patterns) and transition risks (arising from efforts to transition to a lower-carbon economy). Physical risks include two categories: acute risks such as extreme weather events and chronic risks including long-term shifts in climatic patterns.
- 5.21 Different sectors face unique challenges and prospects due to climate change.

Example	Financial services • Risks include loan defaults in high-risk sectors (e.g., coal, coastal real-estate), increased insurance claims from climate disasters. • Opportunities include increased access to green finance, greater diversification of assets, expanded access to the ESG-linked product market, and climate risk modelling such as designing products and services by understanding climate risks to better withstand future climate conditions. Real estate and construction • Risks include property devaluation in flood-prone or wildfire-risk zones and higher insurance costs in vulnerable areas. • Opportunities include potential for developing green or climate-resilient buildings to meet shifting consumer preferences and increased access to the market of sustainable and low-carbon materials.

- 5.22 Paragraph 30 of Part D of the HKEX ESG Reporting Code requires an issuer to quantify and disclose the amount and percentage of assets or business activities vulnerable to climate-related transition risks. Examples of financial metrics are book value, market value, or replacement cost of vulnerable assets. An example of physical metrics is percentage of power generation from coal.
- 5.23 Paragraph 31 of Part D of the HKEX ESG Reporting Code requires an issuer to quantify and disclose the amount and percentage of assets or business activities vulnerable to climate-related physical risks, i.e. acute (event-driven) and chronic (long-term climate shifts) physical risks.
- 5.24 Paragraph 32 of Part D of the HKEX ESG Reporting Code requires an issuer to quantify and disclose the amount and percentage of assets or business activities aligned with climate-related opportunities (e.g., clean energy, circular economy, green products).

- 5.25 The practitioner should evaluate the appropriateness of the issuer's climate-related risks and opportunities.

Example

Examples of assurance procedures may include the following:

- Test the accuracy and reliability (e.g. conduct substantive testing on selected data) of climate-related information in identifying climate-related risks and opportunities.
- Conduct interviews with management to understand the issuer's processes, including the sources of guidance applied and judgements made, to determine the relevant climate-related risks and opportunities.
- Evaluate the management assessments (e.g. review risk registers, and evaluate processes used to identify, assess, and manage climate-related risks and opportunities) in determining the relevant climate-related risks and opportunities.

Current financial effect

- 5.26 Paragraph 24 of Part D of the HKEX ESG Reporting Code requires an issuer to disclose qualitative and quantitative information about (a) how climate-related risks and opportunities have affected its financial position, financial performance and cash flows for the reporting period; and (b) the climate-related risks and opportunities for which there is a significant risk of a material adjustment in the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements.
- 5.27 When the financial effects are not separately identifiable, or uncertainty is so high that disclosures would not be useful, the issuers should provide an alternative explanation as required under Part D of the HKEX ESG Reporting Code.
- 5.28 Such disclosure requirements are not about the correct application of HKFRS Accounting Standards or other financial reporting frameworks under which the related financial statements are prepared. Instead, such disclosure requirements are about how the climate-related risks and opportunities identified by an issuer under paragraph 20 of Part D of the HKEX ESG Reporting Code have affected its financial statements for the current reporting period taking into account:
- (a) The current effects of those risks and opportunities on the issuer's business model and value chain under paragraph 21 of Part D of the HKEX ESG Reporting Code.
 - (b) The current effects of those risks and opportunities on the issuer's strategy and decision-making, such as how the issuer is managing those risks and opportunities and resourcing the activities, under paragraph 22 of Part D of the HKEX ESG Reporting Code.

Example

Depending on the engagement circumstances and risk assessment, examples of assurance procedures may include the following:

- Obtain an understanding of management's process in preparing the relevant disclosures, including determination of what and how data is extracted from the related financial statements or accounting records.
- Evaluate the consistency of relevant disclosures with disclosures made under paragraphs 21 and 22 of Part D of the HKEX ESG Reporting Code, specifically (i) the climate-related risks and opportunities that give rise to current financial effects and the type of effects that are currently experienced and (ii) the current financial effects associated with how those risks and opportunities are being managed.
- Test a sample of data to the accounting records.
- Evaluate the appropriateness of material discrepancies from or adjustments made to data extracted from the accounting records.
- Assess the disclosures with reference to the relevant requirements and determine whether the qualitative information aligns with the quantitative information of current financial effects and the knowledge obtained through the above procedures.
- Review whether the issuer's application of any implementation reliefs¹⁶ (e.g. financial effects relief) is adequately justified and that the alternative explanation is disclosed as required.

Anticipated financial effect

- 5.29 Paragraph 25 of Part D of the HKEX ESG Reporting Code requires an issuer to disclose qualitative and quantitative information about (a) how the issuer expects its financial position to change over the short, medium and long term, given its strategy to manage climate-related risks and opportunities; and (b) how the issuer expects its financial performance and cash flows to change over the short, medium and long term, given its strategy to manage climate-related risks and opportunities.
- 5.30 Anticipated financial effects usually involve projections or estimations. In a disclosure of anticipated financial effects, an issuer should, if adopted, indicate the modelling techniques adopted in deriving projections and rationale for estimates, use supportive evidence (such as historical/public data, market research or expert opinions) to substantiate assumptions applied, and, if used, show considerations on different outcomes by disclosing scenario analyses.
- 5.31 The disclosure of anticipated financial effects by an issuer should be consistent with the contents and other elaborations in the ESG report. There are implementation reliefs available for preparing disclosures about anticipated financial effects¹⁷ (e.g. reasonable information relief and capabilities relief). The practitioner should review whether the issuer's application of the implementation reliefs is adequately justified and that the alternative explanation is disclosed as required.

16 For details of the implementation reliefs, please refer to the HKEX's Implementation Guidance for Climate Disclosures under the HKEX ESG reporting framework:
https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Environmental-Social-and-Governance/Exchanges-guidance-materials-on-ESG/guidance_enhanced_climate_dis.pdf

17 See footnote 16.

- 5.32 The assurance practitioner should assess whether methodologies applied are appropriate, assumptions adopted are reasonable and disclosures of anticipated financial effects are aligned with other relevant contents in the ESG report. In assessing reasonableness of the anticipated financial impacts being disclosed, the assurance practitioner could assess the issuer's analysis with external market/industry data and evaluate whether the issuer has considered different outcomes by a scenario analysis. The example provided below is for explanatory purposes only and is not intended to represent illustrative disclosures.

Example

Climate modelling indicates, in a moderate risk situation (such as Representative Concentration Pathways (RCP) 4.5 scenario), a 20% increased flood risk in a 5-year time frame by 20x5 in area A where the issuer's manufacturing factory is located. Estimated adaptation costs (e.g. drainage upgrades, elevated machinery) are \$25 million (representing NPV over 5 years) to be funded by internal resources or interest-bearing loan financing. If unmitigated, potential revenue loss from downtime could reach \$150 million annually post 20x5. In a worst risk situation (such as under RCP 8.5 scenario), potential revenue loss could reach \$200 million annually post 20X5.

The issuer disclosed the issuer's investment plan and relevant planned sources of funding for implementing the plan. The issuer provided qualitative and quantitative disclosures over the term of period including:

Quantitative: Financial projections of \$25 million on flood adaptations costs over 5 years or potential revenue loss of \$150 million annually if unmitigated. The issuer also disclosed a scenario analysis that if the benchmarking climate modelling is in a worst risk situation (such as RCP 8.5 scenario), the potential revenue loss could increase to \$200 million annually.

Qualitative: Flood risk projection has been benchmarked with climate modelling with assumptions for a moderate risk situation. Financial projections adopted the discounted cash flow method. Financial position to change in the short term from the investment in adaptation costs and financial performance to change in the long term from the potential revenue loss from downtime if the flood risk is unmitigated.

The practitioner assesses whether the use of methodologies by the issuer is appropriate. If necessary, the practitioner may consider the involvement of a practitioner's expert. The practitioner assesses whether the issuer's assumptions are based on reasonable and supportable information. For example, obtaining management's process for preparing the adaption cost projection and potential revenue loss, and assessing the reasonableness of their basis.

Climate resilience

- 5.33 Paragraph 26 of Part D of the HKEX ESG Reporting Code requires an issuer to disclose information about the resilience of its strategy and business model to climate-related changes, developments, and uncertainties. This includes identifying significant areas of uncertainty in their resilience assessment. The practitioner needs to evaluate what assumptions are used, how they are applied and understand how estimates are used in each of the measurements, as well as how an issuer's management interprets and communicates uncertainties.

Example

Entity A identifies future climate-driven migration as a significant uncertainty affecting its supply chain stability and operational resilience, particularly if certain regions become uninhabitable due to rising sea levels. The practitioner assesses whether Entity A's judgments involved in assessing the timing and location of potential migrations and the potential migration's impact on Entity A's supply chain and operations are reasonable. To understand the identified uncertainty, the practitioner may evaluate factors such as the following:

- The complexity of the estimations and assumptions, and whether management has involved a specialist;
- The subjectivity of the assumptions and the level of judgement required;
- The reliance on information technology systems and their effectiveness; and
- The presence of a recognised measurement methodology to address uncertainties.

In addition, the practitioner needs to evaluate that Entity A's disclosures have sufficiently communicated such uncertainties.

- 5.34 Paragraph 26 of Part D of the HKEX ESG Reporting Code emphasizes the need for an issuer to use a climate-related scenario analysis to inform its resilience assessments. The issuer's inputs and assumptions used made during this process, whether qualitative or quantitative, should be documented and justified. The practitioner should assess whether the issuer's analysis is commensurate with the issuer's capabilities, and is based on reasonable and supportable information available at the reporting date, including the latest international agreement on climate change.

Example

Entity A's assets and operations are concentrated in Jurisdiction X, a jurisdiction developing in line with an orderly transition to a lower-carbon economy where emissions are likely to be regulated in the near future. The practitioner identified that Entity A's scenario analysis is not consistent with an orderly transition to a lower-carbon economy nor with Jurisdiction X's commitments to the latest international agreement on climate change. Since the information from the scenario analysis is inconsistent with that obtained from other sources, the practitioner determines what changes or additions to procedures are necessary to determine whether Entity A's inputs are reasonable and supportable. If the practitioner determines that Entity A's inputs are not reasonable nor supportable, the practitioner should request Entity A's management to make adjustments to its scenario analysis. Otherwise, the practitioner needs to consider the impact of the uncorrected misstatement on the assurance report conclusion in accordance with paragraphs A119-A120 and A154-A155 of HKSAE 3000 (Revised).

Scope 1 and Scope 2 GHG emissions

- 5.35 Given the link between greenhouse gas (GHG) emissions (i.e. Scope 1, Scope 2 and Scope 3 GHG emissions) and climate change, many entities are quantifying their GHG emissions for internal management purposes, and many are also preparing a GHG statement. HKSAE 3410, *Assurance Engagements on Greenhouse Gas Statements* deals with assurance engagements to report on an entity's GHG statement.

- 5.36 Paragraphs 28 and 29 of Part D of the HKEX ESG Reporting Code require an issuer to disclose its GHG emissions generated during the reporting period (classified into Scope 1, Scope 2 and Scope 3 GHG emissions) and certain other related information (such as the approach used to measure GHG emissions).
- 5.37 When a practitioner provides assurance on Scope 1 and Scope 2 GHG emissions, he should consider the following key areas:
- (a) **Methodology and boundaries:** The practitioner should verify that the measurement of emissions is compliant with the GHG Protocol Corporate Standard (or other relevant methodology adopted by the issuer as permitted under paragraph 29 of Part D of the HKEX ESG Reporting Code). The organizational boundaries should be properly defined and the measurement of GHG be performed according to the boundaries. Any change in methodology or assumptions from prior periods should be properly documented.
 - (b) **Completeness of emission sources:** The practitioner should ensure all significant relevant emission sources have been identified and accounted for. For Scope 1 emissions, a practitioner should consider on-site fuel combustion, company-owned vehicles and fugitive emissions, if any of them is significant; for Scope 2 emissions, the practitioner should consider if electricity (or other energy) usage from all significant facilities is included. In addition, insignificant amounts should be grouped or not subject to detailed procedures if the aggregate impact remains immaterial.
 - (c) **Accuracy of activity data:** The practitioner should examine if the activity data (fuel usage, electricity consumption) are properly recorded and extracted from reliable sources. For example, the practitioner can assess fuel volumes to supplier invoices or meter readings, or electricity kWh to utility bills. The practitioner should ensure that the data covers the entire reporting period and is aggregated properly. If any data was estimated (e.g. due to missing bills or meters), the practitioner should also evaluate the reasonableness of the estimation method, assumptions and the results.
 - (d) **Emission factors and calculations:** The practitioner should verify that appropriate emission factors are used and calculations are performed properly. The factors (e.g. kg CO₂ per unit of fuel or per kWh) should be extracted from recognised sources (e.g. national guidelines, IPCC, or GHG Protocol). The practitioner should also examine if the emission calculations formulas are properly applied.

Example

Utility ABC is a power company that operates 5 power plants (3 gas-fired and 2 coal-fired) and several corporate offices.

Methodology and boundaries: The practitioner understands that Utility ABC measured its greenhouse emissions using the GHG Protocol. Utility ABC uses a control approach (financial control) to define its boundaries. The practitioner determines if financial control can be exercised by Utility ABC over these 5 plants.

Completeness of sources: The practitioner identifies every significant source of emissions (Scope 1 and Scope 2) at Utility ABC. Based on the understanding of the company's industry, operations and business context, the practitioner obtains sufficient appropriate evidence to identify the principal sources of Scope 1 emissions as: (i) the combustion of fuel (specifically coal and natural gas) at the in-scope power plants, and (ii) fugitive emissions of SF₆ gas from electrical equipment. In addition, the practitioner determines that no other significant sources of Scope 1 emissions are identified, whether individually or when aggregated, based on the information provided by the management of the company. The practitioner also understands that Utility ABC purchases power from the grid for its corporate office or during maintenance outages. Therefore, the practitioner determines that the electricity purchased is properly measured.

Verify activity data: The practitioner performs procedures on the fuel and electricity data used in emission measurement. For example, for each coal-fired plant, the practitioner obtains coal purchase records and usage documentation to compare to the volume of coal burned as reported. The practitioner compares the volume of coal burned to electricity generated during the reporting period; and calculates and compares the average coal price (total costs of coal used/total volume coal burned) to purchase records to determine its reasonableness. The practitioner examines monthly data to determine no unusual fluctuation of such activity data.

Emission factors and calculations: The practitioner examines if Utility ABC uses proper emission factors to convert fuel and electricity usage into CO₂-equivalent emissions. For coal plants, the practitioner notes that the CO₂ factor is 2.4 tonnes CO₂ per tonne of coal and 500,000 tons of coals are burned during the reporting period. Therefore, 1,200,000 tonnes (CO₂ 500,000 tons of coal × 2.4) is measured. The practitioner determines that 2.4 tonnes CO₂ per tonne of coal is a proper factor by referencing to authoritative sources. The practitioner also examines the calculation of individual significant sources of emission and concludes that no material error is identified.

Scope 3 GHG emissions

- 5.38 Scope 3 emissions represent all indirect emissions — other than purchased electricity included in Scope 2 — that occur in the value chain of a reporting entity and that are the consequence of its activities. Scope 3 emissions are a critical component of an issuer's GHG emissions inventory.
- 5.39 Issuers shall select data that is the most representative in terms of technology, time, and geography. Data used should also be complete and reliable. When the issuer is not able to collect supplier-specific data or if the data obtained is not complete, the issuer should use secondary data from reliable sources.

- 5.40 While in some cases inherent limitations can be expected to be well understood by the intended users, in other cases it may be appropriate for the practitioner to make explicit reference to them in the assurance report. For example, for GHG emissions, it may be appropriate to note that the issuer's disclosures about Scope 3 emissions are subject to more inherent limitations than Scope 1 and Scope 2 emissions, given the lack of availability and relative precision of information used for determining both qualitative and quantitative Scope 3 information from value chain entities outside the control of the issuer.

Example

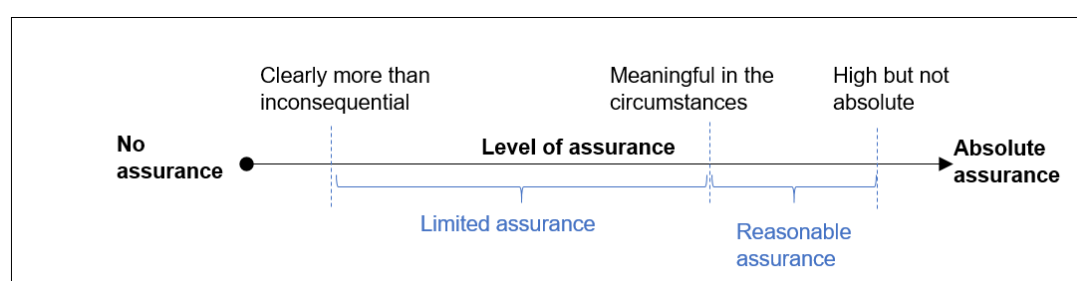
Illustrative examples of factors that the practitioner may consider in relation to assurance of Scope 3 emissions:

- Understand Scope 3 categories in accordance with GHG Protocol or other international recognized framework.
- Establish the minimum boundaries for Scope 3 categories, that is, the activities for which emissions are required to be included in the issuer's Scope 3 inventory.
- Determine relevant/significant Scope 3 categories—An issuer should not exclude any activity or category that contributes significantly to its total Scope 3 emissions.
- Establish the time boundary, which is intended to standardize the timing of reporting of Scope 3 value chain emissions, such that an issuer reports its Scope 3 emissions at the time its associated value chain activity occurs and not necessarily at the time when the emissions are generated.
- Consider collecting value chain data—The quality of reported Scope 3 emissions will depend on completeness of the included sources of emissions as well as the quality of the data used to calculate such emissions. Assessment of availability and quality of this data is critical to determine the most appropriate methodology to measure scope 3 emissions, which in turn will affect the accuracy of those emissions. The quality of various sources of primary and secondary data may vary.
- Review whether the issuer's application of any implementation reliefs ¹⁸ (e.g. reasonable information relief) on measurement approach, inputs and assumptions for Scope 3 GHG emissions are adequately justified and that the alternative explanation is disclosed as required.
- Measure Scope 3 emissions—The issuer does not directly control Scope 3 emissions, these emissions are generally quantified using the indirect calculation methodology.

¹⁸ See footnote 16.

Chapter 6 Level of assurance

- 6.1 Assurance practitioners may perform a reasonable assurance engagement or a limited assurance engagement in relation to entities' ESG reports.
- 6.2 A combination of reasonable and limited assurance on different underlying ESG subject matters may be performed in the same assurance report. In this case, the elements on which the practitioner obtained reasonable and limited assurance should be clearly differentiated and separate conclusions are expressed on the respective areas/ aspects of ESG information, with each conclusion expressed in the form that is appropriate to either a reasonable assurance or a limited assurance engagement.
- 6.3 The level of assurance obtained through performing procedures for limited assurance engagements can vary significantly, from just above assurance that is likely to enhance the confidence of intended users¹⁹ about the ESG subject matter information to a degree that is clearly more than inconsequential to just below reasonable assurance. For a reasonable assurance, sufficient appropriate evidence is obtained to support a high level of assurance²⁰. The difference in the level of assurance is illustrated in the below diagram.



- 6.4 HKSAE 3000 (Revised) allows certain flexibility for the responsible party, intended user and the assurance practitioner to agree the level of comfort that is relevant to the purpose of the ESG report. To allow an understanding of the extent of work done and the degree of confidence the intended users of the assurance report can have in the ESG subject matter information, the assurance practitioner should:
- Ensure there is a good shared understanding of the scope of work agreed with the responsible party and/or intended users;
 - Document the scope of work in an appropriate level of detail in the terms of engagement; and
 - Provide an informative summary of the procedures performed in the assurance report, and more comprehensively in the case of limited assurance engagement²¹.
- 6.5 While the assurance practitioner can agree the level of assurance with the responsible party and/or intended users, the assurance practitioner retains the responsibility for obtaining sufficient appropriate evidence as a basis for the assurance conclusion. Paragraphs 46L/R to 49L/R of HKSAE 3000 (Revised) set out the requirements for risk assessment and obtaining evidence, differentiating between limited and reasonable assurance. Where the standard does not differentiate, the requirements are the same for both limited and reasonable assurance²².

¹⁹ For definition of intended users, please refer to paragraphs 12(m), A16-A18 and A37 of HKSAE 3000 (Revised).

²⁰ Paragraph A5 of HKSAE 3000 (Revised).

²¹ Paragraph A177 of HKSAE 3000 (Revised).

²² Paragraph 268 of the IAASB's EER Guidance.

- 6.6 The assurance practitioner is required to prepare on a timely basis engagement documentation that is sufficient and appropriate to enable an experienced practitioner, having no previous connection with the engagement, to understand²³:
- (a) The nature, timing and extent of the procedures performed to comply with relevant HKSAEs and applicable legal and regulatory requirements;
 - (b) The results of the procedures performed, and the evidence obtained; and
 - (c) Significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
- 6.7 The assurance practitioner should also assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the assurance report²⁴.

²³ Paragraph 79 of HKSAE 3000 (Revised).

²⁴ Paragraph 81 of HKSAE 3000 (Revised).

Chapter 7 Suitable criteria

- 7.1 Criteria are the benchmarks used by the practitioner to measure or evaluate the ESG subject matter. For a typical ESG assurance reporting engagement, the practitioner evaluates the ESG subject matter and provides his/her opinion on whether the ESG subject matter information is prepared in accordance with the applicable criteria.

Characteristics of suitable criteria

- 7.2 The practitioner should consider whether the criteria applied in the preparation of the ESG subject matter information is suitable. Suitable criteria exhibit the characteristics of relevance, completeness, reliability, neutrality and understandability.

- 7.3 To achieve **relevance**, the criteria should be applicable for the entity and the ESG subject matter concerned. An entity should consider different aspects, including but not limited to the international and local regulations, industry and market practices, nature of the subject matter as well as the information need of the intended users, in order to develop the relevant criteria.

For example, for work-related injury, different countries or regions may have different sets of definition established by local governments. An entity should select the most relevant ones based on the locations it operates as well as industry practices as criteria.

- 7.4 To achieve **completeness**, the ESG subject matter information prepared in accordance with the applicable criteria should not omit relevant factors that could reasonably be expected to affect the evaluation of that ESG subject matter. An entity should understand the key concerns of the intended users on the ESG subject matter information, and establish complete criteria which cover significant aspects that are concerned by intended users when evaluating the ESG subject matter.

For example, in reporting carbon emissions, the criteria should contain the sources of emission and the emission factors used, to facilitate a fair evaluation of the reported amount by the intended users.

- 7.5 To achieve **reliability**, the applicable criteria should allow consistent measurement or evaluation of the ESG subject matter information when used in similar circumstances by different practitioners. The applicable criteria should be clear enough to minimize the need of applying unnecessary judgement on measuring or evaluating the ESG subject matter information.

For example, assumptions and estimations used in measuring the ESG subject matter should be clearly stated in the criteria.

- 7.6 To achieve **neutrality**, the applicable criteria should be free from bias. An entity should not establish criteria which presents the ESG subject matter information in a favorable manner to the entity or a particular group of intended users, or influences the fair interpretation of the ESG subject matter information by the intended users.

For example, in reporting hazardous waste, an entity should not use the criteria that aims to reduce the amount such as excluding certain types of waste that are deemed to be hazardous under local regulations.

- 7.7 To achieve **understandability**, the applicable criteria should facilitate the understanding of the ESG subject matter by the intended users, through the provision of necessary definition, scope, methodology, etc. for the interpretation of the ESG subject matter information concerned.

For example, electricity consumption, water consumption and number of headcounts are generally understandable by the intended users. However, certain ESG subject matters may require industry knowledge and technical background to interpret. Therefore, an entity should provide more explanations in the criteria to facilitate the understanding by intended users.

Source of criteria

- 7.8 Criteria can be established with reference to international and local regulations, recognized standards and framework, as well as specific requirements of the intended users for the ESG subject matter concerned.
- 7.9 An entity should also consider the industry, market and internal practices, and develop applicable criteria that are tailored for its business and the ESG subject matter concerned.

Availability of the criteria

- 7.10 Criteria needs to be available to the intended users, allowing them to understand how the ESG subject matter information has been measured or evaluated. In the context of an ESG report, applicable criteria should be made available to the intended users in one or more of the following ways:
- (a) Include in the presentation of the ESG subject matter information, i.e. the ESG report
 - (b) Include in the assurance report as an appendix
 - (c) Include in the entity's website, and its location or hyperlink should be clearly indicated in the assurance report
 - (d) Indicate the name(s) of the regulations or frameworks adopted as applicable criteria in the assurance report

Chapter 8 Addressing qualitative ESG information

Matters addressed by the guidance in this chapter

- 8.1 This chapter provides guidance on the nature of qualitative ESG information, and on specific considerations in the context of qualitative ESG information:
- (a) In determining suitability of criteria;
 - (b) In obtaining evidence;
 - (c) In evaluating misstatements;
 - (d) When presented alongside other information; and
 - (e) When communicating in the assurance report.
- 8.2 While future-oriented information is considered separately in Chapter 9, qualitative and future-oriented information are not mutually exclusive. For example, qualitative information may be future-oriented or historically-oriented, and future-oriented information may be expressed in either qualitative or quantitative terms. The practitioner may find it helpful to consider the guidance in this chapter together with the guidance in Chapter 9.

Circumstances in which the guidance in this chapter may be of assistance to practitioners

- 8.3 This chapter may be of assistance to practitioners when assuring qualitative ESG information. While ESG frameworks and criteria may include direction on how to measure quantitative ESG information, they may not include the same level of direction on how qualitative information is to be evaluated. As a result, such qualitative information may be more susceptible to being more reflective of, and more variable with, the views of those reporting it than may be the case for quantitative ESG information.
- 8.4 A number of challenges may also arise in the context of obtaining evidence for qualitative subject matter information because it may be difficult for the entity's process to prepare the ESG information to capture data and information about the subject matter information.
- 8.5 Although the process to prepare the subject matter information and, where applicable, the related controls may be sufficient to provide the preparer with a reasonable basis for the subject matter information, it may not be sufficient to provide the practitioner with the evidence needed to support the practitioner's conclusion. This may have implications for the practitioner's planned procedures, their ability to obtain the evidence needed about the qualitative subject matter information, and for their assurance conclusion.
- 8.6 The way in which qualitative information is sometimes presented may also give rise to challenges in delineating the subject matter information that is within the scope of the ESG assurance engagement from the "other information".

The nature of qualitative ESG information

- 8.7 Qualitative ESG information is subject matter information expressed in qualitative terms rather than in quantitative terms (numbers). Such non-numerical information may, for example, be narrative information, descriptions, categorizations or ratings. The subject matter information for some aspects of the underlying subject matter may be expressed primarily in qualitative terms, rather than in quantified terms. Even when an aspect of the underlying subject matter is expressed primarily in quantitative terms, other parts of the subject matter information relating to that aspect (such as related disclosures) may be expressed in qualitative terms. For example, an entity's governance structure, business model, goals or strategic objectives may be described in qualitative terms, although there may also be some supporting quantitative disclosures.
- 8.8 Qualitative information is often expressed predominantly using written words, although it may be presented in an ESG report in other forms, such as an embedded video or sound recordings. However, words are not always non-numerical, since numbers can also be expressed in words. What makes information qualitative rather than quantitative is its non-numerical nature. Irrespective of whether that information is quantitative information or qualitative information, the preparer is required to have a reasonable basis for the information included within the ESG information subject to the ESG assurance engagement. The application of criteria that are relevant, complete, reliable, neutral and understandable ought to result in qualitative information that reflects characteristics of suitable criteria.
- 8.9 However, ESG information may include information that is:
- (a) Factual (directly observable or is otherwise able to be subjected to evidence-gathering procedures); or
 - (b) Inherently subjective (not directly observable and variable with the views of those reporting it).

The first may or may not result from the application of suitable criteria; the latter does not.

Example

Examples of factual qualitative subject matter information:

- “An audit committee comprised of non-executive directors was established in the year”
- “We bought a factory in Canada”

Examples of subjective ESG information:

- “We produce healthy food for children”
- “Our impact on the environment is minimal”.
- “We have successfully implemented flexible working throughout the organization”.

These particular examples of subjective information are vague and unable to be substantiated, as the underlined claims may be interpreted in different ways by different people. As such, it is unlikely that those descriptors on their own would be considered to result from suitable criteria, and those claims would not constitute subject matter information. Further development of the criteria by the preparer would be needed so that the criteria are suitable and results in reasonably consistent measurement or evaluation of the underlying subject matter, resulting in reasonably consistent subject matter information.

For the first example of subjective ESG information above, “healthy food for children” could, for example, be defined for the purpose of reporting as “food containing less than x g of salt and less than x g of sugar per 100g portion”. Then, if those criteria were made available, the “healthy food for children” might be suitable for assurance. However, there may also need to be disclosure if the entity produced unhealthy food for children in another product range (completeness of information or balance). The practitioner may also consider whether the entity’s definition of “healthy” could be misleading, for example, if the definition is inconsistent with internationally accepted norms.

Specific considerations for determining the suitability of criteria for qualitative information

- 8.10 Subject matter information expressed in words may result from criteria representing different aspects of the underlying subject matter compared to numerical subject matter information, however the requirements for criteria to be suitable remain the same.
- 8.11 Reliable criteria for qualitative information need to be well-defined and therefore reasonably unambiguous so as to allow reasonably consistent measurement or evaluation of the underlying subject matter.

Example

In applying criteria requiring an entity to report the aspects of its strategy that will help it achieve its principal objectives, an entity may report that such an aspect is its policy to prioritize providing high standards of service to its customers. The criteria behind this information appear to be insufficiently defined as the information is ambiguous (hence the criteria may not be reliable because the resulting information may not result from reasonably consistent evaluation of the underlying subject matter). It is unclear whether the criteria require the entity merely to disclose that it has such a policy in place (either formally written or not), or that its behaviour complies with that policy or that the policy is effective in helping it achieve its objectives.

- 8.12 It is important for qualitative information that the criteria result in subject matter information that is understandable (including being unambiguous as to its intended

meaning) and neutral, as words and images can be inherently ambiguous in their meaning, or may be presented out of context. Most importantly, as discussed in paragraph A50 of HKSAE 3000 (Revised), the criteria cannot result in subject matter information that is misleading to the intended users²⁵.

8.13 When the criteria are not suitable and the resulting ESG information is subjective and therefore not capable of being assured, paragraph 25 of HKSAE 3000 (Revised) requires the practitioner to discuss this with the preparer so that the preparer has the opportunity to make changes to the criteria. As discussed further in Chapter 3 and Chapter 5 of the IAASB's EER Guidance, if the criteria are not suitable (i.e., do not display the five characteristics of suitable criteria required by HKSAE 3000 (Revised)), then the preconditions will not have been met and the engagement cannot be accepted as an assurance engagement. See also paragraphs 8.14 to 8.15.

8.14 If the preparer is unwilling to change the qualitative information that does not result from applying suitable criteria (i.e., is not subject matter information), the practitioner may request the preparer to remove such information from the ESG report, otherwise clearly identify it as "other information" not subject to assurance, or further develop the criteria relating to the underlying subject matter, to result in subject matter information that is capable of being assured. If the preparer is unwilling to:

- (a) Remove such information,
- (b) Clearly delineate it as "other information", or
- (c) Develop suitable criteria,

the practitioner may need to consider carefully what that means for the assurance conclusion. The requirements of paragraph 62 of HKSAE 3000 (Revised) apply to "other information". Where the preparer identifies such information as "other information", the practitioner still reads it for consistency and the other information should not be misleading nor obscure the understandability of the actual subject matter information.

Example

The criteria require an entity to report its principal achievements in the year. A simple statement such as "We won the award for Best Company of the Year" could be technically free from error, but still be misleading if:

- The award relates to the company's operations in only one small jurisdiction and not the whole company
- The award was not awarded by a well-recognized and respected body, independent to the company
- The award was not the result of a fair competition, for example if not all companies were eligible

In such circumstances, the practitioner may need to consider whether the criteria define the concept of a "principal achievement" in sufficient detail, for example, addressing matters such as the scope of the company's operations addressed by the award, the standing of the awarding body, or the scope of eligibility for the award, to be understandable, and whether the criteria should require disclosures about such matters for the resulting subject matter information not to be misleading and therefore for the criteria to be suitable.

25 Not used.

Specific considerations for obtaining evidence about qualitative information

8.15 A number of challenges may arise in the context of obtaining evidence for qualitative subject matter information, including:

- (a) The effectiveness or otherwise of an entity's ESG process to prepare the ESG information (see Chapter 3 of this Technical Bulletin or Chapter 6 of the IAASB's EER Guidance). Substantive testing alone may be insufficient to obtain evidence about qualitative information, as it may not provide evidence as to the occurrence, completeness or neutrality of the subject matter information. The practitioner may therefore consider whether they are able to obtain evidence through performing tests of controls, although this is often not the case in a limited assurance engagement. In accepting an engagement, the practitioner determines that the preparer has a reasonable basis for the subject matter information. Accordingly, the preparer's ESG reporting process and related controls may provide the practitioner with a reasonable expectation of being able to obtain the evidence needed to support the practitioner's conclusion. If the engagement circumstances are not complex, there may be relatively informal or simple controls; the greater the complexity the more complex the ESG reporting process and related controls may be.

Example

A hospital A&E department's reception desk may enter patient details directly onto a computerized system, together with the patient's time of arrival in A&E. The time that the patient is first seen by a consultant is also entered directly into the system by the consultant along with the severity of the patient's condition, categorized from "minor" through to "life-threatening". Among other matters reported in the hospital's EER report is the percentage of A&E patients seen by a consultant within three hours of arrival in A&E (quantitative), categorized according to the severity of their condition (qualitative).

In such a case, the practitioner may consider testing controls such as physical and logical access controls to the computerized system because inquiry or substantive testing, alone, may not be sufficient if it is based on a report that is extracted from the same system. Data entry or categorization errors could go undetected, or there may be an ability for personnel to make unauthorized changes to the computerized records at a later stage.

Similar considerations may apply when patients are able to enter their patient feedback directly into a computer terminal on leaving a hospital department. In such a case, there may not be an ability to test controls or to obtain substantive evidence for ESG information on reported "patient satisfaction" because physical and logical access to the computer terminal may not be well-controlled. In such a case, a scope limitation may exist.

- (b) The use of internal sources as a basis for reporting the information, for example, information may be entered directly into the entity's system on a real time basis without any hard copy documentation to support it, or may be obtained through informal communication by way of telephone calls, email or other internal communications. The practitioner may need to consider what evidence can be obtained to support the information being recorded or gathered in this way as these sources alone may not be sufficient. For example, when information is being captured by the entity directly onto a computerized system, the practitioner may need to understand and confirm the physical and logical security and access controls in place around the entry of information, and the basis for the entries being made in a reasonable assurance engagement. When information is gathered through informal communications, the preparer's underlying books and records may need to include sufficient evidence to back up those communications.

Example

A parent company preparer may receive an email from its foreign subsidiary telling the parent about an accidental spillage of hazardous sludge into water sources during the production process at its local operations. The email may say that the spillage was not significant, that there had been an immediate clean-up to bring it under control and that no further action was needed.

The preparer may base the ESG report wording on the wording in the email when preparing the subject matter information. Such an email may not provide sufficient evidence to support the subject matter information in the ESG report. The practitioner may need to consider what further evidence might be available, for example, there may be documentation from the local environment agency that provides evidence of an inspection and clean up, and confirms that levels of hazardous chemicals after the clean-up were within safe limits.

- (c) The timeliness with which qualitative information is prepared. Preparers may focus on providing quantitative information to the practitioner, but it may be important for the practitioner to obtain the entity's draft ESG report early in the engagement. Obtaining the report early allows for sufficient time for the practitioner to evaluate the suitability of the criteria, and to plan and perform procedures to obtain evidence in relation to both the quantitative and non-quantitative (i.e., qualitative) subject matter information, and for the preparer to consider making adjustments to the subject matter information, if appropriate. Whether the scope of the ESG assurance engagement is an entire ESG report, or part of an ESG report, which includes both qualitative and quantitative representations and related disclosures, the qualitative subject matter information is as much part of the subject matter information as the quantitative subject matter information.

- 8.16 Assertions (claims) embodied in the qualitative information may be explicit or implicit. Different categories of assertions may be used for qualitative information from those used for numerical subject matter information, but this will depend on the criteria being used. Even in situations where the same assertions are applicable (see Chapter 7 of the IAASB's EER Guidance), there may be more focus on assertions such as understandability and comparability for qualitative information, as well as consistency with other information presented by the entity in the same document.
- 8.17 When testing and documenting the practitioner's work in relation to qualitative information, it may be helpful to the practitioner to break up long pieces of text and consider sections, paragraphs or sentences separately when these address different things. It is likely that different assertions will be applicable to each. Qualitative

information should be subject to the same rigor as numerical information when obtaining evidence. Some of the evidence may be available from procedures performed in respect of related quantitative information, but additional work is likely to be needed.

- 8.18 Individual claims or indicators in the subject matter information can be individually significant and can be tested separately, particularly where they are part of wider sections of qualitative subject matter information (not all of which might be as significant). In other circumstances paragraphs of text comprising related qualitative and quantitative subject matter information may need to be considered together.
- 8.19 Practical methods of doing this may include highlighting the text in different colours or by drawing boxes around sentences or sections of significant qualitative information in the practitioner's documentation of the work done and evidence obtained. The practitioner can perform procedures on each one, and ultimately the assurance working papers can be referenced to the related parts of the text in the subject matter information.

Specific considerations for evaluating misstatements in qualitative information

- 8.20 Paragraph A96 of HKSAE 3000 (Revised) sets out various qualitative factors that may be considered when evaluating the materiality of misstatements. When evaluating a misstatement in qualitative subject matter information, similar considerations to those discussed in paragraphs 295-298 in Chapter 9 of the IAASB's EER Guidance may be helpful in considering whether the misstatement is material, focusing on whether the misstatement could reasonably be expected to influence decision-making by the intended users. Misstatements in qualitative subject matter information may arise through:
 - (a) The inclusion of inappropriate information, for example, information that does not meet the criteria or that obscures or distorts information required by the criteria;
 - (b) The inclusion of information that is not supported by the available evidence, or the omission of information for which there is evidence that suggests it should have been included;
 - (c) The omission of information required by the criteria, for example, information relating to a significant subsequent event that would be likely to change the decisions of users but has not been adequately disclosed;
 - (d) Ambiguous statements or statements the meaning of which is unclear;
 - (e) Presenting in vague terms information that is capable of being determined precisely;
 - (f) Changes since the previous reporting period to disclosures or presentation without reasonable justification for doing so or without disclosure of the reasons for doing so;
 - (g) The manner in which the information is presented. For example, it may be presented:
 - Out of context, using a distorted tone, or given greater or lesser prominence than is warranted, based on the available evidence.
 - Using superlatives and adjectives that may paint a more positive picture than factual reporting.

(h) Inappropriately drawing sweeping conclusions, based on selective information, for example through statements such as the following:

- “A large number of companies worldwide”, based on information for only a hundred companies; although a hundred may be “large”, it is not large compared to the number of companies in the world.
- “The numbers have doubled since last year” may be factual, but a small base giving rise to this doubling may not be disclosed.

- 8.21 When misstatements are identified in qualitative (i.e., non-quantifiable) information, and are not corrected by the preparer, the practitioner may accumulate them by listing them or by marking up or highlighting them in a copy of the subject matter information. Irrespective of how misstatements are accumulated during the engagement, when evaluating the evidence obtained and in forming the assurance conclusion, the practitioner needs to consider not only individually material uncorrected misstatements, but also individually immaterial misstatements that, when considered collectively, may have a material impact on the subject matter information. However, when the subject matter information is not quantifiably measurable, it is not possible to simply add the misstatements together to determine their effect in aggregate.
- 8.22 When the qualitative subject matter information relates to one underlying subject matter, it may be relatively straightforward to evaluate the combined effect of individually immaterial misstatements on the subject matter information, as the misstatements are considered within the context of that subject matter information only.
- 8.23 When the subject matter information is an entire ESG report covering a wide range of aspects of the underlying subject matter, it may be more challenging to find a way of evaluating the combined effect of uncorrected qualitative misstatements on the ESG report when the criteria consider materiality for the report as a whole. There may not be a common factor linking the various parts of the subject matter information, different emphasis may have been given to different aspects of the information included in the ESG report, or different aspects may be more significant than others to intended users.
- 8.24 The practitioner’s understanding of who the intended users are and what aspects of the subject matter information are likely to be important may be relevant to the practitioner’s ability to exercise professional judgement about which misstatements are material (see also Chapter 3 and Chapter 9 of the IAASB’s EER Guidance).
- 8.25 It may be possible, once all non-quantifiable misstatements have been listed, to group them together, for example, by whether they relate, in common, to particular aspects of the underlying subject matter or to particular criteria. For example, in an entity’s ESG report, there may be one or more individually immaterial misstatements in the qualitative statements management has made about the health and safety of its workforce and another immaterial misstatement relating to employee diversity. As health and safety and diversity both relate to the social aspect of an ESG report, the practitioner may be able to group these misstatements together and consider their combined effect on the social dimension of the entity’s ESG report. Similarly, a number of immaterial misstatements in the reported water consumption information and another immaterial misstatement relating to waste generated may be able to be considered together as they both relate to the environmental aspect of the ESG report.
- 8.26 However, the ability for the practitioner to do this may depend on the level of aggregation or disaggregation required by the criteria. If the criteria require the ESG reporting to be at the social dimension “level”, then considering the combined effect of misstatements arising in aspects of the social dimension may be appropriate; if the criteria require reporting of the subject matter information on a more disaggregated

basis, then misstatements arising in relation to each disaggregated aspect may need to be considered in relation to each individual aspect.

- 8.27 A further consideration for the practitioner is whether misstatements that are immaterial in the context of each individual aspect of the subject matter information may, in aggregate, result in a material misstatement of the subject matter information as a whole.
- 8.28 Even if there are misstatements that are not be able to be grouped together by underlying subject matter or other common factor, they may exhibit a common “direction”, tone, or trend. For example, if the effect of the misstatements is to make the subject matter information, taken as a whole, look better than it really is, or all the misstatements overstate the positive efforts and impacts of the company’s actions, and downplay the negative aspects, that may add up to give a biased and misleading picture to a user of the subject matter information taken as a whole.
- 8.29 Understanding the underlying cause of identified misstatements may also help the practitioner to evaluate their materiality to the subject matter information. For example, qualitative misstatements may be due to misunderstanding, oversight or error by an employee preparing the subject matter information, or may be because management has intentionally taken a decision to misrepresent facts. The former may not be considered to be material, whereas the latter may be.
- 8.30 As with any other misstatements, the practitioner may ask the preparer to correct them. In the case of subject matter information expressed in narrative form, this may frequently involve either re-wording or removing the misstated text. If the preparer declines to correct them, the practitioner is required to consider whether an unmodified assurance conclusion is appropriate.

Specific considerations when qualitative information is presented alongside other information

- 8.31 When the subject matter information is part, but not all of an ESG report (e.g., only part of the preparer’s ESG report is subject to assurance), but that part comprises both qualitative and quantitative information, then the part that is subject to assurance (both the qualitative and quantitative aspects of it) are the subject matter information, and any information outside of that subject matter information is “other information”. It is important that the information subject to assurance is clearly delineated from the “other information” so that it is clear to the intended users what has, and what has not, been assured.
- 8.32 “Other information” in an ESG report may also include images or other visual enhancements to the report.

Example

"We engage a third party to conduct quarterly surveys among local community residents to obtain feedback about our services and our staff. In the last x surveys, our services and frontline staff have been consistently rated as 'excellent' by x% of respondents.

Watch our chairman and CEO talk about our commitment to best practice in recruiting, developing and training our people, so that we can bring service excellence to our community."

In this example, the video may contain subjective commentary that neither results from applying the criteria, nor is able to be subjected to evidence-gathering procedures. It may be considered to be "other information". However, the practitioner would need to (i) make it clear in their assurance report that such videos have not been subjected to assurance procedures (see illustrative report in Chapter 12 of the IAASB's EER Guidance for how this might be done) and (ii) watch the video to identify material inconsistencies, if any, with the subject matter information or the assurance report as required by paragraph 62 of HKSAE 3000 (Revised).

- 8.33 The practitioner may need to consider whether such "other information" is consistent with the messages in and tone of the qualitative information presented in narrative form in the ESG report, or whether they give a conflicting impression. For example, it may be inconsistent for the preparer to show images of happy communities where the company is reporting that it has relocated a community to make way for new production facilities.
- 8.34 When an entity's ESG reporting is integrated with its financial reporting, the practitioner's responsibility to read the "other information" as required by HKSAE 3000 (Revised) will extend to the information contained within the same document(s) as the ESG report, i.e., to the financial statements and narrative related to those financial statements. The practitioner is required to consider the consistency of that other information with the subject matter information. There may be legitimate differences between the subject matter information included in an ESG report and the "other information" related to the same underlying subject matter, depending on the criteria used, but the differences may need to be explained or reconciled by the preparer and disclosed so that a user of the ESG report can understand the reasons for the differences.

Specific considerations for communicating in assurance report on qualitative information

- 8.35 As discussed further in Chapter 10, the aim of the practitioner is to obtain sufficient appropriate evidence to be able to express a conclusion designed to enhance the degree of confidence of the intended users about the outcome of the measurement or evaluation of the underlying subject matter(s) against the criteria.
- 8.36 When the underlying subject matter is not able to be quantified, the way in which it is evaluated may be subject to more variability or open to greater interpretation than if it were able to be quantified, which may result in subject matter information that could be misunderstood or misinterpreted by intended users. Consequently, it may be particularly important for intended users to have an understanding of the criteria used to evaluate the underlying subject matter, and for their attention to be drawn to this in the assurance report, along with which information has been subjected to assurance procedures and which has not. For further guidance see Chapter 10 of this Technical Bulletin or Chapter 12 of the IAASB's EER Guidance.

Chapter 9 Addressing future-oriented ESG information

Matters addressed by the guidance in this chapter

- 9.1 This chapter provides guidance for the practitioner on specific considerations in the context of future-oriented ESG information in:
 - (a) Determining suitability of criteria;
 - (b) Obtaining evidence;
 - (c) Evaluating misstatements; and
 - (d) Communicating in the assurance report.
- 9.2 The focus of the guidance in this chapter is future-oriented subject matter information that is subject to estimation or occurrence uncertainty.
- 9.3 While qualitative information is considered separately in Chapter 8, qualitative and future-oriented information are not mutually exclusive. For example, qualitative information may be future-oriented or historically-oriented, and future-oriented information may be expressed in either qualitative or quantitative terms. The practitioner may find it helpful to consider the guidance in this chapter together with the guidance in Chapter 8.

Circumstances in which the guidance in this chapter may be of assistance to practitioners

- 9.4 ESG reports may contain different forms of future-oriented subject matter information, such as:
 - (a) Information about future conditions or outcomes. This may include forecasts, projections, and information about future risks and opportunities, for example, those associated with the transition to a low-carbon economy.
 - (b) Information regarding the entity's intentions or strategy.
- 9.5 While future-oriented information results from applying criteria to the underlying subject matter, just as for any other subject matter information, the underlying subject matter (a future event, occurrence or action) may be subject to greater uncertainty, and generally able to be evaluated with less precision than historical underlying subject matter(s). As a result, it can be challenging to determine whether the criteria for its evaluation are suitable, because there may be a wide range of possible assumptions and outcomes. It is difficult to know what the subject matter information should be, or what may be of consequence to a user's decision-making, when a range of different, yet possibly acceptable, outcomes may be possible.
- 9.6 Evidence may be available to support the assumptions on which the future-oriented subject matter information is based, but such evidence is itself generally future-oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in relation to historical events and conditions.
- 9.7 As a result of the inherent uncertainties relating to the underlying subject matter(s), the criteria and assumptions used to evaluate it, and the speculative nature of the available evidence, which give rise to a wide range of possible outcomes, it can also be difficult to identify whether there is a material misstatement of the subject matter information.

- 9.8 Some future-oriented information is factual and therefore does not contain a significant degree of uncertainty, for example the debt maturity profile of an entity that is determined by contractual terms. As performing an assurance engagement on this type of information is not considered to pose a particular challenge for a practitioner, the remainder of this chapter of the document only considers future-oriented information subject to estimation or occurrence uncertainty.

The nature of future-oriented ESG information

- 9.9 Subject matter information forecasting or projecting future conditions or outcomes relates to events and actions that have not yet occurred and may not occur, or that have occurred but are still evolving in unpredictable ways.
- 9.10 Future-oriented subject matter information may describe:
- (a) Events or actions that will be subsequently observable; or
 - (b) Hypothetical events or actions that may not materialise.
- 9.11 For subsequently observable future-oriented information, it will be possible at a later point in time to observe the precision with which the forecast, projection, or intention reflected the subsequent reality, or the extent to which anticipated and unanticipated future risks or opportunities materialized. Hypothetical information includes a condition on the projection, prediction or intention. For example, a projection could be made, conditional on an entity winning a particular contract, that the entity's profit would increase 5% next year.

Example

The difference between observable and hypothetical subject matter information is illustrated by the difference between a forecast and a projection (as based on definitions in ISAE 3400²⁶, paragraphs 4-5):

A forecast is prepared on the basis of assumptions as to future events that management expects to take place and the actions management expects to take as of the date the information is prepared (best estimate assumptions).

A projection is based on hypothetical assumptions about future events and management actions that are not necessarily expected to take place, or a combination of hypothetical and best estimate assumptions. Such information illustrates the possible consequences as of the date the information is prepared if the events and actions were to occur. This may be known as a scenario analysis.

Specific considerations for determining the suitability of criteria for future-oriented ESG information

- 9.12 The criteria applied in the preparation of future-oriented information may require, or be designed to obtain, different information about the underlying subject matter from that reported in relation to historical information. For example, a description of the future state or condition of an aspect of the underlying subject matter, or a future change in state or condition over time.
- 9.13 Whether the criteria applied in the preparation of future-oriented information are determined to be suitable for the ESG assurance engagement can be determined in the same way as any other criteria as described in Chapter 7 of this Technical Bulletin or Chapter 5 of the IAASB's EER Guidance.

26 International Standard on Assurance Engagements (ISAE) 3400 (Revised), *The Examination of Prospective Financial Information*

- 9.14 The practitioner may conclude that, in order for the criteria to be suitable, disclosure criteria are needed for the assumptions made, and the nature, sources and extent of uncertainty. It may still be possible to obtain assurance on subject matter information that has inherent uncertainty. A consideration in these circumstances, is whether the inherent uncertainty is conveyed to the intended users through adequate disclosure.

Specific considerations for obtaining evidence about future-oriented ESG information

- 9.15 Considerations for future-oriented subject matter information are likely to be similar to historical subject matter information with inherent measurement, evaluation or occurrence uncertainty, and therefore the guidance in Chapter 7 of the IAASB's EER Guidance and the considerations for the practitioner set out in Chapter 8 of the IAASB's EER Guidance are broadly applicable. When future-oriented information is more subjectively determined by the preparer, considerations relating to neutrality, presentation and understandability may become relatively more important when designing procedures, due to the risk of management bias.
- 9.16 When criteria require a statement of intended future strategy, a target, or other intentions of an entity (an explicit assertion), the practitioner is not likely to be able to obtain evidence about whether the strategy, target or intention will be achieved, or to come to a conclusion to that effect. The practitioner may, nevertheless, design procedures to evaluate whether
- (a) Management or those charged with governance have an intention to follow that strategy;
 - (b) The target or intention exists;
 - (c) There is a reasonable basis for the intended strategy or target,
- so that the practitioner is not associated with subject matter information that might be misleading.
- 9.17 Appropriate evidence might, for example, be obtained about whether the reported strategy or other intentions are consistent with the entity's actual internal strategy or intentions, in the form of documentation of meetings of those charged with governance or actions that management have already taken to work towards adopting the strategy or agreeing the target.
- 9.18 There is likely to be a further implied assertion that the entity has the capability to carry out its intent, or will develop the means to do so, or there may be separate explicit criteria addressing capability. While there is not likely to be evidence available that the outcome will be achieved, the practitioner can design procedures to obtain evidence as to whether the preparer has a reasonable basis for making the assertions that are being made about future actions or events, for example, by considering the processes, systems, controls over the development of the assumptions, and the source data on which they are based.

Example

An entity has reported on its newly launched strategy, and has asked for assurance on the whole report. The practitioner is considering how they might obtain evidence for the statements made by the entity in the following paragraph of its report.

At the start of this year, we announced our commitment to becoming a “net zero” company by 2050. To deliver on our commitment, our new strategy aims to change our business from extracting and refining oil to being a leader in a clean and secure energy future. To date, we have developed capacity to generate 0.5 GW of renewable energy and, over the next eight years, we aim to increase this tenfold. By increasing our investment in low carbon technologies by over \$1 billion a year – four times our current investment – we aim to scale up our share of the hydrogen market to 5% by 2030.

The practitioner has made some notes about what evidence they might look for. The notes include, among other matters, the following:

- Copy of strategy announcement or media search: check announcement was published, and that linked strategy is the same as entity’s actual documented strategy that it uses to run its business.
- Construction reports for current capacity of 0.5GW – are facilities commissioned and in use and, if so, what is the evidence for renewable energy currently generated?
- The assumptions used are not unreasonable, given what we know of the business and industry (practitioner’s expert to help with whether there is a reasonable basis for the stated tenfold increase in renewable energy, given assumed facilities and inputs).
- Evidence of plans to construct further facilities over the next eight years, e.g., minutes of meetings, contracts entered into, plans drawn up, finance committed. Is eight years realistic, given how long it took to establish the capacity to date?
- Where does the company plan to obtain the \$1 billion per year over the next eight years, e.g., evidence of committed bank loans?
- What information has been used as the baseline, including for the current investment in clean energy?
- What is the impact of the strategy on existing commitments?
- What constitutes the commitment?

- 9.19 Similarly, when criteria require information about future risks and opportunities to be reported, the risks of material misstatement at the assertion level (for a reasonable assurance engagement) will likely include that the risks and opportunities exist (existence assertion) and that the list of risks and opportunities is complete (or relating to the completeness assertion) with respect to the risks and opportunities which would assist intended users’ decision-making. Appropriate evidence could be obtained in the form of reference to the entity’s risk register or records of discussions of those charged with governance. However, it is important that the processes and controls in place over the maintenance of the risk register and the minuting of discussions provide a reasonable basis for using these sources as evidence. See Chapter 3 of this Technical Bulletin or Chapter 6 of the IAASB’s EER Guidance for further guidance on considering the entity’s process to prepare the subject matter information, and related systems of internal control.

- 9.20 A practitioner is ordinarily not able to obtain assurance on whether the risks and opportunities will materialize or not, however it may be possible in some circumstances to obtain assurance on information about the nature of the risks and opportunities, for example their likelihood or potential impact. Whether this is possible will depend on whether the applicable criteria are suitable and the availability of appropriate evidence. A common challenge is that the likelihood of and potential impact of risks and opportunities can change significantly and quickly due to factors that may be unknown by the entity or outside of its control.
- 9.21 Subject matter information about future conditions or outcomes relates to events and actions that have not yet occurred and may not occur, or that have occurred but are still evolving in unpredictable ways. It is not possible for the practitioner to determine whether the results or outcomes forecasted, or projected will be achieved or realized. The practitioner may instead focus on whether:
- (a) In the case of forecasts, there is a reasonable basis for the assumptions used in preparing the subject matter information (see example in paragraph 9.19); or
 - (b) In the case of hypothetical assumptions, such assumptions are consistent with the purpose of the information; and
 - (c) The future-oriented subject matter information has been prepared in accordance with the applicable criteria on the basis of the assumptions.
- 9.22 However, the practitioner may need to bear in mind that such evidence may, itself, be speculative in nature, and it may be necessary to perform sensitivity analyses to consider how significantly the outcomes might change if the assumptions were to change.
- 9.23 When considering subject matter information about future conditions or outcomes, the same thought process as was considered in Chapter 8 of the IAASB's EER Guidance can be applied. The practitioner may ask what decision is to be made, in what way(s) could the subject matter information not be properly measured or evaluated, presented or disclosed, what might cause a material misstatement to occur, and how management of the entity manages and mitigates those risks.
- 9.24 The practitioner's considerations in relation to the evidence that may be available may include, amongst other matters:
- (a) What governance and oversight the entity has in place over the reporting of the subject matter information, and whether there are systems, processes and internal controls that provide a reasonable basis for the assumptions made by the entity and for the data or other information used as basis for its forecasts (see Chapter 3 of this Technical Bulletin or Chapter 6 of the IAASB's EER Guidance);
 - (b) What sources of information the entity has used as the basis for the assumptions made, and the reliability of those sources;
 - (c) What statistical, mathematical or computer-assisted modelling techniques, if any, the entity has used, and what methods for developing and applying the assumptions have been used;
 - (d) How reliable those techniques and methods are, and how relevant they are to the underlying subject matter being forecast;
 - (e) The preparer's previous experience and competence in making forecasts;
 - (f) The accuracy of previous forecasts made by the preparer and the reasons for significant differences between the forecast outcome and the actual outcome.

If the preparer has a history of making reliable forecasts, and the underlying subject matter is not inherently volatile or subject to change, that would likely be more persuasive than if the preparer had not made reliable forecasts in the past, or if the preparer did not take into account volatility in the underlying subject matter when making forecasts;

- (g) The time period being covered by the future-oriented information. The longer the time period covered, the more speculative the assumptions become as the ability to make a best estimate decreases;
 - (h) The inherent susceptibility of the underlying subject matter to change and the sensitivity of the assumptions to changes that may occur;
 - (i) The extent to which the future conditions are solely or partly under the entity's own control or whether they are outside of the entity's control;
 - (j) The evidence and documentation the preparer has in place to support both the assumptions made and the proper preparation of the subject matter information from those assumptions and how persuasive the evidence is;
 - (k) The extent to which the preparer has made progress in achieving the stated outcome, or whether there are plans and resources in place to enable achievement of the outcome;
 - (l) The disclosures included in the EER information about assumptions, calculation methods, and baselines used;
 - (m) Whether there is a need for subject matter or other expertise on the engagement team and, if so, the sources of that expertise.
- 9.25 The considerations when designing and performing the procedures to obtain sufficient, appropriate evidence and when evaluating the sufficiency and appropriateness of evidence obtained are similar to those set out in Appendix 1 and, when future-oriented information is presented in narrative form, also to the considerations set out in Chapter 8.
- 9.26 However, it may be more difficult to determine the persuasiveness of evidence when it is more speculative in nature than when it is factual. While written representations from management do not take the place of sufficient, appropriate evidence, it may be relatively more important in the context of an engagement to assure future-oriented information to obtain written representations from those charged with governance of the entity confirming that the assumptions as of the date of the assurance report remain appropriate even though the underlying information may have been accumulated over time.
- 9.27 As future-oriented information is subject to greater inherent uncertainty than historical information, it may also be acceptable to evaluate whether the outcome is within a reasonable range of possible outcomes.
- 9.28 Presentation and disclosures may be important in the context of future-oriented information to enable a user to understand the context for the subject matter information and the inherent uncertainties involved. The practitioner's considerations on whether the presentation and disclosures in the subject matter information are appropriate may include whether:
- (a) The presentation of the future-oriented information is informative, neutral and not misleading;
 - (b) The assumptions used and the basis for those assumptions are clearly disclosed;

- (c) The basis for establishing points in a range is disclosed and the range is not selected in a biased or misleading manner when the future-oriented ESG subject matter information is expressed in terms of a range;
- (d) The date as of which the future-oriented information was prepared is clear and there is a statement that the assumptions are appropriate as at that date;
- (e) The uncertainties and sensitivities involved are disclosed, enabling a user to understand the implications of “what if?”
- (f) Where comparatives are presented, whether there have been any changes in the current period to the assumptions made or the basis on which the underlying subject matter has been prepared, the changes are disclosed together with the reasons for those changes and their effect on the subject matter information.

Specific considerations for evaluating misstatements in future-oriented ESG information

9.29 As discussed in paragraph 9.5, future-oriented information is generally subject to greater measurement, estimation and evaluation uncertainty than historical information. As a result, there may be a broad range of possible measurement or evaluation outcomes, and it can be difficult to identify situations in which the assumptions are:

- (a) Not reasonable (for a forecast); or
- (b) Unrealistic and not in line with the purpose of the information (for projections).

9.30 It may be helpful for the practitioner to consider ways in which misstatements might arise, or “what could go wrong”, for example:

- (a) Data or other information used as a basis to which assumptions are applied may not be relevant, complete or reliable;
- (b) Assumptions may include information that is not relevant, may omit important considerations, or may be given inappropriate weighting;
- (c) Assumptions used may not be consistent with the decisions they are intended to inform;
- (d) There may be unintentional or deliberate misapplication of the assumptions to the base data or information, or in calculations of quantifiable information.

9.31 In some cases, misstatement could arise as a result of a combination of these circumstances, making separate identification difficult.

9.32 The practitioner may also consider whether there are indicators of possible management bias in the selection of assumptions, methods or in the way in which the subject matter information is presented that may have implications for the rest of the ESG assurance engagement. For example, when the preparer has:

- (a) Changed the assumptions or methods used, or has made a subjective assessment that there has been a change in circumstances, without reasonable justification;
- (b) Used assumptions that are inconsistent with observable marketplace assumptions; or

- (c) Selected significant assumptions that favour management's objectives, or that may indicate a pattern or trend.

9.33 Considering whether the preparer has made adequate disclosures about the assumptions used in measuring or evaluating the subject matter information, and the uncertainties involved, to enable the intended users to understand the implications for their decision-making, and not result in misleading subject matter information, may also be important.

Specific considerations for communicating in the assurance report on future-oriented ESG information

9.34 As discussed in Chapter 10 and Chapter 12 of the IAASB's EER Guidance, the aim of the practitioner is to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users about the subject matter information (that is, the outcome of the measurement or evaluation of the underlying subject matter(s) against criteria).

9.35 When the underlying subject matter is subject to a high degree of estimation or evaluation uncertainty, there may be more variability or it may be open to greater interpretation than when there is less uncertainty. This may result in subject matter information that could be misunderstood or misinterpreted by intended users. Consequently, it may be particularly important for intended users to have an understanding of the criteria used to evaluate the underlying subject matter, and for their attention to be drawn to this in the assurance report, for example by describing the inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria (see paragraph 69(e) of HKSAE 3000 (Revised)).

Example

Extract from an example assurance report: *[Name of entity] has prepared its projection of expected outcomes related to [identified subject matter information] using a set of assumptions that include hypothetical assumptions about future events and management's actions. Actual outcomes are likely to be different from those projected as anticipated events frequently do not occur as assumed and the difference between the projected outcome and the actual outcome may be material.*

Chapter 10 Reporting

Forming the assurance conclusion

- 10.1 The practitioner should form a conclusion about whether the practitioner has obtained reasonable or limited assurance, as appropriate, about the ESG subject matter information. That conclusion should take into account the requirements of paragraphs 10.2 to 10.4 of this chapter. Depending on the scope of work and reporting requirements, the practitioner should agree with the entity whether the engagement constitutes a reasonable assurance or limited assurance engagement.
- 10.2 Reasonable or limited assurance engagement
- (a) **Reasonable assurance** - The practitioner should evaluate whether the ESG subject matter information is prepared, in all material respects, in accordance with the applicable criteria.
 - (b) **Limited assurance** - The practitioner should evaluate whether anything has come to the practitioner's attention that causes the practitioner to believe that the ESG subject matter information is not prepared, in all material respects, in accordance with the applicable criteria.
- 10.3 This evaluation should include consideration of the qualitative aspects of the entity's quantification methods and reporting practices, including indicators of possible bias in judgements and decisions in the making of estimates and in preparing the ESG subject matter information, and whether, in view of the applicable criteria:
- (a) The quantification methods and reporting policies selected and applied are consistent with the applicable criteria and are appropriate;
 - (b) Estimates made in preparing the ESG subject matter information are reasonable;
 - (c) The information presented in the ESG subject matter information is relevant, reliable, complete, comparable and understandable;
 - (d) The ESG subject matter information provides adequate disclosure of the applicable criteria, and other matters, including uncertainties, such that intended users can understand the significant judgments made in its preparation; and
 - (e) The terminology used in the ESG subject matter information is appropriate.
- 10.4 The evaluation required by paragraph 10.2(a) and (b) should also include consideration of the overall presentation, structure and content of the ESG subject matter information in accordance with the applicable reporting criteria.

Other information

- 10.5 When an ESG report containing the ESG subject matter information and the assurance report thereon includes other information, the practitioner shall read that other information to identify material inconsistencies, if any, with the subject matter information or the assurance report and, if on reading that other information, the practitioner:
- (a) Identifies a material inconsistency between that other information and the ESG subject matter information or the assurance report; or

- (b) Becomes aware of a material misstatement of fact in that other information that is unrelated to matters appearing in the ESG subject matter information or the assurance report, the practitioner shall discuss the matter with the appropriate party(ies) and take further action as appropriate.²⁷

10.6 Further guidance on other information is set out in paragraph A143 of HKSAE 3000 (Revised).

Assurance report content

10.7 The assurance report should include, at a minimum, the following basic elements:

- (a) A title that clearly indicates the report is an independent assurance report.
- (b) An addressee.
- (c) An identification or description of the level of assurance, either reasonable or limited, obtained by the practitioner.
- (d) Identification of the ESG subject matter information, including the period(s) it covers, and, if any information in that statement is not covered by the practitioner's conclusion, clear identification of the information subject to assurance as well as the excluded information, together with a statement that the practitioner has not performed any procedures with respect to the excluded information and, therefore, that no conclusion on it is expressed.
- (e) A description of the entity's responsibilities.
- (f) A statement that ESG quantification is subject to inherent uncertainty.
- (g) Identification of the applicable criteria (Ref: Paras 10.8 to 10.10);
 - (i) Identification of how those criteria can be accessed;
 - (ii) If those criteria are available only to specific intended users, or are relevant only to a specific purpose, a statement alerting readers to this fact and that, as a result, the ESG subject matter information may not be suitable for another purpose. The statement should also restrict the use of the assurance report to those intended users or that purpose; and
 - (iii) If established criteria need to be supplemented by disclosures in the explanatory notes to the ESG subject matter information for those criteria to be suitable, identification of the relevant note(s).
- (h) A statement that the firm of which the practitioner is a member applies HKSQM 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as HKSQM 1. If the practitioner is not a professional accountant, the statement should identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as HKSQM 1.
- (i) A statement that the practitioner complies with the independence and other ethical requirements of the Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as Chapter A, Parts 1,3 and 4B, and Chapter C of the Code related to assurance engagements. If the practitioner is not a professional accountant, the statement should identify the professional requirements, or requirements imposed by law

²⁷ Paragraph 62 of HKSAE 3000 (Revised).

or regulation, applied that are at least as demanding as Chapter A, Parts 1, 3 and 4B, and Chapter C of the Code related to assurance engagements.

- (j) A description of the practitioner's responsibility, including:
 - (i) A statement that the engagement was performed in accordance with HKSAE 3000 (Revised), other relevant and any ESG subject matter-specific HKSAEs relevant to the engagement. (Ref: Paras 10.8 and 10.9)
 - (ii) An informative summary of the work performed as a basis for the practitioner's conclusion. In the case of a limited assurance engagement, an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the practitioner's conclusion. In a limited assurance engagement, the summary of the work performed should state that:
 - The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; and
 - Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.
- (k) The practitioner's conclusion:
 - (i) In a reasonable assurance engagement, the conclusion should be expressed in a positive form; or
 - (ii) In a limited assurance engagement, the conclusion should be expressed in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe that the ESG subject matter information is not prepared, in all material respects, in accordance with the applicable criteria.
 - (iii) When the practitioner expresses a modified conclusion, the assurance report should contain (Ref: Para 10.13):
 - A section that provides a description of the matter(s) giving rise to the modification; and
 - A section that contains the practitioner's modified conclusion.
- (l) The practitioner's signature.
- (m) The date of the assurance report. The assurance report should be dated no earlier than the date on which the practitioner has obtained the evidence on which the practitioner's conclusion is based, including evidence that those with the recognized authority have asserted that they have taken responsibility for the ESG subject matter information.
- (n) The location in the jurisdiction where the practitioner practices.

Description of the applicable criteria

- 10.8 The preparation of the ESG subject matter information by the entity requires the inclusion of an adequate description of the applicable criteria in the explanatory notes

to the ESG subject matter information. That description advises intended users of the framework(s) on which the ESG subject matter information is based, and is particularly important as there are significant differences among the various nature of ESG information and the relevant criteria used.

- 10.9 A description that the ESG subject matter information is prepared in accordance with particular applicable criteria is appropriate only if the ESG subject matter information complies with all the requirements of those applicable criteria that are effective during the period covered by the ESG subject matter information.
- 10.10 A description of the applicable criteria that contains imprecise qualifying or limiting language (for example, “the ESG subject matter information is in substantial compliance with the requirements of XYZ”) is not an adequate description as it may mislead users of the ESG subject matter information.

Complying with standards that are relevant to the engagement

- 10.11 The practitioner should comply with HKSAE 3000 (Revised) and any ESG subject matter-specific HKSAEs relevant to the engagement. Where an ESG subject matter specific HKSAE applies to only part of the ESG subject matter information, it may be appropriate to cite both that ESG subject matter specific HKSAE and HKSAE 3000 (Revised).
- 10.12 The practitioner should not represent compliance with HKSAE 3000 (Revised) or any other HKSAE unless the practitioner has complied with the requirements of HKSAE 3000 (Revised) and any other HKSAE relevant to the engagement, including compliance with HKSQM 1 and the Code (paragraphs 10.7(h) to 10.7(i)). A statement that contains imprecise qualifying or limiting language (for example “the engagement was performed by reference to or based on HKSAE 3000 (Revised)”) may mislead users of assurance reports.

Modified conclusions

- 10.13 In the circumstances where the practitioner expresses a qualified conclusion or a disclaimer of conclusion or adverse conclusion, the practitioner’s report is to be modified accordingly as required in paragraph 69(l)(v) of HKSAE 3000 (Revised). Further guidance is set out in paragraphs 74 to 77, A183, A189 to A192 of HKSAE 3000 (Revised).

Emphasis of matter paragraphs and other matter paragraphs

- 10.14 If the practitioner considers it necessary to:
 - (a) Draw intended users’ attention to a matter presented or disclosed in the ESG subject matter information that, in the practitioner’s judgment, is of such importance that it is fundamental to intended users’ understanding of the ESG subject matter information (an Emphasis of Matter paragraph); or
 - (b) Communicate a matter other than those that are presented or disclosed in the ESG subject matter information that, in the practitioner’s judgment, is relevant to intended users’ understanding of the engagement, the practitioner’s responsibilities or the assurance report (an Other Matter paragraph),

and this is not prohibited by law or regulation, the practitioner should do so in a paragraph in the assurance report, with an appropriate heading, that clearly indicates the practitioner’s conclusion is not modified in respect of the matter.

Considerations for practitioners when ESG report and assurance report are published on website

- 10.15 An ESG report may be made available to users in printed form, or electronically, including on the entity's website. When the ESG report is only made available to users via the entity's website, the final paper version of the ESG subject matter information (i.e. the ESG information under assurance) obtained from the entity, rather than directly from the entity's website, is the relevant information on which the practitioner would perform procedures in accordance with this Technical Bulletin. The practitioner has no responsibility to search for the relevant ESG subject matter information that may be on the entity's website, nor to perform any procedures to confirm that ESG subject matter information is appropriately displayed on the entity's website or otherwise has been appropriately transmitted or displayed electronically.
- 10.16 Entities often publish their ESG report on their website. They often want to include the assurance report on that information to show that they have addressed their governance responsibilities. This published information often consists of voluminous reports, together with the associated applicable criteria used to measure and report the relevant ESG subject matter information, and usually the assurance report includes links with the relevant sections/pages of the ESG report on the website. There is therefore a risk that the assurance report can no longer be linked with the relevant sections/pages of the ESG report e.g. applicable criteria the practitioner used to make the assessment of the ESG subject matter.
- 10.17 To address these risks the practitioner should clarify in the engagement letter and obtain written representations from management that:
 - (a) the practitioner responsibility in relation to the ESG subject matter information will be the final paper version and the original signed assurance report attached
 - (b) the entity is responsible for the maintenance and integrity of ESG information published on the internet, including the link included in the assurance report to the ESG information which is published on the internet
- 10.18 Where the practitioner is aware that the ESG subject matter information, together with the assurance report, will be published electronically, it would be common to check that the version of the ESG subject matter information and/or the assurance report that the client intends to publish on the website are the same as the original versions.
- 10.19 Reference can also be made to Chapter 12 of the IAASB's EER Guidance which provides other guidance for preparing an assurance report by the practitioner.

Appendix 1

Guidance on the procedures in limited and reasonable assurance engagements

A1. Planning and performing the engagement

Understanding the Underlying Subject Matter and Other Engagement Circumstances

Extract from HKSAE 3000 (Revised) paragraphs 46L/R – 47L/R

(References below refer to a paragraph in HKSAE 3000 (Revised))

Limited assurance	Reasonable assurance
46L. The practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to: (a) Enable the practitioner to identify areas where a material misstatement of the subject matter information is likely to arise; and (b) Thereby, provide a basis for designing and performing procedures to address the areas identified in paragraph 46L(a) and to obtain limited assurance to support the practitioner's conclusion. (Ref: A101–A105, A108)	46R. The practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to: (a) Enable the practitioner to identify and assess the risks of material misstatement in the subject matter information; and (b) Thereby, provide a basis for designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner's conclusion. (Ref: A101–A104, A108)
47L. In obtaining an understanding of the underlying subject matter and other engagement circumstances under paragraph 46L, the practitioner shall consider the process used to prepare the subject matter information. (Ref: A107)	47R. In obtaining an understanding of the underlying subject matter and other engagement circumstances under paragraph 46R, the practitioner shall obtain an understanding of internal control over the preparation of the subject matter information relevant to the engagement. This includes evaluating the design of those controls relevant to the engagement and determining whether they have been implemented by performing procedures in addition to inquiry of the personnel responsible for the subject matter information. (Ref: A106)

A2. Obtaining evidence*Risk consideration and responses to risks***Extract from HKSAE 3000 (Revised) paragraphs 48L/R – 49L/R***(References below refer to a paragraph in HKSAE 3000 (Revised))*

Limited assurance	Reasonable assurance
48L. Based on the practitioner's understanding (see paragraph 46L), the practitioner shall: (Ref: Para. A109–A113) (a) Identify areas where a material misstatement of the subject matter information is likely to arise; and (b) Design and perform procedures to address the areas identified in paragraph 48L(a) and to obtain limited assurance to support the practitioner's conclusion.	48R. Based on the practitioner's understanding (see paragraph 46R) the practitioner shall: (Ref: A109–A111) (a) Identify and assess the risks of material misstatement in the subject matter information; and (b) Design and perform procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner's conclusion. In addition to any other procedures on the subject matter information that are appropriate in the engagement circumstances, the practitioner's procedures shall include obtaining sufficient appropriate evidence as to the operating effectiveness of relevant controls over the subject matter information when: (i) The practitioner's assessment of the risks of material misstatement includes an expectation that controls are operating effectively, or (ii) Procedures other than testing of controls cannot alone provide sufficient appropriate evidence.
Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement 49L. If the practitioner becomes aware of a matter(s) that causes the practitioner to believe that the subject matter information may be materially misstated, the practitioner shall design and perform additional procedures to obtain further evidence until the practitioner is able to: (Ref: A113–A118) (a) Conclude that the matter is not likely to cause the subject matter	Revision of Risk Assessment in a Reasonable Assurance Engagement 49R. The practitioner's assessment of the risks of material misstatement in the subject matter information may change during the course of the engagement as additional evidence is obtained. In circumstances where the practitioner obtains evidence that is inconsistent with the evidence on which the practitioner originally based the assessment of the risks of material misstatement, the practitioner shall revise the assessment and modify the planned procedures accordingly. (Ref: A113)

information to be materially misstated; or (b) Determine that the matter(s) causes the subject matter information to be materially misstated.	
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- A3. In view of the varying level of assurance obtained through limited assurance as described above, an assurance practitioner needs to exercise professional judgement in determining the nature, timing and extent of work in a limited assurance engagement in view of the characteristics of an ESG reporting. For instance, trends and relationships in certain key performance indicators may not have been observed at all and therefore trend analysis and other substantive analytical procedure may be unpersuasive or not possible at all. In such case, the assurance practitioner may judge that detailed tests beyond inquiry and analytical procedures are needed. Similarly, in an ESG engagement of a more complex entity or involves a complex, specialized ESG subject matter, the assurance practitioner may judge that procedures other than testing of controls are not sufficient and therefore determine that there is a need to evaluate the design, implementation and operating effectiveness of relevant controls even though HKSAE 3000 (Revised) does not require performance of such procedures for a limited assurance engagement.

Appendix 2

Illustrations of assurance reports on ESG information

Illustration 1:

Circumstances include the following:

- Reasonable assurance engagement
- The ESG subject matter within the scope of the engagement is certain ESG information as specified by management
- The specified ESG information contains no comparative information
- The assurance engagement is conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and Hong Kong Standard on Assurance Engagements 3410, *Assurance Engagements on Greenhouse Gas Statements* (where applicable) issued by the HKICPA
- The report is an unmodified report

The following illustrative report is for guidance only and is not intended to be exhaustive or applicable to all situations.

INDEPENDENT PRACTITIONER'S REASONABLE ASSURANCE REPORT

[Appropriate Addressee]

We have undertaken a reasonable assurance engagement of the specific [ESG Information] of ABC for the year ended 31 December 202X, [[as identified²⁸ in the [ESG Report] on [pages xx–yy]] or [as attached in Appendix [X] to this report]]²⁹. [This engagement was conducted by a multidisciplinary team including assurance practitioners, engineers and environmental scientists.]³⁰

ABC's Responsibility

Pursuant to [[Appendix C2 to the Main Board Listing Rules] or [Appendix C2 to the GEM Listing Rules]] issued by The Stock Exchange of Hong Kong Limited, ABC is responsible for the preparation of the [ESG Information] in accordance with [applicable criteria], as set out [in [Note 1] to the [ESG Information] or [in Appendix [Y] to this report] (referred as "applicable criteria" thereafter)²⁴. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of [ESG Information] that is free from material misstatement, whether due to fraud or error.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

28 Practitioners should agree with the entity the ESG information to be assured and clearly identified them in the ESG report or assurance report as appropriate.

29 The specific ESG information subject to this assurance engagement and the applicable criteria can be referred to a specific note to the ESG information, or the specific pages of the ESG report, or set out in an Appendix to this report.

30 The sentence should be deleted if it is not applicable to the engagement (for example, if the engagement was to report only on Scope 2 emissions and no other experts were used).

The firm applies Hong Kong Standard on Quality Management 1³¹, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibility

Our responsibility is to express an opinion on the [ESG Information] based on the procedures we performed and the evidence we have obtained³². We conducted our reasonable assurance *engagement* in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* ("HKSAE 3000 (Revised)") and, in respect of greenhouse gas emissions, Hong Kong Standard on Assurance Engagements 3410, *Assurance Engagements on Greenhouse Gas Statements* ("HKSAE 3410") issued by the HKICPA. That standard requires that we plan and perform this engagement to obtain reasonable assurance about whether the [ESG Information] is free from material misstatement.

A reasonable assurance engagement in accordance with HKSAE 3000 (Revised) [and HKSAE 3410] involves performing procedures to obtain evidence about the quantification of [ESG Information]. The nature, timing and extent of procedures selected depend on the practitioner's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error, on the [ESG Information]. A reasonable assurance engagement also includes: <include procedures>³³

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[Inherent Limitation]³⁴

[As discussed in [Note 1] to the [ESG Information],]³⁵ quantification of [certain] ESG information is subject to inherent uncertainty because of [specify the matters giving rise to the uncertainty].

Opinion

In our opinion, the [ESG Information] for the year ended 31 December 202X is prepared, in all material respects, in accordance with the [applicable criteria] as set out [in [Note 1] to the [ESG Information] or [in Appendix [Y] to this report]]²⁴.

[Practitioner's signature]

[Date of the assurance report]

[Practitioner's address]

31 HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

32 Practitioners may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

33 Include a summary of work performed based on the specific facts and circumstances of the engagement.

34 Include this paragraph in case the practitioner wants to draw attention to significant inherent limitations associated with the evaluation or measurement of the ESG information against the applicable criteria. This illustrative language should be tailored according to the individual circumstances.

35 Where there is no discussion of the inherent uncertainty in Note 1 to the ESG Information, this should be deleted.

Illustration 2:

Circumstances include the following:

- Limited assurance engagement
- The ESG subject matter within the scope of the engagement is certain ESG information as specified by management
- The specified ESG information contains no comparative information
- The assurance engagement is conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and Hong Kong Standard on Assurance Engagements 3410, *Assurance Engagements on Greenhouse Gas Statements* (where applicable) issued by the HKICPA
- The report is an unmodified report

The following illustrative report is for guidance only and is not intended to be exhaustive or applicable to all situations.

INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT

[Appropriate Addressee]

We have undertaken a limited assurance engagement of the specific [ESG Information] of ABC for the year ended 31 December 202X, [[as identified³⁶ in the ESG Report] on pages [xx–yy] or [as attached in Appendix [X] to this report]]³⁷. [This engagement was conducted by a multidisciplinary team including assurance practitioners, engineers and environmental scientists.]³⁸

ABC's Responsibility

Pursuant to [[Appendix C2 to the Main Board Listing Rules] or [Appendix C2 to the GEM Listing Rules]] issued by The Stock Exchange of Hong Kong Limited, ABC is responsible for the preparation of the [ESG Information] in accordance with [applicable criteria], as set out in [in [Note 1] to the [ESG Information] or [in Appendix [Y] to this report] (referred as “applicable criteria” thereafter)]³². This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of [ESG Information] that is free from material misstatement, whether due to fraud or error.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Management 1³⁹, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

36 Practitioners should agree with the entity the ESG information to be assured and clearly identified them in the ESG report or assurance report as appropriate.

37 The specific ESG information subject to this assurance engagement and the applicable criteria can be referred to a specific note to the ESG information, or the specific pages of the ESG report, or set out in an Appendix to this report.

38 The sentence should be deleted if it is not applicable to the engagement (for example, if the engagement was to report only on Scope 2 emissions and no other experts were used).

39 HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the [ESG Information] based on the procedures we have performed and the evidence we have obtained⁴⁰. We conducted our limited assurance engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (“HKSAE 3000 (Revised)”) and, in respect of greenhouse gas emissions, Hong Kong Standard on Assurance Engagements 3410, *Assurance Engagements on Greenhouse Gas Statements* (“HKSAE 3410”) issued by the HKICPA. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the [ESG Information] is free from material misstatement.

A limited assurance engagement undertaken in accordance with HKSAE 3000 (Revised)[, and HKSAE 3410] involves assessing the suitability in the circumstances of ABC's use of [applicable criteria] as the basis for the preparation of the [ESG Information], assessing the risks of material misstatement of the [ESG Information] whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the [ESG Information]. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. Within the scope of our work we performed amongst others the following procedures: <include procedures>⁴¹

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether ABC's [ESG Information] has been prepared, in all material respects, in accordance with the [applicable criteria] as set out [in [Note 1] to the [ESG Information] or [in Appendix [Y] to this report]]³².

[Inherent Limitation]⁴²

[As discussed in [Note 1] to the [ESG Information],] ⁴³ quantification of [certain] ESG information is subject to inherent uncertainty because of [specify the matters giving rise to the uncertainty].

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that ABC's [ESG Information] for the year ended 31 December 202X is not prepared, in all material respects, in accordance with the [applicable criteria] as set out [in [Note 1] to the [ESG Information] or [in Appendix [Y] to this report]]³².

[Practitioner's signature]

[Date of the assurance report]

[Practitioner's address]

40 Practitioners may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 “Auditors’ Duty of Care To Third Parties and The Audit Report”.

41 The procedures are to be summarized but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that an agreed-upon procedures engagement has been undertaken, and in most cases will not detail the entire work plan.

42 Include this paragraph in case the practitioner wants to draw attention to significant inherent limitations associated with the evaluation or measurement of the ESG information against the applicable criteria. This illustrative language should be tailored according to the individual circumstances.

43 Where there is no discussion of the inherent uncertainty in Note 1 to the ESG Information, this should be deleted.