IMPACT FRONTIERS

Supplement on Independent Review of Impact Performance Reports

FOR INDEPENDENT REVIEWERS

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Contents

CONTEXT AND BENEFITS 3

SUPPLEMENTARY QUESTIONS FOR INDEPENDENT REVIEWERS 7

1. ENTITY OVERVIEW AND IMPACT THESIS 7
2. IMPACT MANAGEMENT APPROACH 7
3. IMPACT PERFORMANCE 8
4. GOVERNANCE 9
5. CASE STUDY 10
6. INDEPENDENT REVIEW (OPTIONAL) 10

APPENDICES 11

APPENDIX A: KEY QUESTIONS 11
APPENDIX B: NOTE ON ASSURANCE STANDARDS IN THE UNITED STATES 12
APPENDIX C: AGREED-UPON PROCEDURES 13

Context and Benefits

This document is a supplement to the Impact Performance Reporting Norms (hereafter "Reporting Norms"). It provides suggested questions that independent reviewers can use to assess investors' impact performance reports against the Reporting Norms.

This supplement aims to support the efficiency and effectiveness of independent review of impact performance reports. Appropriate consistency across independent reviewers will enhance the confidence of preparers and users in the results of independent review engagements.

The Reporting Norms are not intended to encourage nor discourage any individual report preparer from seeking independent review. Regardless, the report preparer bears primary responsibility for ensuring the suitability of the report for the purposes of the user.

Two types of independent review include:[1]

- Assurance: The conclusion of an assurance provides confidence that statements made in the impact performance report are accurate and fairly presented in all material respects.[2]
- Verification: The conclusion provides an opinion about the degree to which the Reporting Norms have been followed.

Impact evaluations can serve as an input into high-quality impact performance reporting. However, impact evaluators are not providers of independent review. Evaluators assess impact performance rather than reviewing the report itself. When an independent impact evaluation is commissioned, the report preparer can either use the information from the evaluation to prepare their own impact performance report, or the evaluation itself can constitute the performance report – provided it adheres to the Reporting Norms. In this instance, the report can be termed an "independent impact performance report."

These services may be combined by preparers. For instance, if the results of an independent impact evaluation were included in an impact performance report, an assurance provider would assess whether the statements in the report are supported by the evidence provided in the evaluation. Additional services – such as certification, rating, and scoring, among others – may be layered on top of these.

This supplement is not designed to be used on a standalone basis but rather in combination with assurance standards such as those of the International Auditing and Assurance Standards Board (IAASB)

[1] Note that there is not widespread agreement about standardized terms and definitions to describe the various types of independent review. Both formal regulations and informal norms around assurance and other forms of independent review vary significantly by country. There is another type, agreed-upon procedures, for which the reviewer issues a report of findings based on specific procedures performed. To learn more about Agreed-Upon Procedures, see "Agreed-Upon Procedures Engagements" from the International Federation of Accountants (IFA), https://www.ifac.org/knowledge-gateway/supporting-international-standards/publications/agreed-upon-procedures-engagements-o.

[2] To learn more about assurance in general, see "What is assurance?" and related resources from the Institute of Chartered Accountants of England and Wales (ICAEW), https://www.icaew.com/technical/audit-and-assurance/assurance/what-is-assurance. See also "A buyer's guide to assurance on non-financial information," co-authored by ICAEW and the World Business Council for Sustainable Development, https://www.wbcsd.org/Programs/Redefining-Value/Making-stakeholder-capitalism-actionable/Assurance-Internal-Controls/Resources/A-buyer-s-guide-to-assurance-on-non-financial-information.

and AccountAbility.[3] These are referenced here because they are the standards most frequently used globally in assurance of sustainability and other non-financial information.[4]

Benefits of these standards include:

- Codes of ethics and professional conduct (i.e., IESBA Code of Ethics for Professional Accountants (IAASB); Code of Practice (AccountAbility));
- Guidance on when the preconditions for independence have been met;
- Guidance on competencies and qualifications needed for the reviewer; and
- IAASB further requires that practitioners be a member of a firm that is subject to ISQC 1 (Internal Standard on Quality Control).

Regardless of the form of independent review sought, report preparers and users are encouraged to consider whether the independent reviewer adheres to the above standards or equivalent.

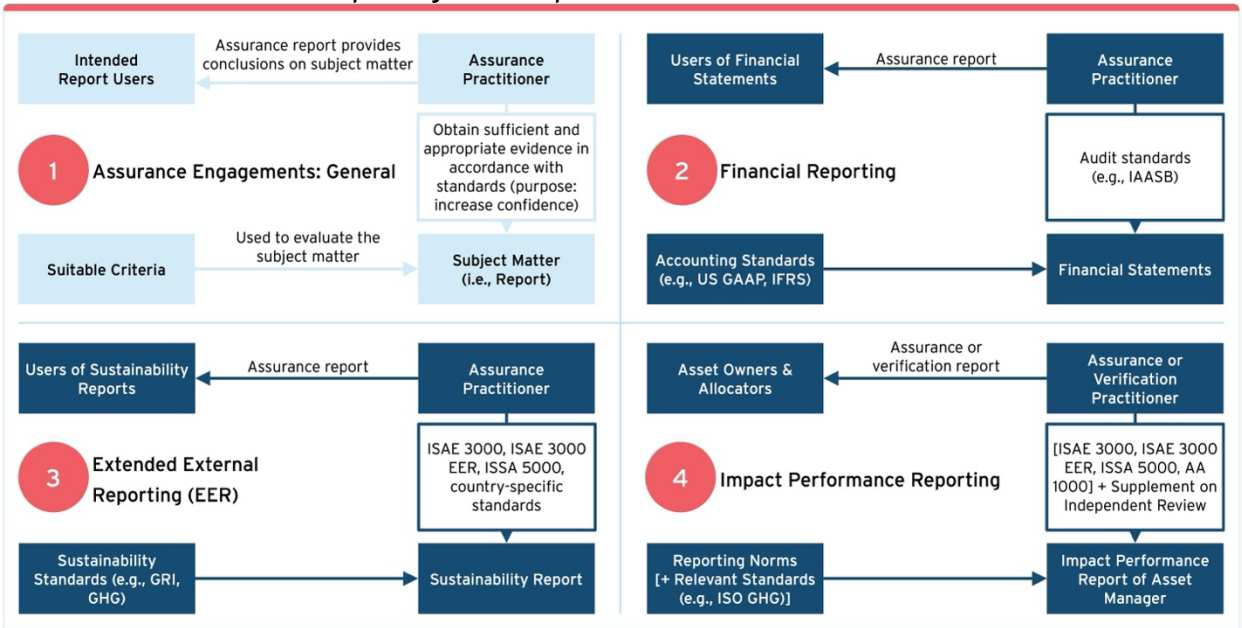
As the name suggests, the primary users of the Reporting Norms are report preparers. If the Norms were eventually to be adopted by a standard-setter, they would be a reporting standard, not an assurance or verification standard. Suitable standards for the conduct of independent review already exist (i.e., IAASB and AccountAbility, among others).

Independent reviewers require a reporting standard against which to compare impact performance reports prepared by investors. The Reporting Norms are intended to fulfill this function. In the terminology of assurance, reporting standards – if acceptable to the assurance provider – are referred to as "suitable criteria" for an assurance engagement. The diagram below illustrates the intended use of the Reporting Norms as suitable criteria in independent review engagements alongside existing assurance standards.

[3] It is recommended that the assurance engagements follow the procedures outlined in Assurance and Engagements Other Than Audits or Reviews of Historical Information (ISAE3000 (Revised) and Non-Authoritative Guidance on Applying ISAE3000 (Revised) to Sustainability and Other Extended Reporting Engagements by the IAASB, and/or AccountAbility's AA1000 standard. We are also exploring interoperability with ISO 17021 (Conformity assessment — Requirements for bodies providing audit and certification of management systems Part 1: Requirements, Part 3: Competence requirements for auditing and certification of quality management systems), ISO 17029 (Conformity assessment — General principles and requirements for validation and verification bodies), and the forthcoming ISO 14019-1 (Validation and verification of sustainability information — Part 1: General principles and requirements).

[4] Rao, Sunita. "Current State of Assurance on Sustainability Reports," The CPA Journal, 2017. https://www.cpajournal.com/2017/07/26/current-state-assurance-sustainability-reports/.

Standards and Norms for Reporting and Independent Review[5]



In the context of assurance of sustainability reports by enterprises, audit firms typically use IAASB's standards, whereas specialist firms that focus on sustainability tend to use AA1000.[6] The two standards are complementary, and several firms use both together.[7]

With regards to the Reporting Norms, we suggest that:

- Firms that use the IAASB standards elsewhere in their practice – including most financial accounting and audit firms – apply the ISAE 3000 standard (or ISSA 5000, in public consultation at the time of writing) along with the IESBA Code of Ethics, ISQC 1, and other pertinent IAASB standards. If an accounting and audit firm that applies these standards elsewhere prefers not to apply them for a particular engagement, preparers and users should question the reason for the deviation. Financial accounting and audit firms may of course use AA1000 in combination with, but not instead of, IAASB standards.
- Specialist firms or internal auditors that do not apply IAASB standards in any of their engagements may use AA1000 on its own, so long as the firm is an AccountAbility-licensed

[5] Impact performance reports will include a section on impact management practices. For signatories to the Impact Principles, this section can be fulfilled by existing disclosures.

[6] Individual jurisdictions determine the standards that apply to assurance practitioners. As of end-2021, 62% of the 135 member jurisdictions of the International Federation of Accountants (IFAC) had adopted IAASB's Standards, and a further 36% had partially adopted them. Source: "International Standards, 2022 Global Adoption Status Snapshot," IFAC.

[7] The following quote provides one practitioner firm's view of the complementary nature of the two standards: "ISAE 3000 and AA1000 AS take a significantly different approach. ISAE 3000 is used by public accounting firms and stresses the importance of data quality, reporting procedures, controls, and evidence-gathering procedures. AA 1000 is generally used by specialist bodies and emphasizes the need for organizations to demonstrate effective stakeholder engagement, the identification of material sustainability issues and the existence of a responsible business strategy which is aligned to the identified issues." Source: Systems and Organization Controls, https://soc2.co.uk/isae-3000-sustainability, accessed July 2023.

assurance provider permitted to use AA1000 commercially.[8] Of course, specialist firms or internal auditors may also use ISAE 3000 or ISSA 5000.[9]

Regardless, when deciding on independent reviewers, preparers and users are recommended to consider the standards that each provider employs.

Independent reviewers of impact performance reports (for their own purposes or on behalf of a third party) are encouraged to consider the suggested questions below. However, an engagement should only be called "assurance" if it fully meets the criteria set out by the IAASB and/or AccountAbility.

The Reporting Norms and the Supplement on Independent Review may also inform the design and delivery of other services such as benchmarking and consulting. Those services are outside of the scope of this document.

[8] AA1000 licensing information can be found here: https://elicensing.accountability.org/
A list of providers licensed to use AA1000 commercially can be found here: https://www.accountability.org/standards/aa1000-assurance-standard/licensed-assurance-providers/

[9] The IAASB has indicated that ISAE 3000 may be used by practitioners that are not professional accountants so long as the engagement partner has "specialist knowledge and competence in assurance skills and techniques developed through extensive training and practical application, [is] a member of a firm that applies ISQC 1…and [complies] with parts A and B of the IESBA Code [of Ethics] related to assurance engagements." Source: ISAE 3000 Basis for Conclusions, December 2013, https://www.iaasb.org/_flysystem/azure-private/publications/files/ISAE-3000-Basis-for-Conclusions.pdf.

Supplementary Questions for Independent Reviewers

The Reporting Norms use wording such as "can" or "may." In selected instances, the words "should" or "required" are used. This indicates areas where reviewers of the consultation draft felt that the proposed Reporting Norm should be encouraged especially strongly (for instance, incorporating the views of affected stakeholders). The Reporting Norms operate on a "comply-or-explain" basis. If the preparer did not disclose listed items, it is recommended that the independent reviewers inquire about the reason why and assess whether the explanation is reasonable.

1. Entity Overview and Impact Thesis

1.1. Entity Description

a) Does the overview of the portfolio that is the subject of the report align with your understanding? Is there any important information missing that you think users should know?

b) If the reporting entity is part of a larger organization, does the overview of that organization align with your understanding? Is there any important information missing that you think users should know?

1.2. Impact Thesis

a) Is the portfolio impact thesis clear and logical? Does the impact thesis address the following?

i. The social and/or environmental needs or challenges that the expected activities and outputs are intended to address;

ii. Description of the intended outcomes; the stakeholder groups and aspects of the natural environment experiencing those outcomes; the extent to which stakeholders are underserved with regard to those outcomes; and the significance of those outcomes to the stakeholders, relative to other outcomes they are (or are not) experiencing;

iii. The role of investor contribution;

iv. The approximate extent or portion of the portfolio for which the above points hold or are expected to hold;

v. The definitions used for the terms "outcomes" and "impacts."

b) Is evidence provided to support the thesis? Are any assumptions made explicit?

c) Is the fund's design and investment strategy aligned with the impact thesis?

2. Impact Management Approach

2.1. Process, Standards, and Frameworks

a) Does the description explain how impact influences decision-making throughout each stage of the investment process?

b) Are the frameworks utilized by the preparer aligned with industry standards?

c) When asked, was the preparer able to provide evidence substantiating that their process is as presented in the report? Were there any notable strengths or weaknesses in implementation that users would want to know?

d) Does the explanation of how the fund manages positive impact and negative impact cover activities throughout the investment process?

2.2. Identification of Stakeholders, Outcomes, and Impacts

a) Is approach of the preparer and/or investees to identifying outcomes and impacts clearly explained, along with rationale for the approach chosen?

b) Is the preparer's process for assessing outcomes and impacts aligned with its impact thesis? Has the preparer and/or investees made reasonable and good-faith efforts to obtain information from various sources to understand stakeholders' needs and perspectives?

c) Is the preparer's assessment backed by sufficient evidence?

d) Did the different sources of information express different and potentially conflicting views on outcomes? If so, did the preparer provide you with an explanation of the discrepancies and their interpretation?

2.3. Usage of Data

a) Does the organization collect, manage, and use impact data in line with industry standards (e.g., data ownership, privacy issues)? If so, how?

b) Is the data collection process, frequency, and granularity appropriate for the size and characteristics of the fund?

c) Are there well-specified and consistently implemented protocols for impact data collection and management, with structured review protocols in place to check accuracy?

d) Is there a systematic, clearly documented structure inclusive of formalized data review and quality control processes that enables the fund to gather and analyze data from sources to offer evidence of the impact created?

3. Impact Performance

3.1. Management Commentary

a) Is the overall assessment of impact performance backed by evidence and consistent with your interpretation of that evidence? Do you see the overall assessment as a faithful representation of the relevant information about impact?

3.2. Impact Performance

a) Is the preparer's presentation of this section suitable for the needs of their capital providers, and appropriate to the size, stage, context, and other characteristics of the preparer? Does the selected approach enable a faithful representation of impact (i.e., complete, neutral, and accurate) or does it result in including/excluding or over-emphasizing/under-emphasizing certain information inappropriately?

b) Are the outcomes and impacts of investees/assets in line with what is explained in 1.2?

c) Does the performance information cover both positive and negative, intended and unintended results?

d) Metrics

i. Is the narrative for the selection of standardized metrics and/or use of custom metrics backed by sufficient evidence? Are standardized metrics used when available? Are definitions for custom impact metrics provided?

ii. Are metrics, baselines, targets, and thresholds for each material outcome disclosed?

iii. If the metrics selected are proxies, to what extent are the proxies reliable indicators of the intended outcomes or impacts?

iv. Are the data categories within the five dimensions of impact represented appropriately? Are any omitted that, if included, would increase faithful representation and/or comparability for users and potentially change users' decisions? If not disclosed, is there an explanation why?

e) Does the preparer include impact data sources, cite metrics definitions, and accurately reference industry standards or frameworks?

f) Does the preparer explain areas of the report where data or evidence is relatively stronger or weaker, and how data limitations may affect assessment of performance?

g) Are there any inconsistencies between performance reported and underlying internal records?

3.3. Unintended and/or negative impacts

a) Did the engagement provide a reasonable basis that the negative outcomes and impacts have been sufficiently explained?

b) Are there any inconsistencies between the content of the report and underlying internal records?

4. Governance

4.1. Entity Governance

a) Are there any inconsistencies between the explanation and underlying internal systems and records?

b) Is the overall governance structure reasonable for overseeing the investment activities outlined in the impact performance report?

c) Are the systems outlined here functioning in practice, and do you have sufficient evidence?

4.2. Diversity, Equity, and Inclusion

a) Are there any inconsistencies between the explanation and the actual policies implemented?

b) Are the policies implemented in line with industry standards?

4.3. Parent and Holding Company

a) Is the explanation supported by evidence?

b) Are there any inconsistencies between the explanation and records?

5. Case Study

a) Is the process of case study selection in line with the Reporting Norms?

b) Investee Overview and Impact Thesis: Is the impact thesis explained in a manner consistent with the guidance in "1.2. Impact Thesis?"

c) Impact Performance, Analysis, and Commentary: Are the impacts of the investment explained in a manner consistent with "3.2. Impact Performance?"

d) Is there sufficient evidence regarding the explanation above? Are there any inconsistencies between the explanation and underlying internal records?

6. Independent Review (Optional)

Appendices

Appendix A: Key Questions

1) **Should independent reviewers be expected to validate the data provided in impact performance reports?**

   ISAE 3000 (Revised) paragraphs 48-49 L/R require the assurance provider to obtain evidence. Paragraphs 48/49 L/R set out requirements relating to risk considerations and responses to risks, differentiating between limited and reasonable assurance. See ISAE 3000 (revised) EER Chapter 8 for guidance.

2) **Should the scope of independent review vary by asset class?**

   There is no reason that the scope should vary by asset class, but it may in some circumstances. The scope of the independent review engagement should be determined in discussions between providers and clients and should be in line with relevant standards.

3) **What is the obligation of independent reviewers to look "beyond the report" to additional data, documents, and practices?**

   In general, independent reviewers would need to validate some minimum level of accuracy and reliability of data presented. This may take the form of a data sampling approach, a review of data calculation methodologies, a spot check of relevant processes, or other methods.

   A limited assurance would indicate that the assurer is unaware of any significant issues based on what is in the report. A reasonable assurance goes further to affirm that all information is fairly stated, which would require looking beyond the report. Refer to ISAE 3000 (revised) paragraphs 48-49 and ISAE 3000 (Revised) EET for guidance.

Appendix B: Note on Assurance Standards in the United States

In the United States, assurance standards are set by the Public Company Oversight Board (PCAOB) and approved by the Securities and Exchange Commission. The PCAOB requires the use of the Statements on Auditing Standards, issued by the American Institute of Certified Public Accountants (AICPA). AICPA has not published a standard on assurance of non-financial or sustainability information, therefore these Reporting Norms anchor on the IAASB standards.

The AICPA itself appears to be converging on ISAE 3000. For instance, see AICPA's 2017 note titled "Examination Engagements: Differences Between ISAE 3000 and [AICPA] AT-C Sections 105, Concepts Common to All Attestation Engagements, and 205, Examination Engagements:"

> "It is the [AICPA Auditing Standard Board's] general strategy to converge its standards with those of the International Auditing and Assurance Standards Board. Accordingly, ISAE 3000 served as the foundation for SSAE No. 18, and many of the paragraphs in AT-C sections 105, 205, and 210 were converged with the related paragraphs in ISAE 3000, with certain changes made to reflect U.S. professional standards... In converging with ISAE 3000, the ASB has made various changes to the language of ISAE 3000 throughout the attestation standards. Such changes were made to use terms applicable in the United States and to make the attestation standards easier to read and apply in the United States. The ASB believes that such changes do not create differences between the application of ISAE 3000 and the application of the attestation standards."

Source:
https://us.aicpa.org/content/dam/aicpa/interestareas/frc/auditattest/downloadabledocuments/attest-clarity/differences-between-isae-3000-at-c-105-and-205.pdf

Appendix C: Agreed-Upon Procedures

If pre-conditions for an assurance engagement (such as independence of the assurance practitioner from the preparer) are not met, one alternative is to conduct an "agreed-upon procedures (AUP)" engagement. Independent practitioners conducting an AUP engagement (as opposed to assurance) are recommended to refer to International Standard on Related Services 4400 (ISRS4400 (Revised)).[10]

Introduction to Agreed-Upon Procedures Engagements

According to paragraphs 4-6 of IAASB's ISRS4400:

"In an agreed-upon procedures engagement, the practitioner performs the procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The practitioner communicates the agreed-upon procedures performed and the related findings in the agreed-upon procedures report. The engaging party and other intended users consider for themselves the agreed-upon procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner.

"The value of an agreed-upon procedures engagement performed in accordance with this ISRS results from:

(a) The practitioner's compliance with professional standards, including relevant ethical requirements; and

(b) Clear communication of the procedures performed and the related findings.

"An agreed-upon procedures engagement is not an audit, review, or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any form."

From "International Standard on Related Services 4400 (Revised)," IAASB, April 2020, page 5, https://www.iaasb.org/publications/login/49580

[10] In the United States, details regarding AUP can be found here: https://pcaobus.org/oversight/standards/attestation-standards/details/AT201. In September 2022 AICPA published guidance on Attestation Engagements on Sustainability Information (behind paywall): https://www.aicpa-cima.com/cpe-learning/publication/attestation-engagements-on-sustainability-information-guide-including-greenhouse-gas-emissions-information-OPL.

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Impact Frontiers is a learning and market-building collaboration for investors seeking to manage their social and environmental impacts and incorporate impact into investment decision-making. We provide resources, space for community discussions, and a cohort model that supports learning by doing.

We create practical tools and peer-learning communities that support investors in building their capabilities for managing impact and integrating impact with financial data, analyses, and processes. We lead with questions and facilitate interactions that help investors come up with their own answers, based on their own strategy, context, and data.

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