

Assurance on <IR>

Overview of feedback
and call to action

July 2015

INTEGRATED REPORTING <IR>

About <IR>

<IR> is enhancing the way organizations think, plan and report the story of their business.

Organizations are using <IR> to communicate a clear, concise, integrated story that explains how all of their resources are creating value. <IR> is helping businesses to think holistically about their strategy and plans, make informed decisions and manage key risks to build investor and stakeholder confidence and improve future performance. It is shaped by a diverse coalition including business leaders and investors to drive a global evolution in corporate reporting.

As set out in the International <IR> Framework, an integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term. The Framework enables a business to bring these elements together through the concept of 'connectivity of information', to best tell an organization's value creation story.

About this document

This document has been prepared by IIRC staff. It summarizes significant matters raised in the debate on the consultation paper "Assurance on <IR>: Introduction to the discussion"¹. That paper was released in 2014 together with the more detailed "Assurance on <IR>: an exploration of issues"². The debate included roundtables contributed to by around 400 people globally and resulted in 63 written submissions being received.

In drafting this document, staff have not tried to capture all points raised, nor to quantify the numbers supporting particular positions. Rather, the intention is to give the overall tenor of the debate and note particularly prevalent, important or interesting views, even if raised by only one or two respondents. Where it was considered relevant to note that a certain view was expressed by a particular stakeholder group that has been done, although it should be noted that: (a) all roundtables and a number of submissions involved a mixture of stakeholder groups, thus some views could not be associated with a particular stakeholder group; and (b) while all major stakeholder groups were represented in submissions and roundtables, some were represented more strongly than others (e.g., as might be expected on the issue of assurance, there were far more submissions from accounting bodies and firms than from investor representatives).

Inevitably, the process of identifying and summarising the issues included in this document has involved a degree of consolidation, interpretation, contextualization and generalization, which has been done in good faith as objectively as possible. The full text of all written submissions is available at <http://integratedreporting.org/resource/assurance/> to assist those interested in performing a more detailed analysis.

¹<http://integratedreporting.org/wp-content/uploads/2014/07/Assurance-on-IR-an-introduction-to-the-discussion.pdf>

²<http://integratedreporting.org/wp-content/uploads/2014/07/Assurance-on-IR-an-exploration-of-issues.pdf>

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Executive summary

The IIRC has initiated a debate about trust and credibility regarding <IR>, with a particular focus on the role of independent assurance. This document summarizes significant issues emerging from that debate and, importantly, identifies steps to ensure the debate progresses and is fruitful.

Key points emerging from the debate include:

- Organizations use a range of mechanisms to enhance credibility and trust, of which assurance is only one
- Internal systems needed for <IR> are far less mature than systems for “financial” information; they may often be ad hoc and in some cases do not exist at all
- <IR> is relatively new and is still evolving; assurance on <IR> will need to evolve alongside the practice of reporting itself
- Ongoing consultation will help ensure that assurance maintains the focus on being market-led and delivering value for money
- Innovation and experimentation is necessary, although existing assurance principles and methodologies should not be prematurely rejected
- The total costs and benefits of assurance are difficult to assess, however it is likely that assurance will become more cost effective as time goes by
- Assurance practitioners will need to develop a comprehensive understanding of how value is created (for the organization and for others) across the full range of capitals. This will require an appreciation of “systems thinking”
- A range of technical challenges will need to be considered by assurance standard setters, in particular the International Auditing and Assurance Standards Board (IAASB), which has set up an Integrated Reporting Working Group.

The IIRC does not aspire to be a leader in assurance. Therefore, while some of the actions being called for are for the IIRC to take, many are for others, alone or in collaboration, including:

- Those charged with governance and senior management
- Internal audit
- International Auditing and Assurance Standards Board
- Assurance practitioners, whether they are part of the accounting profession or otherwise
- Providers of financial capital
- Educators and trainers
- Professional bodies and related standard-setters
- Academics
- Those responsible for control and related frameworks.

Call to action

It is commonly said that <IR> is a journey. So too is assurance on <IR>. Relative to the hundreds of years that financial statement auditing has been evolving, we are now only at the beginning of the <IR> assurance journey. That journey cannot be taken by one traveller alone.

We have, therefore, identified below the main groups that we see need to contribute to this journey and the most important actions we believe they should consider to ensure it is fruitful. In doing this, we note that many of these groups are already active in the areas we suggest and our call is for them to continue to act so as to strengthen the overall credibility and trust in <IR>.

As noted in the consultation paper, the IIRC does not aspire to be a leader in assurance. Therefore, while some of the following actions are for the IIRC to take, many are for others, alone or in collaboration.

Those charged with governance and senior management of organizations implementing <IR> are responsible for, and helped by, the integrity of internal systems that contribute to credibility and trust in <IR>. The IIRC calls on those charged with governance and senior management to: (see paragraphs E.1-E.8 and A.19-A.20)

- Continuously improve internal systems to ensure information included in integrated reports (and on which significant decisions are made) are robust
- Be transparent about the state of development of internal systems and progress towards the end goal
- Consider disclosing in the integrated report the specific mechanisms those charged with governance have relied on when acknowledging their responsibility to ensure the integrity of the report
- Continue to liaise with the assurance practitioners and others regarding their needs with respect to independent assurance.

Internal audit will play a key role in facilitating the work needed to improve internal systems, particularly in larger organizations (see paragraph E.6) and several respondents suggested that their role should be strengthened/made more prominent in line with the “combined assurance” model adopted in South Africa (see paragraph A.18). The IIRC calls on:

- **Internal auditors** to become the champions of <IR> within their organizations, in particular, taking the lead in strengthening the internal systems that are so vital to credible and trustworthy <IR>
- **The Institute of Internal Auditors**, which has already published a number of helpful papers³, and other bodies that include internal auditors in their number to continue to prepare their members for a stronger and more prominent role in <IR>, including greater transparency around the role of internal auditors.

A key assurance leader is the **International Auditing and Assurance Standards Board** (IAASB) which sets auditing and assurance standards in the public interest, including standards that could be applied to assurance on <IR>. As noted in paragraphs B.1-B.4 and Section F, there is some contention about whether current standards are entirely appropriate, and whether/when <IR>-specific assurance standards should be developed. The IAASB has established an Integrated Reporting Working Group to: “(a) explore emerging developments in integrated reporting; (b) gather further information on the demand for assurance, the scope of the assurance engagement and the key assurance issues; and (c) explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe.” The IIRC fully supports the IAASB in pursuing these objectives and, in particular, calls on the IAASB to:

- Ensure the processes of the Working Group are inclusive of assurance practitioners and other stakeholders in addition to those in the accounting profession
- Continue to evaluate the principles and characteristics of assurance (see paragraphs B.5-B.7) and responses to the technical challenges raised in the consultation paper (see Section F), and encourage research and innovation regarding assurance on <IR>, including the possibility of innovative approaches to resolving the identified assurance issues.

³ See for example: <http://tinyurl.com/lwy5cv8>, <http://tinyurl.com/n3tvodj> and <http://tinyurl.com/kmnn3qp>.

Assurance practitioners, whether they are part of the accounting profession or otherwise, have shown a willingness to experiment and consider alternatives that adapt their existing skills and methodologies to the needs of assurance on <IR>. The IIRC calls on assurance practitioners to continue to: (a) be actively involved with other stakeholders, including preparers, internal auditors, providers of financial capital and other users, standard-setters and academics in providing innovative, market-led services that protect and enhance credibility and trust in <IR>; and (b) explore ways to better integrate the work of assurance teams, members of which will have different backgrounds and skill sets (see paragraph D.6).

While providers of financial capital participated in many of the roundtables and other forums held to discuss the consultation paper, they were underrepresented in written submissions. Providers of financial capital, as with any other group of stakeholders, are not homogeneous and will have a range of needs and perceptions of assurance; unless more providers of financial capital become vocal in the assurance debate, there is a danger that their needs will be misunderstood and subsequently not met (see paragraph A.11). The IIRC calls on more **providers of financial capital** to become engaged with the <IR> movement and to actively articulate their views on credibility, trust and assurance to preparers, assurance practitioners and standard-setters to ensure their needs are met as assurance on <IR> evolves.

A particular need as <IR> and assurance on <IR> progress will be for education and training of not only assurance practitioners and internal auditors (see paragraphs D.10-D.12) but also preparers, providers of financial capital and other users. The IIRC calls on **educators and trainers** to actively participate in debates about the skills needed for <IR> and, in particular, to incorporate appropriate material into undergraduate and post-graduate courses and continuous professional development. The IIRC also calls on those who set or influence relevant professional accreditation requirements, particularly **professional bodies and related standard-setters** such as the International Accounting Education Standards Board (IAESB), to ensure professional accreditation courses include adequate coverage of <IR> and assurance on <IR>.

Academic research is a critical component in advancing most fields of endeavour, particularly in relatively new areas such as <IR> and assurance on <IR>. The IIRC calls on **academics** to maintain their scrutiny and analysis of the direction of <IR> and assurance on <IR>, to collaborate with preparers, practitioners and other stakeholders to explore alternatives, in particular those that may otherwise be overlooked, and to contribute constructively to the body of knowledge that supports advancements in the trust and credibility of <IR>.

The IIRC also calls on **those responsible for control and related frameworks**, to continuously review the adequacy of those frameworks, and to revise them if appropriate in light of the momentum behind <IR> (see paragraph E.6).

For its part, the IIRC undertakes to:

- Consider, when next revising the International <IR> Framework (the Framework):
 - whether sufficient emphasis has been placed on internal systems and related concepts (see paragraph E.2)
 - whether those charged with governance should disclose in the integrated report the specific mechanisms on which they have relied when acknowledging their responsibility to ensure the integrity of the report (see paragraphs A.19-A.20)
 - whether changes should be made to respond to those who have questioned the suitability of the Framework as criteria for an assurance engagement (see paragraph F.7-F.8)
- Maintain a “watching brief” over assurance and other mechanisms that contribute to credibility and trust and consider whether they can be more effectively incorporated into the <IR> Examples Database at <http://examples.theiirc.org/home>
- Continue to liaise with, support and, where appropriate, contribute to the work of the Institute of Internal Auditors and the IAASB, amongst others
- Engage with providers of financial capital and other users to better discern their needs with respect to credibility and trust, and help ensure those needs are understood by preparers, assurance practitioners, stand-setters and others
- Provide a high-level curriculum to facilitate education and training in <IR>
- Explore the creation of an <IR> Academic Network to facilitate collaboration and sharing of information among academics as well as between academics and others.

Significant matters raised in the debate

A. Priority to be placed on assurance

“The Journey”

- A.1** Respondents generally acknowledged that independent, external assurance enhances credibility and trust, with one going so far as to suggest “it may ... be the case that some users could view assurance as a differentiator between an organization’s marketing information and its corporate reporting”. Others noted, e.g., “at a time of increasing mistrust in corporate behavior if an appropriate level of assurance cannot be provided to the relevant stakeholders then it is extremely unlikely that they will accept and support the <IR> process as a credible solution to the challenge it seeks to address”.
- A.2** Many respondents also specifically mentioned that <IR> is relatively new, still evolving, at an early stage of development, etc., and that assurance on <IR> will need to evolve alongside the practice of reporting itself. This sentiment was implicit in many others’ comments too, making it clear that nearly all respondents look upon assurance on <IR> as something that we should not expect to be fully developed right now, but rather that it will develop and mature as <IR> itself develops and matures.
- A.3** There was, however, less agreement on the priority that should be assigned to the development of assurance. At one end of the spectrum, many respondents used expressions such as “utmost urgency”, “priority from the outset” and “top of the list”. At the other, were expressions such as “secondary”, “less of a priority” and “low priority”. In between, some said, e.g., it should be “a matter for every reporting entity to determine”.
- A.4** Some warned of the dangers of moving too quickly, noting, e.g., the risk of assurance becoming a compliance exercise, or stifling innovation in reporting resulting in, e.g., “preparers reporting only on matters on which external assurance can be obtained, rather than focusing on the completeness of information”.
- A.5** Others noted the need for assurance sooner rather than later, e.g., to counter the risk that the information currently being reported is not balanced.
- A.6** One respondent commented that until relevant methodologies or standards are developed “any assurance being provided needs to be carefully considered as undue reliance by users of the assurance report is a real and significant risk”.

Ongoing consultation

- A.7** A reconciling factor, to some degree at least, is that many respondents from various points of the spectrum mentioned above noted the need for consultation with stakeholders.
- A.8** So perhaps when assigning priorities, some respondents were thinking of how quickly we should expect an end point to be reached where assurance engagements may be relatively well-defined and standardized, versus how quickly we should expect the process of consultation to start.
- A.9** In any case, with few or no exceptions, it seems likely from the tone of written submissions as well as feedback at the roundtables that there would be support for consultation not to be unduly delayed.

Priority

A.10 Early consultation will help ensure that assurance developments:

- maintain the focus on being market-led and delivering value for money
- recognise local regulatory and cultural environments, albeit within the context of efforts to encourage greater international harmonization
- keep pace with, or not trail too far behind, developments in reporting.

A.11 Many respondents thought that particular attention needs to be paid to consultation with providers of financial capital and with internal users of assurance (i.e., those charged with governance and senior management) to ensure the development of assurance meets a genuine market need.

A.12 One respondent noted that providers of financial capital may not yet be fully engaged and another that their position on assurance is difficult to interpret; they seem to prefer some assurance rather than none, but it is not clear what value they attribute to different levels (limited, reasonable, etc.) and scopes (see paragraph B.6) of assurance. The submission from participants of a global investor forum expressed “concerned that reporting entities might become hesitant about providing investors with unquantifiable non-financial information, which is decision useful, if excessively rigorous audit or assurance is required” and noted their belief “that it is too early and unrealistic to require auditing and assurance of integrated reports at this point in time”.

In the interim

A.13 Apart from ensuring there is adequate opportunity to innovate (see paragraphs B.1-B.4), views on what the priorities should be for assurance and assurance practitioners during this development period varied. Suggestions included:

- pursuing alternative forms of engagement, e.g., providing users with a summary that gives insight into the maturity of the reporting process, “readiness reviews”, or limiting engagements to identifying instances where a lack of objectivity impairs the balance of an integrated report
- focusing on the development of assurance standards/guidance and the availability of suitably skilled assurance practitioners
- monitoring how the Framework is applied in practice, influencing the assurability of the content of the integrated report itself, and developing a common understanding of subject matter, criteria and appropriate measurement techniques
- advocacy so that stakeholders understand the nature, context and benefits of assurance.

A.14 There was also a recognition that, because of their broad range of experience and expertise, the early involvement of assurance practitioners (albeit not necessarily in the form of an assurance engagement) can assist organizations in coming to grips with the Framework, prepare gap analyses, strengthen internal controls, etc.

Credibility and trust – assurance is not alone

A.15 A common view expressed by respondents was that although assurance can play an important role in building confidence in reported information, it is definitely only one of a range of mechanisms that organizations can use to enhance credibility and trust in Integrated Reporting.

A.16 Therefore, many respondents emphasized the importance of other mechanisms that impart confidence, both:

- internally, to those charged with governance when acknowledging their responsibility to ensure the integrity of the integrated report (in accordance with paragraph 1.20 of the Framework), and
- to external users.

Lines of defence

A.17 Apart from the involvement of external stakeholders, these mechanisms are encapsulated in the “lines of defence” risk management model mentioned by some respondents. While the exact definition of each line, and even the number of lines, can vary according to the source, the model adopted by the Institute of Internal Auditors offers a helpful overview per the diagram below.⁵

Internal audit

A.18 Another suggestion mentioned by several respondents, which is compatible with the “lines of defence” model, is for the role of internal audit to be strengthened/made more prominent, which aligns with the “combined assurance” model adopted in South Africa.⁴

Disclosure by those charged with governance

A.19 A further suggestion made by some respondents is for the integrated report itself to disclose the specific mechanisms those charged with governance have relied on when acknowledging their responsibility to ensure the integrity of the report.

A.20 While this could eventually be a requirement of the Framework itself, respondents noted that it is already being implemented by some organizations on a voluntary basis.



⁴“The three lines of defense In effective risk management and control”, 2013, <http://tinyurl.com/lpx3lqe>

⁵“Third King Report on Governance for South Africa” 2009, page 62, <http://tinyurl.com/pv75grf>

B. Features of assurance

Need for innovation

- B.1** A message from many respondents was that there is a need for innovation in the development of assurance on <IR> and it is, therefore, too early to lock in on all the features of assurance and other mechanisms that could be used to enhance credibility and trust. For example, one innovative suggestion was to use curated, crowd-sourced, qualitative opinions to provide an assessment of how far along the Integrated Reporting journey an organization has reached. Another respondent suggested that assurance should be “closer to what you might find in an independent due diligence report [which] uncovers and examines evidence and uses it to tell a story. ... In a sense assurance must become a sort of meta narrative; that is, a compelling holistic story about the other stories that are its subject matter”.
- B.2** A number of respondents felt that innovation is needed to overcome perceived inadequacies in meeting emerging needs with current practices or because premature assumptions about what assurance on <IR> should look like could actually inhibit innovation, not only in assurance on <IR> but also in the nature and quality of Integrated Reporting itself.
- B.3** Others, while often acknowledging the need for consultation, innovation and improvement, cautioned against prematurely rejecting existing principles and methodologies, arguing that current assurance standards and frameworks can accommodate assurance on <IR>.
- B.4** In particular, there was support from a number of respondents for the *International Framework for Assurance Engagements* and for *ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and other assurance standards,⁶ the principle underpinnings of which were noted to “have been subject to rigorous due process, involving a wide range of stakeholders, which has enabled the development of high quality and widely used assurance standards, which already address a wide variety of subject matters.”

⁶Other standards include ISAE 3400, The Examination of Prospective Financial Information. The Framework and standards are available at <http://tinyurl.com/m4sqjw>.

Principles and characteristics

- B.5** Many respondents, even those who mentioned a need to innovate, made suggestions for principles that should guide the development of assurance or specific characteristics they believed to be appropriate both now and in the future. Suggestions included:
- independence, professional judgement and professional skepticism, which are often considered to be immutable tenets of assurance
 - robust procedures and rigorous evidence
 - skills, competence and expertise of practitioners (see Section D)
 - the ability to use the work of specialists, often in multi-disciplinary teams, given the broad range of information in, and processes supporting, an integrated report
 - suitable quality control mechanisms
 - flexibility to innovate and to respond to changing needs, particularly with respect to the form and content of the assurance report
 - closer linkage with internal audit and other internal mechanisms that enhance credibility and trust
 - differing levels of assurance to meet differing needs
 - clarity in reporting that bridges, rather than broadens any expectation gap.
- B.6** There was no clear consensus about the appropriate scope for assurance, e.g., whether it should focus on:
- the process, or elements of the process, underlying <IR>; in particular: (a) integrated thinking, or (b) the process used for preparing the integrated report (including the materiality determination process and internal control over the accumulation of data)
 - all or some of the narrative/qualitative information in the integrated report
 - all or some of the metrics/quantitative measures in the integrated report
 - the integrated report as a whole, including application of the Fundamental Concepts, Guiding Principles and Content Elements identified in the Framework.
- B.7** The principles and characteristics of assurance will need to be considered by assurance standard setters along with the technical issues identified in Section F.

C. Costs and benefits

Assessing costs and benefits

C.1 A number of respondents mentioned that while the direct financial costs and benefits of assurance are, of course, important, the total costs and benefits are broader.

C.2 This makes the cost/benefit equation difficult to articulate and assess with precision as it is based on perceptions, e.g., “In some quarters there appears to

be a perception that external assurance is expensive and of limited value, while in others there is demand for assurance as a measure to increase the credibility of information reported in the integrated report.”

C.3 Actual costs and benefits include, for example:

| | Costs | Benefits |
|-------------------------|--|---|
| Direct financial | <ul style="list-style-type: none"> Assurance practitioner’s fee Investment in better internal control and other mechanisms | <ul style="list-style-type: none"> Reduced cost of capital Improved share price |
| Other | <ul style="list-style-type: none"> Time of employees dealing with assurance practitioner’s requests | <ul style="list-style-type: none"> Better decisions due to more reliable and relevant (e.g., better connected) information and processes Improved reputation for transparency and for the quality of management Observations and recommendations based on the experience of the assurance practitioner |

Maximizing net benefits

C.4 There were mixed views about how cost effective assurance is/will be in the short-medium term, but a more general acceptance that a range of factors will likely, but not necessarily, mean that assurance will be cost effective in the medium-long term (at least for larger entities). Factors that are likely to affect costs of assurance and suggestions for maximizing the net benefits include:

- Reliance on other credibility mechanisms: As detailed in paragraphs A.15-A.20, organizations use numerous mechanisms to enhance credibility and trust in integrated reporting. As these mechanisms mature and improve (which

can be expected as those charged with governance become increasingly aware of their responsibility for the integrity of the integrated report), the assurance practitioner should be able to rely on them more, thereby reducing costs.

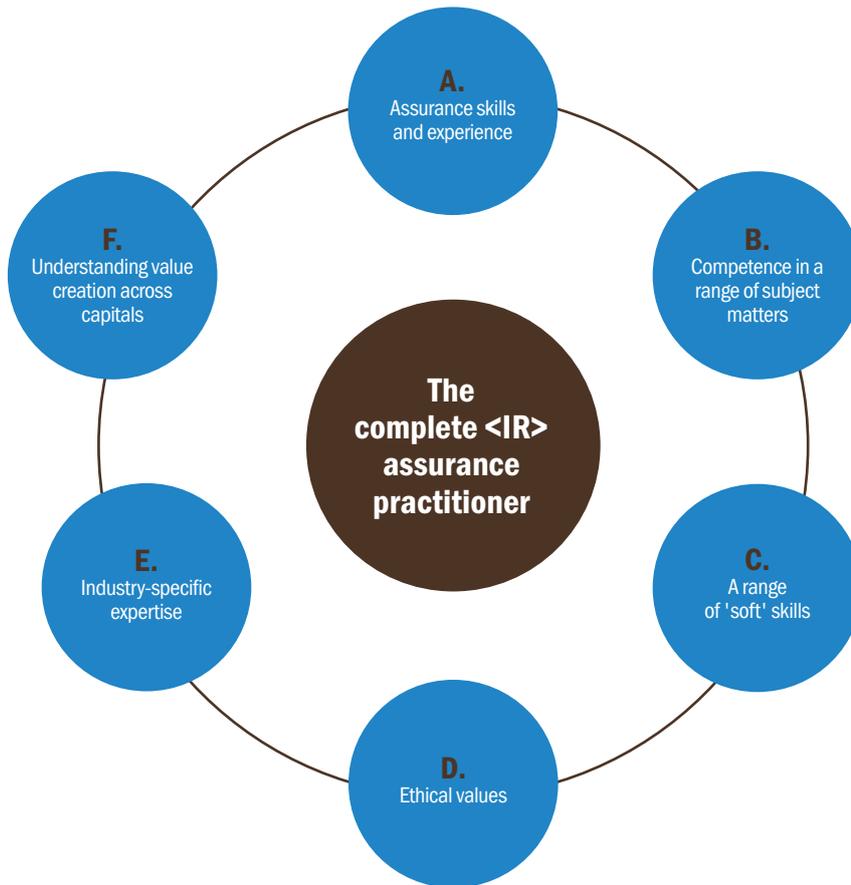
- Scope and levels of assurance: Clearly, the scope of information covered by the assurance engagement will affect the cost. Similarly, limited assurance is less costly than reasonable assurance. A number of respondents therefore suggested that, during the development phase at least, limited assurance only might be sought, and only on selected elements of the integrated report.

- Experience; specialists; duplication; guidance, research and training; information sharing; and demand: Various respondents mentioned that the cost of assurance could be expected to decline over time as practitioners: accumulate experience; acquire new skills and need to rely less on specialists; eliminate any duplicative processes; have access to more guidance, research and training; better share information amongst peers; and, assuming demand increases, achieve economies of scale. On the other hand, it was noted that given the high level of competence and professional judgement required for assurance on <IR> more time from senior practitioners may be needed, which would increase costs relative to other assurance engagements.
- Understanding the benefits: A key challenge in facing any cost/benefit hurdle is to clearly articulate all the costs and all the benefits which, as noted in paragraphs C.1-C.3, can be difficult. There is an expectation, however, that as more experience is obtained, a clearer articulation of costs and benefits will be possible.

D. Competencies and quality

Multiple competencies

- D.1** The following model synthesizes the observations of many respondents who noted that assurance on <IR> calls for a range of skills and expertise.



- D.2** Assurance skills and experience include: exercising professional skepticism and professional judgment; evaluating internal systems; applying a risk-based approach based on understanding the organization and its environment; testing the reliability of data and applying analytical skills; assessing the work of specialists; and evaluating the sufficiency and appropriateness of evidence as the basis for a conclusion.
- D.3** Relevant subject matter competencies will vary depending on the issues that are material to each organization. For any given engagement they may be as diverse as, e.g., engineering, finance, social impact assessment, environmental science, and health and safety. 'Soft' skills include interpersonal, communication and team management skills. Ethical values include objectivity, independence and integrity. Industry expertise may be necessary when the organization operates in a highly complex or specialized industry.
- D.4** The preceding skills are likely to be needed for a range of current audits/assurance engagements. A skill that is, perhaps, a unique requirement for assurance on <IR> that was only identified by relatively few respondents, is what might be called "integrated business analysis", being a comprehensive understanding of how value is created (for the organization and for others)

across the full range of capitals (financial, manufactured, intellectual, human, social and relationship, and natural). This will require an appreciation of “systems thinking” and a deeper understanding of the business than needed for other forms of assurance because practitioners will need to analyze how to “show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization’s ability to create value over time”, including “the internal and external consequences (positive and negative) for the capitals as a result of an organization’s business activities and outputs”.⁷

Teams and specialists

D.5 It is unlikely that one person will have all these skills, particularly the full range of subject matter competencies needed for complex engagements. However, many respondents noted that this broad range of skills can be accommodated by either:

- multi-disciplinary teams sourced from within the assurance firm (more likely for the larger firms)
- specialists from outside whose work can be used by the practitioner (more likely for smaller firms and niche players).

Both of these scenarios are currently common practice for financial statement audits and sustainability assurance.

Integration

D.6 Some respondents noted the opportunity for people with different skills to learn from each other and the need for the assurance team to be integrated, e.g., while the requisite skills are not entirely new, “there is a need to ‘regroup’ existing skills and the way in which those with differing expertise

work together”. In a similar vein, a preparer whose report has been subject to assurance noted a “lack of integration within the assurance teams” and another respondent noted that “financial and non-financial assurance providers do not typically work together and certainly don’t speak the same language/understand each other”.

D.7 These comments assume a single audit team, although the possibility of a “range of providers, especially as practice evolves, including internal audit and third party providers that provide elements of [the] overall assurance picture” was also mentioned.

Current availability

D.8 Respondents from a number of jurisdictions⁸ maintained that assurance practitioners are either currently well equipped to conduct assurance on <IR> or could keep pace with the predicted growth in demand as it occurs, although: (a) the importance of continuing to building capacity was noted, and (b) in some cases a future scarcity was predicted which could result in elevated costs, limited assurance work able to be performed, or assurance conducted by individuals with potentially insufficient competence to perform the work.

D.9 Respondents from a few jurisdictions gave conflicting answers or were less confident of the current capacity in their jurisdiction, although in some cases this may be due to differing perceptions of the capacity required rather than the availability of suitable skills and the ability to build capacity as demand grows. A few respondents noted that larger firms are able to move resources across jurisdictions to respond to skill shortages.

⁷The quotations in this sentence are extracted from the Framework’s Guiding Principle on connectivity of information and its definition of outcomes, respectively.

⁸These included Argentina, Australia, Brazil, Canada, Europe (including responses from Germany, Italy, and Sweden) Japan, and New Zealand.

Capacity-building

Education and training

- D.10** Many respondents commented on the need for education and training. This should include:
- assurance training for subject matter specialists and “integrated business analysts”
 - training in systems thinking and how value is created across the full range of capitals
 - principle-based education to equip assurance practitioners for “a social and highly-judgemental activity”
 - review of internal auditor bodies’ training and qualification requirements.

- D.11** Education and training could be provided:

- on the job and in assurance firms’ internal training
- in undergraduate and post-graduate college, university and business school courses – this was mentioned as being particularly important to long-term success
- by professional bodies, both as part of member accreditation and as continuous professional development
- through partnerships between professional bodies from different disciplines.

- D.12** It is worth noting in this context that the IIRC has recently announced its intention to work on a high-level syllabus for professional development programmes.

Standards

- D.13** The role of standards was also mentioned in the context of competencies. Suggestions included:

- investigating opportunities in new and existing assurance standards to make further use of external specialists
- identifying a specific set of skills for <IR> assurance providers in standards issued by, e.g., the IAESB.

Other suggestions

- D.14** Other suggestions included:

- Further research and awareness raising (e.g., roundtables, workshops and publications by the IIRC, professional bodies and others)
- Developing a new qualification, certification or registration scheme for individual practitioners, teams or assurance firms, and creating an independent oversight body with representatives from relevant professional bodies and subject matter organizations
- Practitioners employing trained NGO’s to fill capacity gaps
- Partnerships between governments, international agencies and professional bodies to offer guidance and transfer of expertise, particularly in developing nations
- More collaboration between preparers and assurance practitioners to trial methodologies and identify best practices.

Ensuring the quality of external assurance

- D.15** Many respondents noted that standards initially developed for the accounting community (for example: The Code of Ethics for Professional Accountants developed by the International Ethics Standards Board for Accountants; International Quality Control Standard 1 and ISAE 3000 developed by the IAASB; entry-level qualification and continuing professional education requirements, such as IAESB Standards; and the monitoring and disciplinary functions of various accounting bodies) can be, and have been, adapted to other forms of assurance.
- D.16** They suggested that these standards could be used as, or as the basis for, assurance on <IR> to “maintain consistency of language and approach and to benefit from the extensive experience of these bodies in developing guidance”, and to ensure “consistency in the quality of the assurance It will also reduce confusion for users of the <IR> information if a common set of quality standards apply, regardless of the subject matter that is being assured.”
- D.17** It was noted however, that “other professional bodies might issue practice standards on engagements to enhance the reliability and/or credibility of the integrated report”. Other standards mentioned were AA 1000 and the standards of the International Standards Organization.
- D.18** Some respondents also noted that the importance of different standards and how they are applied by different assurance practitioners is not well understood. Education was suggested as a remedy to this, as was collaboration: “standard setters might need to explore ways to settle significant differences ... and ... develop a common framework.”
- D.19** Suggestions for who should develop or promulgate standards included: those mentioned in paragraph D.15 above; a new independent professional body; local regulators (particularly if <IR> is mandated in a particular jurisdiction); and the IIRC in collaboration with others (e.g., the Institute of Internal Auditors).

Consultation and experimentation

- D.20** The need for consultation and experimentation was mentioned by a number of respondents in the context of standards, in particular with respect to “methodologies and practices”, with one respondent noting that a “huge amount of education and engagement ... is necessary before any decisions can be made on the "how" and "what" of assurance for <IR>. However, to give credibility to assurers their services must be delivered within a robust ethical and quality control framework.”

E. Internal systems

Those charged with governance

- E.1** Many respondents mentioned that not only are those charged with governance and senior management helped by robust internal systems (as mentioned in the consultation paper) but they are in fact responsible for ensuring those systems are robust enough to generate reliable information for the integrated report. Some respondents also mentioned the need for internal systems to provide for assurance, for example by maintaining an audit trail.
- E.2** One respondent stressed the importance of systems by noting that they deal “above all with the capacity to manage and monitor,... and any weakness ... could compromise this entire process”. Another suggested that, because of the importance of internal systems, their coverage should be raised to the level of a Guiding Principle when the Framework is revised.

Scope and maturity of internal systems

- E.3** Many respondents noted that internal systems relevant to <IR> include not only IT systems, but also broader processes and controls, in fact all the internal mechanisms in the diagram on page 13, including senior management and governance processes.
- E.4** Further, internal systems are not limited to those dealing with “financial”⁹ information, which is considered during the financial statement audit. They also include systems dealing with qualitative and quantitative information, both future-oriented and historical, about all the capitals identified in the Framework, and may need to extend beyond the financial reporting entity to match the organization’s reporting boundary.

- E.5** Many respondents noted that, typically, these systems: are far less mature than systems for “financial” information, may often rely on ad hoc, manual or low technology (e.g., spreadsheet) processes, and in some cases do not exist at all in that relevant information is not currently being collected. While information from less mature systems is not necessarily less valuable and may, in some circumstances, be sufficient, there is a higher risk that such systems will not yet provide consistent, reliable, complete and accurate information for inclusion in the integrated report. It was also noted that early and ongoing involvement of external assurance practitioners can assist preparers in developing internal systems (although this may involve threats to independence that will require suitable safeguards).

Improving internal systems

- E.6** Several respondents suggested that as internal systems evolve and mature, they will need to incorporate a similar level of internal control as exercised over financial reporting. This will likely require transferring skills among personnel, and may require developing new skills, e.g., with respect to the connectivity of information. For larger organizations in particular, internal audit will play a key role in facilitating this evolution, which can be expected to take place iteratively over a number of reporting cycles and at different rates for different components. The development of internal systems can be enhanced by reference to existing control frameworks, with the COSO and CoCo¹⁰ being frequently mentioned; other frameworks that may also be relevant include the Organization for Economic Co-operation and Development (OECD) Principles of Corporate Governance and the Chartered Global Management Accountant (CGMA) Global Management Accounting Principles.

⁹“Financial” is used here to refer to information included in the financial statements. Its use does not imply that “non-financial” information: (a) is not or cannot be measured in monetary units; or (b) is of no financial consequence for the organization or for others.

¹⁰The COSO and CoCo frameworks are developed by the Sponsoring Organizations of the Treadway Commission and the Criteria of Control Board, respectively.

E.7 Some respondents noted that investing in internal systems will not only improve the quality of information for reporting, but also for internal decision-making¹¹ – as one investor representative noted, given the importance of integrated information, “if internal systems are not currently robust, the entity can be expected to benefit from improvements even more so than external report users.”

E.8 It was suggested that integrated reports should be transparent about the state of development of internal systems and progress towards the end goal.

Assurance implications

E.9 A range of views and suggestions were put forward about the implications for assurance of internal systems that are not yet mature, including:

- looking upon assurance as an iterative learning process that is part of the preparer’s journey, rather than a pass/fail exercise
- a concern that excessive amounts of time and cost may be required for reporters to meet the expectations of assurance engagements
- the desirability of reporters providing a “roadmap” for their assurance journey, and reporting on the progress of this over time, which itself may be subject to assurance
- the potential for assurance practitioners to use the work of information system specialists
- the opportunity for detailed management letters to assist preparers by identifying where improvement is needed
- the possibility that standards and guidance may be needed to help assurance practitioners evaluate risks relating to internal <IR> systems
- some respondents questioned whether assurance engagements on an integrated report can be performed without obtaining assurance on critical, underlying systems; others stated that they do not believe this creates a barrier to providing assurance or assurance-related services, however:
 - the more sophisticated internal systems are, the greater choice the audit practitioner will have in terms of evidence gathering approaches (testing controls or substantive procedures)
 - effective controls are likely to reduce the risk of misstatement and hence the extent of assurance procedures to be performed
- a need for flexibility in the expectation that assurance solutions will evolve as practice in this area matures, e.g., initially non-assurance activities (e.g., “readiness reviews”, agreed upon procedures engagements or commenting on the maturity of systems) may be of most benefit.
- some respondents implied that limited assurance may be appropriate if systems are not mature enough for a reasonable assurance engagement, but it is worth noting that under ISAE 3000, if the systems prevent a reasonable assurance engagement from being performed then a limited assurance engagement is also precluded
- if, in time, external assurance is sought specifically about internal systems (similar to financial reporting systems in some jurisdictions), this may assist in driving improvements to those systems and help organizations better understand and implement <IR>.

¹¹This is supported by the Black Sun/IIRC research reported in, “Realizing the benefits: The impact of Integrated Reporting” at <http://tinyurl.com/ln3xxcj>

F. Technical challenges

F.1 The consultation paper asked a number of questions about technical challenges primarily aimed at informing the work of assurance standard setters. The IIRC is aware that the IAASB has set up an Integrated Reporting Working Group and will be undertaking its own work on these and related issues. The summary of feedback on these issues has therefore been kept quite brief here in the knowledge that the IAASB Integrated Reporting Working Group is reviewing responses in detail and is planning to develop a paper seeking further feedback.

Standards or guidance

F.2 The consultation paper asked about whether assurance standard setters should develop either, or both, a new assurance standard or guidance, and the nature of any such standard or guidance.

F.3 Mixed views were expressed about whether a new standard(s) should be developed to respond to technical issues or whether extant standards (in particular, ISAE 3000) will likely be sufficient in the medium or long term. There was, however, a level of consensus that, in the interim at least, some form of guidance would be helpful.

F.4 There were also mixed views about whether any standards or guidance should be specific to <IR> or should cover topics that are also relevant to other forms of reporting and assurance. Reasons noted in favour of <IR>-specific standards or guidance included that a level of specificity is needed to ensure usefulness beyond the generic provisions of ISAE 3000. Reasons noted in favour of standards or guidance aimed at, e.g., narrative information either in an integrated report or elsewhere, included that they would have greater value as they could be applied to a larger number of engagements.

Methodological and related issues

F.5 The consultation paper sought feedback on: materiality, the reporting boundary, connectivity of information, completeness, narrative reporting and future-oriented information, levels of assurance, and how to ensure that assurance on <IR> pays due regard to the work of auditors or assurance practitioners reporting on other information and/or processes. Respondents provided detailed and varied feedback for consideration by assurance standard setters on these topics.

F.6 Respondents also identified a range of other topics that should be considered, including: the role of “combined assurance”; the relevance of jurisdiction- or industry-specific issues; the role of stakeholder engagement; reliance on the work of experts; assessing the comparability, consistency, conciseness and balance of reported information; ensuring that the organization has used a holistic definition of value; how trade-offs (e.g., between capitals or components of capitals; over time; and between capitals owned by the organization and those owned by others or not owned at all) are treated in the integrated report; and the content and format of the assurance practitioner’s report.

¹²<http://integratedreporting.org/resource/basis-for-conclusions/>, Issue 7.

Suitability as criteria

- F.7** One point raised that is of direct relevance to the IIRC is whether some “assurance issues” (e.g., the nature and extent of procedures to determine whether an integrated report demonstrates sufficient connectivity) are intrinsically related to assurance or are problematic because the Framework lacks clarity or detail about how they should be dealt with. This calls into question the suitability of the Framework as criteria, not only for assurance, but for the preparation and presentation of an integrated report.
- F.8** This matter was considered when the Framework was being developed and is discussed in the Basis for conclusions that was issued with the Framework.¹¹ At that time, the IIRC recognized the role of judgement in preparing and presenting an integrated report and noted that comparability will likely increase as <IR> evolves and as the IIRC and others develop materials that assist report preparers in exercising their judgement. The IIRC will again consider this matter when it next revises the Framework.

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The coalition is promoting communication about value creation as the next step in the evolution of corporate reporting. The IIRC is chaired by Professor Mervyn King and Paul Druckman is Chief Executive Officer.

The International <IR> Framework has been developed to meet this need and provide a foundation for the future.

Further information about the IIRC can be found on its website www.integratedreporting.org

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