

21 December 2011

Submitted to: dpresponses@theiirc.org

The International Integrated Reporting Committee ("IIRC")

Dear Sirs / Mesdames,

Comments on the International Integrated Reporting Committee's Discussion Paper "Towards Integrated Reporting"

The Independent Regulatory Board for Auditors (IRBA) is the Audit Regulator and National Auditing and Assurance Standard Setter in South Africa, through its statutory Committee for Auditing Standards (CFAS). The IRBA has as one of its statutory objectives the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in the Republic. The IRBA adopted and prescribed the International Engagement Standards issued by the International Audit and Assurance Standards Board (the IAASB) for use by registered auditors from 1 January 2005.

We appreciate this opportunity to comment on the *Discussion Paper "Towards Integrated Reporting"* developed by the International Integrated Reporting Committee (IIRC) and released on 12 September 2011, for comment by 14 December 2011. We compliment the IIRC on the quality of the discussion paper and its contribution to the international debate in developing a framework for a more meaningful form of integrated reporting.

The IRBA serves on the Integrated Reporting Committee Working Group (IRCWG), a subcommittee of the Integrated Reporting Committee (IRC) in South Africa, and supports the work of the IIRC through the IRC's role in providing support and input to the international process and in the development of best practice guidance in South Africa. We support the comments already submitted by the IRCWG on 13 December 2011 in response to the discussion questions in the Discussion Paper, in particular the key features expressed therein. Consequently, we have not commented further on the discussion questions in our response.

We recognise that the Discussion Paper did not address the issue of independent assurance on integrated reports, beyond the high level observations on *assurance providers* on page 24 and believe it is important that the IIRC, in developing an International Integrated Reporting Framework, is aware of aspects that might affect the provision of independent assurance. Our comments have been prepared in consultation with members of our Sustainability and Reports Standing Committees, both sub-committees of the CFAS, having expertise in audit and sustainability reporting and an involvement in the integrated reporting developments in South Africa. Our comments focus on the considerations in providing independent assurance on an integrated report.

Integrated reporting assurance considerations

Law and regulation

Law and regulation in many countries prescribes reporting requirements for financial statements and also reporting requirements for sustainability reports. We expect that financial statements and sustainability reports will continue, as at present, to meet the requirements of law and regulation. They will not be included in an integrated report, even in summary form, as it appears that the market is expecting a single integrated report, which includes forward-looking information.

IAASB's Engagement Standards

The IAASB's Engagement Standards premise an assurance engagement on the basis of an appropriate subject matter that is identifiable and capable of consistent evaluation against the identified criteria which, in the case of an integrated report, refers to an applicable reporting framework.

The IIRC discussion paper, *inter alia*, identifies Content Elements (the elements). These elements are:

- Organisational overview and business model
- Operating context, including risks and opportunities
- Strategic objective and strategies to achieve those objectives
- Governance and remuneration
- Performance
- Future outlook

The challenge for the IIRC is whether these multi "elements" having "multiple criteria" may evolve into an "appropriate subject matter" for which a suitable "integrated reporting framework" may be developed that is identifiable and capable of consistent evaluation by an assurance provider.

The Discussion Paper briefly refers to the requirement for independent assurance and recognises the importance of the "*audit of financial statements as critical to the world's capital markets and independent assurance of sustainability reports recognized as best practice*". We anticipate that an assurance provider would be expected to provide reasonable or limited assurance over all the elements of an integrated report as a whole, which includes qualitative and quantitative information, as well as descriptions and explanations. We also anticipate that it is unlikely that an assurance provider would be expected to provide separate assurance over individual elements.

Although an integrated report, by its very nature, is flexible and entity specific, the applicable integrated reporting framework would have to be capable of being applied by all entities and deal with the five key qualitative characteristics of criteria in the IAASB's *International Framework for Assurance Engagements*, namely: *relevance, completeness, reliability, neutrality and understandability*. The identified integrated reporting framework has to be understood by the users, especially where the subject matter is considered as being in the public interest, as in the case of an integrated report.

Without a suitable reporting framework, the assurance provider is unable to conduct an engagement in accordance with the IAASB's extant Engagement Standards. Accordingly, in our view, it is premature to expect an assurance report on an integrated report as a whole where an integrated reporting framework has not been developed and issued by an authorised or recognised body of experts, for example the International Accounting Standards Board (IASB), in developing the International Financial Reporting Framework (IFRS), or national equivalent in different jurisdictions, that follows a transparent due process.

Assurance on an integrated report – the present

Traditionally, audit and assurance has been provided over historical financial information prepared in terms of a financial reporting framework. In more recent years, the provision of assurance has extended to non-financial information and it is expected that such provision of assurance will be extended, in due course, to an integrated report.

In our view, the crux of the challenge for the IIRC, in developing an appropriate integrated reporting framework, and for the IAASB, in meeting the anticipated demand for assurance over an integrated report, is whether it will be able to develop an appropriate Engagement Standard that deals with multiple elements including forward-looking information. It appears that users of an integrated report may expect a single assurance provider's report providing a consistent and understandable level of assurance. A further consideration is whether the IAASB will be able to prioritise and develop such a standard in a reasonable period of time.

An integrated report may include audited financial information (or extracts from the audited financial statements), based on the guidance in ISA 700, *Forming an Opinion and Reporting on*

Financial Statements and ISA 810, *Engagements to Report on Summary Financial Statements*, on which reasonable assurance is expressed. In many instances an integrated report may include selected non-financial information, such as elements in a sustainability report on which limited assurance or reasonable assurance may have been expressed, based on the guidance in ISAE 3000, *Assurance Engagements other than Audits or Reviews of Historical Financial Statements*. However, this combination of assured elements in an integrated report does not result in assurance over the integrated report as a whole.

The non-assured elements in the integrated report may include items not selected for assurance in the sustainability report and may include descriptions of governance structures and forward looking information that are dependent on the collective skills of management in preparing and presenting a concise and balanced view of the organization. It is a challenge for the assurance provider over an integrated report of this nature to identify only that information that is assured in the assurance provider's report.

Where an integrated report includes audited financial statements, the auditor of the financial statements has a responsibility to comply with the requirements of ISA 720, *The Auditor's Responsibility Relating to Other Information in Documents Containing Audited Information* which relates to the responsibility of the auditor for identifying material inconsistencies between the audited financial statements and the other elements of the integrated report. This standard could be adapted for reporting by the assurance provider on the elements of an integrated report not subject to an audit or assurance engagement. Providing assurance on the integrated report as a whole, when a component has been assured by another assurance provider, presents further challenges for an assurance provider.

We do not think that the provision of assurance on the above, more traditional basis, is practicable for an integrated report as a whole, even if a suitable integrated reporting framework is developed. This basis is too complex and will not be understood by the users.

Assurance on an integrated report – the future

We think that, at best, the IAASB may be able to develop some form of Engagement Standard on the management process of compiling an integrated report and the underlying assumptions of management. Such a standard possibly may be based on the conceptual application of the principles in the existing IAASB *International Standards on Assurance Engagements* - mainly ISAE 3000, ISAE 3400, *The Examination of Prospective Financial Information*, ISAE 3402, *Assurance Reports on Controls at a Service Organization*, and ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* (recently issued by the IAASB). Consideration should also be given to connecting the opinion or conclusion on the compilation process, and the underlying assumptions, to enable an expression of assurance (whether limited or reasonable) over the reliability of the resulting content of the integrated report as a whole.

Put differently, as the subject matter of an integrated report comprises multiple elements that may not be identifiable and capable of consistent evaluation against an identified integrated reporting framework to be developed, some other form of evaluation will be required, perhaps with a greater application of the assurance provider's professional judgement than may be required in the present IAASB Engagement Standards. It should be borne in mind that the greater the extent of professional judgement applied by different assurance providers, in the absence of an acceptable integrated reporting framework, the less consistent will be the assurance provided.

Other assurance considerations

In developing an assurance solution in respect of integrated reports, assurance providers will need to understand the required disclosures in an integrated report, and how such disclosures will be reported. They will also need to understand who the intended users of the integrated report are and the level of independent assurance to be provided. We note that the Discussion Paper focuses primarily on the needs of the investor community, however, a broader stakeholder approach is recommended by South Africa, recognising that the impact of an entity's sustainability is far wider.

As reporting more detailed information on websites develops, the concept of continuous auditing may need to be explored.

Time and costs may also be real factors in considering the nature and scope of assurance engagements on an integrated report.

Conclusion

A single integrated report is likely to be additional to the financial statements and sustainability reports currently required by law and regulation, for the foreseeable future, before it may evolve as the primary report for an entity.

A single integrated report presents a challenge in providing assurance solutions on the integrated report as a whole on the basis of the current IAASB's Engagement Standards or, perhaps, on the basis of Engagement Standards to be developed. Without appropriate Engagement Standards the assurance provider may not be able to report in a manner that is understood by the users of the assurance report and accompanying integrated report.

Accordingly, an assurance solution is considered premature as most elements of a single integrated report, as proposed in the IIRC Discussion Paper, may not be capable of consistent evaluation until such time as an integrated reporting framework is developed.

We apologise for our late submission, but trust our comments will be considered useful and constructive. We look forward to future developments and participating in the process. Please e-mail me at svanesch@irba.co.za, or phone on direct line: +27 87 940 8871 if further clarity is required on any of our comments.

Yours sincerely,



Sandy van Esch
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