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Professor Mervyn King  
Chairman, International Integrated Reporting Council

Mr. Paul Druckman  
Chief Executive Officer, International Integrated Reporting Council

Response e-mailed to [dpresponses@theirc.org](mailto:dpresponses@theirc.org)

RE: IIRC's Consultation Draft of the International <IR> Framework

Dear Professor King and Mr. Druckman:

On behalf of the over 180,000 members of The Institute of Internal Auditors (IIA), attached are our comments on the International Integrated Reporting Council's (IIRC) Consultation Draft of the International Integrated Reporting <IR> Framework. As the global standards setting body for the professional practice of internal auditing, we appreciate the opportunity to provide comments on this very important initiative that will impact the internal auditing profession.

Recently, The IIA's President and Chief Executive Officer was appointed to serve on the IIRC. Therefore, as Chairman of the Board, I am pleased to provide The IIA's comments on the Consultation Draft.

Our comments are based on discussions conducted by a core team of internal audit professionals who serve on The IIA's Professional Issues Committee consisting of Certified Public Accountants, Chartered Accountants and Certified Internal Auditors who have worked in the public and private sectors, internal and external auditing, and small, medium, and large domestic and multinational companies. As well, we collaborated with a number of global internal audit thought leaders as we developed our observations and comments.

Our principal comments related to the Consultation Draft are below. Detailed responses to the specifically asked Consultation Questions are provided in Attachment A.

It is evident that the <IR> Framework has been well thought out and conceptualized. As well, it communicates its important messages to reporting organizations in a balanced manner. We recognize and appreciate that The IIA's December 2011 exposure draft feedback was considered, and welcome this opportunity to provide additional observations. Principally,

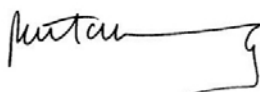
1. A distinct advantage of <IR> is that it takes a broad view of contributions of the various capitals by going beyond the traditional focus on reporting of historical financial performance. To best elevate the stature of non-financial capitals, we recommend that the IIRC develop the <IR> Framework with users of each type of capital in mind and expand the users to include potential providers and stakeholders of all six types of capitals, while recognizing that the ultimate user remains the financial capital markets.
2. Those charged with governance (TCWG) should look at capitals collectively when identifying an organization's risks that are materially significant. Materiality should be assessed from the perspectives of key stakeholders and owners of all types of applicable capitals since these are the primary report users in addition to the providers of financial capitals.
3. Technology touches all aspects of a business and serves various critical capacities throughout the entire value-creation chain. As a result, effective implementation of state-of-the-art technology provides a definitive competitive advantage toward sustainability. Therefore, we suggest the IIRC consider providing more clarification to users of the framework to better explain how technology relates to the framework's principles and content elements. For example, it would benefit users of the framework to understand how section 3B - Connectivity of Information interrelates with section 5I - Use of Technology.
4. We recommend that the IIRC create a specific link between <IR> and an organizations' Enterprise Risk Management (ERM) capabilities and, where appropriate, the Three Lines of Defense model, as well as providing examples of how they work together to strengthen governance. The IIA would welcome the opportunity to assist with this, based on its extensive work and experience across these areas.

There is an important advisory role for internal auditors in supporting the implementation of <IR> in organizations around the world. Furthermore, there are important assurance roles that internal auditors can and should play post-implementation.

Certified Internal Auditors (CIAs), as well as, individuals who possess a Certification in Risk Management Assurance (CRMA) are very capable of providing assurance over the integrity of data and adequacy of governance, risk management and controls related to both financial and non-financial capitals. In addition, the internal audit profession can provide assistance by leveraging its "seat at the table" to help influence the global adoption of <IR>.

The IIA welcomes the opportunity to discuss any and all of these observations with you. Please forward all inquires to Glenn Darinzo, IIA Director of Standards and Guidance at [Glenn.Darinzo@theiaa.org](mailto:Glenn.Darinzo@theiaa.org). We look forward to our continued work with the IIRC and supporting efforts to further the value of <IR> within the global internal auditing profession.

Best regards,



Philip D. Tarling, CIA, CRMA, CMIIA  
Global Chairman of the Board

**1. Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.**

We are recommending the following underlined clarifications to the Guiding Principles:

Principle 3.2: (Strategic focus and future orientation) - An integrated report should provide insight into the organization's strategy and how that relates to its ability to create **or maintain existing** value, **as well as the associated risks**, in the short, medium and long term and to its use of and effects on the capitals.

Principle 3.7: (Connectivity of information) - An integrated report should show, as a comprehensive value creation story, the inter-relatedness and dependencies between the components that are material to the organization's ability to create **or maintain existing** value, **as well as the associated risks**, over time.

Principle 3.22: (Materiality and conciseness) - An integrated report should provide concise information that is **materially significant** to assessing the organization's ability to create **or maintain existing** value, **as well as the associated risks**, in the short, medium and long term.

Guiding Principles 3.2, 3.7 and 3.22 assume that the organization creates value. Section 1.2 in the Overview states that "<IR> is a process that results in communication by an organization, most visibly a periodic integrated report, about value creation over time."

While overall value creation is an organization's objective, there will be times when value for one or more capitals is diminished, intentionally or otherwise. We suggest the principles focus on creation of value and fluctuations of value over time, and the risks attendant to the pursuit of value creation. The framework should not assume that value is always created.

For example, natural capital is depleted by many companies in order to achieve their financial and organizational objectives, such as with fisheries and construction companies building dams.

Therefore, we recommend recognizing incidents of value creation, as well as the risks of value depletion. This view is consistent with the concept that "risk" is any deviation from the expected. Risk is not always negative; it can be positive by presenting opportunities. This change would also be consistent with 2.13 "The capitals are stores of value that, in one form or another, become inputs to the organization's business model. They are increased, decreased or transformed through the activities and outputs of the organization..."

**2. Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?**

We are recommending the following underlined clarifications to paragraphs 1.18 and 1.20:

1.18 - The <IR> process is intended to be applied continuously to all relevant reports and communications, including analyst calls and the investor relations section of an organization's website. **An integrated report should have a designated owner, responsible for establishing sound processes and methodologies to compile and review the report, ensuring adequacy of risk management and controls over preparation of the report, and attesting to the accuracy, completeness and fair presentation of the report.**

In addition, it is anticipated that a stand-alone integrated report will be prepared annually in line with the statutory financial reporting cycle. Organizations may provide additional reports and communications (e.g., financial statements and sustainability reports) for compliance purposes or to satisfy the particular information needs of a range of stakeholders. The integrated report may include links to these other reports and communications.

1.20 - Although <IR> builds on developments in financial and other reporting, an integrated report differs from other reports and communications in a number of ways. In particular, it has a combined emphasis on: conciseness, strategic focus and future orientation, the connectivity of information, the capitals, the business model, the ability to create value in the short, medium and long term, and providers of financial capital as the primary audience.

**3. If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?**

If the IIRC were to create an online database of authoritative sources of indicators or measurement methods, we recommend aligning the sources with the sources of capitals and their key stakeholders. For example:

- Accounting standard setters such as: IFRS and US GAAP;
- Ratings Agencies such as: Standard & Poors, Moody's Investor Service, and Fitch Ratings;
- Key Stock Exchanges, such as: The New York Stock Exchange, London Stock Exchange, Frankfurt Stock Exchange, Hong Kong Stock Exchange, Shanghai Stock Exchange;
- Regulators that are general or industry-specific, such as U.S. Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority (FINRA), the Federal Reserve System ("Fed"), Financial Conduct Authority (FCA) in the UK, Federal Financial Supervisory Authority (BaFin) in Germany, Securities and

Exchange Commission (Comissão de Valores Mobiliários, CVM) in Brazil, and Office of the Superintendent of Financial Institutions (OSFI);

- Global Reporting Initiative for non-financial;
- World Resources Institute for ecosystems services;
- Frameworks such as Basel's Frameworks on operational risk, credit risks, governance, effective supervision; CoCo on Internal Control published by The Canadian Institute of Chartered Accountants, Turnbull on corporate governance, COSO ERM Framework, COSO Internal Control - Integrated Framework, ISO 31000 Risk Management.

We recommend that the IIRC use the online database of authoritative sources to identify opportunities for improvement and provide guidance to drive these improvements. The IIRC could also encourage the formation of user groups to share lessons learned and implementation experience. Organizations participating in the <IR> pilot program would be ideal champions for formation of such user groups to encourage early adoption of <IR> and continuous improvement along maturity model lines.

#### **4. Please provide any other comments you have about Chapter 1.**

1.2/1.3 - We also recommend that the definition of "Integrated Reporting" include the concept of "integrated thinking" which is defined in the glossary as "The active consideration by an organization of the relationship between its various operating and functional units and the capitals that the organization uses and affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term." This is the key differentiator and benefit of issuing an integrated report.

1.3 - The context should also consider an organization's internal environment. The organization executes its strategies, plans, governance, oversight, etc., through its people, systems, and processes within its internal environment.

1.5 - Bullet #2 states: "Inform the allocation of financial capital..." 1.6 states: "An integrated report should be prepared primarily for providers of financial capital..."

Reports on performance relative to financial capital are readily available but this is not so for other types of capitals. One of the strengths of <IR> is taking a broad view of capitals and going beyond the traditional focus on financial capital. The value of <IR> may not be optimized by focusing predominantly on providers of financial capital. If the IIRC wants to elevate the stature of non-financial capitals, it would make sense to acknowledge the users of reporting across all six capitals.

The IIRC should recognize that other decision-makers may be equally interested in integrated reporting (see examples in the table below). We recommend that the IIRC develop the <IR> Framework with a balanced focus on users of each type of

capital expanding the users to include potential providers and stakeholders of the six types of capital.

Stakeholders considering investment of this type of capital	Will use <IR> content to make this type of decision (as examples)
Financial	Do I invest my money?
Manufactured	Do I choose to be in this organization's supply chain? Do I want this organization to be in MY supply chain? Would purchasing/ using this organization's product/ services present reputational risk for my organization? (conflict minerals, clothing from factories in Bangladesh)
Intellectual	Do I engage in R&D with this organization?
Human	Do I go to work for this company?
Social/ Relationship	Does affiliation with this organization enhance or diminish my organization's brand?
Natural	Is use of natural capital efficient and in the public interest? Are their developments contributing to society? As a regulator, do I allow this organization to use ecosystem services (e.g., use water, pollute the air) to do business in my jurisdiction? Should a government entity grant a permit to a company that has consistently under-performed in the natural capital category?

Some recommendations for wording changes are listed below:

1.5 - Change "Inform" to "Report on" the allocation of financial capital.

1.6 - "An integrated report should be prepared ~~primarily~~ for providers of ~~financial~~ **all types of** capital in order to support their ~~financial~~ capital allocation assessments." We recommend deleting the word "primarily", replacing the first "financial" with "all types of" and deleting the second "financial."

1.7 - "Although providers of financial capital **may typically be the** primary intended users, an integrated report..."

**5. Do you agree with this approach to the capitals? Why or why not?**

Technology touches all aspects of a business and serves various critical capacities throughout the entire value-creation chain. As a result, effective implementation of state-of-the-art technology provides a definitive competitive advantage toward sustainability. Therefore, we suggest the IIRC consider providing more clarification to users of the framework to better explain how technology relates to the framework's principles and content elements. For example, it would benefit users of the framework to understand how section 3B - Connectivity of Information interrelates with section 5I - Use of Technology.

**6. Please provide any other comments you have about Section 2B?**

None.

**7. Do you agree with this definition? Why or why not?**

We agree with this definition of business model.

**8. Do you agree with this definition? Why or why not?**

Outcomes are defined as the consequences for the capitals as a result of an organization's business activities and outputs. These consequences can be internal and external, tangible and intangible and/or positive and negative (paragraphs 2.35-2.36).

**9. Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (Section 4E).**

None.

**10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.**

The concept of multiple capitals is beneficial because it acknowledges the many resources that organizations need to create and sustain value. It also highlights the often overlooked or ignored fact that actions diminishing an organization's natural or social capitals are as important as those that diminish its financial capital.

Further, it will be important for management to illustrate how they optimize the various capitals in an efficient way to achieve the organization's objectives.

**2A**

2.8 - We recommend deleting “identifies” and replace with “signals.”

## 2D

2.37 - Terms are used before they are defined (e.g., the term “stakeholders” was mentioned several times before it is defined in this section).

Also see “range of factors” was defined in 1.17 but it first appeared in 1.5.

### **11. Do you agree with this approach to materiality? If not, how would you change it?**

Yes. We believe that TCWG should look at capitals collectively when identifying an organization’s risks that are materially significant. Materiality should be assessed from the perspectives of key stakeholders and owners of all types of applicable capitals; these are the primary intended report users in addition to the providers of financial capitals. Please also see our rationale in our response to Question 4.

### **12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).**

Providing assurance services is a core competency of an effective internal audit function. Internal auditors who are Certified Internal Auditors (CIAs) or have Certifications in Risk Management Assurance (CRMA) are well-equipped to provide assurance over the integrity of the data and adequacy of risk management and controls over processes and systems to identify those risks that are materially significant.

We recommend the following underlined changes to 3.31:

“The reliability of information is affected by its balance and freedom from material error. Reliability is enhanced by mechanisms such as effective governance, robust internal reporting systems, an internal audit function which conforms to the IIA’s professional standards, appropriate stakeholder engagement, and independent, external assurance.”

### **13. How should the reliability of an integrated report be demonstrated?**

Reliability of an integrated report should be demonstrated by sufficient and competent evidence, effective oversight exercised by TCWG, strong tone at the top, a track record of positive past performance in governance, risk management, and internal control, attestation by management, analyses performed and positive observations made by external parties, and evidence of how management has responded to issues raised by external parties and the board.



It should be further noted that the concept of reliability may need to be separated from prospective information as the future is subject to varying degrees of uncertainty.

**14. Please provide any other comments you have about Section 3E.**

Internal Audit could assist TCWG and/or stakeholders by conducting evaluations of the integrated reporting processes and providing relevant assurance to support integrated reporting. Results could be reported to TCWG and/or stakeholders.

**15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.**

None.

**16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).**

Avoid too much redundancy between 2C (The business model) and 4E (Business model).

Consider providing additional guidance for large organizations with multiple business models.

**17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why or why not?**

Yes. It would increase awareness of their responsibility and enhance the accountability, credibility and reliability of the information presented.

**18. Please provide any other comments you have about involvement of those charged with governance (Section 5D).**

As stated in the IIA's position paper on The Three Lines of Defense, internal audit is the 3rd line of defense and therefore, responsible for providing objective assessments to senior management and the board and is ideally suited to assist in relevant aspects of assurance in support of <IR> activities.

**19. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?**

Assurance should cover the integrated report as a whole and should be linked to existing reports. The most significant value-added principles of an integrated report

are: Strategic Focus and Future Orientation and Connectivity of Information. While these content elements are fundamentally linked together, the whole is more than the sum of its parts. Providing assurance on only specific aspects, while valuable, minimizes the impact and purpose of having an integrated report.

**20. Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.**

We believe the framework allows internal audit to provide assurance over the integrity of data and adequacy of governance, risk management and controls (GRC) related to both financial and non-financial capitals. This will result in effective and efficient implementations of <IR> in accordance with The IIA's International Standards for the Professional Practice of Internal Auditing.

**21. Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).**

Operating information, data sources and key performance indicators for non-financial areas (e.g., sustainability, environmental, social responsibility) are not subject to the same control and rigor as financial reporting data. Internal audit could provide assurance in these non-financial areas by applying its core competencies with regards to GRC.

**22. Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?**

The content of the Framework is appropriate for providing report users with information about an organization's ability to create value as long as management establishes and focuses on key strategic objectives and robust risk management systems which fit the organization's culture. Additionally, it is important that TCWG are responsible and held accountable for achieving the organization's strategic objectives.

**23. If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?**

Implementation will be challenging for many organizations, but especially for large, globally diverse organizations with multiple products and brands. The three high priority topics would be:

- Provide recommendations for implementation that include methodologies, tools and templates for Communication and Marketing, Integrated Thinking, Implementation Approaches and Strategy, Implementation Maturity Model, Governance Structure, Project Plan, Risks and Controls Assessment, References, Resources, and Model Reports.
- We found the Emerging Integrated Report Database at [www.iirc.org](http://www.iirc.org) particularly useful. This resource should be referenced. It contains great examples of emerging practice in Integrated Reporting that illustrate how organizations are currently reporting concise information about how their strategy, governance, performance and prospects lead to the creation of value over various time horizons.
- Other issues reported using similar metrics and layout as sustainability reports did not include standard mapping of content/performance indicators to the GRI Reporting Framework. Examples of the forward-looking element, especially for non-financial capitals, are limited. Even when drawing upon Sustainability parameters where companies have history of objectives and performance, there is very little comparison of actual performance with forward-looking goals. These reports include more comparisons for some basic non-financial items (water recycled, etc.) than for financial.

**24. Please provide any other comments not already addressed by your responses to Questions 1-23.**

Some countries and industries already have extensive mandatory reporting and auditing requirements. A key objective of <IR> is to improve the efficiency and conciseness of reporting. It would be difficult to achieve this objective if organizations have to continue to issue reports in existing form plus the new integrated report. It is imperative that the IIRC work with key regulators and advocate for the simplification of reporting around the world to eliminate redundancy as much as possible. This would also promote consistency and comparability of information presented.

Internal audit can provide advisory services during pre-implementation stages of IR to ensure that adequate controls are put in place.

Internal audit should not be considered as part of a control system.

Link Integrated Reporting to an organization's enterprise risk management system and The Three-Lines of Defense model, and provide examples of how they work together to strengthen governance.

In section 4 Content Elements, add the organization's risk management processes including accountability of TCWG to section 4.5.

Recommend emphasizing responsibilities for outsourced services.

More guidance should be provided illustrating how to support integrated thinking in decision making.

Add "Assurance" and "Reasonable Assurance" to the glossary.

We recommend defining the term "resilience" in the context of <IR>.