

Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website (www.theiirc.org).

Comments should be submitted by Monday 15th, July 2013.

Name:

Email:

Stakeholder group:

If replying on behalf of an Organization please complete the following:

Organization name:

Industry sector:

Geographical region:

Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

The Auditor General for Wales welcomes the opportunity to comment on the draft <IR> framework. This response has been prepared on behalf of the Auditor General by the Wales Audit Office.

The Auditor General, and the auditors he appoints, are responsible for audits of the Welsh devolved public sector, which includes:

- the Welsh Government;
- Welsh Government sponsored and other related bodies;
- local government bodies in Wales; and
- local health bodies in Wales.

The Wales Audit Office welcomes the <IR> approach and believe that it offers the potential for improved practice and behaviours (more integrated thinking/less silo

working, a focus on outcomes as well as improved reporting in both private and public sectors). We also consider that the flexibility that the principles based approach provides, outweighs any gains that could derive from being more prescriptive.

Our response concentrates mainly (although not exclusively) on the applicability of the draft framework to the public sector. We have also identified a clear synergy between the principles based approach, as proposed in the <IR> framework, and the sustainable development duty which the devolved Welsh Government is proposing to place on most public bodies, in Wales.

We consider that, conceptually, the framework is suitable for the public sector and has many positive features which we note in our detailed comments. However, we have identified a number of risks and issues associated with adapting the framework for the public sector as opposed to designing a modified framework for the public sector (similar to those in the Accounting Standards Board's interpretation of its principles for the public sector). These include:

- the framework is entity centred and predicated on what is good for the entity and the providers of financial capital. In the public sector, the concept of value needs to be defined as economic, social and environmental wellbeing.
- In Wales there is increasing emphasis being placed on single integrated planning for shared outcomes by a wide range of public bodies within a given area. In this context the entity centred focus of the framework and identifying providers of financial capital as the primary users of <IR>, will be a barrier to the public sector in Wales being able to benefit from the positive features of the framework.
- the framework's treatment of outcomes does not translate well into the public sector, where outcomes are focused on economic, social and environmental wellbeing (specifically the degree to which citizens, service users and client groups are better off as a result of public agencies activities). This does not undermine the framework, but highlights the need to undertake further work to ensure its applicability to the public sector in Wales.
- Defining the primary user group of <IR> as the providers of financial capital does not fit well with a public service model. It is possible to view Government and ultimately the taxpayer as the 'investor' in public services, and the return on investment as the benefits to the citizen and service users which are delivered by public services. However, we consider this as another area which would benefit from further work to make the framework more accessible to the public sector. (please see detailed comments in question 1.4, Other; question 2.8; and 2.10).
- Conceptually the capitals provide a useful focus for enhancing stewardship and accountability. It also provides a mechanism for promoting a better understanding of interdependencies. However, the concepts could be made more accessible to the public sector by reviewing the use of language. (For instance the distinction between revenue and capital expenditure is a key feature of the public sector).

Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

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

We broadly agree with the principles-based approach outlined in the draft framework. However we consider that it would be useful if the guiding principles contained in this Chapter could be informed by the qualitative characteristics in the IASB/FASB conceptual frameworks. These are already well known and accepted, and alignment would minimise the risk of inconsistency between reports.

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

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

The objective should be to minimise any additional reporting burden. Consequently, it would clearly make sense to combine the integrated report with other reports such as the annual report.

Establishing the Integrated Report as the strategic report which focuses on drawing out and making explicit the dependencies and inter-connections will ensure that it adds value.

For this concept to work, the framework will need to explain more explicitly how <IR> links to and complements other reporting frameworks such as the Global Reporting Initiative and IASB/FASB frameworks. It will also be important to make clear how <IR> links to and complements the Global Reporting Initiative, to dispel any suggestion of competing frameworks and initiatives.

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?*

An online database would be very useful but it is not clear what is meant by 'references'.

This database should include public sector methods.

However, it needs to be stressed that this database should be used judiciously and may not be relevant to all entities, remembering the emphasis on conciseness in paragraph 1.20.

Other

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

The primary users, defined in paragraph 1.6, are consistent with the IASB's conceptual framework for private sector entities. However, this is not relevant for the public sector and an alternative definition of primary users is required for such entities. This might be based on the IPSASB Conceptual Framework (Chapter 2, paragraphs 2.3 to 2.6 which essentially defines the users of public sector general purpose financial reports as 'service recipients and resource providers.'

Results Based Accountability (RBA) has significantly influenced the public sector focus on outcomes in Wales. RBA focuses on the ends (outcomes) and works back to the means (services and public agency activity). It defines outcomes at two levels: in terms of improved quality of life at the whole community level; and in terms of whether service users are any better off at the level of systems and services. This is an area where further work would need to be done to modify the framework in order to successfully apply it to public service bodies in Wales.

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

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

Yes in general we agree with the approach taken regarding the capitals.

Regarding the private sector, we consider that the model needs to recognise 'public institutional capital', which would include the 'commercial law, judicial systems, government services and policing' aspects that underpin a society in which the entity operates. (J Sachs: The End of Poverty)

While the capitals recognise certain externalities, they do not reflect the position where the primary objective of an entity is to add value to society and not to the entity itself.

The IIRC should therefore develop a public sector model, where the capitals explicitly recognise that the value created by an entity accrues mainly in parties external to the entity (e.g. patients, pupils). This could be achieved by:

- defining value for the public sector as economic, social and environmental wellbeing;
- revising the definitions of existing capitals; and/or
- including an additional capital along the lines of the 'public institutional capital' outlined above.

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

The model represented in figure 2 (p. 12) illustrates clearly how individual capitals may be transformed or decreased in the process of creating value overall. It is not clear how the term 'value creation' can include 'instances when value is diminished or destroyed' (as opposed to individual capitals being diminished or destroyed). This is an example of where the language in the framework could benefit from using plain language and a less regulatory tone.

The Welsh Government proposes to place a duty on most public service bodies in Wales to make sustainable development the central organising principle. This would require public bodies to take an integrated and balance approach to economic, social and environmental matters when making strategic decisions. In this respect, the graphical representation in figure 4 (p.13) is not helpful in that it gives the impression that financial capital and manufactured capital have a core role, with the other capitals in a more subsidiary role.

Business model (Section 2C)

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

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

We agree with this definition from the private sector perspective.

However, we consider that this definition needs to be modified from the public sector perspective, where it is likely that the terms 'business' and 'value' could act as a barrier.

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

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

Defining outcomes is a key issue for the public sector. The framework's treatment of outcomes does not translate well into the public sector, where outcomes are focused on economic, social and environmental wellbeing (specifically the degree to which citizens, service users and client groups are better off as a result of public agencies activities). This does not undermine the framework, but highlights the need to undertake further work to ensure its applicability to the public sector.

Results Based Accountability (RBA) has significantly influenced the public sector focus on outcomes in Wales. RBA focuses on the ends (outcomes) and works back to the means (services and public agency activity). It defines outcomes at two levels: in terms of improved quality of life at the whole community level; and in terms of whether service users are any better off at the level of systems and services. This is an area where further work would need to be done to modify the framework in order to successfully apply it to public service bodies in Wales.

There are also issues regarding measurability and completeness - see response to Question 5 in terms of public sector capitals.

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 (see Section 4E)?*

We consider that this is appropriate for the private sector. However, as outlined elsewhere, we have concerns regarding its applicability in the public sector.

Other

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

Suitably modified the concepts set out in paragraph 2.37 have great potential to enhance stewardship and accountability for the longer term, within the public sector in Wales.

The framework's emphasis on 'value over time' is particularly relevant. This relevance is highlighted when the Welsh Government's emphasis on 'long term wellbeing' (in its proposals for an SD Duty), is considered alongside the imperative to deliver short term

savings, due to public spending cuts.

Issues which needs to further work include the need for the public sector to deal with an array of legislation and regulations, standards and a wide range of stakeholders.

The concept set out in paragraph 2.38 does not translate well for the public sector. However, it could be useful if modified. If the Government and taxpayer are seen as the investors and the long term, economic, social and environmental wellbeing is seen as the return on the investment. However, the focus on the financial entity and the provision of financial capital does not support an integrated and balanced approach.

In addition, we note that paragraph 2.45 would require further work to make it more applicable to the public sector.

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

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

We consider that the approach to materiality is appropriate. Some public sector reporting is extensive and does not always successfully highlight the material issues well. The framework therefore has real potential to support significant improvement, through the application of its approach to materiality. We also agree with the approach that recognises the value of using qualitative as well as quantitative assessments of materiality. However we note that narrative descriptions can be subjective and require a judgement to be made.

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

Section 3D places a useful focus on senior management and those charged with governance, but needs to use plain language.

Section 3D is also helpful in setting out a mechanism and process which should help in achieving a balanced approach, whilst maintaining the integrity of the reporting process.

Paragraphs 3.44 and 3.45 are further examples of where the framework does not translate well into a public sector scenario.

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

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

Reliability should be demonstrated by inclusion of:

- method statements outlining how the report was compiled where possible (e.g. in terms of how energy use is calculated etc.)

- the role of any internal assurance provider (e.g. Internal Audit)
- a statement by those charged with governance acknowledging their responsibility for the integrated report (see Question 17 below).

We also consider that provision of external assurance can improve the demonstration of reliability, if such levels of assurance are required by the primary users of the reports. (See response to Questions 19 and 20).

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

Other

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

Recent parliamentary scrutiny and regulatory reports have highlighted issues in relation to governance and transparency, in Wales and England and beyond. The Guiding Principles of the framework have the potential to make a significant contribution to enhancing the integrity of public sector reporting.

Chapter 4: Content Elements

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).

Section 4C –Opportunities and risks: this aspect of the framework could improve the public sector’s approach to reporting, and also to strategic decision making.

Section 4G Future outlook: many public sector entities are already required to publish budgets/strategic plans/Medium Term Financial Strategies etc., however these are often of variable quality. The framework offers the potential for public sector entities to gain more value from these exercises.

An additional Content Element should be included in paragraph 4.5, to address the issue of the primary intended report user. It is not appropriate for the primary report user to be designated as the ‘provider of capital’ in the context of the public sector. This could be addressed by adding that the integrated report should disclose: ‘The primary intended report users and how they have been identified and agreed’.

The framework should also draw attention to the IPSASB conceptual framework which refers to General Purpose Financial Reports (GPFs) which are financial reports intended to provide information to meet the needs of external users, who are unable to require the preparation of special reports to meet their specific information needs. GPFs could be used to inform this aspect of public sector reporting: ‘Consequently, the of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFs when acting in their capacity as representatives of the interests of service recipients and resource providers.

Therefore, for the purposes of this Conceptual Framework, the primary users of GPFs are service recipients and their representatives and resource providers and their representatives'.

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

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

Yes. We consider that there should be an explicit requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report. This is to ensure proper ownership of, and accountability for, IR and the necessary assurance that the IR has been compiled appropriately.

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

As we noted above, a key requirement for the public sector would be to include a statement about who the primary intended report users are and the process for identifying and agreeing who they are.

Credibility (Section 5E)

The Framework provides reporting criteria against which organizations and assurance providers assess a report's adherence (paragraph 5.21).

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

The extent of assurance required over IR is ultimately a matter for the primary users of the reports. IIRC should therefore consult with them on their requirements.

We consider that assurance should be obtained for the whole of an IR, but as we note below in our response to question 20, the extent of assurance that can be provided is dependent on the nature of the information on which assurance is provided.

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.

Assurance providers are able to provide three basic levels of assurance:

- reasonable: this corresponds to the positive assurance generally provided on financial statements:
- limited: i.e. nothing has come to the assurance provider's attention to cause the assurance provider to believe the subject matter information is materially misstated.

- intermediate: this option is not as well developed as the reasonable and limited assurance models. Such opinions (e.g. a 'balanced & reasonable opinion') could be well suited to reporting on the narrative elements of IR, but such models would require significant further development.

As assurance providers we consider that in theory reasonable assurance can be provided in respect of elements of IR (e.g. metrics) but only limited and/or (potentially) medium assurance regarding narrative aspects of IR. Where metrics are embedded in narrative reporting, a more practical approach would be to provide medium/limited assurance only.

Other

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).*

See previous comments on the focus on the financial reporting entity.

Overall view

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 <IR> framework exemplifies how a principles-based approach can provide a flexible framework for enhancing practice and encouraging positive behaviours. We consider that, conceptually, the framework is suitable for the public sector and has many positive features which we note in our detailed comments. However, we have identified a number of risks and issues associated with adapting the framework for the public sector as opposed to designing a modified framework for the public sector.

We offer our detailed comments and suggestions in the context that, the <IR> framework exemplifies how a principles-based approach can provide a flexible framework for enhancing practice and encouraging positive behaviours.

Development of <IR>

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?*

As a public sector audit agency, we consider that IR is equally as relevant to the public sector as it is to the private sector. Accordingly, our response concentrates mainly on the public sector aspects of the proposals.

Experience shows that there are difficulties in seeking to apply or adapt a framework designed for the private sector to the public sector. We therefore encourage the IIRC to continue working with relevant public sector partners: Chartered Institute of Public Finance and Accountancy (CIPFA), International Public Sector Accounting Standards Board (IPSASB) etc.) to continue to develop the framework in collaboration with the public sector. Running pilots in the public sector, in the same way as has been done in the private sector, would be helpful.

Working with the public sector to design a modified <IR> framework for public agencies would also provide an opportunity to address a number of other issues and questions we have identified. These include:

- An overlap with IPSASB definition of financial reporting (financial statements, documents containing prospective information, and performance information).
- The need for /the role of assurance
- How to obtain assurance in relation to reliability, comparability etc.?
 - how to obtain assurance in relation to prospective information
 - much of the content will be narrative (does this require a limited assurance approach as per ISAE 3000)?
- What is the driver for adoption of IR in the absence of mandatory requirements?

Other

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

Sustainable Development and governance in Wales

When established in 1998 the devolved government of Wales, the National Assembly for Wales, had a statutory duty to promote sustainable development (SD). The Government of Wales Act 2006 then placed the duty to promote SD on the Welsh Government. In 2010 the Welsh Government published a new statutory SD scheme, 'One Wales; One Planet' which committed the government to making SD the central organising principle of government.

'One Wales: One Planet' defines SD in Wales as:

'Sustainable development means enhancing the economic, social and environmental wellbeing of people and communities, achieving a better quality of life for our own and future generations in ways which:

- promote social justice and equality of opportunity; and
- enhance the natural and cultural environment and respect its limits – using only our fair share of the earth's resources and sustaining our cultural legacy.

Sustainable development is the process by which we reach the goal of sustainability.'

The Welsh Government has set out its proposals for strengthening the governance framework for sustainable development, in a White Paper. The key features include:

- a new duty - that requires specified public service organisations to embed sustainable development as their central organising principle; and
- accountability - reporting and scrutiny arrangements to ensure that sustainable development is fully embedded within organisations.

In its White Paper, the Welsh Government proposes that the duty will focus on the strategic decision-making processes. It also identifies the key elements of sustainable development, as the central organising principle:

'a clear focus on what the organisation is seeking to deliver in support of the future wellbeing of Wales – the 'Outcomes'; and

ensuring decisions taken on how the outcomes can best be achieved are fully informed by consideration of the effect on economic, social, environmental and long term wellbeing'.

The Welsh Government proposes that these key elements should be underpinned by the application of the following key principles of sustainable development:

- integration and working across boundaries;
- long term thinking and a focus on prevention;
- engagement and involvement; and
- international scope.