

# THE DRAFT FRAMEWORK FOR INTEGRATED REPORTING

A consultation draft issued by the International Integrated Reporting Council (IIRC)

Comments from ACCA  
July 2013

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 162,000 members and 426,000 students throughout their careers, providing services through a network of 89 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities.

[www.accaglobal.com](http://www.accaglobal.com)

Further information about ACCA's comments on the matters discussed here can be obtained from:

Richard Martin  
Head of Corporate Reporting, ACCA  
Email: [Richard.Martin@accaglobal.com](mailto:Richard.Martin@accaglobal.com)

ACCA welcomes the opportunity to comment on the draft framework issued by the IIRC. We have consulted on the matters raised in the consultation draft (CD) very widely, and this submission benefits from input from ACCA's Council as well as our Global Forums for audit & assurance, business law, corporate reporting, governance, risk & performance and sustainability. We have been involved in roundtable discussions and events based on the CD in several countries, including the UK, Singapore, China and Russia. We have also benefitted from our own experience of participating in the IIRC's pilot programme and applying the developing concepts of integrated reporting in the production of our own integrated report.

---

## KEY OBSERVATIONS

ACCA remains very supportive of the concept of integrated reporting (<IR>) and of the principles set out in the CD. Indeed, our own research has shown that many stakeholders would welcome the introduction of integrated reporting, seeing in it a number of benefits such as a focus on the long term, better understanding of risk, including long-term risks to the business model, and wider insights into how corporate value is created.

The <IR> initiative offers a significant opportunity for the quality of corporate reporting to be improved by giving to investors and others a more complete view of the entity and its prospects over a longer time frame than is usually covered in traditional corporate reporting. The process of reporting on this more complete basis also has great potential for influencing the way that companies approach their strategic planning and their operational management practices. Although we still find that there is a lack of detailed awareness of <IR> - this needs to be addressed by a campaign to promote awareness of the concept - we have found that support for the principles of <IR> is widespread when these are explained.

Having a non-statutory framework that can be used by companies and the wider market will help raise awareness, encourage adoption and help facilitate good practice. Experience of application will also help the IIRC to identify areas for further enhancements to the framework and help accumulate evidence of the benefits of <IR>, which in turn should help to drive market uptake.

The IIRC now has a significant opportunity to achieve progress on this project. The emphasis now should be on ensuring that the <IR> framework is as good, practical and well-founded as it can be. Unfortunately, in our experience, even where there is awareness of <IR> there is a significant degree of uncertainty

about how it is meant to be applied in practice. In our view, what is needed at this stage is for the developing framework to be credibly grounded in the experience of the pilot programme and feedback from the investor network. The framework still needs to be thoroughly field-tested and there is also a need for the IIRC to provide compelling examples of best practice from a range of entities.

The relationship between the integrated report and other forms of reporting remains one of the areas where there is currently a lack of clarity. One of the IIRC's short term priorities should therefore be to liaise with other regulators and standard setters with a view to addressing potential barriers to the adoption of <IR>. In particular, steps need to be taken to ensure that <IR> can be made consistent with, and avoid duplication with, existing requirements and guidance relating to corporate reporting, for example the UK's new Strategic Report. Best practice examples are needed on how cohesion can be achieved with current requirements for annual reports, MD&A, sustainability reports and the like. The ideal should be to develop a framework which allows for the production of an integrated report which sets out a coherent and self-contained narrative, but which allows for greater detail to be provided either in appendices or by way of links.

Achieving the right balance between the wide ranging nature of the content guidance in the CD and the objective of 'conciseness' presents a particular challenge to prospective reporters. The way forward is, in our view, firstly to review and reduce the detailed content specified in the framework and place more emphasis on the principles. Secondly, there needs to be less emphasis on the objective of conciseness, given the complexity of the affairs of many reporting organisations and the range of information needs of many stakeholders, including providers of financial capital (who are the primary addressees of the integrated report). Furthermore, the materiality assessment process is an important factor in this regard and good examples of the application of this principle will be beneficial.

Informed guidance and good examples are needed to help with negotiating the interface between transparent reporting on the one hand and commercial sensitivity and exposure to risks in respect of forward-looking information on the other. The <IR> framework needs ultimately to take a realistic line on these issues. The 'boilerplate' issue is an existing problem for non-financial reporting in general, but that does not make it any the less applicable to <IR>, and new factors may emerge that drive boilerplate reporting in respect of integrated reports.

We recognise that there is a balance to be struck between maintaining momentum in this project and ensuring that the framework is sufficiently robust

to facilitate the high quality of application that will enhance the reputation of <IR> among preparers and stakeholders. ACCA's own experience on the pilot programme has shown that the outline framework developed so far is sufficient for us to be able to produce a report which, in our own view, meets the core aspirations of <IR>. Our experience has also encouraged us to achieve a greater alignment of internal performance management and decision making with the external reporting process. We accept that the IIRC will continue to learn the lessons of the pilot exercise and learn from the experience of individual reporters and different countries. But in the best interests of the project it is important that any official iteration of the framework benefits from the widest possible experience of how it is applied in practice and is able to address satisfactorily the concerns and questions of many prospective preparers and users. If the various steps that we consider are necessary cannot be undertaken and completed within the existing project timetable, one option might be to issue something like an 'interim framework' that could provide guidance to preparers pending the preparation of a more definitive first version.

In conclusion, we can see that the IIRC framework has evolved quickly from the initial concept and has benefitted from contributions from many stakeholder groups. We welcome the direction of the project and are pleased to note that there appears to be broad support in many countries for the concept of <IR> as an idea whose time has come. However the outline framework as set out in the draft needs to be developed further and we have set out in this submission a number of general and technical points that we believe need to be effectively addressed. The two most pressing of these are:

- i) First and foremost, with a view to promoting adoption and aiding compliance, the framework needs to provide a range of compelling good examples of reporting which suggest themselves from the pilot programme and other comparable initiatives; and
- ii) Second, with a view to promoting clarity and avoiding duplication of effort, the IIRC needs to establish, on as broad a basis as is practicable, how the voluntary <IR> is going to be accommodated within the suite of information that companies are currently required to disclose by law or standards.

## SPECIFIC COMMENTS

### 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).

**Q1: Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.**

We support the idea of identified principles which would constitute the key elements for a company to claim compliance with the <IR> Framework. We note that the framework is referring to these as ‘principles-based requirements’, which appears to us to be an internally-contradictory phrase. Full compliance with the principles may be over-ambitious, for some organisations particularly, to begin with. We therefore think that a general ‘comply or explain’ provision might be helpful in encouraging adoption even when this cannot be complete.

In general we agree with the identification of those paragraphs. However, paragraph 4.5 requires more clarity and explanation.

Paragraph 4.5 requires compliance with 5.13 (the materiality determination process) – we think that the first bullet point in 5.13 covers all that is needed in this regard and that the requirements of the two other bullet points (identifying the key personnel involved and the role of those charged with governance) should not be needed to claim compliance.

In general the position of disclosures under the framework needs to be clarified as to what should be provided in order to claim compliance, which we think should be kept to a minimum. It would be better if paragraph 4.1 were included among the bold italic paragraphs because this would help to make clear how much of the disclosures in Chapter 4 are required via the phrase “In addition to the content elements ...” in paragraph 4.5, and how much are simply recommended or desirable.

## 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, eg, 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).

### Q2: Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?

We have no problem with the text in the framework. However we observe that a number of parties seem to be very unclear how the integration of reporting is intended to work in practice and so IIRC needs to consider how best to address this lack of clarity.

In this and in many other regards, compelling examples from the pilot programme and elsewhere are needed to help answer these questions. At present there are insufficient such examples available. Arguably the finalisation of the framework should be informed by both the pilots' experience, feedback from the investor network and be able to refer to a variety of best practice examples.

In our view while integrated thinking can be applied to existing reporting, the best solution that should be encouraged is that companies produce an integrated report. For the foreseeable future this will not replace, for example, the financial statements or sustainability reports, but could form the basis of the other narrative report whether that is called a management commentary, strategic report, MD&A or some other title. In that context preparers and users of integrated reports need:

- clarity on whether there are any obstacles in their jurisdictions to producing a compliant integrated report
- guidance on how the integrated report can fit in with existing reporting frameworks.

We do not think that IIRC can do this on its own, but there is much that it could do to assist and encourage the process. As we have noted among our key observations above, they should be working with a number of other parties to ensure that <IR> is well embedded and consistent with other reporting frameworks. These should certainly include global frameworks such as GRI and

ISAs. For national non-financial reporting requirements, IIRC may start with guidance on the obstacles to adoption of <IR> and how it could fit (as noted above) in certain major jurisdictions. These might act as a starting point with others then following.

We would not encourage IIRC to promote mandatory application of <IR> by jurisdictions at this stage, given the lack of track record and examples, but rather promote this as a market-led initiative. We are aware of course that in some cases such best practice initiatives do not meet with much success, and that without mandation or strong endorsement from regulators that adoption of <IR> will make slow progress in those places. But we believe mandatory application is not appropriate at a time when IIRC will benefit more from allowing companies to experiment and evolve good practice, and develop the overall track record of application of the framework.

**Q3: 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?**

IIRC should be clearer on how other reporting frameworks and indicator sets are going to fit in with IIRC framework. It is not clear whether the IIRC's aim is to create a database that would essentially endorse indicator sets that are compatible with the IIRC framework or whether they are pulling the list together to serve as a resource to reporters, who could share experiences on which reporting standards would work best when looking to produce an integrated report.

When looking to compile a database of sources of indicator sets and measurement methods, the IIRC should not only look to international reporting frameworks such as the GRI, but should also consider regional and industry specific guidelines and regulations such as those issued by the SASB. Other potential references include financial accounting standards and stock exchange listing requirements. The recent KPMG / GRI Carrots and Sticks report would also serve as an excellent reference for this piece of work.

The needs of SMEs need also to be considered when undertaking this exercise, both in developed and developing nations.

The challenge of <IR> is to get companies to think in an integrated manner, therefore companies would benefit from guidance about what needs to be done from a cross-organisational perspective to produce an integrated report. This kind of approach has been applied by other standard setting bodies, such as the GRI, and provides a useful tool for companies.



## Other

### Q4: Please provide any other comments you have about Chapter 1.

Paragraph 1.6 states that the audience for the integrated report is, primarily, providers of financial capital, and the purpose of it is to support their capital allocation decisions. We agree with the identification of the primary audience, though we note this is seen as controversial and restrictive by many. We would suggest that the reference to the allocation decisions should be deleted. This would avoid the framework being perceived as being even more restricted than implied by the primary audience and <IR> being drawn into the debate around the distinction between decision-usefulness and stewardship/accountability, which is currently surrounding IFRS for example.

Paragraph 1.10 states that the framework is intended primarily for application by the for-profit private sector. We think that the principles of <IR> are applicable to the public sector and to the not-for-profit sector too, particularly because wider factors and measures of value beyond financial capital are at the heart of the concept. In those sectors the connection of the whole reporting system with profit is much reduced as compared to private sector financial reporting. The IIRC should therefore review the draft framework and consider where it would be inappropriate for these other entities – those elements are not obvious to us.

The current scope restriction may also create some uncertainty about the relevance of <IR> to state-owned enterprises.

We have set out in answer to Q24 below some of the relevant observations on <IR> from a public sector viewpoint.



## 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).

#### Q5: Do you agree with this approach to the capitals? Why/why not?

The approach to capitals is largely welcomed, and will be very beneficial. It will encourage entities to think about and then report on their business in the longer term and in a wider context than, for example, just financial performance.

The concept of the different capitals, and reporting on value changes in them, are among the least familiar elements of <IR>. As a result, significant difficulties are perceived in estimating value in some of the capitals – perhaps especially in developing nations. It would be beneficial to companies looking to apply <IR> to see examples from the pilot study on how to report on the capitals. Also guidance (not necessarily as part of the IIRC framework) would be welcomed on how value might be measured, however crudely, or simply how it might be discussed. In this context we noted that there was very little signposting in the framework to the five studies which the IIRC commissioned, including that on the capitals.

Another aspect of the capitals that would be helped by more examples is the trade-off between the capitals. ACCA will shortly publish a report with Carbon Tracker on the impact of possible future low carbon national policies on the reserves of carbon that energy companies are holding and reporting – the ‘stranded assets’ or ‘unburnable carbon’ issue as it is sometimes called.

IIRC also needs to ensure that a consistent message about the role of the capitals is given to those concerned. Though referred to in Chapter 4, other pronouncements have been interpreted as meaning that the capitals are a conceptual underpinning but should not be the basis of reporting.

In some countries around the world (e.g. Canada), much work has been done on how companies in a particular sector impact on the various capitals at a sector level. This may be helpful guidance for the IIRC to signpost.

A number of parties seem unsure how the six capitals model produced by the IIRC relates to the 5 capitals model produced by Forum for the Future, and what lessons could be learnt from earlier work.

The flexibility about reporting on the six identified capitals in paragraphs 2.18 to 2.20 is then lost with the approach in 2.21 and in the specific disclosures in 4.5. We would prefer that the flexibility is retained and the benchmark six are there for guidance but not as a compulsory element.

**Q6: Please provide any other comments you have about Section 2B.**

We have no further comments on Section 2B.

**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).**

**Q7: Do you agree with this definition? Why/why not?**

This definition would benefit from a reference to the mission or objectives of the organisation, as indeed there is at paragraph 4.7.

**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).**

**Q8: Do you agree with this definition? Why/why not?**

We agree with the definition.

**Q9: Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Contents Elements Chapter of the Framework (Section 4E).**

The description of the business model could well be a difficult area for good reporting. The experience of the pilot programme and from the consultations with the investor network will be very useful in judging what are realistic and helpful disclosures.

In paragraph 4.21, requiring an entity to report generally on the resilience of its business model is not likely to be very helpful and risks boiler-plate statements instead of meaningful information. Instead, what might be helpful is to supplement the discussion of risk and opportunities in 4C with any further information which might assist users of the report to make their own assessment of resilience.

That said, there should be some encouragement in the framework, in respect of the discussion of the connections between capitals, to consider how much a company's business model might be able to deal with potential future changes in the prices of energy or raw materials, or of the stranded assets issue noted above.

In paragraph 4.22, in the second bullet, the second sub-point (on revenue generation after the initial point of sale) looks an oddly detailed aspect to be including in a framework.

In paragraph 4.23, the fourth bullet point would be better included in 4.22. The other bullet points in 4.23 seem either repetitious or unnecessary, apart from the last one on connections to other elements.

## Other

**Q10: Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.**

We have no further comments on Chapter 2.

## 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).**

**Q11: Do you agree with this approach to materiality? If not, how would you change it?**

We agree with the identification of providers of financial capital as the primary intended report users. This term will help with bringing in both debt providers and shareholders and can allow for application to the not-for-profit sector and public sectors by encompassing funders and taxpayers.

However there is a risk that the materiality judgement will tend towards an emphasis on financial capital and the subjects of existing financial statements and annual reports. These existing forms of reporting are also addressed primarily to the providers of financial capital. Therefore the risk is that <IR> will tend to report too little on environmental and social matters. Equally of course it is also possible that <IR> will steer entities towards a wider view of value and towards a longer term view and will deliver recognition of the materiality in that context and report adequately on those other capitals.

The assessment of materiality is always a difficult exercise of judgement. Where issues are capable of being expressed in financial terms or at least quantified there may at least be a numerical starting point for this judgement. A number of the capitals covered by <IR> will not be in this category at present and so the materiality assessment for an integrated report may be more difficult.

One of the key challenges for companies preparing integrated reports and for <IR> generally will be to try to increase the level of quantification of impacts on different capitals and to try to demonstrate in an unambiguous way the connections between value created/consumed in other capitals and the effect on financial capital. This will be needed both to give credibility to the reports with investors but also to determine materiality.

Materiality is clearly a concept relevant to other standard setters in financial reporting, regulation and in sustainability reporting. IIRC should be co-ordinating with these other interested parties to ensure the concept of materiality is consistent in all these related contexts. The concepts of materiality are very important and further research and guidance may well be needed as

the experience from the pilot programme and others comes through, as noted in our key observations above.

Overall, we consider the IIRC's approach to materiality is a good starting point for companies. The experience from the pilot projects seems to be that the guidance provided worked well in identifying material issues, although the exercise required a significant investment of time and resource.

**Q12: Please provide any other comments you have about Section 3D or the materiality determination process (Section 5B).**

Conciseness is a desirable quality given that other forms of reporting will tend to continue in addition to <IR>. However proper coverage of material issues is the more important quality which should met.

We have noted among our key observations above that conciseness will be difficult to achieve given the wide range of content envisaged. The specified content is too detailed and should be reconsidered, as should the prominence given to conciseness as a guiding principle of <IR>.

**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).

**Q13: How should the reliability of an integrated report be demonstrated?**

We agree with most of what is included in Section 3E on the reliability of information.

Some of the matters to be included in <IR> will already be the subject of reporting and so the issues around their reliability are well understood. As noted in our response to Q11 above there will need to be continuing development of methodologies and benchmarks in reporting on a number of the new factors that <IR> is likely to entail. Management will have to make estimates and the basis of reporting disclosed for the material factors.

Robust reporting systems are a fundamental prerequisite for reliable reporting and for some issues which may need to be covered by <IR>. These systems may require some time to develop, even after benchmarks and methodologies are agreed.

We have commented below on the helpfulness of a statement of responsibility for the report (Q17) and external assurance (Q19).

The relevance of appropriate stakeholder engagement to ensuring reliability of reports is not immediately obvious to us and so needs either removal or more explanation.

**Q14: Please provide any other comments you have about Section 3E.**

The Framework is using the term ‘reliability’ when the joint IASB/FASB framework has moved away from that term and towards ‘faithful representation’, with the enhancing qualitative characteristic of verifiability. It would be better if the two frameworks were harmonised in this respect.

As noted already in the Summary to this submission, many of the issues raised in this section are problems already experienced with existing forms of non-financial reporting in companies’ annual reports – for example competitive disadvantage, future-oriented information etc. Many of these reports (whether called management commentary, business review or MD&A) have suffered from the problems of bland statements on the grounds of commercial disadvantage, a lack of forward looking material and a tendency to report more fully the positives rather than the negatives. These are likely risks for <IR> as well, and ultimately have the potential to engender scepticism in users and lead to a lack of credibility of the resulting reports.

This need not alter what is included in the framework in this section but it would be interesting for preparers and users to be alerted to any particular issues that arise from <IR> in this regard.

**Other**

**Q15: Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.**

While we support the consistency and comparability principle, we note that the “unique value creation story” and indeed the emphasis on the company’s strategy will inevitably mean that comparability between integrated reports will only be achieved at the highest level. This is to some extent the experience from narrative reporting as well.

On the other hand, drawing from the experience of existing annual reporting, we do accept that clear narrative explanations of an organisation's strategy and the impact that that strategy has had, have been useful nevertheless as tools for investors to differentiate between different entities. We note also that, for <IR>, a degree of innovation is seen as important during the initial stage. As benchmarks, methodologies and market expectations develop it is possible that greater comparability may be able to be achieved.

Even if comparability may be difficult for now, we agree with paragraph 3.49 that there should be consistency from period to period for an entity.

## CHAPTER 4: CONTENT ELEMENTS

**Q16: 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).**

The approach of using a question to indicate the objective of the different content elements is a helpful one.

In general, though, we think that this Chapter of the framework has been written at too detailed a level and risks becoming too prescriptive, with the contents of the section becoming seen as a checklist.

The text of Chapters 4 and 5 in particular needs to be scrutinised carefully to ensure that disclosure items are correctly described. For example, some seem to be identified as requirements, such as the time frame disclosures in paragraph 5.24 and the contents of paragraphs 4.15, 4.19 and 4.20. Other items are introduced with a variety of degrees of recommendation:

- “May include ...” (paragraph 4.9)
- “This includes ...” (paragraph 4.22)
- “Features that can enhance ... include ...” (paragraph 4.23)
- “Common characteristics ... include ...” (paragraph 4.31)

### 4B Governance

Paragraph 4.11 sets out a number of issues in the form of seven bullet points. We are not sure that bullet points 2, 3, 5 and 6 are very significant matters in terms of explaining the ability of the organisation to create value.



The framework refers to “those charged with governance”. This is a phrase from audit standards and it does not have a wide currency outside that context. It is not used in IFRS for example. At various points in the CD a distinction is made between those charged with governance and management. External stakeholders including providers of financial capital will generally not perceive or understand the difference if any between the two groups. The separation is also not relevant for most unlisted companies.

The framework would be better referring throughout to management only – for example in 4.31.

#### **4D Strategy and resource allocation**

Paragraph 4.20 includes items that should be addressed. We do not think that the third bullet should be included. Strategy and resource allocation is not always going to be formulated directly by stakeholder consultations.

#### **4F Performance**

In paragraph 4.31, some of the implied requirements are going significantly beyond what is currently provided, for example:

- the KPIs with forecasts for two or more future periods (5th bullet)
- comparative KPIs for 3 or more prior periods (6th bullet)
- comparison of outcomes with forecasts (7th bullet)

It is possible that there is a difference in the current approach of financial reporting (where direct forecasts would be rare) and sustainability reporting (where they may be more common practice). We think that existing common practice may be difficult to change in this regard, as has been the experience of some of the other narrative/non-financial frameworks. To achieve maximum take-up the framework may need to be less aspirational in this regard.

#### **4G Future outlook**

The requirement for forecast information in paragraph 4.37 is again demanding when viewed from the current commonly provided information and raises the general issue about the ability and legality of providing such information.

## 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>.

**Q17: Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?**

We agree with this idea, though as noted above we do not agree with the term 'those charged with governance' and would substitute 'management'.

As noted above it is important to preparers and users of the reports to understand how an integrated report would fit into the regulatory or legal requirements in a jurisdiction. The responsibility for issuing reports varies between jurisdictions and so such a statement may clarify this for a particular case.

**Q18: Please provide any other comments you have about involvement of those charged with governance (Section 5D).**

We have no further comments on the section.

### Credibility (Section 5E)

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

**Q19: If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?**

<IR> should be a market-led initiative and be for now an innovative one. In a similar way we think the question of assurance, the way it can be provided and by whom, should be left to market demand. There are some concerns with a development such as <IR> that assurance might inevitably reduce it to a series of requirements that must be ticked off in order that the assurer can support the claim of compliance with the framework.

On the other hand assurance could clearly assist with the credibility and reliability issues noted above. Reasonable assurance might be comparatively difficult and expensive to provide and so it should be left to users and the

reporting companies to decide whether they want the extra credibility that assurance might bring.

If there is to be assurance of integrated reports then there should probably be some degree of innovation allowed as well. If, however, there is significant demand then standard setters such as IAASB must make sure that guidance to best practice is available and IIRC must liaise with them to help that and discuss relevant issues arising from <IR> (see examples in Q20 below).

In terms of whether there might be assurance of some aspects of the reports but not on the report as a whole, we note that without an overall assurance on the report then there will be no additional credibility provided over the balance of the report.

In the case of integrated reports that are issued with financial statements which have been audited, for example in accordance with international standards, the user can at least rely on a review for consistency with the financial statements.

**Q20: 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.**

The IIRC seem to have been too ready to equate credibility and reliability with assurance. Credibility is gained first and foremost by good transparent reporting against recognised frameworks, coherently and consistently across the piece – financial statements, sustainability reports, business review and integrated reports. External assurance can then follow and endorse that.

Turning to assurance, the framework provides suitable criteria in the same way that AA1000 does or COSO for control systems. We think that some assurers would be happy to provide an assessment as to whether the integrated report followed the principles. There will be a number of significant assurance issues including:

- to whom any report should be addressed
- forward looking information
- subjectivity of much of the qualitative content
- the training and skill sets for the assurance providers.

In some of these difficult and judgmental areas for example the assessment of materiality, there could be some place for assurance over the process rather than an opinion on the outcome.

## Other

**Q21: 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).**

Section 5B on materiality discusses the magnitude of effects and the likelihood of occurrence. It is important that in doing so the effects of ranges of outcomes are considered: the emerging concept of ‘confidence accounting’ may be relevant here.

## Overall view

**Q22: 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?**

One aspect to which the framework does not give sufficient emphasis concerns the link between <IR> and changes in the way that strategy is devised and implemented through organisational structures. Perhaps those changes, which will invariably include changes to the way that information is collected, need to be achieved before reporting can be properly undertaken on an integrated basis. So far, successfully achieving this transformation seems to have been both the biggest challenge in implementation and also its biggest reward.

We agree that <IR> will evolve. As noted already, it is important that the framework benefits from the experience derived from the pilot programmes, investor networks and from other early adopters such as listed companies in South Africa. We do not think that, to date, this combined experience has been authoritatively collated and communicated so as to inform the practice of prospective reporters.

But if a finalised framework is produced at this early stage, so as to help encourage adoption and innovation, then presumably there may well be a further version produced in a few years’ time. Greater clarity on what the intentions are in this regard and how the IIRC views this framework, would be helpful for those considering applying it.

## Development of <IR>

**Q23: 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?**

Our three priorities for extra material that <IR> would benefit from are:

- First and foremost a range of compelling good examples of reporting to highlight best practice.
- Guidance on how <IR> might fit in with annual reporting requirements in different jurisdictions.
- Research and guidance on how value changes in different capitals can be represented whether by quantitative indices or qualitatively, for the reasons given in Q11 above.

## Other

**Q24: Please provide any other comments not already addressed by your responses to Questions 1-23.**

## Languages and translation

For global systems of standards, even of non-mandatory guidance, the development of a key number of official languages and the quality of translations are important for encouraging the take-up and for the proper application in different countries. The IIRC will need to monitor both the demands for different language versions and the standard of the translations.

## Comments on application of <IR> to the public sector

<IR> seems very applicable to the public sector and we would be generally supportive of the development of a global integrated reporting framework for the sector on a principles based approach.

Currently there is a myriad of reporting practices across the sector between national, regional and local governments and via country, and there is

considerable inconsistency in reporting. Some coherence around an international framework would be helpful.

There is much already developing in the sector on which <IR> could build. At an international level the IPSASB recently published a draft exposure draft on non- financial reporting information that puts forward the principle that reporting on service performance provides a key indicator to the recipients of those services. In ACCA's publication '*Sustainability reporting: what are governments doing about it?*' we found that in most cases where governments were reporting on sustainability the focus was on the environmental aspects as opposed to social and economic factors.

Reporting on non-financial performance will improve comparability between public sector entities, but comparing service performance is not any more straightforward in the public sector than elsewhere. A KPI can only be used as a starting point for understanding difference and drawing conclusions about performance, and a particular valuation creation story applies here as well.

Although we agree with the principles contained within the IIR framework, it would need to be reviewed considering what is fundamentally different about the public sector. The contextual factors are different, for example, the political dimension, accountability imperative and multiple users of financial statements and reports. The primary stakeholder group for financial reports would be the legislature and the taxpayers. Are they the providers of capital for the public sector? Perhaps, but they will not be the only ones.

A key development particularly in developed countries is the transparency agenda, where governments are making available to the public vast amounts of data (financial and non-financial) for them to analyse and draw their own conclusions about service performance. The development of an IIRC framework would have to take account of this changing context, in particular, how such reports would add value to this agenda.

The principles of <IR> may well be very transferable to the public sector, but the problems and shortcomings of this narrative/non-financial reporting are also comparable to the experience in the private sector. For example in a review of UK government department annual reports included the following issues:

- In most cases reports were not 'forward looking' beyond the political cycle.
- Performance reporting was used as an exercise to showcase what was good and where positive progress had been made and hid what was bad.

- Reporting against performance outcomes was the least well done, inputs were satisfactory and to a more limited extent outputs too.