INTEGRATED REPORTING <IR>

ASSURANCE ON <IR>

AN INTRODUCTION TO THE DISCUSSION

Feedback requested by 1 December 2014

HELP SHAPE THE FUTURE OF ASSURANCE ON <IR>

About the IIRC

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting.

Purpose of this paper

This paper provides an overview of assurance on Integrated Reporting (<IR>) to help all stakeholders understand the role of assurance and to initiate a global discussion on the benefits and challenges it presents.

It is being released together with a more detailed paper 'Assurance on <IR>: an exploration of issues'. The IIRC believes these papers will provide a catalyst for those with an interest in assurance to initiate and get involved in forums around the world during the second half of 2014. Feedback is invited to the questions posed in section 4 of this paper, many of which are open ended so that new ideas on assurance can be heard without discussion being constrained by past thinking.

A summary of the feedback received on this paper will be published by the IIRC in early 2015. The IIRC will consider any next steps, such as advocating action by assurance setters or others, based on that feedback.

Audience

The IIRC encourages not only accounting firms and other assurance practitioners to join in this discussion, but all those with an interest in building the credibility of, and trust in, corporate reporting. This includes preparers of integrated reports, providers of financial capital and other users of integrated reports, policy makers, regulators, standard setters and academics.

Being heard

To find out more and to become involved:

- Visit www.theiirc.org/assurance
- Initiate or attend a roundtable or other event
- Join the debate on the <IR> LinkedIn group
- Submit a response to assurance@theiirc.org by 1 December 2014 (all responses received will be made available on the IIRC website).

CONTENTS

"Integrated Reporting (<IR>): A process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation."

"Integrated report: A concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term."

"Integrated thinking: The active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term."

International <IR> Framework

1. EXECUTIVE SUMMARY

About <IR>

1.1 The IIRC's long term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by <IR> as the corporate reporting norm.

1.2 <IR> is consistent with numerous developments in corporate reporting taking place within national jurisdictions across the world.

1.3 <IR> aims to:

- Improve the quality of information available to providers of financial capital
- Promote a more cohesive and efficient approach to corporate reporting
- Enhance accountability and stewardship for the broad base of capitals
- Support the creation of value over the short, medium and long term.

1.4 The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability.

Benefits of assurance

1.5 The IIRC is not, and does not aspire to become, a key player in the assurance field.

1.6 Independent assurance is, nonetheless, likely to be important for the long term credibility of integrated reports, especially given the primary audience of <IR> as providers of financial capital. Assurance can bring vital benefits to <IR>:

- It is a key mechanism to help ensure integrated reports and the <IR> process are, and are seen to be, credible and trustworthy
- If integrated reports and the <IR> process are perceived to lack credibility and trust, the aims of <IR> are not likely to be achieved.

1.7 The IIRC therefore seeks to build the credibility of, and trust in, <IR> through robust mechanisms such as assurance. However, as <IR> is market-led, an essential input as to the nature of assurance, and the extent that it is necessary, should be market demand and cost/value.

1.8 Other mechanisms to build credibility and trust may include sound leadership, robust internal systems, the involvement of internal audit and stakeholder involvement.

Assurance challenges

1.9 Current implementation challenges include:

- Questions about the nature of assurance, such as how different mechanisms contribute to credibility and trust, and whether a new approach and different pathways to assurance are needed to match <IR>'s new approach to reporting
- The availability of suitably skilled and experienced assurance practitioners
- Whether reporters' internal systems are robust enough for assurance
- The cost of assurance.

1.10 Current technical challenges include:

- Assurance methodology issues, including materiality decisions, implications of the reporting boundary, the connectivity of information, the completeness of the integrated report, and the inclusion of soft narrative and future-oriented information
- The level of assurance that is appropriate
- How existing audit/assurance work on financial, sustainability and other information and processes is used when seeking assurance on <IR>.

2. ABOUT <IR>

Vision

2.1 The IIRC's long term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by Integrated Reporting as the corporate reporting norm. The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability.

Aims

2.2 <IR> aims to:

- Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital
- Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time
- Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies
- Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.

Corporate reporting norm

2.3 <IR> is consistent with numerous developments in corporate reporting taking place within national jurisdictions across the world. It is intended that the International <IR> Framework (the Framework), which provides principles-based guidance for companies and other organizations wishing to prepare an integrated report, will accelerate these individual initiatives and provide impetus to greater innovation in corporate reporting globally to unlock the benefits of <IR>, including the increased efficiency of the reporting process itself.

2.4 It is anticipated that, over time, <IR> will become the corporate reporting norm. No longer will an organization produce numerous, disconnected and static communications. This will be delivered by the process of integrated thinking, and the application of principles such as connectivity of information.

2.5 <IR> is consistent with developments in financial and other reporting, but an integrated report also differs from other reports and communications in a number of ways. In particular, it focuses on the ability of an organization to create value in the short, medium and long term, and in so doing it:

- Has a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies
- Emphasizes the importance of integrated thinking within the organization.

Integrated thinking

2.6 Integrated thinking is the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation of value over the short, medium and long term.

2.7 Integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organization's ability to create value over time, including:

- The capitals that the organization uses or affects, and the critical interdependencies, including trade-offs, between them
- The capacity of the organization to respond to key stakeholders' legitimate needs and interests
- How the organization tailors its business model and strategy to respond to its external environment and the risks and opportunities it faces
- The organization's activities, performance (financial and other) and outcomes in terms of the capitals – past, present and future.

2.8 The more that integrated thinking is embedded into an organization's activities, the more naturally will the connectivity of information flow into management reporting, analysis and decision-making. It also leads to better integration of the information systems that support internal and external reporting and communication, including preparation of the integrated report.

3. BENEFITS OF ASSURANCE

"Investment grade" information

3.1 The first aim of <IR> noted on the previous page is to "improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital."

3.2 If providers of financial capital are to trust integrated reports as a key input to their decision-making, then those reports need to contain "investment grade" information.

3.3 For information to be "investment grade", it must be credible and trusted by the providers of financial capital. Information provided by an organization without independent assurance of any kind is not likely to achieve this level of credibility and trust.

3.4 As well as offering comfort to those charged with governance and senior management when reviewing an organization's integrated report, assurance offers the considerable benefit of enhancing the credibility of, and trust in, an integrated report in the eyes of providers of financial capital. If this benefit is not realized, and integrated reports are not considered to be "investment grade", the aims of <IR> are not likely to be achieved.

What is assurance?

3.5 Assurance, as it is commonly understood today, refers to a process undertaken by a competent external practitioner, who is independent of an organization, to obtain sufficient appropriate evidence and express a written conclusion that enhances the degree of confidence intended users can place in the organization's integrated report.

3.6 In simpler terms, assurance with respect to <IR> is typically considered today to be about an independent conclusion on whether an organization's integrated report presents its strategy, governance, performance and prospects in accordance with the Framework.

3.7 The Framework identifies information to be included in an integrated report; it does not set benchmarks for such matters as the quality of an organization's strategy or the level of performance the organization should achieve. Similarly, assurance is not typically sought on these matters; rather, assurance enhances the confidence users can place in an organization's integrated report when those users are themselves assessing, based on the report, the organization's strategy, level of performance, etc. Any independent conclusion or opinion on such matters is more usually thought of as analysis or rating rather than assurance.

3.8 Under existing standards, assurance can be obtained at the "reasonable assurance" level, the "limited assurance" level, or as a hybrid of both. Reasonable assurance is similar to an annual audit of financial statements, whereas limited assurance involves gathering a lower level of evidence. Limited assurance is consequently less expensive but also enhances confidence to a lesser extent. Limited assurance is similar to the level of assurance obtained in a review of interim financial statements. In a hybrid engagement, the practitioner obtains reasonable assurance on some aspects and limited assurance on others within the one engagement, e.g., reasonable assurance might be obtained on hard data, and limited assurance on soft data and the completeness of an integrated report.

Other mechanisms contributing to credibility and trust

3.9 Assurance enhances confidence in <IR>, but it cannot be the sole source of that confidence.

3.10 Other mechanisms that can create or enhance confidence include:

- *Leadership* - Those charged with governance are responsible for ensuring there is effective leadership and decision-making regarding an integrated report, including oversight of employees actively involved in the process.
- *Internal systems and internal audit* - Maintaining robust internal control and reporting systems helps senior management and those charged with governance exercise judgement in deciding whether information is sufficiently reliable to be included in the integrated report. The involvement of internal audit can also help build confidence.
- *Stakeholder involvement* - An organization could report the outcome of stakeholder involvement with the integrated report, e.g., reporting the findings of a stakeholder review panel. This could be of particular benefit with respect to confidence in the completeness of the report and whether it has covered material matters, both positive and negative, in a balanced way.

3.11 Other factors affecting confidence include the willingness of the organization to engage positively with stakeholders, perceptions of its attitude to transparency, and experiences such as the need to restate past reports.

4. ASSURANCE CHALLENGES

4.1 Below are key challenges that need to be addressed if assurance is to be consistent and robust. Unwarranted inconsistency or a lack of robustness in assurance processes can have the same effect as no assurance at all, i.e., a lack of credibility and trust.

4.2 The purpose of this section is to raise these issues for discussion during the remainder of 2014, rather than impose a particular point of view or propose definitive solutions.

4.3 Many of these issues are discussed in more detail in the accompanying paper '*Assurance on <IR>: an exploration of issues*'.

Practical implementation challenges

4.4 *The nature of assurance:* The nature of assurance as it is commonly understood today is discussed in Section 3 above. This understanding of the nature of assurance is not always accepted by all. For example:

- Some consider mechanisms such as those discussed in paragraphs 3.9-3.11 above to be substitutes for, rather than preconditions or adjuncts to, assurance
- Some have suggested that, just as <IR> is a new approach to reporting, a new approach to assurance is needed, involving a rethink of basic tenets such as independence, evidence gathering procedures, the subject matter of assurance, and the content of the assurance report (e.g., "short form" versus "long form" reports)
- It may be that different pathways to assurance and, potentially, different assurance destinations are necessary for different organizations as they take different pathways to <IR>.

Q1. What priority should be placed on assurance in the context of driving credibility and trust in <IR>?

Q2. What are the key features of assurance that will best suit the needs of users of integrated reports in years to come?

4.5 *Competent practitioners:* In some jurisdictions, there are reports of there not being enough skilled and experienced assurance practitioners to service demand.

Q3. Is the availability of suitably skilled and experienced assurance practitioners a problem in your jurisdiction, and if so what needs to be done, and by whom, to remedy the situation?

Q4. What needs to be done, and by whom, to ensure the quality of assurance on <IR> is maintained at a high level, including practitioners' adherence to suitable educational, ethical (including independence), quality control and performance standards?

4.6 *Robust internal systems:* As noted in paragraph 3.10 above, robust internal control and reporting systems help when making judgements about the reliability of information to be included in an integrated report. Where an organization includes in its integrated report information that has previously not been subject to assurance, it may be that its internal systems are not sufficiently robust to enable an assurance practitioner to gather sufficient appropriate evidence to be able to report without qualification.

Q5. Is the robustness of internal systems a problem, and if so what needs to be done, and by whom, to remedy the situation?

4.7 *The cost of assurance:* Paragraphs 3.4 discusses the role of assurance in providing comfort to internal stakeholders and in helping to ensure integrated reports are "investment grade". While obtaining assurance will add to the cost of reporting, the benefits provided by assurance must be seen to outweigh that cost for assurance to be considered viable.

Q6. Is assurance likely to be a cost effective mechanism to ensure credibility and trust over (a) the short/medium term; (b) the long term?

Q7. If so, what needs to be done, and by whom, to maximize the net benefits of assurance?

Technical challenges

4.8 *Methodology issues:* Methodology issues regarding certain aspects of the assurance process are discussed in more detail in the accompanying

4. ASSURANCE CHALLENGES

paper '*Assurance on <IR>: an exploration of issues*'. They include:

- *Materiality* - Using a materiality level or threshold to guide judgements in planning and performing an assurance engagement involves such issues as defining a material error or omission, applying qualitative considerations and assessing aggregated misstatements.
- *Reporting Boundary* - The Framework notes that identifying and describing outcomes may require disclosure of effects on capitals up and down the value chain. If information from outside of the financial reporting entity is included, determining what constitutes sufficient appropriate evidence with respect to such information and designing procedures to obtain that evidence may present challenges.
- *Connectivity* - Issues include the nature and extent of procedures to determine whether an integrated report demonstrates sufficient connectivity, and the evidence required to support an organization's assertions about the cause of certain connections.
- *Completeness* - Assessing the completeness of an integrated report is likely to be a significant concern to assurance practitioners, including, the interplay of completeness with: (a) the concept of conciseness; and (b) exclusions allowed for by the Framework regarding the unavailability of reliable information, specific legal prohibitions and information that would cause significant competitive harm.
- *Narrative reporting and future-oriented information* - Disclosures in an integrated report might include soft narrative or future-oriented information that require the assurance practitioner to exercise a high degree of professional judgement and skepticism; in some cases it may be difficult to obtain sufficient appropriate evidence to support such disclosures.

Q8. Should assurance standard setters develop either or both (a) a new assurance standard; (b) guidance, to ensure consistency of approach to such issues?

Q9. Should any such standard/guidance be specific to <IR>, or should it cover topics that are also relevant to other forms of reporting and assurance, e.g., should a standard/guidance on assuring narrative information, either in an integrated report or elsewhere, be developed?

Q10. What are the (a) key challenges and (b) proposed approaches that assurance standard setters should consider with respect to:

- *Materiality?*
- *The reporting boundary?*
- *Connectivity?*
- *Completeness?*
- *Narrative reporting and future-oriented information?*

Q11. What other technical issues, if any, specific to <IR> should be addressed by assurance standard setters?

4.9 *Levels of assurance:* Paragraph 3.8 above discusses levels of assurance. Agreed-upon procedures engagements (which are related to assurance engagements but are not themselves assurance engagements) are also discussed in the accompanying paper '*Assurance on <IR>: an exploration of issues*'.

Q12. What are the (a) key challenges and (b) proposed approaches that assurance standard setters should consider with respect to:

- *Reasonable assurance?*
- *Limited assurance?*
- *Hybrid engagements?*
- *Agreed-upon procedures engagements?*
- *Other approaches?*

4.10 *Using existing assurance:* Most organizations preparing an integrated report will also be preparing audited financial statements. Many will also be preparing a sustainability report that may also be subject to assurance. They may also have auditors or assurance practitioners reporting on other information and/or processes.

Q13. What are the (a) key challenges and (b) proposed approaches that should be considered, and by whom, to ensure assurance on <IR> pays due regard to other assurance processes?

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