

The IIRC (Assurance)

28th November 2014

Dear Sir/Madam,

I would like to submit the following comments and input to the debate on 'Assurance on IR' based on the consultation document released by the IIRC in July 2014. As there is no online version of the questions in the document, I hope that, in addition to the general observations listed below, the numbering will enable you to relate our comments to the questions posed in section 4 of the original document.

In submitting these comments, I would like to emphasize that these are submitted in the context of nearly 20 years' experience in sustainability assurance (at a Big 4 accounting firm and technical assurance company) and my role as Head of Report Assurance at ERM CVS. The view expressed does not necessarily represent the views of the Management Team of ERM CVS or the Executive Committee of ERM.

A. General observations:

I. Past v. future performance

Most of the discussion on IR assurance has been around assuring either the reporting process or the reported (past) performance indicators and data rather than focusing on reducing (future) risks through appropriate governance and management. This approach seems to encompass the same inherent risks that we have seen, and still see, in financial auditing. In view of the purpose of IR to report on 'value creation over time' IR assurance needs to place more emphasis on assuring management assertions regarding the existence and implementation of (non-financial) strategy and assertions on how material issues are managed. While not guaranteeing future performance this would at least provide 'investment grade' assurance regarding company claims on how it is managing (future) risks and opportunities.

II. Subject Matter Expertise

In any future developments around IR assurance there needs to be increased recognition of the wide range of (potential) subject matters in IR reporting and the role of subject matter specialists in providing IR assurance. From GHG emissions to human rights in the supply chain, this is not just about 'using the work of an expert' for a small part of the (audit) process but having the ability to apply professional judgment throughout the engagement, in areas far removed from financial performance. This means possessing the relevant education and technical sustainability knowledge and understanding to be able to challenge management. As with financial auditing, this is not something to be learned in a few months or just 'on the job'. Although 'integrated thinking' is fundamental to the IR model, consideration in the initial years of IR needs to be given to separate assurance

engagements covering the non-financial information in IR by assurance practitioners with the relevant technical expertise, alongside the financial audit opinion. This may still be the best way to reduce assurance risk and promote credibility.

A new membership structure and qualification programme for non-financial assurance practitioners (non-accountants) under the national accounting bodies would be one way to promote quality in this area.

III. Assurance on an 'IR' v. assurance on specific subject matters

In relation to the point made above, there have been discussions about whether the IIRC Framework constitutes suitable criteria for an assurance engagement. This leads to the question as to whether future IR assurance should consider providing assurance on whether the 'whole integrated report' is in accordance with the IIRC Framework in the same way that an accountant provides an opinion on the annual financial accounts (as a whole). However, for IR, an opinion on an 'Integrated Report' would encompass not only past (performance) data but extensive narrative on strategy and management across a wide range of subject matters. A single opinion, even one which refers to '... whether the report presents the strategy, governance, performance and prospects in accordance with the Framework' might lead users to assume that each subject matter within the IR has been specifically reviewed and evidence collected. To promote transparency it may still be necessary, alongside a general opinion as mentioned above, to have separate conclusions in the Assurance Report on the specific subject matters reviewed/audited. This would respond to user needs for assurance on specific performance information.

IV. Stakeholder engagement on IR assurance

The IIRC Steering Group seemed to be dominated by assurance standard setters and practitioners, in particular from the accounting world, with very few representatives of the investment (user) community. This means that the discussion document and future decisions on IR assurance may not sufficiently reflect the needs of the IR target audience (the providers of financial capital). Perhaps a further piece of research is needed regarding the very specific interests and needs of the target audience before any decisions are taken regarding the scope (subject matter) of IR assurance, the level of assurance and the providers of assurance.



B. Specific responses to the questions in Section 4.

1. Q1 Priority

Experience in sustainability assurance demonstrates the fact that internal systems and controls around non-financial information are often in an early stage of development and many errors and omissions are identified through the external assurance process. This suggests that a high priority should be placed on assurance in order to drive credibility and trust in IR.

2. Q2 Key features

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See answer (IV) above

3. Q3 Practitioners

See answer (II) above. A professional qualification for (non-financial) assurance practitioners would, I believe, help to ensure the quality of IR assurance. Another element is that the buyers of IR assurance may not be fully aware of the options regarding engagement scope and level of assurance as well the expertise needed. Awareness raising and guidance for buyers of assurance is probably just as important in this context as guidance for assurance practitioners.

4. Q4 Quality

See answer (II) and Q3 above regarding educational and professional qualifications of individuals. A separate international accreditation or oversight body could be the way forward regarding quality control and performance standards.

5. Q5 Robustness of internal systems

Internal systems for non-financial performance are still developing and are often not as robust as financial systems, with performance data still being collected annually in many companies, This is not a model for demonstrating commitment or integrated thinking. Governance and responsibility for IR at a high level, as well as more focus on material issues, should lead to investment in internal systems, increasing the frequency of internal reporting, and robust internal controls. Awareness of specialized reporting systems and modules may help. However, it may be that mandatory assurance may be the only way to ensure sufficient investment in internal systems.

6. Q6 Cost effective mechanism to ensure credibility

Not on its own – see answers (I), (II) and (IV) above.
There is a risk that IR assurance ends up focusing on past performance data – which is easier, less risky and therefore cheaper to assure. This seems to be in conflict with the principle of IR which promotes the need to take medium and long term value creation and (potential) performance into account in investment decisions.

7. Q7 To maximize net benefits of assurance

See answers (IV) above regarding the need for stakeholder engagement (consultation with users of IR rather than assurance practitioners) and awareness raising that (past) data do not tell the whole story. For example a company may have reduced absolute emissions through disposing of parts of its business rather than implementing energy efficiency measures; the existence of a code of conduct for suppliers does not ensure compliance.

8. Q8 New standard

See answers above. I believe a single standard for IR assurance is

probably unrealistic due to the differing subjects matters, boundaries and levels of assurance, as well as the professional competencies needed to undertake the work. I believe a new standard for assurance on non-financial information would be of value to improve standards across the profession. This could be an ISO-based standard focusing on the robustness of underlying (integrated) management systems or based on ISAE3410 focusing on the information in the IR.

9. Q9 Guidance

As mentioned earlier simple (separate) guidance documents would be valuable for users and buyers of IR assurance where the focus could be on assurance concepts and, for buyers, a decision tree covering, among others, scope and level of assurance.

For assurance providers I believe priority should be given to guidance on 'limited assurance' as the current variation in approach seems to be a major concern affecting not only price and competition but also the level of reliance that can be placed on the assurance conclusion. From discussions with (potential) clients it appears that some assurance statements are based on a few days' work checking consolidation of data at the head office, with little attention for the reliability of the underlying source data. Guidance could perhaps be in the form of case studies to demonstrate different sizes/complexities of the reporting organization, the relationship between internal controls and assurance procedures and the length of the assurance relationship as well as the scope of the assurance engagement.

Guidance on assuring qualitative information would also be useful but as this will probably be 'limited assurance' it could be combined into the case studies mentioned above.

10. Q10 Challenges

In addition to answers above I believe it would be useful for the materiality threshold that has been applied for each subject matter to be disclosed in the Assurance Report. A materiality level for a whole IR is probably unrealistic and not desirable or transparent due to the range of subject matters covered.

On the reporting boundary, as this will vary depending on the topic, reporters need to be more transparent about the boundary applied to each subject matter. Again a good reason for not pursuing the idea of a single assurance conclusion on a whole IR.

11. Q11 Other technical issues

No further comments

12. Q12 Levels of assurance

In addition to comments above, I believe that hybrid engagements will be the main approach for IR assurance for the next 10-20 years, due to the nature of the subject matters covered and a lack of appetite for high levels of investment without legal requirements.

13. Q13 Using existing assurance

See comments above which support the idea that, due to the number of variables, a single comprehensive assurance process on a whole IR may not be realistic or desirable. It also conflicts with the principle of IR being a reporting framework rather than a standard for a single report. Therefore for the immediate future the IR assurance approach should allow for reliance to be placed on other assurance processes (for financial and sustainability data) – an assurance framework (with guidance) rather than a single approach.

I hope you find these comments useful and please let me know if you have any questions or required further clarification.

Yours faithfully,



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