

Assurance on <IR>

Comments

The undersigned has read both papers on assurance, 'An Exploration of Issues' and 'An Introduction to the Discussion', and offers the following points in review.

1. General Comments

1.2 The papers are both well written and presented. The cases for and against, the scope and degree, and the coverage are well argued.

1.3 I have been intimately involved in preparing sustainability reports and applying GRI for 15 years. With that as background, I have some general comments.

1.4 Integrated Reporting <IR> provides a means to tell a story that may or may not be the same as to how an organization is managed. Many organizations use a Balanced Scorecard as a management tool. It would be very instructive to have a case study of one such company and how they develop, use an integrated report and relate it back to their balanced scorecard management.

1.5 There is always the challenge that senior management will want their particular story told in a particular manner possibly to support the brand or reputation. This may fit well with integrated reporting or less well. The assurance could be a means of judging transparency.

1.6 The jargon and thinking behind GRI, <IR> and other reporting guidelines presents a framework that still remains foreign to most organizations and effort will be needed by the reporter to ensure the organization's story can be reformulated using this new vocabulary. This introduces a need for further reporting resources, and there may be doubt as to the added value of <IR>. The IIRC report 'Realizing the Benefits; The Impact of Integrated Reporting' details the internal benefits made by companies but does not present a resounding business case for Integrated Reporting.

In fact the Eccles and Serafeim paper from HBR, 13 May 2013 demonstrates that

"In the absence of substantial innovation, the financial performance of firms decline as their environmental, social, and governance (ESG) performance improves. To simultaneously improve both kinds of performance, they need to invent new products, processes, and business models."

It may be here that the real value of Integrated Reporting becomes apparent. If so the benefit of assurance may be perceived as a guidance on innovation.

- 1.7 This reader shares the view that the process of Integrated Reporting and its use of assurance are evolving issues. Organizations will always be looking for innovation of their products and services to develop their markets and improve profitability and social good. <IR> will become another tool in that pursuit.
- 1.8 The biggest hurdle to a general provision of assurance is the availability of insurance that the assurance provider can obtain. Without an insurance in place it is doubtful whether an assurance provider would be sufficiently comfortable to undertake this work. Evolution of assurance could be developed in parallel with the insurers to build confidence and develop relevant methodologies.
- 1.9 Another aspect to be considered is how poor or inefficient assurance will be dealt and enforced by the local regulators. Penalties beyond restatement would need to be considered.

2. Specific Responses to Questions

The numbers refer to the questions in the paper.

- 2.1 There is a high priority to provide assurance for financial data and those indicators a reporter deems material, e.g. carbon emissions. Providing assurance on softer issues as noted in Appendix 2 of the supporting paper are less of a priority.
- 2.2 Key features of assurance would be to ensure that internal processes are made fully visible i.e. prioritizing of capitals, transference of one capital to another, the material issues and how they are determined, managed and achieved. A two-staged assurance process is envisioned, the first a letter or statement for the report and the second a management assurance letter outlining pathways for improved performance / integrated thinking / integrated governance. This is similar to assurance currently provided by some sustainability reporting assurers.
- 2.3 Yes, there is a problem of too few quality providers and experienced assurers. One might consider a certification scheme for assurers of <IR> reports. One might employ trained NGOs to assist the audit. The local Institutes of Accountants could help as could groups undertaking Social Impact Assessments. Most importantly, one undertaking assurance would need to have several years of practical sustainability / risk management experience.
- 2.4 The existence of the six capitals and the interaction with the guiding principles is a very broad reporting portfolio. The further requirement of conciseness and completeness adds further judgemental calls for an assurer.

It may be necessary to develop sets of templates as reference tools together with supporting procedures or methodologies e.g. a map detailing risk exposure (consequence vs likelihood) for the set of capitals. This would look at the utilization of the 5 capitals and in terms of their financial consequence. The reporter would then

define materiality from a set of these exposures. A similar mapping could be made for opportunities.

- 2.5 The robustness of internal systems is a challenge, but their evolution must be taken up by the reporting organization. While assurance may assist in providing direction for that change, the speed and direction must ultimately be the responsibility of the Board or senior management of the reporting organization. Please note comments above regarding brand and reputation.
- 2.6 Yes, but only if the process demonstrates value added to the reporting organization.
- 2.7 A closer relationship may be needed between the assurer and the relevant Board Committee / Board. The assurer will need to fully comprehend the language and the universe of the reporter.
- 2.8 Both will be needed. It is to be expected that there will be new assurance standards needed for unique methodologies to each reporter. A new standard will be needed to qualify how a flexible approach can be maintained and potentially how an assurer could gain acceptance from other assurances and combine them into bodies of knowledge. It is the reporter that will drive this and the assurer to ride it.
- 2.9 This relates to how the assurance process brings value to the reporter. It could be focused on topics specific to <IR> and or other forms of reporting. The assurer will need to become adept at demonstrating where the value is added for each topic, within reason.
- 2.10 The key challenges are to ensure that the story being told in the report is a truthful one. I do not see it as a role for the assurer to decide whether the report is an integrated report or a combined report or any other type of document.

Of high importance are:

- Management and in particular MDA.
- Robustness and level of application of Enterprise Risk Management,
- Robustness of stakeholder involvement and engagement.

- 2.11 While it would be desirable to have a degree of comparability within and across sectors, it is probably well beyond the assurance standards setters purview. It would seem more logical to determine whether the definitions of terms are used consistently in single report, across a sector, regionally and internationally.
- 2.12 The definitions and scope for each of the levels noted would require sufficient clarification such that other readers would be able to duplicate the assessment.
- 2.13 The key challenges are related to consistency and value. Current considerations point to assurance on essentially a limited basis, with varying and uncertain definitions and reporting organization maturity. The assurances themselves might not be applicable to other forms of assurance on the same organization even within

the same sector. This will also be compounded by varying and evolving degrees of integrated governance as discussed by the UN PRI document.

As to whether assurance pays due regard, some development of an internal risk exposure / opportunity potential matrix would help, specifically looking at treatments, why those treatments are in place and to what has been achieved.

Assurance regarding future perspectives is presently poorly defined to give confidence. This could be supplemented with discussions of black swan events.

In the final assessment the reporting organization will have to decide on the true value of <IR> and its assurance. For this reader it is uncertain which KPIs will be used and over what time frame, to assess the direct benefit of <IR>, but it is a necessary task.

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