

30th November 2014

Response to the IIRC's consultation on assurance

I welcome the opportunity to contribute to the consultation on the assurance of integrated reports. Here I my responses to the questions posed:

Question1: What priority should be placed on assurance in the context of driving credibility and trust in <IR>?

Assurance is critical in improving the credibility of reports and holding organisations to account. And it is an appropriate time to consider the assurance of integrated reports. However, this must go alongside consideration of, and consultation on, other approaches to adding credibility to integrated reports.

Question 2: What are the key features of assurance that will best suit the needs of users of integrated reports in years to come?

If assurance of integrated reports is to add credibility and build trust, it needs to focus on the attributes most likely to lead to a paradigm shift in integrating sustainability into business thinking and practice. These are identified in [The IIRC: A Call to Action](#) (Adams, forthcoming)¹ as: a broader notion of what constitutes [value creation](#); thinking about the [business model](#) more broadly in terms of the [six capitals](#); and, an emphasis on long-term thinking.

The reader of an integrated report, as a starting point, wants to know how a company defines value and to whom. An integrated report should address the questions: To what extent is it thinking of [value](#) more broadly than financial profit?; Is it putting a value on relationships, an engaged workforce and nature's resources or natural capital, for example?; Does it look at value from the perspective of investors only or does it consider the value it is adding from a broader stakeholder perspective?

The most important role of assurance of an integrated report, beyond the role currently fulfilled by financial audit and sustainability assurance engagements, is to provide users with information which allows an assessment of the degree of confidence to which these statements can be relied on. That is, the assurance provider should consider: To what extent is the organisation working to maximise value creation according to its own definition? To what extent is it balancing short, medium and

¹ Adams, C A (forthcoming) [The International Integrated Reporting Council: a call to action](#) Critical Perspectives on Accounting, DOI 10.1016/j.cpa.2014.07.001

long term thinking? To what extent is it really consciously considering trade-offs between the capitals?

And as a report preparer I want to know how well we are tracking towards integrated thinking. What are the [next steps](#) we need to take to maximise long term value creation (broadly defined) for all our stakeholders?

The [IIRC's Assurance on <IR> : An introduction to the discussion](#) (IIRC, 2014a) does not ask how assurance can address these questions so the outcome of the consultation process risks supporting assurance practice which misses the point. PWC's (2014) paper [Inspiring Trust Through Insight](#) calls for thinking differently about assurance. It notes that "the established assurance model is not as supportive as it could be of innovation and experimentation in corporate reporting".

In [Understanding Integrated Reporting: the concise guide to integrated thinking and the future of corporate reporting](#) (Adams, 2013)² I noted:

"The credibility of integrated reports depends to a significant extent on the processes rather than the accuracy of numbers (which readers would expect to be audited through a financial and sustainability report assurance process). Readers of integrated reports will want answers to questions such as:

- How was the business model developed? Is it complete?
- What is the extent of cooperation across senior management (and silos)?
- Have key stakeholders been consulted and senior management involved in determining material issues?
- Is there a link ('connectivity') between the vision, strategy, business model, inputs, outputs and outcomes?
- Is the strategy achievable given externalities, the business model, the resources available and performance to date?

Sustainability assurance processes may address some of these issues, but not all. More work is needed in developing assurance frameworks."

I suggested that the assurance provider management letter might help to resolve tussles of ownership of parts of the processes as internal dynamics shift and systems and processes evolve. In fact it could do much more than this. I also suggested that:

"A more proactive response to meeting this particular need might be to get this sort of guidance through involving an external expert as a 'critical friend' in internal planning meetings."

The IIRC's discussion paper on assurance briefly mentions the possibility of other means of adding credibility, including stakeholder panels, but does not call for feedback on what these might be or how they might work. Would expert stakeholders fulfil such roles without being paid? Would paying them compromise their independence? I would like to see these questions explored.

PWC (2014)³ is on the right track when it asks: "What if, rather than providing a conclusion on how an organisation's reporting measures against criteria, we were able to provide insight that lets

² Adams CA (2013) [Understanding Integrated Reporting: The Concise Guide to Integrated Thinking and the Future of Corporate Reporting Dō Sustainability](#) ISBN 9781909293847.

³ PWC (2014) [Inspiring Trust Through Insight](#)

people look behind the numbers to enable them to decide for themselves the degree of trust they put in the information?" ICAS (2013) also asks some pertinent questions in [Balanced and reasonable](#). If assurance providers don't see the wood for the trees, they risk undermining the paradigm shifting potential of <IR>. We need processes that will both increase credibility and also help management follow the steps to integrated reporting.

Question 3: Is the availability of suitable 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?

It is critical that assurance teams include people who understand processes of creating value, other than financial value. Current financial audit teams will not have all the skills needed. Those who have an understanding of sustainability reporting and/or assurance thereof are well placed to make a transition to the assurance of integrated reports. Teams should also include those with an understanding of quality audit evidence and assurance processes.

Question 4: 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?

Clearly appropriate qualifications and on-going training are critical, but not sufficient. That is, if the assurance engagement is not addressing questions which are important to users in adding credibility to integrated reports, no amount of training/qualifications will add value.

Question 5: Is the robustness of internal systems a problem, and if so what needs to be done, and by whom, to remedy the situation?

One of the objectives of the assurance engagement should be to provide a level of confidence in the internal systems, note key weaknesses, and advise management, through the management letter, where further improvements can be made. The assurance process must ensure this can be done in a meaningful way.

Question 6: Is assurance likely to be a cost effective mechanism to ensure credibility and trust over (a) the short/medium term; (b) the long term?

I don't see any reason why it shouldn't be - provided an appropriate balance is maintained between what users need and the level of technicality of the approach.

Question 7: If so, what needs to be done, and by whom, to maximize the net benefits of assurance?

Keep a firm perspective on: 1) the questions users want answers to in assessing the credibility of integrated reports; 2) the advice preparers need to improve their reporting (processes). I don't believe the discussion paper does this.

Question 8: Should assurance standard setters develop either or both (a) a new assurance standard; (b) guidance, to ensure consistency of approach to such issues?

At this stage I believe guidance is appropriate in order to allow for much needed innovation in approach prior to standard setting.

Question 9: 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?

Yes, I believe guidance should be specific to <IR>.

Question 10: 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?

Examining internal processes is critically important to being able to give an opinion on all these issues.

The IIRC's [Assurance on <IR>: an exploration of issues](#) discusses an assurance approach for the principles and content elements of <IR> and some methodological issues of assurance for <IR> primarily from the perspective of financial auditing. It seems somewhat odd that it compares materiality for <IR>, the most important, game-changing components of which are non-financial, with materiality in financial reporting. The approach used in some sustainability reports is arguably much more appropriate given that they deal almost exclusively with non-financial issues. There is a further discussion of this [here](#).

Question 11: What other technical issues, if any, specific to <IR> should be addressed by assurance standard setters?

There is a need to get some perspective and remember what we are trying to achieve before we get too technical. After all, an assurance engagement which which doesn't add credibility to integrated reports by addressing user questions, however technically competent and robust, is not adding value. It will simply create a new kind of audit expectations gap (see Adams and Evans, 2004)⁴.

⁴ Adams CA and Evans R (2004) [Accountability, completeness, credibility and the audit expectations gap](#) *Journal of Corporate Citizenship* 14: 97–115.

Question 12: 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?

Not addressed in this response.

Question 13: What are the (a) key challenges (b) proposed approaches that should be considered by whom, to ensure assurance on <IR> pays due regards to other assurance processes?

Assurance providers need to do some “integrated thinking” across their financial and sustainability reporting teams. The sustainability reporting teams are well placed to develop approaches to assurance of integrated reports.

regards



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I make this submission as a part-time Professor at Monash University research non-financial reporting and integrating sustainability and as a Director at Integrated Horizons (www.integrated-horizons.com) providing advisory services in corporate reporting strategy and process and embedding sustainability into mainstream management and governance processes. I am a financial auditor by background and have been involved in financial and sustainability accounting and reporting through: research and authorship; work with standard/guideline setting organisations (AA1000, GRI, IIRC); preparation of award winning sustainability reports; and, advisory work. For further information about my work see [‘Towards Sustainability Business’ www.drcaroladams.net](http://www.drcaroladams.net)

