



MALAYSIAN INSTITUTE
OF ACCOUNTANTS



1 December 2014

Professor Mervyn King
Chairman
The International Integrated Reporting Council
Beachcroft LLP
100 Fetter Lane London EC4A 1BN
United Kingdom

Dear Sir,

Comments on the Consultative Paper “Assurance on <IR>”

The Malaysian Institute of Accountants (the Institute) appreciates the opportunity to provide comments on the Consultative Paper “Assurance on <IR>”. We applaud the IIRC’s effort in recommending a robust mechanism to enhance the credibility of and trust in integrated reporting.

In general, the Institute supports IIRC’s proposed mechanism to enhance the credibility of and trust in the integrated reporting. We, however, foresee many challenges with respect to the proposed mechanism and suggest the assurance standard setters consider the following issues before formulating a set of standards or guidance for integrated reporting.

Forward-looking Information

Our concern relates to provision of assurance on forward-looking information. Disclosures in integrated report seem to include more forward-looking information than the traditional corporate reporting. Assurance on forward-looking information can be difficult to be verified and the assurance practitioners may not be able to gather sufficient appropriate evidence on such forward-looking information, due to the inherent nature of forward-looking information.

Legal Accountabilities

Another consideration for assurance practitioners relates to their legal accountabilities. Information in integrated reporting ranges from financial, sustainability, governance and operational matters which may require different assurance practitioners for each area. In this circumstance, concern may give rise as to who will be the sole assurance practitioner of the integrated report as a whole, ensuring the aspects of connectivity. In a situation where the auditor of financial matters does not have sufficient appropriate skill to render opinion on the integrated report as a whole, a separate assurance will be needed.

However, we believe that the existing assurance/audit firms are capable to develop sufficient appropriate skills to provide assurance on integrated report. A review on the capabilities and training requirements by the existing assurance/audit firms will be needed to ensure that they remain relevant to the integrated reporting.

Extent of Assurance

We believe that it can be a challenge for assurance practitioners to provide assurance on content of disclosure. There will be instances where organizations will provide limited information on strategies and KPIs due to their comfort level and readiness to inform the public. In this circumstance, the assurance practitioners will not be able to verify in detail on the strategy contents. We propose that the assurance standard setters consider this aspect when formulating assurance standards/guidance. At this initial stage, the assurance practitioner may give opinion on the coverage of the report following the integrated reporting framework.

Specific Comments:

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

We are of the view that at this infant stage, the priority should be placed on encouraging adopters. The question of assurance will be secondary.

Nevertheless, priority for assurance should be placed on both the development of assurance standards/guidance and the availability of suitably skilled assurance practitioners in the context of driving credibility and trust in integrated reporting.

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

We recommend the assurance standard setters consider giving guidance that helps assurance practitioners to report on entity's specific matters that included and narrated in integrated report, instead of boilerplate assurance content. Reporting on specific matters may help users understand key matters affecting entity's value creation and gives greater value to an assurance report in years to come.

In addition to the above, we believe that it is worth for assurance standard setters to consider introducing an element 'key audit matters' in the assurance report of integrated report, which is a similar feature in the content of the currently proposed audit report. Such feature 'key audit matter' can be an impetus for greater discussion between key stakeholders, directors and assurance practitioner of the entity, which is central to the process of integrated thinking and reporting.

3. 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?

Integrated reporting definitely presents challenges for assurance profession, it requires additional expert beyond financial reporting. The availability of industry expert as assurance practitioner can be a problem. Furthermore, integrated reporting is not a mandatory requirement in Malaysia. Lack of demand in such assurance services, the availability of industry expert as assurance practitioner will not be easily overcome.

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?

Assurance oversight may be needed in ensuring the quality of assurance. However, the availability of suitably skilled and experienced personnel for oversight purpose can be a challenge. Before introducing assurance oversight, a question whether integrated reporting will be made mandatory for public listed companies, is worth to be considered. Assurance oversight should only be implemented if integrated reporting is a mandatory requirement.

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

We agree that the robustness of internal systems is important to help senior management exercise judgement in deciding whether information is sufficiently reliable to be included in integrated report. Generally, the established public listed companies in Malaysia should have a robust internal system. However, the existing internal system may not be capable of assessing human and social relationship capital. In addition to the above, it can be a challenge for small companies to have a robustness of internal system.

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?

We are of the view that assurance is absolutely necessary to ensure credibility of the integrated report. It is likely to be a cost effective mechanism over the long term. However, the potential benefits of assurance may not be crystalized if the assurance standard setters do not address and resolve the challenges to ensure robustness in the assurance process.

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

We believe that the following actions need to be done so as to maximize the net benefits of assurance:

- Assurance standard setters should provide a set of assurance standards/guidance on the integrated reporting.
- Assurance practitioners should equip themselves with the necessary skills and knowledge in the integrated reporting.
- Users should understand both the integrated reporting framework as well as the scope of assurance.
- Responsible party should ensure tone at the top, set up appropriate internal control framework for reliable reporting as well as ensure the connectivity of the information.

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

We recommend assurance standard setters to develop both a new assurance standard and guidance to ensure consistency of approach for integrated reporting.

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?

We believe that standard/guidance can cover topics that are also relevant to other forms of reporting and assurance.

10. What are the (a) key challenges and (b) proposed approaches that assurance standard setters should consider with respect to: Material? The reporting boundary? Connectivity? Completeness? Narrative reporting and future-oriented information?

In addition to the above-mentioned forward-looking information and legal accountability, we agree that material, reporting boundary, connectivity and completeness are also the key challenges. A clear guidance on these areas will be required.

We propose that for forward-looking information, extent of disclosing such forward-looking information may leave it to the professional judgment of assurance practitioners, as some industries with longer business cycles/industry issues or facing risks/opportunities that will crystallise on a long time scale, vice versa. Assurance can be provided over the process of generating the data rather than the output itself or performing specified procedures as possible alternatives.

For materiality, the assurance standard setters may consider using a materiality level (e.g. material in nature for qualitative information and material in amount for quantitative information) or threshold to guide judgements.

For completeness, we propose that assurance client gives a letter of management representation on the completeness of disclosure.

We do not have further comments for question 11 to 13.

We trust the above would be helpful to the IIRC. The Malaysian Institute of Accountants looks forward to strengthening the dialogue between both organizations.

Yours faithfully,

MALAYSIAN INSTITUTE OF ACCOUNTANTS



DATUK JOHAN IDRIS

President