



**IIRC DISCUSSION PAPER: ASSURANCE ON <IR>**

**AN INTRODUCTION TO THE DISCUSSION**

**RESPONSE FROM ICAS TO THE IIRC**

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## Background

ICAS welcomes the opportunity to comment on the IIRC Discussion Paper: Assurance On <IR> An Introduction to the Discussion.

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's and the world's great companies.

Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

## Key comments

ICAS welcomes the publication of the discussion papers issued by the IIRC on Assurance on Integrated Reporting (<IR>). We are thoroughly supportive of the work being undertaken by the IIRC to encourage adoption of the <IR> Framework and to introduce the assurance process into the debate.

More detailed responses to the individual questions are included below, but we would like to highlight the following key matters:

- We consider that the need for assurance on <IR> should be market-driven and not led by the profession as this could be viewed as self-serving. We believe that there is a demand for assurance on <IR> as this process subjects the information within an integrated report to a robust verification and examination process giving users comfort over the reliability of the content and confidence in the information reported.
- However, we acknowledge that the <IR> process, and the related assurance, presents the assurance provider and preparer with a variety of challenges. <IR> is in the very early stages of a journey and the output, ie the integrated report itself, is still evolving. It may, therefore, be difficult to develop an appropriate assurance framework.
- Currently, the need to provide assurance on future-oriented information presents financial statement auditors with a significant challenge. Clearly, no one is in a position to predict the future, but, in an integrated report, preparers would be expected to provide a forecast of the outlook for the organisation. There is some guidance available for assurance providers on the issue of future-oriented information, specifically when arriving at the going concern conclusion, within the current suite of ISAs issued by the IAASB. However, further training and guidance is likely to be required in this area.
- A key aspect of assurance is in ensuring that the organisation has used a holistic definition of value in accordance with the thrust of the <IR> framework, so that all material increases or decreases in the "value" of the different capitals are fully disclosed. Business operations frequently involve a trade-off between different capitals, and the integrated report needs to give a balanced and complete view of the impact on each capital.

- However, we believe that <IR> and the related assurance presents assurance providers and standard setters with an opportunity to innovate and influence the way that corporate reporting and the related assurance might evolve and therefore we commend the IIRC for taking the initiative in this area at an early stage. There are already ongoing discussions and debates around the broader issue of assurance on narrative information and it is therefore encouraging and sensible that the concept of assurance on <IR> enters this debate at this stage.
- In 2013, ICAS produced a discussion paper entitled *Balanced and Reasonable*<sup>1</sup> in response to some of the criticisms of the audit profession for not exposing the financial problems that led to the financial crisis. This paper proposed the provision of a positive opinion over the narrative information in the front-half of the annual report which would give users greater clarity and confidence in the narrative content. The paper acknowledged that this opinion would most likely provide a lower level of assurance than that associated with an audit of financial statements and would require greater use of professional judgement over subjective and future-oriented matters. We therefore look forward to the continued debate on this subject.

#### **Responses to the specific questions:**

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

**Response to Question 1:** We strongly believe that assurance is a key driver of credibility and trust in <IR> and, as a result, becomes a key priority for the success and adoption of <IR>.

The <IR> concept is still in the early stages of evolution and there is a lack of awareness or interest in the concept amongst some stakeholders, much of which is a direct result of the lack of appreciation around what a true integrated report might look like.

Therefore, some might argue that having this discussion now about assurance on <IR> is slightly premature. We do not agree with this sentiment and consider it both appropriate and sensible to initiate these discussions at an early stage of the <IR> evolution process in order to influence the assurability of the content of the integrated report itself and to encourage a debate on the nature and value of assurance among users.

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

**Response to Question 2:** The key feature of assurance that will best suit the needs of users of integrated reports in years to come is the methodology and process that the assurance provider follows. At present, it is not clear as to the nature of the level of assurance that might be provided, or whether assurance might be provided only on the process as opposed to the content. However, whatever the scope of the assurance process, the robust, independent examination and verification procedures that are performed by the assurance provider over the underlying data and systems are the features that we consider will be of greatest value to users.

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<sup>1</sup> *Balanced and Reasonable: A discussion paper on the provision of positive assurance on management commentary*; ICAS; 2013 <http://icas.org.uk/Technical-Knowledge/Audit/Thought-Leadership/Balanced-and-reasonable/>

**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?

**Response to Question 3:** We recognise that the development and implementation of <IR> might lead to a change in the skills and expertise required within the profession but do not perceive that this will be a problem. Many of the firms now utilise multi-disciplinary audit/assurance teams reflecting the change in the approach to assurance over some of the non-financial areas of reporting. For example, some firms now employ sustainability professionals with limited accounting knowledge to participate in the assurance of Sustainability Reports.

There may also be opportunities for the profession to establish new partnerships with other professional bodies to meet some of the more challenging aspects associated with the provision of assurance on an integrated report.

**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?

**Response to Question 4:** It is vital, for the purposes of quality, that the training syllabus and post-qualification training (CPD) for the professional bodies is considered at an early stage to ensure that our future professionals are equipped with the necessary skills to deal with the developments in assurance. We believe that it should only be qualified audit professionals who are involved in providing this assurance.

The current ethical and quality control standards as issued by the International Federation of Accountants (IFAC) standard setting boards should form the basis for the development of new guidance in these areas.

**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?

**Response to Question 5:** Robust internal systems will be extremely important for larger organisations preparing an integrated report and for those providing assurance on an integrated report and this will be a matter for preparers to consider in the first instance.

**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?

**Response to Question 6:** The most important factor to be considered as part of this discussion is the demand from users for assurance, and at what level. This demand might also be dependent upon the opinion provided by the assurer. If this opinion is heavily caveated, or technical in nature, then it may cause confusion amongst users, which will have a direct impact on the perceived value and their willingness to pay for such a service.

Furthermore, there are likely to be cost implications associated with the provision of assurance on an integrated report due to the additional specialisms that may be required, as referred to in our response to question 3.

The provision of assurance over the short, medium and long term disclosures in an integrated report is also an issue that needs to be explored with users. Obviously, it is much easier to provide assurance over matters that focus on the short/medium term in an integrated report but what is not known is how much additional cost would be associated with the provision of assurance over the longer term matters, and whether the benefits to users from assurance over this information will outweigh the costs.

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

**Response to Question 7:** We believe that important lessons can be learned from the development of sustainability reporting and the related assurance. Therefore, perhaps an exercise could be undertaken to assess and determine the benefits derived from the production of, and provision of, assurance on Sustainability Reports, which is already at a more advanced stage of development.

**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?

**Response to Question 8:** We are aware that the IAASB has already established a working group: the Innovation, Needs and Future Opportunities Working Group (INFO); and we welcome this initiative to monitor the development of <IR> at an early stage. We recognise that some guidance on the provision of assurance on an integrated report would be helpful.

The IAASB project on Auditor Reporting, which is reaching its conclusion, might also be a useful source of reference for a new project, or even an extension of the current project.

**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?

**Response to Question 9:** We are aware that there are a number of initiatives and developments within many jurisdictions on non-financial and narrative reporting. In the UK, there is now a requirement for all companies, except those classed as small, to produce a strategic report that is fair, balanced and understandable. Therefore, it may not be appropriate to develop a one-size-fits-all standard to cover every aspect of narrative reporting.

**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?

**Response to Question 10:**

**Materiality** is a concept that is more readily associated with financial information and the principle of determining and assessing non-financial materiality has already posed a challenge for those preparing and assuring Sustainability Reports. However, perhaps the emerging approach to materiality in sustainability reporting is an appropriate and relevant model to follow.

A further challenge is likely regarding the definition of materiality on the assurance provided on <IR>. Although materiality has already been defined in the <IR> Framework as a matter '*of such relevance and importance that it could substantively influence the assessments of providers of financial capital with regard to the organization's ability to create value over the short, medium and long term*', it is not yet clear whether this definition will also be applied to materiality in the context of assurance on an integrated report.

**Connectivity** represents one of the greatest challenges both in terms of reporting and the related assurance. The early examples of integrated reports are experimenting with this concept and the way in which these reports evolve over time will help to inform the discussions around assurance over the connectivity concept within an integrated report.

However, we believe that the responsibility for the connectivity of the integrated report lies with the preparer therefore any resulting assurance will be dependent upon how the <IR> process evolves and becomes more familiar with this concept.

**Completeness** is a concept with which auditors will be familiar in relation to an audit of financial statements and is closely related to the materiality concept. If materiality cannot be defined for the purposes of assurance on <IR>, then it is difficult to comprehend how any assurance can be provided on the completeness of the integrated report, which is likely to be required to provide assurance that no material information has been omitted.

**Narrative reporting** and **future-oriented information** are two entirely separate concepts and we would separate the two.

**Narrative reporting** is developing in some jurisdictions, not least in the UK with the requirement for all companies, except small companies, to produce a strategic report that is fair, balanced and understandable. There will be some elements of narrative reporting where it might be possible to provide a high level of assurance, for example some of the factual statements around safety/accidents; but there are likely to be others over which it might only be possible to provide assurance at a lower level.

**Future-oriented information** already provides financial statement auditors with a significant challenge. Clearly, no one is in a position to predict the future, but in an integrated report, preparers would be expected to provide a forecast of the outlook for the organisation. There is some guidance available for assurance providers on the issue of future-oriented information, specifically when arriving at the going concern conclusion, within the current suite of ISAs issued by the IAASB, however, further training and guidance is likely to be required in this area.

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

**Response to question 11:** We believe that it is important for the assurance standard setter to approach <IR> and the related assurance in an innovative and progressive way and not simply try to make the current assurance framework fit.

What is, and what is not, covered by the assurance provider's work should also be clarified. Depending on the work performed by assurance providers, there needs to be clarity that, by assuring the integrated report, they are not providing an opinion on the strategy of the company, but giving a view on both the communication of the company's story and on the company's ability to create value for society.

A key aspect of assurance is in ensuring that the organisation has used a holistic definition of value in accordance with the thrust of the <IR> framework, so that all material increases or decreases in the "value" of the different capitals are fully disclosed. Business operations frequently involve a trade-off between different capitals, and the integrated report needs to give a balanced and complete view of the impact on each capital.

Moreover, in the end, the work we do is important, but what we say is increasingly important too. For this reason, the nature of the report and assurance provider's opinion will also need to evolve. Assurance reporting might also have to follow the trend of more meaningful and transparent reporting to the public as demonstrated in the project recently completed by the IAASB on auditor reporting.

**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?

**Response to Question 12:** One of the key challenges that assurance standard setters should consider is how to ensure that users understand the level of assurance that they are being given. In our opinion, the ultimate objective should be the provision of the highest possible level of assurance over the entire content of the integrated report, expressed in the form of a positive opinion. We believe that the necessary credibility and trust in an integrated report will only be possible by the provision of such an opinion over all of the content.

This was the theme in the 2013 ICAS Balanced and Reasonable discussion paper. This paper explored the possibility of a positive opinion, at a slightly lower level of assurance than that associated with an audit of the financial statements, over the whole of the annual report. The paper suggested that a new 'balanced and reasonable' opinion could be expressed over the company's story as expressed in the annual report.

We acknowledge that there will be some disclosures in the report that will be softer in nature and therefore will require a greater element of professional judgement to be exercised by the assurer. This is likely to present more of a challenge, but we firmly believe that the credibility and confidence in this type of information is just as important as the financial disclosures and information over which a reasonable level of assurance is currently provided.

However, we recognise that <IR> is a new concept and the process of producing an integrated report is still at a very early stage. Perhaps then the assurance process should be more progressive starting with assurance over some of the content with the final destination being the provision of positive assurance over the whole report.

**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?

**Response to Question 13:** It might be possible to learn from the experiences of those associated with the preparation of Sustainability Reports and the provision of assurance thereon. While we acknowledge that this area of reporting is not yet fully evolved and there is a lack of consistency in the reports produced, the process is currently at a more advanced stage in its development than the <IR> process.