



24 November 2014

By e-mail: assurance@theiirc.org

Dear Sir/Madam

Please find attached the response by the Chartered Institute of Internal Auditors to the IIRC consultation on assurance on <IR> launched in September 2014.

If you have any questions on our response, please do not hesitate to get in touch. We are happy for it to be published.

Yours faithfully

Dr Ian Peters
Chief Executive

Chartered Institute of Internal Auditors – response to the IIRC consultation on assurance on <IR>

Internal audit has a broad view across the whole organisation's systems and processes, and an understanding of risks and controls. This puts it in an ideal position to provide advice and assurance around integrated reporting (IR).

Internal audit's assurance role will not fundamentally change as it will continue to provide assurance to the board and the executive on how controls mitigate the risks to the entity. What will need to change, and where internal audit can contribute significantly to the relevance of integrated reporting, is looking at 'new' reporting areas that IR will focus the business on including areas that need to be measured and qualitative judgements that need to be made. This however is similar to debates on how internal audit will need to embrace different skills and methodologies when auditing strategic events and more recently organisational culture.

Internal audit's role is likely to move from an advisory to an assurance role as the organisation's IR programme becomes more mature. As IR develops internal audit will also be tasked with assessing the process by which the report is constructed by determining whether there are robust internal systems for producing the report. This falls comfortably within the existing remit of internal audit.

Areas of assurance

Internal audit can provide a wide range of assurance to the board around the reliability of <IR> metrics through reviews of:

- The underlying processes for the production of the report including governance and "integrated thinking"
- Risks related to integrated reporting identified in management's and the board's risk assessments concerning: reputation, compliance, operational issues and external stakeholder relationships.
- Materiality (mainly for non-financial information)
- The balance of conciseness and transparency in the report
- The accuracy of the organisation's business model as described in the report

As part of a combined assurance model internal audit can support external assurance providers who will also have to go outside their comfort zone if they are to provide the same level of assurance over IR as over financial statements. This is because IR is based on a framework and principles.

There is recognition that IR is a process in its infancy where there will be continued development, and claims of providing hard assurance at this stage may later be seen as premature.

At first there may need to be assurance in a limited number of areas of IR which can be built on and grow over time or limited assurance may always be the case. There will be challenges with exposures to the internal controls, as there have been historically around any information that is presented outside of the finance process. However these have developed in others areas such as environmental impact and should do so too in IR. This could be used to promote progress where businesses demonstrate step by step the development of robust internal controls in an increasing number of areas and with increasing quality and completeness as IR develops.

In the medium term there is benefit in IR. In the short term, however, there is risk that the take-up causes confusion amongst investors either because they do not accept the gradual approach or they are misled by the assurance provided. That said this approach does not seem to have caused issues as yet for those early adopters.

Many of the skills within the internal audit community that will enable them to provide assurance around IR are already there. As the IR process becomes more established in an entity internal auditors should be able to develop and practice those skills as they become more experienced in the field.

IR should also inform and improve risk management, providing additional focus on and measure of materiality i.e. those areas that matter to a business. There should be a responsibility to give a view on the reasonableness of both the process that delivers the conclusion and the conclusion itself. Internal audit can provide this view on non-financial materiality. Although where this relates to the future there cannot be the same level of assurance as provided on materiality statements relating to current issues.

ENDS

About the Chartered Institute of Internal Auditors

1. Established in the UK and Ireland in 1948, the Chartered Institute of Internal Auditors (IIA) has over 8,000 members. It is the only professional body dedicated exclusively to training, supporting and representing internal auditors in the UK and Ireland. We are part of a global network of 185,000 members in 190 countries.
2. Members of the IIA work in all sectors of the economy: private business (including most FTSE 100 organisations), government departments, utilities, voluntary sector organisations, local authorities, and public service organisations such as the National Health Service. All members work to the same global International Standards and Code of Ethics, which are part of a globally agreed International Professional Practices Framework.
3. The IIA offers a postgraduate level professional qualification in two stages, leading to the designation "CMIIA" (Chartered Internal Auditor), with an ongoing requirement for professional development and adherence to professional standards.