

Assurance on Integrated Reporting <IR>

Papers giving an introduction to the discussion and an exploration of issues

Comments from ACCA to the International Integrated Reporting Council

1 December 2014

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 170,000 members and 436,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of 91 offices and centres and over 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

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ACCA welcomes the opportunity to comment on assurance on <IR> in response to the consultation papers issued by the International Integrated Reporting Council (IIRC).

Our views embody our own experience of participating in the IIRC's pilot programme and applying the developing concepts of integrated reporting in the production of our own integrated reports. In forming the views we express below we also drew on the expertise and experience of our Global Forums for audit and assurance, business law, corporate reporting, governance risk and performance, and sustainability and on our participation in several related roundtable discussions and events in major financial centres.

OVERALL COMMENTS

ACCA believes that integrated reporting delivers additional benefits to the users of corporate reports by showing how the long-term objectives of the Board will be accomplished and by making more transparent the calls that the organisation is (or will be) making on the various different types of capital at its disposal.

A place for independent assurance

In July 2013, ACCA responded to the Consultation Draft of the *International <IR> Framework*. We said in relation to credibility that:

'Credibility is gained first and foremost by good transparent reporting against recognised frameworks, coherently and consistently across the piece – financial statements, sustainability reports, business review and integrated reports. External assurance can then follow and endorse that.'

In ACCA's recently published 2013-2014 Annual Integrated Report¹, we explained our approach to assurance (a term we interpret more widely than independent assurance) as follows:

'Assurance of this report

The entirety of this report is approved by Council. The Audit Committee of Council satisfies itself that this report meets the requirements of IIRC's integrated reporting framework, under the direction and guidance of an internal working group of employees.

While the complete report is not fully externally assured, a significant proportion of its content has been subject to external assurance:

¹ <http://annualreport.accaglobal.com/>

- our financial statements are prepared in accordance with International Financial Reporting Standards (as adopted by the European Union) and have been audited by BDO LLP in accordance with International Standards on Auditing (UK and Ireland).
- our strategic performance measures are also assured by our external auditors by means of audits on our key performance indicators and our consolidated financial statements.
- our full financial statements (incorporating our corporate governance statement) can be found online at: accaglobal.com

We also provide additional data on our operations which enables us to meet the Global Reporting Initiative (GRI)'s G3 guidelines. A reference guide, showing text from this report and the supplementary data tables required by GRI, can be found at pages 41 – 64.'

This is our third year of <IR> and we have consulted with a range of stakeholders on every report, asking whether it meets their needs and refining our reporting in response to their feedback. Our current approach to assurance has formed part of each report and has been influenced by stakeholder views.

We might describe it as 'integrated assurance' because it recognises that stakeholders (including internal stakeholders) take a wide view of 'assurance'. They recognise the value of external independent assurance in accordance with auditing standards or the International Standard on Assurance Engagements 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) but also take other mechanisms into account, such as are integral to the proper performance of the functions of ACCA's audit committee.

While we welcome the inclusion in the consultation papers of questions relating to the priority of independent assurance on <IR> and on its relationship to other independent assurance,² we are disappointed that the IIRC has chosen to focus the current consultation on independent assurance of <IR>. While solving the technical and standard-setting issues for independent assurance of <IR> are valid objectives, there is a danger that such assurance will come to be seen as the whole means through which credibility is established.

² Questions 1 and 13 in section 4 *Assurance challenges* of the paper *Assurance on <IR> an introduction to the discussion*.

The demand for independent assurance

ACCA agrees wholeheartedly with the position taken in the consultation papers that as <IR> is market led, the nature and extent of assurance should be determined by market demand and cost/benefit. For that to be an efficient mechanism it is important that the market understands what it is getting. The challenge of user understanding should not be underestimated; even in the established field of the audit of financial statements the 'expectations gap' is consistently referenced.

SPECIFIC COMMENTS

In this section of our response, we answer the questions set out in section 4 *Assurance challenges* of the paper *Assurance on <IR> an introduction to the discussion*.

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

ACCA believes that while assurance is an important component in driving credibility and trust in <IR>, the priority to be placed on it will be a matter for every reporting entity to determine for itself. As reporting develops, it is likely that similar entities, in similar markets, will converge towards a common approach to assurance.

Historically, where information forms the basis of decisions on investment, the presence of assurance at a high level has been essential for sound market operation. As <IR> becomes more valued for decisions on investment, the priority placed on independent assurance will necessarily increase.

The above implicitly assumes a reporting model in which the entity reports annually. It is possible, however, that investors will themselves make a transition towards demanding information on a more real-time basis. Forms of reporting that are capable of day-to-day outputs are more naturally assured by reference to the quality of the reporting process, especially where that process depends heavily on IT. While, theoretically, the relative priority of different types of assurance (report or process) would change, that may not be the case for <IR>. The complexity of the <IR> reporting process is such that it precludes day-to-day reporting.

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

The evolution of <IR> and of assurance should be driven by the changing demands of its users. Users of an emerging form of reporting are best served initially by assurance that is flexible and tailored to the circumstances of the reporting entity. In early years, users may particularly value assurer commentary on the reporter's journey. For a mature form of reporting, users will look towards assurance being robust and the assurance reports themselves conveying much more than a simple pass or fail.

Although it is relatively easy to obtain assurance on 'hard' indicators, that runs the risk of leaving the essence of the <IR>, the 'value story', as the least credible part of it. Users are entitled to expect assurance on the narrative component that describes the value creation/destruction process together with indicators of performance and other elements.

The 'value story' depends on the organisation's definition of value (for whom as well as of what) and the vigour with which it works to maximise value creation. Assurance can address the integrity of the story, for example by identifying any discrepancy between the long-term aims to benefit both investors and other stakeholders and short-term decisions.

Question 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?

ACCA is a global body and we do not answer for any particular jurisdiction.

We acknowledge that the availability of suitably skilled and experienced assurance practitioners could be a problem. Similar issues have arisen in allied fields. ACCA is one of the agencies capable of mitigating this risk and we do so in two principal ways: through capacity building in the profession and through our Qualification and education.

In capacity building, ACCA works in partnership with governments, international agencies and professional bodies to develop the global accountancy profession and to advance the public interest. We aim to create a transparent, global profession to build credibility in financial systems, facilitate investment and contribute to economic development. We offer guidance and transfer of expertise to assist our partners in developing nations to build capacity and improve standards.

ACCA has over 70 formal accountancy body partnerships, covering practice, support on continuing professional development policy, the adoption of International Financial Reporting Standards (IFRS) and 18 joint examination schemes. In addition, ACCA has worked on over 40 capacity-building consultancy projects in countries including the Czech Republic, Sierra Leone, Russia and Vietnam.

The ACCA Qualification is designed to provide the knowledge, skills and professional values for finance professionals who are capable of building successful careers across all sectors. Assurance skills are naturally one of the principal matters at the heart of the ACCA Qualification, but so too are knowledge and competences in sustainability and <IR>. The inclusion of these matters throughout the ACCA Qualification is of vital importance for future generations of finance professionals.

ACCA also provides members with a continuing professional development (CPD) framework for keeping their knowledge and skills up to date and gives members access to the latest research and technical reports.

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?

For the accountancy profession, ensuring the quality of assurance in general is a long-standing matter. In relation to auditing in particular, not only are there suitable educational, ethical, quality control and performance standards but there are well-developed regulatory frameworks including monitoring and disciplinary functions.

The International Auditing and Assurance Standards Board (IAASB) has issued *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality*³ that discusses the relevant factors and the interactions between relevant stakeholders. ACCA commends this document to the IIRC.

For assurance on <IR>, indeed for <IR> more generally, many of the key elements dealt with in the IAASB publication are as yet undeveloped. There exists a need, therefore, for a primary actor to coordinate and advance all the elements of quality where more can and should be done. The IIRC may feel that this is its role, given that it alone has sufficient breadth of coverage and licence to act during the time that <IR> is a voluntary approach that is adopted to further corporate reporting.

³ See <http://www.ifac.org/publications-resources/framework-audit-quality-key-elements-create-environment-audit-quality>

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?

In the early years of <IR> a reporting entity will develop and refine its internal systems as it learns from experience. As we said in our answer to question 2, 'Users of an emerging form of reporting are best served initially by assurance that is flexible and tailored to the circumstances of the reporting entity. In early years, users may particularly value assurer commentary on the reporter's journey.'¹

There are general standards to which reporting entities can refer in order to help develop and maintain effective internal systems, for example the COSO⁴ 2013 *Internal Control–Integrated Framework* or the ISO 9000 standards.⁵ There are also general assurance standards that can be used to give assurance on those systems.⁶

Without doubt, a specific assurance standard for assurance on <IR> would be perceived by users of such reports as more suitable than a general standard. However, because <IR> is by its nature different for each reporting entity, a specific standard would face significant technical issues unless it was possible to deal only with a restricted class of reporting entity (perhaps listed companies) where similarities exist (such as those that might eventually be driven by market regulator rules).

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?

The cost and benefit of assurance will vary between the short/medium term and the long term. As we said in our answer to question 2, 'The evolution of <IR> and of assurance should be driven by the changing demands of its users.' Those users will form views on the balance of cost and benefit of assurance and an effective stakeholder engagement process will translate that into what assurance the reporting entity commissions each year.

⁴ COSO = Committee of Sponsoring Organizations of the Treadway Commission, see <http://www.coso.org>

⁵ ISO = International Organization for Standardization, see in particular http://www.iso.org/iso_iso_9000

⁶ International Standard on Assurance Engagements 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

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

In our answer to question 4, we drew attention to the IAASB publication *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality*. Undoubtedly, the net benefits of assurance increase as relevant stakeholders in audit act to increase its quality.

A regulatory and legal environment conducive to assurance quality is the foundation for quality, but while <IR> is voluntary, the foundation cannot be as firm as that for financial statement audit. Nevertheless, certainly for the accountancy profession, existing structures and practices already provide a solid support for quality.

The value of assurance can only be assessed in relation to the value of the subject matter being reported upon. Building on the existence of an assurable framework, reporters must develop <IR> that increasingly provides users with value.

Users of assured reports will look to the credibility of assurers and the robustness of relevant standards to cement the quality of the assurance process. This puts the onus on assurers to demonstrate their credentials and on those responsible for standards, regulation and monitoring to establish an appropriate environment.

Users are the primary judges of the net benefits of assurance although the actual benefits often accrue more obviously to the reporting entity. It is important that they make diligent and well informed evaluations of the net benefits as, through stakeholder feedback, they themselves become part of the assurance process and in turn a determinant, as well as a recipient, of assurance.

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?

The question refers to 'assurance standards setters' and whether one takes this to refer to the IAASB, other global standard setters, or national standard setters, such bodies have two common characteristics. The first is that they operate with due process in order to demonstrate that they operate in the public interest to develop authoritative standards and guidance. This means that standards and authoritative guidance typically take years to develop and be implemented. In contrast, non-authoritative guidance may be issued within a matter of months. To be useful, such guidance must nevertheless be credible and that may slow the pace of its development.

The second common characteristic of standard setters is that they have limited resources that may be committed already to the development or revision of other standards and guidelines or associated work. The standard setter will necessarily determine its priorities in utilising its limited resources for the development of any standards or guidance having regard to its objectives, the public interest and the level of perceived need.

The IAASB has recently finalised its strategy for 2015 to 2019 and, in its work programme for 2015 to 2016, it intends to gather information in relation to <IR> to inform its future work. ACCA believes that this is a sensible approach at this time.

In view of the above, ACCA does not comment on the urgency of, or timetable for, the development of standards or guidance for assurance on <IR>. We restrict our comments to the respective merits of standards and guidance for assurance on <IR>.

Because the IAASB issues principles-based standards, they typically contain guidance ('application and other explanatory material') so it is no longer appropriate to refer to standards in contrast to guidance. Instead, the defining characteristic of pronouncements is whether they contain mandatory requirements or are non-authoritative. This is further complicated in practice by the existence of a category of 'authoritative guidance' and a perception that non-authoritative guidance nevertheless carries some authority.

Ultimately, if <IR> itself becomes mandatory, it is likely that assurance on <IR> will be required and, in such circumstances (assuming that public interest entities are concerned) mandatory assurance requirements should be developed. Conversely, because of the necessarily long timetable for development and implementation of mandatory requirements, their introduction at an earlier stage could stifle innovation and deter development of assurance of <IR>.

The provision of non-authoritative guidance is not a function reserved to assurance standard setters. Indeed, if there is perceived to be a market, it may be provided by commercial publishers. Non-authoritative guidance informs assurers and may promote both quality and competition through encouraging new assurers to enter the market. It may also act as a tool to educate other <IR> stakeholders on the assurance process and may, therefore, increase the perception of its net benefits. While early availability of non-authoritative guidance is not a barrier to innovation, the fact that it is non-authoritative weakens the public interest case for an assurance standard setter to be the issuer.

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?

We do not see this as a choice. In our answer to question 8, we stated that 'if <IR> itself becomes mandatory, it is likely that assurance on <IR> will be required and, in such circumstances (assuming that public interest entities are concerned) mandatory assurance requirements should be developed.'

Before <IR> becomes mandatory, the assurance standard setter might choose to issue standards or guidance on topics relevant to assurance on <IR>, but that decision would be made having regard to its overall resources and priorities (having regard to its objectives, the public interest and the level of perceived needs).

To a large extent, an assurer's approach to assuring narrative information depends on the characteristics of that information and the application of a firm's methodology in the circumstances. It is notable that the recent IAASB exposure draft *Addressing Disclosures in the Audit of Financial Statements*, while recognising that certain narrative disclosures pose challenges to auditors, proposed to emphasise the related sources of audit evidence rather than address narrative information as a field. This confirms our view that methodology is not a matter for the assurance standard setter.

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?**

We note the limited intentions stated in the paper *Assurance of <IR>: an exploration of issues* that it should inform standard setters of the concerns of potential <IR> assurance practitioners and is not intended to be a call for redefining the assurance concept.

The paper itself provides a technically sound review of the issues listed in this question and, through our close involvement in the standard setting process of the IAASB, and other assurance standard setters, we believe that the detail of such issues is well understood. Accordingly, we do not go into detail in our response to this question.

For transnational accountancy firms that are assurance practitioners, any questions about standards for assurance of <IR> currently focus on how ISAE 3000 can be applied, as that standard has been accepted as mandatory on all assurance engagements that are neither audits nor reviews.

As recognised implicitly in the consultation papers, the ISAE 3000 series of pronouncements could be extended to include a specific standard for assurance on <IR>. Although this is a potentially attractive development (as we note in our answer to question 5) it could involve 'crossing out or amending' a comprehensive source, such as International Standards on Auditing, and perpetuate existing problems that have arisen because the fundamental principles of assurance have not been established.⁷ We regret that the current consultation papers are not prompting as radical a reassessment of credibility as <IR> has brought to corporate reporting.

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

For the reason set out in our answer to question 10, we do not answer this question.

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?

The above list parallels the extant standards of the IAASB, with the addition of 'hybrid engagements' (meaning, in the consultation papers, engagements to deliver a mix of reasonable and limited assurance). These matters are explained in the paper *Assurance of <IR>: an exploration of issues* and Appendix 1 to that paper reviews the potential application of such standards to <IR>.

⁷ ACCA has consistently reminded the IAASB, over more than a decade, that the fundamental principles of assurance should be established. For example in our 2004 response to the consultation paper *Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements*.

Coupling user demands with terms used in connection with extant standards may go some way to furthering an understanding of assurance and hence allowing users to develop an appropriate demand. There is a danger, however, that without a full consideration of fundamentals, that will be ultimately fruitless. For example, the paper states⁸ as a fact that:

'Users are likely to understand the implications and meaning of a reasonable assurance conclusion on an integrated report, as the level of assurance is equivalent to that of audited financial statements.'

This hides the fact that 'reasonable assurance' is itself an undefined concept. It is arguable, indeed likely, that reasonable assurance on financial statements and reasonable assurance on <IR> are not equivalent.

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

As a result of our approach to credibility and assurance, set out in our General Comments, we believe that it is important to consider more than the interaction between independent assurance on <IR> and independent assurance on related information or processes. ACCA's stakeholders recognise the value of a range of matters that contribute to establishing the credibility of <IR> and the interaction of all these matters should be taken into account when commissioning and carrying out independent assurance.

Extant assurance standards almost invariably take the viewpoint of the assurance practitioner: the practitioner does work to gain assurance over the subject matter information and conveys that assurance to the reader of the assurance report⁹.

We suggest that in assurance on <IR> this may no longer be appropriate. In gaining assurance, the practitioner could take account of other independent assurance and other credibility matters and, in effect, stand in the shoes of the users to assess overall credibility and report it to them.

Such a fundamental shift would require a reassessment of materiality and reasonable (or other 'levels' of) assurance, not to mention the need for a practitioner to assess their own credibility in the role.

⁸ Table 2 at paragraph 5.15.

⁹ See for example paragraph 56 of the IAASB *International Framework for Assurance Engagements*.

The issues are fundamental, standard setters have no appetite to address such matters and users are, in general, unequipped to bridge any expectations gap. It may be for those concerned with <IR> to make a start on answering these really big questions.

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