Redefining Assurance

Comments in Response to the IIRC Issues Paper on Assurance for Integrated Reporting

by
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Solving the integrated assurance challenge is not just a technical and process challenge, it is also a communications and cultural challenge. In our current business environment the role of assurance in building trust is problematic. Assurance is supposed to signal that something is trustworthy. But does it really? Does an assurance statement really tell us what we need to know to have confidence in the information and the organization it refers to?

Trust, righty or wrongly, is increasingly based on presentation and proximity; that is, on how well and how 'sincerely' you present your message, and whether we are in any way, directly or indirectly, connected with you. We tend to rely on whether we know the 'teller' (sister, brother, colleague, Facebook friend, mate from the pub or some celebrity) and whether he tells the story well. Assurance, as it is currently practiced, is a long way from this cultural norm.

So solving the integrated assurance challenge is more than finding a way to integrate financial and non-financial assurance processes. It is a more general challenge that has to do with remembering that assurance is an outcome and not just a process. It has to do with re-asserting the importance of evidence, rather than silently accepting the primacy of presentation and proximity. To do this, assurance needs to use the evidence it is so good at uncovering and examining, to tell a compelling story, a story that mere presentation and proximity cannot tell as well, because of their more troubled relationship with evidence.

The ruling metaphor for non-financial assurance has been the financial audit. We verify that the data is reliable and the necessary controls are in place. Sometimes we go out on a limb and validate assertions about accordance with principles. But this has typically been reduced to examining whether the systems and controls are in place such that the principles, if all goes to plan, might be adhered to.

What most readers want, in order to 'feel' assured, is closer to what you might find in an independent due diligence report. Due diligence uncovers and examines evidence and uses it to tell a story. The trouble is that while assurance lives in the public realm as a mechanism of transparency, due diligence lives in the private realm

and is a mechanism of competitive advantage. Those who commission and conduct due diligence guard their territory.

For assurance to play in a credibility and trust game dominated by presentation and proximity it has to say something that matters. Like due diligence, it must not shy away from expert judgment. In a sense assurance must become a sort of meta-narrative; that is, a compelling holistic story about the other stories that are its subject matter.

1. Assurance, credibility and trust

Question: What priority should be placed on assurance in the context of driving credibility and trust?

In the hierarchy of things that generate credibility and trust, assurance should rank at the top of the list. Organizational messaging should be based on information verified and validated by independent assurance. Unfortunately this is not the case. There are a number of reasons for this.

The context of assurance

1. The role of assurance is to verify and validate information. It is based on uncovering, examining and analyzing evidence. Unfortunately, our culture tries to hide evidence. So we fall back on believing and trusting for a wide range of other reasons, and very often in the face of evidence. For example, a) we are more likely to believe what you have to say if it is consistent with and confirms our existing world view and biases; b) we are more likely to believe you if we have an existing relationship with you or somebody connected to you; c) we are more likely to believe you if you have given us something, done us a favor or done something that benefits us; d) we are more likely to believe you if you are a celebrity; e) we are more likely to believe you if you have a string of qualifications after your name; f) we are more likely to believe you if you sound sincere and are articulate, if you are

dressed well and look successful; and so on. None of these reasons has anything to do with examining evidence. As a result, it is easy to manipulate belief and trust. There is a whole industry out there dedicated to pushing these non-evidence-based buttons to buy your trust.

The practice of assurance

2. Report assurance is most often piecemeal. Only select bits of information are actually assured. Most readers either don't realize this or pay little attention to it. For all the reader knows, the few verified or validated bits of information could be buried in a PR exercise of half truths and outright misrepresentations.
3. Most report assurance is 'limited' assurance. This means that the information has been evaluated with the minimum acceptable rigor. It also means that the assurance statement is phrased in negative terms, "nothing came to our attention to indicate that . . . " rather than in positive terms. While this goes some way towards building credibility it suggests that the assurance provider is not really willing to defend their statement against any significant challenges.
4. Most report assurance statements say as little as possible. They focus on defining the assurance scope and process but provide minimal and often cryptic conclusions. As a result, report readers often ignore assurance statements.
5. It is rare for an assurance statement ever to say that anything is wrong. How can this be possible?
6. Most report assurance statements are written in technical and often legalistic language. There is no narrative to help a lay reader understand why the report is credible.
7. Most report assurance does not distinguish between information that can be verified and information that can only be validated. This results in a focus on verifiable data at the expense of assertions that need to be examined and validated.
8. Most report readers simply note that a report has been assured and then tick that box, regardless of the scope, level, and rigor of the assurance process.
9. Most assurance statements are stuck at the back of a report or simply referred to by a link to a website. They are positioned to be ignored.

10. There is also a tendency to include summary assurance statements in reports. These are often so incomplete as to be misleading.

A lot of building credibility and trust is about presentation. It has nothing to do with telling the truth, the whole truth and nothing but the truth. Non-evidence-based communicators are very good at presentation. Assurance providers are dreadful at presentation. So they are ignored.

Companies spend huge amounts of money on marketing, communications and public relations and as little as possible on independent assurance. This is not just because they are afraid of being independently examined (although many perhaps are), it is because they know what works. And assurance doesn't work very well. It works only for a small number of insiders. So that's the budget it gets.

Assurance will never be able to reach its proper place at the head of the hierarchy until it gets the presentation side of things right.

1. It cannot be piecemeal.
2. It cannot be limited.
3. It must tell an evidence-based story that makes sense to ordinary people and addresses their interests.
4. It must look at more that verifiable data.
5. Statement must stop being cryptic.
6. Tell us the good <u>and</u> the bad.
7. Statements must get out of the back-of-the-report ghetto. Put the statement – the assurance story – at the front of the report right after the Chairman's statement – it should be like the foreword to a good book.
8. Make it a policy that no marketing or public relations materials are released until they have been checked for facts and consistency against the 'assurance story'.
9. Have the assurance provider stand up at the AGM and tell the story. Put a face to the story.

2. Key features of assurance

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

Users of integrated reports are looking for a holistic picture of an organization. They want to know

1. that the organization knows it roles and responsibilities in both the local and global context and is acting accountably and sustainably;
2. that what the company has done and is doing is technically feasible, economically viable and socially and environmentally acceptable and sustainable;
3. that it understands who its stakeholders are and effectively engages them;
4. that it understands what is material and has established a strategy and business model to achieve material outcomes;
5. that leadership and governance are up to the job;
6. that management systems are in place to deliver the strategy and planned outcomes;
7. how the company has performed;
8. what value has been created;
9. where innovation is desired and sought; and
10. what the future holds.

Assurance must therefore address all of these key features.

   a) Stakeholder engagement
   b) Theory of change – material outcomes
   c) Strategy (including opportunities for innovation)
   d) Business model
   e) Leadership
   f) Governance
   g) Management systems and controls
   h) Performance across the value chain, including outcomes
   i) Value created

3. Availability of practitioners

Question: Is the availability of 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?

The simple answer to the first part of the question is yes.

The answer to the 'if so what, and by whom' part of the question is not so simple.

If so what?

- Education
  - Core courses in the curricula of business schools and other relevant faculties on reporting and assurance
  - Graduation should require successful completion of these courses
- Professional training
  - Core or modules in training courses of relevant professions on reporting and assurance (accounting, law, environmental professional, social impact professionals etc.)
  - Accreditation should require successful completion of these courses or modules
- Professional development
  - Professional development credits in reporting and assurance should be mandatory
- Practitioner training
  - Practitioners from the relevant disciplines should also be required to take specific training on integrated reporting and assurance
  - Accreditation of practitioners should be on an individual basis
- Organizational accreditation
  - Assurance engagement teams should meet team accreditation requirements (e.g., each must accredited practitioners in the required range of disciplines)

And by whom?

- There should be an oversight body for practitioner, team and training accreditation. This body should be independent but include in its governance representatives from the relevant participating professional and subject area bodies.
- Existing professional and subject area bodies should oversee education, training and professional development within their professions and disciplines.
- Governments should prime the pump to establish the new oversight body but a business model should be developed, based on training and accreditation fees, that is financially viable and sustainable.

4. Quality of assurance

Question: What needs to be done and by whom to ensure the quality of assurance on IR is maintained at a high level, including practitioner's adherence to suitable educational, ethical (including independence), quality control and performance standards?

The integrated assurance oversight body should establish a code of ethics that all accredited practitioners and teams must comply with. A code of ethics required by participating professions and subject area bodies should not be accepted as a substitute. Where there is a perceived conflict, the integrated assurance code should take precedence when a practitioner is doing integrated assurance work.

Enforcement should come through a complaints mechanism and through any periodic surveillance required by practitioner or training accreditation.

5. Organizational readiness

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

Yes, the robustness of internal systems is a problem. It always has been. It always will be.

The message must be clear that assurance is part of an iterative learning process; it is not a pass / fail process. An iterative learning process identifies areas where improvement is needed. A pass / fail process has, in the past, too often motivated organization to look for clever workarounds.

This is not inconsistent with verifying that certain performance standards have been met, especially where they are regulated.

The assurance process should include, in addition to the public assurance statement – the compelling, evidence-based story – a detailed management letter that identifies and explains where improvement is needed.

6. Cost effectiveness

Question: Is assurance likely to be a cost effective mechanism to ensure credibility and trust over the short medium and long term?

Assurance will not be seen as cost effective until its value is well articulated and fully recognized. As discussed in response to the first question, Assurance should be at the top of the hierarchy of mechanisms to build credibility and trust because it is independent, holistic and evidence-based. However, in reality it comes close to the bottom of the hierarchy, and is therefore assigned little value, because our culture values presentation and proximity more highly. Our reflexive, socially conditioned response is often to implicitly and at times explicitly exclude and deny evidence.

This situation will not change without bold leadership. The strategy should be to find, encourage and support those bold leaders. It should not be difficult to find the resources needed to support such a leadership position. Assurance should not be seen as an additional cost. It should be seen as a way to reduce costs by providing a better alternative to the existing ways of building credibility and trust.

So the question should not be whether assurance is cost effective. If the purpose of assurance is to build credibility and trust, the questions should be: i) what are you spending your money on now to serve that same purpose? and ii) how can value-adding assurance help you redistribute your spend to greater purpose?

Companies typically have big budgets for marketing and public relations. Their underlying purpose is to create the credibility and trust that can be converted into sales and create value. The narratives coming from credible, evidence-based assurance should be the source for all key messages coming from marketing and PR. We would therefore suggest that budget be re-allocated from these areas – but not under their authority. The result will be evidence-based, credible stories that will win you more trust for less money.

Is this practical? Absolutely. Are there barriers? Absolutely. What are the barriers? Culturally entrenched attitudes and the fact that people are too afraid / embarrassed / guilty to tell the truth. Is there a way to overcome this barrier? Bold leadership. Make whatever PR and marketing you retain carry the messages of assured performance reporting. Assured reporting then becomes the necessary foundation of all communications and an essential investment.

7. Maximizing benefits of assurance

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

Like so many issues in the current economy, most organizations would rather ride their horse over the cliff because that's where the horse in front of them is going, than look around and change direction. The climate change fiasco has shown us that people will not change voluntarily, even when it is for their own good. Lots of good 'presentation' about change of course, but where is the action. We can of course hope for good leaders who will influence and change the market. But our record is not good. The only workable solution is enforced regulation. But then that needs leadership as well. And leadership only moves when there is collective action. So we also need collective action.

8. Need for a standard

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

There are three levels at which professionals need to respond to integrated reporting:

1. Data verification
2. Assertion validation
3. Commentary on future prospects

The first two are the most likely subjects of assurance. The third is problematic.

Existing standards for data verification may need to be revised to ensure they are capable of addressing data associated with all capitals but the process does not need to be completely rethought.

We need a new approach and new standards for the validation of assertions.

It would be useful to have guidance on professional commentary on future prospects.

Where standards and guidelines need to be rethought most is not on the investigation and analysis side but on the reporting and statement side. Standards need to include requirements for writing evidence-based narratives, not just on whether any errors were found in the data or data management systems, but on relevance and value of the reported information, as well as the organization's quality of performance, within the context of sustainability and the significant global issues where the organization has impacts.

9. Scope of a new standard

Question: Should any such standard/guidance be specific to IR or should it cover topics that are relevant to other forms of reporting and assurance, e.g., should a standards/guidance on assuring narrative information, either in an integrated report or elsewhere be developed?

New and revised standards and guidance should not be specific to integrated reporting. They should be specific to the subject matter.

Subject matter	Type of assurance	Do we have something or need something
Non-financial performance data and controls	Data verification	We have it, no need to duplicate – simply link to it
Financial performance data and controls	Data verification	We have it, no need to duplicate – simply link to it
Product and service specifications and performance	Data verification	We have it, no need to duplicate – simply link to it
Adherence to reporting requirements	Data verification	We have it, no need to duplicate – simply link to it

Assertions about adherence to principles (for reporting, for sustainability, for value creation, for performance)	Validation of assertions	Some exists, it needs updating and improving
Assertions about value created (outcomes – all capitals)	Validation of assertions	Needs to be developed
Objectives and targets for material outcomes	Commentary on suitability	Not for assurance – guidance on commentary in relation to sustainability context
Strategies and business models	Commentary on suitability	Not for assurance – guidance on commentary in relation to sustainability context
Assurance statements and narratives	Covers all subject matter	Needs to be developed.

10. Challenging issues (1)

Question: What are the (a) key challenges and (b) proposed approaches that standards setters should consider with respect to the following issues?

Issue	Challenge	Approach
Materiality	We need to shift from identifying materials issues to determining material outcomes.	This must take into consideration the sustainability context. This will rely on large databases of benchmark performance data.
Reporting boundary	Boundary identification is not a big issue in our view,	Publically mandated reporting and

	nor is information acquisition. Acceptance of accountability is the bigger issue.	assurance.
Connectivity	Lack of capacity for systems thinking. There is lots of guidance in the social and environmental sciences domains out there but it has not been brought into the financial audit and assurance domain.	Systems thinking must be incorporated in guidance.
Completeness	Lack of understanding of the sustainability context.	There must be more guidance on understanding material outcomes in the sustainability context.
Future oriented information	Not for assurance.	The best we can hope for is professional commentary on objectives and targets for material outcomes

11. Challenging issues (2)

Question: What other technical issues, if any, should be addressed by assurance standards setters?

It will be especially important to develop methodologies for validating assertions that are not data based. In addition to non-data-based assertions associated with performance in relation to the capitals, it will also be important to address the following:

a) Stakeholder engagement

b) Materiality and outcomes development processes

c) Strategy (including opportunities for innovation)

d) Business models

e) Leadership

f) Governance

g) Management systems and controls

h) Performance

The validation process should not only establish that the assertions are correct but should also validate that the substance of the assertions establish consistency with the requirements of sustainability, that is, that they are, or that they enable performance that is, technically feasible, financially viable and socially and environmentally acceptable and sustainable. Minimum criteria for each of these issues, that meet this test of sustainability, should be developed.

12. Challenging issues (3)

Question: What are the (a) key challenges and (b) proposed approaches that standards setters should consider with respect to the following issues?

	Challenges	Proposed approach
Reasonable assurance	Confusion.	Get rid of the two levels.
Limited assurance	Differentiating between the two. Avoiding the free ride for limited assurance and the opportunity to hoodwink.	Make it a serious endeavor and an even playing field.
Hybrid engagements	Confusion – great opportunity to hoodwink.	See above.
Agreed upon	Confusion – great	Get rid of it. Require a

procedures engagements	opportunity to hoodwink.	standardized approach.
Other approaches	Differentiation.	Allow in early years if they appear. Can provide useful creative tension.

13. Other assurance processes

Question: 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?

Don't make it sound more difficult than it is. We love to complicate and protect turf. There is no need for this. This should not be a problem if the objectives and scope of IR assurance are clearly defined. It is logical that certain existing forms of audit will continue. It should be a simple matter to acknowledge and incorporate these in a holistic approach to assurance. See the chart in question 8 above.

Concluding Remarks

The first step in moving this agenda forward is to determine the institutional arrangements. We would suggest that this is not something that can be left to the accounting profession. Nor can it be left solely to sustainability experts. At the same time, we feel that this is an agenda that needs to move forward quickly. The lack of value adding assurance will impede the scaling up and quality of integrated reporting. This means that existing, international standards setters, with the credibility to convene the right people and organizations, need to be involved. We would suggest a joint venture of IAASB and GRI under independent management.

An ad hoc committee under IIRC may serve to facilitate the birth of this arrangement. This ad hoc committee may take on at least two additional tasks: i)

develop a draft definition for integrated assurance, and ii) develop a draft set of criteria that an integrated assurance standard should meet. Neither of these two inputs to the new standards committee should be binding. Their purpose would be to leverage the work of the IIRC in order to accelerate the standards development process.

Most definitions of assurance are process definitions. This limits what assurance sets out to achieve and how it is conducted. We would suggest that there needs to be two definitions, one for assurance as an outcome and one for the assurance process. For example,

> **Assurance outcome:** the affect on the credibility of and trust in a reporting organization resulting from the publication of the assurance narrative, as well as subsequent communications based on the messages in the assurance narrative.

> **Assurance process:** the methods and processes employed by an assurance provider to evaluate an organization's public disclosures about its performance as well as underlying systems, data and processes against suitable criteria and standards in order to increase the credibility of public disclosure. Assurance includes the communication of the results of the assurance process in an assurance narrative.

Finally, we would suggest that the current period of experimentation be encouraged and a way be found to engage experimenters in the standards development process. We need to err on the side of practicality rather than theory, and recognize that this is a long-term initiative.

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A SMART BUSINESS is a business that delivers sustainable outcomes that are financially viable, technically feasible, and socially and environmentally acceptable.

The SMART BUSINESS THINK TANK is an international partnership with the mission to help business owners, CEOs, Boards and Management Teams to find answers to the question: what will my business look like when it becomes a SMART BUSINESS and how do I get there?

The SMART BUSINESS ACADEMY is a resource center to assist organizations and professionals in integrating the smart business approach into their work. Its services include training and scenario building.

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