

Assurance on <IR>

Feedback by:

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1. EXECUTIVE SUMMARY

- RWS 1 Traditional assurance is appropriate for the defined and calculated world of financial reporting. However, describing the value of non-financial capitals demands more than numbers, and its assurance therefore demands more than a yes/no answer. It requires a completely new approach, at least in the short- to medium term.
- RWS 2 The approach suggested here, with the working title of the Credence Model, is designed to assist the reporting organization by providing a qualitative assessment for the report user of how far along the journey the reporting organization has reached towards the goal of investment grade communication.
- RWS 3 There are three levels: the assessment of materiality, ***the assessment of management maturity in response to material issues***, and the assurance of relevant indicators.
- RWS 4 By focusing on the assessment of management maturity, the Credence Model aligns with the interest of the investment analyst (representing the shareholder for whom the IR is written) and engages directly with the company leadership, thus becoming a powerful lever for change in attitude and behavior.
- RWS 5 It is envisaged that the Credence Model be run along similar lines as Wikipedia, making use of crowd-sourcing and strictly curated to ensure independence and sound judgement. This methodology brings about further benefits, amongst which is mass engagement: Numerous interested stakeholders are likely to weigh in with their opinions, further broadening and deepening the interest in the <IR> Framework.
- RWS 6 Importantly, the proposed approach seeks to avoid the usual deterioration towards mindless compliance and the ticking of boxes, or worse, the gaming of the system to achieve short-term gain at the expense of all stakeholders.

2. COMMENT ON 'ABOUT <IR>'

Vision

- RWS 7 An excellent vision in which integrated reporting facilitates integrated thinking, resulting in financially stable business and overall sustainability.

Aims

- RWS 8 <IR> aims are well directed towards promoting integrated thinking, decision-making and actions that focus on the creation of value (building the capitals) over the short, medium and long term.

Corporate reporting norm

- RWS 9 The <IR> framework should and certainly could become the corporate reporting norm. The principles and content elements are clear, though the reporter needs to interpret the capitals into familiar terms for most report users.

Integrated thinking

- RWS 10 This writer interprets this concept as the telling of a holistic value creation story where all the threads make clear connections through the content elements described by the <IR> Framework, from determining material issues to reporting on the organisation's response.

3. COMMENT ON 'BENEFITS OF ASSURANCE'

"Investment grade" information

- RWS 11 Financial reporting is defined by numbers relating to the past performance of the organisation. Further, there is a long-established set of principles which prescribe exactly how organisational performance is defined and measured. It is indeed the preciseness of the measures employed, such as monetary value, production units, etc., which has allowed accounting standards to become fairly complex, while at the same time still perfectly 'accountable' and auditable, leaving little room for ambiguity and uncertainty.
- RWS 12 When reporting on the financials, the role of assurance, via the external audit, is to provide, as near as possible, a yes/no assessment of the validity of the information. We should bear in mind that even in the financial world, this is not always achieved. However, it is mathematically possible. The numbers can be made to add up, leaving only certain assumptions, generally found in the 'notes to the financials', to be defined within certain boundaries and tolerances. Thus the entire system strives for this goal, justified in its belief that it can be attained.
- RWS 13 Assurance of the financials results in an 'unqualified' report 99% of the time. If you are an analyst acting on behalf of a shareholder, the rules of reporting ensure that the information required to understand the financial health of the organisation is present. It may not be arranged by materiality, but the system relies on the principle that numbers cannot easily lie. Enough digging and working with the calculator will enable the analyst to describe the financial health of the organisation.
- RWS 14 It is usual for external auditors to sit with a company's internal accountants checking and cross-checking until all the numbers are correct. At this point, the report is 'investment grade' and the numbers can be trusted. It is all or nothing. Indeed, it is regarded as a dismal failure of reporting if the external auditors are forced to produce a qualified audit statement. This is the world of financial reporting.

- RWS 15 This is not, in the second decade of the second millennium, the world of integrated reporting, where the impact on the non-financial capitals of the business needs to be described. Taking one example: *How accurately can you describe the financial health of your banking customers seeking unsecured loans?* There will nearly always be uncertainty. Proxy measures are often the stock in trade, leaving plenty of room for interpretation. I would argue that ‘investment grade’ is the distant end of a severely graded scale. If the best companies currently score 5 on the scale out of 10 for the ‘grade’ of their non-financial information, a full 10 score is practically unattainable.
- RWS 16 While strict auditing of the financials can with near certainty guarantee the factual correctness of the numbers, when reporting on non-financial capitals, all reporting entities are at least partially ‘creative’ in their disclosures, employing narrative to spin the desired message to the reader. The poor definition of indicators and difficulties in standardising between entities, even within the same industry, makes it even harder to achieve ‘investment grade’ information.
- RWS 17 We need to add to the list of challenges the abundant room for gaming the system. In emerging economies, for example, income disparity between executive management and the average employee is an important societal issue. Some management teams, realising the potential threat to their remuneration packages, outsource the most menial jobs in the business, thus removing these workers from the payroll and artificially/ creatively raising the average employee wage.
- RWS 18 Over time, in a decade or two perhaps, the definition of the various measures – for what constitutes an employee for example – may become accurate enough to close most of the loopholes. But for the foreseeable future, these problems will remain.
- RWS 19 Despite these misgivings relating to the ability of assurance to put a stamp of ‘investment grade’ on the integrated report, I believe it is wrong to conclude that the aims of the <IR> are not likely to be achieved. The <IR> aims are to “improve”, “promote”, “enhance” and “support” as per section 2.2. These are graduated, not absolute verbs.
- RWS 20 The <IR> Framework is an excellent guide to reporting that should one day become the corporate norm. The reality is that it is a long journey, one that will take a number of years before so-called investment grade communication is achieved. It would be a real pity if the <IR> Framework, used in conjunction with a classic assurance scorecard, were to result in the same kind of degradation we have seen with GRI reporting, where the report becomes no more than a compliance exercise, ticked off, item by item against a checklist.
- RWS 21 Given that integrated reporting is going to be a long journey, I propose that we look at an interim role for assurance, a role that assists the organization on its journey towards investment grade communication.
- RWS 22 It is proposed therefore is that the assurance statement should give a qualitative assessment to the reader of where the reporting organization is on the journey towards investment grade communication.

What is assurance?

- RWS 23 In paragraph 3.6 it is stated that assurance with respect to <IR> presents an independent conclusion on **whether** an organization's integrated report presents its strategy, governance, performance and prospects in accordance with the Framework.
- RWS 24 As argued above, I am convinced, from my long experience reporting for some of the leading reporting organizations in South Africa, that such a goal is impossible. The use of the term 'whether' works in the world of financial reporting where the balance sheet, cash flow statement and P&L can be exactly calculated.
- RWS 25 In the world of non-financial reporting there is far too much narrative, descriptive statements and 'spin'. And we have seen that hard indicators are an 'unreality' – they simply don't exist. Thus business and society would be far better served by offering an independent insight into **the degree** to which the organization has achieved the communication of investment grade information using the <IR> framework.
- RWS 26 If there are going to be levels of assurance, I would also not suggest the categories: 'reasonable' and 'limited'. The latter is of such limited value as to be practically useless to the reader. Worse, it allows the reporting organization to tick the assurance box and close off the reporting cycle, not to be given any further consideration for another year.
- RWS 27 It is proposed that the interim assurance methodology should get the working title of the 'Credence Model' and would consist of the following levels:
1. Assessment of materiality
 2. Assessment of management response
 3. Assurance of indicators
- RWS 28 In summary, in this transition phase, during which the IIRC has a clear mission to embed integrated thinking and reporting, a traditional approach to assurance should stand back in favour of an interim approach that seeks rather to provide the reader with a level of credence for the integrated report.
- RWS 29 During this phase, all assurance statements need to provide a rating of credence, rather than an absolute statement of assurance.

Proposed mechanism – The Credence Model

- RWS 30 Not only does the Credence Model provide a qualitative assessment of where the company is on its reporting journey, but by assessing the maturity of management, it speaks to both the investment analyst (representing the shareholder) and to the company's leadership. This direct engagement with leadership is destined to be the most powerful lever driving change and improvement in both reporting and actual management of the non-financial capitals of the business.
- RWS 31 The three levels of the Credence model are described here below:
- Level One: Assessment of materiality**
- RWS 32 This would be the lowest level of 'Credence' assurance. If no other assurance is done on an integrated report, at least the reader should be given some indication of:

- How credibly the organisation has derived its material issues using the <IR> Framework,
- How the issues identified match up against the material issues that are generally recognised to be applicable to the specific industry (sources for this could include the work done by SASB in the US and Trialogue in South Africa), and
- The degree to which each material issue, thus identified, is given prominence through the report relative to non-material issues.

RWS 33 Considering the importance of materiality, no assurance statement should omit an assessment of materiality. Before the organisation can score any ‘marks’ for the accuracy or veracity of its assertions and disclosures, it should at the very least have applied its mind to identifying and understanding the material issues relevant to its industry and its unique situation in the marketplace and in society.

Level Two: Assessment of management response

RWS 34 At this second level, the ‘Credence’ assurance model seeks to align with the thinking of the investment analyst representing the shareholder. The model recognises that when reporting on non-financial capitals (the intangible value of a business), investors are more interested in the maturity of management than in the actual status of performance, given that non-financial indicators are so unreliable and non-comparable at this early stage in the no-financial reporting era.

RWS 35 A high quality, mature management, prepared to recognise, consider, devise a strategy and work towards overcoming a challenge represents a far better bet to the investor than a management that exhibits pride in its status (which may even be relatively good at the time), but is not prepared to listen, consider, recognise or tackle challenges.

RWS 36 This assessment rates the maturity of management’s response to the organisation’s material issues. The system we have used rates a company on a 0 – 4 scale for each issue, where 0 equates to denial and 4 to ‘winning with fully committed organisational DNA’. Each row describes a different aspect to be rated, including:

- Issue recognition
- Accountability
- Response oversight
- Reporting / disclosures
- Strategy / action

RWS 37 In piloting this system, work has already been done to prepare a markplan of responses for each cell in the table below and for each of 50 issues in the ESG universe across a few of the 20 or so sub-industries identified. These responses range from ‘red flags’ to ‘best practice’ and are designed to assist various report assessors achieve consistency in their marking. *The principle of connectivity of information is a key component of this assessment tool.*

Table showing how to rate maturity of response to issues

Score	0	1	2	3	4
Aspect /Phases	Denial	Grudging compliance	Awakening	On the journey	Winning with org DNA
Issue recognition	Denial/trivialisation	Boilerplate text or recognition in non-core reporting only	Evidence of genuine stakeholder engagement and acknowledgement of the issue (in core business)	Evidence of genuine stakeholder engagement; description of issue showing understanding of issue, possibly	Balanced publishing of engagement with stakeholders; description of issue showing understanding + impact on the relevant capitals

				employing a basic risk assessment	using a credible risk assessment process
Accountability	No accountability	Individual(s) with responsibility but no authority	Accountability beginning to emerge through management structure and KPIs at line manager level	Clear structure for managing issue from CEO and board to factory floor. KPIs at line manager level	... + Performance impacts significantly on C-suite's remuneration (assess for principle of connectivity)
Response oversight	Issue not listed as material	Issue listed as material, but no, or inappropriate KPIs	Issue listed with KPIs	Issue and KPIs monitored and on core business dashboard for regular review	... + Issue internally audited and independently assessed. Reported on main board agenda
Reporting/disclosures	None /false claims/ material misstatements	Boilerplate (policy and process reporting) and/or highly unbalanced, or too narrowly bound	Some reporting on performance, rather than policy/process, but not yet concise, material, balanced. Boundary addressed, but not necessarily adequately.	Adequate boundary, Clear reporting on the issue, balanced with numbers on performance. Outlook declared	Well-defined boundary. Balanced, complete, comparable, etc Outlook declared with targets Follow-through with interim reporting, alignment across all forms of reporting
Strategy/Action	No positive action	Box-ticking policies, but no buy-in at leadership level	Policy /approach that begins to affect org approach to dealing with the issue	Clear strategy and leadership-led Initiatives (pilot or partial) that are having a significant effect on org DNA and performance	Innovative solutions key part of strategy with strong competitive advantage; Organisational DNA fully supporting

Level Three: Assurance of indicators

RWS 38 In the Credence Model, indicators are chosen for assurance only from those most relevant to the material issues that are relevant to the organisation and its industry. Standard methodologies are applied to interrogate the accuracy, completeness, comparability and reliability of the indicators.

RWS 39 For this aspect of the Credence Model, it may be possible to furnish a standard assurance statement, such as would be provided using the ISAE3000 assurance standard, rather than a qualified statement. Work by IRAS in South Africa has proven that certain indicators and proxy indicators are now emerging that may be of value and serve as benchmarks for comparison within and across industries.

4.4 The nature of assurance

Q1. What priority should be placed on assurance in the context of driving credibility and trust in <IR>?

It would be a disaster if the <IR> framework, used in conjunction with a classic assurance scorecard, were to result in the same kind of degradation we have seen with GRI reporting, where the report becomes no more than a compliance exercise, ticked off, item by item against a checklist.

Given that integrated reporting is destined for a long journey before it reaches maturity, an interim role for assurance is suggested, a role that assists the organization on its journey towards investment grade communication.

It is proposed therefore that the assurance statement should give a qualitative assessment to the reader of where the reporting organization is on the journey towards investment grade communication. The priority should be to align with the demands of the investment analyst, namely to gain confidence in the quality of management, especially in relation to its stewardship of non-financial capitals and the challenges they present to the business.

Q2. What are the key features of assurance that will best suit the needs of users of integrated reports in the years to come?

- An assessment of materiality, and
- An assessment of management's response to material issues

This assessment will of necessity be qualitative in nature. However, given the power of Web 2.0 technology, a methodology could be applied that crowd-sources and curates qualitative opinions to provide a reasonable, independent assessment of how far along the integrated reporting journey the organisation has reached.

The key benefits of this approach are that it will put the <IR> Framework on the map. The level of engagement by interested people interfacing with the system is likely to catch on, in much the same way as it has in the Wikipedia environment, thus engaging a huge population of stakeholders.

Further the Credence Model's assessment of management maturity engages directly with the company leadership, the best source of leverage for change in the way the company approached the management and reporting of non-financial issues.

Finally, the approach is also most closely aligned to the interest of the investment analyst, who ultimately represents the company's shareholders. In the final analysis, this is the audience to which the <IR> is meant to be answerable.

4.5 Competent practitioners

Q3. 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?

Without a doubt there is a dearth of suitably skilled and experienced assurance practitioners. The main problem is that most practitioners come from a traditional sustainability background strongly biased towards social and environmental issues and largely lacking in business savvy/understanding.

It may be more sensible to cross train business analysts than to up-skill traditional sustainability consultants. The former understand the concept of materiality better. Materiality has to be the cornerstone of assurance for the foreseeable future.

The Credence Model can be systematised to a fairly advanced and granular level, making it relatively easy to undertake an assessment of management maturity per issue. After all, the assessment only really needs to be done for *material* issues. The laborious work lies in completing the guidance notes for every issue and for every

industry (as well as updating for topical developments by region). However, this could be open-source and also crowd-source and curated, i.e., in the form of a wiki.

Q4. 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?

Once the decision is taken to run assurance as a crowd-sourced, but strictly curated internet-based service, most of these challenges fall away. Wikipedia is run by a tiny staff of mostly volunteers and handles a vast amount of information. Applying the same tried and tested principles to assessing management maturity, based on the <IR>, should result in a similarly robust system for qualifying integrated reports.

4.6 Robust internal systems

Q5. Is the robustness of internal systems a problem, and if so, what needs to be done, and by whom, to remedy the situation?

The Credence Model doesn't need to rely on the robustness of internal systems. Reporting organisations will respond to the quality assessments they receive and begin to establish and improve their internal systems.

It would be putting the cart before the horse to be too concerned with systems. Even a good system is useless without the commitment of the company's leadership. The Credence Model forces engagement with the leadership of the company by assessing its maturity. This is likely to be a powerful lever motivating for a more committed response, including more robust systems.

4.7 The cost of assurance

Q6. Is assurance likely to be a cost effective mechanism to ensure credibility and trust over (a) the short/medium term; (b) the long term?

By running the Credence Model as a wiki, there will be no direct cost to the company. This cost model raises a further advantage of the model in that any conflict of interest is removed from the system.

Q7. If so, what needs to be done, and by whom, to maximise the net benefits of assurance?

The IIRC/host organisation could even earn some income from providing subscribing reporting organisations with deeper-level analysis that would emerge from the crowd-sourced and curated information gathered.

4.8 Methodology issues

Q8. Should assurance standard setters develop either or both (a) a new assurance standard; (b) guidance, to ensure consistency of approach to such issues?

(a) The Credence Model is suggested as an interim measure, though it may well mature with use to become a new assurance standard (if the industry is prepared to accept a different concept in place of traditional assurance).

(b) Considerable guidance will need to be supplied, both with regard to suggesting degrees of materiality per issue per industry, per geography, but also in terms of the four degrees of maturity for management responses to each of the 50 issues across all industries.

This guidance would be a living document that would be constantly updated as new issues emerge and old issues fade away (by industry).

Q9. 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?

The Credence Model is designed to be fairly holistic in its method, but in a wiki form, can also evolve over time.

Q10. What are the (a) key challenges and (b) proposed approaches that assurance standard setters should consider with respect to the five <IR> principles?

See previous discussion on the Credence Model.

Q11. What other technical issues, if any, specific to <IR> should be addressed by assurance standard setters?

See previous discussion regarding running the Credence Model as a crowd-sourced service on the Internet, but strictly curated.

4.9 Levels of assurance

Q12. 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, or other approaches?

See previous discussion on the Credence Model. Note that no assurance should be given before an assessment of materiality has been given.

4.10 Using existing assurance

Q13. 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?

The Credence Model rates the maturity of management's response and should interrogate not just the IR, but indeed all publicly accessible information. This places the onus on the organisation to ensure that all its information, including for example its notes to the financials, its interim reporting, as well as its sustainability reporting, is all properly aligned and integrated.

"Paying due regard" thus becomes the duty of the reporting organisation, for report assessors should be looking at the organisation holistically and not in part only.

Universe of Environmental, Social and Governance issues

Governance

Board and committees

How well is the board structured /composed, in terms of the balance of power, appropriate range of skills, experience and independence, to serve as trusted and effective custodians governing the behaviour and strategic actions of the organisation?

1. Chairman independence
2. Representation and skills of non-execs
3. Functioning of board committees
4. Allocation of capital

Executive leadership, integrity and performance

How well does the executive leadership inspire the company to execute its strategy and act responsibly and ethically, i.e., in the best interests of its shareholders and broader society?

5. CEO capability
6. Leadership team capability
7. Leadership selection and training
8. Diversity of leadership
9. Executive accountability /reward structures

Establishing key business issues

How inclusive, discerning and effective are the processes for deriving the material issues and challenges facing the organisation, taking into account the external environment, as well as stakeholder interests?

10. Stakeholder engagement
11. Regard for regulation, charters and codes
12. Risk management
13. Issue materiality

Business model

How robust is the underlying business model, how good the strategy to respond to business challenges, and how clear and truthful the reporting?

14. Business strategy
15. Robustness of business model (externalities)
16. Reporting integrity
17. IT and intellectual property

Ethics and moral behaviour

How ethical is the organisation, from its moral culture to its internal and external checks and balances - and what is its record of behaviour?

18. Moral DNA of the organisation
19. Conflicts of interest (excluding board)
20. Theft and fraud
21. Corruption
22. Anti-competitive behaviour

Social

Labour and decent work

How well does the organisation engage with and treat its employees and contract workers, including during times of disruptive change?

23. Employee engagement and relations
24. Fair labour practices, respecting human rights
25. Management of disruptive change

Skills, careers, development and retention

How well does the organisation develop its people, both in order to serve the interests of the organisation, as well as for employee career development?

26. Attract and retain key skills
27. Training and development
28. Employee remuneration

Health, safety and employee wellness

How well does the organisation, measure, put in place systems and initiatives for prevention, manage and promote occupational wellness and safety, as well as defend against dread disease?

29. Occupational wellness
30. Occupational safety
31. Dread disease management

Socio-economic equity

Vibrant economies trend towards socio-economic imbalance. What part is the organisation playing to serve the interests of the socio-economically disadvantaged and redress imbalances?

32. Community relations and contribution
33. Local/indigenous Ownership equity
34. Local/indigenous Employment equity
35. Local/indigenous Enterprise and supplier development
36. Equitable access to products, services
37. Social stewardship of suppliers and contractors
38. Dues and contributions to government and authorities

Social stewardship of products

How responsible is the organisation in its dealings with its customers, understanding and responding to their concerns, protecting their interests and health, as well as their personal information?

39. Customer satisfaction
40. Marketing and ethical advertising
41. Disclosure and labelling
42. Social impact of products
43. Consumer protection and data privacy

Environment

Climate change

How well does the organisation understand the impact of climate change and natural disasters on its sustainability, and how responsibly is it managing its own carbon footprint?

44. Impact of climate change on organisation

45. Carbon footprint

Scarce resources

How responsibly is the organisation managing its scarce resources, including energy, water and other critical inputs?

46. Energy

47. Water

48. Materials and resources

Natural environment

How responsibly does the organisation reduce and mitigate its impact on the natural environment as a result of waste, pollution and accidents?

49. Waste, water and air pollution

50. Direct impact of operations

Product stewardship

How responsibly does the organisation manage the impact of its products and services, both downstream, as well as through the supply chain?

51. Impact of products and services

52. Supply chain impacts

