

ASSIREVI
Associazione Italiana Revisori Contabili

Al Presidente

INTERNATIONAL INTEGRATED
REPORTING COUNCIL (IIRC)

28 November 2014

Assurance on <IR> – An exploration of issues – An introduction to the discussion –

Dear Sirs,

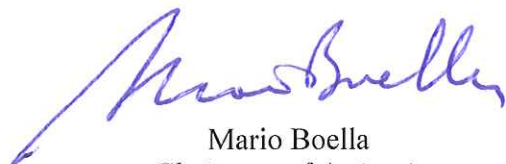
Assirevi is the association of Italian audit firms. Its member firms represent the majority of the audit firms under the oversight of CONSOB (*Commissione Nazionale per le Società e la Borsa*) and are responsible for the audit of almost all of the companies listed on the Italian stock exchange. Assirevi promotes technical research in the field of auditing and accounting and publishes technical guidelines for its members. It collaborates with Governmental bodies, CONSOB, the Italian accounting profession and other bodies in the development of auditing and accounting standards.

Assirevi is pleased to submit its comments on the documents “*Assurance on <IR>*” issued by the International Integrated Reporting Council - IIRC.

Our detailed comments are set out in the attached document.

Should you wish to discuss our comments, please do not hesitate to contact us.

Yours faithfully,



Mario Boella
Chairman of Assirevi

COMMENTS ON THE ASSURANCE ON <IR>

An exploration of issues – An introduction to the discussion

Assurance challenges on <IR>

We appreciate the opportunity to provide feedback on the “Assurance on <IR> - An exploration of issues”. Generally we consider that the Integrated Reporting Framework is an important development providing an option for a market-led solution to achieve this and we consider independent external assurance to be a fundamental mechanism for adding credibility to information included in an IR.

We welcome the document and we believe that it identifies the key issues in this arena and will provide a good platform for shaping the debate and further exploring the principal challenges.

We provide high-level comments in this response regarding the potential application of assurance to an IR and identify key issues which would merit further exploration. Accordingly, we focus our comments on areas relating directly to assurance over (elements of) an Integrated Report, rather than to the compilation of an Integrated Report and its content, although we do acknowledge that there is a significant interrelationship between these areas.

In general, the approach adopted for assurance should align with IR principles and the holistic approach adopted in the IR Framework. Separating assurance into specialist areas such as financial, sustainability and operational matters risks undermining this approach. Instead, we consider that the process of providing assurance would need to be structured in line with the IR content elements.

Furthermore the attributes of “independence” and “ethical principles”, on which IFAC assurance standards are premised, are fundamental to an assurance engagement.

In detail our main comments are as follows:

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

Assurance is a top priority in the context of driving credibility and trust on <IR> in order to enforce reliability of data and information provided through the Report considering the overall Internal Control System.

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

There is a need to represent for the intended users the different level of assurance carried out by the assurance practitioners regarding:

- the adherence of the report with the principle and the content elements of the IR framework;
- the other assurance processes carried out on data and information provided by the report.

In the short term there is a need to clarify which data and information included in the <IR> are covered by other assurance processes (financial statements, sustainability reporting, ...)

and which controls have been put in place to ensure coherence between data and information covered by those different assurance processes and data and information included in the <IR>.

We also believe that is not possible an overly simplified solution to the assurance on certain information, for example, by suggesting that a practitioner may be able to assure information by verifying that it is accurately extracted from other information that has already been subject to assurance. Furthermore, it is important take account of the different purposes of each set of information as a whole, for example, a balance extracted from a set of audited financial statements may be appropriately assured in the context of those financial statements taken as a whole, over which the audit opinion is expressed, however, it may not be appropriately assured in the context of an Integrated Report that focuses on value creation and which integrates a much broader range of material and the intention of which is to allow informed investors to form their own views.

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?

There is no problem for our jurisdiction.

4. What need 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?

<IR> assurance practice needs to be linked to existing assurance standards ISAE 3000 to reinforce the connection to the financial data assurance process.

However it might be helpful to explore how common criteria could be further developed for assuring an Integrated Report but we consider that the Framework already provides much of what is needed. In particular, some believe additional guidance on materiality might be required in order to support an assurance exercise. We note that whilst not explicitly stated in the Framework, it should be sufficient basis to assess materiality with respect to range of matters covered, information disclosure, and accuracy of information.

However, the IR Framework is principle-based and, accordingly, does not aim to prescribe specific items of information for inclusion in the report or a basis of calculation for that information. It applies an approach which is fundamentally dependent on management's assessment of the key drivers of business value and aims to avoid the adoption of a compliance approach, which would probably lead to a significant volume of information of little relevance to investors. Consequently, how company management will apply IR Framework principles to the entity's own business model, how the information included and the future outlook will be measured and evaluated as well as how such aspects will be disclosed will be critical. Only by combining the details in their business model with the high level requirements of the IR Framework management can identify suitable criteria which allow performing an assurance engagement on IR.

Although we believe the principle-based approach to be appropriate in view of the purposes of IR, such non-standard criteria will pose challenges in their application to both company management and auditors. Consequently, as practice evolves and issues emerge, it would be helpful to explore whether common criteria can be developed based on best practices.

- 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 order to publish an Integrated Report, there is a need to reinforce the Internal Control System for financial and non financial data according to the integrated thinking approach. Nowadays, the IT system could represents a key element for integration.

- 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 assurance will be a key element to guarantee the credibility and trust in the short, medium and long period.

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

There is a need for guidance on the assurance practice, in order to define entities authorized to provide assurance as well as standards to which refer. Given the kind of information undergoing the assurance process, we believe that an inclusive approach should be considered, merging financial and non-financial assurance. Moreover, we consider useful to find a new language for the assurance statements, in order to make clearer the purpose of assurance to non-technical stakeholders.

- 8. Should assurance standard setters develop either or both**
- a. A new assurance standard;**
 - b. Guidance to ensure consistency of approach to such issues?**

In the very short term there is a need for a guidance, once the IR has been recognized as successful and a priority document for the organization a new assurance standard for specific set of information (e.g. narrative or strategic) can be set.

- 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?**

Standard/guidance should include the assurance approach already developed and propose new methodological and technical references in the areas that are specific for integrated reporting, such as perspective performances and narrative info.

- 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**

The greatest challenge appears to be to focus assurance practice on the processes leading to the generation of the Integrated Report.

In order to carry out the verification of IR principles, a specific process assurance approach has to be included in the assurance standard. The clear documentation of the specific approach adopted by the reporting company will be key for the correct execution of the assurance process and the auditor will be asked to assess the comprehensive documentation of the process.

A specific focus should be done on the reporting boundary analysis, where the definition of the boundary could be constrained by lack of non-financial info and other organizational issues.

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

In the short period, the coexistence of different assurance approaches on data contained in a single report (e.g. data collected in the Management Commentary).

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
- Other approaches

In the short term, a unique assurance statement related to both financial and non-financial information does not seem foreseeable due to the different audit approach and relating different conclusions. For what concerns assurance on non-financial information, the key challenge appears to be the definition of different conclusions in the assurance statement, as the Integrated Report contains both narrative/qualitative information, on which a reasonable assurance process appears unlikely, and specific information, on which a deeper assurance process is more likely to be carried out.

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?

The most important challenge is the integration of expertise related to different reporting areas.

Multiple practitioners could be involved in an IR assurance engagement, providing conclusions over different aspects of a report, related to their area(s) of expertise. In our view, the market would best be served by a single, suitably qualified, practitioner providing assurance, who is responsible for the engagement overall, and is able to take a holistic and integrated approach, in line with the intention of IR.

This would not preclude the involvement of certain specialists in the engagement. Rather, a fundamental principle of the concept of assurance is that those performing the engagement, collectively, have the appropriate competence and capabilities. ISAE 3000 (Revised) and related standards contain material that addresses the involvement of specialists in an assurance engagement to address this point.