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30 November 2014

Mr. Paul Druckman
Chief Executive Officer
International Integrated Reporting Council

Dear Mr. Druckman,

BDO International Limited[1] (BDO) is pleased to have the opportunity to respond to the Consultation paper, *Assurance on <IR>-An Exploration of Issues.* Overall, *w*e are impressed with the depth in which the relevant issues have been addressed and the frank and open-minded consideration of practical concerns. We are convinced that for Integrated Reporting (<IR>) to be considered a reliable and trusted vehicle for communicating an entity's approach to value creation, some form of assurance will need to be provided by independent practitioners. We are prepared to participate in the further development of this initiative, including any pilot process that is established.

Our responses to the consultation questions are as follows:

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

   Users of financial and non-financial information want to have confidence that the information they are using is reliable so that they can draw valid conclusions and make decisions as a result of it. Development and the eventual provision of <IR> assurance services are, therefore, very important steps to enhanced credibility and trust of information in an integrated report.

   It will be vital for any successful development of <IR> assurance criteria to widely consult affected stakeholders, including regulators, providers of capital, reporting entities, and assurance practitioners. Given that the <IR> Framework, which forms the basis for any future assurance engagement, is just emerging, thorough stakeholder engagement is vital to address expectations and needs. Such consultation can go a long way to mitigate concerns about the feasibility and costs relating to <IR> assurance.

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

   As a foundation for external assurance, there should be effective mechanisms within an entity for producing and monitoring <IR>, as part of its overall structure of good governance.

   Key features of external <IR> assurance should be based on the International Auditing and Assurance Standards Board's (IAASB) *International Framework for Assurance Engagements* ('IAASB Framework'). Key IAASB Framework assurance elements that could be adopted for <IR> assurance engagements include:

- appropriate subject matter(s);
- suitable criteria; and
- sufficient appropriate evidence.

The first two of these elements are appropriately described in paragraphs 3.5-3.7 of the Consultation paper and include the criterion of reasonably consistent measurement and evaluation.

With respect to the evidence element, the nature and extent of what constitutes sufficient evidence will vary significantly based on the type of subject matter and the degree of assurance required by users. The IAASB Framework provides that evidence from independent sources outside the reporting entity is more reliable. This concept raises issues, however, with respect to information contained in the report at the outer edges of the 'boundary', when external evidence to support certain high level information may not be obtainable.

The range and flexibility of assurance that may be provided will be valuable to users of integrated reports, given that certain information may permit reasonable assurance to be provided, while other soft information may only be susceptible to limited assurance. This flexibility may warrant a hybrid approach to reporting.

Another feature to consider is possible assurance on the process of how <IR> is generated, in tandem with assurance on the integrated report itself. Such assurance would provide users comfort on the underlying processes, placing in greater context the reliability of the integrated report. Integrated reports on financial statements and internal controls are required by the SEC for certain issuers and this has generally strengthened the underlying systems of internal controls for those entities.

Ideally, the assurance should also provide some comfort on the linkage between the strategies adopted by an entity and the results arising from them.

As mentioned above, it will be critical to map the expectation of <IR> users and preparers in order to ensure the development of robust assurance engagement criteria. Keeping in mind the global differences in legislative, industry, and cultural requirements for preparing reports for third party assurance, guidance needs to be provided that will lead to greater harmonization of assurance practices. Global comparability along legislative and industry lines will be a positive step towards greater adoption of <IR> and assurance thereon.

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?*

The nature of <IR> is clearly cross disciplinary, including the areas of corporate governance, strategic management, the environment, the economy, and analyzing outcomes (financial and non-financial). This means that an <IR> assurance engagement will require practitioners with a deeper understanding of the business and multiple skillsets to perform the assurance work.

BDO has skilled and experienced assurance practitioners and non-assurance specialists across our network. However, as <IR> is still an emerging reporting concept, more guidance and best practices are needed to enable us and our member firms to conduct suitable professional development for assurance practitioners to broaden their specialized knowledge for use across a wider spectrum of assurance.

Furthermore, as <IR> matures, it would also be helpful for all leading professional accounting qualification providers (e.g., AICPA and CIMA) to incorporate <IR> into their curricula,

following the lead of the ACCA. This would mean that practitioners would be exposed to <IR> at a very early stage of their careers, with the opportunity to build a robust skills base to meet the requirements of <IR> assurance engagements. It would also be beneficial if <IR> were embedded in the curricula of colleges and universities to establish a foundation for practice after graduation.

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?*

Maintaining the quality of the <IR> assurance model and its implementation in practice is a multi-dimensional undertaking. At its foundation are the audit and other assurance standard setters, including the IAASB and domestic bodies that may take somewhat different, but more broadly aligned approaches. These standard setters are currently performing a similar function with respect to certain assurance matters, so they should have the expertise and organizational structure to develop standards and guidance for assurance on integrated reports.

In concert with developing suitable <IR> assurance standards, such standard setters will need to develop appropriately focused independence and ethics standards, recognizing that some of the inputs to <IR> will likely be from sources outside of the accounting profession. Such standards should align as closely as possible with those of ISAE 3000 and ISQC 1.

As noted above, there also need to be significant enhancements to university curricula, as well as post-graduate training, to ensure that practitioners have the requisite skills to provide assurance on integrated reports. Such post-graduate training should be developed by professional bodies, as well as the accounting firms.

With this foundation, appropriate standards and guidance should be developed by the standard setters and supplemented/implemented by the accounting firms for monitoring performance of such work. Monitoring can also be taken on by audit regulators, depending on whether <IR> ultimately is required for entities in their jurisdictions.

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

The <IR> Framework primarily revolves around the system that an entity uses to generate the desired information and reports. Because of its all-encompassing and intricate nature, <IR> will require development of an internal systems framework to enable reporting entities to apply it in all circumstances. This is similar, but broader, than the frameworks developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Criteria of Control Board (CoCo), which are already being used by many entities to assess risks and controls. We suggest that the IIRC liaise with COSO and CoCo to develop similar approaches with respect to <IR>.

Along with a reporting entity's development of internal systems, approaches need to be developed for assurance practitioners to be able to rely on them, when appropriate, in conjunction with providing assurance on integrated reports. This is similar to the process currently used in audits of historical financial statements. It also may be necessary to develop assurance standards and guidance that practitioners can use in evaluating risks relating to internal <IR> systems, as is currently done with respect to the risk standards of the IAASB and certain domestic standard setters. Finally, standards and guidance may also need to be developed by standard setters to report on internal <IR> systems if reporting on

such systems is ultimately required by regulators, demanded by users, or is otherwise elected to be provided by reporting entities.

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?*

Business managers and external stakeholders make significant decisions based on the information they receive. Customers are also interested in the information that businesses supply, such as the origin of components, the employment practices in the supply chain, and any 'guarantees' given. The credibility of decision-critical information is fundamental to the impact of those decisions. We believe that businesses looking to enhance the trust of users will do so by seeking assurance over the information they generate in integrated reports.

In the short term, and especially in a difficult economic environment, some reporting entities may question fees charged for an <IR> assurance engagement without a comprehensive understanding of its value and relevance. Considering that <IR> is in its early stages, the first time assurance cost may be relatively high. However over the medium to long term, as best practices emerge and the initial learning curve is surmounted, and reporting entities and external users gain an understanding of the value of <IR> , they will hopefully appreciate that external assurance is a necessary cost to ensure credibility and trust in that reporting.

A practical approach to overcoming these concerns is through the pilot process used by the IIRC. The early adopters of <IR> will likely trigger some demand for assurance, creating a market-driven environment. As the population of users increases, this demand will hopefully expand to other and smaller entities as well.

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

From the benefits perspective, a greater rollout is needed for entities to use <IR>. As stated above, this should trigger a broader population of users, as well as a market-driven demand for assurance. In that regard, management of the entities that produce integrated reports can communicate publicly about how integrated thinking has helped them improve management of their businesses.

From the cost perspective, reporting entities will need to establish clear and efficient reporting processes for developing information to be included in an integrated report. We would expect this to evolve as best practices emerge.

In addition, as stated above, more detailed, robust training of practitioners is essential to be able to conduct <IR> assurance engagements.

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

Yes. As assurance is provided on areas previously not contemplated by most existing assurance standards, new assurance standards and guidance to ensure consistency of approaches are necessary. Furthermore, it will be important for reporting entities, assurance practitioners, and users to clearly understand the process and meaning of <IR> assurance so that the information presented can be deemed credible and reliable. In that regard, since the IAASB Framework and ISAE 3000 are of broad application, they can form a suitable starting point.

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?*

Given the early stage in the development of <IR>, in the short term the assurance standards/guidance could start from the existing assurance standards as they are well established and accepted, and apply then to the applicable portions of the integrated report. In view of the nature of <IR>, a mix of assurance standards/guidance will likely evolve to cater to both the qualitative and quantitative aspects of integrated reporting.

Highly judgmental and qualitative aspects of <IR>, such as management's aspirations and future-oriented information like strategic objectives and strategies, may not be so easily subject to existing assurance standards.

In the medium to long term, however, as best practices emerge, specific new <IR> assurance standards/guidance can hopefully be developed to address most, if not all, challenges in providing assurance on an integrated report.

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?*

A prerequisite to development of suitable approaches to these topics is ensuring that the <IR> Framework is sufficiently robust and practical to enable entities to prepare integrated reports and to enable assurance practitioners to provide some form of assurance on each of the various elements of the integrated report or on the integrated report as a whole. The experiences that reporting entities have with preparation of integrated reports will determine the need for possible modifications to the Framework, which in turn will affect the nature of the assurance engagement as the <IR> process evolves over time. Recommendations resulting from the ongoing work of the Corporate Reporting Dialogue which brings together all relevant organisations, including the IASB, FASB, IIRC and GRI, discussing avenues to a uniform, sector specific and globally applicable set of reporting criteria, could be of great help.

All the topics mentioned above are likely to pose challenges to differing degrees. This will depend on the nature of assurance to be provided, which can range from quantitative aspects to qualitative aspects to process assurance. In that regard, the type of assurance can vary depending on which aspect of the integrated report is being addressed.

Assurance standard setters' primary role will be to develop <IR> standards/guidance to maximize consistency of interpretations.

Our views on each if these topics are as follows:

Materiality. In order for the assurance practitioner to assess which issues are material it will be necessary for the reporting entity to clearly document the process used to identify financial and non-financial issues. In particular, entity-specific, non-financial areas (e.g., an energy company's measurement of carbon risks and associated organizational impacts) will

pose particular challenges for the assurance practitioner to conclude that the materiality criterion is suitable.

Due to the very broad nature of the information contained in integrated reports, including extensive qualitative and highly judgmental matters, assurance practitioners will generally need a greater in-depth understanding of the reporting entity's business than heretofore. The nature of this information, in turn, will make materiality determinations more difficult. In that regard, we agree with the need to include additional guidance on the application of materiality concepts described in paragraph 6.3 of the Consultation paper. Of particular interest is assessing cumulative or aggregated misstatements when dealing with the content, completeness, and tone of narrative information about different elements of an integrated report.

Reporting boundary. Assurance practitioners are unlikely to provide meaningful assurance on integrated reports if the perimeters are too wide, so guidance from reporting and assurance standard setters is critical in order to support both report preparers and assurance practitioners. As with materiality, the process of arriving at a given reporting boundary needs to be explained in sufficient detail.

We agree with the statement in paragraph 6.5 that it will be challenging for assurance practitioners to obtain and determine the sufficiency of evidence from organizations within the boundary, but outside of the reporting entity.

Connectivity. This is one of the most challenging aspects to address as it will require potentially complex methodologies and business insights to be able to assess whether there are indeed inter-relationships between the strategies and outcomes that should be recognized in the integrated report. Evidence from existing integrated reports and guidance on how to approach connectivity would be very useful in that regard.

Completeness. To ascertain whether an integrated report is complete, more specific guidance is needed on how it should be considered in the Framework's fundamental concepts and guiding principles. This guidance should reflect input from reporting entities, investors, other external stakeholders, and assurance practitioners, so a consensus can emerge around a benchmark for 'completeness'. Without this guidance and robust evidence it will be difficult to assess completeness. We would hope that as <IR> matures, best practices and experience will help to reduce these concerns.

There is another element of the Framework that presents a challenge to reporting entities and assurance practitioners - the seemingly contradictory concepts of conciseness and completeness. If too much focus is placed on one of these concepts, a proper balance may not be struck.

Narrative reporting and future oriented information. The proposed shift to more qualitative and future-oriented information poses a number of challenges to achieving a consistent approach. Narrative information by its very nature can be very generic and highly subjective based on wide variety of assumptions by management. Moreover, given the potential sensitivity of, for example, strategic and future oriented information, there may be reluctance by management to make this information available in the integrated report. This makes the <IR> assurance engagement problematic with respect to assessing the completeness of information. Again, we recommend that more detailed guidance is provided as to when any exceptions may be warranted for excluding information that could be competitively harmful to the reporting entity.

One of the more challenging aspects of narrative reporting will be evaluating the tone of soft disclosures. While assurance practitioners are experienced in reporting on qualitative

information, assessing a highly imprecise concept such as tone will add complexity to this element.

There is also a concern about significant risk of legal liability with respect to providing assurance on future oriented information. The Consultation paper points out that that this may be addressed, in part, by having the assurance practitioner consider the reasonableness of assumptions and related disclosures, rather than the achievability of the future oriented information. However, even providing some level of assurance on assumptions would seem to imply some association with the future oriented information itself. In some jurisdictions, the risk of such association may require some sort of safe harbor to be provided by market regulators or other applicable bodies.

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

Other possible technical issues include the following:

a) It is important for the users to be aware of the different levels of assurance. This will naturally be more complex if there is a mixture of different types of assurance included in an integrated report.

b) In developing standards/guidance on the model for preparing integrated reports, consideration should be given to the variety of local regulatory environments that may require interpretations of certain elements of the Framework to be modified in performing an assurance engagement.

c) The requirement for an integrated report to be concise will be difficult to apply on a consistent basis because of the multiplicity of circumstances and different levels of user perceptions and their business acumen.

d) A question is raised in paragraphs 4.18 and 6.11 of the Consultation paper as to whether the assurance practitioner should engage directly with stakeholders to understand their legitimate needs. While this would be a valuable objective, it does raise legal liability issues regarding privity that will need to be addressed.

e) Paragraph 4.28 of the Consultation paper refers to paragraph 3.54 of the Framework requiring that 'information in an integrated report be presented... in a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time.' While assurance practitioners are accustomed to the concept of materiality with respect to financial reporting, assessing comparability with other organizations will be particularly challenging, given the unique nature of each organization.

f) Paragraph 6.14 of the Consultation paper contemplates a scenario where the assurance practitioner is different from the financial statement auditor. We would not expect this to be a common occurrence because of the fundamental role the financial statements play in understanding an entity's value creation process. Furthermore, we would expect that this scenario would raise legal liability concerns for the assurance practitioner and would require significant involvement of the financial statement auditor in any event because of its responsibility with respect to other information included in a document containing audited financial statements.

12. *What are the (a) key challenges and (b) proposed approaches that assurance standard setters should consider with respect to:*
   a. *Reasonable assurance?*
   b. *Limited assurance?*
   c. *Hybrid engagements?*
   d. *Agreed upon procedures engagements?*
   e. *Other approaches?*

All of the above approaches are possible to varying degrees since <IR> results in a multi-element report and the degree of verifiability is quite different among its elements. There will be need to determine which forms of assurance that are practically available will be helpful to meet user needs.

The nature of assurance will depend on the level of verifiability of the information, the knowledge levels of the users, jurisdictional requirements, and the background and circumstances in which <IR> reports are used.

Although it is likely that no single approach can generally be advocated for all <IR> assurance engagements, it would be preferable to have a reasonable assurance model on less judgmental areas and use Agreed Upon Procedures reporting or hybrid engagement models for more judgmental areas of the integrated report. We acknowledge, however, that agreed upon procedures can lead to very extensive reporting, which may obscure its value.

It will also be helpful to further study the South African experience with regard to providing combined assurance on integrated reports. South African assurance requirements related to the <IR>assurance strategy uses a combined assurance model to take into account assurance provided by all assurance providers, including management, internal audit, external audit, and any other external assurance providers (e.g., payment card industry compliance, ISO certification).

Key challenges of the approaches include the following;

a) Providing reasonable assurance over the entire integrated report would seem to be the simplest approach because of its holistic nature and the one most desired by stakeholders. However, there are many elements of an integrated report that are highly judgmental and, therefore, are not susceptible to such a high level of assurance.

b) Agreed upon procedures engagements would seem applicable to certain factual information in an integrated report where no conclusion is needed by users. However, the current standards restrict distribution of such reports to specified parties, so general distribution is not permitted. Accordingly, the standards would need to be changed to accommodate this.

c) A hybrid engagement may be the most fit for purpose because of the differing natures of an integrated report. However, this may prove to be somewhat confusing to users, at least in initial stages of implementation.

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 discussed above, all assurance processes should be considered by standard setters and /or regulators since no single assurance model will be suitable for all aspects of <IR>. Since <IR> is in its early stages, users are still getting to understand it, so the level and type of

assurance will evolve over time. For a start, assurance on <IR> should focus on those assurance approaches that are already in existence for certain elements of an integrated report (financial statements, MD&A, prospective financial information).

The aim of the <IR> assurance model should be to avoid duplication in the reporting process, covering the same or similar information. Appendix 1 of the Consultation paper is an excellent starting point for making such determinations.

In paragraphs 5.9-5.10, the Consultation paper discusses the possibility of reporting on an entity's process of preparing integrated reports. We would not favor such an approach in isolation since users are likely to place greater value on the integrated report itself. As previously stated, we believe that an approach that combines reporting on the integrated report with reporting on the process for preparing it is the most appropriate means of reporting.

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We appreciate this opportunity to provide our views on the Consultation paper and hope that our comments and suggestions will be helpful to you as you explore these important issues.

Please contact me should you wish to discuss any of our comments.

Yours sincerely,
BDO International, Limited

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