FAR

International Integrated Reporting
Council
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Assurance on <IR>: an exploration of issues

FAR, the Institute for the Accountancy Profession in Sweden is responding to your invitation to comment on the discussion papers *Assurance on <IR>: an exploration of issues* and *Assurance on <IR>: an introduction to the discussion.*

FARs general comments

In general, FAR welcomes the initiative by IIRC to accomplish increased discussion regarding integrated reporting by publishing the discussion papers *Assurance on <IR>: an exploration of issues* and *Assurance on <IR>: an introduction to the discussion*.

FAR believes that the assurance of the Integrated Report is a key factor to ensure credibility and trust for all stakeholders and agrees with IIRC that the primary user groups are financial capital providers even though FAR recognizes that there are other stakeholder groups as well.

For the assurance to be useful, FAR believes that there needs to be comparability between different assurance providers. Other key features are a common assurance framework and defined criteria to assure against. Furthermore, there should be uniform assurance reports to ensure the possible comparison for the stakeholder between different companies. In addition to the above mentioned key factors the assurance provider needs to be independent.

The accountancy profession is, in FAR's opinion, experienced in handling challenges regarding skills and competence whenever new subject matters are introduced. FAR is also of the opinion that the requirements set out in the International Standard on Quality Control (ISQC) and the Code of Ethics for Professional Accountants would be suitable for ensuring quality of assurance on <IR>.

It is FAR's opinion that there are current assurance standards that will help in providing assurance on <IR>, although more specific guidance will be necessary in applying existing standards to <IR>.

Overall, FAR agrees with the challenges identified in the discussion papers and would like to underline the importance of developing appropriate and accepted approaches to deal with these in an <IR> context.

Please refer to the attached appendix for detailed comments on the questions raised in the discussion paper *Assurance on <IR>: an introduction to the discussion.*

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Appendix

The IIRC's Request for Comments on specific and general matters

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

FAR's response
FAR believes that the assurance of the Integrated Report is a key factor to ensure credibility and trust for all stakeholders and particularly the primary user group, i.e. financial capital providers.

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

FAR's response
FAR agrees with the IIRC that the primary user groups are financial capital providers even though FAR recognizes that there are other stakeholder groups as well. For the assurance to be useful FAR believes that there needs to be comparability between different assurance providers, i.e. each assurance providers should be required to work under the same/or similar professional and ethical standards. Other key features are a common assurance framework and defined criteria to assure against. Furthermore there should be uniform assurance reports to ensure the possible comparison for the stakeholder between different companies. In additions to the above mentioned key factors the assurance provider need to be independent.

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?

FAR's response
FAR believes that the accountancy profession is experienced in handling challenges regarding skills and competence whenever new subject matters are introduced.

The introduction of assurance of <IR> will require both comprehensive educational efforts as well as development of appropriate methodology. Similarities can be seen with the introduction of assurance on environmental and sustainability reporting in Sweden, where the assurance profession with FAR as a focal point, created working groups, standards and methodology to facilitate assurance engagements on this subject matter.

Thus, FAR does not see the availability of suitably skilled and experienced assurance practitioners as a major obstacle.

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?

FAR's response

FAR believes that requirements set out in the International Standard on Quality Control (ISQC) and the Code of Ethics for Professional Accountants would be suitable for ensuring quality of assurance on <IR>. With regard to educational standards, FAR would like to refer to the answer to question 3.

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

FAR's response

The robustness of internal systems can be a challenge when it comes to <IR>. The experiences with internal systems for sustainability reporting are that the data/information is generated from multiple internal systems with a varying degree of internal controls for completeness and reliability.

In addition, <IR> introduces new types of information and/or concepts, e.g. some categories of the capitals and the principle of Connectivity of information, where existing internal systems do not provide support for <IR>.

FAR believes the process of achieving robust internal systems is iterative where <IR>-reporters, system suppliers, advisors and assurance providers all have an important role to play in setting requirements and developing improved internal systems for <IR>-purposes.

Q6, Q7
No response from FAR

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

FAR's response

Existing assurance standards (published by the accountancy profession) are mainly focused on providing assurance on annual accounts and reports dealing with financial capital. As such, they will only be useful to a certain extent in assurance engagements involving fully integrated reports.

However, there are also standards and guidance available for providing assurance on non-financial information, for instance the International Standard on Assurance Engagements ISAE3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", developed by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

Furthermore, in certain jurisdictions, such as Sweden, there are assurance standards dealing specifically with sustainability reporting, as well as standards addressing assurance on the management's administration report section of the annual report, i.e. a form of narrative reporting.

Considering also that similar assurance principles that underpin existing (financial and non-financial) assurance standards will most likely also be applicable to integrated reporting, there may not be an imminent need of developing a new assurance standard solely for integrated reporting. However, additional guidance may be desirable in addressing some of the methodology issues mentioned in the paper, "Assurance on <IR>: an exploration of the issues", such as materiality, reporting boundary etc. (see also response to Q10 below).

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?

FAR's response
As indicated in the previous answer, FAR believes there are already assurance standards that will help in providing assurance on <IR>, although more specific guidance will be necessary in applying existing standards to <IR>. Such guidance may be developed by individual assurance providers or assurance standard setters.

For instance, the IAASB has a generic standard for non-financial assurance engagements (ISAE3000) which would also be suitable as a framework for assuring integrated reports. What is needed is probably more subject-specific guidance on methodological issues, e.g. how to assure narrative information or selected topics that may be disclosed in an integrated report, e.g. data and processes relating to the six capitals.

The IAASB has set a strategic objective for the coming years to further consider the need for standards and/or guidance particularly on non-financial information and integrated reporting, and so it may be the case that we will see an international standard or guidance on this in the years to come, as integrated reports become more common and mature.

Q10. 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?

FAR's response
Overall, FAR agrees with the challenges already identified in the "Assurance on <IR>: an exploration of the issues" paper, and would like to underline the importance of developing appropriate and accepted approaches to deal with these in an <IR> context. FAR would also like to point out that for most of the challenges identified, there are already various pragmatic ways of dealing with these issues, for instance in assuring engagements involving sustainability reports.

With regard to *materiality*, FAR believes there is a challenge in <IR> in applying a uniform concept and level of materiality for all possible subject matter in an integrated report. Clearly, with a diverse set of qualitative and quantitative information on each of the

six capitals, it will be difficult – and probably not even relevant – to apply the same threshold of materiality for all subject matter throughout the report.

Determining materiality can present a challenge, particularly where an organization's activities produce effects that are difficult to quantify. However, just because a subject matter impact is difficult to quantify does not mean that it is not material. Efforts (by the preparer) can also be made to convert a qualitative value statement, e.g. on "how ethical the organization is" to quantitative information on e.g. the level of compliance with the organization's Code of Conduct, to allow for a more objective assessment with a set materiality threshold.

In presenting the business model and value chain of an organization, it becomes clear that many material impacts and outcomes will occur outside the legal entity, and this will therefore require expanding on the *reporting boundary*. In some situations, there may also be different reporting boundaries for different subject matters in the same report, depending on what is considered material in each case.

However, in keeping with existing financial and sustainability reporting standards and guidelines, FAR would assume that quantified performance data will only be reported for the consolidated organization (i.e. parent company and subsidiaries controlled by the parent company), and impacts arising in other entities along the value chain will be reported in the form of narrative information on dilemmas/issues and management approach to dealing with these issues.

A key characteristic of <IR> is of course *connectivity* of information. While this may present some challenges in providing assurance, the professional judgment of the assurance provider will help overcome most of these challenges, for instance in deciding on the appropriateness and sufficiency of evidence on cause-and-effect relationships on impacts and outcomes claimed by the preparer. Similarly, there are already pragmatic approaches in use e.g. in sustainability reporting when dealing with linkages between documents and signaling whether or not they are in the assurance scope or not. It is the responsibility of the assurance provider to be clear and transparent what information he/she is providing assurance on.

In FAR's opinion, *completeness* is one of the most important areas where an assurance provider can add value to an integrated report. This is already frequently the case in sustainability reporting, where the assurance provider contributes to a more reliable and complete report by challenging the preparer on issues that have been omitted from the report. The key to dealing with completeness from an assurance perspective is being well acquainted with the client's business, and thoroughly examining the preparer's approach to assessing materiality and completeness of the report.

With regard to *narrative reporting* and future-oriented information, it is clear that providing assurance on subjective statements regarding the future will be one of the most difficult aspects of assuring integrated reports. It is already the case today in financial and sustainability assurance engagements, that future-oriented information is typically excluded from the assurance scope as the nature of this information means that no reliable evidence can be gathered to support it. For other narrative information, various forms of evidence can usually be gathered, and here it is a question of what constitutes sufficient evidence to form a conclusion on the claims made.

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

FAR's response
No other comments.

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, Other approaches?

FAR's response

With regards to the disclosure of future oriented information in the integrated report, the framework states that the ability to create value shall be disclosed in the short, medium and long term.

An Integrated Report as described in the Framework has, in FAR's opinion, many similarities with a management administration report (EU: Annual Report). In some countries, for example Sweden, the management administration report is part of the statutory audit of the annual financial statements, and experiences gained from auditing management administration reports may be considered when the assurance approach to an Integrated Report is developed.

The Swedish Annual Accounts Act requires the auditor to form an opinion on the management administration report. Although the management administration report comments on the expected future development of the company, including material risks and uncertainties, it does not contain future estimates.

FAR is not convinced that this primary user group, i.e. financial capital providers, is necessarily interested in all three terms. FAR encourages the IIRC to consider including a discussion on the convincing reasons for why an integrated report must include all three terms.

In this respect it is also important to consider how those charged with governance recognize and demonstrate their responsibility for the information. Future oriented information will encounter challenges to verify. If only verifiable information was allowed to be disclosed in an integrated report, those charged with governance may be more comfortable agreeing on this responsibility.

To conclude, FAR believes that it must be possible to obtain external assurance over an integrated report. FAR therefore recommends that the IIRC works closely together with the IAASB in order to establish prerequisites for assurance services.

Reasonable assurance, Limited assurance, Hybrid engagements
Regardless of the level of assurance, being reasonable, limited or a combination, the key challenges mentioned in Q10 all apply for the assurance engagement.

Agreed upon procedures engagements?
Due to the nature of agreed upon procedures engagements, FAR does not consider this to be applicable in the context of assurance of an integrated report. The report from an agreed -upon procedures should only be used by the intended users of the report. Agreed upon procedures will cover an agreed aspect of information, rather than the whole report. The accountant will perform the procedures and report the results on a factual basis with no opinion or conclusion. The users of reports based on agreed upon procedures must therefore draw their own conclusions on the results of the procedures.

Other approaches?
No other approaches have been identified.

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?

FAR's response
Most organizations preparing an integrated report are also likely to prepare audited financial statements. Many will also be preparing a sustainability report that may be subject to assurance. The organization may also have other reporting that is subject to assurance. A key challenge for an auditor providing assurance over reports containing the same or similar information is to apply a process that prevents duplication of audit/review procedures related to information that is repeated in the various reports. An approach to deal with that challenge would be that the auditor coordinates the planning of such interrelated assurance engagements to avoid duplication.

Another question that is important to address in this context is the responsibility of Management and the Board for the Integrated Report and how this is demonstrated in the report.