

Mr. Paul Druckman  
Chief Executive Officer  
International Integrated Reporting Council (IIRC)  
29 Lincoln's Inn Fields  
London  
WC2A 3EE  
United Kingdom

1 December 2014

Dear Mr Druckman

## **Discussion Paper – Assurance on <IR>: An Exploration of Issues**

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Discussion Paper – Assurance on <IR>: An Exploration of Issues (Discussion Paper), issued by the International Integrated Reporting Council (IIRC).

We continue to support broadly the goal of the IIRC for organizations to communicate value creation through integrated reporting in support of a stable and sustainable global economy. We acknowledge the innovative work and efforts of the IIRC over the past three years to develop the International <IR> Framework (Framework) as an important and vital first step to further the dialogue and encourage discussion and further innovation around this new form of corporate reporting.

The Framework has been out for less than one year and its concepts of value creation are new, evolving and may not be well understood as yet. Given that, we anticipate it may take time for organizations to be ready to fully embrace the concepts and embark on <IR>. We see the transition to <IR> as a journey over time and we expect that as <IR> matures (a several year timeframe would not be unrealistic, in our view), the interest in and potential demand for external assurance will inherently flow from that increased understanding and acceptance of <IR> and its concepts.

During this period, we believe the Discussion Paper should act as a catalyst for the IIRC to engage the following stakeholders:

**Reporting Community** – to gain a greater understanding of how the reporting community thinks the Framework can be improved and in what areas additional practical guidance might be needed (e.g., materiality, consistency, comparability, connectivity and relevance of the information).

We believe that, in this period, the IIRC should focus on improving the Framework by developing common language, definitions, consistent measurement principles, as well as creating linkages between the different concepts of capital. This period would also provide the IIRC with the opportunity to monitor new developments (e.g., the Natural Capital Protocol being developed by the Natural Capital Coalition) and their effects on the capitals and value creation.

**Standard setters and Professional Member Bodies** — We believe it is extremely important for the IIRC to work closely with the international standard setters and professional member bodies including the International Accounting Standards Board, the International Auditing and Assurance Standards Board (IAASB) and the Global Reporting Initiative in an effort to promote consistent reporting principles, relevant assurance standards and to clarify the interaction between sustainability reporting and integrated reporting. With respect to the IAASB and Professional Member Bodies, we suggest IIRC work with them to consider the relevance of the current assurance model to the integrated report, including a platform for change and innovation to respond to the evolving demand for such potential assurance engagements.

**Investors and other stakeholders** — to confirm their current and expected potential future information needs, and the independent assurance they desire on that information, both in terms of the level of the assurance and the scope of the assurance engagement. Among this group of stakeholders, we suggest ongoing outreach and engagement with securities' regulators and the International Organization of Securities Commissions (IOSCO) since corporate reporting has largely been the domain of securities regulators thus far.

At present, we see in practice a patchwork approach to external assurance in emerging reporting areas, where only certain portions of a report are subject to assurance, such as financial information and KPIs. If this practice were to be followed for integrated reports, assurance of varying levels would apply to some parts of the integrated report, but with no assurance on the integrated report as a whole. We think that would be a less than desirable outcome. We expect users of the integrated report will want clarity on the level of assurance and not have to determine themselves what has been or not been subject to assurance. That lack of clarity will likely detract from the value and perceived veracity of the integrated report.

We identify below some of the challenges we see to the current assurance model in providing assurance on emerging areas, such as the integrated report.

#### *Subject matter*

Under the current assurance model, an appropriate subject matter is considered to be identifiable, and capable of consistent evaluation or measurement against the identified criteria, and such that the information about it can be subjected to procedures for gathering sufficient appropriate evidence to support the assurance conclusion<sup>1</sup>.

The subject matter of an integrated report goes beyond the traditional historical financial and non-financial information. It is unclear whether information such as narrative or forward-looking information can meet the existing definition of an appropriate subject matter under the current existing assurance model, or whether new criteria should be developed so that the subject matter can be the object of an assurance engagement. For example, information that could potentially be evaluated against criteria would typically be in the form of performance metrics or an organization's assertions. More research is needed on how to address this information both in the context of the integrated report and the related assurance engagement.

<sup>1</sup> IAASB's International Framework for Assurance Engagements, paragraph 33.

### *Suitable criteria*

The Framework is new, principles-based and aspirational in nature. It provides guiding principles and content elements for the structure of an integrated report, but does not, at present, provide application guidance to describe how to measure and recognize those content elements. In the absence of defined guidance, practice will reasonably vary as it will be affected by cultural and other organization specific factors. Disclosure of the criteria is necessary for the user to be able to assess whether the assurance engagement meets the user's requirements. At present, the Framework could likely result in a practitioner's conclusion(s) mainly based on professional judgment and those conclusions would be open to a significant degree of individual interpretation and potential misunderstanding as well as inconsistent regulatory interpretation. The Framework, in its current version, may not be sufficiently robust to constitute by itself suitable criteria against which individual integrated reports may be measured or evaluated for the purpose of external assurance. As the Framework evolves, an organization may elect to develop specific criteria, in addition to the Framework, to prepare its integrated report. We anticipate that this option may be used by some reporters in the near term but we believe that, in the longer term, users would expect suitable criteria to become generally established to allow for comparison between organizations in making investment decisions.

### *Skills and competence of assurance practitioners*

High quality assurance engagements require both knowledge and skills, which are the products of education, training and many years of practical experience. In addition, assurance engagements require audit competence and content-related expertise on the part of assurance practitioners.

The skills and competence required to perform an assurance engagement on an integrated report will need to be clarified and defined, and assurance practitioners will need to hone their skills, through training and practical experience, to perform such engagements. In addition, we expect that the involvement of multidisciplinary teams to conduct assurance engagements on the integrated report itself or on the process followed by an organization to prepare its integrated report, will become more common practice. The roles and responsibilities of specialists in the conduct of the assurance engagement will need to be defined and such specialists will need to gain assurance skills and competence, as they relate both to the work performed and their relative contribution to the conclusions expressed in the assurance report.

In addition, over time, the integrated report could potentially replace existing corporate reports, and become the primary mechanism for reporting to stakeholders. If so, regulators and oversight authorities would mandate what they expect the competencies of the assurance practitioner to be, as well as the nature of the assurance on the integrated report. As more organizations prepare integrated reports, it would be useful for the IIRC to enter in a dialogue with regulators and oversight authorities to understand their perspectives and determine what changes might be needed to the Framework to address them, as well as their expectations as they relate to the education, training and practical experience of assurance practitioners.

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Should you have any questions or wish to discuss our comments, please contact Karen M. Golz, Global Vice Chair, Professional Practice at 44 (0) 20 7980 0004 or via email at [karen.golz@eyg.ey.com](mailto:karen.golz@eyg.ey.com) or Juan Costa Climent, Global Leader, Climate Change and Sustainability Services at 34 915 727 381 or via email at [juan.costacliment@es.ey.com](mailto:juan.costacliment@es.ey.com).

Yours sincerely

*Ernst + Young Global Limited*