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International Integrated Reporting Council

Electronic submission via: assurance@theiirc.org

Dear Professor King

Assurance on <IR>: An Introduction to the Discussion

Introduction

Thank you for the opportunity to comment on the International Integrated Reporting Council's (IIRC) *Assurance on <IR>: An Introduction to the Discussion*.

The External Reporting Board (XRB) is an independent Crown Entity, responsible for financial reporting strategy and the development and issue of accounting and auditing and assurance standards in New Zealand. Our Outcome Goal is "To contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance standards framework". As a standard-setter, the XRB is keen to improve and further develop reporting by entities in a comprehensive manner. The XRB has an interest in projects, including integrated reporting, that aim to improve reporting by entities generally.

General Comments

The XRB had previously recommended to the IIRC that the <IR> Framework should provide more explicit guidance on the relevant level(s) of assurance for the <IR> information and the integrated process for drawing up the information. Like many of the respondents to the IIRC's Consultation Draft of the International <IR> Framework, the XRB considers that the <IR> information (and its associated integrated process) needs to be assured in some independent way to ensure that the information that is presented is reliable and credible.

We note the comprehensive work that has been carried out by the IIRC as set out in *Assurance on <IR>: An Exploration of Issues*. We consider that the paper provides a very thorough review and identification of the many assurance issues and challenges as they relate to <IR>. We support the many suggestions that are set out in the paper that call for additional assurance guidance to address each of the suggested areas. We also note that the Assurance Technical Collaboration Group believes that the <IR> Framework provides suitable criteria for general reporting and for assurance engagements to be performed¹.

¹ Paragraph 1.8, *Assurance on <IR>: An exploration of issues*.

New Zealand's assurance and ethical standards are based on those issued by the International Auditing and Assurance Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA). We consider that the existing IAASB's assurance framework and standards have the necessary principles that can be applied to assurance over <IR> information². We do not consider it necessary for separate assurance standards to be developed solely for <IR>. We consider that public interest is best served by having only one set of assurance standards that is set by the IAASB. To this extent, we urge the IIRC to work closely with the IAASB (and the IESBA) in the development any other assurance or related standards/guidance that may be considered to be necessary to further assist assurance practitioners in assuring particular aspects of <IR> information.

Like the development of the <IR>, the development of assurance for <IR> is also an evolutionary process and will develop as <IR> reporting practices evolve and develop. We consider that the evolving nature of <IR> should not be a barrier to an assurance engagement at this point in time.

Our responses to the specific questions raised in *Assurance on <IR>: An Introduction to the Discussion* are set out in the attached Appendix.

If you have any queries or require clarification of any matters in this submission, please contact Lay Wee Ng (laywee.ng@xrb.govt.nz) or me.

Yours sincerely



Graeme Mitchell
Chairman
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² We note that the existing assurance/related services standards (including relevant IAASB standards) and their potential application to <IR> are listed in Appendix 1 to the IIRC's paper *Assurance on <IR>: An Exploration of Issues*. A similar discussion about the applicability of IAASB standards to the assurance of management commentary is also included in *Balanced and Reasonable*, a discussion paper on the provision of positive assurance on management commentary by the Institute of Chartered Accountants Scotland (ICAS) in its April 2013 publication: <http://icas.org.uk/technical-research/auditing/balanced-and-reasonable.pdf>

Appendix: Responses to Specific Questions

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

A high priority should be placed on assurance in the context of driving credibility and trust in <IR>.

Assurance adds value to the <IR> information and the integrated reporting process by enhancing a user's ability to rely on the information. Assurance is important because, as much of the content of the <IR> information is determined by management, there is a risk that the information presented may not always be balanced. In addition, the process for drawing up the information, in the absence of prescribed frameworks, measures and indicators may also impact on the quality of information presented. As such, the <IR> information and, more importantly, the underlying process for deriving the information need to be assured in some way to ensure that they are reliable and credible.

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

To best suit the needs of users of <IR> information, assurance for <IR> should have the same key features as assurance for information that is intended for general purpose use. In particular, the assurance for <IR> should be independently performed and be subject to the same principles and assurance frameworks as those used for information that is intended for general purposes.

It is important for assurance for <IR> information to use the same basic principles and assurance frameworks as those currently in use, that is, the IAASB's assurance framework, to avoid confusing users or widening any expectation gap. This is particularly important given that <IR> information may include information that is already subject to some existing form of assurance.

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?

The availability of suitably skilled and experienced assurance practitioners is not a particular problem in New Zealand in general. However, not all assurance practitioners will necessarily have the relevant experience and/or skills to assure specific aspects of the <IR> information given that <IR> is a developing area and is not mandated in New Zealand. We expect this to improve over time as <IR> develops and become more common.

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?

We consider that practitioners assuring <IR> information should maintain the same quality of assurance (including adherence to suitable educational, ethical, independence, quality

control and performance standards) as those required currently for assuring general purpose financial reports.

This ensures consistency in the quality of the assurance for the <IR> information. It will also reduce confusion for users of the <IR> information if a common set of quality standards apply, regardless of the subject matter that is being assured.

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 robustness or otherwise of internal systems is the responsibility of the entity preparing an <IR> information. The entity and those responsible for preparing the <IR> information need to ensure that their internal systems are robust enough to generate the required information and to have the necessary processes in place to allow assurance over those systems. A requirement to assure the <IR> process will likely address any concerns about the robustness of the internal systems. It will allow entities to improve their internal systems and processes to capture the <IR> information that are not currently required to be assured.

We support entities developing and disclosing their own control criteria and <IR> processes and the assurance practitioner assessing these controls and <IR> processes. This is consistent with the development of a principles based approach to <IR> and accommodates the different processes that entities may develop to best suit their <IR> information.

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?

We consider that independent assurance using the existing IAASB assurance framework and standards is a cost effective mechanism to ensure the credibility and trust of <IR> over the short/medium term and the long term. The costs would be onerous if individual users of <IR> information were to separately verify the credibility of the <IR> information. Standard setters can also avoid the costs of having to develop separate sets of standards for assuring <IR>.

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

As a practical short-term measure, the use of hybrid or a mix of different levels of assurance³ may maximise the benefits of assurance and reduce costs. This would allow entities to rely on, and use, existing assurance that has already been performed over some aspects of the <IR> information, rather than duplicating the assurance work for <IR> information. However, as hybrid engagements may be seen to be contrary to the holistic approach to <IR> and may potentially be confusing for users, we consider that they should

³ The IIRC's paper, *Assurance on <IR>: An Exploration of Issues*, describes this as consisting of a mix of assurance levels, which might vary on a disclosure by disclosure basis (i.e. reasonable assurance conclusion on some disclosures and limited assurance conclusion on others).

only be used as a practical starting point for assurance pending the further development and evolution of <IR> and practices. [Also see our response to Question 12.]

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

We note that assurance standards already exist for historical financial information and future oriented information. We consider that an assurance standard on non-financial information would be useful. Other than that, we consider that assurance standard setters should develop guidance, rather than any new assurance standard specifically to assure <IR> information. Guidance should be based on existing IAASB assurance principles and standards to ensure that the levels, types and quality of assurance are consistent with current practice. From a user's perspective, this is also preferable, as it is consistent with the general understanding of the role of assurance and the types of assurance reports that users are familiar with.

Creating a new standard to cater specifically to <IR> information may be confusing as the <IR> information may include information that is already subject to audit and/or other forms of assurance. A new standard for assuring <IR> information may also result in that standard subjecting some information to unrealistic levels of assurance (for example, subjecting future-oriented information to an audit or reasonable assurance) or subjecting information capable of being audited to something less robust (for example, subjecting financial information to a review or limited assurance). Either way, it may be confusing for users, when compared to existing assurance reports. This risks widening the expectation gap.

In this regard, we agree with the first three suggestions for assurance standards development set out section 5.5 in the IIRC's *Assurance on <IR>: An Exploration of Issues*. The fourth suggestion in section 5.5 could be a possible future development.

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?

We do not consider that any such standard/guidance need to be specific to <IR> where it may be relevant to other forms of reporting, for example, assurance guidance on narrative information or prospective financial information. However, there are aspects of <IR> that may need specific guidance, for example, guidance with regard to the reporting boundary, connectivity and completeness of the information.

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?*

We consider that the key challenges and proposed approaches that assurance standard setters should consider in relation to materiality, the reporting boundary, connectivity, completeness, narrative reporting and future-oriented information are set out comprehensively in section 6 of the IIRC's *Assurance on <IR>: An Exploration of Issues*. In particular, we note that the key challenges are likely to relate to the linkages between measurements and outcomes. In particular, it is unclear to us whether the assurance should, at this stage, consider the appropriateness of the measures as they relate to the outcomes or merely verify the measurements. These require a high degree of auditor and preparer judgment and they may also be hampered by whether suitable audit evidence is available. This issue is articulated in section 4.15 of the IIRC's *Assurance on <IR>: An Exploration of Issues*. We have not identified any additional key challenges and proposed approaches.

We consider that the judgements required to assess these aspects are fundamentally no different from assessments assurance practitioners are required to make under the existing assurance framework and standards. To address the above issues, the assurance report will need to be very specific with regard to scope, work done and boundaries, particularly where hybrid engagements are used. The assurance report needs to be very clear on what type of assurance has been performed on each particular aspect or part of the <IR> information. In addition, it needs to be specific on what cross-referenced information has been subject to assurance. The assurance work will likely evolve over time as entities develop their <IR> information and processes and as assurance practitioners gain further experience.

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

We have no other technical issues specific to <IR> to raise.

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?*

We consider that any <IR> information should be general purpose information. In this regard, agreed-upon procedures engagements would not necessarily add to the credibility of the <IR> information if the engagement is restricted to those parties that have agreed the procedures (for example, an agreement between management and the assurance practitioner). Requiring either a reasonable assurance or a limited assurance would either reduce all the <IR> information to a lowest common denominator or give an unwarranted higher level of assurance to some parts of the report.

Hybrid engagements may be considered to be an appropriate and practical type of assurance at this point in time as they would give different parts or aspects of the <IR> information a specific and appropriate level of assurance. However, hybrid engagements could increase the incidence of the assurance practitioner relying on the work of others. Moreover, it may be confusing to users to have different levels of assurance over different parts of the <IR> information and it will not necessarily result in an integrated assurance report on <IR>. There may also be unmitigated risks that are associated with, or underlie, the different levels of assurance. More importantly, by its very nature of being integrated, it may be difficult for an assurance practitioner to determine where the boundary and scope of one form of assurance ends and another one begins. To this extent, we consider that the ideal would be a single <IR> assurance engagement over the <IR> information. We strongly encourage the IIRC to work closely with the IAASB in this regard.

Assurance standard setters will have to ensure that the meaning of the assurance reports and types of assurance are clearly communicated to users. Assurance standard setters could develop guidance, including an example of an assurance report for <IR> that is based on existing assurance principles and standards. The assurance report would need to set out the scope and work undertaken very clearly.

Q13. What are the 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?

We consider that ensuring that assurance on <IR> pays due regard to other assurance processes should not pose additional challenges for assurance practitioners. Current IAASB standards include standards on using the work of both internal auditors and auditors' experts.

If guidance was considered necessary, it could focus on determining where the boundary and scope of one form of assurance ends and another one begins for the <IR> information so that the assurance report for the <IR> information can clearly specify the different types or levels of assurance.