

[assurance@theiirc.org](mailto:assurance@theiirc.org)

Paul Druckman  
International Integrated Reporting Council  
30 Cannon Street  
London  
United Kingdom  
EC4M 6XH

1 December 2014

Dear Mr Druckman

### **Assurance on <IR>: an introduction to the discussion**

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Integrated Reporting Council's (the IIRC's) paper *Assurance on <IR>: an introduction to the discussion* ('the paper'), in conjunction with the more detailed paper *Assurance on <IR>: an exploration of issues* ('the detailed paper').

We welcome the IIRC's contribution to the debate around how assurance as it relates to Integrated Reporting ("<IR>") should evolve. Evolution and innovation in assurance are needed to ensure that audit and assurance continue to be fit for purpose in the twenty-first century.

Fundamentally, assurance from an external third party practitioner enhances the credibility of information reported by management of an entity. Furthermore, the quality of a business's reported information can affect investor assessments about the quality of management.

<IR> is about empowering and encouraging a business to communicate its long-term value proposition, with a view to instilling trust in the business and its business model. <IR> is consistent with numerous developments in corporate reporting taking place around the world, aimed at rebuilding trust in business, stimulating long-term investment, robust corporate governance and responsible capitalism. Provision of non-financial information to supplement the financial statements provides context to those financial statements, enabling a more informed approach to decision making by investors. To the extent that this non-financial information is integrated both within itself and with the financial statements, this decision making can itself be more integrated, taking a holistic view of the long-term prospects of the entity. Consequently, we believe that assurance with respect to integrated reports is critical to ensure they are of investment-grade quality. Clearly, the views of preparers and providers of financial capital are paramount in determining the assurance needs.

<IR> is more than the output in the form of an integrated report – it is a process itself. Accordingly, as the detailed paper highlights, there is a question as to whether an assurance engagement on an integrated report can be performed without the practitioner also being required to obtain assurance on the

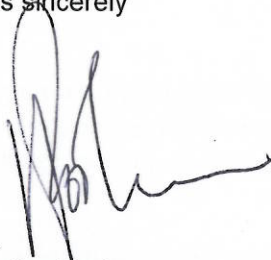
underlying processes and systems critical to integrated reporting.

Consequently, we believe that further innovation and a period of experimentation around assurance on <IR> is advisable. We are keen and ready to support the IIRC and others, including the International Auditing and Assurance Standards Board (IAASB), in this. <IR> has developed and benefited from the trialling of its concepts and practical insights from the IIRC's Pilot Programme. Similarly, we believe that piloting some of the concepts proposed in the detailed paper would assist with identifying possible assurance approaches and how assurance practitioners can contribute to these. In time, the learnings, insights and recommendations from such pilot assurance activity should be shared by the IIRC with relevant stakeholders, including standard-setters, notably the IAASB through its <IR> Working Group.

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884 or Eric Dugelay in Paris on +33 1 55 61 54 13.

Yours sincerely



Veronica Poole  
Global IFRS Leader



Eric Dugelay  
Global Sustainability Leader



## Appendix

### *Nature of assurance*

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

We agree with the statement in the IIRC's *International Integrated Reporting <IR> Framework* ('the <IR> Framework') that independent, external assurance forms part of a range of tools for enhancing reliability and credibility of information, which tools also include robust internal control and reporting systems, stakeholder engagement and review by internal audit or similar functions.

The demand for <IR> is and should be market-led, rather than regulator-led. We believe that the priority given to external assurance should also be market-led, driven by the demands of users of <IR> and those charged with governance of preparer organisations.

As demand for <IR> and assurance grows, assurance professionals will need to be ready to deliver that assurance. Given the potential complexity of assurance with respect to <IR>, standard-setters and assurance providers should therefore start to explore the relevant issues now rather than waiting for that demand to reach a critical point. As <IR> is an international initiative, international co-ordination by the IAASB working with national assurance standard-setters, securities markets' regulators and assurance public oversight bodies and other relevant stakeholders will be required to maintain consistency of the approach to assurance regarding <IR>.

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

Consistent with our response to question one, the views of preparers and providers of financial capital are critical in response to this question.

Fundamentally, assurance enhances the credibility of information reported.

The independence, quality and professional scepticism of assurance practitioners are the key features that will best suit users of integrated reports in years to come. Rigorous, high-quality and internationally accepted frameworks for quality, independence and objectivity, and assurance standards, exist for assurance practitioners, which have been developed after due process and in the public interest. Application of the International Ethics Standards Board for Accountant's (IESBA's) Code of Ethics and the International Auditing and Assurance Standards Board's (IAASB's) International Standard on Quality Control 1 (ISQC1) by external assurance practitioners provide examples of internationally accepted frameworks for quality, independence and objectivity. For example, Deloitte applies the IESBA Code and ISQC1 globally to all assurance engagements performed by its practitioners, including engagements on non-financial and sustainability-related matters (for example, on sustainability reports, greenhouse gas emission statements or selected performance indicators).

Other key features and benefits of the external assurance process that will also suit the needs of integrated report users, and preparers, are as follows:

- Whilst management is responsible for the annual report and accounts, external assurance forms part of the mechanisms that management uses to assure itself that the information it reports is credible (i.e. that the Board has performed their statutory duties appropriately).



- External assurance leads not only to a formal conclusion or opinion. It also provides insights and recommendations to management and those charged with governance on the reporting process, related controls, and risks, which management can consider in improving the reporting process and related controls to provide data that is fit for decision-making internally (management information) and externally (e.g., by providers of financial capital and other stakeholders) and to address risks.
- Finally, external assurance can also provide management and those charged with governance with insights into other related areas such as corporate governance matters.

We acknowledge, however, that sometimes there is confusion or a lack of understanding regarding the nature of the different assurance engagements performed. This is a criticism by some stakeholders regarding the auditing of financial statements (see below), despite financial statements being a mature 'product'. The potential for misunderstanding will be greater with assurance in less familiar areas, such as assurance over all or parts of an integrated report. We, as assurance practitioners, have a responsibility to be clear about the scope of our work and outline the procedures that have been performed in support of the conclusion or opinion included in our reports. <IR>-related assurance reports could usefully provide more insight into assurance activities and conclusions by including enhanced narrative about assessed risks of material misstatement of the integrated report (including material omissions) and the assurance practitioner's responses to those risks.

An incremental step in this direction is the anticipated release by the IAASB in January 2015 (subject to approval by the Public Interest Oversight Board) of revised and new enhanced auditor reporting standards, which would require that auditors' reports on financial statements ending on or after December 15, 2016, include a discussion of 'key audit matters' – those which required the most significant auditor attention during the audit. For each, the auditor will explain why it was one of the matters of most significance and how it was addressed. This may include matters such as an overview of the procedures performed and potentially the outcome of those findings. Similar initiatives are under way in the US and required as part of the European audit reform legislation; the UK has already implemented changes in this area. Assurance engagements with respect to <IR> could benefit from the lessons learnt from enhanced auditor reporting on financial statements and provide similar insights.

We believe that the assurance profession can and should innovate further. For example, there could be significant value in the performance of assurance engagements outside regular reporting periods.

Consequently, we believe that further innovation and a period of experimentation around assurance with respect to <IR> is advisable: piloting some of the concepts proposed in the detailed paper would assist with identifying possible assurance approaches. In time, the findings, insights and practical recommendations from such pilot assurance activity could be shared by the IIRC with relevant stakeholders, including standard-setters, notably the IAASB through its <IR> Working Group.

### ***Competent practitioner***

#### **Question 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?**

We do not believe that this is a problem for the global accounting profession as it deals with these matters whenever assurance is requested on a new subject. Furthermore, a financial statements' audit today is an integrated audit, in that various experts are integrated into the audit engagement team, for example experts in valuation, tax, IT, actuaries and engineers, amongst others. In particular, assurance practitioners have applied assurance standards to non-financial and sustainability subject matter over the



past decade in the context of the work they perform on sustainability reports, GHG statements or selected performance indicators. However, we acknowledge that whilst the larger accountancy networks may be able to share skills and expertise within their network, particularly to support member firms in smaller jurisdictions, this may be more of a problem for smaller firms in smaller jurisdictions.

Suitably skilled and experienced practitioners are critical to our ability to provide assurance services and to comply with applicable legal and regulatory requirements. Audit firms take responsibility for ensuring their assurance teams receive the training they need, including regular assurance, subject matter and industry-specific training to ensure that they comply with continuing professional development requirements as 'certified' assurance practitioners, are at the forefront of new developments and regulations, and have the tools they need to fulfil their assurance obligations and maintain the quality of assurance engagements. Some of this training and these tools are shared by members of networks of firms and some is developed at a local level.

<IR> is a new form of reporting. Just as assurance practitioners may need to modify their approach to perform <IR>-related assurance engagements, preparers may also have to adjust their approach, reporting teams, and skill sets to apply the concepts and comply with the IIRC's Framework. This evolution requires preparers and assurance practitioners to work together, to trial methodologies and identify best practices.

**Question 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?**

As a new form of reporting, integrated reporting will require an evolution by the preparer in their reporting processes and controls, and by assurance practitioner in their methodologies and practices. This is why we believe further innovation and a period of experimentation around assurance with respect to <IR> is advisable. This will enable services to evolve and best practices to emerge before being set in stone by standard-setting activity.

The quality of assurance in respect to <IR> must be founded, as for audits and other assurance engagements today, on demanding professional qualifications, ethics standards, quality control frameworks, international assurance standards and public oversight. Experience has demonstrated that these are necessary for reported information to be considered of investment-grade quality.

In this regard, the existing IESBA Code of Ethics and the IAASB's International Standard on Quality Control 1, and ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* are helpful and readily adaptable.

***Robust internal systems***

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

Robust internal systems with appropriate internal controls are a precondition for practitioners to be able to perform assurance engagements. The lack of such systems may make the gathering of evidence problematic or potentially impossible – for example, if there are no controls over basic record-keeping for underlying data.

There has been an incremental evolution in corporate reporting in recent decades, with many companies in some jurisdictions progressing to prepare a standalone sustainability or corporate social responsibility report. Our experience from performing limited assurance engagements in accordance with the currently



applicable version of ISAE 3000 on such reports is that non-financial information systems (data, processes and controls) are typically less mature and, perhaps, less systematic than for financial systems. We have found in this context that the discipline of assurance on these reports persuades management and those charged with corporate governance to refine these systems, which, in turn, is a benefit.

<IR> requires data and reported information from a wide range of underlying sources. In some cases, this data may not currently be collected at all, or in a far less systematic fashion, and require new processes and systems to be put into place. These need robust internal control systems to enable an assurance engagement to be performed to a sufficient quality. Ultimately, the more sophisticated the internal control systems and processes, the greater choice the audit practitioner will have in terms of evidence gathering procedures (testing of controls or substantive procedures); effective controls are also likely to reduce the risk of misstatement and hence the extent of procedures to be performed.

Internal audit can help ensure that internal systems are robust through their activities scoping in the <IR> process.

Different reporting organisations will also have different starting points. To enable trialling of assurance methodologies on <IR>, the IIRC could encourage organisations to consider the robustness of their internal systems and controls, and internal review processes including reviews and testing performed by internal auditors, in respect of the information to be included in an integrated report.

Fundamentally, as <IR> is more than the output of an integrated report – it is a process itself<sup>1</sup>, it is questionable, as highlighted by the detailed assurance paper, whether assurance engagements on an integrated report can be performed without obtaining assurance on the underlying processes and systems critical to <IR>.

### ***Cost of assurance***

#### **Question 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?**

We believe that the cost-effectiveness of assurance will be a function of the elements of an integrated report on which preparers and providers of financial capital seek assurance, and the robustness of the related internal systems.

The views of preparers and providers of financial capital are paramount in determining the priority to be placed on assurance in the context of driving credibility and trust with respect to integrated reports and identifying the key features of assurance (and benefits) that will best suit the needs of users of integrated reports in years to come.

Different organisations will have different starting points for their <IR> journey. The maturity of the information set and reporting processes required for <IR> will affect the ability of assurance practitioners to perform assurance engagements, as set out in our response to question five. The more mature and sophisticated the processes become, the more targeted and less costly the assurance engagements

---

<sup>1</sup> “Integrated reporting is a process founded on integrated thinking that results in a periodic integrated report by an organisation about value creation over time and related communications regarding aspects of value creation” [<IR> Framework: glossary (7)]

should become. In short, more investment may be required in the short to medium term, but with the effect of reduced costs in the medium to long term.

This would, in our view, be true of any significant change in corporate reporting practice; for example, we suspect that a similar investment profile is made by organisations on transition from a national GAAP to IFRS. We would also note that it is often difficult to quantify the benefits of assurance: they are both tangible and intangible. In this respect a recent investor survey<sup>2</sup> noted that the quality of a company's reporting impacts investors' perceptions of management quality. In this way, higher quality corporate reporting may flow into a lower cost of capital.

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

We believe that the following, amongst other initiatives, could increase the net benefits of assurance regarding <IR> and other corporate reporting:

- Improved transparency over the basis of measurement for non-financial data sets.
- A key aspect of non-financial data being useful to investors is a consistent methodology for measuring the data within a reporting entity, across an industry and between industries. The quality of the non-financial data is both a function of its understandability and applicability for decision-making by the organisation internally and by investors and other stakeholders externally. Without consistency in approach, consistency of interpretation is difficult or hindered and, accordingly, assurance engagements can be less meaningful.
- Enhanced reporting by assurance practitioners on the <IR> process as a whole (as discussed above).
- Avoidance of duplication of assurance efforts where possible (for example, where certain aspects reported within an integrated report are based on other reporting that has already been subject to other assurance or verification processes, the assurance practitioner will need to consider how such work might be used, based on considerations of materiality and context, amongst other factors).
- Further engagement with users, primarily investors, regarding the scope and levels of assurance, so there is more transparency and a better understanding of what the subject matter information of the assurance engagement is and what an assurance engagement entails, together with a clear communication of the assurance practitioner's conclusion. The role of standard setters, where they exist, for non-financial information and of regulators will also be key.
- A period of experimentation with respect to <IR> assurance to identify possible approaches and how both internal audit and external assurance practitioners can contribute to these most effectively, avoid duplication, and identify information or process gaps critical to:
  - (i) management's ability to be confident that they have complied with the *International Integrated Reporting <IR> Framework*
  - (ii) meet the information and assurance needs of providers of financial capital (the users of an integrated report), and

---

<sup>2</sup> *Corporate performance: what do investors want to know? Powerful stories through integrated reporting*, available at [http://www.pwc.com/en\\_GX/gx/audit-services/corporate-reporting/publications/investor-view/assets/pwc-investors-survey-powerful-stories-through-integrated-reporting.pdf](http://www.pwc.com/en_GX/gx/audit-services/corporate-reporting/publications/investor-view/assets/pwc-investors-survey-powerful-stories-through-integrated-reporting.pdf)



- (iii) the assurance practitioner's ability to perform assurance engagements with respect to an integrated report (as discussed above).

## **Technical challenges**

### ***Methodology issues***

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

**Question 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?**

**Question 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?**

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

**Question 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 engagements?**
- **Other approaches?**

**Question 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?**

Although Questions 8 to 13 ask about the technical challenges with respect to developing standards to support assurance engagements related to <IR>, most are not specific to <IR>. They would also apply to any assurance engagement over the narrative commentary in the front half of the annual report that accompanies the financial statements. In many jurisdictions such engagements are entirely voluntary, with the only mandatory involvement by the auditor being to consider inconsistency with the audited financial statements. The IAASB's current project to revise ISA 720 will in effect extend the auditor's duty to consider inconsistency to consideration as to whether they are aware of apparent misstatements based on information of which they have become aware of as part of their audit of the financial statements and whether the financial statements require adjustment, but the proposed ISA 720 will not actively require auditors to seek out evidence not otherwise required for their financial statement audit solely to support or contradict assertions made in any narrative commentary. Neither the current nor the proposed ISA 720 will require auditors to obtain enough evidence to issue a reasonable or limited assurance conclusion as to whether any part of such commentary has been prepared in accordance with any applicable criteria.



In some jurisdictions, local legal requirements or market practice have led to assurance engagements being performed over some aspects of narrative commentary. There has also been debate as to whether to introduce any new assurance requirements; for example, the recent finalisation of the European Union's directive on reporting of non-financial information stopped short of mandating assurance, despite calls from some stakeholders during the development of the draft directive. Narrative commentary requirements and practice varies from jurisdiction to jurisdiction. Reports may include some or all of a description of the entity's strategy and strategic objectives, business model, a review of business performance including financial or non-financial KPIs, descriptions of principal risks and uncertainties, a discussion of outlook, an explanation of corporate governance processes, a statement of compliance with a corporate governance code and details of remuneration policy or practice. In certain jurisdictions, external assurance is increasingly sought and assurance engagements performed on selected non-financial and sustainability-related matters, e.g. standalone sustainability reports.

We encourage the IIRC, therefore, to work with the IAASB in exploring further these issues, and commend their actions in establishing an <IR> Working Group. A natural next step, in our view, would be to encourage the IAASB to consider the application of ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* to narrative reporting more broadly, not solely in the context of <IR>. The key 'assurance' challenges with respect to materiality, the reporting boundary, connectivity, completeness, and future-oriented information raised by the IIRC are the same as those existing with narrative reporting today.

<IR> requires a change in thinking<sup>3</sup>. In this way, it provides an opportunity for a change in thinking around assurance, and an exploration of the additional insights, checks or independent challenge that assurance can provide. For this reason, we believe that further innovation and a period of experimentation around assurance on <IR> is advisable. Piloting some of the concepts proposed in the IIRC's detailed paper would assist with identifying possible assurance approaches and how assurance practitioners can contribute to these. This piloting would also assist to identify what is necessary to enable an assurance engagement on an integrated report to be possible. In time, the learnings, insights and recommendations from such pilot assurance activity could be shared by the IIRC with relevant stakeholders, including standard-setters, notably the IAASB.

Key challenges in the area of narrative or <IR>, for which there is little or no guidance today internationally include:

- the assessment by management, and external assurance practitioners, of whether the integrated report is complete (e.g., that it includes both positive and negative material matters in a balanced way) and without material error. One relevant example is that during the debate over the introduction of a requirement for the directors of UK listed companies to confirm that their annual report, taken as a whole, is "fair, balanced and understandable", the auditor's role was limited to considering whether the directors' statement was inconsistent with the knowledge obtained during the audit of the financial statements<sup>4</sup>. This was, in part, due to the fact that some of the content of the annual report is inherently subjective;

<sup>3</sup> With reference to the definition of integrated reporting being "a process founded on *integrated thinking* that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation". [<IR> Framework: glossary (7)]

<sup>4</sup> In the UK, changes were introduced into the UK Corporate Governance Code with effect for years beginning on or after 1 October 2012, requiring Boards to confirm that the annual report and accounts taken as a whole are fair, balanced and understandable, to ensure that the narrative sections of the report are consistent with the financial statements and accurately reflect the company's performance.

- management and assurance practitioner reporting on the long term viability of the organisation. The debate at EU level as part of the audit reform legislation considered, but rejected, widening the scope of the auditor's duty in respect of going concern<sup>5</sup>;
- assurance over the connectivity of information; and
- assurance over forward-looking information.

We also believe that assurance regarding narrative or <IR> should not have the effect of stifling innovation or the inclusion in an integrated report of some subjective statements by management, often referred to as 'soft' information, which have real value in that they provide users with management's view and insight and forward-looking information. We note that some preparers made this observation in their response to the question 'If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report?' in the April 2013 Consultation Draft of the International Integrated Reporting <IR> Framework. This point is particularly relevant given the strategic focus and future orientation guiding principle for the preparation of an integrated report and the fact that the future is inherently uncertain.

---

<sup>5</sup> Again, in the UK, with effect for years beginning on or after 1 October 2014, a new provision in the Corporate Governance Code (C.2.2) requires a broader statement about the board's reasonable expectation as to the company's viability based on a robust assessment of the company's principal risks and the company's current position ('the longer term viability statement').