

December 1, 2014

International Integrated Reporting Council

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Dear Council Members,

Re. Request for feedback on Assurance on <IR> Introduction & Exploration of Issues

The Chartered Professional Accountants of Canada (CPA Canada) is pleased to provide its comments to the International Integrated Reporting Council (IIRC), regarding two papers: *Assurance on <IR> - An Introduction to the Discussion* and *Assurance on <IR> - An Exploration of Issues*. CPA Canada is a progressive and forward-thinking organization whose members bring a convergence of shared values, diverse business skills, exceptional talents, management disciplines and innovative thinking to the accounting field. CPA Canada is the national organization established to support a unified Canadian accounting profession. We represent Canada's CPAs and members of the three legacy designations (Chartered Accountant, Certified Management Accountant and Certified General Accountant), all of which have unified or are unifying under the CPA banner. We are committed to providing the highest standards of accounting, ethics and best business practices. We are pleased to have the opportunity to respond to your request for feedback since the future of reporting (including Integrated Reporting (IR)), sustainability, and the future of audit and assurance are key areas of focus by CPA Canada's Research, Guidance and Support Group.

Our comments on your two papers have been formulated by CPA Canada and have been reviewed by a working group comprised of auditing and assurance specialists, prominent Canadian CPAs with experience in IR, and experts in sustainability reporting. We developed this response from an auditing and assurance perspective and we considered the Canadian context, contemplating whether assurance on IR might be appropriate for Canadian entities, of all sizes and type (public, private, not-for-profit, and government).

This response letter is organized into two sections: overall comments and responses to select questions.

OVERALL COMMENTS

We applaud the IIRC for contemplating the role of assurance on IR and initiating a global discussion on the benefits and challenges it presents. CPA Canada believes that independent, external assurance, provided by a CPA, is a fundamental mechanism for ensuring the reliability and enhancing the credibility of IR. Continuing to raise awareness about IR, along with thoughtful discussion about assurance on IR, is essential to the long-term success of the IIRC's initiative.

There are some challenges to overcome in the area of assurance on IR. Firstly, there is not yet widespread awareness and acceptance of IR. Although the IIRC has released its IR framework for reporting, this framework has yet to be widely adopted. Secondly, we believe that the majority of organizations' IT systems

that support reporting are not yet robust enough to completely and seamlessly support IR, since they were not designed with integrated thinking and reporting in mind.

We are also of the view that it is paramount that there is consistency in the conduct of engagements to provide assurance on IR, including consistency in the professionals who provide the report on assurance. In our view, Canadian CPAs (and the equivalent professional accountant worldwide) should provide this type of assurance, since they are required to comply with Rules of Professional Conduct and follow a set of standards (International Standards on Assurance Engagements (ISAEs)). Finally, we believe there are assurance methodology challenges created with the concept of assurance on IR, as explained below in Question 12.

RESPONSES TO SELECT QUESTIONS

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

Response

High priority should be placed on assurance on IR in the context of driving credibility and trust in the IR. Assurance provided on IR will enhance credibility and trust in the information included in IR for the users of the reports. In the absence of assurance, the IR is simply compiled information by the entity that has been issued in the public domain. Although users may have a need for the additional information provided by IR, they will likely proceed with caution when using such information, since it will not have the same trustworthiness if compared to information that includes an accompanying independent auditor's report. We agree with the IIRC, in that independent assurance on IR is important for the long term credibility of integrated reports, since users of integrated reports will expect credible and reliable information. We applaud and encourage the IIRC to continue to pursue the global discussion about assurance on IR.

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

Response

Each potential user of an IR will inevitably have different needs. However, if the goal of assurance on IR was to increase the trustworthiness and credibility of the report, then a key feature is that the assurance enhances credibility and trust in the information contained in the IR. Along these lines, different user groups will have varying levels of knowledge about assurance. There is a risk that if different levels of assurance are permitted on IR, that users will take away an inappropriate level of assurance on the information contained in the IR, if reasonable assurance is not provided for all elements of the IR. Therefore, another key feature of assurance is that it is understandable to the user of the IR so that no perception gap is created over the assurance provided. Finally, we believe that the evaluation of the IR should be performed by an independent professional assurance provider, external to the organization (in Canada, for example, a professionally trained and experienced professional accountant is a Canadian CPA). When the assurance provider expresses his/ her opinion about the outcome of the measurement or the evaluation of an underlying subject matter against criteria¹, users are more likely to have confidence in the information contained in the IR.

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?

¹ IAASB assurance framework, paragraphs 10-11.

Response

We believe it is still very early days for the IIRC in terms of obtaining widespread dissemination of the notion of IR. Anecdotal evidence in Canada suggests that a large number of CPAs do not know much about IR, the IIRC, and sustainability reporting.

Despite this lack of awareness, we believe that the technical and analytical skills that Canadian CPAs possess will put them in a good position to deliver assurance on IR. We believe that the skillset of a Canadian CPA, who currently performs audits and other engagements under the standards in the CPA Canada Handbook, is transferrable. In fact, we believe that there are already select Canadian CPAs/ accounting firms who, with appropriate training and development, could effectively perform assurance on IR, as many large accounting firms in Canada employ a multi-disciplinary workforce, comprised of CPAs, engineers, and other experts. We believe that Canadian CPAs would be up for the challenge of IR and performing assurance on IR, to learn and grow relatively quickly, in order to continue to service the needs of their clients.

The IIRC should continue to raise awareness about IR and assurance on IR, carrying on the conversations commenced by the two papers. Holding public roundtables around the globe is an excellent way to generate interest and robust dialogue. Additionally, the IIRC may consider conducting research (perhaps building upon the efforts of South Africa and the pilot entities) to understand which entities are obtaining assurance on IR and about their experiences. A white paper could be subsequently issued, which anonymously details the type of assurance, skillset of the assurance provider and key success factors, achievements, opportunities, challenges, barriers, and difficulties in regards to assurance on IR.

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?

Response

We believe it is important for the IIRC to acknowledge that the standards applied by the auditing profession presently (for example, the ISAEs and the Rules of Professional Conduct) should be carried into the IR realm. A proliferation of non-traditional assurance-service providers, as has been seen in assurance on sustainability reporting, would not add to the credibility of IR as the pinnacle of a public entity's external reports. We believe that variability in assurance on IR and in the provider of the assurance (if this were to include non-professional accountant assurance providers, for example) in comparison to consistency in engagement standards and in reporting, will lead to confusion among users in the marketplace. In our view, confusion in the marketplace is not in the public interest. We strongly encourage the IIRC to take the position that assurance on IR will be most credible and reliable if it is provided by a professional accountant who is required to operate within the Rules of Professional Conduct for their jurisdiction, must adhere to a consistent set of professional standards (for example, the ISAEs and the International Standards on Auditing (ISAs)), and is likely subject to an independent regulator and practice inspection process.

We are also of the view that universities should incorporate topics/ areas of studies with a focus on the future. IR and assurance on IR are among those topics that could be incorporated into a series of lectures on the future of reporting/ audit. Planting the seeds about IR and assurance on IR at an early point in a young professional's career may inspire these individuals to seek out related assignments and opportunities. Having some basic, foundational knowledge will also reduce the steep learning curve involved when a young professional is assigned to work on IR or, in the case of a CPA student, an assurance on IR engagement.

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

Response

Anecdotal evidence suggests widespread use of spreadsheets at many large organizations for complex calculations, schedules, and processes that are used to support the preparation of the (consolidated) financial statements. In comparison to an audit of financial statements, IR is a very new type of reporting and it draws in many types of information, both quantitative and qualitative. Therefore, it is unlikely that the majority of IT systems that support reporting functions will be robust enough to completely and seamlessly support IR. When entities decide to commence externally reporting in this fashion, they will need to develop controls and processes to support integrated thinking and reporting. The development of controls and processes around the production of integrated thinking and reporting will need to include the IT systems.

We believe that there is a need for a disciplined approach to maintaining strong reporting controls over integrated reports in a fashion comparable to Internal Control over Financial Reporting (ICFR). We encourage the IIRC to publish whitepapers detailing the experiences, key success factors, and challenges that pilot entities have faced when attempting to operate in an integrated fashion and complete an IR. We recommend that this material include a robust discussion on internal system challenges, parallels with ICFR, and solutions implemented (perhaps case studies and training programs).

In terms of remedying the IT issues noted as a challenge in IR and assurance on IR, we do not feel that the IIRC is required to do much beyond raising awareness of IR at this time.

Q6. Is assurance likely to be a cost effective mechanism to ensure credibility and trust of (a) the short/medium term; (b) the long term?

Response

It is in the public interest that IR be credible and reliable. We believe that IR will be credible and reliable if assurance is provided on the IR by a qualified CPA. Thus, it is difficult to weigh costs over the benefits, as we believe the benefits far outweigh the costs. At this time, IR is voluntary and we applaud those organizations who are putting IR or similar content into the marketplace. The decision on whether to obtain assurance is one of demonstrating due diligence rather than meeting regulatory requirements. Additionally, for those organizations who seek voluntary assurance on their IR, we feel that this may drive marketplace confidence in the information and enable stronger performance management at the entity. We note that in voluntary assurance on IR it appears that the assurance is accompanied by a Management Letter (for example, a "Report on Assurance Observations") that provides detailed findings (with implications/ risks) and recommendations related to the data management systems and internal controls that the company uses.

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

Response

No further comments.

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

Response

We believe that the existing International Standards on Assurance Engagements (ISAEs) could be used to perform assurance on IR (for example ISAE 3000). Additional ISAEs or amendments to the existing standards may be required and we believe the IIRC needs to actively engage with the International Auditing

and Assurance Standards Board (IAASB) in contemplating such standards and changes. Further, we feel that guidance will also be necessary to ensure consistency in approach.

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 IR or elsewhere, be developed?

Response

No further comments – see response to Q8.

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?*

Response

Key challenges and proposed approaches that assurance standard setters might consider for each of the topics include:

	<i>Key Challenges</i>	<i>Proposed Approaches/ Suggestions</i>
<i>Materiality</i>	<ul style="list-style-type: none"> • Information included in the IR will be both quantitative and qualitative. Traditionally, materiality is determined using quantitative inputs and is adjusted for qualitative factors. Materiality is a critical concept in the financial statement audit process and we applaud the IIRC for undertaking an analysis of applying materiality in the context of IR and obtaining assurance on IR. • Based on the way that materiality is calculated today, it would not be clear what would constitute a misstatement in the context of IR. • It is also not clear how the auditor would assess the cumulative or aggregated misstatements, especially since there could be a large number of qualitative errors/ misstatements from the IR, in comparison to the financial statement audit. 	<ul style="list-style-type: none"> • Monitor the IAASB’s project on Financial Statement Disclosures, which does cover some of these key challenges, as the IAASB’s Task Force faced similar challenges with respect to qualitative information included in the notes to the financial statements. • The IIRC may consider aligning itself with the International Accounting Standards Board (IASB) and its work on materiality, as they have undertaken a broad-based initiative to explore how disclosures in IFRS financial reporting can be improved. The IASB is conducting a research project on materiality to determine if it is being applied in practice in IFRS financial statements. The IASB will also consider whether further guidance on materiality is needed.

<i>The reporting boundary?</i>	No comment.	No comment.
<i>Connectivity?</i>	<ul style="list-style-type: none"> • It is not clear what would constitute suitable criteria for measurement of connectivity, thus an assurance conclusion in this area would likely not be consistent among assurers. • Concluding on connectivity will require the auditor to exercise professional judgment. Moreover, one auditor’s judgment on the notion of connectivity may differ significantly from that of another auditor. We believe that it will be inevitable that there will be variation in practice in this area of the assurance on IR. 	<ul style="list-style-type: none"> • If the IAASB were to develop or amend ISAEs to support assurance on IR, application and other explanatory material could provide consideration points to assist the auditor in reaching a conclusion in this area. • Non-authoritative assurance guidance focusing on assurance on IR, in regard to concluding on the demonstration of connectivity, can also address this potential area of challenge.
<i>Completeness?</i>	<ul style="list-style-type: none"> • We agree with the IIRC (paragraphs 4.25 and 4.26 of <i>Assurance on <IR> - An Exploration of Issues</i>) that an area of potential challenge for assurance providers will be assessing the completeness of information included in the IR. 	<ul style="list-style-type: none"> • Application and other explanatory material in any new or amended ISAEs (developed by IAASB) in this area could provide consideration points to assist the auditor in reaching a conclusion in this area. • Non-authoritative assurance guidance focusing on assurance on IR (developed by an independent IFAC committee/ Board, or other recognized accounting body), in regard to assessing completeness of the IR, can also address this potential area of challenge.
<i>Narrative reporting and future-oriented information?</i>	<ul style="list-style-type: none"> • It is not clear what would constitute suitable and available criteria necessary to evaluate narrative reporting in the context of an assurance engagement. Thus, an assurance conclusion in this area would likely not be consistent among assurers. • The assessment of the narrative reporting requires professional judgment, and as stated above, it will be inevitable that there will be variation in practice in this area of the assurance on IR. 	<ul style="list-style-type: none"> • Application and other explanatory material in an assurance standard (developed by IAASB) in this area could provide consideration points to assist the auditor in reaching a conclusion in this area. • Non-authoritative assurance guidance focusing on assurance on IR, in regard to assessing narrative reporting and future-oriented financial information, can also address this area of potential challenge.

	<ul style="list-style-type: none"> In regard to future-oriented financial information, the challenge assurance practitioners will face will be the uncertainty associated with the calculations. 	
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Q11. What other technical issues, if any, specific to IR should be addressed by assurance standard setters?

Response

No further 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?*

Response

Key challenges and proposed approaches that assurance standard setters might consider for each of the topics include:

	<i>Key Challenges</i>	<i>Proposed Approaches/ Suggestions for assurance standard setter</i>
<i>Reasonable assurance?</i>	<ul style="list-style-type: none"> We agree with the IIRC on page 30 of the <i>Assurance on <IR> - Exploration of the Issues</i> publication – that assurance on IR could possibly become very costly, since there will be a lot of information in the IR that will be included in the scope of the audit. If assurance is provided only on a portion of the IR, there is a risk that users of the assurance report will take away more assurance than they should over information which has not been included in the scope of the assurance engagement. 	No suggestions at this time. This requires further study.
<i>Limited assurance?</i>	<ul style="list-style-type: none"> A concern with a limited assurance engagement on an IR is the user group. We expect that the majority of users of 	<ul style="list-style-type: none"> Non-authoritative guidance explaining the different levels/ types of assurance that could be provided in the context of

	the IR will not be sophisticated or have the in-depth knowledge of auditing and assurance, in comparison to that of a CPA. Thus, there is a high risk that users may inappropriately take more assurance from the summary of work description than warranted by the lower level of assurance.	the IR and assurance on IR.
<i>Hybrid engagements?</i>	<ul style="list-style-type: none"> If a hybrid engagement is performed on an IR, we believe that a key challenge will be confusion with the auditor's report in the user group community. Users without a deep understanding of auditing and assurance could possibly take away more assurance on the full content of the report, versus understanding those areas where the auditor provided reasonable assurance. Many potential users of IR are not contemplated as having in-depth knowledge about audit and assurance needed to be able to discern between reasonable assurance versus other assurance approaches taken on the IR. 	<ul style="list-style-type: none"> Non-authoritative guidance explaining the different levels/ types of assurance that could be provided in the context of the IR and assurance on IR.
<i>Agreed-upon procedures engagements?</i>	<ul style="list-style-type: none"> Since the report issued under agreed-upon procedures is restricted, it will not be possible (without express consent) to post such a report on the company's website, along with the IR. 	No suggestions at this time.

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?

Response

Key challenges and proposed approaches that should be considered by the IIRC and standard setters, to ensure assurance on IR pays due regard to other assurance processes include:

	<i>Key Challenges</i>	<i>Proposed Approaches/ Suggestions for assurance standard setter</i>
<i>Audit of the Financial Statements, Audit of Other</i>	<ul style="list-style-type: none"> It is not clear, at this time, what the linkage of the audit of the financial statements (or the audit of other information and/ or processes) would 	<ul style="list-style-type: none"> If information is subject to the audit of the financial statements (or another audit), we recommend that it would not be audited again, during the assurance

<i>Information and/ or processes</i>	be to assurance that would be obtained on the IR.	for IR engagement. <ul style="list-style-type: none"> • One approach that we think has merit in the realm of sustainability reporting is to include a symbol beside various pieces of information in the integrated report to explain to users what has been audited and how much assurance has been provided. The risk to this approach is that users, without a deep understanding of audit and assurance matters, may take away inappropriate levels of assurance on various pieces of information in the IR, should the assurance vary by element of the IR. Further, this approach also runs counter to the concept of the integrated nature of an IR.
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We hope that these comments will be useful to the IIRC as it contemplates assurance on IR. If you have any questions or require additional information, please contact Juli-ann Gorgi, Principal, Audit and Assurance in the Research, Guidance and Support Group at CPA Canada at 416.204.3315 and jgorgi@cpacanada.ca.

Yours very truly,



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