



Richard F. Chambers
Certified Internal Auditor
Qualification in Internal Audit Leadership
Certified Government Auditing Professional
Certification in Control Self-Assessment
Certification in Risk Management Assurance
President and Chief Executive Officer

T: +1-407-937-1200
E-mail: richard.f.chambers@theiia.org

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The International Integrated Reporting Council (IIRC)
assurance@theiirc.org

RE: Assurance on <IR>: An Introduction to the Discussion

Dear Sir/Madam;

On behalf of the more than 180,000 global members of The Institute of Internal Auditors (IIA), I am pleased to provide our general observations and specific comments on the IIRC's paper *Assurance on <IR>: An Introduction to the Discussion*. Thank you for the opportunity to participate in this discussion.

Our comments and insights were developed by a team of leaders in the internal audit profession reflecting The IIA's global reach. General observations are below. Additional, more detailed comments related to specific questions are provided in Attachment A.

As a more holistic way of thinking and reporting on corporate performance and value creation, Integrated Reporting (<IR>) is clearly in its very early stages. There is no current mandate for its adoption on a global basis, nor is there a fully defined way for <IR> to be implemented. As a result, there is no single way at this point to provide assurance on <IR>.

Underlying the <IR> Framework is the concept of integrated thinking, which addresses not only how organizations approach external reporting, but also how they look at their business activities. Integrated thinking challenges an organization to draw connections among disparate reporting elements to communicate a more accurate and complete picture of value creation. In action, <IR> has the potential to break down silos and lead to greater innovation.¹ This is congruent with The IIA's Three Lines of Defense Position Paper², which serves to break down silos for risk management and control processes to integrate and coordinate activities among:

1. First line of defense operational managers who own and manage risks.
2. Second line of defense functions that oversee risks, such as risk management and compliance functions.
3. Internal audit, the third line of defense, which provides independent assurance on the effectiveness of governance, risk management, and controls.

Global Headquarters
247 Maitland Avenue
Altamonte Springs, FL
32701-4201 USA
T: +1-407-937-1100
F: +1-407-937-1101
www.theiia.org

¹ Integrated Reporting and the Emerging Role of Internal Auditing, The Institute of Internal Auditors (IIA), 2013.

² The IIA's Position Paper, The Three Lines of Defense in Effective Risk Management and Control, 2013.

For <IR> to be seen as a reliable instrument for assessing an organization's ability to create value in the short-, medium-, and long- term, organizations will need to find a suitable way to provide assurance regarding the information reported therein — paying particular attention to IT systems that generate the source data. We believe internal audit is an obvious choice to provide key forms of assurance. Internal audit can provide the third line of defense in effective risk management and controls for value creation and integrated reporting, inasmuch as it already provides the third line of defense for an organization's other strategic, operational, and reporting objectives.

The value in <IR> depends upon the reliance placed on an integrated report by third parties. For example, how does both qualitative and quantitative data within an integrated report inform and influence third parties' judgments, decisions, and actions over and above conventional financial reporting? To influence, an integrated report must be deemed as credible and reliable. Credibility and reliability, in turn, should result in trust, which is where assurance comes into play.

There should be an appropriate mix of external assurance, regardless of the form of external assurance provided (reasonable, limited, hybrid and/or agreed-upon procedures) combined with internal assurance (provided by second and third line of defense functions) in any evolving assurance model. <IR> will require the generation of information from business functions that currently are outside of the scope of external financial statement auditing. However, these business functions are currently subject to internal audit assurance and advisory services. Therefore, the internal audit function is best suited to provide assurance on integrated thinking and integrated processes throughout an enterprise.

Consequently, it will likely be the market, as influenced by legislators, regulators, and those third parties that choose to rely on <IR>, that will determine the appropriate long-term assurance model. Such a model will need to consider what the more material aspects of <IR> are and how, in the most cost-effective manner, an appropriate level of assurance will be provided. As well, it must take into account how a third party seeking assurance will quickly discern which aspects of <IR> did or did not receive assurance and, if not reasonable assurance, then at what level.

Regardless of the assurance model, internal audit is well-suited as a key contributor of both direct assurance and support for assurance provided by others. Internal audit also is uniquely situated within an organization to provide insight on, and support for the implementation of, integrated reporting. Internal audit:

- a. Is familiar with process implementation in the organization.
- b. Can affect consistency of communication of metrics across business units.
- c. Should provide internal assurance to increase the credibility of metrics in the integrated report.
- d. Is uniquely positioned to offer insight on potential risks to the organization.
- e. Has a "seat at the table" from which it can influence the adoption of <IR> to improve and strengthen communications with internal and external stakeholders.³
- f. Is adept at working with external assurance providers.

The IIA strongly believes that internal audit will play at least three critical and distinct roles in supporting the reliability and creditability of <IR>. These roles are:

1. For a company implementing <IR>, internal audit should be actively involved in the project team from its inception, to lend advice and insight to the implementation activity and to be in a position to provide assurance to those charged with governance that the implementation is being done effectively. However, for obvious reasons of potential impairments to both independence and objectivity, internal audit should not own, or be responsible for the implementation of, <IR> processes, policies, or procedures.

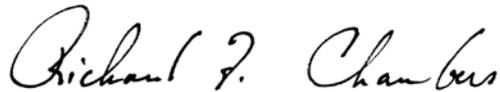
³ Integrated Reporting and the Emerging Role of Internal Auditing, The Institute of Internal Auditors (IIA), 2013.

2. Furthermore, for a company that implements some or all aspects of <IR>, internal audit should provide assurance on the accuracy and reliability of the data being reported, both internally and, as appropriate, externally.
3. And, for a company that has some aspect of <IR> receiving external assurance, internal audit should partner with external assurance providers to ensure that the assurance engagement is conducted in the most cost-effective, efficient, and reliable manner.

Thank you again for the opportunity to participate in the <IR> assurance discussion. Please do not hesitate to contact Stacy Mantzaris, IIA's Managing Director of Global Advocacy, if you have any questions about this response and/or would like to schedule a time for us to either meet in person or via conference call. Ms. Mantzaris can be reached at stacy.mantzaris@theiia.org or +1-407-937-1290.

As a member of the IIRC, I continue to emphasize how internal auditors play a vital role in corporate reporting by performing assurance services that give investors and other stakeholders a meaningful level of confidence in the information provided by organizations. We value our continued positive relationship with the IIRC and we look forward to our work together in fostering integrated thinking, reporting, and communications in organizations around the world.

Best regards,

A handwritten signature in black ink that reads "Richard F. Chambers". The signature is written in a cursive, flowing style.

Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA
President and Chief Executive Officer

Attachment A

Reponses to Specific Questions

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

The question might be better worded: “What priority should be placed on credibility and trust in the context of driving <IR> assurance?”

The content of an integrated report will presumably be of significantly lesser value if its credibility is (or could be) called into question, and credibility can be achieved only through the provision of assurance. A third party will trust (i.e., place reliance on) only credible content. Therefore, the highest priority should be placed on credibility and trust, so long as such assurance provides the best overall value in relation to the overall cost.

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

Key features of assurance include:

- Assurance must be based on sufficient, reliable, relevant, and useful information.
- Assurance must be performed independently of the underlying processes by competent and objective individuals, and based on a set of widely recognized standards (underpinned by a set of concepts such as what is articulated in the IAASB’s International Framework for Assurance Engagements).
- Assurance may be evidenced by a report or written conclusion (per paragraph 3.5 of the Introduction paper), but it is the underlying process that will actually create the value to best address the needs of users of integrated reports over time (e.g., a process that includes how the assurance is obtained, the type of assurance, and the level of assurance). In addition to assurance on the accuracy of the integrated report itself, internal audit will further serve the needs of those charged with governance and other users of integrated reports by providing assurance on the report’s underlying processes.

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 IIA highly anticipates a skills shortage in the immediate future as <IR> gains momentum, potentially resulting in elevated costs for appropriately competent assurance. This also may result in limited assurance work performed in the short-term, or assurance conducted by individuals with potentially insufficient competence to perform the work. Internal assurance providers (such as internal audit) must be seriously considered as part of a holistic assurance model that is competent and cost-effective. To aid chief audit executives and internal audit practitioners, The IIA has developed a Global Internal Audit Competency Framework to enable the identification, evaluation, and development of individual internal auditor competencies.⁴

External and internal assurance providers, professional trainers, collegiate accounting programs, regulators, accounting licensing bodies, and others will need to determine whether tomorrow’s demand for <IR> assurance providers will support today’s investment in skills development needed to effectively perform <IR> assurance across all six capitals, as well as the potential variability in individual company implementations.

⁴ The IIA’s Global Internal Audit Competency Framework, The Institute of Internal Auditors (IIA), 2013.

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?

The most effective way to ensure the quality of assurance on <IR> is to enforce, as best as possible and practical, adherence to a set of globally recognized, supported, and adopted <IR> assurance standards. These globally promulgated standards also must be supported by implementation guidance, training, and competency testing. As well, it would be logical that a portion of existing demonstrations of proficiency (certifications), new demonstrations of proficiency, or both, would emerge.

In addition, the right people need to be involved in the assurance process. The internal audit function is best suited to evaluate the organization's integrated processes, and the degree to which the organization has embedded integrated thinking.

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

Financial reporting systems have evolved to such a degree that there is a high level of reasonable assurance over the resultant financial reports. However, the robustness of systematic and manual internal systems today are not sufficient to support a full implementation of the <IR> Framework. Integrated reporting reliability and credibility will need to be based on applying the same or similar internal control disciplines that are exercised over financial reporting, i.e. a robust set of internal controls, built upon adherence to and implementation of an internal controls framework (such as the COSO Internal Control – Integrated Framework). Progressive companies have already adopted the COSO Framework (or other such suitable frameworks) to apply across all their enterprise, not just for jurisdictionally mandated financial reporting purposes (e.g., the United States).

The internal audit function has profound experience with an organization's internal systems, based on its previous assurance and consulting engagements. Internal audit should evaluate the robustness of internal systems, specifically with respect to <IR> implementation preparedness, and provide advice and insights accordingly.

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?

Assurance models, especially those relying on external provisions of assurance, are inherently costly because of the nature, extent and timing of the effort required to obtain some level of reasonable assurance. Costs include compensation for the external assurance provider's time, with a suitable risk premium, plus internal resources required to support the external assurance work (both additional resources and the opportunity cost of existing resources). It is therefore tantamount that the assurance model be one of integrated or combined assurance whereby, over time, both external and internal assurance providers can be effectively deployed to achieve a level of assurance that balances cost and utility with marketplace demands.

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

Pilot companies need to explore various assurance models to determine what works best from a cost/benefit and reliance standpoint; the investment community must be fully engaged to determine what is needed to enhance reliability; and, independent, objective valuation studies should be undertaken, over time, to determine the tangible benefit for companies that choose to take a leadership role in the evolution of <IR>. In addition, the external and internal audit professions should collaborate to establish standards for external audit's use of and reliance upon internal audit's work with respect to <IR> assurance.

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

Existing assurance standards and guidance need to be evaluated, an extensive list of which was provided in the "An Exploration of Issues" paper, by a non-partisan group to determine the applicability and suitability to support assurance in today's environment. As integrated reporting evolves, so too will developed and promulgated standards and guidance to support the effort required for providing assurance. Global

accounting, investment, internal audit, board/audit committee, and financial management communities will need to come together and collaborate on the evolution of assurance standards and guidance to support future assurance expectations around integrated reporting and suitable, cost-effective models of acceptable and reasonable assurance.

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?

It is premature to predict what the correct form any standards/guidance should take, and the elements of considerations recommended in previous answers (specifically to Q7 and Q8) will need to be explored thoroughly. However, it is likely there will need to be generalized principle-based standards that might transcend all types of reporting and assurance, as well as detailed standards covering specific topics, and/or <IR> Framework capitals and content elements.

The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* include numerous standards focusing on governance and risk management. Conformance with these standards will allow internal audit to help organizations prepare for and implement <IR>. As part of The IIA's continuous investment in, and development of, its International Professional Practices Framework (IPPF) content, including the *Standards*, The IIA will determine the need for developing additional guidance to address assurance on <IR> for internal audit practitioners. Such guidance would include detailed processes and procedures, such as tools and techniques, programs, and step-by-step approaches, including examples of deliverables, as appropriate.

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?*

These parameters are key challenges in what will constitute cost-effective and reasonable assurance over <IR>, especially for non-financial reporting, as well as the interplay between non-financial and financial reporting. Potential thought leadership for each of these five parameters would be best addressed through continued dialogue and debate, especially at this early stage.

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

One critical technical issue will be to identify acceptable models of combined (or integrated) assurance. Such models would include roles, responsibilities, and reporting protocols for both external and internal parties to an organization.

Another technical issue will center on differences that may emerge across geographic localities and industry sectors, and the potential need for standards and/or guidance for addressing these differences.

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?*

A combined approach will have to emerge. Complete reasonable assurance across an entire integrated report could be cost-prohibitive, while complete limited assurance would not provide sufficient assurance

on what might be deemed material. Consequently, some form of hybrid engagement, or combined assurance, is the only model that will likely be successful over time. The marketplace (e.g., <IR> users) will determine where reasonable assurance is needed versus where limited assurance is considered acceptable. However, agreed-upon procedures, while possibly useful in the early stages of <IR> adoption, likely will not have a viable place in a long-term assurance model as the procedures for such work are developed by the party requesting the work. Such an agreed-upon procedures model does not seem to have a successful place, over time, in providing sufficient value to those (most notably investors) who would place reliance on the content of an integrated report.

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?

As mentioned previously, the only viable long-term model we see is one that is either an integrated or combined assurance model. This will require the non-competitive collaboration of both external and internal assurance providers, most notably among and between external and internal audit practitioners. To achieve such a combined assurance model will require combined or integrated standards and guidance, emanating from a collaboration among all interested parties (external and internal assurance providers, the investment community, corporate governance experts, regulators, etc.).