

8 December 2014

Paul Druckman
Chief Executive Officer
International Integrated Reporting Council
10 Lincoln's Inn Fields, London, WC2A 3BP

RESPONSE TO THE IIRC ASSURANCE ON <IR> DISCUSSION PAPERS

Dear Paul,

We commend IIRC for taking the lead to initiate the debate on assurance on <IR>.

This letter represents the views of the relevant segments of the business and accounting community in Singapore. We have gathered and consolidated the views from these segments through three main avenues:

- The ISCA Integrated Reporting Steering Committee;
- The ISCA Auditing and Assurance Standards Committee; and
- An 'Assurance on <IR>' Roundtable, co-chaired by Michael Nugent and Professor Ho Yew Kee, Chair of our <IR> Research and Thought Leadership Work Group.

The responses to some of the questions in the discussion papers are related. We have therefore presented the views according to five key observations.

The key observations are:

1. The debate on assurance on <IR> may be premature given the nascent stage of <IR>. There are other more pressing challenges, including the relatively low levels of adoption and uncertainties around what constitutes good <IR> practices.
2. There is a need to close the expectation gap between demand for assurance (what the market wants assurance professionals to provide) and supply of assurance (what the assurance professionals are willing and able to provide).
3. More research is needed to understand:
 - a. Market demand for assurance on <IR> and other non-financial and narrative reporting;
 - b. Assurance supply constraints related to <IR> and other non-financial and narrative reporting; and
 - c. What constitutes best practice and a "good <IR>".

4. The strategy for assurance on <IR> needs different emphasis in the short, medium, and long term.
 - a. In the short term, emphasis should be placed on improving internal systems and controls to drive credibility and trust. Robust internal systems must be put in place before external assurance can play a meaningful role in further driving credibility and trust in <IR>. Concurrently, organisations should be encouraged to fully understand the guiding principles and content elements in the <IR> Framework to improve their reporting.
 - b. In the medium term, there should be more promotion towards external assurance on <IR> to enhance credibility and trust on integrated reports. In the meantime, the <IR> Framework should evolve and mature and <IR> preparers would become more confident in producing <IR>. The profession should take this opportunity to acquire the necessary skills and adapt to their new responsibilities.
 - c. In the long term, a new set of standards for assurance on <IR> and other narrative and future-oriented information is desired. The true value of <IR> lies in the connectivity and interdependencies of the different content elements in an integrated report to tell a holistic value creation story of an organisation. Assuring <IR> content elements in a disintegrated manner will not fully bring out the true value of assurance on <IR> which promotes such connectivity and interdependencies. This leads to the proposal for assuring the <IR> process rather than the content elements independently.
5. The following could be undertaken by the relevant parties to prepare for assurance on <IR>:
 - a. Acquisition of knowledge, competencies and skill sets of <IR> professionals to build competent multidisciplinary teams;
 - b. Professional accountancy bodies must play a key role in shaping the development of the capabilities of assurance providers and <IR> report preparers. To enhance the value of the assurance, assurance providers on <IR> must be members of recognised professional bodies and governed by an ethics code; and
 - c. Employing a new set of standards for assuring the process of preparing an integrated report instead of just the contents in the physical report.

More details can be found in pages 4 to 8 appended to this comment letter.

Should you require any further clarification, please feel free to contact Ms Zoey Xie, Manager, Technical Standards Development and Advisory, or Mr Magnus Young, Manager, Research, at ISCA via email at zoey.xie@isca.org.sg or magnus.young@isca.org.sg respectively. Thank you.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Lim Ai Leen', with a long horizontal stroke extending to the right.

Ms Lim Ai Leen
Executive Director
Technical Knowledge Centre and Quality Assurance

1. Debate on assurance on <IR> may be premature

- 1.1 Given the nascent stage of <IR> for both <IR> preparers and assurance providers, the focus on assurance may be premature. Assurance providers need to better understand the nature and level of assurance being demanded by the market and the feasibility of providing the assurance demanded. At the same time, preparers of <IR> need to better understand how to prepare <IR>.
- 1.2 The <IR> Framework currently sets out the guiding principles and content elements of <IR>. In addition to this <IR> Framework, there should be guidance on how to adopt and implement <IR>. The nature and level of assurance can only be determined after organisations know how to adopt and implement <IR>.
- 1.3 There is a lot of debate in terms of what assurance on <IR> should look like. At one extreme, there is an argument for assuring only on specific elements for <IR>. At the other extreme, there are proponents for assurance on <IR> being given on a set of integrated report taken as a whole, since the value of an integrated report lies in the connectivity and interdependencies of the various content elements to tell a holistic value creation story. A good suggestion given by certain assurance professionals is for assurance to be given on the process of preparing an integrated report instead of just the contents in the physical report.

2. Expectation gap between demand and supply of assurance and specific challenges for assurance on <IR>

- 2.1 Some early adopters and users of <IR> have demanded assurance on a range of non-financial information. To date, the assurance profession has responded to this demand primarily by taking reference from ISAE 3000 *Assurance Engagements Other Than Audits Or Reviews Of Historical Financial Information* and providing limited assurance on those elements of <IR> that has verifiable information. The market may not continue to accept limited assurance on <IR>. The <IR> survey jointly conducted by ISCA and the National University of Singapore (NUS) showed that the respondents are generally in favour of assurance on <IR>. Majority of the respondents desire to have “reasonable” assurance (as opposed to just “limited” assurance) for governance, performance and basis for preparation and presentation. This may create an expectation gap between demand for assurance services, and the ability of assurance providers to meet the demand.
- 2.2 The expectation gap may also arise from concerns by the auditing professionals over liability issues arising from assuring narrative and future-oriented information. The ISCA-NUS <IR> survey found that some respondents wanted limited assurance on outlook and risks and opportunities which are not verifiable due to elements of uncertainty. The auditing professionals are therefore not comfortable to, or in most cases, not able to provide assurance services on these contents of <IR>.

- 2.3 Given the above concerns of the auditing profession, assurance on <IR> in the short term may continue to be limited, rather than reasonable, to limit the assurers' liability concerns. Reasonable assurance on <IR> may also be too costly, both on assurance fees and personal liability.
- 2.4 Certain elements of <IR> present further challenges for assurance on <IR>:
- The absence of a robust and detailed reporting framework for the non-financial capitals makes assurance for accuracy and completeness difficult.
 - The current assurance on <IR> reports focuses on assuring whether there is material misstatements in the information reported. In line with the <IR> Framework, there should be more focus on whether all material information has been reported. It is widely understood that assuring that there are no material omissions presents significant challenges.
 - The preparers' evaluation of materiality in <IR> may lead to reporting a mix of quantitative and qualitative information, with Key Performance Indicators that combine both verifiable and unverifiable information. Assurance on <IR> may therefore need to focus on the process, rather than the reported content, as elaborated in paragraph 5.5.
- 2.5 To develop a standard for assurance on non-financial reporting, we must first have application guidance for how to prepare <IR> (see 1.2 above). Currently, such guidance is lacking. A comprehensive set of application guidance, including guiding principles on the concept of materiality, will provide a structure for which a set of standards for assurance on non-financial information can be developed.
- 2.6 While exploring a new set of assurance standards to be developed, organisations that demand external assurance will probably continue to rely on existing standards such as ISAE 3000. Hybrid arrangements, which comprise different types of assurance reports within one engagement, may be a good solution for getting started on tackling the liability concerns. Hybrid engagements leave room for assurance professionals to provide limited assurance under the current standards for those elements of <IR> that have verifiable information. In the meantime, the <IR> Framework and <IR> reporting practices will evolve, guidance on <IR> can be developed, and the assurance profession can grow into its new responsibilities while waiting for a new set of assurance standards to be formulated.

3. More research is needed

- 3.1 Uncertainties around who demands assurance, and the level of assurance they demand, make it difficult to determine the nature and level of assurance on <IR>. There is therefore the need for research to better understand market demand for assurance on <IR> specifically, and demand for assurance on non-financial information in general. On the assurance over <IR>, there could be research to understand whether the market expects to have assurance over all the content elements of <IR> and if so, the level of

assurance expected for each content element. Given that the true value of <IR> lies in the connectivity and interdependencies of the different content elements in an integrated report to tell a holistic value creation story of an organisation, it warrants a research to find out whether the market expects assurance to be provided over an integrated report taken as a whole or if not, the reporting process itself.

- 3.2 More research is needed to understand the supply constraints from the assurance providers' perspective, in particular liability issues concerning assurance on narrative and future-oriented information, and potential solutions to these.
- 3.3 Preparers of annual reports and <IR> have also indicated a demand for more information and better guidance to promote best practices for <IR>.

4. Assurance on <IR> needs a phased approach

- 4.1 Fundamentally, there is a pressing need to educate the stakeholders on the value of <IR> before we can address the kind of assurance required. IIRC, together with the national accounting bodies, need to advocate the true value of <IR> which lies in the connectivity and interdependencies of the different content elements in an integrated report to tell a holistic value creation story of an organisation. Assuring <IR> content elements in a disintegrated manner will not fully bring out the true value of assurance on <IR>. This leads to the proposal for assuring the <IR> process rather than the content elements independently as elaborated in paragraph 5.5. In the next few points, we discuss how a phased approach is desired to achieve the ultimate goal of assurance on <IR>.
- 4.2 To drive credibility and trust in <IR>, we first need good corporate governance, including robust internal control processes and a strong leadership team taking ownership of the organisation, before embarking on external assurance. We believe that robust internal control processes and a strong risk management system are fundamentally more important than external assurance. Without a foundation of good corporate governance, external assurance will not serve to drive credibility and trust in <IR>.
- 4.3 We therefore need a phased approach to assurance on <IR>.
- 4.4 In the short term, priority should be given to building robust internal control processes and a strong leadership team who advocates <IR>, including integrated thinking. This will build the foundation and internal competencies needed to adopt <IR>. Initiatives to achieve this include providing resources to enhance clarity around best practices for <IR> and guidance along the adoption and implementation journey. Concurrently, organisations should be encouraged to fully understand the guiding principles and content elements in the <IR> Framework to improve their reporting. Investing in or improving data management systems for non-financial information is most likely also needed to enable efficient assurance on <IR>. Assurance professionals will probably

also continue to employ existing standards to provide assurance on those elements of <IR> that are verifiable.

- 4.5 In the medium term, there should be more promotion towards external assurance on <IR> to enhance credibility and trust on integrated reports. In the meantime, the <IR> Framework should evolve and mature and <IR> preparers would become more confident in producing <IR>. The profession should take this opportunity to acquire the necessary skills and adapt to their new responsibilities.
- 4.6 Long term, we should adopt a new set of assurance standards and move towards increased use of external assurance to drive credibility in <IR>. Whether limited or reasonable assurance on the <IR> process is desired is again dependent on the market demand and the ability and willingness for accounting professionals to supply as explained in Section 2 of this comment letter. If organisations have robust internal control and data management systems, and market demand for external assurance is sufficiently strong, it may be possible for external assurance on <IR> to flourish. We believe that if the demand for assurance on <IR> is sufficiently strong, assurance providers will naturally seize the opportunity to provide the required services.
- 4.7 The key challenge is getting the market to understand the value of assurance on <IR>. The availability of suitably skilled assurance providers and defining the suitable composition of skills in an assurance team are challenges which can be overcome. We believe that the market will self adjust – the assurance providers would build the capacity, competencies and skills required for providing assurance on <IR> as soon as demand for assurance picks up.

5. Preparing for assurance on <IR> -- short, medium and long term

- 5.1 Short term, we need to focus on strengthening internal controls and data management systems to enhance credibility in <IR>. As explained in Section 3, we should use research to find feasible solutions to address the fundamental issues that were discussed in Sections 1 and 4. A formal guide on how to prepare an integrated report using the <IR> Framework could be established.
- 5.2 Drawing experience from the assurance on sustainability reporting in the meantime, assurance providers could employ a hybrid engagement using the existing ISAE 3000. This would allow users of audited statements to take into account the limits of the assurance work when using the reports. It would also leave room for <IR> to mature in parallel with evolving assurance practices.
- 5.3 In the medium term, the auditing profession should focus on acquiring knowledge and competencies, and building competent multidisciplinary teams in preparation for a new set of standards for assurance on <IR>. Professional accountancy bodies must play a key role in shaping the development of the capabilities of assurance providers and <IR>

report preparers. To enhance the value of the assurance, assurance providers on <IR> must be members of recognised professional bodies and governed by an ethics code.

- 5.4 Singapore has taken preliminary steps to address some of the concerns around skills. The Singapore Qualification Programme (SQP) aims to build a talent pipeline of multi-disciplinary accounting professionals. The SQP promotes diversity and encourages graduates of all disciplines to enter into the accountancy profession. The accountancy profession in general, and the future of assurance services in particular, will benefit from an increased inflow of scientific and technical expertise.
- 5.5 Long term, a new set of assurance standards to guide the assurance providers may be desirable. The auditing profession is generally sceptical about providing assurance on narrative and forward-looking information. There are also reservations on auditing certain unverifiable content elements such as the “connectivity of information” and “completeness” in integrated reports. The new assurance standard could focus on establishing guiding principles around assuring the <IR> process instead of the contents in the physical report. As opposed to a true and fair opinion expressed on verifiable financial information, assurance professionals can possibly provide insights into the robustness and maturity of an organisation’s integrating thinking and reporting processes benchmarked against the <IR> Framework developed by IIRC. Sample industry specific assurance reports would be useful.
- 5.6 As long as the new set of assurance standards focuses on the key aspects mentioned in 5.5, it does not have to be a separate standard specific to <IR>. Practitioners welcome a holistic standard that covers all other forms of non-financial reporting and assurance, including many areas that currently fall under sustainability reporting and assurance. IIRC may consider inviting the existing assurance standards setters such as the International Auditing and Assurance Standards Board (IAASB) to take the lead in formulating a holistic set of assurance standards for non-financial, narrative and forward-looking information. IAASB should also use the Corporate Reporting Dialogue as a platform to draw relevant experiences and inputs from the participants, especially in the areas of non-financial information. This will help to align the thinking and efforts of the various global standard-setters in the development of such assurance standards.
- 5.7 A set of generally accepted standards that govern the professionalism of the assurance profession is what differentiates assurance providers from analysts and consultants. Hence, issuing a new standard would be a long term solution to drive a high level of credibility and trust in <IR>.
- 5.8 The assurance profession and assurance standards must continue to evolve and adapt to demand over time as the <IR> Framework and corporate reporting evolves.