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Submitted electronically to assurance@theiirc.org

Paul Druckman
The Chief Executive Officer
The International Integrated Reporting Council

Dear Paul

Comments arising from roundtables in Johannesburg and Cape Town, South Africa, on Assurance on <IR> – an introduction to the discussion

The Independent Regulatory Board for Auditors (the IRBA) is both the audit regulator and national auditing standard setter in South Africa. The IRBA has as one of its statutory objectives the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in South Africa. The IRBA's statutory Committee for Auditing Standards (the CFAS) is responsible for assisting the IRBA to adopt, develop, maintain, issue and prescribe auditing pronouncements.

The IRBA is of the belief that as corporate reporting, including integrated reporting (<IR>), is evolving, a need has arisen for thought leadership considerations on the assurance on <IR>. To this end the IRBA has established an Integrated Reporting Standing Committee (<IR>SC) under the stewardship of the CFAS. Thought leadership on the assurance on <IR> will be the cornerstone of the <IR> project for South Africa. The adoption of the Terms of Reference of the <IR>SC in November 2014 was a milestone in the discussion on assurance on <IR> in South Africa.

We appreciate this opportunity to comment on the *Assurance on <IR> – an introduction to the discussion* (the discussion paper), developed by the International Integrated Reporting Council (IIRC).

Our comments have been prepared from two roundtable discussions conducted in South Africa: The first was held in Johannesburg on 20 August 2014 and was arranged in conjunction with the Institute of Directors in Southern Africa (IoDSA). The second was held at the University of Cape Town, in conjunction with the College of Accounting, on 24 November 2014.

Panelists included academics, providers of financial capital, assurance providers, a representative of the public sector, consultants on <IR> and the CEO of the IIRC.

Participants included registered auditors, preparers of <IR>, providers of financial capital, consultants on <IR>, assurance providers, academics and the public sector.

Our comments are presented in the following sections:

1. General comments
2. Summary of the roundtable discussions in Johannesburg and Cape Town; and
3. Annexure: Comments captured at the two roundtable discussions held in South Africa.

Set out in section 2 are the key points or common trends that emerged from the discussions. Section 3 captures comments that were made by participants in the discussions, where diverse views were expressed and questions were raised that are in most cases still left unanswered, as to be expected at these early stages of the discussion. Those views expressed in Sections 2 and 3 are therefore not necessarily those of the IRBA.

Kindly e-mail us at ivanker@irba.co.za or creintjes@irba.co.za or phone on direct line +27 87 940 8838 / +27 87 940 8828 if further clarity is required on any of our comments.

Yours faithfully

Signed electronically

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1. GENERAL COMMENTS

- a) We welcome the IIRC's efforts in developing the papers *Assurance on <IR> – an introduction to the discussion* (the discussion paper) and *Assurance on <IR> – an exploration of issues*, and in particular the IIRC's objective of creating awareness amongst all stakeholders with an interest in corporate reporting.

The IRBA also welcomes the efforts of the International Auditing and Assurance Standards Board (IAASB). Arising from the work of the Innovation Working Group, the IAASB has recently formed the Integrated Reporting Working Group (IRWG), on which South Africa is represented. We believe that this development is an important step in the mainstreaming of the discussion of assurance on <IR>.

We support continued co-ordination between the IRWG and the IIRC and look forward to leadership on this topic being provided by a recognised international standard setter.

- b) The Integrated Reporting Committee (IRC) of South Africa recently released the *Preparing an Integrated Report - A Starter's Guide*. It states that "the Johannesburg Stock Exchange Ltd (JSE) has adopted the King III¹ principles as part of its Listings Requirements, which require listed companies to apply the King III principles or explain which principles have not been applied and provide reasons. So while it is not compulsory for a JSE-listed company to prepare an integrated report, if it is not doing so it has to publicly explain why.

Most of the JSE top 100 companies, many smaller listed companies, and some of the larger state-owned companies prepare integrated reports. Some unlisted organisations also prepare integrated reports to demonstrate good governance and reporting."

Accordingly, because this is embedded in King III and JSE Listings Requirements, as the audit regulator we recognise that this is a subject matter South African practitioners are beginning to deal with, and therefore is relevant to our mandate as a regulator.

- c) Some assurance providers are looking to the current standards, such as the International Standard on Assurance Engagement (ISAE) 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, for possible solutions to the challenges posed by assurance on <IR>. Elements of the <IR> may indeed be assured in this way and standard setters and regulators would need to be alert to opportunities to widen the scope of current standard setting projects to address assurance needs for <IR>.

One of the possibilities is that new techniques and approaches may be needed for assurance on <IR>, and we will support research in that direction. A future of integrated assurance for <IR> should be maintained as a goal.

- d) It is important that the required skills and experience of practitioners who provide assurance on <IR> are carefully defined. We believe the requirements also extend to preparers, boards of directors and users, and that the skills of these stakeholders should also be carefully assessed.

This is a subject that may warrant the attention of those involved in education, training and development of professional accountants and auditors in public practice.

- e) In keeping with parallels in financial reporting, a need does arise for the <IR> reporting framework and the assurance discipline thereon to be regulated and enforced.

¹ The revised Code of and Report on Governance Principles for South Africa (King III) is issued by the Institute of Directors of South Africa (IoDSA) and provides for corporate governance standards.

2. SUMMARY OF THE ROUNDTABLE DISCUSSIONS IN JOHANNESBURG AND CAPE TOWN

The following key points or common trends emerged from the discussions:

A. *Preparation of the <IR>: independence*

Participants agreed with the IIRC in stating that the information in an <IR> needs to be credible and trustworthy.

It should be explored further whether the <IR> should be prepared by non-executive *independent* directors sourced from the entity's audit committee. Those directors would already have a working knowledge of the business, but have a measure of independence from the functioning of the company and may therefore not exhibit any bias in the report. Information may therefore be complete, accurate and appropriate; however, even then, independence may still need to be considered as these directors are still on one of the committees of the entity.

If, however, the <IR> is prepared by an external party (i.e. a contracted in party), the information therein will be considered to have been independently gathered and as a result a higher level of reliance may be placed on the non-financial information by the assurance providers. Information may however not be complete, accurate and appropriate as the external party would not have a working knowledge of the business.

It is suggested that the two options, namely internal versus external compilation of the non-financial information in the integrated report, and the impact on independence of preparation and the impact on the provision of assurance be further researched.

B. *Assurance on the <IR>: combined assurance and independence*

The discussion paper explains assurance as a process undertaken by a competent *external* practitioner, who is *independent* of an organisation, to obtain sufficient appropriate evidence and express a written conclusion that enhances the degree of confidence intended users can place on the organisation's <IR>.

The understanding of combined assurance is that assurance may be provided not only by auditors, but also by other assurers, who could be *external* or *internal* to the entity. Assurance is therefore understood as an all-embracing term in the context of <IR>.

Organisations use a variety of internal mechanisms to reassure those charged with governance that complete and reliable information is included in an integrated report. Organisations have internal control systems, which may include an internal audit or similar function, as part of the processes for managing, reviewing and reporting information. These are important to the integrity and credibility of an integrated report

Those charged with governance (TCWG)² of the entity, for example, the board of directors or executive management, and therefore not independent of the entity, are required to provide a statement in the <IR> which should include their opinion or conclusion about whether the

² IAASB Glossary of Terms: "The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager."

<IR> is presented in accordance with the <IR> Framework³. We suggest that the concept that this is a form of assurance should be further explored.

C. Maturity assessment of those charged with governance (TCWG) and of the control environment

International Standard on Auditing (ISA) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatements through Understanding the Entity and Its Environment*, and ISA 330, *The Auditor's Responses to Assessed Risks*, provide guidance on obtaining the required understanding of the entity and its environment, including the entity's internal controls, and assessing the risks therein, as well as the auditor's responses to these risks through tests of controls or substantive tests.

The concept of "maturity assessments" of TCWG and of the control environment by the assurance provider is something that may warrant further research. This consideration of the maturity of TCWG may include an assessment of leadership, governance, risk management, internal systems, internal controls, culture and tone, and internal audit over a period of time.

The assurance provider may then make a statement on the assurance provider's assessment of TCWG and of the control environment, which would be included in the <IR>, rather than an assurance report on the <IR>. This would be assurance of the *process* (maturity assessment) rather than assurance of the *result* (the <IR>).

A high level of maturity may be a positive indication of integrated thinking and therefore a driver of value creation.

D. Level of assurance on <IR>

It was suggested that due to the nature of the information in an <IR>, providing hybrid assurance is an approach deserving careful attention. As the discussion paper suggests, only limited assurance may be possible on soft data and the completeness of an <IR>. As an example, <IR>s contain forward looking statements and as such it may be difficult for an assurance provider to provide reasonable assurance on such information.

Hybrid assurance on <IR>, however, might not be well understood in the market and may lead to investor confusion. This may warrant further research as to how this expectation gap could be reduced and how the market could be better informed.

E. The role of investors in the evolution of corporate reporting

A further option that may be explored is to carry out research (such as pilot projects) in order to understand the needs of the providers of financial capital with respect to <IR>. This may inform the type of assurance required by the market as well as what non-financial information the market expects to be included in the <IR>.

It was also suggested that as a key purpose of corporate reporting is for providers of financial capital to decide where to place their capital, that these providers should be more firm in their expectations of reporting by companies and should "push back" where reporting is inadequate. The responsibility of providing an accurate and complete <IR> rests with TCWG, and therefore providers of financial capital can hold TCWG responsible and accountable.

It is not the assurance provider's responsibility to drive the <IR> process (as it has similarly never been the auditor's responsibility to drive the financial reporting process).

³ Per paragraph 1.20 of the International <IR> Framework.

F. Single regulator for assurance providers

Participants understood the need for multidisciplinary teams when providing <IR> assurance services. However, participants equally understood the need for consistency in the provision of assurance in this field. Thus we emphasise the need for assurance providers to have the appropriate level of assurance skills and competencies. This may be achieved through a single regulatory body overseeing those providing assurance on <IR>.

G. The evolution of <IR>

Participants cautioned that, although assurance on <IR> should be kept on the long term agenda of the IAASB, <IR> itself is still at too early a stage to begin providing definitive guidance on the assurance thereof. We understand that assurance in various forms and by various assurance providers is already being provided on <IR>s. We suggest that users of these assurance reports assess the value of these assurance reports themselves and that over time such value will be improved/enhanced.

Several audit firms have conducted surveys of South African companies that have prepared integrated reports. The general comment appears to be that <IR> is improving but that there is limited evidence in the <IR> of integrated thinking.

Some participants argued that there is a risk that <IR> will be stifled if guidance or even a standard on the assurance on <IR> is developed too soon, before <IR> has properly matured and stabilised. They were concerned that <IR> will be “moulded” in order to be forced to fit into an assurance standard, ensuring a “clean” assurance report. The analogy provided was that of an auditor reporting on a set of financial statements where the financial reporting framework has not yet been established.

Participants proposed that sufficient time be allowed for integrated reporting to evolve before concluding on the type of assurance and guidance required.

3. ANNEXURE: COMMENTS CAPTURED AT THE TWO ROUNDTABLE DISCUSSIONS HELD IN SOUTH AFRICA

Set out in section 2 were the key points or common trends that emerged from the discussions. This section captures comments that were made by participants in the discussions, where diverse views were expressed and questions were raised that are in most cases still left unanswered, as to be expected at these early stages of the discussion. Those views expressed in Sections 2 and 3 are therefore not necessarily those of the IRBA.

Johannesburg – 20 August 2014

The participants at the roundtable discussion expressed the following views and posed the following questions:

About <IR>

- An <IR> is not only about the report itself but also includes the processes/integrated thinking that the management of the entity has undertaken.
- <IR> is currently a challenge for the auditing profession.
- Do <IR>s add any value?
- The criteria for measurement need greater clarity and then consistency.

About assurance on <IR>

- Consideration needs to be given to the role of internal auditors in the preparation or assurance of <IR>s.
- The board of directors should take responsibility for <IR>. A single statement from the board of directors, but individual assurance from various assurance providers.
- The issue is not necessarily regarding assurance but rather whether the information is credible. Assurance is merely a means that leads to credibility.
- A need exists for one single opinion on the credibility of <IR>.
- The concept of assurance on <IR> does not necessarily mean “audit”.
- Assurance on <IR> needs to be defined as it may have different meanings for public sector purposes and amongst stakeholders.
- The current assurance models are not considered to be suitable for <IR> (reporting framework, criteria, and controls).
- <IR> may lead to innovations in assurance work.
- New definitions may need to be developed.
- Does the auditing profession/boards of directors/companies possess the requisite skills for <IR>?

- <IR> may lead to the widening of the term 'assurance'. Assurance may no longer be regarded in the traditional sense.
- What role does combined assurance (internal and external auditors working together in tandem) play in the <IR> process? Is this not the solution in the long run?
- Assurance on <IR> should be started early, even if the result is not perfect.
- Does credibility come before assurance?
- Will <IR> lead to integrated assurance?
- Who is the audience of <IR> and what bearing does that have on assurance on <IR>?
- The experience of the auditing profession with Key Audit Matters (KAMs) may be helpful.

User expectations

- Users are looking for a 'stamp' on <IR> as they currently have limited understanding of limited and reasonable assurance.
- The users probably want assurance on the report as well as on the process.

Cape Town – 24 November 2014

The participants at the roundtable discussion expressed the following views and posed the following questions:

About <IR>

- <IR> is still evolving and as such those with a vested interest in <IR> must not be hasty in concluding on what level of assurance is required by the markets.
- Would the independent sourcing (e.g. the preparation of the <IR> is outsourced) of the information in the <IR> add to the credibility of the <IR>?
- There is a need for preparers of <IR>s to consider qualitative and quantitative materiality with respect to information in <IR>s, especially forward looking non-financial information.
- The management of the entity that prepares an <IR> should provide an endorsement of the <IR> as it may contain management commentary on the future prospects of the entity.

About assurance on <IR>

- The maturity of management regarding internal systems, culture of the entity and governance needs to be assessed by the assurance provider.
- The assurance provider needs to consider the type of systems that the <IR> information has been derived from and whether the assurance provider can derive any comfort from internal controls over those systems.
- Consideration needs to be given to the legal liability of the assurance providers.
- The majority of <IR>s contain forward looking statements which makes it very difficult to provide assurance thereon.
- A framework of principles and ethical standards are required for all the different assurance providers so as to ensure consistency on <IR> engagements.

User expectations

- A belief exists that the users have an expectation gap in understanding the different types of assurance (limited, reasonable and hybrid assurance) and as such an awareness initiative might be required.
- The needs of the users of <IR>s need to be thoroughly researched so as to have an informed view about the type of information the users would prefer feedback on as well as the type of assurance.
- A provider of financial capital stated that currently assurance on <IR>s does not add much value as the <IR> itself has not yet matured to a level that it can be relied upon. The provider of financial capital stated that he looks at the internal functions of the entity: TCWG, risk management, internal controls, systems, the culture and tone of the entity – and all of these factors over a period of time.