

International Integrated Reporting Council (IIRC)

November, 2014

**Feedback from FSR - Danish Auditors on <IR> assurance**

We thank you for the opportunity to provide feedback on the opportunities and challenges related to assurance on Integrated Reporting <IR>.

FSR - Danish Auditor's CSR- committee arranged a roundtable discussion on <IR> assurance on October 28, 2014, in Copenhagen with representatives from accounting firms and the accounting profession, preparers and users of integrated reports and regulators. Following the meeting we have consolidated the input and provided the participants the opportunity to provide further input. The feedback is found attached to this letter.

We hope the input is well received and can play a part in helping to steer the direction of the further discussions and actions in the area of <IR> assurance.

Best regards,



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## Feedback on questions raised by the IIRC concerning implementation

Side 2

### *The nature of assurance:*

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

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

**A1+2.** Assurance is considered as an essential means for providers of financial capital and other users of <IR> to place trust in the data and information provided. Hence the importance of assurance is not seen to diminish with the uptake of <IR>, but will be a determining factor in terms of credibility and wider uptake going forward.

Key features of <IR> assurance should include:

- Assurance of financial and non-financial data and information to reflect the importance of material issues (and where possible the capitals, if companies have adopted the capitals model) for the company and introduced by the <IR> Framework.
- Assurance at different levels provided over different types of data (as the data quality may vary), information and principles/processes (e.g. adherence to frameworks) to 1) ensure transparency over the information provided and to 2) provide guidance over how it may be used, compared and evaluated by readers of the reporting. E.g. selected financial and non-financial data under the financial scope could be subject to audit, other information such as future-oriented information or data in or outside of operational scope or adherence to the <IR> framework or specific processes could be subject for review.
- A central 'statement(s)/point of reference' for an assurance opinion covering the full <IR> rather than separate / stand-alone statements (e.g. assurance provider, standard setter, NGO, stakeholder panel etc.) that may be published different places in the report / on-line.
- The readers should not be in any doubt regarding which data and information that has been subject to assurance, according to which level

(audit/review) and which standard(s) (e.g. ISA 700/ ISAE 3000/ ISA 500 / AA1000) when reading the reporting.

Side 3

***Competent practitioners:***

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?

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?

**A3+4.** <IR> calls for integration among the team of report preparers as well as in the assurance team. Whilst specific competences might be available of relevance to <IR> new ways of working together within the accounting firms to make those competencies match and respond to the broader reporting on value creation short mid and long-term is critical and needed.

An organization like IAASB should be engaged in dialogue on how to take <IR> assurance further and in the development of new approaches.

The opportunities to make further use of external experts as part of the assurance team should be investigated through the existing assurance standards as this will be of relevance going forward when establishing the right combination of competences. This may include standards such as e.g. ISA 620, ISA 600 and ISA 402.

It is viewed as essential to have the assurance provider have overall responsibility of the assurance engagement (e.g. including external experts) to 1) represent an integrated assurance approach responding to the integrated reporting practice and to 2) uphold high levels of assurance quality and standards of practice. This approach will suit providers of financial capital as they know the professional standards. It will also avoid a number of different stand-alone statements from different types of verification providers which could blur the assurance picture for the reader. Strong consideration of which external experts generate trust and legitimacy and hence are best suited to be involved should be carefully considered.

It may also be important to make use of the experiences and practices concerning prospectus for stocks and the auditors engagements in this as part of the <IR> reporting and assurance processes.

Side 4

***Robust internal systems:***

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

**A5.** Robustness of internal systems particularly with respect to non-financial information is often seen to be an issue which needs management attention by the reporting organization to ensure that data being used in an integrated report is at a level that compares to that of financial figures (e.g. regarding scope, boundaries, robustness and completeness).

Accountants may assist in building those systems in companies where they are not engaged in the assurance process. Robust internal systems may also lower the cost of the assurance engagement as the assurance provider can rely more on the systems in place during the design of the assurance engagement.

It should not be expected that the reporting organization has the same level of maturity and capacity to report on all the material capitals. A degree of flexibility should be allowed when it comes to validating the report which could be reflected in the assurance providers performed work and in the opinion. For example the assurance provider does not need the same level of assurance for all material capitals but he/she can express a conclusion on the basis of different levels of assurance scope and by making using variable assertions.

***The cost of assurance:***

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?

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

**A7.** <IR> assurance is likely to develop over time alongside the developments of <IR>. The cost of assurance may be kept at a reasonable level by allowing for:

- Different levels of assurance over different types of auditable data and information (as noted in A1+2). This may involve two statements covering different levels of assurance.

- Year-by year rotation schemes based on the materiality assessment and professional judgment over appropriate assurance levels for different types of data as well as geographic areas / processes / capitals.
- 'Reliance' on robust internal reporting, audit and control systems.

Side 5

Also it may be of relevance for an integrated assurance process to have the assurance team involved more regularly through-out the year on both financial and non-financial data and information. Furthermore it can be of relevance to include in the process insight / 'reliance' on outcomes of stakeholder engagement processes e.g. like reviews by stakeholder panels or other experts being engaged by the company throughout the year to help shape materiality and responses to future risks and opportunities.

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## Feedback on questions raised by the IIRC concerning technical

Side 6

### **Methodology issues:**

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

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?

**A8+9.** There is a need for development of an assurance approach and standard that match <IR>. However the standards available today are viewed as suitable and can serve the purpose of providing assurance over <IR> for the time being. Yet, guidance to ensure consistency of possible <IR> assurance approaches would be welcomed in the short to medium term. The standards that are considered suitable for the timing being is ISAE 3000 as the main standard in combination with AA1000 on processes concerning stakeholder accountability and ISA 700 for financial data. An organization like IAASB should be engaged in dialogue on how to take <IR> assurance further and in the development of new approaches.

Whilst a number of assurance assertions are established with regards to data, assurance assertions regarding processes and procedures are missing. They could be of relevance for <IR> assurance (e.g. processes with respect to stakeholder engagement, risk management, strategy etc.) and could be essential going forward to ensure a consistent assurance approach incl. the narrative and future-oriented reporting.

In terms of data subject for reasonable and limited assurance guidance as to what type of data would be expected to fall into the different categories could be of use for both the report preparers and assurance practitioners.

A specific <IR> assurance standard would be welcomed but it 1) is viewed as a long-term goal, 2) it could build on / into the ISAE 3000 and 3) the development process should not hinder provision of assurance by using existing standards.

Q10. What are the (a) key challenges and (b) proposed approaches that assurance standard setters should consider with respect to:

**A10.** See below:

Side 7

- **Materiality?**
  - An integrated materiality approach is viewed as one of the most fundamental aspects that has to be resolved to steer the assurance process. The current financial and sustainability materiality assessment practice does not often cater for the <IR> capitals and value creation focus. This counts both for the report preparer and the assurance provider.
- **The reporting boundary?**
  - Reporting boundary is seen as a challenge. To allow for comparison of data that is comparable and useful for providers of financial capital it is considered essential that financial and non-financial data are subject to the same scoping - e.g. financial. This also relates to enabling connectivity between the data and how these correlates. At the same time limiting the scope to the financial scope will be too narrow in the context of <IR>.
  - It is seen as a challenge from an assurance perspective to include the value chain as part of the reporting as information is outside the sphere of control of the reporting company and data cannot be trusted in the same manner. Here a lower level of assurance will have to be applied.
- **Connectivity?**
  - *No specific comments*
- **Completeness?**
  - *No specific comments*
- **Narrative reporting and future-oriented information?**
  - This is viewed as an area of potential difficulty. Assurance assertions with regards to processes and procedures as mentioned in A9 are viewed as essential when it comes to future oriented information. Also here a lower level of assurance will have to be applied.
  - Furthermore the information should preferably be presented in the management reporting not subject for audit, but subject for consistency check in Denmark. Some of the information may not be disclosed by the company due to confidentiality.
  - The step-wise approach taken in the UK with the introduction of strategic reporting is viewed as a good way and steady move towards <IR> where assurance can move alongside the step-wise reporting developments. Learning from the UK in this respect may be useful.

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

Side 8

*No specific comments.*

**Levels of assurance:**

Q12. What are the (a) key challenges and (b) proposed approaches that assurance standard setters should consider with respect to:

**A12.** See also responses in A. 1+2+7.

- Reasonable assurance?
  - Not realistic on all data (financial and non-financial) and information due to lack of robustness across all data types. Potentially viewed as too costly for the reporting companies.
- Limited assurance?
  - Not satisfactory on financial data. An option for non-financial information etc. in combination with reasonable assurance.
- Hybrid engagements?
  - A short to medium term solution as noted earlier.
- Agreed-upon procedures engagements?
  - The engagement does result in an opinion, but it does assist the reader of the report in understanding how the assurance provider has been engaged. It may be used to conclude on the level of adherence to <IR> -or to explain why the reporting organization is not mature yet.
- Other approaches?

**Using existing assurance:**

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?

**A13.** ISAE 3000 is viewed as the standard that can encompass <IR> for the time being - e.g. including references to pure financial statements if needed to comply with regulation.