

Mr. Paul Druckman
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Dear Paul

Consultation Document – Assurance on Integrated Reporting

The Financial Reporting Council (FRC) welcomes the opportunity to respond to the consultation on “Assurance on <IR>”. Although the FRC welcomes the IIRC taking the initiative to explore issues related to the potential application of assurance to an integrated report prepared in accordance with the Framework, we believe that it may be premature to assume that assurance will be demanded at all, or in the form we currently know it, or from accounting practitioners, especially given the relatively recent issuance of the Integrated Reporting Framework itself.

We note in particular that the primary focus of the consultation, “is on identifying issues from the assurance practitioners’ perspective for the consideration of both assurance standard setters (e.g., the IAASB, jurisdictional-specific assurance standard setters, and other organizations) and assurance practitioners rather than to prepare solutions as it is not within the remit of the IIRC to develop assurance standards or methodologies”.

We believe this approach places too great a reliance on the input of the auditing profession in developing assurance solutions based on existing models which may ultimately prove to be unsatisfactory in meeting the needs of users of integrated reports. For the reasons set out in the body of this letter, the FRC believes that much more careful consideration needs to be given to the development of bespoke solutions for assurance on integrated reports. In view of the nature of our comments outlined in this letter we have not responded to the detailed questions raised in your consultation as we believe there are more fundamental questions to be addressed before considering whether the direction taken in the Consultation Paper is appropriate.

Is there evidence that investors and other users demand the provision of assurance in the structured way envisaged in the Consultation Paper?

Section 3 of the Introductory Paper discusses the “Benefits of Assurance” and states that “For information to be “investment grade”, it must be credible and trusted by the providers of financial capital. Information provided by an organisation without independent assurance of any kind is not likely to achieve this level of credibility and trust”.

It is not evident to us that this assertion can be sustained without carrying out the requisite research amongst investors and other users to ascertain whether:

- they require independent assurance to be provided; and if so
- by whom and in what form.

For example, many documents which serve investor and market needs are today published by companies without independent assurance of any kind and we are not aware that they universally fail to attain credibility and trust by the providers of financial capital. There is a risk that developing inappropriate assurance models could fail to win the respect of investors and other users and could be damaging to trust in integrated reports.

We note the following comment in paragraph 4.4 of the paper “Some have suggested that, just as <IR> is a new approach to reporting, a new approach to assurance is needed, involving a rethink of basic tenets such as independence, evidence gathering procedures, the subject matter of assurance, and the content of the assurance report (e.g., “short form” versus “long form” reports)”.

The FRC supports the sentiment behind this comment and believes that innovation may be necessary to develop appropriate models that could meet potential user needs with respect to assurance on integrated reports and other broader business reporting by companies. We feel strongly, therefore, that (as with all new product developments) the first step should be to understand the needs of investors and other users with respect to credibility and trust in integrated reports. We would be open-minded about what may emerge from this research. It is possible that different needs (if any) will emerge in relation to different aspects of integrated reporting.

The FRC has worked closely with investors and others in its project on “Clear and Concise Reporting”. We believe that our work and findings read across to integrated reporting. They can be accessed on the FRC’s web-site at <https://www.frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/Clear-and-Concise-Reporting.aspx> .

The suitability of International Standard on Assurance Engagements (ISAE) 3000 (Revised), “Assurance Engagements Other than Audits or Reviews of Historical Financial Information”

Paragraph 5.4 of that part of the Consultation Paper that explores the issues states “The standard that stands out in the minds of many assurance practitioners as one that would be most fundamental to an assurance engagement regardless of whether performed by an accounting firm or another assurance practitioner is ISAE 3000”. Much of the Consultation Paper is written using the language of ISAE 3000.

The FRC has a number of concerns about the suitability of ISAE 3000 for the provision of Assurance on integrated reports. In 2011 the FRC wrote to the IAASB recommending that it cease to develop ISAE 3000 on the basis that it can be applied as a standalone standard. The FRC further commented in response to the IAASB’s Exposure Draft:

“...it is still evident that, in the absence of a specific ISAE, the IAASB expects that ISAE 3000 can be applied as a standalone standard for other assurance engagements.

Although the proposed revision of ISAE 3000 significantly increases the extent of specified requirements and related guidance, we believe that it is still not sufficiently precise to serve as a standalone standard for a variety of assurance engagements. Indeed, we are doubtful whether it can ever be practicable to develop a single standard that is appropriate to cover the wide variety of assurance engagements that exist and we again encourage the IAASB to concentrate on producing ISAEs for specific types of assurance engagements.

In particular we are concerned that a generic standard such as this will not drive consistency in the performance of specific types of assurance engagements by different practitioners, including with regard to:

- *enabling users to understand the level of assurance obtained;*

- *the nature and extent of assurance procedures to be performed appropriate to the level of assurance intended to be obtained; and*
- *the identification and/or development of “applicable criteria.”*

...It would be more helpful to focus on enhancing the International Framework for Assurance Engagements to provide for the development of further ISAEs for specific types of assurance engagement where such standards are considered appropriate”.

Our experience of developing assurance standards for reporting in connection with investment circulars (the ‘SIRs’), and from our current project to develop assurance standards for reporting on compliance with client asset rules, suggest that whilst ISAE 3000 provides a useful checklist of areas that should be considered when developing an assurance standard it is often more complex than is necessary in developing a standard in relation to a particular subject matter, which can constrain rather than enable the development of an effective standard.

Our experience suggests that if assurance standards are to be developed following the IAASB’s Assurance Framework then it may be more effective to develop a standalone standard specific to integrated reports in preference to seeking to apply ISAE 3000.

The remainder of our comments highlight other issues that we believe should be considered if the development of assurance models is indicated by such research.

Need for more emphasis on ethical requirements that should be applicable to assurance providers

The Consultation Paper makes only occasional reference to potential independence and other ethical requirements that should be applicable to assurance providers. If ISAE 3000 were to be adapted it would require an assurance practitioner to comply with “Parts A and B of the IESBA Code related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation that are at least as demanding”. As the IESBA Code was not developed with integrated reporting in mind there is a risk that it may not focus on issues that are relevant to financial reporting. The FRC is of the view that:

- more consideration needs to be given to the ethical aspects of the provision of assurance on integrated reports; and
- such considerations should be exposed to public comment in parallel with public exposure of proposals for the development of any assurance standards.

Should the assurance methodology drive what is reported by the assurance provider or should the desired reporting drive the assurance methodology?

One consequence of the adoption of ISAE 3000 would be that reporting by the assurance provider would be highly structured and would be both short form and standardised. As you will be aware, the trend in auditor reporting in both the UK and internationally is to move away from the expression of standardised short form binary opinions. Much more emphasis is being given to reporting that provides insight beyond the overall opinion. This trend is demand led being a response to the express needs of users of financial statements such as investors and shareholders. The FRC believes it is reasonable to infer that users may have similar expectations with respect to any assurance reporting on integrated reports. At present, ISAE 3000 does not accommodate longer form reporting of key matters.

One area where we believe it would be important to carefully explore user needs is with respect to the nature of any assurance reporting. We think that establishing the nature of what ought to be reported should drive the nature of the assurance product rather than assuming that the

needs of users will be capable of being met through a pre-established product, such as ISAE 3000.

Development of further proposals

As integrated reporting is at a relatively early stage of development, we believe that it is appropriate for assurance providers to experiment with different assurance models. We do not believe that there should be a rush to develop standards based on practices designed in relation to other subject matters.

Yours sincerely



Nick Land
Director of the FRC and Chairman of the FRC's Audit & Assurance Council

Enquiries in relation to this letter should be directed to Marek Grabowski, Director of Audit Policy.

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We have e-mailed a copy of this response to assurance@theiirc.org.

About the FRC

The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. We promote high standards of corporate governance through the UK Corporate Governance Code. We set standards for corporate reporting and actuarial practice and monitor and enforce accounting and auditing standards. We also oversee the regulatory activities of the actuarial profession and the professional accountancy bodies and operate independent disciplinary arrangements for public interest cases involving accountants and actuaries.