



International Integrated Reporting
Council (the IIRC)

Submitted via email:
assurance@theiirc.org

16 December 2014

Ref.: AUD/AKI/HBL/NRO/HBU

Dear Sir or Madam,

Re: FEE comments on the IIRC Papers on Assurance on <IR>: “An Introduction to the Discussion” and “An Exploration of Issues”

FEE, the Federation of European Accountants, welcomes the opportunity to comment on the IIRC Papers on Assurance on <IR>: “An Introduction to the Discussion” and “An Exploration of Issues” (hereafter referred to in this letter as “Papers”). Our main comments are summarised hereafter.

FEE commends the IIRC for starting this discussion. Stakeholders currently exchange views on the broader issue of assurance on narrative information and it is therefore encouraging that the concept of assurance on <IR> enters the debate at this stage to assess demand, explore how to meet this demand and identify any key issues that need to be addressed.

Understandably, our comment letter is focusing on the ‘issues’ as it is the angle from which the Papers and included questions address the matter. However, FEE is positive about this initiative: we expect assurance to add credibility to <IR> and we are confident that various solutions exist to ensure cost-effective assurance in the short, medium and long term. The profession is well equipped with relevant skill sets and experience connected to providing assurance on integrated reports. Appropriate standards are also in place.

Having said that, development of the concept of assurance on <IR> should not be driven only by the profession, but rather by market demand. Approaching the concept of assurance on <IR> inappropriately could result in the focus and content of an integrated report shifting away from the corporate holistic report that conveys the company's story to a report which is driven by its ability to be assured. It is therefore necessary to ensure that communication with investors and preparers be effective, users' needs considered and the profession sufficiently innovative. The development process should include discussions and interaction with other stakeholders, such as preparers, investors and other users. Investors' representatives attending the recent FEE-IIRC Roundtable on Assurance on <IR>¹ indicated that assurance on <IR> would be highly valued. This is very encouraging and it is strategic that the profession comes up with active input to shape solutions to meet this demand.

User demand may depend upon the level of assurance and the associated costs, but also upon the nature of the opinion and how this is expressed in the assurance provider's report.

In addition, as expressed in the responses to the questions hereafter, there are challenges connected to assurance on <IR>. The concepts of materiality, connectivity and completeness need to be developed further. It is also important to ensure that an expectation gap is not created from a lack of clarity on how the practitioner has carried out the work and the level of detail of work that has been undertaken.

Even though the concept of assurance on <IR> is relatively new, the experience gained from other reporting developments, such as sustainability reporting and its related assurance, might provide an insight into some of the issues encountered that will also be relevant to this initiative. The discussions around assurance in this area are still ongoing but they are more advanced and thus we believe should be considered in respect of assurance on <IR>.

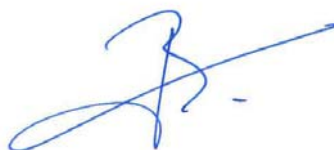
¹ Summary of the discussion available at: http://www.fee.be/images/IIRC-FEE_Summary_final.pdf

Our detailed responses to the questions stated in the Papers are set out below. For further information on this FEE² letter, please contact Noémi Robert on +32 2 285 40 80 or via email at noemi.robert@fee.be from the FEE team.

Yours sincerely,



André Killesse
President



Olivier Boutellis-Taft
Chief Executive

² FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 47 professional institutes of accountants and auditors from 36 European countries, including all of the 28 European Union (EU) Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 800.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
- To represent the European accountancy profession at the international level.

Appendix A: Responses to Questions

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

- (1) It is without doubt that assurance is an instrumental tool to add credibility and trust to <IR>. Various solutions exist to ensure cost-effective assurance in the short, medium and long term.
- (2) We are however conscious that <IR> itself is at an early stage of development. Therefore monitoring its evolution, particularly how the <IR> Framework is applied in practice, will provide the necessary insight into the subsequent impact on corporate reporting. In turn, this will inform the discussions about the development of appropriate methods and levels of assurance.
- (3) A fruitful dialogue with all stakeholders is required in the early stages of development of <IR>, especially with investors' groups. <IR> places greater emphasis on non-financial information in corporate reporting. If investors find such information useful, within a short timeframe they will expect companies to provide it as a matter of course. This would lead to a demand for assurance over the non-financial information. For instance, as <IR> reporting gains traction, it can be expected that companies will develop and refine the systems and processes by which they collect the relevant data. Suitable systems and processes not only support the reporting company in the preparation of the reported information, but are also a key factor in any related discussion on assurance.

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

- (4) Generally speaking, key features of assurance that would benefit users are:
 - Quality;
 - Independence;
 - Competence (and ongoing professional development);
 - Focus on ethical behaviour; and
 - Others such as being subject to regulation and professional standards.
- (5) As referred to in our covering letter, the experience gained from other reporting developments could be of interest. For instance, in the early years of sustainability reporting, assurance was only provided on sections of the sustainability report. Since then, assurance has grown year after year to cover more and more areas of the reports. These developments in sustainability reporting have also proven that stakeholders value assurance on specific content, and accept that it may not be possible to obtain assurance on all aspects or the report as a whole until such time as reporting has evolved to a sufficient degree.

- (6) For preparers and assurance providers, <IR> is still on a journey. It might therefore be helpful to consider different steps of an assurance practitioner's involvement in integrated reports as follows:
- The first level could focus on the internal process of developing the integrated report and giving assurance on it;
 - Alternatively or in addition, if stakeholders see value in assurance on certain content of the integrated report, the assurance provider could perform work accordingly;
 - After looking at the specific content, the assurance provider would be able to consider the integrated report as a whole and, ultimately, assurance should be provided on the overall picture conveyed by the report.
- (7) In the initial stages, where it may not yet be possible to obtain assurance of a satisfactory degree, the use of agreed-upon procedures³ might be a way forward. Whatever the scope of the assurance provided, the robust examination and verification procedures are key features of assurance methodology which are likely to be of the greatest value to users.

Q3: Is the availability of suitable 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?

- (8) In general, the availability of skilled and experienced practitioners should not be an issue. As the market for <IR> develops, firms and/or niche players adapt their training/staffing requirements accordingly. We already see multi-disciplinary audit teams flourishing. New partnerships may also be formed with professionals from other disciplines, for example environmental specialists or engineers, to meet the skills and experience required to provide assurance on <IR>. For FEE, appropriate experience in providing assurance is key in this context.
- (9) To fulfil the potential growing demand, in the longer term, the next generation of assurance providers must be equipped with the necessary skills to perform this type of work by enhancing the current training and CPD⁴ programmes. We refer to our response to Question 4.

³ The objective of an agreed-upon procedures engagement is for the auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings without giving any form of opinion on the implications of the work performed.

⁴ Continuing Professional Development

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?

- (10) We refer to our response to Question 2. The profession is well equipped with relevant skill sets and experience to ensure quality in assurance on <IR>. Appropriate standards are also in place. In all EU jurisdictions, statutory audit is a restricted service which may only be performed by practitioners who hold a recognised qualification. However, many other assurance engagements are generally not subject to such restrictions. Thus not all individuals who might be termed 'assurance practitioners' will be subject to professional standards aimed at ensuring the quality of the service provided. This is, however, also a key factor to be considered if reporting companies seek to produce an integrated report of "investment grade" quality and reliability.
- (11) We believe that ultimately the standards that should be followed in this area need to be developed by the IAASB. Going further, if assurance providers are required to comply with a standard such as ISAE 3000 and ISQC 1, it goes without saying that they will have to comply with the related ethical standards and requirements as well. It is indeed important for the credibility of the assurance provided that practitioners adhere to appropriate ethical, quality control and performance standards to ensure that appropriate quality standards are applied consistently.
- (12) Post-qualification training and education of both preparers and assurance practitioners needs to keep pace with this development. Accountants working in business, including internal auditors, are likely to be involved in the preparation and review of integrated reports. The audit and assurance profession should also prepare for the future demand for assurance on <IR> by considering the incorporation of this area as a topic for CPD and within the training syllabus.

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

- (13) In theory, insufficiently robust systems would pose a problem in terms of whether assurance could be provided. For example, where systems are lacking, it may be impossible to assess the completeness of the reported information. Furthermore, where the information reported is not satisfactorily supported by evidence on the part of the preparer, an assurance provider would not be able to obtain assurance evidence that would be both sufficient and appropriate.
- (14) In practice, in order to be able to report in a meaningful way, companies will normally already have internal systems in place to collect the necessary data. These systems may still need to be refined to apply integrated thinking in order to properly communicate how the organisation's strategy and business model impact upon the Six Capitals. A constructive dialogue is needed between preparers and assurance providers to share their experiences.

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?

- (15) This question should be primarily addressed to other stakeholders, such as preparers and investors and not to the accountancy profession.
- (16) That being said, we believe that it is important to assess the demand for assurance amongst users. User demand may depend upon the level of assurance and the associated costs, but also upon the nature of the opinion and how this is expressed in the assurance provider's report.

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

- (17) At this stage, this is a question that should also be considered by other stakeholders, such as preparers and investors.
- (18) As already emphasised in our cover letter, development in assurance on <IR> needs to be market-driven and demand for assurance on <IR> will depend upon the benefits that users expect and experience. It is also important that the profession has active input into shaping the solutions to meet demand.

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

- (19) FEE welcomes the IAASB initiative to set up a working group to monitor developments in assurance on <IR>.
- (20) It is up to the IAASB, based on future research, to determine which approach would be the most sensible. We also refer to our response to Question 9.

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?

- (21) Assurance on non-financial information and narrative reporting represents a growing opportunity for practitioners and is not restricted to <IR>. This opportunity also includes challenges to overcome as technical issues need to be considered. Much of this information is generated outside the financial reporting systems and, as a result, may be subject to less stringent internal controls.

- (22) An exposure draft (ED) was recently issued by the IAASB on Addressing Disclosures in the Audit of Financial Statements⁵. There is a link to be made with the IIRC current work. In particular, according to the IAASB ED, when the disclosed information is non-financial or non-quantitative, the auditor has to assess the sufficiency of the evidence available to support such non-quantitative information. Some fundamental matters - namely materiality, the use of judgement and matters reported where there is insufficient audit evidence available to audit certain disclosures – were not addressed in this ED and they still need to be tackled. These matters are also likely to feature in the <IR> discussions.
- (23) In our opinion, it is not advisable at the present time to create a separate standard on the subject of assurance on <IR> only, but we acknowledge that further guidance on how existing assurance and non-assurance standards such as ISAE 3000 and ISRS 4400 can be applied in this area would likely be helpful in the medium term.

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

- (24) Responses from preparers and users of <IR> should also be considered in relation to the key challenges and different approaches for assurance standard setters.
- (25) Especially regarding materiality, reporting boundary and connectivity, we would like to refer to our response to Question 2 where we have stressed the importance of focusing on the processes used by preparers to determine, define and comply with these principles.

• **Materiality?**

- (26) The issue of materiality is still being discussed in connection with the IAASB's disclosures project as well as assurance on sustainability reporting and we expect that this matter will also be the subject of a thorough discussion on assurance on <IR>. We refer to our response to Question 9 above.
- (27) We know that materiality is already defined in the <IR> Framework, but it is still to be determined how the definition of materiality might be applied in practice in an assurance context. Further guidance would be helpful, emphasising that it is the preparer's responsibility to explain the materiality applied in the preparation of the integrated report.

⁵ <http://www.ifac.org/sites/default/files/publications/files/IAASB-Disclosures-Exposure-Draft.pdf>

- **The reporting boundary?**

(28) No specific comment.

- **Connectivity?**

(29) Further discussion and development of this concept is necessary to achieve a widespread common understanding thereof. Going forward, as the <IR> process evolves, it may become clearer as to how the connectivity element might be communicated and expressed in an integrated report, which will, in turn, help the assurance provider as well.

(30) Connectivity issues such as the linkage between Key Performance Indicators (KPIs), the business model or strategy and the evaluation of the entity's ability to create value would be understood more easily by assurance providers who have a deep understanding of the company's business. This is likely to have an impact on the efficiency and the costs of the assurance engagement.

- **Completeness?**

(31) This concept represents a further challenge for the assurance provider that will have to be overcome to fulfil the long-term objective of providing reasonable assurance on the full scope of the integrated report. This further highlights the importance of allowing time for <IR> to grow and evolve, and enable good practice in reporting to emerge.

(32) In particular, to what elements of an integrated report is the completeness concept relevant? Completeness is also closely related to materiality. How can one provide assurance on the completeness of the integrated report if the level at which an omission would be considered material has not been established?

(33) The completeness concept is also important not only with regard to the content, but also with regard to the global approach in communicating the organisation's story that should be balanced and not only focused on the positive messages within the organisation's story. When producing integrated reports, companies need to be involved in a dialogue with many relevant stakeholders: it is necessary to ensure that none of the key stakeholders are omitted during the process. Such an omission is also closely linked to connectivity, because if the relevant information is not obtained, some connectivity issues might not be addressed.

- **Narrative reporting and future-oriented information?**

(34) We see narrative reporting and future-oriented information as two separate issues and therefore address each individually below.

(35) As far as the future-oriented information is concerned, it should be noted that the assurance practitioner is already dealing with this aspect within the remit of audits of historical financial information.

- (36) We refer to our response to Question 9 in relation to the challenge and approach to be considered regarding assurance on narrative information. However, narrative reporting, as referred to in our covering letter, is gaining momentum and guidance for assurance providers still needs to be developed. In this regard, the outcome of the IAASB project on Addressing Disclosures in the Audit of Financial Statements⁶ will be interesting to monitor. We also refer to our response to Questions 5 and 9 in this regard.

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

- (37) We believe that it is important for the assurance standard setter to approach <IR> and the related assurance in an innovative and progressive way.
- (38) The work the assurance profession performs is important, but what the individual practitioner says is increasingly important as well. User demand may depend upon the level of assurance and the associated costs, but also upon the nature of the opinion and how this is expressed in the assurance provider's report. This is the reason why our communications with investors need to evolve further; the profession needs to consider users' needs and be innovative.

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?
- (39) A few years ago, FEE carried out some work with regard to assurance on corporate governance statements⁷ where different approaches about assurance were assessed. There might be parallels to consider, especially regarding Table 3 (see appendix B) – *Potential maximum of auditor involvement level in key areas of corporate governance*, as well as regarding section 7 on the assurance report.
- (40) In the long term, we believe that assurance would be most valuable to users if it was provided at the highest level over the entire content of the integrated report, which would involve reasonable assurance on the full scope of the integrated report with a positive opinion expressed.

⁶ <http://www.ifac.org/sites/default/files/publications/files/IAASB-Disclosures-Exposure-Draft.pdf>
⁷ http://www.fee.be/images/publications/company_law/DP_Assurance_on_Corporate_Governance_Statements_0911_Colour20112009541533.pdf

- (41) This would clearly depend on the relative costs and benefits. While we are confident that a reasonable level of assurance would be possible over some of the content, we do acknowledge that, at present, there is also information for which it might either be relevant to provide only a limited level of assurance, or no assurance.
- (42) <IR> is new for many companies and the quality of <IR> is likely to improve over time. FEE could be supportive of hybrid engagements – at least as a first step, with the long term aspiration being, as described above, to provide reasonable assurance. There is however a danger that these hybrid engagements may cause some confusion, especially for users who may not understand the different levels of assurance provided over different content elements.
- (43) Whatever the scope of the assurance provided, robust examination and verification procedures are key features of the assurance methodology which are likely to be of the greatest value to users.

Q13: What are the (a) key challenges (b) proposed approaches that should be considered by whom, to ensure assurance on <IR> pays due regards to other assurance processes?

- (44) The experience gained from other reporting developments, such as sustainability reporting and related assurance, might provide an insight into some of the issues encountered as part of that initiative. The discussions on assurance on sustainability reporting have not yet been concluded, but they are more advanced and thus FEE thinks that this is an area that is worth visiting.
- (45) A number of key challenges have already been analysed in the responses above. In addition, the variations between different assurance providers' methodologies, i.e. their depth and robustness, and the possible contrasts between the different levels of, and extent of, quality and risk management processes applied might need further consideration.

Appendix B

Table 3 – Potential maximum of auditor involvement level in key areas of corporate governance

| Reference to Table 2 | Principles ²⁸ | No Auditor's involvement | Factual Finding | Limited Assurance | Reasonable assurance | Comments |
|----------------------|--|--------------------------|-----------------|-------------------|----------------------|---|
| | Corporate Governance Code | | | | | |
| A | Reference to the corporate governance code to which the company is subject. | | X | | | The auditor can confirm to which code the company is subject. |
| B | An explanation by the company as to which parts of the corporate governance code it departs from and the reasons for doing so: 'comply or explain'. | | X | | X | The maximum level of auditor's involvement will vary provision by provision, depending on whether he or she can form a view as to the entity's compliance with that provision. |
| C | A <u>description</u> of the main features of the company's internal control and risk management systems in relation to the financial reporting process. | | | | X | Assurance is possible in this area where it relates to financial matters (see FEE's Discussion Paper <i>Risk Management and Internal Control in the EU</i>). |
| c.1 | <u>Internal control and risk management systems</u> <ul style="list-style-type: none"> - The Board should maintain a sound system of internal control and risk management to safeguard shareholders' investment and the company's assets. - The Board should issue a statement that it is responsible for monitoring | | X | X | | Assurance is possible in this area where it relates to financial matters. It may be possible in other areas where suitable criteria exist, but they are less likely to be cost effective. This is discussed further in FEE's Discussion Paper <i>Risk Management and Internal Control in the EU</i> . |

| Reference to Table 2 | Principles ²⁸ | No Auditor's involvement | Factual Finding | Limited Assurance | Reasonable assurance | Comments |
|----------------------|---|--------------------------|-----------------|-------------------|----------------------|---|
| | the company's internal control and risk management systems and for reviewing their effectiveness. | | | | | |
| | <u>Takeover Bids Directive</u> | | | | | |
| D | <p>Information required under the Takeover Bids Directive when the company is subject to this Directive.</p> <p>The companies subject to the Takeover Bids Directive also include information about direct and indirect shareholdings, the rights or restrictions on voting, the rules governing the appointment and replacement of the Board and the power of the Board's members.</p> | | | | X | The auditor can form a view as to whether the description in the statement is consistent with supporting information e.g. the company's constitution and/or shareholder agreements. |
| | <u>Shareholders</u> | | | | | |
| E | The operation of the shareholders' meeting and its key powers, and a description of shareholders' rights and how they can be exercised. | | | | X | The auditor can form a view as to whether the description in the statement is consistent with supporting information e.g. the company's constitution and/or shareholder agreements. |

| Reference to Table 2 | Principles ²⁸ | No Auditor's involvement | Factual Finding | Limited Assurance | Reasonable assurance | Comments |
|----------------------|--|--------------------------|-----------------|-------------------|----------------------|--|
| e.1 | <p><u>Dialogue with shareholders and other stakeholders</u></p> <p>There should be a dialogue with shareholders and other relevant stakeholders based on the mutual understanding of objectives.</p> <p><i>The Board as a whole should have responsibility for ensuring that a satisfactory dialogue with shareholders and other stakeholders takes place.</i></p> | | X | | | <p>The auditor is unlikely to be present in meetings with individual investors, nor to be able to ask investors directly whether the company has discussed with them all the matters in which they are interested.</p> <p>The auditor could, however, check that a description of the process for doing this is operated in practice. This is already done in some sustainability reports under AA 1000 AS (2008).</p> |
| e.2 | <p><u>Constructive Use of the Annual General Meeting (AGM)</u></p> <p>The Board should use the AGM to communicate with investors and to encourage their participation.</p> | | X | | | <p>The auditor could check factual aspects e.g. what information was sent out prior to an AGM. However, this is less likely to be cost- effective as shareholders can check this for themselves.</p> |
| | <ul style="list-style-type: none"> - The company should facilitate the use by shareholders of their votes. | | X | | | <p>The auditor could check that an electronic voting system is available or that pre-printed proxy forms and envelopes are made available. The auditor could also check whether a company contact to discuss notions with shareholders is made available.</p> |
| F | <p>The composition and operation of the administrative, management</p> | | | | | |

| Reference to Table 2 | Principles ²⁸ | No Auditor's involvement | Factual Finding | Limited Assurance | Reasonable assurance | Comments |
|----------------------|--|--------------------------|-----------------|-------------------|----------------------|---|
| f.1 | <u>Effective Board</u> Every company should be headed by an effective Board, which is collectively responsible for the performance of the company. | X | | | | It is unlikely that an auditor can form an opinion as whether the Board is "effective" but it would be possible to check factual aspects of the Board's explanation of why he or she felt they were effective e.g. the composition of the Board and the directors' attendance record for meetings. |
| f.2 | <u>Chairman and Chief Executive: clear division of responsibilities</u> - Clear division of responsibilities at the top of the company between chairing the Board and the executive responsibility for managing the company's operations. | | X | | | |
| | - No one individual should have unfettered powers of decision. | X | | | | The auditor could, theoretically, say that there was a procedure to prevent one individual from exercising all decision making power. However, the auditor cannot check this in practice, or provide assurance, as a member of the audit team would have to be present in every board and executive meeting and observe how decisions were taken. |
| f.3 | <u>Board balance and independence</u> - The Board should include a balance of composition of directors | | X | | | |

| Reference to Table 2 | Principles ²⁸ | No Auditor's involvement | Factual Finding | Limited Assurance | Reasonable assurance | Comments |
|----------------------|---|--------------------------|-----------------|-------------------|----------------------|---|
| | <p><i>Commonly codes refer to a balance between executive and non-executive directors (and in particular independent non-executive directors). Some codes go further and refer to a balance of gender, qualifications, experience and background.</i></p> | | | | | |
| | <ul style="list-style-type: none"> - There should be procedures to ensure that no individual or small group of individuals can dominate the Board's decision taking. | X | | | | <p>The auditor could, theoretically, say that there was a procedure to prevent one individual or small group dominating decision taking. However, the auditor cannot check this in practice, or provide assurance, as a member of the audit team would have to be present in every board and executive meeting and observe what decisions were taken.</p> |
| f.4 | <p><u>Procedure for appointments to the Board</u></p> <p>There should be a formal and transparent procedure for the appointment of new directors to the Board. Proposals on the election and remuneration of the board of directors should be prepared in a structured, transparent process.</p> <p><i>The task of the nomination committee should be to consider proposals made by the relevant parties and make a</i></p> | | X | | | <p>An auditor could check factual accuracy e.g. that a policy existed, that the nomination committee had met, and that recommendations to the board as stated in the board minutes were those made by the nomination committee.</p> |

| Reference to Table 2 | Principles ²⁸ | No Auditor's involvement | Factual Finding | Limited Assurance | Reasonable assurance | Comments |
|----------------------|---|--------------------------|-----------------|-------------------|----------------------|--|
| | <i>recommendation or provide advice for the appointment of the members of the Board.</i> | | | | | |
| f.5 | <u>Information and professional development</u> - The Board should be supplied in a timely manner with information; | | X | | | The auditor can check that the board papers include the information which the corporate governance statements says that they contain, and whether they were provided in the timescale that the statement says that they were. However, the decision as to what |
| | - The information supplied to the Board should be in a form and of a quality appropriate to enable it to discharge its duties. | | X | | | is "timely" and is of a "quality appropriate to enable it to discharge its duties" is highly subjective and not capable of assurance. |
| | - All directors should receive training on joining the Board and should regularly update and refresh their skills and knowledge. | | X | | | The auditor could factually check whether induction packs are given and confirm attendance at training events, seminars etc. to attendance records. |
| f.6 | <u>Performance evaluation of the Board</u> The Board should undertake a formal annual evaluation, e.g. of its performance and that of its committees and individual directors. | | X | | | The auditor can confirm factually that an exercise has occurred but forming an opinion as to whether the Board's assessment is "right" would require forming a view of effectiveness – see f.4 above. |
| f.7 | <u>Re-election of the Directors</u> - All directors should be submitted for re- election at regular intervals. - All directors should be | | X X X | | | The auditor could factually confirm that a succession plan was in place, and that votes had actually taken place for re-election. He or she could not, however, form an opinion as to whether an individual directors' performance was satisfactory. |

| Reference to Table 2 | Principles ²⁸ | No Auditor's involvement | Factual Finding | Limited Assurance | Reasonable assurance | Comments |
|----------------------|--|--------------------------|-----------------|-------------------|----------------------|--|
| | <p>subjected to continued satisfactory performance.</p> <ul style="list-style-type: none"> - The Board should ensure planned and regular changes in Board's membership. | | | | | |
| f.8 | <p><u>Remuneration of the Directors and Board policy and level</u></p> <ul style="list-style-type: none"> - Directors' remuneration policy: Listed companies should disclose a statement of the remuneration policy on directors of the company including the preparatory and decision making process used. | | X | | | <p>The auditor could check factual aspects e.g. the accuracy of descriptions of future share option awards. However, the auditor is unlikely to form an opinion as to whether the policy is appropriate.</p> |
| | <ul style="list-style-type: none"> - Disclosure of the remuneration of individual directors: The total remuneration and other benefits granted to individual directors should be disclosed in detail in the financial statements or in the notes or, where applicable in a separate remuneration report. | | | | X | <p>This information is historic financial information. Summary information is already audited when disclosed in the notes to the financial statements, either as a matter of law or because of IAS 24 which requires disclosure of the remuneration of key management personnel.</p> |
| f.9 | <p><u>Audit committee and Auditors</u></p> <p><i>The Statutory Audit Directive provides that, in some cases, the functions of the Audit Committee may be</i></p> | | | | | <p>Assurance is possible, but reasonable assurance is unlikely to be cost effective. See FEE's Discussion Paper <i>Risk Management and Internal Control in the</i></p> |

| Reference to Table 2 | Principles ²⁸ | No Auditor's involvement | Factual Finding | Limited Assurance | Reasonable assurance | Comments |
|----------------------|--|--------------------------|-----------------|-------------------|----------------------|--|
| | <i>discharged by another body.</i> The audit committee monitors: | | | | | <i>European Union.</i> A suitable framework will be needed for management's assessment of risk and internal control. |
| | - The financial reporting process; | | | X | | |
| | - The effectiveness of the company's internal control and risk management systems, the internal audit function where applicable; | | | X | | |
| | - The statutory audit of the annual and consolidated accounts; | | | X | | There is a need to avoid a self-review threat in that the auditor is forming a view on whether the audit committee's supervision of himself is effective. This could be done by carefully drafting the criteria for such an engagement e.g. whether the audit committee has followed a suitable code of practice set by a third party (i.e. not the auditor's own advice) which sets out the steps they should take. |
| | - Reviews and monitors the independence of the statutory auditor or firm and particularly the provision of additional services. | X | | | | The self-review threat may be too great as it relates to the auditor forming a view as to whether the audit committee has correctly checked that the auditor themselves are independent. This is better done by explicit confirmation of the auditor's independence in the audit report, as required by ISA 700 (revised). |
| f.10 | <u>Other Committees</u> - The Board should stipulate formal | | X | | | |

| Reference to Table 2 | Principles ²⁸ | No Auditor's involvement | Factual Finding | Limited Assurance | Reasonable assurance | Comments |
|----------------------|---|--------------------------|-----------------|-------------------|----------------------|---|
| | <p>procedures for the work of the Board and its committees.</p> <p><i>These procedures should be clear and well documented.</i></p> <ul style="list-style-type: none"> - Depending on the specifics of the enterprise and the number of its members, the Board should form committees with sufficient expertise. <p><i>They should be aimed at increasing the efficiency of the Board's work and the handling of complex issues.</i></p> | | | X | | |
| f.11 | <u>Reporting</u> | | | | | |
| | <ul style="list-style-type: none"> - The Board should present a balanced and understandable assessment of the company's position and prospects (year- end). | | X | | X | For the company's position this is, in effect, the audit of a balance sheet. Assurance on prospects, i.e. as to the future, is unlikely to be possible or cost-effective. |

| Reference to Table 2 | Principles ²⁸ | No Auditor's involvement | Factual Finding | Limited Assurance | Reasonable assurance | Comments |
|----------------------|---|--------------------------|-----------------|-------------------|----------------------|--|
| | <ul style="list-style-type: none"> - The quality of the reporting should be ensured in the form of policies, instructions for responsibility distribution. | | | X | | See f.9 above. |
| | <ul style="list-style-type: none"> - The Board's responsibility should extend to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements (Interim). | | | X | | The same level of auditor involvement should be possible for the interim as for the annual financial statements – see f.9 above. |
| | <ul style="list-style-type: none"> - In addition, the Board should establish formal and transparent arrangements for assuming responsibility for the preparation of the Board's work to ensure the quality of the company's financial reporting, for considering how they could apply the financial reporting and internal control system and for maintaining an appropriate relationship with the statutory auditors. | | | X | | The same level of auditor involvement should be possible for the financial information as for the financial statements – see f.9 above. For other forms of reporting, it is less likely that auditor involvement is appropriate. |
| G | Elements from the survey in addition to those addressed in the 2006 Directive amending the Fourth and Seventh Directives in relation to | | | | | |

| Reference to Table 2 | Principles ²⁸ | No Auditor's involvement | Factual Finding | Limited Assurance | Reasonable assurance | Comments |
|----------------------|--|--------------------------|-----------------|-------------------|----------------------|---|
| | corporate governance statements | | | | | |
| g.1 | Present an activity report on Board and Board's committees meetings. | | X | | | The auditor could factually check how many meetings of the Board and its committees took place and who attended on the basis of minutes. |
| g.2 | Mention company's objectives. | | X | | | |
| g.3 | Disclose governance structures and policies and the process by which they are implemented. | | X | | | |
| g.4 | Present the financial and operating results of the company. | | | | X | See f.11 above. |
| g.5 | Define the foreseeable risk factors: operational risks, compliance with laws and regulations, and financial risks; | | X | X | X | Any auditor, whether the statutory auditor or not, could check factually that the corporate governance statements' list of risks agrees to a risk register. In addition, the statutory auditor may be able to form an opinion in relation to the risk assessment for risks in relation to the financial reporting process as it is closely related to the work they will carry out under ISA 315; it is unlikely that it would be cost effective for another auditor to perform assurance work. |
| g.6 | Information as to where any separate corporate governance statement has been made accessible to the shareholders. | | X | | | |

| Reference to Table 2 | Principles ²⁸ | No Auditor's involvement | Factual Finding | Limited Assurance | Reasonable assurance | Comments |
|----------------------|---|--------------------------|-----------------|-------------------|----------------------|---|
| g.7 | Statement as to how the listed company has applied the principles of the code, in a manner that would enable shareholders to evaluate how the principles have been applied. | | X | | | The auditor can factually check that the statement exists. However, they could not form an opinion as to its accuracy without forming an opinion on each provision of the code and whether management had complied with it or not. |
| g.8 | Disclose related-party transactions. | | | | X | Assurance work is already carried out under ISA 550 in forming an opinion on the financial statements as these require disclosure by both the Fourth and Seventh Directives and by IAS 24. For this reason, it is unlikely to be cost-effective for another auditor to carry out this work. |
| g.9 | Mention conflicts of interest: personal interest of the directors and the business interest of the company itself. | | X | | | The auditor could factually check that the corporate governance statement contains the entries in a register of interests. It is unlikely to be cost effective for the auditor to form an opinion as to whether such an interest gives rise to an actual or perceived conflict. |