

Collated Feedback – Assurance on <IR> Roundtable

San Francisco – 9 December 2014

General feedback

Attendees were very supportive of opportunity to be part of this development and of IR in general. Attendee list in appendix showing range of participants.

Evolution of reporting is such that IR is still very new and most attendees are trying to understand what this means in practice. As such the focus of some of the technical questions are currently further advanced than the knowledge and attendees felt unable to form a clear view.

Q.1

- Assurance gives an organization more points for CDP and counts towards CDP leaders rating. Most stakeholders know about CDP and CDP status is reported on Bloomberg et al. By this route, assuring disclosures affects reputation.
- Cost of assurance is high, so from a preparer's perspective, it is easier to justify (a) assuring only some, not all, data, and (b) going for limited assurance rather than reasonable assurance. Cost in this sense includes the preparer's time in answering assurance practitioner's questions etc.
- Investors' position on assurance is difficult to interpret. They seem to prefer some assurance rather than none, but it is not clear what value they attribute to different levels (reasonable v limited assurance) or nature (e.g., the loose association that auditors of financial statements have with information that accompanies the financial statements, e.g. annual report information).
- Assurance has a clear internal benefit, in particular it leads to strengthening internal control systems. Internal audit has a role in this, e.g., making data owners aware of Excel audit routines and introducing the idea of peer review.
- Assurance is a long-term commitment, and its benefit will likely emerge more over time – we are all "on the journey".
- Considering assurance early enough in evolution of IR within an organization was considered important. A maturity model (e.g. like PWC's) was thought to be a useful tool that may enable assurance to develop in parallel to internal controls and procedures
- Recognition that assurance delivers range of benefits and leads to increased trust in <IR> and other related disclosures.
- other forms of capital like natural capital and social capital may expect a degree of assurance.

Q.2

- Importance of materiality in assurance process in order to devise assurance approach, where greater investigation and focus is placed on areas of higher materiality (areas which are likely to impact on medium and long term value creation), i.e. not just a data checking process
- Importance of connectivity of assured information (and potentially process) for different stakeholder groups. The example used to illustrate this need was for Prologis, a Real Estate Investment Trust, who build warehouses and lease them, funded by investment funds: they don't have access to the energy use data for warehouses as their customers pay the bills, however investors are requesting this information and expect it to be credible. Prologis does assure what it can. It would be good to understand how assurance processes and information can be more connected.

Q.3

- Competence/experience/skills are building up in both preparer organizations and assurers alike.
- Gap analysis/readiness check by external assurers can help identify not only (a) disclosures that are missing, and (b) systems that need to be strengthened, but (c) internal skills/competencies that need to be developed.
- Bigger assurance firms have teams of specialist.
- Likely to be a range of providers, especially as practice evolves, including internal audit and third party providers that provide elements of overall assurance picture. Therefore guidance on how much reliance can be placed on different pieces of assurance under which circumstances and how various inputs can contribute to a more comprehensive assurance approach would be welcomed
- Need for assurance functions to talk to each other

Q.4

- There is a range of standards, e.g., ISEA 3000, AT 101, AA 1000, ISO. For those who do not have assurance as a day job:
 - It is difficult to understand the differences and why they exist;
 - It is simply confusing;
 - It potentially damages credibility – e.g., it looks good to cite a standard, but it may not mean what the reader expects it to;
 - Adding another, <IR>-specific, standards does not seem to make sense.
- One preparer had asked for expressions of interest for assurance and got a vast range of proposals (“from 50 cents to \$5M”). Choosing between providers and standards is difficult because: (a) cost is an issue, and (b) understanding what is being offered (e.g., how important are site visits and what value do they add) is difficult.

- The purpose of assurance is very important, e.g., if assurance is only sought to get CDP points then it may make sense to go for the cheapest that achieves that.
- Why is there not such a variation in financial statements assurance? Financial statements assurance (a) is a more mature product, (b) is more homogeneous, (c) is often dealt with inside the preparer by people who themselves have audit training, and (d) is more regulated by (i) government in many jurisdictions (e.g., licensing), and (ii) the profession (quality control standards; educational and competency requirements; ethical, including independence, requirements; peer review/practice inspection regimes; investigation and disciplinary regimes). These forms of regulation are often not seen/understood by those outside the accounting profession.
- How will the quality of delivery from non-accountants following ISAE 3000, which was originally written for accountants, be regulated?
- How can the competencies of assurance teams be confirmed as adequate/regulated especially in relation to evaluating disclosures around natural capital elements which require significant technical knowledge of environmental science and an ability to understand the nature of the risks this presents to business strategies over medium and long term. An example would be the science suggests we need to reduce GHG's by 80+% by 2050 and completely move away from Fossil fuels by the end of the century. An IR assesor would need to assess if disclosures around business strategy adequately understand and articulate an appropriate response.

Q.5

- Varying degrees of robustness with internal systems and there is a need for improvement, which could be supported by assurance process including observations/recommendation and management letter as appropriate.

Q.6

- If you make it too complex it turns people off and becomes too costly.
- To get to investor quality information leads to conclusion that assurance of IR information and specifically non-financial disclosures should be to higher quality than currently the case and therefore it is likely to cost more.
- Uncertainty expressed over propensity of business to pay more for this currently.

Q.8

- If it becomes a standard you will lose some people, how inclusive does it want to be?

- Guidance is a step towards becoming a standard, maybe guidance is a useful, logical step along the way.
- If you make it too complex it turns people off and becomes too costly. It's important to make it meaningful but not too complex.

Q.9

- It should not adhere to just IR framework, because our stakeholders are broader.
- If you limit to just IR for a number of entities it will become more limited. Broader approach to assurance and broader applicability means more people can use.
- It would be helpful, going with the last question on guidance, if guidance could be provided on what information is relevant for specific types of reports
- Stakeholders other than providers of financial capital also seen to require some form of assurance, e.g. see CDP example above, therefore assurance of <IR> may be used in parts or entirety to deliver increased confidence to broader range of stakeholders.
- Is assurance from investors standpoint only sufficient? IR uses 6 capital model and so logically providers of other forms of capital and those who may represent other forms of capital will require assurance
- One of the key challenges from a capitals perspective is that at an individual company level progress to maintain or reduce deterioration of a capital may be going in the right direction, however at an industry and societal level indicators are heading in wrong direction. For example, with GHG emission reductions, many companies can show some minor reduction, especially on a normalized basis but absolute emissions are increasing on a global basis to dangerous levels. Therefore there is a need for industries to hold themselves to account through assurable information that may be collated from information like <IR>.

Q.10

- Materiality: Need to define definition of materiality within the organization. Legal has a definition of materiality, finance has a definition, and sustainability has their own definition. Same applies outside of organization and so a clearer more consistent definition of materiality and what constitutes an adequate materiality process is required. Need to get different audiences comfortable with a specific definition first and then do the reporting.
- Use of materiality to focus the assurance process. Use concept of materiality to place more emphasis to risks for the business. Use materiality to guide assurance engagement emphasis.


- The reporting boundary: If you become too broad, is it still meaningful? Need to accept the limitations of reporting and that you can't do everything.
- Connectivity: eg connectivity within supply chain – how deep do you go? Questions of scope – need to answer how deep and how wide? This goes w guidance in knowing how far to go and still maintain connectivity.
- Completeness: What is the right balance? Knowing how to balance all the information.
- Narrative reporting: This can be intimidating. How would this go about? We won't tell those stories, it's a can of worms
- Importance of ability of assurator to have suitable criteria that does enable views to be made of adequacy of narrative
- Future oriented information: This is difficult because you have to be careful of what you can say and what you can't say. It's about presenting goals but that is very nebulous. How do you get assurance of this? It's hard. It would be like saying, "Yes they will do what they say will do." [links to point about how to ensure competence of assurers with regards to e.g. environmental science]

Q.12

- From a preparer's perspective – why spend extra on RA if LA is accepted by users (e.g., CDP). It comes back to the reason for getting assurance, and what is demanded by users.
- Many are just starting the <IR> journey. Assurance is not as important now as it will likely become. What is important is getting information flows inside the organization in order – involvement of internal audit and "gap analysis/readiness checks" can help with this.
- Progression MAY be from: no assurance → internal audit involvement → to internal gap analysis/readiness check → external gap analysis/readiness check → external limited assurance → external reasonable assurance.
- Cost is a factor – cost in terms of dollars, but also time of preparers devoted to deeper examination by assurers.
- The PwC maturity model is interesting: perhaps too complex for external reporting but good for internal awareness raising and identifying issues. CDP have some break-down already (financial, environmental, and social) that is not dissimilar to the capitals breakdown in PwC model.
- Preparers can have hands tied by their own finance and legal departments in terms of what to disclose – they apply a risk lens to transparency. This would apply also to what they are happy for assurers to disclose, e.g., does the PwC model disclose too much internal information.
- Range of limited assurance is very wide

Q.13

- Assurance practitioners currently look at synergies between assurance procedures, but it is important to note that not all assurance is equal in terms of



scope, focus, etc. E.g., ISO 9000 assurance is unlikely to be particularly helpful to a financial statement auditor.

- Involvement of internal audit in one preparer's experience was very valuable. They were originally brought in to help reduce the cost of external assurance, but perhaps more importantly, they also helped embed integrated thinking by facilitating cross-function/department information sharing and awareness – internal audit is, by nature, well positioned to serve this role.

Other issues:

q. 1 How can the resource thresholds of natural capital be properly reflected in the assurance process especially with regard to longer term trends?

[Are your internal goals aligned w macro goal?]

Right now companies use benchmarking against other companies, but how do you know you are benchmarking the right measure? For example water use. If a company starts tracking it and makes their own goal, but that number is nowhere near where we need to be to make a difference environmentally and the rest of the industry follows that number. How do you make a whole industry responsible? There needs to be validation of benchmarks and validation of assumptions, and then tracking usage performance.

Appendix 1 – attendees

Attendee First Name	Attendee Last Name	Organization
Michael	Nugent	IIRC
Dave	Knight	DNV GL
Natasha	D'Silva	DNV GL
Stephanie	Alderson	DNV GL
Jennifer	Leitsch	Prologis, Inc.
Ellen	Jackowski	HP
Maureen	Geesey	Betty and Gordon Moore Foundation
Heather	Wright	Betty and Gordon Moore Foundation Sustainability Accounting Standards Board
Katie Schmitz	Eulitt	Board
Chryslene	Rebeiro	NetApp
Chad	Spitler	BlackRock
Matthew	Perrone	Flextronics
Aileen	Zerrudo	Clorox
Leah	Picker	SASB
TBC		JLL
Beth	Schneider	Deloitte-Touche
Via teleconference		
Brad	Sparks	KPMG
David	Simpson	Interpraxis
Mary	Morris	CalPers
Ricky	Cronin	IIRC/KPMG