Mr Thomas Seidenstein
Chair
International Auditing and Assurance Standards Board
By IAASB website

13 July 2020

Dear Tom

Submission: Extended External Assurance Consultation Paper

Thank you for the opportunity to comment on the consultation paper. In our view assurance is critically important to support the credibility of the global corporate reporting system and we commend you on helping drive the discussion forward.

Investors are increasingly talking about the need for assurance as a technique to provide them with more confidence in the propriety, and enhance the credibility, of integrated reports. There are a number of national and regional regulatory bodies showing signs of interest and considering how they can influence the development of best practice guidance in relation to assurance in this area[i].

These developments in assurance go hand in hand with a move towards much more widespread integrated reporting internationally - the <IR> Framework is now used by over 2,000 organizations in more than 70 countries.

The IIRC believes assurance is a matter of immediate strategic importance. Clearer and more tailored guidance is essential especially as instances of integrated reporting assurance continue to increase.

Notwithstanding the progress made in the ten years since the IIRC's <IR> Framework was published, the practice of integrated reporting is still relatively immature. Compared to traditional financial reporting, where there have been tens of years of development and refinement of reporting and assurance culminating in the comprehensive International Financial Reporting Standards, International Standards on Auditing, and International Standards on Assurance Engagements suite of standards and guidance, and sustainability reporting where assurance practice is well-established, integrated reporting and associated assurance is in its infancy. This is important from a standard setting perspective as the approach must accommodate experimentation, particularly around the wider array of capitals and qualitative assurance rather than trying to get to the perfect answer with the first standard or guidance.

The IIRC believes that the EER assurance guidance should address directly what expectations users should have of the assurance provided when it is focussed on behaviours and prospective actions as well as systems and the past. Organizations will report things about their intentions for the future which will sometimes be wrong. All stakeholders need to understand that the future is not certain - or even close to certain in some cases. The integrated reporter and the provider of assurance must not be subject to litigation or criticism where due care is taken but events mean that intentions expressed in an integrated report at a previous point in time have proven to be incapable of execution. The COVID19 situation is a case in point.

We know that there is a demand from investors and other key stakeholders for assurance over integrated reports. The demand is evidenced by the integrated reports of ABN Amro (the Netherlands), Cipla (India), the IIRC (UK), Cbus and CPA Australia (Australia) receiving limited assurance 'in accordance with' the <IR> Framework.

However, so far the only examples of assurance on integrated reports are for limited assurance. This is due to the distinct nature of an integrated report and the challenges involved in providing reasonable assurance over narrative and forward-looking strategic information.

We believe that the challenges of enabling the move to reasonable assurance are not insurmountable, but will require the concerted efforts of business, assurance providers and the IAASB working together, to understand the challenges and to work through the bridge from limited assurance to achieving reasonable assurance in the future. There must be room for experimentation in this area as the evolution from limited to reasonable integrated reporting assurance continues.

The IIRC would be delighted to work with IAASB, leading assurance practitioners with experience in delivering integrated reporting assurance and the relevant participants of the IIRC's <IR> Business Network to facilitate taking integrated reporting assurance conversations and practices further.

This submission focuses on five main areas, as explained below and elaborated upon in the Appendix. These are important matters for your consideration as you move towards issuing final guidance in late-2020. Overall, we believe that there is a need to:

- Amend the main guidance document in a number of ways in order to assist assurance practitioners in identifying and dealing with matters which are particularly significant to integrated reporting assurance. They relate to the distinctive contribution of integrated reporting to the global corporate reporting system.
- Retain and enhance Example 10 in Supplement B to accommodate the evolving status of integrated reporting assurance. This is where assurance practitioners will need most practical guidance in the next two to three years, as external assurance on integrated reporting matures and expands beyond the five instances in 2019, which were all limited assurance in nature. No doubt these engagements involved extensive consideration of whether the pre-conditions for assurance had been met or whether an assurance readiness review would have been more suitable at that time. No guidance on these matters is currently included in Example 10.

We believe the following matters need to be addressed in the main guidance document and Example 10 as appropriate:

1. Guidance must be globally consistent

It is essential that the approach to integrated reporting assurance is globally consistent to match the transformation of the global reporting system itself. Such an approach would be consistent with the way in which the transformation of the underlying corporate reporting system is heading. The IAASB's extended external reporting assurance guidance, and other national equivalents (e.g. AICPA attestation standards in the USA) has the opportunity to set down the principle of global consistency and become the rallying point for national and regional regulators.

2. Distinctive contribution of integrated reporting

An integrated report is inherently a future-oriented document, which is designed and presented (along with the much wider array of mediums to which stakeholders have access today) in a manner which enhances understanding by its investor and other stakeholder users. A significant component of an integrated report is delivered in narrative form, increasingly by way of diagrams, pictures, graphs and hyperlinks, which is complemented and supplemented by quantitative performance information. It reports on the business and its performance and prospects to create value for itself and others. This sets an integrated report apart from other EER frameworks, which tend to have a narrower focus without an inherent link back to the overall strategy and business model of the organization, prescribing metrics which often are about the past or at a point in time and not future-oriented.

Integrated reporting makes a distinctive contribution to the global corporate reporting system which stands it apart from financial and all forms of sustainability reporting:

- Integrated reporting provides the roof that brings together all forms of corporate reporting – including financial, sustainability and other business-critical matters – into a concise communication about value creation for the organization and others over time.
- It is the only reporting framework which starts from the foundation of reporting of the business, and so assuring the description of 'the business' and associated non-standard metrics in the integrated report stands integrated reporting assurance apart.

  Assuring an integrated report is not about independently reporting on the **quality** of the strategy, resources and relationships and business model, nor their **fitness-for-purpose**, as these matters are a preparer responsibility. The focus for the assurance practitioner in an integrated reporting assurance engagement is on, 'Is the way in which the business is described in the integrated report how it operates in practice?'

- With its multi-capitals approach for all material stakeholders, integrated reporting is broader than other reporting frameworks.

Each of these attributes brings unique assurance implications. It would be possible to include these matters in the main body of the guidance without much added volume.

An example of the different significant assurance implications when considering an integrated report, as compared to existing financial and sustainability reporting, is its foundation of being a narrative on the business strategy and business model, which reflects complex judgements by those charged with governance and management. The integrated reporting assurance practitioner requires the knowledge, skills and experience to understand these business judgements and their faithful representation in the integrated report, which in itself requires complex assurance judgements. This matter is expanded on in the appendix. The integrated reporting assurance practitioner will need to consider broader concepts about an entity and its industry during an assurance engagement on an integrated report.

Short examples illustrating assurance considerations related to non-standard metrics also need to be included in the main body of the guidance to balance and contrast to the short examples illustrating the narrower focus of ESG standards.

3. 'Evaluation' versus 'measurement' as assurance techniques

Broadly, an integrated report is comprised of two types of information, qualitative and quantitative. This distinction is critical from an assurance perspective and it is often the qualitative, future-looking information that is most challenging and interesting for the preparer, the user and the assurer:

- **Qualitative** and **forward-looking** information. Broadly, this information is about the purpose, strategy, resources, governance, business model and competitive advantage of the business. It reflects significant judgements about the business and its performance and prospects. This information requires **evaluation** from an assurance perspective.

- **Quantitative** information. Broadly, this information is metrics demonstrating the performance and aspects of the prospects of the business. This information requires **measurement** from an assurance perspective.

This broad distinction is useful to guide assurance practitioners on how to perform an integrated report assurance engagement. Guidance for integrated reporting assurance needs to focus on the implications of the qualitative dimension for the practitioner and therefore on evaluation rather than measurement techniques, and on the professional skills and judgement of the practitioner as they relate to the **evaluation** of relevant **qualitative information** at various stages of the assurance engagement.

Guidance on the difference between these two types of assurance techniques is critical given the need to evaluate narrative and other ways of describing the business, as well as the other aspects of the distinctive contribution of integrated reporting.

Example 10 in Supplement B presently does not currently provide enough guidance for the assurance practitioner in this area.

4. Engagement performance

We encourage the IAASB to draw out the following aspects of engagement performance in Example 10 to a greater extent than they currently are:

Chapter 1 – Competence

Given the distinctive contribution of integrated reporting, audit engagement leaders will ordinarily, with supplementary professional training on the application of integrated reporting and integrated reporting assurance concepts, be suitably qualified to lead an integrated report assurance engagement for a business within their area of industry expertise. So too will audit professionals in teams led by those engagement leaders ordinarily be suitably qualified to participate in integrated report assurance engagements.

This is not to say that an organization's existing audit team must be the assurer of its integrated report, only that audit professionals will ordinarily be suitably qualified to lead, scope, plan, obtain evidence for, document and report on an integrated report assurance engagement, supported by other subject matter experts (e.g. industry-based technical, governance, strategy, and sustainability reporting professionals) as required.

Chapter 4 – Determining the suitability and availability of criteria

Example 10 acknowledges that the <IR> Framework was developed by a recognized body of experts (the IIRC[ii]) who followed a transparent due process and that the guiding principles in the <IR> Framework[iii] provide suitable criteria for the purposes of ISAE 3000, meeting the requirements of relevance, completeness, reliability, neutrality and understandability in ISAE 3000.

Chapter 5 – Considering the system of internal control

The reporting management system underlying the preparation of an integrated report (*'Integrated reporting management system'*) will have similarities to the systems underlying financial and sustainability reporting, but there are also differences with significant assurance implications. The integrated reporting management system will require appropriate rigour regarding the reporting of the business judgements and documentation of the purpose, strategy, resources, governance, business model and competitive advantage of 'the business'.

Readiness for integrated reporting assurance will, for many organizations seeking it, require a shift in their focus and expectations regarding documentation of 'the business'.

It will require the qualitative and forward-looking information on the business to be documented with rigour, with the documentation "owned" by the executive and approved by those charged with governance. The assurance practitioner will be expected to exercise professional scepticism and judgement on this documentation and the 'business judgements' underlying it (we refer to comments above on 'evaluation' versus 'measurement' as assurance techniques).

5. Limited versus reasonable assurance

Having evaluated that the preconditions for assurance have been met, the bridge between limited and reasonable assurance is likely to be significant. This is best demonstrated by the way in which substantive assurance evidence would be gathered in relation to the description of the business in an integrated report.

Design of the governance, strategic management process and risk management process, as well as the purpose, strategy, resources, governance, business model and competitive advantage of 'the business', will largely be capable of evaluation by reading the relevant documentation and making appropriate confirmatory observations and enquiries.

However, it will be possible to obtain evidence of the effective operation of the business only by observing those charged with governance, strategic management and risk management in action, focusing on 'Is the way in which the business is described in the integrated report how it operates in practice?'

These factors are probably part of the reason while all instances of integrated reporting assurance to date have been limited assurance engagements. However, the existing Example 10 assumes that reasonable assurance has been chosen. Significant guidance in this area is required.

The appendix to this letter contains further detail related to these recommendations. In conclusion, the IIRC believes that assurance is a vital component of the global corporate reporting system and is critical to building trust. We would welcome the IAASB's input on the IIRC's current consultation on the <IR> Framework as we believe that the corporate reporting and assurance components of the system need to be closely aligned. We reiterate that we would be delighted to work with the IAASB in this most important area. I would be delighted to discuss any of the details in this response with you and to provide any further information required.

Yours faithfully

Charles Tilley
Chief Executive Officer
International Integrated Reporting Council

cc Mr Roger Simnett, Ms Fiona Campbell, Ms Lyn Provost

Appendix - Distinctive contribution of integrated reporting – Assurance Implications

Conceptual Framework

This <IR> Framework is often mischaracterized as being 'only' high-level principles. It is in fact the only reporting framework which provides its content elements and guiding principles through a business-based conceptual foundation.

This matter has significant assurance implications when it comes to evaluating whether information in a report described as an integrated report is truly part of the integrated report, or is 'other information' in terms of International Standard on Assurance Engagements ISAE 3000, 'Assurance engagements other than audits of reviews of historical financial information' and International Standard of Auditing ISA 720, 'The auditor's responsibilities relating to 'Other Information''.

Combined with paragraphs 1.17 and 1.20 of the <IR> Framework, the Framework requires an integrated report to be designated, identifiable, concise and balanced – the report must have a defined boundary. This also means that the resulting integrated report and integrated reporting process will be capable of automation, with assurance extending to this area.

Assuring the description of the business

The business foundation of integrated reporting has significant consequent assurance implications.

Integrated reporting is a process founded on integrated thinking, or better business practice. The integrated report is an outcome of the process, communicating that integrated thinking to all stakeholders. Accordingly, it is critical that assurance adds credibility to the reporting of the business in the integrated report by confirming that the business is described as it really is.

In summary, the fundamental concepts of integrated thinking reflect three business concepts, which could be viewed as the what, with and how of the business:

- The strategy, risks and opportunities arising from the external environment, and stakeholder information demands – its value creation. The "what".
- The resources and relationships available to the organization – 'the capitals'. The "with".
- The governance, business model and risk management process – the value creation process. The "how".

These all support the organization in achieving and reporting on *why* the organization is better than its competitors in using what it has (its capitals) in its boardroom, c-suite and business processes to implement its strategy, manage risks and opportunities, and realize its purpose. The demonstration of its integrated thinking. The "why".

The business will typically be described in an integrated report through a combination of narrative, graphics, tables, diagrams and visuals.

The task of the assurance practitioner is determining whether the 'what, with and how' **as they exist -** are reliably presented in the integrated report – and support the description of the ongoing 'why'.

The assurance engagement is focused on whether 'the real' what, with and how have been reported in the integrated report, as there is a risk that the report may articulate the business that an organization 'would like to have' rather than the business that it actually has.

Metrics

The <IR> Framework provides a conceptual framework for testing the completeness and balance of self-determined non-standard metrics (that is, those not required by financial reporting (IFRS / US GAAP) and sustainability reporting (e.g. GRI / SASB / CDSB) standards). These metrics will mainly relate to innovation, intellectual property, technology, customer satisfaction, employee strategic alignment, regulator engagement, quality of governance and strategic management of the business.

Multi-capitals approach for all stakeholders

The <IR> Framework has a multiple-capitals approach to capture the breadth of the business, designed to be of interest to all stakeholders:

- *Multi-capitals approach* - The <IR> Framework provides a broader business focus than sustainability reporting. The <IR> Framework identifies six capitals that may be material to any organization: financial, manufactured, human, social and relationship, natural, and intellectual.

  Financial and sustainability reporting initiatives and associated standard metrics, typically focus on a narrower range of capitals. Financial reporting focuses on financial capital and aspects of manufactured capital while sustainability reporting focuses on natural capital, and aspects of social and relationship capital and human capital.

  Integrated reporting is significantly more focused on intangible drivers of business value, which are so critical to modern strategies and business models.

  This brings consequent significant assurance implications. The assurance implications of ESG metrics are well addressed in the main EERA guidance document and in 10 of the 12 examples in Supplement B. The multi-capitals approach is not.

- *All stakeholders.* An integrated report explains to providers of financial capital how an organization creates value over time. It benefits all stakeholders interested in the organization's ability to create value including customers, employees, suppliers, regulators, business partners, legislators, policy-makers and the broader community which effectively provide the 'social licence to operate'. Financial reports are focused on investors and sustainability reports are often focused on single or narrow groups of stakeholders.

1. Engagement performance

We encourage the IAASB to draw out the following aspects, mainly in relation to the pre-conditions for assurance and assurance readiness (matters which are assumed to have already been resolved in Example 10) in Example 10 to a greater extent than they currently are:

Chapter 1 – Competence

The difference between financial report auditing and integrated reporting assurance lies in the use to which the required understanding of the business is put in the:

- **Financial report audit engagement**, where the understanding of the business is used to plan and perform the audit under International Standards on Auditing, including evaluating whether, among other things, the financial position and performance of the organization are properly reported in accordance with International Financial Reporting Standards
- **Integrated report assurance engagement**, where the understanding of the business is used to plan and perform the assurance engagement, also under International Standards on Auditing, but including whether, among other things, the strategy, governance, performance and prospects are properly set out in the integrated report in accordance with the <IR> Framework and/or the business's Basis of Preparation.

Such a holistic understanding of the business is not required for other forms of extended external reporting assurance engagements, including sustainability report and service performance report assurance engagements.

The assurance practitioner obtains a detailed understanding of the business as a key to planning the integrated report assurance engagement, comprised in broad terms of the:

- Strategy
- Risks and opportunities
- Resources and relationships (capitals) that the organization draws upon for its business activities
- Business model, including key business processes and critical activities within them
- Governance, including the governance process as a key business process
- Organizational set up and external environment.

Skills in each of these areas are required in a financial statements audit team, either within the core audit team, or in specialists used under instruction by the engagement leader and core audit team. The engagement leader needs to bring skills in these areas together in accepting and planning the financial statement audit engagement, determining materiality, obtaining audit evidence, reaching audit conclusions and reporting on the financial report audit engagement in the audit report to those charged with governance.

So too in an integrated report assurance engagement. The engagement partner needs to bring skills in these areas together in accepting and planning the integrated report assurance engagement, obtaining assurance evidence, reaching assurance conclusions and reporting on the assurance engagement in the assurance report and communications to those charged with governance.

Chapter 3 - Acceptance – Pre-conditions and scope

The assurance engagement for the integrated report of CPA Australia (assurance over the whole report in terms of content elements and other mandatory requirements, but not the guiding principles in the <IR> Framework) compared to those for ABN Amro, the IIRC and Cbus (which extend to the entire <IR> Framework, including the guiding principles), provide an interesting contrast.

International Statement of Auditing Standards 720, 'The Auditor's Responsibilities Relating to Other Information' and International Statement of Assurance Standards ASAE 3000, 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' require the assurance practitioner to isolate from their assurance conclusion 'other information' that does not form part of the report subject to assurance in accordance with the underlying reporting framework.

The <IR> Framework is comprised of content elements, guiding principles and other mandatory requirements. It is possible for an integrated report to be in accordance with the content elements of the <IR> Framework but not all of the guiding principles (e.g. conciseness) or other mandatory requirements (e.g. that the report be designated and identifiable) - as the organization's journey continues towards producing an integrated report in accordance with the entire <IR> Framework. Assurance in this case does not consider whether information in the integrated report is excessive to that which would be required to claim full adoption of the <IR> Framework.

The relevant consideration is whether a report in accordance with only part of the <IR> Framework (that is, the content elements) is not so much a consideration in relation to 'other information' than it is to a consideration in relation to whether the engagement has a rational purpose. A report in accordance with part but not all of the qualitative characteristics of a reporting framework may well have a rational purpose (of interest to investors and other stakeholders) but also have room for improvement (in terms of conciseness and connectivity).

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[i] For instance, the European Commission's consultation on its non-financial reporting directive is seeking specific input on assurance of non-financial reporting; and Recommendation 4.3 in the 4th Edition of the Australian Securities Exchange Corporate Governance Principles and Recommendations says in relation to assurance, "Where a corporate report of this type [an integrated report] is not subject to audit or review by an external auditor, it is important that investors understand the process by which the entity has satisfied itself that the report is materially accurate, balanced and provides investors with appropriate information to make informed investment decisions. This can be disclosed in the report itself or more generally in the entity's governance disclosures in its annual report or on its website."

[ii] In due course, it can similarly recognize that the Management Commentary Practice Statement guidance will have been issued by a recognized body of experts (the IASB) following a transparent due process when that guidance is issued.

[iii] Strategic focus and future orientation; Connectivity of information; Stakeholder relationships; Materiality; Conciseness; Reliability and completeness; Consistency and comparability.