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Mr James Gunn

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International Auditing and Assurance Standards Board (IAASB)

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Submitted electronically to: jamesgunn@profstds.org

Dear James

Comments on the IAASB - IRWG's Discussion Paper: *Supporting Credibility and Trust in Emerging Forms of Reporting*

The Integrated Reporting Committee (IRC) of South Africa was established in 2010 to develop and promote integrated reporting. The IRC's membership includes leading organisations in South Africa, namely the Association for Savings & Investment South Africa (ASISA), Institute of Directors in Southern Africa (IoDSA), Johannesburg Stock Exchange (JSE), South African Institute of Chartered Accountants (SAICA), Banking Association South Africa (BASA), Chartered Secretaries Southern Africa (CSSA), BATSETA, Government Employees Pension Fund (GEPF), Institute of Internal Auditors South Africa (IIA SA), Financial Services Board (FSB), and the Chartered Institute of Management Accountants South Africa (CIMA SA). There are also a number of individual members. The IRC has a Working Group comprised of individual experts in integrated reporting and related disciplines. The views expressed by the IRC reflect its diverse membership.

The IRC commends the IAASB and its IRWG with furthering the development of assurance on integrated reporting and other emerging forms of external reporting (EER). We appreciate the opportunity to respond to the questions posed in the Discussion Paper *Supporting Credibility and Trust in Emerging Forms of Reporting* (Paper). Our comments set out below are focused primarily on enhancing the credibility and trust of integrated reports and integrated reporting.

Also relevant to our comments is South Africa's corporate governance code, the *King Report on Corporate Governance for South Africa 2016* (King IV), released on 1 November 2016 and which can be accessed at <http://www.iodsa.co.za/page/KingIVReport>

It should be noted that a member of the IRC's Working Group, Sandy van Esch, represented the Independent Regulatory Board for Auditors (the IRBA) on the IAASB's Integrated Reporting Working Group (IRWG) responsible for the development of the Paper and has

assisted with the collation of the inputs from IRC and Working Group members in compiling this submission.

If further clarity is required on any of our comments please contact Leigh Roberts, CEO of the IRC and Chairman of the IRC Working Group, at leigh31@telkomsa.net

Yours sincerely

A handwritten signature in blue ink that reads "Mervyn King". The signature is written in a cursive style with a long, sweeping underline.

Professor Mervyn King

Chairman

Integrated Reporting Committee (IRC) of South Africa

Comments on the IAASB Discussion Paper: *Supporting Credibility and Trust in Emerging Forms of Reporting*

General comment

The importance of EER information, especially the integrated report, is increasingly being recognised by investors and other stakeholders as reporting on core business activity. As such, any role the IAASB and other interested parties can play in guiding the assurance of integrated reports is welcomed. We believe the IAASB should be keeping pace in responding appropriately to these important developments and urge a priority ranking for this area of external assurance.

Responses to Specific Questions

Q1: Views sought from all respondents

Credibility and trust	
Q1. Section III describes factors that enhance the credibility of EER Reports and engender trust	<p>a. Are there any other factors that need to be considered by the IAASB?</p> <p>b. If so, what are they?</p>

We support the view that enhancing the credibility of integrated reports is useful for both internal and external stakeholders. The four factors to enhance credibility set out in the Paper are well considered. It is suggested the Paper also address the obstacles, dangers and misconceptions, such as the following:

- A broader group of users might use the assurance reports but not fully understand the various terms and issues.
- An integrated report might be described as being assured but an unsophisticated user may not appreciate the different levels of the assurance provided, or that certain portions of the report may not be assured, or that such assurance does not cover the appropriateness of business decisions made by the organisation.
- As various levels of assurance on various parts of the report may be provided by different assurance providers who operate to differing professional standards, the potential for confusion and misunderstanding exists.
- A potential risk of external assurance on the full integrated report is that it may inadvertently affect the completeness of the report with information that cannot be assured being excluded from the report.

The following are points for consideration within the stated four factors:

- *Sound Reporting Framework* should be extended to include the basis of preparation. It may be insufficient for a preparer to only mention what framework has been complied with or prepared in accordance with, but could also briefly explain how the framework has been applied in the report. This is especially important for principles-based frameworks, such as the *International <IR> Framework*.
- *Strong Governance* should be extended to include all of the assurance services and functions approved by the governing body of an organisation, for example:

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line management review, specialist functions that oversee and facilitate risk management and compliance, internal auditors, quality assessors and regulatory inspectors, in addition to the external assurance service providers. This aligns with the concept of combined assurance¹ in King IV with the Code’s principle 15 stating: “The governing body should ensure that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision-making and of the organisation’s external reports” (see more on combined assurance under question 2 below).

- *Consistent Wider Information* should refer not only to consistency of information but extend to other qualitative aspects, such as the completeness and balance of information provided, and the relevance and usefulness of information relative to the purpose of the report.

Q2: Views sought from preparers, those in governance roles, investors and regulators

Credibility and trust	
<p>Q2. Sections II and IV describe different types of professional services that are either currently performed or could be useful in enhancing credibility and trust.</p>	<p>a. Are there any other types of professional services the IAASB needs to consider, that are, or may in future be, relevant in enhancing credibility?</p> <p>b. If so, what are they?</p>

It is suggested that the combined assurance model, as defined in King IV, could offer a useful reference point for the IAASB. Further, it is suggested that the IAASB in its future guidance refer to “external assurance” in order to differentiate such from other forms of assurance.

Combined assurance covers all forms of assurance that may be provided by a wide array of service providers. The broader term of assurance is defined in King IV as follows:

“The diligent application of mind to evidence that results in a statement or declaration concerning an identified subject matter or subject matter information that is made for the purpose of enhancing confidence in that subject matter or subject information.

Assurance includes, but is not limited to, assurance engagements performed by independent, external assurance service providers (such as the external auditor) in accordance with the International Auditing and Assurance Standards Board’s International Engagement Standards. Such assurance “means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users

¹ King IV Report on Corporate Governance for South Africa 2016 - Combined Assurance: Principle 15 and Recommended Practice 42 (IoDSA, November 2016).

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other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria”.²

Assurance furthermore includes, but is not limited to, assurance provided in terms of the International Standards for the Professional Practice of Internal Auditing, namely, “an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organization”.³

Assurance services and functions may include the following:

- The organisation’s line functions that own and manage risks.
- The organisation’s specialist functions that facilitate and oversee risk management and compliance.
- Internal auditors, internal forensic fraud examiners and auditors, safety and process assessors and statutory actuaries.
- Independent external assurance service providers such as external auditors.
- Other external assurance providers such as sustainability and environmental auditors or external actuaries, and external forensic fraud examiners and auditors.
- Regulatory inspectors.⁴

In relation to the use of the various assurance services and functions, King IV recommends a combined assurance model. This is defined in King IV as follows:

“A combined assurance model incorporates and optimises all assurance services and functions so that, taken as a whole, these enable an effective control environment; support the integrity of information used for internal decision-making by management, the governing body and its committees, and support the integrity of the organisation’s external reports.”⁵

Q3: Views sought from preparers, those in governance roles, investors and regulators

Credibility and trust	
<p>Q3. Paragraphs 23-26 of Section II describe the responsibilities of the auditor of the financial statements under ISA 720 (Revised) with respect to the other information included in the annual report.</p>	<p>a. Is this sufficient when EER information is included in the annual report; or</p> <p>b. Is there a need for assurance or other professional services, or for further enhancement of the responsibilities of the financial statement auditor, to</p>

² International Auditing and Assurance Standards Board, *The International Framework for Assurance Engagements*, (Effective for assurance reports issued on or after January 1, 2005)

³ The Institute of Internal Auditors, *International Standards for the Professional Practice of Internal Auditing*, (2012);p 19

⁴ IoDSA, (2016) *King IV Report on Corporate Governance for South Africa 2016 – Definition of Assurance* (2016:p 9)

⁵ IoDSA, (2016) *King IV Report on Corporate Governance for South Africa 2016 – Definition of Combined Assurance* (2016:p 10)

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	<p>enhance credibility and trust when EER information is in the annual report?</p>
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As a general comment may we suggest that more clarity is needed to highlight that the auditor’s responsibility referred to in this instance should not be inferred as the assurance of other information in the integrated report. This is to avoid confusion and undue reliance by users.

The judgement of the governing body will be needed to determine what assurance is required and by whom to enhance the trust and credibility of the integrated report.

In the combined assurance model, all aspects of assurance would be covered under an umbrella assurance report, including financial and non-financial assurance, certifications and other forms of assurance.

Q4 - Q6: Views sought from standard-setters and practitioners

Scope of the IAASB International Standard’s and Related Guidance	
<p>Q4. Section IV describes the different types of engagements covered by the IAASB’s International Standard’s and Section V suggests the most effective way to begin to address these challenges would be to explore guidance to support practitioners in applying the existing International Standards for EER assurance engagements.</p>	<p>a. Do you agree?</p> <p>b. If so, should the IAASB also explore whether such guidance should be extended to assist practitioners in applying the requirements of any other International Standards (agreed-upon procedures or compilation engagements) and, if so, in what areas? (For assurance engagements see Q6-7)</p> <p>c. If you disagree, please provide the reasons why and describe what other action(s) you believe the IAASB should take.</p>

As a practical starting point the application of the existing international standards - together with new guidance developed to support assurance service providers in the assurance of integrated reports - will allow external assurance service providers to facilitate any client requests for assurance in the near term.

Given the nature and extent of some of the issues raised in the key challenges listed in the Paper, however, it may be necessary to revise the existing standards over time. Also, a potential risk is that assurance service providers may find that solutions have to be shoe-horned into the existing standards when a reconsideration of the existing standards is more appropriate.

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Q5: Views sought from standard-setters and practitioners

<p>Q5. The IAASB would like to understand the usefulness of subject-matter specific assurance standards. ISAE 3410, a subject matter specific standard for assurance engagements on Greenhouse Gas Statements, was issued in 2013.</p>	<p>a. Please indicate the extent to which assurance reports under ISAE 3410 engagements are being obtained, issued or used in practice by your organization.</p> <p>b. If not to any great extent, why not and what other form of pronouncement from the IAASB might be useful?</p>
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No comment.

Q6: Views sought from standard-setters and practitioners

<p>Q6. Section V suggests it may be too early to develop a subject-matter specific assurance engagement standard on EER or particular EER frameworks due to the current stage of development of EER frameworks and related standards.</p>	<p>Do you agree or disagree and why?</p>
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The *International <IR> Framework* was issued in December 2013 and is widely used in integrated reporting in South Africa. Some organisations in South Africa have been issuing integrated reports for more than six years. The majority of our members believe that it is time to work towards guidance on the external assurance of integrated reports. External assurance of the integrated report is one of a wider range of measures to enhance credibility and trust of integrated reports by investors and other stakeholders.

It is conceivable that the development of appropriate assurance guidance and the maturity of EER frameworks can happen in parallel.

It is recognised that the nature of EER reports, being subjective, qualitative and future-oriented, and the resulting implications for reasonable assurance may require more study and research together with a cost/ benefit assessment.

Q7: Views sought from standard-setters and practitioners

<p>Ten Key Challenges in Relation to EER Assurance Engagements</p>	
<p>Q7. Section V describes assurance engagements and the Ten Key Challenges we have identified in addressing EER in such engagements</p>	<p>a. Do you agree with our analysis of the key challenges?</p> <p>b. For each key challenge in Section V,</p>

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<p>(see box below) and suggests the most effective way to begin to address these challenges would be to explore guidance to support practitioners in applying the IAASB's existing International Standards to EER assurance engagements.</p>	<p>do you agree that guidance may be helpful in addressing the challenge?</p> <p>c. If so, what priority should the IAASB give to addressing each key challenge and why?</p> <p>d. If not, why and describe any other actions that you believe the IAASB should take.</p> <p>e. Are there any other key challenges that need to be addressed by the IAASB's International Standards or new guidance and, if so, what are they and why?</p>
<p>The Ten Key Challenges</p> <ul style="list-style-type: none"> • Scoping EER assurance engagements • Suitability of criteria • Materiality • Building assertions in planning and performing the engagement • Maturity of governance and internal control processes • Narrative information • Future-orientated information • Professional skepticism and professional judgement • Competence of practitioners performing the engagement • Form of the assurance report 	

The ten challenges offer a useful analysis. We highlight the following points when considering assurance of the integrated report:

- Some integrated reports are addressed to all the stakeholders of the organisation, rather than a singular audience such as shareholders.
- Material matters for inclusion in the integrated report are determined as those that are significant to the organisation itself and its value creation ability, rather than any specified users (in its determination of materiality an organisation will include the views and matters raised by all stakeholders rather than a focus only on shareholders).
- Significant non-financial information (the five capitals other than financial) included in the integrated report should be given parity status to that of financial information given its core nature to the evaluation of the organisation and its prospects. These factors can have a serious impact on the operations, financial performance, financial position and longevity of the organisation. Such parity and significance is not always clear from the discussion in paragraphs 96 to 101. Paragraph 97, in particular, states that the information may not be built into

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corporate strategies and is less well controlled – which points to risk for both the assurance provider and the governing body because they are not adequately managed.

- An organisation may work with a number and variety of assurance providers who are subject to differing operating and professional standards.
- The reported information may be subject to differing levels of assurance and subject to reports from more than one assurance provider.
- It may be worth considering the merits of assurance guidance on the process for the preparation of an integrated report.
- Opportunity for innovation exists in finding solutions to the challenges. Solutions might not be possible in terms of existing standards, and other approaches may have to be considered.

Our ranking of the ten challenges and some points thereon are in the table below:

No.	Key Challenge	Comments
1.	Scoping EER assurance engagements	The notion of exploring alternative lesser scope assurance engagements (such as different levels) may be sensible provided that the assurance still meets the needs of users. However, the proposed approach doesn't take the objective of providing historical financial statement level assurance (reasonable assurance) on EER engagements any further.
2.	Suitability of criteria	
3.	Materiality	The concept of materiality, and its related concept of completeness, is integral to the integrated report. The process of determining material matters is important and should be a part of the assurance process. Also refer to our comment on materiality in the text preceding this table.
4.	Building assertions for subject matter information of a diverse nature in planning and performing the engagement	
5.	Maturity of governance and internal control processes	The challenge is well articulated in the Paper although this area is fast developing in practice. In South Africa, it is becoming commonplace for audit committees to question management on the internal controls over the EER reporting process and often involve the internal audit function to ensure that the factual (particularly

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		<p>numerical) information provided is accurate.</p> <p>It is noted that the initiation of an assurance process is likely to spur an organisation to set up reporting processes or to increase the efficacy and reliability of their reporting processes.</p>
6.	Narrative information	<p>This area is important to the assurance process because the assurance provider should assess that the narrative information provided is free from management bias, because of the often inherent subjectivity of the subject matter. This may have particular relevance for reasonable assurance.</p>
7.	Future-orientated information	<p>The Paper identifies that the highest level of assurance that can be provided on future-orientated information is assurance on the process, validating assumptions and checking compilation and calculations. In historical financial information, despite the significant work performed, actual results can, and in many instances do, differ from projections and this is the nature of future-oriented information.</p>
8.	Competence of practitioners	<p>In the assurance of information related to the six capitals in the integrated report it is highly likely that a multi-disciplinary assurance team will be needed, as well as the use of other expert assurance providers.</p> <p>The exploratory work should cover the areas as stated in the Paper, but also address procedures and processes in the combined assurance approach.</p> <p>We agree with the observation that disclosure of the skills competency of the engagement team is a useful transparency aid and should be a standard disclosure requirement.</p>
9.	Professional scepticism and professional judgement	
10.	Form of the assurance report	<p>It is suggested that the exploratory work include ways to make the assurance report more understandable to a wider range of users. Effective communication is essential to convey the actual level of assurance provided. However, this should not be achieved at the expense of conciseness. To assist in brevity, a consideration is to state a link to the detailed explanation of standard terms on the assurance provider's website.</p>

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		A standardised format for the report will enhance comparability.
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Q8: Responses sought from the following respondents

- **From investors and regulators** – in particular their views on the need for different types of external assurance engagements.
- **From standard setters and practitioners** – how they are satisfying demand from users by providing particular services.

Potential Demand for Assurance Engagements and Other Professional Services

Q8. The IAASB wishes to understand the impact on potential demand for assurance engagements, if the Ten Key Challenges we have identified can be addressed appropriately, and in particular whether:

- Doing so would enhance the usefulness of EER assurance engagements for users
- Such demand would come from internal or external users of both
- There are barriers to such demand and alternative approaches should be considered.

a Do you believe there is likely to be substantial user demand for EER assurance engagements if the key challenges can be appropriately addressed?

b If so, do you believe such demand:

- i Will come from internal or external users or both?
- ii Will lead to more EER assurance engagements being obtained voluntarily or that this outcome would require legal or regulatory requirements?

c If not, is your reasoning that:

- i EER frameworks and governance will first need to mature further?
- ii Users would prefer other type(s) of professional services or external inputs (if so what type(s) – see box below for examples of possible types)?
- iii There are cost-benefit or other reasons (please explain)?

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<ul style="list-style-type: none">• Further enhanced responsibilities for financial statement auditors under ISA 720 (Revised)?• Agreed-upon procedures reports?• Compilation reports?	<ul style="list-style-type: none">• Other types of professional services or other external inputs (please indicate what type of service or input and whether the IAASB should consider developing related standards or guidance)?
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We envisage that there will be a demand for external assurance of the full integrated report. This is the likely next step in the current practice of external assurance on parts of the integrated report or on some of the information included in the report.

The link between material non-financial performance and financial performance is clear and as such, the checks and balances that external assurance provides is necessary in the same way that the financial audit became necessary.

The extent to which standards are changed and are able (or not able) to deal with the identified challenges, as well as the understandability of assurance reports, are likely to affect the envisaged demand for such reports. A cost/ benefit assessment will also be a consideration.

If so, do you believe such demand:

i. Will come from internal or external users or both?

Demand is envisaged from both inside the organisation and from external stakeholders.

Internally-driven demand is likely from audit committees and governing bodies, as well as management seeking to enhance the credibility and trust of the integrated report and key figures used for internal decision-making. Governing bodies may also regard external assurance as a tool in their duty of accountability, as a means of increasing their comfort level on the reliability of information subject to internal checking only, and as an independent assessment of technical data assisting with their understanding.

Externally-driven demand is likely from the current users of reports, including investors, analysts, rating agencies, NGOs, suppliers and regulatory authorities, as the status of the integrated report becomes entrenched as the primary external report of an organisation and as the link to other detailed information and compliance reports.

ii. Will lead to more EER assurance engagements obtained voluntarily or would require legal or regulatory requirements?

King IV, South Africa's voluntary corporate governance code, tasks the board of an organisation with determining and disclosing the assurance measures undertaken and advocates a combined assurance approach. This will assist internal users to systematically determine appropriate levels of combined assurance over internal and external reporting. King IV may also heighten the external expectations of assurance.

Given the wide ambit of the types of organisations that can and should apply King IV, we believe the corporate governance angle may well motivate organisations to seek external assurance from different service providers and that specific regulation in this regard will not

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be required. This approach will give effect to our view of parity between financial and the other forms of capital that are crucial to the success and longevity of an organisation.

Q9: Other - Views sought from all respondents

<p>Q9. The IAASB would like to understand stakeholder views on areas where the IAASB should be collaborating with other organizations in relation to EER reporting</p>	<p>For which actions would collaboration with, or actions by, other organizations also be needed?</p>
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The IAASB should continue/ commence collaboration with relevant bodies and framework standard-setters and other initiatives on assurance. The overall aim is to develop guidance for determining common assertion definitions among EER frameworks. The process should be inclusive of appropriate stakeholders, for example environmental specialists on environmental issues and academic and training institutions on the issue of competence and skills needed. Such collaborations will assist with the development of universal assurance standards and guidelines, as well as enhancing the credibility and the comparability of reports.

Some assurance providers are members of professional bodies, which are neither member bodies of the IAASB nor subject to compliance with the IAASB International Standards, and suitable collaborations could lead to greater alignment of ethical and professional standards among those providing EER assurance engagements.

Ends