

Accelerating Integrated Reporting Assurance in the Public Interest

IFAC and the IIRC Support Pathway to Integrated Reporting Assurance



A CALL TO ACTION:

A global pathway to integrated reporting assurance needs to develop to reinforce both advancements in integrated reporting and in global standard setting for corporate reporting and assurance. The IIRC and IFAC's initial thinking outlined here is aimed at starting a discussion with the accountancy profession and its key stakeholders on further progressing integrated reporting assurance, with the goal of enhancing confidence in integrated reporting and integrated thinking, and ultimately business resilience and sustainability.

The development and evolution of integrated reporting assurance is needed to make a greater contribution to the confidence and credibility of integrated reporting.

An integrated report developed in accordance with the [International Integrated Reporting Framework](#) (The <IR> Framework) connects all relevant information about a business and its enterprise value creation, including financial, operational, intangible, sustainability or 'environmental, social and governance' in the context of its governance, strategy, resource allocation and relationship management, business model, and performance and prospects. We believe that:

1. Integrated reporting assurance advances the credibility of integrated reporting and forward-looking information, which in turn, enhances the regulatory

environment for investors. Ultimately, assurance on integrated reports enhances the credibility of corporate reporting on the business as a whole, which provides a more robust foundation of trust in capital markets and society.

2. A new way of thinking is needed to achieve assurance of integrated reporting. The recent emergence of limited assurance of several organizations' integrated reports and The International Auditing and Assurance Standards Board (IAASB) Extended External Reporting (EER) Assurance [project](#) is a good start. However, more understanding and guidance are needed, particularly on moving from a limited to a reasonable assurance engagement given this transition requires assurance procedures and obtaining evidence on the integrated reporting and other key business processes comprising the value creation process.

3. Financial auditors including statutory auditors and independent practitioners working in an accountancy firm, are well-placed to deliver high quality integrated reporting assurance given their assurance skillset, experience in financial audit and professional skepticism and judgement. Integrated reporting assurance is also a critical element of the future role of accountants enabling a career pathway to apply their professional expertise beyond financial information in corporate reports to other information that is related to enterprise value creation. This involves working in multi-disciplinary teams and engaging subject matter experts as required. However, integrated reporting has implications for the knowledge, skills and experience of financial auditors leading these engagements given it involves a broader range of business activities and information.

This initiative aims to accelerate integrated reporting assurance by making clearer what it involves for organizations, auditors, and others. Progress requires all actors in the corporate reporting system playing a role to enable assurance.

There is much to do in organizations as well as among auditors and assurance providers. Developments in integrated reporting assurance depend on the assurance readiness in organizations, particularly related to the quality of their reporting and underlying processes and documentation. The potential move to a [global reporting solution](#) under the IFRS Foundation to deliver consistent, comparable, reliable, and assurable information will further enable integrated reporting assurance. However, to achieve greater confidence in integrated reporting, assurance of integrated reports needs to progress more quickly and consistently across jurisdictions.

Enabling High-Quality Integrated Reporting Assurance

Where are we today?

Integrated reporting assurance is enabled by [International Standard on Assurance Engagements \(ISAE\) 3000 \(Revised\)](#), [Assurance Engagements Other than Audits or Reviews of Historical Financial Information](#) for a decade the basis for high-quality assurance in all types of organization and assurance engagements and intended for use by accountants and non-accountants. Importantly, ISAE 3000 (Revised) includes requirements for quality management and professional ethics at the firm and engagement level that are designed to ensure quality and to protect the public interest. To support the application of ISAE 3000 (Revised), the [IAASB's Extended External Reporting \(EER\) Assurance project](#) has developed additional guidance. Integrated reporting is one example of EER and the EER guidance is a starting point for the alignment of integrated reporting assurance to developments in integrated reporting.

In some jurisdictions such as Germany, auditors are already required to obtain reasonable assurance on much of the content of a management report as part of their audit of the financial statements, with so-called non-financial information currently being specifically subject to an existence check. In South Africa, an explicit *combined assurance* model has evolved that together with integrated reporting, helps to provide better coordination of assurance across internal and external assurance providers. This involves harmonizing assurance efforts across different functions such as internal audit, compliance and risk functions and independent external assurance to provide the board and senior management a wider view of assurance and risk management activities related to integrated reporting.

Assurance on integrated reports has also been developing incrementally, with numerous instances of limited assurance on components of integrated reports, including selected sustainability metrics such as under [SASB](#) or [GRI](#) standards. More recently, we have seen the emergence of limited assurance of integrated reports prepared in accordance with the integrated reporting criteria applied by management (e.g., using the <IR> Framework).

Examples of Limited Assurance of Integrated Reports:

- [ABN AMRO](#) – A Netherlands-based bank.
- [Cbus](#) – Australian pension fund
- [CIPLA](#) – Pharmaceutical company headquartered in India
- [CPA Australia](#) – Professional accountancy organization headquartered in Australia
- [Petronas Chemicals Group](#) – An integrated chemicals producer in Malaysia

As part of the audit of financial statements, auditors already have responsibilities under [International Standard on Auditing \(ISA\) 720 \(Revised\)](#), [The Auditor's Responsibilities Relating to Other Information](#). These responsibilities include auditors reading and considering other information accompanying financial statements (such as management commentaries and otherwise-named national equivalents in annual reports containing or accompanying the financial information that they have audited), as to whether there is a material inconsistency between that other information and the financial statements and the auditor's knowledge obtained in the audit, or whether the other information appears to be materially misstated.

Where do we need to get to?

Ideally, the end game is both widespread adoption of integrated reporting and of reasonable assurance of integrated reports.

To improve the relevance and integrity of information in integrated reports used for stakeholder decision-making, it is important to develop a globally consistent approach to enhancing the credibility of integrated reports through integrated reporting assurance based on ISAE 3000 (Revised) which is aligned to developments in integrated reporting. Integrated reporting assurance differs from assurance over other forms of EER (e.g., over sustainability reporting) given integrated reporting is largely future-oriented and related to all elements of a business (referred to as the Business and described in the box below) which is based on multi-capitals incorporating all relevant resources and relationships and grounded on integrated thinking to ensure better business practices.

The reference to the Business relates to its:

- **What** – its purpose, strategy, and risks and opportunities arising from its operating environment – i.e., value creation as a fundamental concept of the <IR> Framework
- **With** – its resources and relationships i.e., the capitals as a fundamental concept of the <IR> Framework
- **How** – the value creation process as a fundamental concept of the <IR> Framework comprising an organization’s governance, strategy, business model, risk and opportunity management, resource allocation and relationship management, and materiality determination as part of the integrated reporting and other key business processes
- **Why** – its competitive advantage in its use of its capitals in its value creation process to create and preserve value – its integrated thinking.

These elements are the basis of providing assurance of integrated reporting, and expressing an assurance conclusion, on the description of *the Business* disclosed in the integrated report, enabling investors and other stakeholders to evaluate the business and its resilience.

How do we get there?

Integrated reporting assurance can be limited or reasonable, or a combination of both for different subject matter in the integrated report, as illustrated in the diagram on page 4.

Understanding the different types of assurance

The difference between these types of assurance is mainly related to the nature and extent of the assurance practitioner’s consideration of and procedures related to the risk of material misstatement of the reported information, particularly in relation to the integrated reporting and other key business processes. Reasonable assurance amounts to essentially providing a level of assurance like a financial statement audit opinion where the auditor expresses an opinion on whether the financial statements are fairly presented.

Limited and reasonable integrated report assurance engagements involve inquiry, observation, inspection, recalculation, reperformance, confirmation, and analytical procedures of management documentation related to governance, strategy, resource allocation and stakeholder relationship management, business model, risk and opportunity management, strategic and performance scorecards, and assessing their presentation in the integrated report.

For reasonable integrated reporting assurance, an efficient work plan will typically include obtaining sufficient appropriate evidence on the operating effectiveness of relevant management controls amongst other procedures in obtaining sufficient evidence to support the assurance practitioner’s conclusion.

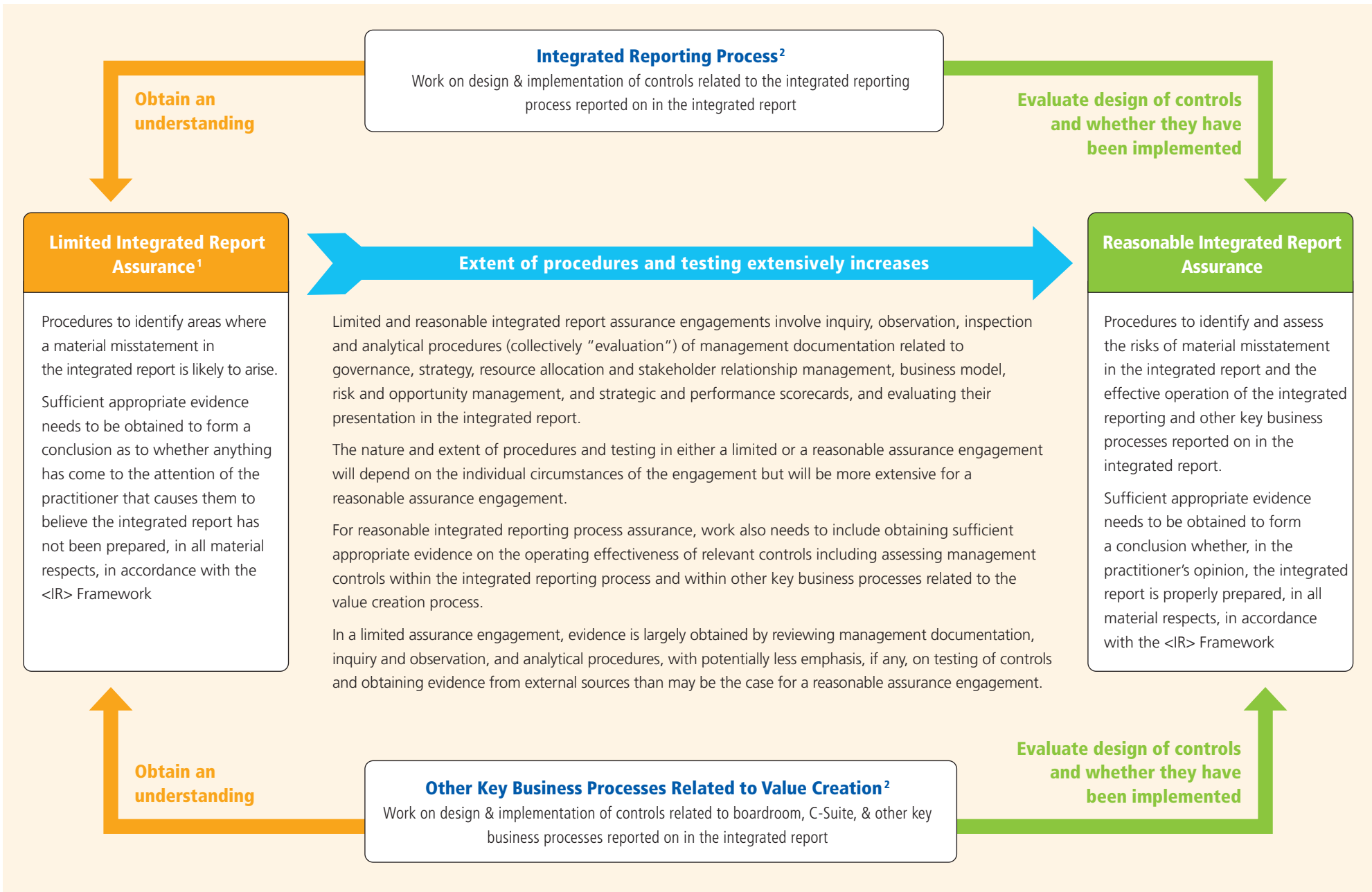
For example, an objective of the strategic management process may be to set clear strategic objectives for the organisation in view of the environment in which it operates and the purpose of the organisation. Risks threatening these objectives may be controlled or mitigated through responses such as appropriate allocation of resources to monitoring a changing external environment, clear definition of roles and responsibilities in relation to strategic management, alignment of the strategic management process with other key business processes, adequate oversight by those charged with governance, and clear documentation of these matters in a manner (e.g., in a strategic plan and associated business model documentation) amenable to assurance procedures. These processes should be concisely disclosed in the integrated report.

A reasonable assurance engagement is more likely to include procedures such as confirmations of strategic objectives, risks and opportunities, and resource allocation decisions; walkthroughs of key business process documentation; and evaluations of the operational effectiveness of key business processes, and verification of the operation of controls within those key business processes.

Reasonable assurance engagements on integrated reports should progressively provide higher value assurance activities for the organization, its investors and other stakeholders. However, advancing towards reasonable assurance on the integrated report has progressively more significant implications in terms of its assurance readiness involving:

- Organization readiness: more intensive auditor scrutiny, and so requiring management time, and documentation of *the Business* and the value creation process; and
- Stakeholder readiness: whether stakeholders require the added confidence of the report and key business processes reported on being reasonably assured. This, in turn, helps the organization decide whether to make the added investment in reasonable assurance.

Specific assurance on the materiality determination, integrated reporting or other key business processes related to value creation can be delivered either privately (e.g., in a report to those charged with governance and the audit committee) or publicly, separate to that provided on the integrated report itself (e.g., internal control assurance reports).



1. The six known instances of integrated reporting assurance to date have all been in this category

2. Component of reasonable integrated report assurance. In moving towards reasonable integrated report assurance, the integrated reporting process and / or other key business processes related to value creation can be subject to a limited or reasonable assurance engagement, or an agreed-Upon Procedures (AUP) engagement. Such engagements can be contracted to result in either private reporting (e.g., to the Board of Directors) or public reporting.

We believe assurance practitioners will likely require additional guidance to support them on evaluating narratives describing *the Business* and the resulting self-determined, business-critical metrics covering the various capitals other than financial capital, and particularly intangibles, in an integrated report.

What are the opportunities and challenges?

The unique opportunities and challenges of integrated reporting assurance, covering both limited and reasonable assurance, include evaluating:

- Whether the pre-conditions for assurance have been met. Organizations and their assurance providers will need to ensure that the processes and systems are in place to gather evidence and provide confidence in the relevant information regardless of whether a limited or reasonable assurance engagement is selected.
- The narrative description of *the Business* and applying and connecting various assurance procedures for qualitative information and processes related to integrated reporting and the value creation process including:
 - The description of the Business in the integrated report and the self-determination of business-critical metrics not required by financial and sustainability reporting standards
 - The design and operation of the integrated reporting process, as described in the integrated report
 - The design and operation of business management controls within other key business processes, as described in the integrated report.
- The Basis of Preparation and Presentation required by paragraph 4.41 of the <IR> Framework regarding purpose and audience of the report, the materiality determination process, reporting frameworks used, measurement of metrics, and integrity of underlying data. The Basis of Preparation and Presentation disclosure is very important in an integrated reporting assurance engagement in explaining how the <IR> Framework has been supplemented so that the suitable criteria required for an integrated reporting assurance engagement have been met.

This last point is linked to the assurance practitioner evaluating whether an integrated reporting assurance engagement has a rational purpose. This requires management to decide whether investor and other stakeholder demand for wider integrated reporting assurance is warranted by balancing the extent of management resources required to obtain, prepare, or provide the required assurance evidence and associated cost of assurance.

These unique opportunities and challenges flow directly from the distinctive contribution of integrated reporting – its grounding in integrated thinking, its focus on the narrative description of *the Business*, and the primary audience for an integrated report being the providers of financial capital while also being of interest to all other stakeholders. Integrated reporting education and training need to focus on these differentiating aspects.

Other valued services may also be delivered as Agreed-Up-On-Procedures (AUP) engagements under *International Standard on Related Services (ISRS) 4400 (Revised), Agreed-Up-On Procedures Engagements* (this revised standard is effective for AUP engagements for which the terms of engagement are agreed on or after January 1, 2022). An AUP engagement is not an assurance engagement and does not lead to a public opinion being expressed. However, it leads to a report to intended users such as management, providing factual findings and recommendations upon which they can draw their own conclusions and actions (for additional guidance see *Agreed-Up-On Procedures Engagements: A Growth and Value Opportunity*). For example, AUP can apply to work needed to support the signing of the responsibility statement by those charged with governance which is required by paragraph 1.20 of the <IR> Framework.

Auditors and integrated reporting assurance

Given the extensive business knowledge required to carry out integrated reporting assurance, and the nature of the required evidence gathering procedures, financial auditors are ideally suited to lead limited and reasonable assurance engagements on integrated reports. For regulators, financial statement auditors' professional training and requirements covering assurance skills and techniques, and ethics and quality management will mean greater confidence in the assurance being delivered in integrated reporting assurance engagements.

Providing integrated reporting assurance has implications for the knowledge, skills and experience of the assurance practitioner. An understanding of the business and its industry is a fundamental requirement for an integrated reporting assurance practitioner, just as it is for a financial report auditor.

Accordingly, given their their assurance skills, professional skepticism and judgement, and business knowledge, financial report audit engagement leaders should be suitably qualified to lead an integrated report assurance engagement supported by multidisciplinary teams with subject matter experts as required. The auditors' professional judgment and skepticism in determining the suitability of criteria for

identifying and evaluating integrated reporting topics will likely be supplemented by bringing in experts in various subject matters. With their expertise in assurance methods, techniques and tools, auditors are well placed to lead in relation to scoping, planning, obtaining evidence and documenting, and communicating the results of an integrated report assurance engagement. Increasingly, financial auditors are seeking opportunities to apply their professional skills to integrated reporting, and we believe this trend must accelerate to both enable integrated reporting assurance, and to enhance the attractiveness of audit as a career.

Performing an integrated reporting assurance engagement involves the assurance practitioner applying professional judgement on the reporting on the business judgements made by those charged with governance and executive management related to the value creation process covering:

- *The Business* – its governance, strategy, resource allocation and relationship management, business model and approach to risk and opportunity management, and reporting;
- *Performance* – business-critical self-determined metrics (some of them will not be required by financial and sustainability reporting standards e.g., intellectual capital metrics) which should be included in the integrated report, and also which metrics required by financial and sustainability reporting standards should be excluded on materiality grounds; and
- The Basis of Preparation and Presentation – how these matters are reported on, including the nature and subjectivity of certain information and inherent limitations in its measurement or evaluation.

Ultimately, the assurance practitioner must be able to evaluate whether the integrated report effectively represents *the Business*.

Next Steps

The IAASB's proposed guidance on EER assurance (to be approved in March 2021 and issued soon thereafter) provides an example to support integrated reporting assurance engagements. We invite feedback on integrated reporting assurance in practice and the need for further activities to support its adoption including additional guidance that would be useful for auditors and assurance providers. We believe auditors and assurance providers will likely require additional guidance, particularly on evaluating qualitative subject matter information about the business and its value creation, and the use and

assessment of various suitability criteria related to management-defined and self-determined, business-critical metrics covering the various capitals and intangibles, in an integrated report. Your feedback can be sent to stathisgould@ifac.org.

Completing the Corporate Reporting Ecosystem

- Integrated reporting assurance is a vital part of the corporate governance and reporting ecosystem. It is critical that it is approached as a component of the system, and not treated as something to be added later. Approached properly, it will improve the quality of integrated reporting and business practices.
- Whilst some of the foundations are in place, significant challenges remain for all those involved in integrated reporting. Guidance and practice will need to develop further in this immature part of the reporting and assurance world - trying to force a solution based largely on historical assurance approaches will likely not be sufficient when there is much more emphasis on things like narrative and forward-looking information. Preparers and assurance providers need to innovate and feed back to standard setters. Users need to be realistic in their expectations as the assurance system matures. It will require all participants to take some calculated risks in the interest of ongoing relevance and trust.
- IFAC and the IIRC are committed to supporting the evolution of integrated reporting assurance in the context of continual improvement in the integrated reporting journey, supporting innovation and encouraging best practice, and ensuring integrated reporting and integrated reporting assurance evolve together.

Additional References

[A Buyer's Guide to Assurance on Non-Financial Information](#) issued by The World Business Council for Sustainable Development and the Institute of Chartered Accountants in England and Wales (ICAEW) provides more general information on assurance.

Relevant audit and attestation standards in the US are: AT-C section 105, *Concepts Common to All Attestation Engagements*, AT-C section 205, *Examination Engagements*; and AT-C section 210, *Review Engagements*. [These standards are available on the AICPA website.](#)



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