



Buenos Aires, November 28th 2014

Mr. Paul Druckman
Chief Executive Officer
The International Integrated Reporting Council

Dear Mr. Druckman

The Centro de Investigaciones en Auditoría y Responsabilidad Social –CIARS- (Research Centre on Audit and Social Responsibility)¹ is delighted to have the opportunity to provide a written response to the Consultation paper *Assurance on <IR> An Introduction to the Discussion*, based on the Discussion Paper *Assurance on <IR> An Exploration of Issues*.

At the moment, our Research Centre is undertaking a research on Integrated Reporting <IR> and the Consultation paper is part of its consideration. Moreover, we have had the chance to listen to your presentations - on October 6th 2014, during your visit to Buenos Aires- which not only enlightened us on <IR> recent developments but also encouraged us to provide our views on the aforesaid documents.

The specific responses to each of the consultation questions are as follows:

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

As stated long time ago, whenever the advance of civilization brought about the necessity of one man being entrusted to some extent with the property of another, the advisability of some kind of check upon the fidelity of the former would become apparent.

Increasing stakeholders' demands for information on organizations' financial, economic, social and environmental impacts in a complex context that calls for accountability and transparency place special importance on external assurance of Integrated Reports as a mechanism for ensuring reliability and credibility.

¹ The Research Centre on Audit and Social Responsibility –CIARS- is part of the Accounting Research Section of the Institute on Administration, Accounting and Quantitative Methods applied to Management –IADCOM-The Institute forms part of the School of Economic Sciences, University of Buenos Aires –UBA. www.econ.uba.ar Avda. Córdoba 2122 – 2do piso – Buenos Aires, Argentina.



This opinion is supported, among others, by the consultation held by Forbes² in 2013.

Accordingly, we are convinced that developing appropriate assurance on <IR> is a cornerstone for reaching the <IR> aims stated in item 2.2. of the Consultation Paper.

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

Although <IR> promotes providing financial and non-financial information, we believe that the basis for the key features of assurance can be obtained from the framework of current standards on financial information assurance.

Paragraphs 3.5-3.7 of the Discussion Paper provide an appropriate basis for defining the subject matter and the suitable criteria for <IR> assurance. These two elements are in line with the key assurance elements listed within the *International Framework for Assurance Engagements* (“IAASB Framework”).

Based on the fact that the subject matter includes non-financial information, often expressed in Integrated Reports through narrative descriptions lacking quantitative indicators, we believe that it is necessary to develop more guidance on sufficient appropriate evidence for auditors who perform assurance on <IR>. This is specially relevant if we consider that it is likely that some of the management statements disclosed in <IR> will be supported by management representations and will only go through the filter of the auditors’ professional judgement and scepticism.

Taking into account the demand for both hard and soft indicators and future oriented information, we consider that the IIRC should address further analysis in relation to levels of assurance required to <IR>, whether reasonable assurance level, limited assurance level or a hybrid of both. Flexibility on this matter would be the best approach for granting stakeholders an adequate level of comfort for each type of assertion.

Cultural and legal differences across jurisdictions call not only for a solid assurance framework but also for sound, useful and globally acceptable criteria. These demands, though quite obvious in the face of the current globalisation of standards, would require the IIRC to continue its way along the open-minded path it has already started.

² The research included 82 interviews, which were held amongst the following category of stakeholders: 19 company management, 17 company audit committees or supervisory boards, 29 regulators, 10 Academics/think tanks and 7 institutional shareholders.



3. Is the availability of suitably skilled and experienced assurance practitioners a problem in your jurisdiction, and if so what needs to be done, and by whom to remedy the situation?

Being part of the biggest educational institution for public accountants in South America, we reinforce the need for principle-based education. Reporting is not just a technical, uncritical process: it is, instead, a social and highly-judgemental activity.

Moreover, assurance can only be considered a mechanism for providing reliability if auditors are perceived as competent assurance providers. In that regard, reaching such competence requires enabling future auditors with strong skills that include not only technical knowledge but also interpersonal abilities and other “soft” skills, as well as appropriate “tone” in terms of attitudes, ethics and values.

Therefore, we do not foresee that assurance on <IR> will be limited by lack of assurance providers with appropriate skills in our jurisdiction. However, from a professional perspective, post-graduate courses will be necessary to communicate appropriately the relevance of integrated thinking and related principles of <IR>.

We believe that International Education Standards (IES) - as issued by the International Accounting Education Standards Board (IAESB)- and other related pronouncements provide the appropriate ground on which professional accountants should be prepared. Specifically, revised IES 8 related to professional competence for audit partners on historical financial information will be released soon. Although <IR> is not limited to historical financial information, a future IAESB pronouncement (probably based on revised IES 8) could provide further guidance on a specific set of skills for <IR> assurance providers.

4. What needs to be done, and by whom, to ensure the quality of assurance on <IR> is maintained at a high level including practitioners’ adherence to suitably educational, ethical (including independence), quality control and performance standards?

Quality of assurance is based on multiple elements.

- a. Both local and international, standards setters are responsible for providing an appropriately grounded set of standards for framing the assurance activities.



- b. Universities and other educational institutions are committed to introduce <IR> principles and related assurance models for future (graduate) and current (post-graduate) assurance providers.
- c. Local professional or governmental regulatory bodies related to the profession are also involved in undertaking the responsibility for monitoring the compliance of assurance standards.
- d. Professionals, either individually or grouped in firms, should keep their internal procedures in good standing.

Based on this multiple-party consideration, ISQC 1 and ISAE 3000 may provide a good basis for developing a specific assurance model for <IR>.

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

Information to be reported comes from information systems. Any information system needs to include internal control as an intrinsic element. Otherwise, information systems cannot be reliable to provide an adequate basis for evaluating and measuring the relationship among the multiple parties that interact with any organisation.

We agree with paragraph 3.10 of the Consultation paper on the role of internal control and reporting systems.

Besides, corporate governance should also be considered as a relevant part of the robustness of internal systems. As stated by Sir Adrian Cadbury, *“corporate governance is concerned with holding the balance between economic and social goals and individual and communal goals... the aim is to align as nearly as possible the interests of individuals, corporations and society.”*

Broadly known current frameworks for internal control - such as COSO, CoCo, King Report, Vienot Report and others - may be useful for improving the robustness of internal systems. The IIRC might consider whether it is necessary to address an in depth analysis with respect to <IR>.

6. Is assurance likely to be a cost effective mechanism to ensure credibility and trust over (a) the short/medium term; (b) the long term?

Reliability of relevant information is fundamental for critical decision making. Quality of assurance is as relevant as internal control procedures related to reporting, the “tone at the top”, transparency and consistency of reporting and any of the components of the information value chain.



Internationally, the accounting profession has a robust, long time developed experience to provide assurance, including an appropriate set of standards related to audit and assurance, ethics, education and quality control. These standards, with some adjustments, may be valuable for encompassing the assurance framework for <IR>.

Having in mind the other mechanisms contributing to credibility and trust mentioned in paragraphs 3.9 to 3.11 of the Consultation paper and the current development status of the above mentioned assurance key elements, assurance is one of the readiest and fittest processes to implement in order to provide reliability on information.

As above-mentioned in our response to question 1, assurance is necessary to get the aims of <IR>, in accordance with paragraph 3.4 of the Consultation paper.

7. If so, what needs to be done, and by whom, to maximise the net benefits of assurance?

<IR> is a relatively new development. Further communication efforts would need to be made in order to get more issuers and stakeholders involved in it. A broader population of users would increase the demand for more integrated reports and for assurance on them.

Once <IR> is more broadly known and implemented, the benefits of integrated thinking would become evident. Education and training are essential to this communication process.

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

<IR> encompasses financial and non financial information, historical and future-oriented information, quantitative and qualitative information (mostly communicated through narrative disclosures). Assurance on <IR> would require developing standards on areas currently not covered by assurance standards. These developments would support consistency of approach to the new issues.

As stated in the IAASB's proposed strategy for 2015-2019 and proposed work program for 2015-2016, the Innovation, Needs and Future Opportunities (INFO) Working Group intends to continue to monitor developments in <IR>. So, liaison and dialogue between IIRC and IAASB seems to be already open.



We believe that the IAASB framework and ISAE 3000 are a good basis to start building such a new integrated approach to assurance on <IR>. Although some tangential references were considered by the IAASB during the recent discussions on revised ISA 720 this year, a new set of standards would be required to cover the whole picture which encompasses all elements included in <IR>.

9. Should any such standard/guidance be specific to <IR>, or should it cover topics that are also relevant to other forms of reporting and assurance, e.g. should a standard/guidance on assuring narrative information, either in an integrated report or elsewhere be developed?

Based on the fact that current IAASB assurance standards do not cover either management views and relevant qualitative aspects considered by <IR> or the different forms this new reporting may take – quite apart from the traditional reports we are used to, through linking information to various sources- we believe that a new set of standards need to be developed.

In the meanwhile, the extant IAASB assurance standards may be used, as they cover some of the relevant parts of the integrated report. Otherwise, users would have to make do with integrated reports without any level of assurance (and therefore less credible and reliable) until the new standards are developed.

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

- **Materiality?**
- **The reporting boundary?**
- **Connectivity?**
- **Completeness?**
- **Narrative reporting and future oriented information?**

All of these topics represent challenges to develop an assurance framework for <IR>. Our comments on each of these topics are as follows:

Materiality.

As well as in assurance on historical financial information, the auditor will have to identify and address the audit work on material issues. To provide assurance on an integrated report, non-financial disclosures -which are not under traditional materiality determination processes- will also have impact on settling materiality.

The nature of qualitative and highly judgemental information will represent a challenge for auditors. We agree that additional guidance needs to be



developed on this regard, specifically on completeness of management reports and aggregated misstatements.

Reporting boundary.

Having a clear view of the <IR> borders is essential for assurance. Without the appropriate frame, gathering evidence from external sources from the reporting entity would become an indefinite, frustrating and highly costly task.

We agree that guidance on this matter is required.

Connectivity.

Relationship between the reporting entity strategies and related outcomes are essential to <IR>. We agree that further guidance is needed on how to assess the appropriateness and completeness of those relations.

Completeness.

Balancing the interplay of conciseness and completeness will represent a significant challenge to auditors. Moreover, ensuring that relevant information is unavailable would also represent a difficulty. We agree that appropriate guidance on this matter will be required.

Narrative reporting and future oriented information.

Consistency will be a relevant driver on this issue. The nature of narrative information restricts the ability to get an easy description on getting objective adherence in reporting as well as consistency.

Future oriented information may be a challenge not only for auditors (because of its highly subjective nature), but also for management (as it poses issues of confidentiality and sensitivity to competitors or other stakeholders).

Further guidance on providing assurance on this information will be required.

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

Item 6.14 of the Discussion Paper brings up the fact that the assurance practitioner on integrated report may differ from the financial statements auditor.

Though some synergies may result on performing both assurance engagements, we support stakeholders' involvement in selecting the assurance provider of integrated reports. Enhanced independence and responsiveness may come up from such selection processes.



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

- a. Reasonable assurance?
- b. Limited assurance?
- c. Hybrid engagements?
- d. Agreed upon procedures engagements?
- e. Other approaches?

We agree that the different levels of assurance need to be known not only by issuers and auditors, but mainly by users.

Although a hybrid approach (both reasonable assurance on some information, and limited assurance on other information) appears as the most suitable available option at the moment, such hybrid approach may result in confusion to some users. In this context, discussion within the recently launched initiative *Corporate Reporting Dialogue* could be enlightening.

We think that the joint work of IIRC and IAASB could be enriching to develop a specific framework for providing assurance on <IR>.

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

As <IR> has considered the experiences learnt from financial reporting and sustainability reporting, assurance on <IR> has to be built on existing assurance processes on those reports.

It is likely that, at the very beginning, <IR> processes will be seen as overlapping existing reporting processes. The same thing will probably happen with assurance on <IR>.

As <IR> becomes more known, and its benefits broadly extended, the assurance processes will be seen as a necessary part of it. If users as well as regulators find that integrated reports are relevant to improve accountability, interesting insights about the interaction of <IR> and the other assurance processes will probably come up.

We are really honoured to provide our inputs to this evaluation process. We hope that our comments will help to build a strong approach to assurance on <IR>.



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We would be keen to be contacted should you wish to discuss any of our comments, either by e-mail or by post to

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