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International Integrated Reporting Council

To IIRC Members:

Comments on the “Assurance on <IR>: An introduction to the discussion”

The Japanese Institute of Certified Public Accountants (“JICPA” or “we”) would like to express its sincere gratitude to the International Integrated Reporting Council (IIRC) for its continued efforts and for giving JICPA the opportunity to comment on the “Assurance on <IR>: An introduction to the discussion.”

Our comments are provided below.

Q1. What priority should be placed on assurance in the context of driving credibility and trust in <IR>?
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(1) In Japan, companies that issue integrated reports are increasing but the practice is not common among listed companies yet. Therefore, we believe that it would take time for diversity in practice to emerge as a significant issue when the number of integrated reports prepared and disclosed increases. We believe that standard setters should place first priority on the following:

- The involvement of stakeholders (the users of integrated reports);
- The exercise of leadership by those charged with governance (“TCwG” and senior management);
- The development and implementation of the process related to the preparation of integrated reports (including internal control) by TCwG and senior management; and
- Monitoring by TCwG and senior management (including internal control).

Yet diversities in practice will emerge and draw attention as more integrated reports are prepared and disclosed over the medium and long term. When this comes to be, stakeholders may be unable to use the quantitative information and narrative information disclosed in the integrated reports in a reliable manner if no assurance reports on the integrated reports are issued. In such instances,

users may also be unable to use integrated reports with faith in credibility or confidence that the integrated reports accurately represent corporate values. JICPA therefore believes that the following actions need to be taken by relevant bodies (see Q7).

- Awareness raising, by the standard setters that develop the criteria for the preparation of the integrated reports (including the IIRC), on the responsibilities of TCwG and senior management in developing and implementing the process to prepare the integrated reports, as a premise for implementing an assurance engagement;
- Advocacy and educational activities, by the professional organizations of internal audits in relevant jurisdictions, on the importance of the internal audit of the reporting process as effective measures to help TCwG and senior management discharge their responsibilities for the development and implementation of that process;
- Advocacy activities to have related parties fully understand that monitoring is an essential step for determining whether TCwG and senior management discharge their responsibilities for establishing the process related to the preparation of integrated reports; and
- Advocacy activities, by the accounting professions' bodies, on the provision of the assurance engagement on the integrated report as effective measures to facilitate the establishment of the integrated reporting process and accordingly help TCwG and management fulfill their responsibilities.

(2) In order to ensure the accuracy and reliability of particular information included in the integrated reports, an assurance report on such information is likely to be provided in accordance with the existing framework for assurance engagements (including the framework for financial information and sustainability)

On the contrary, we believe that assurance to enhance the credibility of the integrated report with regard to the presentation of corporate values is required for the following aspects of integrated reporting. Yet these practices differ from existing assurance engagements in certain aspects, particularly with respect to the type of evidence used to determine the credibility of the underlying subject matter information. This, we believe, could lead to circumstances preventing the use of the integrated reports with confidence unless new assurance standards that cover those aspects to enhance the credibility of integrated reports are developed.

- Determination of materiality (including reporting boundaries; same

hereinafter)

- Connectivity
- Narrative information

Therefore, in order to promote the provision of assurance on the integrated reports, we believe that stakeholders should commonly agree that we need to consider issues to enhance the credibility of reporting, as well as the accuracy and reliability, and to deal with the assurance of integrated reports by paying attention to those issues such as the materiality, connectivity, and credibility of narrative information.

Meanwhile, we do not believe that the assurance engagements on the credibility, materiality, and connectivity of narrative information must always be performed as a part of the assurance engagements covering the integrated reports as a whole, together with the assurance engagements covering the reliability of the quantitative information included in the integrated reports.

We therefore believe that stakeholders should commonly agree that the assurance engagements on the materiality, connectivity, and credibility of narrative information could be provided as “partial assurances” on the respective items according to the needs of the users of the assurance reports.

- (3) For the purpose of assurance engagements noted in (2) above, we believe that standards for assurance engagements by independent third parties (including a general standard for assurance engagements and implementation requirements for individual engagements) need to be developed and established.

Q2. What are the key features of assurance that will best suit the needs of users of integrated reports in years to come?

Integrated reports provide various types of information. We believe the characteristics of the information subject to assurance should be considered when deliberating the approaches to provide assurance engagements. With respect to the needs related to integrated reports, the need for assurance on the reliability of financial information, information on sustainability, etc. in an integrated report would probably be satisfied if the accompanying assurance report was provided in accordance with the framework for the existing engagements.

However, assurance to enhance the credibility aspect of integrated reports for which traditional assurance has not sufficiently dealt, (e.g., the materiality, connectivity and credibility of narrative information) is required in the context of the integrated reporting proposed by the International <IR> Framework.

We therefore believe, with respect to the integrated reports prepared in accordance with the International <IR> Framework, that the standard setters can only truly satisfy the needs of assurance engagements by identifying the areas where assurance can be provided in the context of the assurance engagements covering issues related to the credibility of the integrated reports, while also considering the approaches to assurance engagements.

Q3. 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?

We do not believe that Japan has encountered any problem concerning the availability of suitably skilled and experienced assurance practitioners as certified public accountants of JICPA members provide assurance engagements to financial information, internal control and sustainability. Going forward, however, we expect that we will need to educate and foster practitioners with the sufficient knowledge and skills to better understand assurance engagements related to issues specific to integrated reports (e.g., the materiality, connectivity and credibility of narrative information) and the business models for providing them.

Q4. What needs to be done, and by whom, to ensure the quality of assurance on <IR> is maintained of a high level, including practitioners' adherence to suitable educational, ethical (including independence), quality control and performance standards?

- (1) In order to maintain the quality of assurance engagements covering the integrated reports, we think the relevant professional bodies of practitioners need to provide professional education on standards for assurance engagements to be complied with, research reports they can reference, and the quality control standard.
- (2) We believe that professional bodies should monitor compliance with the existing standards for assurance engagements in reference to the quality control standard in order to maintain the quality of engagements, while developing an assurance engagements standard for the integrated reports.

Relevant professional bodies including accounting professional bodies are expected to promote the development of the standards for assurance engagements, as well as education and monitoring, both locally and globally.

For Japan, meanwhile, the JICPA has just started to develop a general practice

standard for assurance engagements other than audits and reviews.

- (3) Assurance engagements for integrated reports are not confined to the purview of accounting professions. Other professional bodies might issue practice standards on engagements to enhance the reliability and/or credibility of the integrated report.

If more than two different standards for assurance engagements exist, the levels and contents of the assurance engagements provided are likely to vary by reflecting differences in the nature of the standards. This, in turn, could lead to inconsistencies in the quality of the assurance reports and confuse the users. Standard setters might need to explore ways to settle significant differences between the standards and, if necessary, to develop a common framework for a concept applicable to assurance engagements and the descriptions included in the reports.

Q5. Is the robustness of internal system a problem, and if so what needs to be done, and by whom, to remedy the situation?

- (1) The extent to which the process related to the preparation of integrated reports (including internal control) should be developed and implemented has been left to the discretion of the entities who prepare the integrated reports and TCwG and senior managements. Yet we doubt that this process has been developed or implemented in the areas that do not seem to have been covered by the assurance engagements in general (including decisions on materiality). Hence, TCwG and senior management have probably been unable to efficiently obtain or review sufficient and appropriate information for assuring that the process has been appropriately developed or implemented.

If assurance engagements are provided under these circumstances, entities will be unable to collect evidence effectively or efficiently in practice. Instead, they will be required to extend the procedures for obtaining information. We are concerned that excessive amounts of time and cost may be required to the reporting companies to meet the expectations of the assurance engagements.

- (2) When a third party provides assurance engagements for the integrated reports, TCwG and senior management should be encouraged to develop the process (especially internal control) in accordance with the requirements included in the International <IR> Framework as a premise for providing the engagements with respect to the accuracy and materiality of information.

To make the premises for the provision of such engagements robust, it will be

necessary to have an external third party provide assurance engagements over the internal control governing the preparation of the integrated reports separately from the provision of assurance engagements to cover information included in the integrated reports.

- (3) We encourage standard setters (including the IIRC) to raise awareness on the need to address the preparation and communication procedures (including internal control) for maintaining and enhancing corporate value through their publications. Furthermore, we expect them to encourage relevant organizations such as the OECD to reflect the needs of the process in the (international and local) corporate governance codes.

<p>Q6. Is assurance likely to be a cost effective mechanism to ensure credibility and trust over (a) the short/medium term; (b) the long term?</p>
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- (1) In order to make assurance engagements cost effective, as noted in the responses to Q5 above, the process related to the preparation of integrated reports (including internal control) should be developed and implemented as a premise for the assurance engagements. If the process is to be taken as a premise for assurance engagements over the medium and long term, we believe that the provision of assurance engagements by independent third parties would be a cost-effective mechanism.
- (2) In our view, a set of assurance standards, including both a general standard for assurance engagements and subject matter specific assurance standards need to be established to ensure the quality of assurance engagements for the integrated report as well as the efficiency.
- (3) To provide the assurance engagements efficiently while maintaining their quality, standards for the individual disclosure should be clarified and established as suitable criteria for the implementation of the engagements.

The International <IR> Framework does not designate actual criteria to be applied individually, but allows preparers to select their own criteria, and requires preparers to report the specific criteria adopted in their integrated reports. Such a requirement would help the users of the integrated reports and the assurance reports covering them to objectively understand the actual requirements of the criteria. As such, we believe that the requirement should be mandatory as a premise for the assurance engagement.

In addition, characteristics of individual information included in integrated reports may vary and may lead to inherent limitations in being assured. To

provide assurance engagements efficiently while maintaining the quality, approaches should be considered to help the users of assurance engagements fully understand that they are provided in consideration of the nature and limitations of the engagements by clearly stating them in the assurance reports.

- (4) An assurance engagement on an integrated report as a whole is not always required. Hence, only “partial assurance” may be provided. In light of this, a provider of an assurance engagement should carefully explore how to develop and implement the approaches and steps for its engagement by considering the scope to which it should devote its limited resources, based on the assurance needed by the users of the integrated report.

Q7. If so, what needs to be done, and by whom, to maximize the net benefits of assurance?

- (1) In addition to the responses to Q6 above, the standard setters that develop the criteria for the preparation of the integrated report (including the IIRC) and related professional organizations are expected to encourage the preparers of the integrated reports and providers of assurance engagements to enhance understanding on the following with the publications and other communication activities:

- 1) Standard setters that develop the criteria for the preparation of integrated reports (including the IIRC)

- The process related to the preparation of the integrated reports, including the internal control, needs to be established;
- The establishment of the reporting process and internal control is the responsibility of the preparers (TCwG and senior management);
- TCwG and senior management monitor the establishment of the process (by, for example, implementation of internal control);
- The quality of the process will be enhanced as third parties provide assurance engagements.
- The assurance engagements will be provided in consideration of the nature and limitations of information, including the narrative information included in the integrated reports.

- 2) Global professional organizations of those charged with governance, or such professional organizations in each jurisdiction

- TCwG is required to oversee whether senior management has been fulfilling its responsibilities for the development of the process related to the

preparation of integrated reports.

- 3) Global professional organizations for internal audits, or such professional organizations in each jurisdiction
 - The internal audit will help senior management fulfill its responsibilities by auditing the process for the preparation of the integrated reports within the reporting organization.
 - 4) Professional organizations of providers of the assurance engagements (International Federation of Accountants (IFAC), and JICPA in the case of Japan)
 - The assurance engagements for the integrated report will contribute to the fulfillment of the senior managements' responsibilities by promoting the establishment of the integrated reporting process;
 - The assurance engagements will be provided in consideration of the nature and limitations of information, including the narrative information included in the integrated reports.
- (2) It is necessary that international and local professional organizations of assurance practitioners develop and establish standards (including a general assurance standard and subject matter specific assurance standards) for the implementation of assurance engagements for the integrated reports by the independent assurance practitioners.

<p>Q8. Should assurance standard setters develop either or both (a) a new assurance standard; (b) guidance, to ensure consistency of approach to such issues?</p>

In order to maintain the quality of engagements at a certain level, assurance standard setters are expected to develop a subject matter specific assurance standard for the assurance engagements of integrated reports (for example, standards equivalent to ISAE 3400 *The Examination of Prospective Financial Information* or IASE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*) in accordance with a general assurance standard (including ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*).

We believe it is efficient that the subject matter specific assurance standard only covers the issues that are not covered in the general assurance standard very well or that need further clarification in order to apply to the engagement.

ISAE 3000, however, focuses on providing assurance on the accuracy and reliability of information and seems less suited to providing assurance on

credibility. We believe in-depth consideration and discussion on this matter is essential.

Q9. 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?

- (1) As noted in our response to Q8 above, we believe that a standard or guidance on assurance engagements covering the integrated reports should be developed and adopted in a way that allows them to be supplementarily applied under the general standard.
- (2) With respect to a standard or guidance on the assurance on narrative information, a guidance covering topics relevant to the assurance on narrative information should initially be developed in the standard targeted at integrated reports. Once such a guidance is developed, it should be integrated in a general standard or guidance.

Q10. What are the (a) key challenges and (b) proposed approaches that assurance standard setters should consider with respect to:

- Materiality?
- Connectivity?
- Completeness?
- Narrative reporting and future-oriented information?

(1) Materiality

The determination of materiality will eventually depend heavily on the judgement of the TCwG and senior management that prepares the integrated report. Careful consideration will thus be required when deciding whether to include the determination of materiality within the scope of assurance engagements or whether the assurance can be provided.

We also recommend that standard setters consider whether the assurance covers only the decision making process, rather than the results on what items are eventually determined to be material.

(2) Connectivity

The assurance could cover, for example, the consistency of individual items included in integrated reports or the formal continuity of descriptions over intervening periods. Yet in such cases, it would be difficult to determine whether

the descriptions represent appropriate disclosures or whether they would be appropriate with respect to when and how they were described and connected in a theoretical context.

The International <IR> Framework does not specifically provide for a commonly agreed upon criteria for determining what disclosures are to be used for maintaining the connectivity. Therefore, there needs to be deliberation as to whether the connectivity can be within the scope of assurance engagements and whether it is possible to provide the assurance.

(3) Completeness

It could be assured, for example, that the determination of materiality has been made in accordance with the method for determining materiality in the International <IR> Framework. Yet ultimately, the descriptions of material items would become heavily dependent on the judgment of TCwG and the management that prepares the integrated reports. We therefore believe that it would be difficult to provide any assurance that complete disclosures are provided.

The International <IR> Framework does not specifically provide for common criteria generally agreed upon for determining the completeness of disclosures, so there needs to be deliberation as to whether the criteria for assurance engagements are clear and explore the best measures for determining whether individual descriptions would satisfy the quality of completeness.

(4) Narrative reporting

It is possible for assurance practitioners to confirm that any narrative information is based on facts, but it would be difficult to determine whether the narrative information is balanced and neutral. As the International <IR> Framework provides no commonly agreed upon criteria for determining what disclosures indicate corporate value, there needs to be deliberation as to whether the criteria for assurance engagements are clear and explore the best approaches for determining whether individual descriptions would provide reliable information.

(5) Future-oriented information

The ISAE 3400 provides criteria for assurance engagements over future-oriented information. If assurance engagements for such future-oriented information are to be implemented in accordance with the ISAE 3400, there need to be consideration as to how to make the users of the assurance report understand that the engagements only assure that the information presented is based on information prepared by an entity, not that the future-oriented information will

be achieved.

When sufficient measures to avoid such misunderstanding appear to be not feasible, there needs to be deliberation as to whether the future-oriented information should be within the scope of the assurance engagements or not.

Q11. What other technical issues, if any, specific to <IR> should be addressed by assurance standard setters?

We believe that it is necessary that the criteria for preparing individual non-financial quantitative information be clarified. Without such clarification, criteria for the preparation and presentation of the information would not be treated as suitable in the implementation of the assurance engagements. This would be an obstacle for the provision of the assurance.

Since it is assumed that various preparation criteria exist for individual information in the integrated reports, the International <IR> Framework requires a description of the basis for preparing the integrated reports. Here we would point out that the current practices have not always provided sufficient and appropriate descriptions.

To make the users of assurance reports access the basis for preparing the individual information, there needs to be further consideration on how to improve the descriptions in the integrated reports and approaches to achieve this.

Q12. What are the (a) key challenges and (b) proposed approaches that assurance standard setters should consider with respect to:

- Reasonable assurance?
- Limited assurance?
- Hybrid engagements?
- Agreed-upon procedures engagements?
- Other approaches?

(1) In our view, reasonable assurance, limited assurance, and agreed-upon procedure engagements would be consistent with the assurance engagements covering the integrated reports and other engagements. We suppose that a general standard for the provision of such engagements could include ISAE3000 or ISRS 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*, developed by the International Auditing and Assurance Board (IAASB). It is hoped that the subject matter specific standards for individual engagements will be developed and implemented globally through

consultations between the IAASB and the IIRC.

(2) Integrated reports contain various information both financials and non-financials. In some cases, more than two practitioners with specific knowledge and expertise in the individual areas of information will jointly provide assurance. In such cases, we would like to see clarification in terms of the responsibility taken by the respective practitioners and the considerations at play in the practices.

(3) For hybrid engagements, the levels of assurance vary with the items subject to the assurance. The assurance thus becomes partial, rather than assurance on an integrated report as a whole. Standard setters should clarify the approaches to identify what individual information is subject to assurance for reasonable assurance and limited assurance, respectively. (e.g., when the assurance level varies, assurance reports should be separately prepared for each level).

Meanwhile, ISAE3000 and ISRS 4400 appear not to sufficiently describe approaches to address hybrid engagements and partial engagements of these types.

(4) In hybrid engagements, the assurance is only partial and there are distinct differences in the underlying subject matter information, the levels of assurance for different items, and the criteria for preparation (as noted in our response to Q12 above). In light of these conditions, we propose that the standard setters require the preparers of integrated reports (TCwG and senior management) to develop a confirmation statement for each subject matter, something akin to the confirmation statement required for engagement firms under ISAE 3402, and consider the engagement approach to express conclusions on the confirmation statement prepared for each subject matter.

(5) With respect to issues for which appropriate criteria for the implementation of assurance engagements would be difficult to develop, including the neutrality of narrative information, we believe that standard setters should consider an approach for providing the users of the integrated reports with information on the credibility of the descriptions in a form other than an assurance. They could accomplish this, for example, by developing other procedures for narrative information, rather than providing the determination of whether the subject matter information is neutral in the context of criteria.

Q13. 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?

(1) When an audit on financial statements is provided, practitioners are required to apply the procedures in ISA 720 *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements* for other descriptions included in annual reports. An exposure draft for the revisions of IAS 720 has been published for public comments. Under the revised IAS 720, an audit report and financial statements would be included in annual reports prescribed in laws and regulations or prepared in practical conventions, and relevant procedures would be applied to other descriptions in annual reports.

If IAS 720 is revised and finalized as proposed, there needs to be clarification as to whether an integrated report would be treated as equivalent to an annual report and whether procedures to confirm consistency between financial statements and other descriptions within the report would be required by the IAS even when the integrated report was prepared separately from the annual regulatory filings and contained copies of the financial statements and audit report.

(2) When financial statements are audited, a report on summary financial statements may be issued in accordance with ISA810 *Engagements to Report on Summary Financial Statements*.

If integrated financial statements are to include summary financial statements, it would be effective to provide engagements on the summary financial statements based on ISA 810 while referring to the financial statements underlying the summary financial statements.

(3) In many cases, the information included in integrated reports may contain material information that is also included in sustainability reports and other reports separately issued. In some cases, those other reports are subject to independent assurance. If independent assurance is provided to other reports underlying the information, it will be beneficial to consider the approaches to adapt the ISA810 to provide assurance on the summary of material information in the integrated report.

Other

In conjunction with the provision of assurance to cover the decision of materiality to be disclosed in integrated reports, there may be reporting practices wherein disclosed information in integrated report differs between different language versions when the report is prepared both in the language of the jurisdiction for users in the jurisdiction and in other languages for other users. For financial information, for example, integrated reports issued for users in the language of the jurisdiction where the entity operates may only disclose summary information, as the financial statements prepared in that language could easily be available. Meanwhile, the same entity may disclose a full set of financial statements in other languages, rather than summary financial statements, for users in the other languages.

As noted in 6.2 in “Assurance on <IR> :an exploration of issues” the materiality judgment is made based on the assurance practitioners’ perception of needs in relation to the underlying subject matter. Therefore, if the needs in relation to the underlying subject matters differed between the home country and other countries, the nature of the materiality judgment would differ. Hence, the items to be described in the integrated reports could also differ. In such cases, entities should include a description of their objectives in preparing the integrated reports and consider describing the restraints on the distribution and use of the reports.