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1 December 2014

International Integrated Reporting Council (IIRC)

Email: assurance@theiirc.org

Dear Sir/Madam

SAICA SUBMISSION ON THE IIRC PAPER - ASSURANCE ON INTEGRATED REPORTING PAPER

In response to your request for comments on the IIRC Paper: *Assurance on Integrated Reporting*, attached is the comment letter prepared by Assurance Guidance Committee (AGC) of the South African Institute of Chartered Accountants (SAICA).

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely,

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Project Director – Assurance

cc: Muneer Hassan - SAICA Senior Executive: Standards
Edwin Selbst – SAICA AGC Chairperson

GENERAL COMMENTS

The Section, “What is assurance?” in the Introduction to the discussion paper

Based on our understanding, this type of assurance is within the scope of “other assurance” and therefore can be conducted by any assurance provider, who is a competent external practitioner, and not necessarily a registered auditor.

It is also understood that “other assurance services”, include other reports, e.g. environmental impact studies, which can be provided by any competent practitioner, who is an expert in that field, as long as such a practitioner (who signs off the report) does not “hold out” to be an auditor.

RESPONSE TO THE QUESTIONS ON THE DISCUSSION PAPER

PRACTICAL IMPLEMENTATION CHALLENGES

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

Response:

As it is stated in the <IR> framework, the primary purpose of an integrated report is to explain to providers of financial capital, how an organisation creates value over time. It therefore contains relevant information, both financial and other. The integrated report benefits all stakeholders interested in an organisation's ability to create value over time.

These stakeholders include internal and external users. It is therefore important to have some level of assurance to provide credibility to the information provided in the integrated report. As the report has both internal and external focus, the assurance provider needs to find a balance when providing the assurance. The question to be addressed is, "How will the assurance provider find the balance?"

We acknowledge that the internal focus of the report should not be neglected when conducting assurance. The users of the report and the organisation should receive value from the assurance provided on the report. A realistic balanced approach needs to be determined, and perhaps a combined assurance model could be the answer.

The specific purpose of the assurance being provided should be understood.

We also take note of paragraphs 3.9 and 3.10 on the "*Introduction to the discussion paper*" that state that assurance cannot be the sole source of confidence or credibility and that there are various other mechanisms which can create or enhance confidence on assurance provided on the integrated report.

Taking into account these, it is evident that assurance on <IR> is important and should be important to users. However, it should be highlighted that the aim is to provide assurance that the integrated report is in terms of the <IR> framework only.

Credibility or trust created by the external assurance report can be strengthened by other combined assurance reports. These reports would have objectives different to those of the external assurance report, e.g. reports from external stakeholders or reports by internal audit on the internal control systems of the <IR> function of the organisation.

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

Response:

The users will play a key role in the market demand for assurance engagements, and the form of reliance placed on assurance reports.

Paragraph 1.8 of the <IR> framework states that “An integrated report benefits all stakeholders interested in an organization’s ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.”

An organisation has different types or groups of users, internally and externally, as indicated in the <IR> framework as cited above. These groups have different types of information needs.

Assurance provided to only conclude on the integrated report’s fair presentation in accordance with the <IR> framework may only address one of the users’ needs, which the users may need to be made aware of.

We believe that the following key features of assurance will best suit the needs of users of integrated reports:

- Identifying and prioritising the users of the organisation’s integrated report;
- Determining the key needs of the users considering what is important for the users’ decision making;
- Understanding the roles of other assurance providers and registered auditors;
- Limitations within the scope of assurance standards and the <IR> framework (as being suitable criteria); and
- Determining the level of assurance required.

It should be noted that the <IR> framework allows for reporting flexibility, hence integrated reports may differ in depth, size and format.

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?**

Response:

We agree with the provisions indicated in the paper, *Assurance on <IR> Exploration of Issues* (Issues Paper), Section 3E on page 15 regarding the competence of assurance practitioners, which states that “the practitioner or team of practitioners need to possess both competence in assurance skills

and adequate technical knowledge regarding the underlying subject matter and the criteria”.

We believe that integrated report assurance providers should consist of a multidisciplinary team including various subject matter experts such as engineers, environmentalists, human resource practitioners, and integrated reporting experts. The assurance team may in some cases consist of more senior personnel or experienced professionals, as junior personnel, like trainees, may not have the relevant skills and competence to perform such assurance engagements.

The partner providing assurance may also have to rely on highly specialised external experts. These may have an impact on the cost of the engagement.

The scope and level of assurance may determine the skills required by the assurance engagement team.

We do not believe that there is lack of suitable skills in our jurisdiction. Nevertheless, the assurance engagement team would consist of a multidisciplinary team, regardless of the reporting entity’s jurisdiction, which may bring about capacity or operational challenges for firms at any rate.

We also believe that:

- This will increase risk exposure of the engagement partner and firm; and
- The engagement partner signing off the assurance report should have some knowledge on the aspects of the integrated report, even when reliance is placed on other experts.

There will be challenges in:

- Providing assurance on integrated reports within complex industries, because the cost of providing assurance on these integrated reports may be significantly high as more reliance will be placed on industry experts;
- Sourcing of experts may be costly and cause timing constraints;
- Disseminating information on highly technical aspects to an understandable level to the users; and
- Managing a multi-disciplinary assurance engagement team.

Paragraph 1.23 on page 8 of the Issues Paper states, “Ultimately, an integrated approach to assurance may be necessary, in which case, the market might be best served by a single engagement team performing the assurance engagement, rather than a patchwork of different assurance engagements by various assurance practitioners”.

We support this statement, as the assurance engagement should reside with one assurance provider firm, though the firm may still utilise different experts when performing the engagement.

The firm will need to manage the quality control within the firm and of the multidisciplinary assurance team.

The users should also be educated on what they should expect on from the integrated report.

We believe that this combination could provide trust in the integrated report.

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

Response:

What needs to be done?

- Setting standards and/or guidance on assurance on <IR>;
- Continuing Professional Development requirements need to be set and training of assurance providers should be developed and provided;
- An entry level qualification for assurance providers should be determined and approved;
- Universities should consider including <IR> and assurance on <IR> curricula;
- On-going guidance, local guidance, or improvements of standards and/or guidance on assurance on <IR> (or narrative reporting) should be included in work programmes of standard setters;
- Addition guidance on quality control on firm and engagement level;
- Additional guidance on ethical requirements and independence pertaining to this field should be considered; and
- Issuing illustrative assurance reports.

By whom?

- The local regulators/the standard setters mandated by government and the professional bodies need to consider “what needs to be done”.
- At this stage, we cannot assess who the regulator or standard setters are, but this should be prioritised.

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

Response:

The practitioner should perform an assessment of the internal systems of the organisation and also consider the timing of when this assessment should be performed. The practitioner should also design a practical assurance approach.

Many organisations' internal systems are not functioning effectively. Management needs to assess what subject matter information they are going to report on, what underlying subject matter is needed to support it, which provides the basis of an internal systems assessment.

There may be few challenges when monitoring financial information which form part of internal systems (i.e. information supporting the financial statements). Nonetheless, other areas of the internal systems (for non-financial information) may not be monitored, for example social responsibilities and human capital information, which may now need monitoring

Is it a problem?

- The preparers and assurance providers may want to rely on management's internal systems used to report.
- The biggest challenge in our view is that the internal systems may not yet be designed to provide consistent, reliable, complete and accurate information, as it may currently be designed for reporting financial information only. The internal systems may be robust for financial reporting but not for non-financial integrated reporting.

What needs to be done?

Management need to ensure that the internal systems are re-developed, tailored or improved for integrated reporting purposes to ensure that assurance providers are able to rely on them.

By whom?

- Management is responsible for ensuring that the internal systems are working effectively.
- Internal auditors need to test internal controls and report on their effectiveness.
- The assurance provider provides assurance on the integrated report, but may use information system auditors who form part of the assurance engagement team, or who provide assurance to the assurance practitioner on the internal systems of the organisation (as external experts).

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?**

Response:

It is uncertain at this stage as to whether assurance is likely to be a cost effective mechanism to ensure credibility and trust over the period, however we would like to believe that there will be benefits in the long term.

The costs may initially be high. As this type of engagement matures the benefits will outweigh the costs.

The costs may initially be high for:

- Preparers as they may need to improve internal systems;
- Assurance providers who will place more reliance on experts initially.

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

Response:

- Organisations need to implement robust internal systems, as indicated in our response to question 5, and optimise their <IR> processes;
- There should be more skills and competition available in future which will reduce costs in the longer term;
- The regulators / standard setters should provide more guidance to assurance providers;
- The IIRC may also enhance the <IR> framework to enable assurance provided to be cost effective, perhaps by providing additional guidance and clarity overtime; and
- Users may have to be educated, as they also drive the maturity of integrated reporting.

TECHNICAL CHALLENGES

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

Response:

We do not believe that a new assurance standard should be developed at this stage, as ISAE 3000 (revised) may be used, however the need for a new assurance standard should be assessed in the near future.

Additional guidance on how to apply ISAE 3000 (revised) requirements should be provided, for example, in terms of practice statements issued internationally or by each jurisdiction.

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?*

Response:

We are not aware of any other general narrative reporting in our jurisdiction for which there is not yet a local standard or guidance issued. Therefore, the guidance should be specific to <IR>, as it has its own unique challenges (as indicated under question 10).

As <IR> has a specific framework already set and <IR> may also become mandatory in certain jurisdictions in future, guidance specific to <IR> may be more appropriate than narrative reporting.

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?**

Response:

For an overall proposed approach we recommend a pilot testing project.

Key challenges	Proposed approach
Materiality	
<ul style="list-style-type: none"> • We take note of the assurance approach provided under section 6A of the Issues Paper, and we believe that additional guidance on the application of the materiality concepts relative to an <IR> assurance engagement is needed for assurance providers, including relating to such matters listed under paragraph 6.3 on under this section. • The divergent views between preparers and assurance providers on materiality may be aggravated within context of integrated reporting. 	<ul style="list-style-type: none"> • In terms of setting the definition of matters described under Section 6A and providing guidance on matters listed under paragraph 6.3 and for the assurance on <IR> to provide value to the users, consultation with users should be held and the users' view of materiality should be incorporated in the guidance to be provided. The qualitative factors that influence users' decisions should also be determined in the process and incorporated in the definition of materiality. • In determining materiality, the key features identified under our response to question 2

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Key challenges	Proposed approach
	<p>above should also be considered, that is to identify and prioritise the users of an organisation's integrated report and also to determine the key needs of the users considering what is important for the users' decision making process. This will lead to a cost effective engagement.</p>
<i>The reporting boundary</i>	
<ul style="list-style-type: none"> We agree with the key challenges listed under Section 6B, paragraph 6.5 of the Issues Paper. <p>Scope limitation:</p> <ul style="list-style-type: none"> Instances when you cannot obtain supporting information supporting the correlation between outcomes and the outputs either due to scope limitation or cost of obtaining such information. 	<ul style="list-style-type: none"> Assurance providers will need to have an understanding of the issues on reporting boundaries for the reporting entity. The standard setter should consider providing additional guidance on scope limitations, inherent limitations, or qualifications where there are limitations on the reporting boundary.
<i>Connectivity</i>	
<p>We agree with the key challenge as indicated under Section 6D, paragraph 6.8 of the Issues Paper.</p> <p>In most cases, the preparers of the integrated report have challenges with determining the actual "cause of connectivity"; hence the assurance provider will also face challenges in this regard.</p>	<p>The standard setter(s) should provide guidance for assurance providers with regard to the "cause of connectivity" in context of a possible limitation as indicated above.</p>
<i>Completeness</i>	
<p>We agreed with the key challenge as indicated under Section 6E, paragraph 6.9 of the Issues Paper.</p>	

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Key challenges	Proposed approach
<p>Inherent limitation with within ISAE 3000 (revised) exists with regard to completeness, as the entity may have reported within certain boundary. The integrated report of an entity should be complete and comparable.</p>	<p>The standard setter(s) should provide additional guidance. Alternatively, if the <IR> framework does allow for the qualitative characteristic of completeness to the subject matter information, then the standard setter(s) could re-assess whether the framework is suitable criteria.</p>
<i>Narrative reporting and future-oriented information</i>	
<p>We agree with the key challenge as indicated under Section 6F of the Issues Paper.</p> <p>In our jurisdiction, the Auditing Profession Act does not allow the registered auditors to provide an opinion on future-orientated information. Our stock exchange also has onerous requirements regarding providing forecast information, and we believe this may be the case in other jurisdictions as well.</p> <p>It may thus be difficult or against listing rules to provide assurance on the future-oriented information. Another challenge is that the assurance provider may not be able to obtain corroborating evidence for all information to support future-oriented information.</p> <p>Where it is possible to obtain corroborating evidence on some of the aspects of the future-oriented information, the cost may exceed the benefits.</p> <p>The qualitative and quantitative factors/concept on the future-oriented information also makes it difficult to provide assurance on future-oriented information presented as part of the integrated report.</p>	<p>The possible assurance approach is to scope it out of the assurance report. The assurance report can have different levels of assurance for different sets of information in the integrated report.</p>

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

Response:

Multidisciplinary teams include use of experts as indicated in question 3 above, therefore additional guidance should be provided.

Guidance should be provided on:

- The use of experts and the quality control thereon, similar to the guidance in ISA 620; and
- Illustrative assurance reports.

12. **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?**
- **Other approaches?**

Response:

	Key challenges
Reasonable assurance	There could be an expectation gap between preparers, assurance providers and users, especially regarding the different levels of assurance.
Limited assurance	Costs versus the benefits on the trust that the users put on the assurance engagements.
Hybrid engagements	This type of engagement might not be properly understood in the market, when the subject matter information is split between the different levels of assurance. This may also cause confusion with users.
Agreed upon procedures	This type of engagement should not be considered as: <ul style="list-style-type: none"> • The work involves professional judgement; • More than one user uses the integrated report who may place reliance on the report and different user groups may not understand the context of the procedures performed.

Other approaches	Our view is to start with a limited assurance approach, as obtaining evidence may be difficult, especially with regard to reporting boundaries and the reporting of future-oriented information, as well as the other factors we indicated in our response to question 10 above.
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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?**

Response

With reference to our response to question 1 above, regarding a combined assurance model as a proposed solution, the challenge will be the practical implementation. If this model is adopted, the roles and responsibilities of the all assurance providers involved will have to be defined.

One of the shortcomings of providing assurance on <IR> is that assurance providers from different professional backgrounds could possibly provide assurance. Keeping in mind that they could be members of various professional bodies, only registered auditors are currently regulated in South Africa. The regulation of all assurance providers may need to be addressed in each jurisdiction.

The standard setter(s), both internationally and locally, should provide guidance to protect the reputation of the assurance providers.

In our jurisdiction, the auditors' liability is one of the key challenges when working with multidisciplinary teams.