

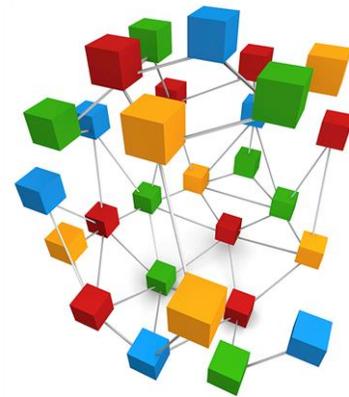
EXPLORING ASSURANCE ON INTEGRATED REPORTING AND OTHER EMERGING DEVELOPMENTS IN EXTERNAL REPORTING

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The purpose of this publication is to inform stakeholders about the IAASB's ongoing work to explore assurance on integrated reporting and other emerging developments in external reporting. It explains that the IAASB established the Integrated Reporting Working Group to inform the IAASB as to how and when to respond to these developments most effectively in the public interest, and outlines the group's activities.

Background

Organizations are starting to think more strategically about their business models, investment in innovation and value creation in the short, medium, and long term. They are also considering the interdependence of different matters such as finance, employee-related issues, the environment and stakeholder relations, and how this interdependence may affect the organization's performance and eventually its ability to sustain the organization over time. Many are evolving the approach to governance by connecting the organization's thinking about the business model, strategy, management of risks and opportunities, and performance management. This way of thinking has given way to developments in reporting, for example, the provision of more information on the approach to strategy and risk management or on particular aspects of non-financial performance.



Externally, such information is generally presented either in the annual report or in a separate report, and may be used both for accountability to stakeholders and to assist them in decision-making. Such external reporting is often referred to as “corporate reporting,” but organizations of all types and sizes may report on a wide range of matters, including in the public and not-for-profit sectors. The broader term “external reporting” is therefore used throughout this publication to encompass integrated reporting and other emerging developments in external reporting.

The way in which external reporting is developing varies in different jurisdictions around the world. In some jurisdictions, governments, stock exchanges and other organizations are implementing laws or regulations, or taking other actions to require or encourage organizations to provide increased transparency in relation to relevant financial and non-financial information. Guidance has already been developed by a number of organizations to address particular elements of such reporting, for example, on environmental, social and governance issues. In December 2013, the International Integrated Reporting Council (IIRC) published the International Integrated Reporting Framework (the “International <IR> Framework”).¹ The International <IR> Framework is a principles-based framework that defines integrated reporting as *a process founded on integrated thinking that results in a periodic integrated report about value creation over time and related communications regarding aspects of value creation.*

As a consequence of these developments, questions have emerged about enhancing the credibility of external reporting, such as integrated reporting, strategic reporting, management commentary and

sustainability reporting. As organizations have experimented with different approaches to such reporting, there has also been experimentation in terms of approaches that may be undertaken to enhance the credibility of this reporting. Approaches have ranged from enhanced internal disclosure processes, including the use of disclosure committees and internal audit assignments, to advisory services provided by external consultants, to independent assurance engagements by practitioners on the information and the related systems and processes. Practice in this area is at an early stage of development and may be expected to evolve over time.²

The Integrated Reporting Working Group is monitoring the developing demand for assurance engagements designed to enhance the credibility of integrated reporting, and other emerging developments in external reporting. The focus of the group includes initial thinking on the nature of such engagements, the scope of the subject matter information and the suitability of criteria, and other matters related to assurance, including how the IAASB’s existing assurance standards could be applied.

Important to note is also the IAASB’s recent issuance of ISA 720 (Revised).³ This has strengthened the auditor’s responsibilities in connection with an audit of financial statements for reading and considering other information. “Other information” is defined as financial or non-financial information (other than the financial statements and the auditor’s report thereon) included in an entity’s annual report. While the other information is not covered by the auditor’s opinion, transparency in the auditor’s report will give users a better understanding of the auditor’s responsibilities under ISA 720 (Revised) and the outcome of the auditor’s work relative to the other information.

¹ The International <IR> Framework is available at <http://www.theiirc.org/international-ir-framework/>.

² See the IAASB December 2014 agenda materials, [Agenda Item 10-B Briefing Paper – Market Developments in Integrated Reporting and Emerging Assurance Issues Relevant to IAASB](#).

³ International Standard on Auditing™ (ISA™) 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*. The revised ISA will become effective for audits of financial statements for periods ending on or after December 15, 2016. See the [At a Glance](#) for further information about the auditor’s responsibilities to read and consider other information as part of the audit of the financial statements.

The IAASB's Monitoring Activities

The [IAASB's Strategy for 2015–2019](#) includes an objective to “Ensure the IAASB's standards evolve as necessary to adequately address the emerging needs of stakeholders for services other than audits of financial statements”.

The IAASB believes it is important to be actively involved in monitoring developments in external reporting. The establishment of the Integrated Reporting Working Group in September 2014 has facilitated related discussions with various stakeholders and the group will continue to inform the IAASB about relevant developments. The group is undertaking research to better understand current and potential future market demand for assurance to enhance the credibility of external reporting. The group is also exploring common assurance issues that may need to be addressed at an international level through dialogue with stakeholders across jurisdictions.

The IIRC conducted some initial exploration of assurance issues during the development of its International <IR> Framework. To obtain further insight, in 2014 the IIRC issued two discussion papers on related assurance considerations⁴ and held a number of roundtables, feedback to which was published in July 2015⁵, together with a call to action. This feedback has highlighted not only matters that may need to be reflected in the International <IR> Framework, but also matters for consideration by the IAASB, assurance practitioners and others (e.g., internal auditors, those charged with governance, academics and educators). In its publication, the IIRC recognizes that the IAASB has established the Integrated Reporting Working Group and states that it fully supports the Integrated Reporting Working Group and its objectives.

The Integrated Reporting Working Group is continuing to work with the IIRC and other stakeholders to fully understand the assurance issues raised (including those highlighted in the detailed responses to the IIRC's consultations), emerging trends, and market demand, and is encouraging research and innovation based on the various frameworks and developments in external reporting.

Relevant areas that are being further explored by the Integrated Reporting Working Group include:

- **The demand for professional services and activities to enhance the credibility of external reporting, whether on the whole of the report, on key components, or on the underlying systems or processes**
- **How assurance practitioners and national standard setters are addressing this demand in their jurisdictions**
- **How the IAASB's existing International Standards might be applied, and whether additional IAASB guidance or pronouncements may be necessary to facilitate greater consistency in meeting such demand globally**

⁴ IIRC *Assurance on <IR> An Introduction to the Discussion and Assurance on <IR> An Exploration of Issues*, © July 2014 (<http://www.theiirc.org/resources-2/assurance/>). The IAASB's response to these consultations can be found [here](#).

⁵ IIRC *Assurance on <IR>: Overview of feedback and call to action*, © July 2015 (<http://integratedreporting.org/wp-content/uploads/2015/07/IIRC-Assurance-Overview-July-2015.pdf>).

In particular, the Integrated Reporting Working Group is already exploring a number of issues that were also highlighted by the IIRC's consultations, including:

- The nature of assurance or other engagements that would be most relevant and informative to users of external reporting
- The nature of the criteria that might be suitable for such assurance engagements in accordance with ISAE 3000 (Revised)⁶ and other practical considerations that may arise in applying that standard
- The necessary competence and capability of those performing these engagements

The implications for assurance or other engagements of the maturity of the reporting process and reports in the early stages of adopting integrated reporting and other emerging developments in external reporting

Next Steps

The Integrated Reporting Working Group will continue its dialogue with preparers, investors and other relevant stakeholders in the external reporting supply chain, the IIRC and other international and national external reporting organizations, and national auditing and assurance standard setters to further understand relevant issues and to leverage the work that has been done by others. This dialogue will also help the IAASB to understand how practitioners are innovating to meet emerging needs of users.

It will be necessary for the IAASB to undertake a more detailed consideration of the relevant assurance issues that have been identified in the context of emerging needs of users, including how ISAE 3000 (Revised) and other relevant subject-specific assurance engagement standards may be applied.

The IAASB has an open mind as to the way forward. The IAASB intends to seek additional feedback on these issues by issuing a Discussion Paper and through outreach and other activities. This information-gathering will assist the IAASB in considering how and when to respond to these developments most effectively in the public interest, including whether new or revised International Standards or guidance to support the application of existing standards may be necessary.

For more information and updates on the project, visit the IAASB's project page at www.iaasb.org/auditing-assurance/projects/integrated-reporting-working-group

⁶ ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

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This document was prepared by the Integrated Reporting Working Group of the International Auditing and Assurance Standards Board (IAASB).

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The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

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