Corporate Leadership Group on integrated reporting

Lab 6 – Assurance
Summary notes (18 May 2016)

Note: this document is exclusively available to the Corporate Leadership Group on integrated reporting members. This summary is not a word-to-word transcription of the discussion.
**Date**: 18 May 2016  
**Location**: RAI Amsterdam, 5th GRI Global Conference  
**Staff**: Nikki McKean-Wood, Juliette Gaussem, Jonathon Hanks, Ivana Miladinova  
**In person**: David Hoppe (Delta Lloyd), Michel Washer (Solvay), Vera Stelkens (Munich Airport), Kirsten Hovi (Norsk Hydro), Emmanuelle Probst (Hoffmann-La Roche), Monica Streck (Munich Airport), Jessica de Boer (ING), Sandra Schoonhoven (ING), Antonio Astone (DNV), Raji Hattar (Aramex)  
**Absent**: Hilary Parsons (Nestle), Ursula Fischler-Strasak (Hoffmann-La Roche), Marian Fernando (Nestle), Eda Pogany (Coca-Cola HBC), Leonardo Feijo (Banco do Brasil), Ana Maria Macedo (Banco do Brasil)  
**Invited experts**: Eric Hespenheide (GSSB), Michael Nugent (IIRC), Nancy Kamp-Rogers (IAASB), Jennifer Iansen-Rogers (ERM CVS), Petrus Gildenhuys (Gilden Assurance)

**Assurance & Integrated Reporting (Group Exercise)**  
During the group exercise, participants were asked to:
1. Reflect on the implications of ‘integrated’ or ‘combined’ assurance by describing their company’s current and planned approach to assuring integrated and sustainability reports and  
2. Consider key assurance challenges by identifying some of the principal challenges their company and assurance provider is facing in moving to an integrated / combined assurance model  
3. Identify some of the critical issues to be addressed in assurance frameworks and share their critical questions / comments for assurance providers

Participants worked in three groups:  
1. Jessica, Emma, Kirsten  
2. Michel, Sandra, Vera  
3. David, Antonio, Monica

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<th>Group</th>
<th>Discussion</th>
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| 1     | **Concerns and challenges:**  
- Separate assurance procedures, lack of integrated assurance; is there a combined guideline?  
- The move towards online and continuous reporting; how can assurance providers assure the data that is consistently updated?  
- Assurance against IIRC.  
- Ensuring comparability between reports; how comparability between reports using different frameworks can be ensured in the future?  
- Vague language in the assurance  
- How frameworks can clarify and align; how can GRI and IIRC can be brought into one clear assurance standard?  
**Challenges:**  
- The application of the concept of materiality  
- The lack of comparability between 2 different companies’ reports  
- Different scope of work in the financial assurance compared to non-financial assurance |
| 2     | **Concerns and challenges:**  
Similar concerns with additionally:  
- 2 separate teams working on assurance, lack of real integration between those teams and within the organization  
- Definitions of the non-financial data  
**Challenges:**  
- The application of the concept of materiality  
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Assurance & Integrated Reporting (Panel Discussion)

Michel Nugent – Technical Director Framework Development, IIRC

IIRC sets standards for reporters and focuses on the credibility of integrated reports. A series of IIRC papers has been released over the last few years on assurance followed by a number of round tables, written responses, feedback and a call to action based on it. The definition of combined assurance is the combination of the internal and the external sources of credibility that are added to a report. There are three lines of defence in combined assurance:

- 1st Line of Defence: people that are qualified and have their own in-built mechanisms ensure the information that passes out is credible
- 2nd Line of Defence: senior management oversees what is going on with the different ground operations and ensure that information is credible and/or reliable
- 3rd Line of Defence: the Audit Committee or Governance Board ensure that the processes underneath them, those other lines of defence, provide them with reliable information

The actual meaning of combined assurance, according to Michael, is the combination of all these levels of control and how they add credibility or assurance to the recipient of information. Part of the feedback that IIRC collected was regarding the variety and quality of competences of the assurance providers. As stated by Michael, users of assurance services have to be aware of the different skill-sets and competencies that are involved in the assurance providing processes. In order to get assurance on integrated reports, companies have to looks for assurance providers with a new integrated mind-set and understanding of how all the capitals contribute to the value creation. This idea of integration is the combination of assurance skills, subject matter and soft skills, ethical values and industry-specific expertise. This will eventually eliminate the lack of integration between teams and specialists.

Eric Hespenheide – Chair of the Global Sustainability Standards Board, GSSB

Some challenges Eric agreed on this topic are the following:
- The integration of the traditional financial audit and the assurance approach of the same or a different assurance provider on sustainability reporting
- Competencies, expertise and skill-sets
- The concept of materiality

Eric recommended a recent report of the World Business Council on Sustainable Development as it would give useful insights to companies on assurance engagements in reporting and more specifically how companies can challenge the assurance process and the assurance providers. The document also provides advices for assurance providers as well as standard setters. According to Eric, that is difficult and many answers are still missing. GSSB is trying to improve the quality of the reporting and the usefulness of what is being reported. It is trying to reach the point where reporting is not entirely for the benefit of others. There ought to be some benefits for the organizations to better understand what their sustainability issues are and how they are managing those. Understanding their issues, understanding how to develop processes and then integrating them into their decision making is key to come out with a difference answer than we have had to this point.

Nancy Kamp - Roeland – Deputy Director, IAASB

IAASB is developing a discussion paper while speaking to different organizations, investors, and preparers. What is being addressed in this paper is the different forms of external reporting.

Nancy addressed few challenges faced by companies, practitioners and accountants in their assurance engagements.

Inconsistent application and incorrect interpretation of standards: Reasonable assurance engagement versus limited assurance engagement is a very common issue. According to Nancy, companies either can do an assurance engagement whether reasonable assurance engagement or a limited assurance engagement or they cannot. It is not about that when you cannot do a reasonable assurance engagement, you do a limited assurance engagement. For both you need suitable criteria.

Credibility and trust: An effective governance, the levels of internal control, the different contributors to credibility and trust are very important in the assurance process. According to Nancy, consistent information is very important because you can have assurance and other engagements on the report, but if you still have other
kinds of information on your organization that are completely inconsistent with what you are reporting, then it undermines credibility and trust.

Suitability of criteria: The suitability of criteria is important. Currently, in the reporting criteria there are still too many interim limitations due to which practitioners cannot do the full report. Building the assertions for practitioners, it is very important to identify misstatements that can occur in the report. Therefore, it is very important to develop some kind of assertions on completeness and reliability that are used throughout the assurance process. It is often still difficult to obtain sufficient appropriate evidence on narrative information but it really comes back to whether you have suitable criteria in order to do this. The absence of suitable criteria leads to very interpretive discussions. A suitable framework is not just the IIRC, or the GRI guidelines. Since there are so much judgmental areas in these frameworks, this needs to be supplemented by company-specific policy - combination of the established framework combined with a company’s interpretation. It preferably is supported by dialogue with stakeholders and supported by very consistent interpretation of definitions and interpretation you come up as an organization, but also it needs to be available to the readers of your report.

Quality of the report and integration: There are so much legal restrictions on what needs to be done in the financial statement audits. That, from a standard perspective, these will always remain as separate standards, but it does not mean that audit firms cannot have their own methodology so they can really take an integrated approach to financials and other information. The team communication is very important so that there are not 2 separate teams.

**Moderated Discussion with CLG members, panel and assurance providers**

**Jennifer Iansen – Rogers – Head of Corporate Assurance, ERM CVS**

Having spent 21 years at KPMG and now the last 3 years at ERM CVS, Jennifer has been doing assurance since 1995 and, according to her, all of the questions raised during the session have been unanswered for 20 years. However, sustainability is becoming more integrated into the business thinking so there is a shift towards an integrated thinking model.

The issue of competency: Companies, have to look at the competency of the team who is actually going to do the job if they want to get value out of the process. Irrespective of whether they have 1 team or 2 teams, whether they have different departments within their companies preparing the report, companies need to know that the person sitting opposite has the expertise and the knowledge in order to add value to the process.

Independence: “What do you do with independence of advisory services versus assurance? What do you do about independence of sustainability assurance versus financial audit?” These are questions that a lot of people do not talk about. If a financial audit is costing a company anything between 2 and 10 million dollars and sustainability assurance is costing 100,000, what is the impact of the same firm doing the sustainability assurance and being potentially influenced by the free revenue.

Integration: The efforts of a company’s activities should be on having an integrated thinking and integrated strategy as well as an integrated risk management. Companies are reporting to different audiences and the user of the information is really critical in terms of credibility. Companies need to add credibility to the information to their other stakeholders, employees, customers and supply chain, but also to NGOs and to local communities. There are different audiences, standards, levels of assurance, competencies required, and different reporting criteria. Also, there is the approach of ‘backward looking auditing’. Financial auditing looks back at the prior year data and prior year performance is no indication of future performance of companies’ shares, insurance policies or anything else. According to Jennifer, assuring the qualitative information and the DMA (Disclosure of Management Approach) information is important or even more important than assuring the performance data from the previous year.

**Petrus Gildenhuys – Managing Director, Gilden Assurance**

Competency: Organizations are having a huge responsibility to attach on the competency and it is also a responsibility for the assurance providers to be transparent in the work they do and their approach. The issue of competency links with the value of assurance so it is important to know that the information is of good quality.

Terminology: Integrated report assurance versus combined assurance. Some companies mix up the terminology in terms of integrated versus combined. According to Petrus, companies should talk about integrated report assurance and combined assurance rather than integrated.

Limited level of assurance: According to Petrus, the falling back from a reasonable to a limited level of assurance is something that is not acceptable for companies. If companies cannot qualify for reasonable assurance they can
also say ‘we have not found any issues of concern’ in terms of limited assurance. That is an important thing to clarify.

The wording of assurance statements: Petrus thinks that we inherited from the financial assurance statements and financial word. The auditing firms are being so used to the financial wording and they understand it perfectly, but for general stakeholders who are not financially literate, for some of the non-financial communicators, there is a need for better and clear wording.

Materiality: According to Petrus, there is a lot of work to be done on the definitions.

Substance versus process in assurance: There is lot of looking at the integrated reporting framework, focus on process, and demand for assuring the reporting processes. Reporting processes are part of the generation of information. According to Petrus, we need to look at what is the objective, do we want to provide assurance on the report or do we want to provide assurance or comply with certain principles. This is very difficult to do but it is something that we need to give some attention in order to go forward.

Discussion:

**How can online website-based reports be assured?** Jennifer and Nancy responded by stating that online reports are “assurable” as long the pages are fixed and not constantly moving, the data is not being updated and the subject matter information is identifiable. A challenge in this reporting approach - sometimes audience wants to at performance over time and prior to year reports. **Assurance is for reporting reasons, how this can be pushed internally?** Eric pointed again the assurance report of the WBCSD which is taking on the challenge of understanding what the value of assurance is from an internal perspective and what is the internal and the external value. According to Eric, assurance is not the reason but it can be a useful tool to obtaining better quality internal information and also better understand of the usefulness of this information for internal decision making.

**How can we get to an integrated thinking mind-set and a switch from combined to integrated reports?** There were some positive answers from the panel such as the potential for moving forward on integrated reports assurance as long as there is a distinction between assuring data and assuring more qualitative information. Seen as a healthy sign for a future progress, was the interest of the academic in this sustainability and integration area. Communication between multidisciplinary teams is seen as a key approach for integration but there is also a push on the business model, on disclosures from different sides. However, what is still missing is the interrelation of data, and the influence of one capital or another in terms of data.

**Smart Resource: Update and next steps**

Some impressive developments have been made to the Smart Resource tool between Lab 5 and Lab 6. The Tool is on the way to become a true self-assessment tool. During Lab 6, David and Jessica, the Chairs of the two groups, presented to the members the work that each group has done. **Group 1** has divided the content of the tool into different sections: READ ME, CONTACT, REQUIREMENTS, ASPECTS, ASSESSMENT and REPORT. After completing each section, the tool will render a score in the REPORT section, showing how many aspects a user company is showing. The potential outcome would be a ‘roadmap’ to an integrated report – a summary of all themes and requirements + comment areas (self-assessment). There would also be the option of putting different weight on each aspect which will make the tool more accurate. The second groups has done limited work on the tool, however, there are more case studies to be filled. A document with recommendations from GRI and an action plan was shared with participants prior to the Lab 6. Based on the discussions over the document, GRI and participants defined what is missing and agreed on:

- **Recommendations for improvement:** READ ME section: to be created more detailed an instruction of how to use the self-assessment tool; REQUIREMENTS and ASPECTS sections: to be included a description for each requirement and aspect; ASPECTS section > Case studies: to populate the database with more case studies and rationales
- **Next steps & action plan for Lab 7 and 8:** All missing data to be collected before Lab 7; Content to be finalized; Participants to share comments, see what is still missing and agree on the content and next steps in Lab 7; Testing Phase between Lab 7 and 8

**Discussion on the future of the Corporate Leadership Group on integrated reporting**

Nikki McKean-Wood was invited to discuss the future and a potential third year of the Corporate Leadership Group on integrated reporting. This program was initially designed to be a 2-year program and the groups has already got a Lab on each theme, however, GRI thinks that there is plenty more to discuss, particularly because nobody has found the kind of perfect solution to integrated reporting yet. Nikki raised to the group the question
on continuing this program further. GRI is ambitious to go further with that and will consider a couple of different options. One is to review the state of integrated reporting within the companies' reports which would teach them about where to go next. Participants were asked to consider this idea and encouraged to think of other ideas. There are expected to make a position about whether the program should continue with its work or not. There will be a discussion on that over the next couple of months and Juliette will be contacting each of the participants for collecting feedback.