

# ASSURANCE OF THE INTEGRATED REPORT: IS IT REALLY NEEDED?

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COMMITTEE (IRC)  
OF SOUTH AFRICA**


**ANNUAL CONFERENCE  
2020**

**#IRCSACConf20**

# 'CAN I MODEL IT?'

	Short Term	Medium Term	Long Term
<b>MACRO ISSUES</b>	<b>PROFITABILITY</b>	<b>SUSTAINABILITY</b>	<b>VIABILITY / RESILIENCE</b>
	1 Year – Budget	2-5 Years – Business Plan	5 Years + - Scenarios
Model Assumptions	Driven by 'The Business' – its <b>What, With, How</b> and <b>Why</b> – large <IR> potential		
Cash Inflows			40-50% valuation impact (terminal value typically around 40% of NPV)?
Cash Outflows			
Projected Net Cash Flows			
Discount Rate		Social Licence to Operate – <b>significant &lt;IR&gt; potential to impact analyst decision-making</b>	Viability / Resilience – <b>large &lt;IR&gt; potential to impact analyst decision-making</b>
Net Present Value			
'Uncertainty Adjustment'	<b>Limited &lt;IR&gt; potential to impact analyst decision-making</b>		
Uncertainty-Adjusted NPV			
Outcomes evaluated by investors, analysts and other stakeholders may include	Plant breakdowns / safety incidents / obsolete plant, withdrawal of short-term financing	Climate change, safety incidents, lack of workplace diversity, executive remuneration rejected by investors, customer dissatisfaction, lack of employee strategic alignment	Lack of innovation, intellectual property not protected, technological change being a disruptor not an enabler, poor strategic management (lack of integrated thinking), passive governance; employees, executives and directors not acting in pursuit of the organisation's purpose and strategy

# 'CAN I MODEL IT?' – ASSISTED BY <IR> GUIDING PRINCIPLES

	Short Term	Medium Term	Long Term
<b>MACRO ISSUES</b>	<b>PROFITABILITY</b>	<b>SUSTAINABILITY</b>	<b>VIABILITY / RESILIENCE</b>
	1 Year – Budget	2-5 Years – Business Plan	5 Years + - Scenarios
Model Assumptions	Driven by 'The Business' – its <b>What, With, How</b> and <b>Why</b> – large <IR> potential		
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Cash Outflows			
Projected Net Cash Flows			Viability / Resilience – large <IR> potential to impact analyst decision-making
Discount Rate		Social Licence to Operate – significant <IR> potential to impact analyst decision-making	
Net Present Value			
'Uncertainty Adjustment'	Limited <IR> potential to impact analyst decision-making		
Uncertainty-Adjusted NPV			



Basis of preparation and presentation



Strategic focus and future orientation



Materiality



Conciseness



Stakeholder relationships



Connectivity of information


















Consistency and comparability



Reliability and completeness

# 'CAN I MODEL IT?' – ENABLED BY <IR> CONTENT ELEMENTS

 Organisational overview and external environment	Short Term	Medium Term	Long Term
<b>MACRO ISSUES</b>	<b>PROFITABILITY</b>	<b>SUSTAINABILITY</b>	<b>VIABILITY / RESILIENCE</b>
 Strategy and resource allocation	1 Year – Budget	2-5 Years – Business Plan	5 Years + - Scenarios
Model Assumptions	Driven by 'The Business' – its <b>What, With, How</b> and <b>Why</b> – large <IR> potential		
Cash Inflows	 Performance  Outlook		40-50% valuation impact (terminal value typically around 40% of NPV)?
Cash Outflows			
Projected Net Cash Flows			
Discount Rate	 Risks and Opportunities		Viability / Resilience – large <IR> potential to impact analyst decision-making
Net Present Value	<b>Limited &lt;IR&gt; potential to impact analyst decision-making</b>		 Governance  Business model
'Uncertainty Adjustment'			
Uncertainty-Adjusted NPV			

-  Basis of preparation and presentation
-  Strategic focus and future orientation
-  Materiality
-  Conciseness
-  Stakeholder relationships
-  Connectivity of information
-  Consistency and comparability
-  Reliability and completeness

# 'CAN I MODEL IT?' – CAPITALS & OUTCOMES

Materiality

Conciseness

Connectivity of information

Consistency and comparability

Organisational overview and external environment

Short Term

Medium Term

Long Term

MACRO ISSUES

PROFITABILITY

SUSTAINABILITY

VIABILITY / RESILIENCE

Strategy and resource allocation

1 Year – Budget

2-5 Years – Business Plan

5 Years + - Scenarios

Model Assumptions

Driven by 'The Business' – its **What, With, How** and **Why** – large <IR> potential

Cash Inflows



Performance



Outlook

Cash Outflows

Projected Net Cash Flows

Discount Rate



Risks and Opportunities

Net Present Value

Limited <IR> potential to impact analyst decision-making

Social Licence to Operate – significant <IR> potential to impact analyst decision-making

40-50% valuation impact (terminal value typically around 40% of NPV)?

Viability / Resilience – large <IR> potential to impact analyst decision-making



Governance



Business model

Uncertainty-Adjusted NPV

Reporting Realm

Financial Reporting

ESG Reporting

Integrated Reporting



Outcomes evaluated by investors, analysts and other stakeholders may include

Plant breakdowns / safety incidents / obsolete plant, withdrawal of short-term financing



Climate change, safety incidents, lack of workplace diversity, executive remuneration rejected by investors, customer dissatisfaction, lack of employee strategic alignment



Lack of innovation, intellectual property not protected, technological change being a disruptor not an enabler, poor strategic management (lack of integrated thinking), passive governance; employees, executives and directors not acting in pursuit of the organisation's purpose and strategy



Basis of preparation and presentation



Reliability and completeness



Strategic focus and future orientation



Stakeholder relationships

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# 'CAN I MODEL IT?' – AND ASSURANCE

Organisational overview and external environment	Short Term	Medium Term	Long Term	Consistency and comparability
<b>MACRO ISSUES</b>	<b>PROFITABILITY</b>	<b>SUSTAINABILITY</b>	<b>VIABILITY / RESILIENCE</b>	Materiality
Strategy and resource allocation	1 Year – Budget	2-5 Years – Business Plan	5 Years + - Scenarios	
Model Assumptions	Driven by 'The Business' – its <b>What, With, How</b> and <b>Why</b> – large <IR> potential			
Cash Inflows	Performance	Outlook	40-50% valuation impact (terminal value typically around 40% of NPV)?	
Cash Outflows	Basis of preparation and presentation		<b>Viability / Resilience – large &lt;IR&gt; potential to impact analyst decision-making</b> Conciseness Governance Business model Stakeholder relationships Connectivity of information	
Projected Net Cash Flows				
Discount Rate	Risks and Opportunities			
Net Present Value	<b>Social Licence to Operate – significant &lt;IR&gt; potential to impact analyst decision-making</b> Strategic focus and future orientation			
'Uncertainty Adjustment'	<b>Limited &lt;IR&gt; potential to impact analyst decision-making</b>			
Uncertainty-Adjusted NPV				
Reporting Realm	Financial Reporting	ESG Reporting	Integrated Reporting	
Outcomes evaluated by investors, analysts and other stakeholders may include	Plant breakdowns / safety incidents / obsolete plant, withdrawal of short-term financing	Climate change, safety incidents, lack of workplace diversity, executive remuneration rejected by investors, customer dissatisfaction, lack of employee strategic alignment	Lack of innovation, intellectual property not protected, technological change being a disruptor not an enabler, poor strategic management (lack of integrated thinking), passive governance; employees, executives and directors not acting in pursuit of the organisation's purpose and strategy	

Reliability and completeness: AND ASSURANCE

# TRANSCRIPT OF INTERVIEW BETWEEN AN ASSURANCE PRACTITIONER AND THE CHIEF EXECUTIVE OFFICER OF HIS INTEGRATED REPORT ASSURANCE CLIENT

- ASSURANCE PRACTITIONER: "I HAVE READ HOW YOU PROPOSE TO DESCRIBE YOUR STRATEGY AND BUSINESS MODEL IN YOUR INTEGRATED REPORT. ARE YOU SATISFIED WITH THAT DESCRIPTION?"
- CEO: "YES"
- ASSURANCE PRACTITIONER: "I HAVE SOME DIFFICULTIES WITH THAT DESCRIPTION, IN FACT SIGNIFICANT ONES. BASED UPON MY PROCEDURES I DO NOT BELIEVE THAT IT FAIRLY DESCRIBES YOUR STRATEGY AND BUSINESS MODEL."
- CEO: "YOU ARE ENTITLED TO HAVE YOUR VIEW."
- ASSURANCE PRACTITIONER: "IT IS MY JUDGEMENT, AND IF THE INTEGRATED REPORT REMAINS AS IT IS, I WILL HAVE NO OPTION OTHER THAN QUALIFY MY ASSURANCE REPORT TO INDICATE THAT I BELIEVE IT DOES NOT FAIRLY DESCRIBE YOUR STRATEGY AND BUSINESS MODEL. I BELIEVE THAT MY CONCLUSION WILL BE IMPORTANT INFORMATION FOR INVESTORS AND OTHER STAKEHOLDERS."

**QUESTION TO THE AUDIENCE: WHAT IMPACT DO YOU THINK THAT MY ASSURANCE REPORT WILL HAVE ON THE THINKING AND ACTIONS OF INVESTORS AND OTHER STAKEHOLDERS?**

# Integrated Reporting Assurance is Different and Valuable

The Distinctive Contribution of Integrated Reporting	The Unique Challenges and Opportunities of <IR> Assurance
<b>Integrated Thinking</b> – Better Business Practice	Only reporting framework – assurance practitioners add value
<b>The Business</b> – <i>What, With, How, Why</i>	<b>Evaluation</b> - narrative description of <b>The Business</b>
<b>Multiple Capitals</b> – All Resources and Relationships	<b>Evaluation</b> - narrative description of <b>The Business</b>
<b>All Stakeholders</b> – not just investors	<b>Evaluation</b> - whether engagement has a <b>rational purpose</b>
<b>Basis of Preparation and Presentation</b> <ul style="list-style-type: none"> <li>• Material matters</li> <li>• Self-determination of non-standard, business-critical metrics               <ul style="list-style-type: none"> <li>– All capitals, including intangibles</li> </ul> </li> <li>• De-selection of immaterial standard metrics               <ul style="list-style-type: none"> <li>– Financial (IFRS / US GAAP)</li> <li>– Sustainability (GRI / SASB)</li> </ul> </li> </ul>	<b>Evaluation</b> of <b>Basis of Preparation and Presentation</b>
Not only <b>The Report</b> – Integrated Reporting: <b>reporting strategy, reports portfolio, integrated reporting process</b>	Design and operation of <b>integrated reporting process</b>
Not only <i>The Reporting</i> – <b>business management controls over strategic management, governance etc</b> underlying Integrated Report	Design and operation of <b>business management controls</b>

**Note:** reporting process will always be a key business process / material and so reported as part of the Value Creation Process in an integrated report. So too business management controls over other key business processes such as *strategic management process, governance process, risk & opportunity management process*

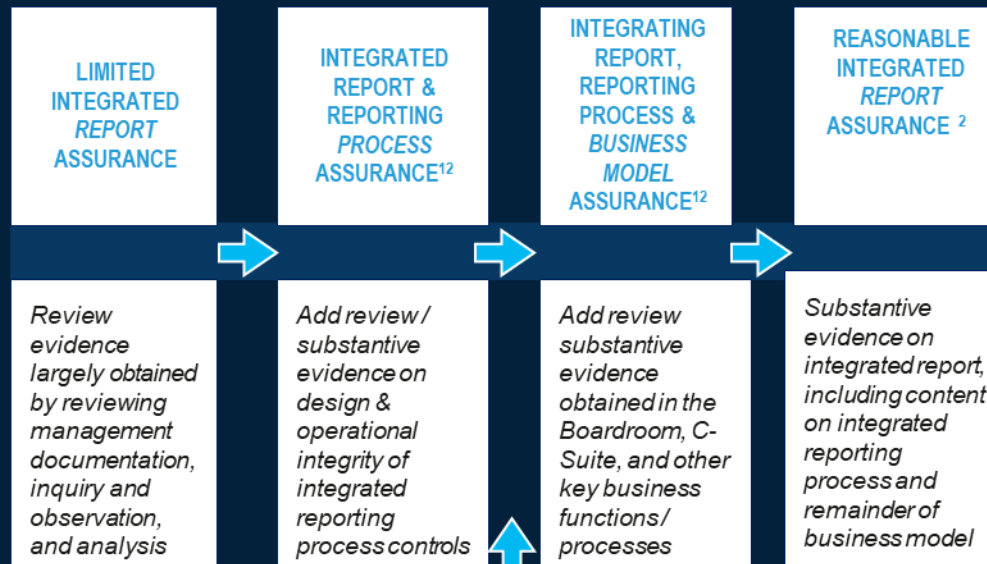


# OVERCOMING THE BARRIERS AND CHALLENGES

Barrier / Challenge	Overcoming The Barrier / Challenge
“There is no demand”	Investors being educated on value of assurance as integrated reporting adoption grows
“We don’t have the skills”	Financial statement auditors are ideally placed to lead integrated reporting assurance engagements – may need ‘top up’ training and appropriate SMEs in the team
“ There is no guidance”	IAASB Extended External Reporting Assurance guidance
“It will be too costly”	Develop business case including return on investment
“The engagement risk would be too high”	Risks are manageable with appropriate business understanding, assurance approach, training, accreditation process. Focus on opportunities
“This would not work in [XX]”	Global approach emerging
“The regulators will smash us”	Working with regulators, obtain room to experiment in early period
“The systems are not good enough”	They will mature – assurance readiness reviews first. Other pre-conditions for assurance – suitable criteria, underlying subject matter, subject matter information, rational purpose
<b>Unsaid – happy with status quo</b>	<b>The ‘relevance’ agenda, growing demand by regulators and others (Brydon, Business Resilience Statement) for more from auditors, declining financial statement audit margins, the audit of the future, the future of the accounting profession</b>

# Integrated Reporting Assurance – *The Journey to The Audit of the Future*

The evidence gathered by integrated reporting assurance practitioners



Limited integrated report assurance engagements involve being able to analyse management documentation such as strategic plans, business model documentation, risk and opportunity registers and assess how these matters are reported in the integrated report. Reasonable integrated report assurance engagements extend to assessing the effective operation of these aspects of the business in practice. For integrated reporting process assurance, this extends to assessing controls within the reporting process; for integrated business model assurance, controls in relation to governance, strategic management, resource allocation and resource management, key business processes, and risk and opportunity management.

- 1 Can be limited or reasonable assurance
- 2 Can be public or private (eg for Board) assurance



# A DRAFT JOINT STATEMENT BY IFAC AND THE IIRC



## Integrated Reporting Assurance: The Audit of the Future

IFAC and the IIRC Support Drive Toward Integrated Reporting Assurance in the Public Interest



### GLOBAL APPROACH

The approach to integrated reporting assurance must be global and aligned to both developments in integrated reporting and developments in global standard setting.

**Integrated reporting assurance** is emerging to respond to the increasing demand for assurance by investors, financial analysts and other stakeholders. Audit and assurance are an important means of building trust and confidence in integrated reporting and ultimately the resilience of businesses. As integrated reporting assurance evolves with increasing numbers of organizations issuing integrated reports, the IIRC and IFAC are committed to enabling high-quality integrated reporting assurance in the public interest.

to governance, strategy, resource allocation and relationship management, the business model, and performance and prospects.

Assurance is a critical component of the corporate reporting system. Consequently, there is much attention on enabling assurance including the International Auditing and Assurance Standards Board's Extended External Reporting (EER) Assurance project that will deliver additional guidance to support the application of International Standard on Assurance Engagements

to business productivity, capital markets, society and international competitiveness, and to the credibility of and trust in corporate reports, the corporate reporting system and business.

Integrated reporting assurance is evolving with greater demand and an increasing number of integrated report assurance engagements. The potential move to a global reporting solution under the IFRS Foundation to deliver consistent, comparable, reliable, and assurable information will also further

# IN ANSWER TO THE QUESTION I POSED EARLIER

- INVESTORS ARE LIKELY TO REACT VERY BADLY TO SUCH AN ASSURANCE REPORT – THIS IS LIKELY TO AFFECT AT LEAST THE COST OF CAPITAL
- SO ARE OTHER STAKEHOLDERS – THIS IS LIKELY TO HAVE IMPLICATIONS FOR LICENCES TO OPERATE, LEGAL AND SOCIAL
- I WOULD MUCH PREFER TO BE COLLABORATIVE ON GETTING TO THE RIGHT ANSWER

## **IN CONCLUSION, INTEGRATED REPORTING ASSURANCE IS REALLY NEEDED**

- **IT IS CRITICAL TO OUR CAPITAL MARKETS AND THE RELATIONSHIP OF BUSINESS AND SOCIETY**
- **IT CAN ENHANCE THE RELIABILITY OF CORPORATE REPORTS AND THE TRUST OF INVESTORS AND OTHER STAKEHOLDERS IN BUSINESS**
- **BY COROLLARY, IT CAN THREATEN BUSINESS RESILIENCE AND POTENTIALLY SURVIVAL**