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Assuring the integrated report: Insights and recommendations from auditors and preparers



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ABSTRACT

There is little guidance on how integrated reports could be the subject matter of a conventional assurance engagement despite their growing use as an important means of communicating with stakeholders. This paper takes the first step in addressing this issue. The study relies on primary data collected from recorded interviews with 20 audit experts and 20 preparers, complemented by principles from existing professional assurance standards, to develop interpretively three possible assurance models (restricted, integrated and Delphi-inspired assurance).

A restricted assurance model concentrates only on the audit of financial statements and the reporting of inconsistencies between the financial statements and other information contained in an integrated report to those charged with an organisation's governance. An integrated approach to 'assurance' offers an immediate solution for providing at least some assurance over the integrated report. It relies on different systems of checks and balances to provide directors with a basis for accepting responsibility for their organisations' integrated reports. Finally, a Delphi-inspired model offers a glimpse into how assurance services may evolve in response to the call for integrated reports to be assured. This model relies on a panel of experts to express an opinion on the method used to prepare integrated reports.

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1. Introduction

Integrated reporting is the most recent corporate reporting innovation designed to provide a comprehensive account of how an organisation is creating value and managing different types of financial and non-financial capital in order to generate sustainable returns (International Integrated Reporting Council [IIRC], 2013; Higgins, Stubbs, & Love, 2014; King, 2016). The integrated report is not just an aggregation of the annual and sustainability reports: it should be a concise document which explains clearly the interconnection between material financial and non-financial performance measures (IIRC, 2013; King, 2016). These should be linked to the organisation's strategy, risk assessment and business processes to provide a comprehensive explanation of how the business manages its relationships with stakeholders and generates sustainable returns in the short-, medium- and long-term (Atkins & Maroun, 2014; IIRC, 2013; de Villiers, Rinaldi, & Unerman, 2014). Consequently, the integrated report moves away from the traditional focus on historical financial information. Management should provide a forward-looking assessment of the business including, for example, an analysis of changing risks, important prospects and

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how financial and non-financial capitals will be managed to maximise value and ensure future sustainability (Atkins & Maroun, 2015; King, 2016).

An integrated report is inherently subjective. Unlike financial statements, the document will include a mix of historical and prospective qualitative and quantitative data which gives rise to concerns about the validity and reliability of the report (Cohen & Simnett, 2015; IIRC, 2014a; Maroun & Atkins, 2015). While the IIRC does not mandate the audit of an integrated report, it vests responsibility for high quality reporting with those charged with governance (IIRC, 2013; para 3.41) and states that the reliability of information is:

‘Enhanced by mechanisms such as robust internal control and reporting systems, stakeholder engagement, internal audit (or similar functions) and independent, external assurance’ (IIRC, 2013; para 3.40).

Codes of corporate governance (Institute of Directors in Southern Africa [IOD], 2009), and the preliminary findings from the IIRC’s engagement with stakeholders (IIRC, 2014a; 2014b; 2015), iterate the importance of assurance as a means of adding to the credibility of the integrated report (Maroun & Atkins, 2015; PwC, 2015). This is consistent with a large body of research which (while not dealing specifically with integrated reporting) confirms how attest functions add to the legitimacy of the broader corporate reporting system (Unerman & O’Dwyer, 2004; Black, 2008; Malsch & Gendron, 2011). There is, however, little guidance on how an integrated report could be subject to formal assurance procedures.

For example, the International Auditing and Assurance Standards Board (IAASB) is an independent international standard-setting body which develops assurance standards designed to promote confidence in the subject matter of an assurance engagement (IAASB, 2015). It issues International Standards on Auditing (ISA’s) which are applicable for the audit of financial statements (see IAASB, 2009a; IAASB, 2009b). The IAASB also publishes International Standards on Assurance Engagements (ISAE’s) which deal with information other than historical financial statements, including certain non-financial information (see, for example, IAASB, 2009c; IAASB, 2013). Examples include assurance engagements on greenhouse gas emissions, compliance with the Global Reporting Initiative (GRI), water usage and health and safety statistics (Jones & Solomon, 2010; Maroun & Atkins, 2015). No specific guidance is, however, provided on assuring an integrated report.

Similarly, AccountAbility (2008)¹ seeks to improve the credibility and quality of sustainability performance and reporting. Like the IAASB, the independent standard-setter relies on extensive stakeholder engagement and consultation processes to develop sustainability assurance standards. It issued *AA1000 Framework Standard* to promote high quality non-financial reporting in 1999. An assurance-specific standard (AA1000AS) was issued in 2003 and revised in 2008. AA1000AS focuses specifically on assuring sustainability reporting, including adherence to defined sustainability principles and the quality of disclosures (AccountAbility, 2008). Nevertheless, as with ISAE’s, the standard stops short of giving explicit guidance on assuring an integrated report. In particular, forward-looking or qualitative assessments (which are becoming an important feature of integrated reports) are outside the scope of engagements performed according to ISAE’s and AA1000AS (see Cohen & Simnett, 2015; Maroun & Atkins, 2015; de Villiers et al., 2014).

In this context, the purpose of this paper is to develop an initial framework for the assurance of an integrated report using detailed interviews with 20 assurance experts and 20 preparers. The research is subject to two important limitations. Firstly, examining the content of documents labelled ‘integrated reports’ and determining specific characteristics for reports to be regarded as integrated is beyond the scope of this paper. In the interest of brevity, the research focuses on a single corporate report issued to a broad group of stakeholders and prepared according to the IIRC’s (2013) integrated reporting framework.² The study’s findings would, however, be equally relevant to other commentary/reports based on an integrated thinking approach (see IIRC, 2013). These may not be specifically labelled an ‘integrated report’ but would include a mix of qualitative and quantitative information on different financial and non-financial metrics in order to communicate how a reporting entity generates value. In this way, although the research focuses on integrated reports being prepared by a sample of organisations, it can be interpreted as an analysis of how to audit modern narrative information (rather than traditional financial statements³).

Secondly, the intention is not to provide a theoretical explanation for how external auditors are able to expand their claims to expertise beyond financial statement audits (for details see O’Dwyer, Owen, & Unerman, 2011) or precisely why formal test procedures are able to secure confidence in the subject matter of an assurance engagement (for details see Humphrey & Moizer, 1990; Power, 1994). Instead, the paper relies on detailed interviews with a group of assurance experts and preparers to explore different approaches to assuring an integrated report based on the principles provided by ISA’s and ISAE’s.

Grounding this paper in the pronouncements issued by the IAASB runs the risk of incorporating professional bias, including self-serving claims to expertise, in the results (Power, 2003, p. 392). Nevertheless, these standards are applied in multiple jurisdictions, provide a generally accepted framework for describing ‘assurance’ and are the product of extensive engagement with stakeholders. As such, they provide a reasonable reference point for exploring alternate assurance models

¹ AccountAbility is a consulting and standard-setting firm which works with organisations to improve their sustainability reporting and performance.

² This is in keeping with the fact that the intention is not to express a formal opinion on the extent to which information included in a corporate report is prepared according to the IIRC’s framework or might otherwise be regarded as ‘integrated’.

³ or any other subject matter that falls neatly within the scope of existing assurance standards such as those dealing with the audit or review of historical information other than financial statements. ISAE 3000 is an example.

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