

Completing the puzzle

Successfully bringing together financial, sustainability and governance reporting is the Holy Grail of corporate reporting. But what role should the auditor play?

Businesses today face heightened expectations for transparency about how they play their part in society and the world, with profit being only one of many criteria by which their contribution is measured. The impact a company has on its employees, society, and the planet is gaining increasing importance with a wider group of stakeholders. Integrated reporting, which encompasses elements of traditional financial, sustainability, and governance reporting, represents a growing trend that responds to these new expectations.

Some companies voluntarily produce reports that have some of the characteristics of integrated reporting, but few jurisdictions require this (South Africa and some European countries are exceptions). There are no mandated reporting standards or frameworks in place, but a number of initiatives are under way by governmental and non-governmental groups to develop such frameworks, principles, codes, and management systems. Significant among these groups is the International Integrated Reporting Committee, which holds the promise of increasing collaboration, convergence, and conformance among the emerging frameworks and standards.

In the absence of a generally accepted framework, companies that wish to

move towards integrated reporting may encounter several dilemmas around relevance, assurance, scope, and other issues. Critics sometimes cite a significant potential weakness of integrated reporting: the reports can be exploited for public relations and marketing purposes rather than used to deliver complete and meaningful information to all stakeholders. A partial remedy may be found in external assurance as, in a manner similar to a financial audit, an assurance engagement of such a report can be carried out. This third-party assurance can add credibility to the report while potentially providing insights that might help the organisation strengthen underlying processes and controls over reporting.

Audit, assurance or both?

You have already noticed that this article started talking about 'assurance' rather than the more familiar phrase 'audit'. Just as the frameworks in development for integrated reporting are different to the existing ones in place for financial reporting, so the frameworks for providing assurance are different. And just as the standards for integrated reporting are less well developed, the assurance models for the range of non-financial and forward-looking information that may be relevant to an integrated report are also less well developed.

Assurance activities have several aims, chief among them being to provide a level of confidence that the information being presented to internal decision makers and external stakeholders is accurate and reliable.

Such assurance does have its limitations, of course. For example, forward-looking statements may be difficult to evaluate. But while the future can't be assured, assumptions and processes that underlie prospective statements can be assessed for consistency and reasonableness. In addition, the focus of the assurance can vary. Assurance might take the form of:

- addressing the accuracy of specific performance indicators
- evaluating the compilation process of the reporting
- assuring the accuracy and completeness of management's assertions in the report.

The last item is naturally much more difficult than the others.

Standards for assurance

The International Federation of Accountants (IFAC), the international professional association for the accounting profession, has issued International Standard on Assurance

Engagements No. 3000 (ISAE 3000). Outside the US, this is the standard most widely used by accountants providing assurance on non-financial information, including sustainability reporting. Similar to the AICPA (American Institute of Certified Public Accountants) Attestation Standards, ISAE 3000 provides for two levels of assurance, specifically limited assurance and reasonable assurance.

In addition, the non-profit organisation, AccountAbility, has issued a standard for companies preparing sustainability reports and for assurance providers. It provides for two levels of assurance (high assurance and moderate assurance) with a combination permitted for specific performance indicators.

Limited vs. reasonable assurance

What is meant by the two levels of assurance available under ISAE 3000 for sustainability reports?

In both types of engagements, the assurance provider selects a combination of procedures to obtain the desired level of assurance. These procedures may include inspection, observation, confirmation, recalculation, re-performance, analytical procedures, and inquiry.

Limited assurance engagements require the assurance provider to obtain a meaningful level of assurance to form a conclusion, which is expressed in the assurance report in the form of negative assurance. However, the extent of evidence gathered is intentionally limited. If no material errors are found as a result of the limited procedures, the assurance report might state that nothing came to the assurance provider's attention that would lead them to believe the sustainability report is incomplete or inaccurate based on the identified criteria (for example, the voluntary guidelines developed by the Global Reporting Initiative).

Reasonable assurance engagements require the assurance provider to obtain sufficient evidence to form an opinion, similar to that in a financial statement audit. Accordingly, more extensive

testing is required of the data and the processes that produced them. Rather than negative assurance, the assurance provider expresses an opinion, such as whether the sustainability report is complete and accurate based on the identified criteria.

Suitable criteria and assurance standards form the foundation of sustainability report preparation and assurance. To compile a formal report, the enterprise needs suitable criteria for selecting and measuring the information to be included. Similarly, the provider of assurance needs standards for defining and conducting the engagement, and suitable criteria against which to measure the subject matter.

Many enterprises currently lack the expertise and experience to compile the data needed for an integrated report in a consistent, reliable, and accurate manner. One of the major roadblocks to obtaining assurance is the lack of sufficiently-developed reporting and control systems.

Given the developing nature of integrated reporting, these systems are not as developed and formalised as financial reporting and related control systems. Accordingly, many enterprises require and benefit from an assurance readiness review prior to seeking external assurance. Assurance providers can assist an enterprise in defining program goals, metrics, and reporting mechanisms so that the appropriate and desired data will be collected in a cost-effective and useful form.

Many assurance providers currently are requested to provide only limited assurance. Enterprises typically perceive this as the most cost-effective level of assurance as it, to some extent, increases the credibility of the reported information and forms a step on a path to reasonable assurance. However, readers of such reports must take care not to assume a higher level of credibility than warranted by the stated level of assurance.

Many enterprises now obtain external assurance on their sustainability reports, for the reasons mentioned above. In addition, as report issuers could be

held responsible for report inaccuracies at a later date, independent external assurance can provide evidence of the enterprise's efforts to ensure accuracy.

Although external assurance is not mandated for integrated reports, opening the integrated reporting process and the reports to outside scrutiny can, when the assurance process is properly designed, provide data, analysis, and information that can enable management to secure a number of benefits. These include:

- recommendations for closer alignment between performance data and stakeholder expectations
- greater understanding of current reporting frameworks, standards, and guidelines
- recommendations for clearer identification of risks and of regulatory compliance gaps, and improved quality control and reporting processes
- improved ability to meet integrated reporting standards under frameworks provided by standard-setting organisations
- ability to meet investors' and other stakeholders' expectations for accurate disclosures, and increased stakeholder confidence in integrated reports

While the frameworks and experience for integrated reporting are in development, the systems for assuring these reports are also growing. This is an important response to the developments in integrated reporting.

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