



Our ref.: CJ/dy/SIRAG

By email to: assurance@theiirc.org

1 December 2014

Dear Sirs

Assurance on <IR>: An Introduction to the Discussion and An Exploration of Issues

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong.

We are grateful for the opportunity to comment on the above two papers issued by the International Integrated Reporting Council (IIRC) with the objective of provoking international discussion around the subject of assurance on <IR>. We agree with the view of the IIRC that independent assurance is likely to be important for the long term credibility of integrated reports. This will also require credibility in the assurers, operating within a robust ethical and quality control framework, observing established assurance standards and subject to independent oversight.

However, the <IR> Framework is itself still in the early stages of development and implementation following its release in December 2013 and any consideration of the development of assurance on <IR> needs to be in the context of the current and developing status of the Framework.

In this respect we consider that it is not possible at this stage to give meaningful responses to all questions to all the individual questions in *An Introduction to the Discussion*. Some of the questions seem to go into a level of detail that cannot yet be addressed and suggest some confusion over the purpose of the papers – to promote general discussion or consult on answers to specific questions? Therefore we have responded to selected questions in the attachment to this letter.

In addition we provide the following higher level observations that we think are relevant to the further development of thinking around assurance on <IR> and the Framework itself:

1. As mentioned above, it is widely accepted that development and application of the <IR> Framework is an evolutionary process that is only at an early stage. To try and develop an assurance process around an evolving <IR> Framework is in itself a journey and there should not be an expectation that a decision on the shape or nature of assurance will be reached anytime soon. In our view development of assurance could follow the path of the <IR> Framework – set up an assurance pilot programme, allow assurers and companies to experiment to find out what works and how stakeholder expectations can be met.



2. The <IR> Framework is principles based and does not set out specific reporting or disclosure requirements. Therefore the existing assurance model for financial reporting with a binary opinion would not fit the whole of the Framework, especially in its current immature state of development. Consideration should be given to how assurance could support rather than constrain the evolution and innovation of <IR>, particularly around forward looking and subjective topics.
3. We are aware of the IAASB interest in assurance of the <IR> Framework and agree that it is important that the IAASB, as the prominent assurance standard setter, engages with the IIRC on the topic. However, for reasons set out above, we do not believe that there should be undue urgency to turn the project over to the IAASB with the expectation of standards or guidance being issued within a short period. The new form of audit report that the IAASB will shortly issue (something very similar has been in force in the UK for more than a year) is however a significant development in assurance reporting and may provide some useful direction to consideration of assurance on <IR>.
4. There needs to be further consideration of how the <IR> Framework, and assurance thereof, fits into the overall corporate reporting model. If all of the underlying component parts e.g. financial statements, sustainability report etc. have independent assurance then what would be the form, and even the purpose, of assurance on the Framework? We support the creation of the Corporate Reporting Dialogue as an initiative to create a more cohesive picture of the corporate reporting landscape. The expansion of assurance to other areas of non-financial reporting e.g. management reports, green house gas statements, means that there is a wider context in which assurance on <IR> must be considered.
5. A key question is what is the very nature of assurance on <IR>? Assurance of the process of producing the <IR>, the data within the <IR> or the overall quality of the <IR>? Will all elements of the <IR> need to be assured? Whatever the final outcome is there will need to be transparency on the level and scope of assurance given,
6. Assurance should be considered in the wider sense and not restricted to external assurance. There needs to be an understanding of the entity's governance mechanism and how various types and levels of "assurance" will be provided to different stakeholder groups by management, internal audit and independent directors. As suggested above, experimentation and innovation will be critical in development of an appropriate assurance model.
7. The nature and level of assurance should be influenced by the views and requirements of investors and other users on disclosure of information and the value of assurance. Would they be satisfied with disclosure of less information in absolute terms if the information provided was assured? Getting appropriate and relevant input from stakeholders will be important and is likely to be more forthcoming as various approaches are "tried out" rather than being discussed in the abstract.



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We would again like to express our thanks to the IIRC for giving us the opportunity to respond to the discussion papers on <IR> assurance. If you have any questions on our comments, please do not hesitate to contact me at chris@hkiicpa.org.hk.

Yours faithfully,

Chris Joy
Executive Director

CJ/dy



Attachment

The nature of assurance

1. *What priority should be placed on assurance in the context of driving credibility and trust in <IR>?*

Assurance is important in developing credibility and trust in <IR> - making the information provided "investment grade" as referred to in the IIRC papers. However, the acceptance and application of <IR> is still at an early stage and the <IR> Framework is a work in progress. The development of an appropriate assurance model must be seen in that context and approached in a similar evolutionary way.

2. *What are the key features of assurance that will best suit the needs of users of integrated reports in years to come?*

It is difficult to answer this question with any authority. Features of the existing financial reporting assurance model, provided by independent, skilled and experienced practitioners, will undoubtedly be important but the actual needs and expectations of users of integrated reports have to be better understood. Hopefully that will be one result of this consultation.

Competent practitioners

3. *Is the availability of suitably skilled and experienced assurance practitioners a problem in your jurisdiction, and so what needs to be done, and by whom, to remedy the situation?*

The development of a new assurance service will of course place additional demands on practitioners. However, there is a large pool of experienced assurance practitioners in accounting firms in Hong Kong, many of which have been developing expertise in assurance on non-financial information for some time. As suggested in our covering letter we believe that these resources should be allowed to work with companies and other stakeholders to experiment with methods and levels of assurance to develop a service that is appropriate for <IR>.

4. *What needs to be done, and by whom, to ensure the quality of assurance on <IR> is maintained at a high level, including practitioners' adherence to suitable educational, ethical (including independence), quality control and performance standards?*

We believe that it is too early to target the development of assurance "standards" for <IR>. A huge amount of education and engagement of all stakeholders, including assurance providers, is necessary before any decisions can be made on the "how" and "what" of assurance for <IR>. However, to give credibility to assurers their services must be delivered within a robust ethical and quality control framework.

Robust internal systems

5. *Is the robustness of internal systems a problem, and if so what needs to be done, and by whom, to remedy the situation?*



Attachment

No comment. An important element of the journey to <IR> will be companies developing appropriate and robust internal systems.

The cost of assurance

6. *Is assurance likely to be a cost effective mechanism to ensure credibility and trust over (a) the short/medium term; (b) the long term?*

Whether assurance is cost effective depends on establishing what is required by users of integrated reports and how much they and companies are prepared to pay.

7. *If so, what needs to be done, and by whom, to maximize the net benefits of assurance?*

Refer to covering letter.

Methodology issues

8. *Should assurance standard setters develop either or both (a) a new assurance standard; (b) guidance, to ensure consistency of approach to such issues?*

We are aware that the IIRC has engaged with the IAASB, the provider of international assurance standards, and agree that this is a natural and important relationship to develop. However, we do not believe that there should be a rush to development of standards and guidance. The development of the <IR> Framework is an ongoing process, an evolution, and we believe that development of an appropriate assurance service for <IR> should proceed in the same way. We suggest that an "assurance pilot programme" should be considered, within which assurance providers, companies and users of integrated reports could work together, innovate and experiment to come up with assurance that meets expectations.

9. *Should any such standard/guidance be specific to <IR>, or should it cover other topics that are also relevant to other forms of reporting and assurance, e.g., should a standard/guidance on assuring narrative information, either in an integrated report or elsewhere, be developed?*

No comment. This is jumping to too much detail too soon.

10. *What are the (a) key challenges and (b) proposed approaches that assurance standard setters should consider with respect to:*

- *Materiality?*
- *The Reporting Boundary?*
- *Connectivity?*
- *Completeness?*
- *Narrative reporting and future oriented information?*



Attachment

No comment. This is jumping to too much detail too soon.

11. *What other technical issues, if any, specific to <IR> should be addressed by assurance standard setters?*

No comment. This is jumping to too much detail too soon.

Levels of assurance

12. *What are the (a) key challenges and (b) proposed approaches that assurance standard setters should consider with respect to:*

- *Reasonable assurance?*
- *Limited assurance?*
- *Hybrid engagements?*
- *Agreed upon procedures engagements?*
- *Other approaches?*

No comment. This is jumping to too much detail too soon.

Using existing assurance

13. *What are the (a) key challenges and (b) proposed approaches that should be considered, and by whom, to ensure assurance on <IR> pays due regard to assurance on other processes?*

Thus question has to be considered by all stakeholders. As stated in our covering letter this is a key issue that has to be addressed – how does integrated reporting and related assurance fit into the overall landscape of corporate reporting. Many elements of corporate reporting are already subject to assurance of different scope and levels. Can the existing assurance provided feed into overall assurance of <IR>?