

INTEGRATED ASSURANCE FOR NON-FINANCIAL REPORTING

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Abstract

Reporting world has observed the significant shift from profit maximization only focus to a more holistic state. As the nature of reporting has shifted away from being solely financial to the contemporary integration of financial and non-financial presentation, inevitably, the assurance of such integrated reporting should evolve into an integrated presentation. Obsolete understanding of financial-only reporting and its majorly financial-only assurance cannot meet the requirements of the changing trends in today's reporting world. The aim of the paper is to propose an integrated assurance model for the ever-changing world of corporate reporting which allocated equal weight of importance to both financial and non-financial presentation.

Keywords: Non-Financial Reporting, Integrated Reporting, Integrated Assurance

INTRODUCTION

Reporting world has observed the significant shift from profit maximization only focus to a more holistic state. Such drastic change required a new fashion of reporting including non-financial topics so that stakeholders can have the maximum comprehension about firms. Assurance of financial reporting has developed itself to establish reasonable assurance instead of absolute assurance. Applying the same set of rules for integrated reporting could be fatal due to the fact that it will lack a great deal of areas. Integrating both financial and non-financial topics directly challenge the assurance of such complete report. Primary action to be taken should be constructing an integrated assurance model for the ever-changing world of corporate reporting which allocated equal weight of importance to both financial and non-financial presentation.

This study intends to propose an integrated assurance model for the ever-changing world of corporate reporting which allocated equal weight of importance to both financial and non-financial presentation.

LITERATURE REVIEW

Integrated reporting is a holistic approach to enable investors and other stakeholders to understand how an organization is really performing. Addressing the wider as well as longer-term consequences of decisions and actions, an integrated report makes clear the link between financial and non-financial value. The relationship between an organization's strategy, governance and business model should be transparent through such reporting. It also gives an analysis of the impacts and interconnections of material opportunities, risks and performance across the value chain (FEE, 2011). An integrated report is a single document that presents and explains a company's financial and nonfinancial—environmental, social, and governance (ESG)—performance (Eccles and Saltzman, 2011). Such philosophy presents value to the investors with regard to management and stakeholder dependencies.

Academics and business practitioners need to keep working in tandem to ensure that this new approach to financial and non-financial corporate reporting continues to have an impact on in-house strategy and processes and not run the risk of becoming a mere PR stunt (Kennedy and Perego, 2016). "Is Integrated Reporting Calling for Integrated Auditing?" (Kaya et al., 2014) seems to have sought and finally found its answer over the years. Though the essence of integrated reporting itself is evolving even today, it is obvious that integrated reporting has evolved into something way more holistic than that of current reporting. The figure 2 clearly lays out the significant differences between current and integrated reporting practices.

Figure 1. Integration of Integrated Reporting (KPMG, 2012)



Figure 2. Current Reporting versus Integrated Reporting (KPMG, 2011)

Feature	Current Reporting	Integrated Reporting
Trust	Narrow disclosures	Greater transparency
Stewardship	Financial	All forms of capital
Thinking	Isolated	Integrated
Focus	Past, financial	Past and future; connected; strategic
Time frame	Short term	Short, medium and long term
Adaptive	Rule bound	Responsive to individual circumstances
Concise	Long and complex	Concise and material
Technology enabled	Paper based	Technology enabled

FUNDEMENTALS OF ASSURANCE CONCEPT

Investors and financial statement users long have agreed on the usefulness of the audit in financial reporting. Over time, however, auditors have been expected to provide assurance in varying degrees and for different purposes.

Differences in perception—especially regarding assurances provided— between users, preparers and auditors have been termed the "expectation gap."

In the early years of the U.S. auditing profession— from 1850 to the early 1900s—auditors primarily were engaged to provide almost absolute assurance against fraud and intentional mismanagement. As corporate America grew and the auditing profession developed, the early 1900s saw a shift away from verifying all transactions and amounts for purposes of fraud detection to determining fairness in financial statement reporting (Epstein - Geiger, 1994).

Corporate shareholders and other outside parties became increasingly reliant on auditors to bear out to management-provided information, necessitating a shift in the primary audit objective to providing assurance on externally reported financial information system.

Current practice has not strayed far from that of early corporate America, with the primary audit focus on financial statement reasonableness. Current standards still reveal the maternal misstatement focus and increasingly have relied on the concept of "reasonable assurance" in depicting the level of reliance to be placed on audited information. One need only separate current auditing standards to find pervasive evidence of the reasonable assurance concept's use as the foundation for reliance on audited financial statements (Epstein and Geiger, 1994:60).

Statement on Auditing Standards no.31, Evidential Matter, SAS no. 39, *Audit Sampling*, and SAS no. 53, *The Auditor's Responsibility to Detect and Report Errors and Irregularities*, all rely on the concept of reasonable assurance.

Regardless of professional standards, however, an important question for the profession exists: What assurance does the public currently expect auditors to provide? As a profession, CPAs continually must assess public reaction to their stated role in financial reporting as well as determine the public's perception of the type and level of assurances believed or desired to be provided by auditors. In the future, the entire concept of audit will change to a loose set of assurance services, some of which will be statutory in nature.

Four main issues distinguish assurance processes from other management support functions: data structures, independent review, the nature of analytics, and the nature of alarms. The data structures tend to focus on cross-process metrics and time-series evaluation data. A particular process is managed independently under the control of third parties. Its analytics focus is on cross-process integrity and internal control probity (Elliot, 1997)

The IASB assurance framework defines an assurance service and engagement as follows: *An assurance engagement is an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against criteria* (www.iaasb.org).

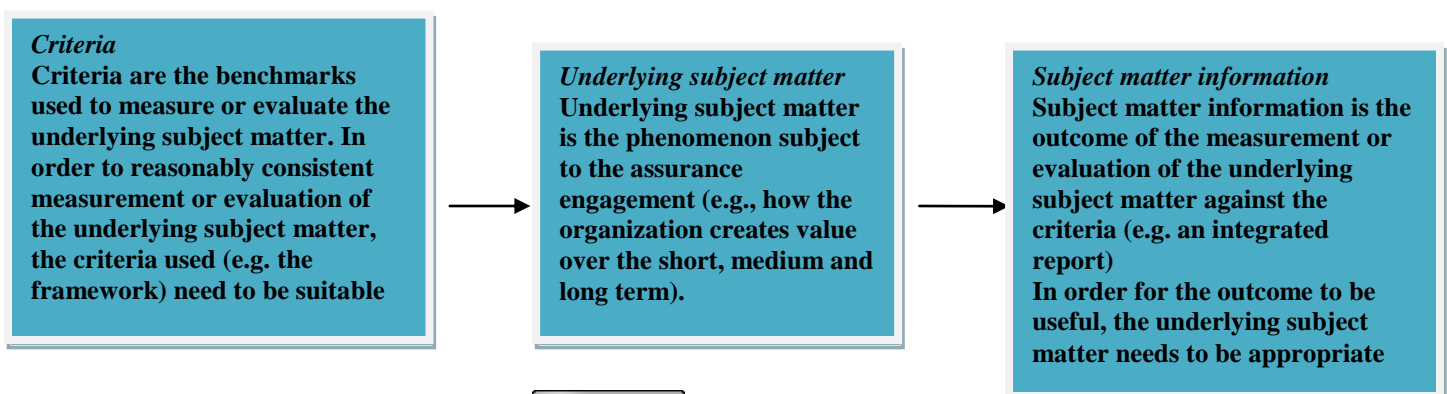
ASSURANCE METHODOLOGY ISSUE IN INTEGRATED REPORTING <IR>

The Integrated Reporting <IR> Framework has the potential to be a significant step on the journey towards a solution to achieve coherent and holistic basis for corporate reporting. Currently it is not clear that interest in IR is market-led. It appears to be of more interest to regulators and practitioners than to providers of financial capital and other stakeholders. Without stakeholder demand the value of IRs to companies is compromised, which has implications in itself for the credibility of these reports (Assurance of <IR>, 2014).

<IR> is broader than existing reporting. While existing assurance standards contemplate a broad range of subject matters, none of the standards specifically address the entire concept behind, and content of integrated report (e.g, they do not explicitly recognize that historical financial information, non-financial information, and future oriented information might be included in a single report). For example, The IAASB issued International Standards on Auditing and International Standards on Review Engagements to address assurance concept with respect to audits and reviews of historical financial information, and International Standards on Assurance Engagements to address assurance concept for engagements other than audits or review of historical financial information. While existing assurance principle for each of these might be used, specific application guidance pertaining to <IR> is absent (Assurance of <IR>, 2014).

Applying the above definition of an assurance engagement to <IR>, on assurance engagement on an integrated report might entail the expression of a conclusion on whether the integrated report is prepared in accordance with the framework. This implies that the Framework is used to provide criteria against which the underlying subject matter (how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium, and long term) can be evaluated. In order to ascertain whether this is the case, the definitions and applications of the underlying subject matter, criteria and subject matter information shown in Figure 3 each discussed below (Assurance of <IR>, 2014).

Figure 3.Components for Assurance under the IAASB assurance framework



A modular approach, while pragmatic, will focus assurance on the separate sets of assertions inherent in the data relating to each of the six capitals. In itself it will not advance the development of an assurance approach that will address the assertions specific to the integration of the data, for example, whether, taken together, the data communicates the complete range of factors that materially affect the ability of the organization to create value over time. Modular assurance is a sensible step on this journey, which will enable further work to be done on the integration aspects of assurance (ICAEW Representation, 2014).

There is a further angle to this assurance journey. The IIRC Board will want (and need) to know that what they are reporting is soundly based and that it is consistently drawn from the company's information systems. The integrated report should be an integral part of running the business and not a one off event each year. The IIRC Board will, therefore, need to place considerable emphasis and reliance on the various forms of assurance that they receive during the year to satisfy themselves that this is the case. As a result, the entire governance arrangements including risk management and the assurance reporting mechanisms relied on by the Board should be used. These arrangements should involve an understanding of and analysis against the three lines of defense.

In summary, while assurance over a whole IR is feasible, we believe that the best way to reach this end goal will be to encourage companies to work together with their stakeholders and assurers. In the course of the journey technical questions and issues can be addressed as a natural part of each step or stage within the existing framework provided by IFAC and the Assurance Framework (ICAEW Representation, 2014).

Assurance as defined by IFAC in the *International Framework for Assurance Engagement* is a mature concept and well supported by a wide range of standards. The principles provide a robust framework for assurance over a very wide range of subject matters. The main standard for matters other than financial statements, *International Standard for Assurance Engagements (ISAE) 3000*, has itself been revised in the recent past and is demonstrably used on a wide range of engagements already. The Framework and ISAE 3000 enable different levels of assurance to be provided (ISAE 3000).

- **Reasonable assurance:** the highest level, similar to the true and fair of an audit; and
- **Limited assurance:** A lower level of assurance but capable of being applied to differing levels depending upon the quality and quantity of evidence collected to support the assurance. This variability should enable a practical response to users' requests for a lower level of assurance over certain specific subjects within the integrated report. It also enables differing levels of assurance to be provided over each module of an integrated report without changing the assurance framework.

Materiality

Materiality can be a relatively complex matter in subjects other than financial statements. In the case of an integrated report it would have application at many stages of an engagement because it would be required when:

- Management determines the content of the integrated report,
- Individual issues within a subject are evaluated to determine whether or not they are sufficiently significant to include; and
- Conduct of tests to determine potential errors or misstatements in the detail (ICAEW Representation, 2014).

While experienced assurance practitioners will be able to deal with these complexities, it is a topic that is likely to warrant comment in a tailored standard or in guidance. In the immediate future a part of the resolution will be thorough disclosure by management of the basis they have used to determine what is material to their integrated report. The IIRC, quoted above, refers to “the material issues” that affect the organization’s “ability to create and sustain value in the short, medium, and longer term.” The concept of materiality is critical to both financial statement disclosure and the reporting of nonfinancial information. In addition, judgments about materiality influence accounting firms’ audit and assurance processes. (Eccles et al., 2012)

Reporting Bounding

The most important aspect of the reporting boundary will be to identify and then address the needs of the users of the report to ensure that the integrated report contains those matters that they regard as being of significance to their purposes. Therefore it will be important to be explicit as to how the boundary has been defined by management. Assurance providers will need to use their professional judgment to determine whether the reporting boundary has been set appropriately (to meet the needs of users) (ICAEW Representation, 2014: 11).

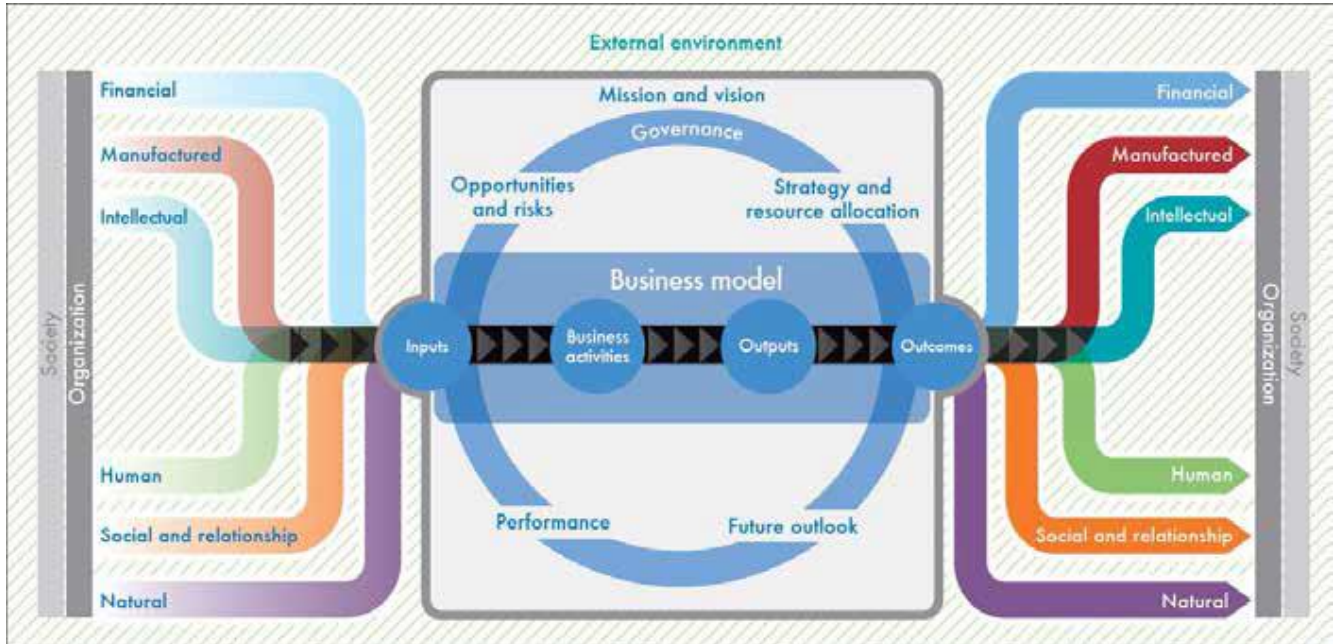
Internal Audit Consideration

Internal audit is uniquely situated within an organization to provide insight on and support the implementation of integrated reporting. Internal audit:

- Is familiar with process implementation in the organization.
- Can affect consistency of communication of metrics across business units.
- Provides assurance to increase the credibility of metrics in the integrated report.
- Offers insight on potential risks to the organization.

- Has a “seat at the table” from which it can influence the adoption of <IR> to improve and strengthen communications with internal and external stakeholders (The IIA, 2013:5)

Figure 4. The Consultation Draft of the International <IR> Framework



Assessing Narrative Reporting Including Future Oriented Statements

The tools and techniques necessary for narrative assurance are already well developed, albeit not well known amongst the wider business and assurance community. The ICAEW’s practical guide, the Assurance Sourcebook, may be a useful reference. Other resources, including case studies and discussions of specific issues in assurance, can be found online at www.icaew.com/assurance.

The application of ISAE 3400 to profits forecasts and future-oriented information varies widely between countries driven by a range of legal, regulatory and commercial business risk considerations. It is likely that further guidance would be of value in this area at some stage.

In developing approaches to assurance over future-oriented information through consideration should be given by the standard setters to professional views (as opposed to opinions) in order to manage the risks in certain countries and to help provide a single, consistent platform for integrated report assurance (ICAEW Representation, 2014: 11).

Form of Assurance Report

The form of assurance reporting is a further area where development should be both encouraged and supported. Experiments are already taking place with providing more detail and

explanation in audit reports with a view to informing stakeholders better on the nature of risks that have been managed in forming an audit opinion. Based on the evidence to date, the use of long-form reporting is likely to increase and this should be encouraged when it provides the users with information that they need and value.

Assurance practitioners need to be more forthcoming in offering ways in which they might provide the information, transparency and explanations that stakeholders seek to enable them to have confidence in the integrated report. This will include exploring different ways of reporting and potentially more focused long-form reporting to explain the background to assurance conclusions.

CONCLUSION

As the nature of reporting has shifted away from being solely financial approach to the contemporary integration of financial and non-financial presentation, inevitably the assurance of such integrated reporting should evolve into an integrated presentation. Obsolete understanding of financial-only reporting and its majorly financial-only assurance cannot meet the requirements of the changing trends in today's reporting world. This is due to increased complexity of the business world, new reporting requirements introduced by means of laws, regulations, standards, codes, guidelines and stock exchange listing requirements. Therefore, in the light of rapid changes and challenges, it has become clear that the financial statements cannot present the whole performance of a company. Furthermore, as a consequence of the significant increase of their responsibility towards society, companies began to publish information on the impact of their own activities on the environment, information on their own employees and aspects related to corporate social responsibility in separate reports, which accompanied financial statements provided to shareholders (Chersan, 2015). However, there are major challenges to producing an integrated assurance opinion. First of all, developing a global set of credible standards for measuring and reporting nonfinancial information, which have the appropriate governmental support, just as is true for accounting standards is not an easy task. By the same token, developing methodologies for providing positive assurance on nonfinancial information; integrating standards and assurance methodologies for financial and nonfinancial information in a way that provides a "true and fair view of an organization's sustainability" is on other core challenge in the name of producing an integrated assurance opinion (Eccles et al., 2012). However, in the light of the point where reporting has come today, it is obvious that without an integrated sense of assurance, we only get to see the half of the big picture. Integrated reporting presents an inviting opportunity for organizations to adapt to more sustainable business models and strategies and create value over the long term and despite the

fact that this form of reporting currently faces numerous issues, it has the potential to bring innovation through “integrated thinking” and value creation, which would certainly enhance productivity, profitability, and sustainability (Serafeim, 2016).

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