

# **IIA Response to IIRC's International <IR> Framework Revision**

## **Topic Paper 1**

### **Responsibility for an integrated report**

**Proposal A: Shift the focus from a statement of responsibility for the integrated report to an explanation of the processes underpinning its preparation.**

**Answer to proposal: Yes.**

[Q1. Should the emphasis of Paragraph 1.20 shift from a statement of responsibility to process-related disclosures? Please explain.](#)

Yes. By detailing the standard processes used to create the integrated report, the issuer provides transparency to the audience. And by including those responsible for assurance, the report can be further validated with less emphasis on the governing body taking on the risk of an un-vetted report. Internal audit is tasked with providing assurance to the governing body, and we believe this function is an important addition to the <IR> Framework, and its existence should be disclosed. Additionally, with the adoption of COSO ERM:2017 by <IR>, it will be easier to have the head of audit lead the internal audit activity with better information to deal with the effect of uncertainty and enhance value creation by focusing on using opportunities to offset the threats.

**Proposal B: Support the disclosure of process-related information (per Proposal A) though supplementary guidance.**

**Answer to proposal: Yes**

[Q2.To which systems, procedures and controls should the guidance refer?](#)

There should not be “cherry-picking” of systems, procedures and controls to include, but rather an Enterprise Risk Management (ERM) approach for looking comprehensively at the organization. Using the content of COSO ERM:2017 and the structure of its close relative, ISO 31000:2018, it is possible to avoid a stand-alone program.

This is a significant task for financial reporting; there are many processes, systems and controls for non-financial topics. The guidance should be limited to the objectives of the reported information: systems and controls for ensuring completeness and accuracy of data and information; and notable exclusions from scope, systems or controls.

Internal audit enhances the integrated report's reliability and its oversight should be disclosed.

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We believe that a reference to the role of internal audit and the assurance it provides under *Standards* detailed in the global International Professional Practices Framework (IPPF) can be explained in supplementary guidance. The head of audit provides integrated assurance to the organization. The IPPF specifies that the head of audit should share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and to minimize duplication of efforts.

Q3. Should the guidance encourage the disclosure of key roles and responsibilities in the integrated reporting process? Please explain.

No. For any report that is made public and includes financial data, there is a high degree of expectation of trust in the information. Roles and responsibilities start to drift into other frameworks, including risk management, or “ISO territory” – a Second Line of Defense management activity. None of these is designed for public reporting. Even for one of the most comprehensive U.S. statutes regarding financial reporting – Sarbanes-Oxley – the only functions singled out for statements were the CEO and CFO.

The key component to internal audit is its independence to disclose organizational risks to the governing body.

By definition, internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance.

At the most, the <IR> report should provide the title of the most senior person responsible for collecting and reporting the data, and with a working knowledge of its content.

Q4. Should the guidance cite a voluntary 'statement of responsibility from those charged with governance' (provided local regulations and legislation permit) as best practice? Please explain.

No. This should not be the business of the IIRC or the standard. Should professional organizations find this worthwhile, they will develop one. The AICPA, for example, has developed suggestions for Management Representation Letters.

A comprehensive review of organizational governance can be found in ISO 26000:2010 (Social Responsibility Guidelines). The leadership's accountability for meeting the

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stated objectives that support the creation of value in the organization is stated in the ISO High-Level Structure that is used in all of the ISO international management system standards.

Additionally, if the head of audit has reviewed and validated the integrated report, the board along with the head of audit can endorse the report with the organization, creating their own management representation statement.

### **Proposal C: Explain the meaning and scope of the term “those charged with governance.”**

Q5. Is there value in clarifying the term “those charged with governance?”

Yes, integrated thinking and governance should be clearly aligned. To clarify the phrase “those charged with governance,” we believe it is important to shift to discussing “a system of effective governance.” Clarification in this way will improve the Framework by introducing the concept that a system of effective governance includes the critical roles played by the governing body, executive management and an independent internal audit function. Governance is strongest when these three roles are performing their responsibilities effectively and are sufficiently aligned. Grounding the Framework in the Three Lines model of governance – accountability, actions (including managing risk), and assurance, all aligned – is most effective.

Governance is an area of weakness in many organizations. The recently released IIA report created in partnership with the University of Tennessee Neel Corporate Governance Center, the American Corporate Governance Index (ACGI)\*, found that American companies scored a C+ grade overall regarding the effectiveness of their corporate governance.

IIRC should define or clarify “those charged with governance” to make the standards and guidance more understandable. This phrase is used widely worldwide. If the IIRC is going to use it — and regard it as important — then it should provide guidance to enable readers to compare the IIRC’s thoughts with their own interpretation and use. ISO 26000:2010 (Social Responsibility Guidelines), for example, is used around the world to point out how governance should be organized and maintained.

\*<https://na.theiia.org/about-us/Pages/American-Corporate-Governance-Index.aspx>

### **Topic Paper 2 Business model considerations**

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### **Proposal A: Reduce confusion between outputs and outcomes.**

Q1. Should the <IR> Framework explore illustrative examples and visual techniques to elevate the significance of outcomes?

Yes. With an expectation to report on outcomes, it would be helpful to clarify what is meant, although the IIRC may wish to keep the Framework document succinct and have case studies and other application materials available separately. However, serious consideration should be given to this expectation. While it is important to the idea of integrated reporting, it should be noted that measuring outcomes is potentially very complex. It is difficult enough to do so for financial capital and much more so for non-financial capitals. In financial reporting, it is not at all common to try to report outcomes (or impacts). Without sufficient clarity on how it can be achieved, it is a significant difficulty for implementation of the Framework.

### **Proposal B: Explain the link between outcomes and value creation.**

Q2. Should the <IR> Framework further explain the link between outcomes and value creation by including an illustrative example?

NO. At face value, defining value creation as the net change in the six capitals is straight-forward and intuitive. As a term, it does sound more like it relates to the private sector, although it is generally understood that “value” does not necessarily mean financial return. However, similar to Q1, while the ambition is important to the notion of integrated reporting, in practice it is more difficult to measure value creation in respect of non-financial capitals. There is sometimes an implication that, in the end, it is only about financial capital. The other capitals are sources of potential financial capital. To measure value erosion, preservation, and creation, it is necessary to convert all capitals to financial values. This could be self-defeating, however, because all six capitals should be regarded as valuable for themselves.

The matter is further complicated when considering capitals not owned by the organization. Extracting raw materials and consuming labor, for example, involves eroding (or perhaps converting) capitals that are publicly held into capitals that are held by the organization.

### **Proposal C: Promote balance in the reporting of outcomes.**

Q3. Should Sections 4C and 4F of the <IR> Framework further reinforce: That the term ‘value creation’ also reflects cases in which value is preserved or eroded?

YES. Notwithstanding previous comments, it seems logical that “value creation” is generally understood as a net positive change in capital. One can talk of zero value creation (i.e., preservation) or negative value creation (i.e., erosion).

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Further reinforce the importance of providing evidence to support claims and conclusions made in the integrated report?

NO. Providing evidence to back up claims is once more in the spirit of the Framework, but it introduces significant complexity that is not required for financial reporting, nor by other non-financial reporting frameworks (e.g., GRI).

**Proposal D: Reinforce the inclusion of impacts in integrated reporting.**

Q4. Should the <IR> Framework clarify its coverage of longer-term impacts on society and nature, under its existing 'outcomes' definition?

YES. Impacts on society and nature does not cover the full range of the six capitals, and so it is not clear why there is this limitation. However, the bigger issue is the difficulty of reporting on outcomes of non-financial capitals in a meaningful way.

### Topic Paper 3

#### Charting a path forward

##### Purpose of an integrated report

Q1. Do you agree with the proposed changes to:  
Paragraph 1.7? Why or why not? (Delete "financial capital".)

We suggest the entire reference to audience be deleted and the definition be rewritten to read: "The primary purpose of an integrated report is to explain how an organization impacts capitals in its pursuit of value over time."

This change supports the shift from a financial capital focus to multi-capitalism, and removes the emphasis of investors above those of other stakeholders. It helps lead to a much broader view of value impact, which can be positive and negative, rather than using the term "create value" which implies positivity.

This also better matches the language used to explain the purpose of an integrated report elsewhere in the Framework. For example, 2.2 reads: "An integrated report explains how an organization creates value over time." We suggest this be changed to "impacts value."

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Paragraph 1.8? Why or why not? (Add “providers of financial capital” to the stakeholders list.

We agree with the proposed change to 1.8. Adding “providers of financial capital” adds this group specifically to the beneficiaries of integrated reports and the full list of capitals leads to greater sense of “joint primacy.”

### **Role of technology in corporate reporting:**

Q. 2. What considerations should inform the IIRC’s strategic deliberations on the role of technology in future corporate reporting?

Technology is likely to continue to have a major impact on data gathering, analysis, and reporting, as it creates opportunities to leverage huge amounts of data, deploy continuous monitoring and assurance techniques, and communicate rapidly to multiple stakeholders in customized ways. However, it also raises questions about the ethical use of data and the need for greater control and security over personal information. One might like to consider that data is a kind of capital. Certainly, intellectual and financial capital may be captured, stored, processed, and transmitted digitally.

Changes in the way people consume data will need to be recognized and accommodated. Continuous monitoring and continuous reporting will become more common, and can be embraced through innovations in risk management.

The ability for instant communication and the collection of massive amounts of data daily means the technology must handle everything from 24/7 updates and dashboards for online viewing of timely data to social media trolls and strict data privacy laws.

The Framework should emphasize the connectivity of information to communicate how value is created over time, and outcomes supported by innovation and automation.

It is most important to embed the idea of long-term value and sustainability in the everyday strategy of the company and in the front end of new technology to capture data points for appropriate use. Sustainability doesn’t work as a stand-alone, it must be everyone’s job every day. Much like managing risk, you don’t manage operations and then manage risk — you must do it all at once.

### **Assurance in integrated reporting**

Q. 3. Are there further ways in which the <IR> Framework can enhance the assurance-readiness of integrated reports?

We believe the Framework should ask that organizations that publish integrated reports indicate the extent to which internal audit has played a role in evaluating or monitoring

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internal systems and controls over the content of the report, including, and especially, non-financial matters.

This can be added to amplify section 3F Reliability and Completeness, where the Framework says 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.”

Internal audit's role in providing independent assurance should be spelled out specifically and separately as a key benefit. This has precedent in the United States, where internal audit typically tests internal controls over financial reporting before they are subject to external assurance by the financial auditors. External assurance providers are limited by statutory, regulatory, and professional standards for what they can (and cannot) do, and what they can (and cannot) sign. Internal audit takes a more holistic risk-based approach.

**Q. 4. Consider the following statement: Matters of assurance rest with regulators and related standard setters, and not with voluntary reporting frameworks. Do you agree or disagree? Please explain.**

Both. The materiality process used in sustainability could be improved by better engaging stakeholders to properly understand their views to allow for more consistency and effectiveness. This will provide the rigor needed to more accurately assess the materiality and the focus of the independent audit engagement for assurance.

We agree matters of assurance rest with regulators and related standard setters, but assurance also can rest with voluntary reporting frameworks. Voluntary reporting frameworks often evolve to regulations.

The governing body is responsible for “suitable criteria for assessment and required disclosures on the materiality determination process, reporting boundary, and significant frameworks and methods used to quantify or evaluate material matters.”

This is another opportunity to emphasize the role of internal audit. An honest and truthful view of what the organization is doing, where the risks are, and a check on the integrity of the organization through transparent assurance will add to the long-term value.

### **Further matters**

**Q.5 Are there further matters that the IIRC should consider: in the modernization of the IR Framework?**

Increased focus by investors on ESG issues is an opportunity for the Framework to modernize by cutting back on some of the details about how to do reports, and look more at how reports can progress from stand-alone to mainstream.

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Additionally, the Framework should modernize by specifically describing the role of internal audit as an integral part of effective governance. Internal audit provides a tool for organizations to share verified information and build trust. It also will be a major contributor to the improvement of disclosure reporting by assuring the accuracy and completeness of information for the governing body.

[Are there further matters the IRC should consider: as part of its strategic agenda?](#)

Investors are emphasizing the need for companies to operationalize sustainability and business risks related to ESG issues, according to recent news articles, and will focus intently on these topics in engagements with directors this year and in proxy voting. Meanwhile, some directors are still questioning the need for more oversight, while others scoff at the importance of ESG and sustainability.

The IIRC can play a role in this reconciliation period, and the Framework could be reworked to provide more guidance for governing bodies and management strategizing these issues. Showing how ESG issues are impacting finances can provide a level of comfort here. One example recently was holding quarterly ESG discussion calls in an earnings-call format.

The IIRC should encourage the reporting Framework is regarded as valuable for internal audiences, especially the governing body, and not just focus on publishing an external report. Governing bodies need a comprehensive, long-term, integrated picture of the organization, its performance, its prospects, its impacts on and impacts by the external environment, and how all of this supports or frustrates strategic goals.

An internal integrated report would be hugely valuable and an important step prior to any thoughts of external release. The governing body needs an overarching and objective view in order to exercise effective oversight. Typically, a governing body receives highly valuable but often fragmentary information from multiple First- and Second-Line sources, which can be subjective and incomplete. An internal integrated report would require an organization to evolve its mindset and practices consistent with "integrated thinking." While many sources of information need to be drawn together to complete such a report, internal audit's independence from management and from the responsibilities of management allows it to provide objective assurance and a more complete and integrated picture. The internal audit approach is very much in tune with integrated thinking.

Governing bodies are generally overconfident in their organizations' abilities to manage risks, according to two key findings from The IIA's *OnRisk 2020* report\*, which brings together for the first time the perspectives of the three key risk management players: board directors, executive management, and heads of audit. For example, cybersecurity, data protection, and regulatory change are identified as the top three risks, in terms of relevance to organizations, yet the report identifies significant risk



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management challenges in all three areas. The IIRC should strategize to position the Framework as a valuable resource.

\*<https://na.theiia.org/periodicals/OnRisk/Pages/default.aspx>