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## **Modifying assurance practices to meet the needs of integrated reporting: The case of 'interpretive assurance'**

**Purpose:** Traditional methods of assurance outlined by current professional standards are risk-based models where the emphasis is on the veracity of published data rather than on the rigour of the interpretation or analysis of information provided to users. As such, they are not well suited for expressing an opinion on qualitative, subjective or forward-looking assessments typically included in integrated reports. In this context, this research describes an alternate approach to assurance and identifies the initial elements of an 'interpretive assurance model'.

**Design/methodology/approach:** The research is exploratory/interpretive. It relies on detailed interviews with experienced auditors and preparers to develop an initial approach for providing some level of assurance over an integrated report.

**Findings:** The research identifies elements of an interpretive assurance model which focuses on providing assurance on the interpretation and analysis of information included in an integrated report rather than on underlying data. These include an examination of (1) the completeness of the explanation of the value creation process provided in an integrated report; (2) the methods used to support management discussion and analysis and (3) the reasonability of the review process used to ensure the reliability of qualitative, subjective and forward-looking representations contained in an integrated report.

**Research limitations/implications:** The study is conducted in South Africa. While limiting the study to a single jurisdiction may be seen as a limitation, local preparers and auditors have had at least five years of experience with the application of an integrated reporting framework and are in a strong position to provide detailed insights.

**Practical implications:** An interpretive assurance model shifts the focus from objective verification of data using defined test procedures to evaluation of the interpretation and analysis process used to prepare an integrated report. Application of the proposed model will require practitioners and auditing students to be trained extensively in qualitative analytical techniques. The inherent complexity of contemporary business models and the multi-dimensional focus of integrated reports will also result in changes in the composition of audit teams which are currently dominated by experts in financial reporting rather than integrated or strategic business management.

**Originality/value:** The paper is the first to offer a practical approach for providing assurance over an integrated report. It responds to calls from the International Integrated Reporting Council (IIRC) and International Auditing and Assurance Standards Board (IAASB) for more innovative assurance models for addressing the reporting needs of contemporary organisations.

**Key words:** audit; assurance; integrated reporting; interpretive methods; qualitative methods

## 1: Introduction<sup>1</sup>

The latest development in sustainability reporting is integrated reporting (Stubbs and Higgins, 2014). The integrated report is intended to be more than just an aggregation of financial and non-financial information. It should explain clearly how an organisation generates value in the context of material social, economic and environmental factors and, as part of this, the link between risk, strategy and the entity's business model (International Integrated Reporting Council [IIRC], 2013; King, 2016).

While the prior research points to some limitations of integrated reporting (de Villiers et al., 2014; Stubbs and Higgins, 2014) integrated reports are becoming more widespread. In some jurisdictions they are increasingly accepted as the primary means for organisations to communicate with stakeholders, (IIRC, 2013; Hughen et al., 2014; IIRC, 2014c; King, 2016). This is especially true in South Africa where the local stock exchange and codes on corporate governance champion integrated reporting as a means of improving the quality of corporate reporting and promoting sustainable business practice (de Villiers et al., 2014; Atkins and Maroun, 2015; Sierra-García et al., 2015; King, 2016). As a result, the last few years have witnessed growing calls for the assurance of the integrated report and raised questions about exactly how an integrated report could be the subject matter of a formal assurance engagement (see, for example, Cohen and Simnett, 2015; IIRC, 2015; Maroun and Atkins, 2015; Simnett and Huggins, 2015).

By their nature, integrated reports should be forward-looking, strategically focused and address the interconnection of different types of resources or capital (financial and non-financial) which are relevant for the value creation process (IIRC, 2013; King, 2016). This means that they are inherently subjective and vary considerably among organisations (de Villiers et al., 2014; Simnett and Huggins, 2015). Some of the report content (such as reviews of the business model, approach to risk management and commentary on business strategy) is complex, heavily dependent on professional judgement and context-specific (Simnett and Huggins, 2015). This means that, for large parts of an integrated report, the subject matter is subjective and dynamic, making it difficult to evaluate according to a set of objective criteria as required by existing professional standards such as International Standards on Auditing (ISA's) and International Standards on Assurance Engagements (ISAE's) (Cohen and Simnett, 2015; Maroun and Atkins, 2015; Simnett and Huggins, 2015). Consequently, although these standards are useful for providing high or reasonable levels of assurance over the parts of the integrated report containing historical or objective information, an innovative approach to assuring an integrated report is required (ibid).

In this context, the purpose of this research is to explore an alternate approach to assurance which would be more suitable for dealing with subjective content in an integrated report. The proposed model does not aim to 'test' the integrated report for compliance with a set of predefined criteria or to conclude on whether or not it achieves fair presentation, as is the case with a traditional audit engagement (see International Auditing and Assurance Standards Board [IAASB], 2009g; IAASB, 2009a; IAASB, 2009k). Instead, this paper advances an interpretive approach to assurance and outlines the initial elements of this assurance model. These are based on principles from strategic systems audit (SSA) and

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<sup>1</sup> The following abbreviations are used in this paper: Environmental, social and governance (ESG) reporting; Global Reporting Initiative (GRI); International Auditing and Assurance Standards Board (IAASB); International Accounting Standards Board (IASB); International Integrated Reporting Council (IIRC); Integrated Reporting Committee of South Africa (IRCSA) International Standards on Assurance Engagements (ISAE); International Standards on Auditing (ISA); International Standard on Quality Control (ISQC); Strategic Systems Audit (SSA)

existing risk-based audit models for evaluating the *analysis or interpretation processes* being followed by management when preparing integrated reports.

For this purpose, the research relies on the opinion of preparers and audit experts to explore emerging assurance practices and outline the initial elements of an interpretive assurance model. In addition to applying existing academic research in a more practical context, this makes an important contribution by proposing a normative framework for the development of an alternate approach for assuring an integrated report, something which should be relevant for practitioners, preparers and standard-setters (see IIRC, 2015). Contemporaneously, the study answers the call for more exploratory analysis of assurance practice. Rather than relying on remote inferential testing (Khalifa et al., 2007; Humphrey, 2008), it engages practitioners to reveal *how* assurance methodologies could function in an emerging reporting context.

In the interest of brevity, no distinction is drawn between ‘audit’ and other ‘assurance’ services<sup>2</sup>. The research also concentrates on the provision of assurance services by an external independent practitioner. The role of internal audit and the relevance of other systems of corporate governance for the proposed assurance model are not a specific focal point. Finally, the reader’s attention is drawn to the fact that the research is conducted in South Africa. This is due to the jurisdiction taking a leading role, since 2009, in advancing an integrated reporting initiative and being the first to introduce integrated reporting for listed companies on a comply-or-explain basis (since 2010) (see Solomon and Maroun, 2012; de Villiers et al., 2014).. Although the focus on a single jurisdiction is an inherent limitation, the study’s practical approach, coupled with its emphasis on providing normative recommendations for assurance practices, means that it should be relevant for both academics and practitioners interested in how assurance could be provided over integrated reports.

The remainder of this research is structured as follows: Section 2 reviews the prior literature. It provides a brief examination of integrated reporting, including South African developments. The section also includes elements of SSA, and guidance from existing assurance standards and academic literature used to inform the features of an interpretive assurance model. Section 3 discusses the method. Section 4 presents findings. Section 5 summarises the results and identifies areas for future research.

## **2: Literature review**

### **2.1: Integrated reporting<sup>3</sup>**

The IIRC (2013, p. 33) define ‘integrated reporting’ as:

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<sup>2</sup> In addition, dealing with differences between audits of financial statements per ISA’s, limited and reasonable assurance engagements in terms of ISAE’s and reviews of information per International Standards on Review Engagements is not within the scope of this research. Similarly, the study does not examine differences between the guidance issued by the IAASB and other frameworks such as those issued by the International Organization for Standardization and COSO.

<sup>3</sup> In this research, ‘integrated reporting’ refers to a holistic corporate reporting model advanced by the IIRC (2013). It does not refer to the dual reporting on internal controls and financial statements required in the United States. In addition, for the purpose of this research, reporting on environmental, social and governance (ESG) metrics is seen as part of the integrated reporting process. How integrated reporting differs from traditional ESG or sustainability reporting is beyond the scope of this paper (see De Villiers et al, 2014 and Dumay et al, 2016 for details)

'a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation..

The integrated report is supposed to be multi-dimensional and not just an aggregation of the financial statements with the information usually presented in a sustainability report. (Massie, 2010; King, 2012; Churet and Eccles, 2014; Atkins and Maroun, 2015). The integrated report should 'provide stakeholders with a concise overview of an organisation, integrating and connecting important information about strategy, risks and opportunities and relating them to social, environmental, economic and financial issues' (Mervyn King's foreword, Integrated Reporting Committee of South Africa [IRCSA], 2011, p. 1).

During 2010, South Africa became the first country to require listed companies to prepare an integrated report on a comply-or-explain-basis (Atkins and Maroun, 2015; Stent and Dowler, 2015). South Africa's large corporations are devoting considerable attention to explaining their business models, how resources are being deployed and the link between strategy, risk and performance on a financial and non-financial level (PwC, 2014; Raemaekers et al., 2016). At the same time, companies are attempting to explain more clearly the link between the financial, manufactured, intellectual, human, social and relationship, and natural capital (or resources) which organisations are using to generate value (Samkin, 2012; Solomon and Maroun, 2012; Carels et al., 2013; PwC, 2014). A number of difficulties have also been identified.

The need to communicate multiple types of capital transformations to a wide group of users poses a challenge in deciding whether information is material and ought to be included in an integrated report or not (PwC, 2015; Simnett and Huggins, 2015).. In this context, surveys by PwC (2014; 2015) argue that non-financial disclosures are not always relevant for investors and other important stakeholders. The range of reporting has increased but the information is often generic and repetitive making it difficult to understand the link between important non-financial metrics and organisations' key risks and strategic objectives (see also Solomon and Maroun, 2012; Carels et al., 2013; KPMG, 2015). Related closely to this is the challenge of reporting on the interconnections between different types of financial and non-financial capital (Solomon and Maroun, 2012). For example, details on a company's strategy and key performance indicators are often presented as separate sections of an integrated report and are seldom analysed as part of the reviews of the business model or primary operations (PwC, 2014; 2015). Similarly, although risk identification and analysis are a key feature of an integrated report (IIRC, 2013), the associated disclosures are usually generic and inadequately explained to make the link between risks, operations and planned actions sufficiently clear (PwC, 2015; Raemaekers et al., 2016). Perhaps most important is the need for a more analytical approach to reporting which includes an evaluation of business outcomes and offers insights into future plans and expected performance (Rensburg and Botha, 2014; PwC, 2015; Stent and Dowler, 2015; Maroun, 2016; Raemaekers et al., 2016).

Nevertheless, integrated reports are becoming an integral part of organisations' engagement with stakeholders and a significant source of information for investors and other users (de Villiers et al., 2014; IIRC, 2014c; Atkins and Maroun, 2015; King, 2016). Studies of environmental, social and governance (ESG) disclosures by South African corporates show that this information is relevant for investment decision making (de Klerk and de Villiers, 2012; Zhou et al., 2017) and that companies providing a more detailed account of how they manage non-financial capital are outperforming their peers in financial terms (de Klerk and de Villiers, 2012; Hill and Maroun, 2015; de Villiers and Marques, 2016). Surveys of institutional investors' views on integrated reporting reaffirm the growing importance of these reports as a source of information for understanding organisations' business models, financial performance and ESG considerations and confirming key risks and views on long-

term sustainability (IIRC, 2014c; Atkins and Maroun, 2015). Integrated reports can also be used to ensure credibility. A high quality integrated report signals that the respective organisation is committed to transparent reporting on pressing ESG issues and is taking steps to manage actively the negative effects of its business model on society and the planet. In this way, integrated reporting contributes significantly to the legitimacy of the South African capital market (King, 2012; Maroun et al., 2014; Atkins and Maroun, 2015; King, 2016). As a result, the quality and reliability of the information contained in these reports is of utmost importance and raises questions about the need for these reports to be subject to some form of assurance (see IIRC, 2014a; IAASB, 2015).

## 2.2: Assurance and integrated reporting

In South Africa, an auditor needs to express an opinion on a client's financial statements which are often included as part of an integrated report. As part of this process, the auditor is only required to read the rest of the integrated report for inconsistencies with the financial statements (see IAASB, 2009). In addition, neither the IIRC nor the country's codes of corporate governance mandate the assurance of an integrated report. Nevertheless, the IIRC state that the reliability of information provided to stakeholders is affected 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). Initial studies on the perceived usefulness of integrated reports reiterate this view, suggesting that some type of assurance over all or part of integrated reports can improve the reliability and quality of information found in these documents (IIRC, 2014a; IIRC, 2014b; Atkins and Maroun, 2015; IIRC, 2015; PwC, 2015).

There is, however, a dearth of research on exactly *how* assurance can be provided over an integrated report. There are some studies examining why companies may assure parts of their sustainability reports (Jones and Solomon, 2010; O'Dwyer et al., 2011; Fernandez-Feijoo et al., 2015) as well as the type of assurance given on different non-financial information (Mock et al., 2007; Green and Zhou, 2013; Ackers and Eccles, 2015; Cohen and Simnett, 2015). These confirm the importance of having non-financial information assured but stop short of providing a practical assurance model dealing specifically with the integrated report (de Villiers et al., 2014; Cohen and Simnett, 2015; Simnett and Huggins, 2015). Existing professional standards are also limited.

Assurance engagements over select non-financial information in integrated or sustainability reports are normally performed in accordance with ISAE's (issued by the IAASB) or AA1000AS (issued by AccountAbility)<sup>4</sup> (see Jones and Solomon, 2010; Ackers and Eccles, 2015; Cohen and Simnett, 2015). These are designed to provide assurance on readily identifiable subject matter according to clearly defined criteria (AccountAbility, 2008; IAASB, 2009a). Examples include opinions on carbon emissions, water usage, safety statistics, amount of director remuneration, total number of employees and compliance with reporting guidelines (AccountAbility, 2008; Green and Zhou, 2013; Ackers and Eccles, 2015; Maroun and Atkins, 2015). Despite their widespread use in a non-financial reporting context, these professional standards may not, however, be entirely suited to expressing an opinion on some of the content typically included in an integrated report (see Cohen and Simnett, 2015; Maroun and Atkins, 2015; Maroun, 2017). For instance, an assurance engagement carried out per ISAE's on a company's water usage gives confidence over the accuracy of the company's consumption of this form of natural capital (see IAASB, 2009m). No opinion would be given on the effectiveness of the organisation's policies for managing water

<sup>4</sup>. Other standards are also applied such as ISO 19011 and ISO 14064-3 (issued by the International Organization for Standardization) but these are used less than ISAE's and AA1000AS by South African companies and their assurance providers (see Ackers and Eccles, 2015). As a result, they are not included in the literature review and the analysis of results.

consumption, the thoroughness of environmental risk assessment or appropriateness of management's analysis of the impact of water usage on other aspects of the business. In other words, the assurance engagement is limited to information which can be objectively tested according to specified criteria (Maroun and Atkins, 2015; Simnett and Huggins, 2015). The same is true when it comes to AA1000AS.

This standard provides guidance on assuring sustainability disclosures including adherence to defined sustainability principles and the quality of disclosures on specific sustainability indicators (AccountAbility, 2008). It does not, however, deal with how an integrated report could be the subject matter of an assurance engagement. As is the case with ISAE's, subjective information which is the product of significant interpretation and analysis by management is often outside the scope of these formal assurance engagements<sup>5</sup>. Other examples of integrated report content which are unlikely to be the subject matter of existing assurance engagements include: the development of a suitable business strategy, the appropriateness of key performance indicators and the interconnection between the company's business model and the different types of capital under its direction<sup>6</sup> (Maroun and Atkins, 2015; Simnett and Huggins, 2015).

This subjective information, which is often qualitative and forward-looking, is at the heart of emerging integrated reporting practices (IIRC, 2013) and is frequently relevant for a number of different stakeholders, including investors (King, 2012; Atkins and Maroun, 2014). As a result, a revised assurance model which can express an opinion on subjective integrated reporting content needs to be considered.

### **2.3: Risk-based audit, multiple evidentiary sources and consultation and review<sup>7</sup>**

This research proposes a more flexible interpretation of 'assurance' which has its focus, not on the accuracy and reliability of the data itself, but on providing direct and indirect evidence in support of valid and reliable interpretation of that data. This approach to assurance is derived from principles in existing assurance standards and prior academic literature dealing with risk-based audit.

#### **2.3.1: Strategic systems audit**

In a SSA, the auditor provides a high level of assurance about the extent to which 'management's financial statement representations fairly depict entity business states' being 'all of the entity's business strategies, conditions, process and economic actions/events as well as past, current and likely future business relationships with other entities' (Peecher et al., 2007, pp. 468-469). Information intermediaries (including information systems, internal controls and financial reports) are used to collect, analyse and transform information on these entity business states and generate what Peecher et al (2007) refer to as 'management business representations'.

<sup>5</sup> This should not, however, be misinterpreted as meaning that existing assurance models exclude information which may be subjective or based on management's judgement. Nevertheless, a suitable subject matter must be identifiable and can be subjected to defined test procedures in order to support a conclusion on the subject matter.

<sup>6</sup> Assurance engagements may be carried out over some of the underlying data but the objective of these engagements would not be to express an opinion on the analysis or interpretation itself.

<sup>7</sup> The purpose of this research is not to provide a detailed review of the technical provisions of the ISA's, ISAE's and AA1000AS. Instead, this paper deals with select principles from these standards to provide a conceptual frame of reference for the findings.



An understanding of the entity's business model is useful for defining the scope of the entity's business states, promoting comprehensive risk assessment and improving the effectiveness of the procedures performed by the auditor to reduce the risk of misstatement to acceptably low levels (Schultz et al., 2010). The approach described by Peecher et al. (2007) is strategic in the sense that it includes an analysis of numerous elements of an organisation's economic activities and their impact on the ability of the organisation to execute its business model and generate returns. As part of this, a systems approach is used to explain the interconnections between business states and different variables. The aim is to draw attention to how time delays, regulatory changes and unanticipated developments affect the organisation's strategic viability giving rise to variations in the risk of misstatement of the financial statements (Bell et al., 1997).

### **2.3.2: Using multiple sources of evidence to corroborate views**

Evidence from different entity business states and information intermediaries can serve as a powerful means of corroborating financial statement balances and transactions (Peecher et al., 2007; Trotman and Wright, 2012). Similar to the approach suggested by ISA 500, ISA 520 and AA1000AS, when there is an inconsistency between the auditor's expectations and the actual business state or representation, this acts as a signal that additional evidence is required to support a conclusion on the assessed risk of misstatement (Peecher et al., 2007; AccountAbility, 2008; IAASB, 2009g; IAASB, 2009h).

Importantly, this process does not rely only on information collected by or generated within the organisation. In line with the possibility of a risk of misstatement due to fraud (IAASB, 2009c), the auditor makes use of external sources of information to corroborate management's representations and to conclude on the assessed risk of misstatement (Trotman and Wright, 2012). This can be complemented by consultation with audit firm experts, discussing issues among team members and group interaction for analysing audit evidence.

### **2.3.3: Consultation, discussion and analysis**

There are several examples in the professional and academic literature of auditors making use of group discussions, consultation and review as part of the process of carrying out an audit engagement. For example, *International Standard on Quality Control 1* (ISQC 1) and ISA 220 require consultation on difficult and contentious issues, including those areas of the engagement requiring significant judgement as an audit quality safeguard (IAASB, 2009n; IAASB, 2009b). AA1000AS is comparable. Although it does not mandate the use of consultation and review processes, it recognises the need to obtain external and/or corroborating evidence to support material representations (AccountAbility, 2008) which could, practically, result in additional consultation with experts when dealing with more complex sustainability disclosures.

Consistent with the approach recommended by SSA, the intention is to ensure more detailed risk assessment, analysis of the evidence obtained to support specific assertions and confirmation of the appropriateness of the professional judgement applied by audit team members (see also Trotman et al., 2015). This works in conjunction with hierarchical review of working papers where the 'reviewer identifies alternate explanations, omissions and inconsistencies that were missed by the preparer and evaluates whether or not the documentation is sufficient to support the conclusions reached' (IAASB, 2009b; Trotman et al., 2015, p. 58).

A detailed examination of the group audit decision-making and review research is beyond the scope of this paper. What is, however, important for the purpose of this study is the fact that the review of working papers by a more experienced senior member of the engagement

team leads to higher levels of audit quality by reducing technical or mechanical errors and identifying inconsistencies between different sources of audit evidence (Solomon and Trotman, 2003; Trotman et al., 2015). This is often complemented by interaction among team members as part of the planning, risk assessment and testing phases of an engagement.

Less formal than the consultation process envisaged by ISQC 1 and ISA 220, the benefits of group interaction, discussion and problem solving include 'obtaining a large pool of ideas and, through cognitive stimulation, generating new ideas that combine and/or change previously generated ideas' (Trotman et al., 2015, p. 64). Trotman et al (2015) go on to explain that team interaction does not always yield more ideas of better quality. Nevertheless, discussion and debate among different members of an engagement team can provide multiple perspectives on business states, information systems and related assertions and can contribute to the process of corroborating evidence collected during the engagement.

## 2.4 Integrated report assurance

The IIRC calls for, not only high quality financial information, but also for subjective assessment and analysis of an organisation's ability to generate sustainable returns (IIRC, 2013). This incorporates an awareness of the importance of capital transformations including those forms of capital (such as human, social and environmental) which cannot necessarily be measured on a single scale (King, 2012; Cohen and Simnett, 2015). Instead, multi-disciplinary teams (including experts in financial and non-financial metrics) are needed to engage with and review very different types of information in order to provide a succinct account of how a business manages strategy, risk and financial and non-financial resources in the short- and long-term (IIRC, 2013; PWC, 2013; Maroun, 2017).

In this way, the preparation of an integrated report is not a scientific exercise. The emphasis is on understanding and explaining a complex and subjective business state and ensuring validity – not by eliminating difficult-to-quantify information – but by providing a detailed account and documenting how conclusions are being reached. Consequently, rather than attempt to develop an approach to integrated reporting assurance which uses formal test procedures (currently prescribed by ISA's, ISAE's and AA1000AS) to 'measure' the subject matter in terms of predefined assertions (see IAASB, 2009g; IAASB, 2009a) an interpretive model is required. This does not concentrate on whether or not the content of an integrated report achieves fair presentation, complies in all material respects with a given framework or is accurate and complete. Instead, it modifies existing assurance principles and methodologies to examine the veracity of managements' *analysis* or *interpretation* of data found in the integrated report (see Cohen and Simnett, 2015; Maroun, 2017).

Admittedly, risk-based audit models, the use of multiple sources of audit evidence and consultation and review processes described by the professional literature (Section 2.3) were not developed with the intention of being applied to integrated reports. Nevertheless, many of these principles/methods are a product of the growing complexity of business models and emerging financial reporting practices (Knechel, 2007; Peecher et al., 2007). It may, therefore, be possible to apply existing audit techniques, discussed in Section 2.3, to information included in an integrated report which may not be capable of objective verification in the manner prescribed by ISA's, ISAE's or AA1000AS. To explore this possibility in more detail, the research examines emerging assurance practices with a sample of South African auditors and integrated reporting preparers. The focus is on how certain parts of an integrated report could be subject to, at least, some form of assurance.

## 3: Method

Due to a limited body of academic research dealing with the preparation and assurance of integrated reports, an exploratory research approach has been followed (cf Brennan and Solomon, 2008; O'Dwyer et al., 2011). Detailed interviews with twenty audit experts and seventeen preparers of integrated reports have been used to gain insights into current reporting and assurance practices from those directly involved in preparing integrated reports and providing assurance on some of the information typically included in these reports. Respondents also included individuals who were actively involved on the local committees formed to discuss the development and implementation of integrated reporting in South Africa.

Interviewees were purposefully selected and included audit partners, associate directors and senior managers from the Big Four audit firms in South Africa and those responsible for the preparation and/or approval of the integrated reports of a sample of South Africa's largest listed companies. Purposeful selection of interviewees ensured that research participants have at least ten years experience in their respective fields, a detailed understanding of the relevant reporting and assurance frameworks and a sound appreciation of format and content of an integrated report (see Creswell, 2009; Maroun and Solomon, 2013; Atkins and Maroun, 2014; Massa et al., 2015). This is in keeping with the aim of this paper: to describe an alternate approach to assuring an integrated report including the identification of initial elements of an 'interpretive assurance model'.

### 3.1: Data collection

Thirty-eight auditors involved in financial statement and non-financial statement assurance engagements at the Big Four were contacted. Twenty participated in the study. Fifty preparers from the largest fifty listed companies (based on market capitalisation) were approached<sup>8</sup>. Seventeen individuals from fourteen organisations were interviewed.

The total number of interviewees was informed by the results obtained. When additional interviews provided no further insights on the features of the emerging interpretive assurance framework (i.e. theoretical saturation was achieved), the researchers concluded that sufficient evidence had been collected (see Creswell, 2009). This occurred after approximately 75% of the interviews were completed. Table 1 lists the individuals who participated in the study. The details have been amended to ensure confidentiality.

Table 1: List of respondents				
#	Code	Details	Cumulative experience	Interview
<b>Assurance experts</b>				
1	A1	Audit partner – financial audit	18 years	60 min
2	A2	Retired auditor and audit committee chair	25 years	130 min
3	A3	Audit partner – financial audit	15 years	60 min
4	A4	Audit partner – sustainability	22 years	90 min
5	A5	Audit manager – sustainability	12 years	90 min
6	A6	Associate director – sustainability	11 years	60 min
7	A7	Associate Director - financial audit	11 years	100 min
8	A8	Audit partner – financial audit	16 years	60 min
9	A9	Audit manager -financial audit	10 years	60 min
10	A10	Audit partner - financial Audit	20 years	60 min

<sup>8</sup> Some of these respondents were also involved on local committees formed to discuss the development and implementation of integrated reporting in South Africa.

<b>Table 1: List of respondents</b>				
<b>#</b>	<b>Code</b>	<b>Details</b>	<b>Cumulative experience</b>	<b>Interview</b>
11	A11	Audit technical	30 years	60 min
12	A12	Associate director – sustainability	10 years	70 min
13	A13	Retired audit partner	40 years	90 min
14	A14	Audit technical	11 years	60 min
15	A15	Audit technical	10 years	60 min
16	A16	Senior manager - financial audit	13 years	60 min
17	A17	Associate director - financial audit	15 years	45 min
18	A18	Audit manager – financial audit	10 years	45 min
19	A19	Associate director - sustainability reporting	15 years	60 min
20	A20	Associate director - sustainability reporting	15 years	45 min
<b>Preparers</b>				
1	P1	Retired CFO and audit Committee chair	30 years	100 min
2	P2	Chartered accountant and CFO	25 years	60 min
3	P3	Audit committee member and academic	10 years	50 min
4	P4	Integrated report preparer and consultant	19 years	60 min
5	P5	Chief operating officer	25 years	60 min
6	P6	Sustainability manager	20 years	45 min
7	P7	Sustainability manager	15 years	50 min
8	P8	Investor and other stakeholder relations	16 years	60 min
9	P9	Vice president – corporate affairs	20 years	60 min
10	P10	Head: External reporting	20 years	100 min
11	P11	CFO	25 years	60 min
12	P12	Investor relations	10 years	60 min
13	P13	Investor and other stakeholder relations	10 years	50 min
14	P14	Company secretary	12 years	60 min
15	P15	Head: ESG reporting	30 years	45 min
16	P16	Sustainability manager	25 years	70 min
17	P17	Chief operating officer	25 years	45 min

A short agenda was provided at the start of each interview outlining the main discussion points: (1) the need for assurance of the integrated report; (2) the parts of the integrated reports currently being assured; (3) challenges encountered; and (4) recommendations on how to satisfy the requirement to have at least some level of assurance over the integrated report. To avoid leading research participants or unintentionally restricting the range of issues being discussed, an extensive list of closed and open-ended questions was not used. Instead, the researcher commenced each interview with a general question about respondents' views on the need for a professional opinion on all or parts of an integrated report. Interviewees were then allowed to lead the discussion. As a result, the sequence in which the discussion points were addressed and the details provided varied but, at a minimum, the researcher ensured that each of the main points above was covered during the course of the interviews (adapted from Holland and Stoner, 1996; Holland and Doran, 1998).

Where applicable, the researcher asked respondents to explain particular points or statements in different words, to give examples or to speculate on whether or not their peers would hold similar views. This was designed to add to the detail of the discussion, ensure that the researcher was not misinterpreting responses and to avoid 'script coherent expressions' (Alvesson, 2003). The interviews lasted between 45 minutes and 2 hours and were digitally recorded. Each interview was transcribed as soon as possible after the interview was completed.

### 3.2: Data analysis

Data analysis was inspired by a grounded approach and carried out according to a three-stage process involving reduction, display and drawing of conclusions (adapted from Creswell, 2009; O'Dwyer et al., 2011). Initial notes were made to summarise each interview as soon as it was completed and used to generate a 'data analysis map'. This organised the transcripts under headings and sub-headings (open codes) based on main discussion points raised during the interviews and the prior literature dealing with the challenges of assuring an integrated report (see Section 2.2). Examples included: (1) how different types of data are analysed and reported in an integrated report; (2) technical difficulties encountered when assuring specific parts of an integrated reports; (3) risk-assessment procedures used by auditors; (4) other technical procedures prescribed by ISA's, IASE's, AA1000AS and the prior literature on strategic systems audit and (5) techniques employed by preparers to evaluate integrated reports and ensure that conclusions are appropriate (adapted from Holland, 1998; Leedy and Ormrod, 2001).

Each transcript was read carefully several times to highlight points raised by interviewees and identify similarities and differences in the responses. As additional interviews were completed, summarised and organised, interview content was re-categorised and the open codes were refined as necessary. Codes with few or no allocations were aggregated.. Transcripts were re-coded two weeks after the first round of analysis to ensure that the initial coding was complete and remained appropriate (adapted from Holland and Doran, 1998; Maroun and Atkins, 2014; Atkins and Maroun, 2015).

A summary table was used to record a complete list of responses, ideas, recommendations and concerns<sup>9</sup> (adapted from Oakes et al., 1998; Leedy and Ormrod, 2001; O'Dwyer et al., 2011; Maroun and Solomon, 2013). These open codes were analysed to identify trends, concepts or principles which pointed to the emergence of a model for providing assurance over the integrated report.

Axial codes were obtained from the professional and academic literature dealing with existing audit technologies. This was to ensure that the results are grounded in an already established assurance discourse which can be readily understood by auditing academics and, more importantly, by practitioners (adapted from Leedy and Ormrod, 2001; Llewelyn, 2003; Creswell, 2009; Rowley, 2012). Principles from risk-based and SSA audit methodologies provided a framework (or axial codes) for exploring an emerging interpretive assurance model. These included (1) strategic analysis of entity business states; (2) use of corroborating evidence to assess and conclude on entity business states and (3) the importance of consultation, review and discussion among members of an assurance engagement team and those charged with the reporting entity's governance.

<sup>9</sup> Where possible, the researcher also discussed the findings with some of the interviewees. These follow-up sessions were informal and were not recorded or transcribed. Any additional information obtained during the sessions was included under the relevant content codes.

These axial codes were used to organise open codes. The aim was to identify different elements of an assurance model focused on dealing with qualitative, subjective or forward-looking information contained in an integrated report which would not be suitable subject matter for a traditional assurance engagement. For example, the open and axial coding revealed how traditional risk assessment models, focused on the risk of misstatement of financial statements, can be modified and provide a basis for reviewing the thoroughness of the discussion and analysis included in an integrated report. In this case, the technical provisions of ISA 315, ISAE 3000 and AA1000AS – complemented by the prior literature on entity business states - provided open codes. These included details on how auditors gain an understating of their client's business context, systems and processes to assess the risk of misstatement of financial statements or other subject matter. The various components of the business model which need to be taken into account under a strategic systems model (Section 2.3) were also included as open codes. These elements, practices and procedures were then interpreted in the context of providing some type of assurance over the integrated report, based on a strategic systems analysis of different entity business states. This highlighted how, for instance, an auditor could conclude on the completeness of the analysis of the entity's value creation process/business model according to the IIRC's reporting parameters and the auditor's understanding of entity business states. Similarly, principles from the existing audit literature and the challenges of assuring the integrated report provided a basis for considering how the use of corroborating evidence on business states and a detailed process of consultation and review could be linked with an interpretive scheme suitable for evaluating the reasonableness of the interpretation and analysis of information provided to users in an integrated report. These ideas are discussed in more detail in Section 5.

Finally, it should be noted that the open and axial coding process was inherently subjective. As a result, the open coding of transcripts and aggregation of findings under axial codes was reviewed by two colleagues at the researcher's host institution<sup>10</sup>. Findings were also presented at two academic conferences and one technical presentation was made to the local regulator to test if the results could be readily understood. Comments received were used to refine the axial coding process<sup>11</sup>.

#### **4: Results<sup>12</sup>**

##### **4.1: Integrated reporting, current sources of assurance and challenges**

Respondents confirmed that integrated reports include a mix of qualitative and quantitative information on financial, manufactured, intellectual, social and relationship, and natural capital (see IIRC, 2013). Both preparers and auditors noted that the extent to which information on the different capitals is interconnected with an organisation's strategy varies. Companies do not necessarily report on the same aspects of their business model and the degree to which information is provided on each type of capital as part of the value-creation process is not consistent (see de Villiers et al., 2014; Atkins and Maroun, 2015; Simnett and Huggins, 2015).

<sup>10</sup> This included reviewing the coding scheme and the coding of transcripts on a sample basis (50%) to ensure the completeness and consistency of the coding process. The review of transcripts occurred during the data collection and analysis process to ensure consistence.

<sup>11</sup> No material changes to the coding or organisation of the results were processed. This was the result of a very detailed coding process followed by the researcher and the thoroughness of the peer review of the open and axial coding.

Nevertheless, interviewees reiterated the findings of PwC's integrated reporting surveys (2013; 2014; 2015) which show an increase in the non-financial information being communicated in integrated reports and a connection between the management of ESG metrics and operational and financial performance (see de Klerk and de Villiers, 2012). Preparers also referred to growing pressure from stakeholders to highlight long-term sustainability issues leading to more relevant reporting on the relationship between so-called 'soft issues' and the resulting key risks and opportunities (see Atkins and Maroun, 2015).

All respondents confirmed that this type of reporting is more subjective than financial statements prepared in terms of International Financial Reporting Standards (IFRS). This poses significant challenges for existing assurance models.

#### **4.1.1: Challenges of assuring the integrated report**

Auditor's concerns were consistent with those raised by Cohen and Simnett (2015), Maroun and Atkins (2015), Simnett and Huggins (2015). They include the absence of mature reporting systems for collecting and processing non-financial information and the fact that the IIRC's framework does not provide a basis for defining 'risk of misstatement' in an integrated reporting context. The most commonly-noted obstacle to expressing an opinion on a client's integrated report is the requirement for clearly defined criteria for evaluating the subject matter of a limited or reasonable assurance engagement (see IAASB, 2009a; IAASB, 2009m):

'The biggest problem is that the auditor can only audit against criteria. The auditor can conclude on your historical financial information and your financial statements because there are very clear criteria. They might also be able to sign-off on some very specific GRI criteria such as the numbers and various pieces of data that you get in integrated reports but that is all you are going to get' (Audit Partner).

As a result, all of the auditors and preparers felt that ISA's and ISAE's provide a framework for assuring financial statements and non-financial information, respectively, which is factual and not the subject of detailed analysis or interpretation by management. (The same applies to AA1000AS). For example, one audit partner explained how existing professional standards could be used to provide assurance on electricity usage reports, the number of working days lost due to injury and greenhouse gas emission statements (see also AccountAbility, 2008; IAASB, 2013). On the other hand, most analysis included in an integrated report was regarded as being too subjective to form the basis of a reasonable or limited assurance engagement per the ISAE's (A14; A19; P1) or AA1000AS (A4; P15). Two examples included the extent to which ESG issues are being appropriately incorporated into an organisation's strategy (A1; P11) and whether or not related risk-management plans are adequate (A12; P9). Consider the following comment:

'You ask me to look at a company's strategy and its key risks which they talk about in their integrated report. What am I going to tell you? The best I can do is tell you that the statements in the report cross-reference to what was discussed in the Board meetings and that the risks in the report are also in the risk register. I am not sure if that adds any value. What you really want to know is if the strategy is the right one and if all of the risks are complete but no-one can tell you that. If you put the three smartest business people in the room, they would not give you the same answer or refer to the same principles or standards or textbooks because a lot of that is about your gut feeling and your personal views and the fact that you've been around for 30 years. But your gut feeling is not audit

evidence [laughs]. You can't say, "they achieve fair presentation because I did not get a bad feeling in my gut" [laughs]' (A3).

Similarly, there was a concern that an opinion on an integrated report would not be an objective assurance statement but a type of commentary, investment recommendation or a personal view (A4; A6; P2). For example:

'There are some parts of [our] report that the auditors could not give an opinion on [in terms of ISAE's]. The strategy section is a good example. They would never be able to conclude if the strategy is a good one and responds to all of the risks in our business. Because then, what you are actually doing is getting the auditor to give you an analysis and not an objective audit opinion. It would be like getting the auditor to do the investors' job for them' (P10).

All of the auditors (and preparers) had similar views<sup>13</sup>. They argued that assurance was limited to those 'packets of information which can be tested and measured against a specific scale' (A11) and that anything

'which is based on subjective data' or is 'just what management feels is too "iffy" to verify objectively and so you cannot give the reader any assurance [in terms of ISA's or ISAE's] and give any opinion on that information without actually analysing the business for them' (A7).

#### **4.1.2: How preparers ensure the reliability of their integrated reports**

Given the limitations of traditional assurance engagements, preparers explained how they rely on a combination of different methods (including some use of formal assurance services) to demonstrate to users that the information being included in integrated reports is reliable.

Most notably, 'financial statements are subject to audit in terms of the JSE<sup>14</sup> Listing Requirements and Company Law' (P3). This is complemented by the use of external non-audit assurance services and reviews by internal auditors of other 'components' of the integrated report. For example, a sustainability accountant explained how external auditors were involved in testing the accuracy of the datasets of certain non-financial information being submitted to the team responsible for the preparation of the integrated report in terms of ISAE 3000 (P6). A company secretary described a similar engagement involving test procedures on corporate governance disclosures by internal and external auditors (P14).

Nevertheless, preparers and auditors unanimously agreed that there were no examples of an assurance opinion on the integrated report in its entirety. There are also large parts of the integrated report which are not the subject matter of a formal assurance engagement. As discussed in Section 4.1, these often include the sections dealing with corporate strategy (A8; A9; P4; P12), risk assessment and mitigation (A2; A18; A20; P2; P8), business reviews (A16; A17; P3) and performance assessments (A5; A15; P16) (see also Cohen and Simnett, 2015; IIRC, 2015; Maroun and Atkins, 2015). In these instances, preparers pointed out that their respective organisations relied on a system of monitoring and review to ensure high quality reporting (P5; P7; P13; P15; P17). This entails different sections of the integrated

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<sup>13</sup> This is most likely due to the fact that most preparers engaged in the study had a detailed accounting and auditing background. How expectations regarding the applicability of ISA's and ISAE's in an integrated reporting context vary between accounting and auditing experts (on the one hand) and non-experts (on the other) is beyond the scope of this research.

<sup>14</sup> The Johannesburg Stock Exchange issues listing requirements which listed companies are required to comply with.



report being examined by senior management and, finally, being scrutinised by members of the audit committees (P3; P15).

All of the respondents agreed that these 'checks and balances' (P1) provide some level of 'comfort' (A2) over the integrated report. They are not, however, sources of 'assurance' in the 'truest sense' (A15) because an independent practitioner has not 'tested the integrated report' according to a formal assurance framework (A15; A17; P1: P2). To address this concern, the outlines of an interpretive assurance model are presented below.

#### **4.2: Towards an interpretive form of assurance**

Despite the challenges of expressing an opinion on an integrated report using current assurance standards, respondents pointed to the possibility of drawing on certain aspects of existing risk-based audit and SSA models. The emerging approach to assurance does not focus on testing the veracity of the data being reported but on examining the reasonableness of the interpretation and analysis of information provided to users (Maroun, 2017). The elements of this interpretive assurance model include:

- A review of the completeness of the analysis of the entity's value creation process/business model according to the IIRC's reporting framework and the auditor's understanding of entity business states.
- A review of the methods used to generate qualitative, subjective and forward-looking discussion and analysis included in an integrated report.
- An examination of the process followed by those charged with governance to review management discussion and analysis included in an integrated report. This includes consultation, discussion and debriefing by members of a multi-disciplinary audit team to corroborate conclusions on the completeness of the value creation assessment and methods used to support management's interpretation of underlying data.

Each of these elements is discussed in more detail below.

##### **4.2.1: Entity business states: Completeness of analysis**

As explained in Section 2.3, in a financial reporting context, the 'entity business state' is defined by an organisation's strategy, financial transactions, processes, economic context and relevant business relationships. These 'elements' contribute to the viability of the business model and inform the assessed risk of misstatement of the financial statements (Bell et al., 2005; Peecher et al., 2007). In an interpretive assurance model, 'entity business states' can be reframed to include the different financial and non-financial components or variables (including an organisation's strategy, business model and key stakeholders) which contribute to the value creation process. This is consistent with the approach followed by the IIRC (2013) which sees the integrated report as a multi-dimensional assessment of how an organisation manages different types of capital to generate returns (King, 2012, 2016). In addition, the focus on analysing entity business states is altered from assessing risk at the financial statement level to concluding on the risk of incomplete analysis of relevant facts and circumstances which might affect the ability of an organisation to generate long-term sustainable returns (A4; A10; P1). Consider the following comment:

'I would imagine that the starting point in wanting to say anything about management commentary in an integrated report is whether or not that commentary is complete. Have they taken into account all of the issues which are material or relevant and all of the main issues which a reasonable person would have considered in that analysis?' (A10).

Eighteen auditors felt that existing professional standards provide a sound starting point in this process. In particular, ISA 315 already gives details on gaining an understanding of an audit client, its financial and operating environment and internal controls (IAASB, 2009d). With interpretative assurance, however, the focus is not just on business or audit risks relevant to the financial statements. Similar to SSA, a multi-dimensional analysis of the financial and non-financial variables or elements which may be relevant for an organisation to generate long-term sustainable returns is required. To this end, the IIRC's framework provides a reference:

'The IIRC don't tell you what to do step by step. It's not like the GRI which lists the different non-financial disclosures. But what it does give you is a very broad framework which you can think of like ISA 315. That ISA tells you what to look for when you do an audit and you want to document the risk areas. You use it to check all of your bases and make sure that you covered the different areas like the systems, nature of transactions and economic and regulatory environment. So, I suppose that the [Integrated Reporting] Framework can be used in the same way. It doesn't give you criteria for auditing the integrated report but it gives you some broad headings to think about when you want to know if the organisation has covered all of the bases in its report to the users. So, yes, I think you probably could use that to, at least, check if the analysis includes the most important issues' (A17).

For example,

'the [Integrated Reporting] Framework makes reference to strategy, business models, risks and different capitals. At a minimum, has the client addressed each of these issues in the analysis which you now want to look at for "assurance" purposes? In that way, I suppose you could use the IIRC as a starting point to consider the reasonableness of the scope of management's discussion and analysis' (A5).

This analysis (similar to the ISA 315 and SSA approach) would need to be complemented by a detailed assessment of the integrated report according to the auditor's own understanding of the client's business model, knowledge of comparable organisations and general understanding of relevant industry and stakeholder considerations (P1; A1: A15). For example:

'You would want to have a detailed review of all of the different types of capital that the business manages, the interconnections between them and the different risks and opportunities. You need to know who the stakeholders are and what the major issues are in the relevant industry. You need to be aware of all of this so that you can make an informed decision on whether or not management's discussion and analysis is consistent with your broad understanding of the business and relevant requirements of the integrated reporting framework' (A16).

In other words, to paraphrase Peecher et al. (2007, p. 470), a detailed understanding of the entity business states 'is paramount' because 'without it, the auditor loses the ability to identify the scope and nature of the [business states] that the [management information intermediaries] should be capturing and transforming'. One preparer (and former auditor) explained in more detail using a report on CSR spending and its importance of the organisation's supply strategy as an example.

'That information is a material part of the integrated report, especially in high impact industries. The auditor would want to consider if the report addresses the business strategy and how the CSR initiatives are linked to the business

model...Because the [CSR project] is focused on strategic issues, the auditor would also need to know about our strategy, the nature of our major supply contracts, the regulatory environment which we operate in and the industry norms that we want to adhere to' (P10).

In assessing the completeness of the CSR content according to entity business states or integrated reporting elements, the respondent (P10) proposed the following additional considerations<sup>15</sup>:

- Are any key risks consistent with those noted in the integrated reports and addressed by the Audit and Risk Committee?
- Has there been any feedback from stakeholders and, if so, how has this been taken into account in the business process and integrated reports?
- Are there any regulatory considerations?
- What are the implications for the firm's competitiveness, its reputation and any material contracts with suppliers and customers which may define minimum levels of CSR?
- Is performance assessed against budgets/targets and does the report include a forward-looking assessment of important benefits and challenges related to the CSR initiative?
- Is the analysis consistent with the auditor's understanding of industry developments and comparable CSR activities?

Interestingly, each of the above questions dealt with business states similar to those referred to in the strategic system audit literature (see Bell et al., 2005; Peecher et al., 2007). The respondent also dealt with each of the main 'elements' of the IIRC's integrated reporting framework. The purpose is not to conclude on the risk of misstatement in financial statements but to gain and maintain a thorough *understanding* of the entity business states which form part of the 'economic web' in which the organisation is operating (Peecher et al., 2007). Consistent with both the literature on SSA and IIRC's (2013) framework, this review of business states takes a strategic forward-looking approach and recognises the fact that the organisation operates in a complex system where different financial and non-financial variables are relevant for managing long-term returns.

Half of the auditors and preparers pointed out that this process would involve a considerable amount of professional judgement. The auditor's assessment of whether or not the integrated report content covers the relevant entity business states would be inherently subjective. Nevertheless, the approach is largely consistent with the existing assurance model in ISA's and ISAE's which also rely on the auditor's expertise. For example, the auditor is required to apply his professional judgement to conclude on the assessed risk of misstatement (IAASB, 2009d), to design suitable test procedures (IAASB, 2009f), to conclude on adequate sample sizes (IAASB, 2009i) or to set materiality levels (IAASB, 2009e). In addition, reliance on the auditor's professional expertise and judgement is not in itself a threat to the integrity of the interpretive assurance process. In a strategic systems context, detailed training on systems analysis, the use of multi-disciplinary teams and careful documentation and review of decisions can be used to ensure thorough risk assessment (Bell et al., 2005; Peecher et al., 2007; Schultz et al., 2010). The same can apply in an integrated reporting context where principles already widely used in auditing are mobilised to assess the rigour of management's analysis. The use of multiple evidentiary sources to support conclusions is a key example.

#### **4.2.2: Using multiple sources of evidence: Methodological thoroughness**

<sup>15</sup> In the interest of brevity, these are not exhaustive.

The interviews revealed a type of 'triangulation of evidence' (A4) by some companies when preparing their integrated reports. An example is provided by the following explanation of how a preparer is dealing with reporting on social capital:

'We identified [a specific part] of our [CSR plan] as important and something which we needed to report on. We had to find a way to explain what the impact of our [CSR plan] was and communicate that to our stakeholders. We discussed the issue with the auditors and the audit committee and we quickly decided that full scale assurance would be too expensive and would not cover the softer issues. So we opted for some limited assurance on the CSR spend. Our internal audit team was also very involved. They did a lot of work on the procurement controls and processes [over this specific area of the business]. Then we pulled the data together and we got a draft section and went to the Board and the Social and Ethics Committee and some of our investor and community relations team and asked them to read through the draft for a sense check' (P15).

This type of process is not common<sup>16</sup> but it does show that some companies are relying on method of data collection and analysis to corroborate conclusions in their integrated reports (Maroun, 2017). Firstly, the company makes use of a traditional non-audit assurance engagement (in this case under ISAE 3000) to provide some evidence on the accuracy and completeness of certain of its CSR costs (see also Section 4.1.2). The results of the assurance service are used indirectly to address the reliability of the analysis being included in the integrated report. This 'first level of comfort' (A5) is complemented by the work of internal audit. Their function is also part of a risk-based approach to testing the data underlying the information found in the integrated report (P15). At this point, the focus of the assurance model shifts from data integrity to validity and reliability of the information analysis.

The preparer is involved in the collection, synthesis and reporting of the information collected from different sources. Most of this data – which was summarised CSR procurement expenditure - was the subject of testing by the internal and external auditors but was corroborated by other information collected by the preparer. This included press releases, interview material from employees directly involved in CSR activities and the preparer's observations of the work carried out in different communities. As a result, the draft section of the integrated report is based on multiple sources of information. Interestingly (and as discussed in more detail in Section 4.2.3) the preparer also relies on an informal pilot study technique, asking the Board of Directors, Social and Ethics Committee and the Investor and Community Relations Team to review the analysis. In other words, reliability of the respective report content is not addressed only by the fact that some of the underlying data has been tested by internal and external auditors: internal and external sources of information inform the final report content and a pilot study is used to corroborate the analysis provided on the company's specific CSR activities before the content is published.

The techniques used to ensure the thoroughness and reliability of management's interpretations on social capital management are relevant for an external assurance provider. The aim is not to test directly the accuracy or reliability of the representations contained in the integrated report or assess these in terms of predefined assertions as would be the case with a financial statement audit or ISAE 3000/AA1000AS engagement. All of the auditors and preparers reaffirmed that this type of speculative, forward-looking or personal analysis cannot be the focus of a traditional assurance engagement (see also Section 2.4 and Section 4.1). Instead, the purpose is to conclude on the approach used by an audit client to support

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<sup>16</sup> Only six of the fourteen companies followed a formal process of 'triangulating' evidence to support the relevant discussion and analysis included in an integrated report.

the discussion and analysis included in an integrated report. This follows an approach similar to triangulation of evidence described by the auditing literature (see Peecher et al., 2007; Trotman and Wright, 2012).

Firstly, the fact that a client has an information processing system (which relies on multiple sources of data for corroboration of conclusions) can be used as an important source of evidence (see IAASB, 2009m; IAASB, 2009f). In an interpretive assurance model, sophisticated information processing protocols demonstrate that there is a sufficiently rigorous method underlying management's representations in the integrated report (A9; A12; A13). Secondly, information collected from systems and subject to testing by either the external auditor (for the purpose of an ISAE 3000 engagement) or internal audit (consider IAASB, 2009j) can provide information on entity business states and some information intermediaries. The auditor can take the results of these conventional assurance engagements into account when concluding on the appropriateness of the methods used to inform and corroborate managements' discussion, analysis and opinions included in an integrated report (A11; P8). This is complemented by the availability of third party data. Details from press releases, industry standards, regulatory requirements or formal stakeholder feedback (external information intermediaries) can be collected and reviewed by the auditor and cross-referenced to management's discussion and analysis to confirm that relevant data sources have been taken into account in the preparer's interpretation and analysis process. Finally, as discussed in Section 4.2.1, the auditor's understanding of relevant business states complements the use of external information intermediaries. A sound awareness of strategically important variables or entities allows the auditor to reflect on the scope of data used to generate management's representations and whether or not potentially key information has been omitted (A4; P5).

At this point, it should be noted that some preparers argued that this would not necessarily provide 'comfort over the accuracy of the information' (P5; P9) or be suitable for expressing an opinion on the controls over the content of the integrated report (P14; P15). These are valid criticisms but it should be reiterated that the interpretive assurance model is not intended to replace or substitute for an ISAE 3000 (or equivalent) engagement on internal controls over data collection and processing. Instead, the proposed model concentrates on the rigour of methods used to support the analysis or interpretation of the information generated by those systems. In other words, the interpretive assurance complements, rather than substitutes for, the use of traditional assurance services currently provided by internal and external auditors.

#### **4.2.3: Consultations and discussions: Evaluating the review process**

One preparer, elaborating on how the company ensured the reliability of CSR-related information included in the integrated report, explained that draft analyses are often submitted for review by social and ethics, governance or audit committees as a 'sense check' (P6). For all of the respondents, even if the underlying data has not been formally tested by internal or external audit, the user of the integrated report:

'can definitely take comfort in the fact that the Board and [one or more independent committees] have worked through the analysis for any errors or inconsistencies with their understanding of the business' (P13).

There are a number of reasons for this: firstly, most of the monitoring and review functions carried out by, for example, boards of directors, audit committees and social and ethics committees, form part of a system of governance and accountability designed specifically to protect the interests of stakeholders (Institute of Directors in Southern Africa [IOD], 2009; Solomon, 2010). Consequently, reviews of the integrated reports by those charged with governance become part of an already credible system of stakeholder engagement and

protection (A13: A20: P2; P12). Secondly, and related closely to the first point, the seniority of those responsible for the review and their considerable technical and practical expertise provide reassurances that any examination of the integrated report is thorough:

'I am usually quite nervous when I send something to the Board to look at. They really are the most senior people in the business and most of them have been around for years and have a very good understanding of the business and how it fits in with what's going on the industry and in the country. So, when they look at what you have reported, they can see very quickly if you did your homework or if you just put something together quickly to tick the disclosure boxes' (P4).

Although the review by a board member is not the same as a process of examination carried out by internal and external auditors (for details on this see Humphrey and Moizer, 1990; Power, 1994; Maroun and Solomon, 2013), the fact that the information included in the report is being assessed by a technically competent professional in a position of power has a very similar effect on the preparer. Consequently, it provides some reassurance that the interpretation of information being included in the integrated report is sound. The independence of those charged with governance works in a similar way. Non-executive directors, even if independent, may not enjoy the same objectivity as the external auditor. Nevertheless, the preparers and auditors pointed out that the review functions performed by many directors, especially those who are non-executive, can play an important role in 'testing' the reasonableness of information being included in the integrated report because the reviewer has not been involved in the preparation of that information 'and is not personally invested in it' (P11).

From the perspective of the external assurance provider,

'the fact that there is a detailed independent oversight function [of the integrated report] by those charged with governance would provide evidence about the quality of the reporting process and probably provide some evidence about the completeness of the integrated report and the quality of any commentary' (A20).

In other words, the corporate governance systems in place over the completeness and thoroughness of any analysis contained in an integrated report can be interpreted as an integral part of the management information intermediaries (see Bell et al., 2005; IAASB, 2009d; Maroun, 2017). Evidence about the design and operating effectiveness of this review mechanism can form part of the auditor's assessment of the methods used to ensure the completeness and reliability of the preparer's data analysis and interpretation process, as discussed in Section 4.2.2. Relying on: (1) multidisciplinary audit teams, (2) peer-review and debriefing among members of the engagement team and (3) consultation with experts can reinforce the auditor's corroboration process:

'I don't think we will be able to conclude on things like business models, whether the client's strategy is the right one and if the risks identified in the integrated report are complete. That said, you may be able to tell people about the rigour of the management analysis which they are reading. Did management look at relevant issues? Were the decisions reviewed? Have they engaged with their primary stakeholders and what were their views? To do this, you will need to have a multidisciplinary team. You need people who are experts in strategy and risk and who know about the stakeholders and what to report. And, in addition to gathering evidence on the different processes used to prepare the management analysis, you will want to have conversations with these team members and the firm's experts to make sure that you haven't overlooked anything' (A4).

In other words, to conclude on the veracity of the interpretation of the data underlying the report, it will be necessary to rely on formal and informal systems of peer review, team debriefing and member checking. These allow the auditor to evaluate whether or not the review process performed by those charged with governance is sufficiently thorough to ensure that management representations/interpretations are reasonable. Consultation, discussion and debriefing by members of the engagement team can also provide insights into the completeness of the value creation assessment provided in the integrated report and appropriateness of the methods used to support management discussion and analysis, as discussed in Section 4.2.2. This is especially true if audit is performed by a multi-disciplinary team (with access to relevant experts) which can collect and analyse different sources of information (see Pecher et al., 2007; Trotman and Wright, 2012; Maroun, 2017).

#### **4.2.4: Conflicting sources of evidence: highlighting subjectivity for users**

While discussing how auditors may rely on different data to conclude on the analysis found in an integrated report, two respondents raised the issue of conflicting evidence. There was one clear example of a company engaging with different sources of information and grappling with how to reconcile diverging views:

'It is not always clear cut. We wanted to pinpoint the five most significant risks which the business is facing and we went to a lot of effort to do this. We spoke to the risk committee to see what they had on their risk register and we looked to the Board for their views. We also took into account what our competitors were discussing in their reports, leading stories in the newspapers and a general review of what was going on in the sector at the time. We also spoke quite a bit to our investors when we went on the annual road show. Eventually, we came up with a list but when we went back to [senior management] we could not get consensus on all of the points' (P7).

This comment is an example of how a company is making use of a type of corroboration process to develop a thorough analysis of its risk profile and ensure balanced and complete reporting. There is also evidence of review and debriefing with the team responsible for the identification of risks following an iterative process of data collection and analysis, very similar to that which would have been followed by an interpretive researcher. Data is collected, analysed and synthesised during initial interactions with the Risk Committee. These findings are tested by reviewing other sources and engaging senior management and investors in order to refine conclusions. Unfortunately, the company misinterpreted the lack of consensus as a weakness and went on to exclude those dimensions of the risk report which were regarded as too subjective.

For the purpose of interpretive assurance, however, the lack of consensus is not, in itself, an indication of an elevated risk. On the contrary, the aim is to ensure that a client has provided a comprehensive account of the facts or circumstances and how any conclusions were reached. If the preparer has elaborated on the methods used to collect information on key risks and 'reduced' the different sources of information into a final listing, the integrated reporting process is made more transparent and the credibility of management representations is enhanced. Similarly, where contradictions in the data emerge, drawing the reader's attention to conflicting indicators signals the complexity of the analysis, the increased subjectivity and the need for additional caution when interpreting that part of the report. Where the focus on the assurance model is on the mechanisms of interpretation (rather than the conclusions themselves), the auditor is concerned with the risk of a representation appearing to be based on underlying data and analysis which seem more objective than is actually the case.

## Summary of findings

The elements of an interpretive assurance framework – including the link to the principles from existing assurance methodologies – are summarised in Table 2.

**Table 2: Summary of findings**

<b>Principle</b>	<b>Explanation in a financial statement audit context</b>	<b>Application in an interpretive assurance model</b>	<b>Element of the interpretive assurance model</b>	<b>Explanation</b>
<i>Strategic systems approach to risk assessment and response</i>	<ul style="list-style-type: none"> <li>'Entity business state' comprises an organisation's strategy, financial transactions, processes, economic context and relevant business relationships. These 'elements' contribute to the viability of the business model. (Peecher et al., 2007, pp. 468-469)</li> <li>The auditor seeks to provide a high level of assurance about the extent to which 'management's financial statement representations fairly depict entity business states' (Peecher et al., 2007, pp. 468-469)</li> <li>This includes an analysis of numerous elements of</li> </ul>	<ul style="list-style-type: none"> <li>An integrated report should provide a comprehensive assessment of how an entity manages multiples types of capital/resources to generate sustainable returns (IIRC, 2013)</li> <li>In this context, 'entity business states' are reframed to include the different financial and non-financial components/variables which contribute to the value creation process.</li> <li>The focus on analysing entity business states is altered from assessing risk of misstatement of the financial statements to addressing the risk of incomplete analysis of relevant facts and circumstances which might affect an organisation's ability to generate sustainable returns.</li> </ul>	1: Completeness of the analysis of the value creation process	<ul style="list-style-type: none"> <li>The auditor reviews the completeness of the analysis of the reporting entity's value creation process.</li> <li>The IIRC's framework provides a basis for this purpose. This is complemented by the auditor's own understanding of the relevant entity business states, similar to the approach followed for according to the strategic systems methodology and ISA 315.</li> </ul>



	<p>an organisation's economic activities and their impact on the ability of the organisation to execute its business model, generate returns and the resulting implications for the risk of misstatement in the financial statements</p>			
<p><i>Use of corroborating audit evidence to respond to the assessed risk of misstatement</i></p>	<ul style="list-style-type: none"> <li>The auditor relies on multiple internal and external sources of information to corroborate management's representations on entity business states applicable for the financial statements.</li> <li>Inconsistencies between the auditor's expectations and actual business states signals that additional evidence is required to support a conclusion on the assessed risk of misstatement.</li> </ul>	<ul style="list-style-type: none"> <li>Unlike an audit of financial statements, the aim is not to test directly the accuracy or reliability of the representations contained in the integrated report or assess these in terms of predefined 'assertions'.</li> <li>The objective is to conclude on whether or not the client has made use of multiple sources of data and methods of analysis to inform the discussion/analysis included in an integrated report</li> </ul>	<ul style="list-style-type: none"> <li>2: The rigour of the methods used to compile qualitative/subjective/forward-looking analysis included in an integrated report</li> </ul>	<ul style="list-style-type: none"> <li>The auditor evaluates the techniques used by preparers to ensure the thoroughness and reliability of management's interpretation/analysis included in an integrated report.</li> <li>This would take into account the client's reporting protocols, the results of any conventional external assurance engagements, the work of internal audit, data collected from other sources and the external auditor's own understanding of the entity business states.</li> </ul>
<p><i>Consultation, discussion and analysis of information</i></p>	<ul style="list-style-type: none"> <li>Consultations on difficult, subjective or contentious issues improve the assessment of the risk of</li> </ul>	<ul style="list-style-type: none"> <li>Review of the integrated report by those charged with governance reduces the risk of inappropriate reporting by</li> </ul>	<ul style="list-style-type: none"> <li>3: Reasonability of the review process carried out by those charged with the reporting</li> </ul>	<ul style="list-style-type: none"> <li>The auditor considers if those charged with governance carry out a thorough review of the integrated report.</li> </ul>

<p><i>by the engagement team</i></p>	<p>misstatement of the financial statements and the appropriateness of the auditor's conclusions</p> <ul style="list-style-type: none"> <li>• This works in conjunction with review of working papers to identify 'alternate explanations, omissions and inconsistencies (IAASB, 2009b; Trotman et al., 2015, p. 58)</li> <li>• Discussion and debate among members of an engagement team provide multiple perspectives on business states, information systems and related assertions. This complements the consultation and review process and contributes to the process of obtaining corroborating audit evidence.</li> </ul>	<p>ensuring that management discussion and analysis is appropriate.</p> <ul style="list-style-type: none"> <li>• Evidence obtained by auditor about the client's review process can be used to conclude on the thoroughness of analysis of the value creation process and methods used to support management's discussions/interpretations included in an integrated report</li> </ul>	<p>entity's governance</p> <ul style="list-style-type: none"> <li>• Peer-review and debriefing among members of a multidisciplinary engagement team and consultation with experts allows the auditor to conclude on the rigour of the review process, the completeness of management's discussion and analysis and the thoroughness of the methods used to support the discussion and analysis included in the integrated report.</li> <li>• Finally, where contradictions/differences in opinion are noted, the auditor considers whether the subjectivity of the respective analysis has been adequately highlighted in the integrated report.</li> </ul>
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## 5: Conclusion and recommendations

As integrated reports become the primary method for organisations in some jurisdictions to communicate with providers of financial capital (IIRC, 2014c; Atkins and Maroun, 2015; King, 2016), it comes as no surprise that there have been calls for some type of 'assurance' that the information found in these documents is reliable (see IOD, 2009; IIRC, 2013; IIRC, 2014b; IAASB, 2015; IIRC, 2015). Unfortunately, current professional guidance on assurance engagements is not entirely suited for the inherently subjective representations contained in integrated reports necessitating an innovative approach to assurance (Cohen and Simnett, 2015; Maroun and Atkins, 2015; Simnett and Huggins, 2015).

In this spirit, this paper has presented an initial outline of an 'interpretive assurance model'. Traditional models of assurance are risk-based and focused on the veracity of data being reported to users. These have a role to play in an integrated reporting context, especially when it comes to financial statements and other factual reports which are material for stakeholders. For the purpose of dealing with more judgement-based analysis contained in an integrated report, an interpretive model focuses on the methods and processes used to support management representations instead of using predefined procedures (as per ISA and ISAE's) to test accuracy of the data itself. The model is made up of three primary elements.

The first is concerned with the completeness of the analysis of the value creation process. For this purpose, the auditor gains an understanding of the different 'elements' of the entity's business model, including its strategic policies, stakeholders, business risks and various forms of capital under its direction. The aim is not to draw conclusions on the risk of misstatement at the financial statement level (as is the case with ISA's or SSA) but to identify the different 'variables' which are relevant for generating sustainable returns. This is used to conclude on the scope of management representations relating to the business model and how the entity creates value. The second element concentrates on the methods used to support management discussion and analysis. The auditor considers the extent to which the preparer relies on different sources of evidence to corroborate conclusions. The methods employed by the preparer to support representations; evidence obtained from ISA/ISAE/AA1000AS engagements and applicable information from third parties provides additional audit evidence. Finally, the auditor assesses the reasonableness of the review process used to ensure the adequacy of management's analysis and interpretation included in the integrated report. This takes into account the scope of the analysis of the value creation process (element one) as well as the methods used to prepare the integrated report (element two). Consultation with experts and peer review, debriefing and member checking by a multi-disciplinary engagement team are used to assess whether the review processes carried out by those charged with governance is sufficiently thorough to ensure that management representations are reasonable.

This outline of an interpretive assurance model makes an important theoretical contribution by adding to the still emerging body of research on integrated reporting (de Villiers et al., 2014; Cohen and Simnett, 2015; Dumay et al., 2016). Contemporaneously, this paper's findings should be relevant for auditors and preparers grappling with how to ensure that integrated reports are reliable and for standard-setters, many of whom have only recently embarked on the process of developing guidance for assuring an integrated report (see IIRC, 2014b; IAASB, 2015). The proposed model is grounded in existing audit discourse and does not require a significant reconfiguration of well-known technologies of corporate governance and assurance. As such, it could be applied by auditors and preparers in the short-term, resulting in a significant expansion in scope of existing assurance services.

Before an interpretive assurance model can be used, auditors will need to improve their understanding of the integrated reporting framework and the strategic systems which are

relevant for their client's ability to generate value in the short-, medium and long-term (see Peecher et al., 2007; Maroun and Atkins, 2015). With interpretive assurance, the focus is not on testing underlying data according to defined assertions but subjectively evaluating the client's interpretation and analyses process. As a result, auditors (and students) will need to be trained extensively on qualitative analytical techniques. The research suggests that the inherent complexity of contemporary business models and the multi-dimensional focus of integrated reports will also lead to changes in the composition of audit teams, which are currently dominated by experts in financial reporting rather than integrated or strategic business management.

This research is not without limitations. As discussed in Section 3, the findings are based on the views of a sample of auditors and preparers in a single jurisdiction. As a result, the research does not take into account how, for example, variations in business cultures, codes of corporate governance and legal systems would impact the development of an integrated reporting assurance model. At the same time, the study focuses on the importance of integrated reporting for providers of financial capital and relies on experts with a detailed understanding of assurance services and integrated reporting to derive the technical elements of an assurance model. The views of other stakeholders, such as regulators, employee representatives and environmental groups have not been taken into account. As such, future researchers could make a significant contribution by considering the implications of altering the purpose of integrated reports to service the information needs of a wide group of users for the development of an assurance model. Finally, the interpretive assurance model presented in this paper is theoretical. The research stops short of providing a field study to demonstrate how this new form of assurance can be implemented. As a result, detailed case studies are required. These can concentrate on the exact techniques used to gain an understanding of relevant entity business states, including the processes followed to conclude on the scope of representations contained in an entity's integrated report. As with the prior research on SSA, this can take into account a more detailed review of systems analysis to provide a framework for identifying relevant interconnections between entity business states and the type of information which should be included in integrated reports. As part of this process, the need for multidisciplinary skills on engagement teams and how auditors grapple with multi-dimensional reporting formats will have to be dealt with. Future research can also concentrate on exploring the different methods, processes and systems being used by preparers to support management representations including, for example, the role of boards of directors and the internal audit function. To test the feasibility of an interpretive assurance model, a case study (even if this is initially experimental) could be conducted. This could be used to identify, for example, how review and peer debriefing affect the quality and scope of analysis carried out by auditors, the precise extent to which evidence from ISA's, ISAE's and AA1000AS engagements may be relevant and forms of enquiry which could be used to determine how clients are constructing their integrated reports.

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