

FEE Paper Questions & Answers : reaction from ECIIA

Q1.1. Which are the steps in the reporting process that assist in ensuring that the stakeholder's information needs are properly addressed?

The stakeholder engagement it's essential to reach the target and to reinforce the process.

Consultation with key stakeholders from the outset of the process is essential

However, since each new report is in effect a new process, the involvement of **internal audit** from the very beginning is also important, because can contribute to give advice to build and to consolidate the reporting process .

Internal audit add value by providing an **informed and independent review on processes, risks and controls.**

In terms of **co-ordination**, developing **integrated thinking** is critical for organisations' ability to present a coherent and comprehensive picture of their long-term strategy and performance. This requires the creation of cross-functional teams including all key areas within the organisation

It's relevant, in order to improve the confidence on reporting, to have an assurance model to be implemented.

In terms of **assurance**, it is necessary for internal and external assurance providers to form a common view on issues of **relevance, materiality, accuracy and completeness**

Combined assurance is needed to permit an informed view on whether reports are **fair and balanced and also to improve efficiency.**

Assurance around non-financial information is an evolving area. However, internal audit is in a strong position to play a central role, because of its **overview** right across the organisation; its **independence, objectivity and knowing of its own entity** – backed by international **professional standards** (the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors); and its experience in performing **assurance engagements** in all areas of the business

Q1.2. Do you identify any impediments to reach to a broader audience for corporate reporting?

There are no insuperable barriers: but there may be challenges in terms of the **volume** of information presented, the **clarity** of presentation, the **format** (printed reports *versus* online approaches) and the **timeliness** of information.

Recent developments in **technology** (for example, web-based applications, cloud computing, filtering/sorting tools, extensible business reporting language-XBRL) have considerable potential to help organisations reach different groups of stakeholders effectively and to improve the quality of information.

However, the key point is that **reports must add value for the users**. For example, we believe that utilizing the materiality analysis that focusing on a few core elements and reporting the 'top ten' risks for an organization would help reporting reach - and inform - a broader audience

Q1.3. When and how should stakeholders get involved in the reporting process?

Key stakeholders should be involved from the outset to **identify expectations; agree the overall approach**, including objectives, scope and format; and reach a common understanding on **materiality** issues.

Q1.4. Do you agree that two-way communication between companies and their stakeholders is needed to focus reporting on stakeholder needs?

Of course. But each company needs to define its **key stakeholder groups** and develop appropriate **engagement and communication strategies** for them. Also on this internal audit can express assurance opinion.

Q1.5. How could technology drive and enable changes in the audience of corporate reporting?

Technology is one of the the primary enablers for corporate reports to reach larger audiences. Web-based reporting/applications and cloud computing will enable a greater number of stakeholders to obtain information; and developments such as extensible business reporting language(XBRL) may help with 'joining the dots' to give readers a more coherent picture. Infographics may make information more accessible to users with different backgrounds; while technology can also help to rationalise and streamline reports (for example through 'drill-down' approaches) and reduce duplication of information.

Q2.1. Do you agree that financial statements have lost, or are losing some of its relevance?

Yes. Financial statements are still important, but they need to evolve; and they are only one element of good corporate reporting.

Q2.2. If so, which are the key issues resulting in the declining relevance of financial statements?

Financial statements focus on the **needs of capital providers**. Many stakeholders are interested in other aspects of the business.

Financial statements **do not cover all aspects of value**: the majority of market capitalisation of the S & P 500 is attributed to **intangible assets**.

Financial statements do not address **liabilities off the balance sheet**.

Financial statements are **backward-looking**. Stakeholders are increasingly following other, faster-moving sources of information

Strict rules around financial reporting can reduce it to a **compliance-driven 'checklist' exercise**.

Q2.3. What are the key steps that should be taken by standard setters and policy makers to foster innovation and enable financial reporting to regain and enhance its relevance?

- Improve **timeliness**, for example by providing for more frequent releases of core data/updates of information
- Develop **forward-looking information** and indicators to capture value drivers better.
- Allow greater **flexibility** to companies by adopting a **principles-, rather than rules-based approach**
- Reduce **detail and complexity**
- Focus more tightly on **key elements for the business**
- Move to better integrate social, environmental and governance aspects

Q2.4. How could technology assist in innovation for financial reporting?

Technology can assist in linking data points to draw an overall picture; collecting and processing huge amounts of information; speeding up publication; and making reports more accessible.

Q2.5. Which are the key challenges in developing an international set of standards and/ or guidance for NFI that can be applied across the board?

The main challenges are the patchwork of different **national requirements** and **existing frameworks**; the **differences between industries**, sectors and sizes and types of company; and the **need to balance comparability with specificity**. One size will not fit all.

The GRI-G4 Guidelines most relevant on sustainability matters, stated that the organizations may also establish and maintain an internal audit function for the combined assurance model.

Q2.6. Which organization - if any - should take the lead in developing an internationally accepted principles-based framework for NFI?

Not for us to say: but we should note that there are a number of organisations with a legitimate interest and contribution to make.

Q2.7. What is the appropriate level of authority that those principles should have?

Not for us to say: but the approach should as far as possible 'go with the grain' of the market and existing best practice.

Q2.8. What is the best approach to experimentation in the area of NFI? What challenges would constituents be expected to face?

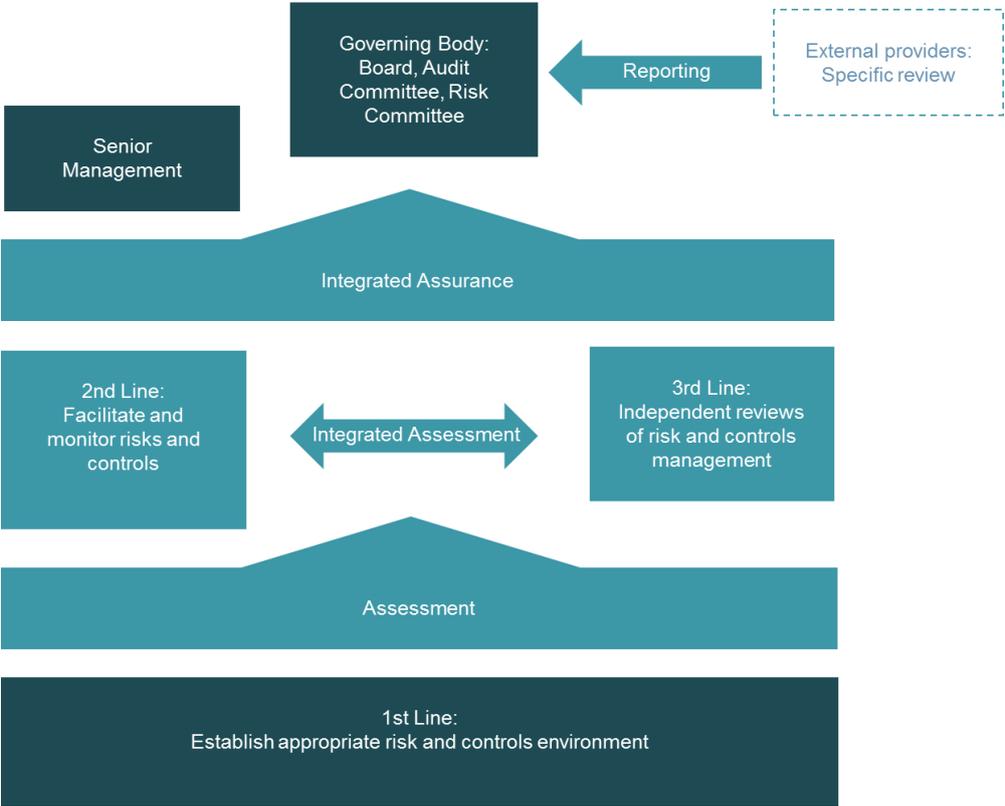
The best place to start would probably be to identify a few key issues and some companies who were prepared to pilot new approaches. The challenges would be both **technical** (scope, content, presentation, metrics, delivery model and so on) and **contextual** – support of stakeholders, room for manoeuvre given by regulators: but there would also be questions of **specificity** and **replicability**.

The ECIIA has issued a position paper on the role of Internal Audit on non financial reporting (March 2015)

http://www.eciia.eu/wp-content/uploads/2015/04/ECCIA_Brochure_Trust_2015_V04_BD.pdf

Q3.1. Do you agree that the proposed CORE & MORE model could be a way forward for corporate reporting in the future? If not, why not?

Possibly. But whichever model is used, it will be vital to have a combined approach between the different functions in the first, second and third 'lines of defence' and assurance (see diagram below) to avoid duplication of information and potentially conflicting reporting to boards and stakeholders.



Q3.2. In which ways could the CORE & MORE help addressing the needs of a wider stakeholders' group?

The 'layered' approach has the potential to provide targeted information so that different stakeholders can access their desired level of information individually. That could greatly improve communication to a wide and diverse set of stakeholders.

Q3.3. What is the role of technology in developing a CORE & MORE model?

Technology is the primary enabler. Without it CORE & MORE won't deliver.

Q3.4. Do you have any thoughts on whether, when and how corporate reporting should be updated?

That will depend on legal requirements: but in principle reports should be updated whenever a significant new risk is identified, or there is new information that is material, relevant and important.

Q3.5. How should policy makers and standard setters address the trade-off between standardisation versus innovation?

Through promoting a principles-based approach, supporting flexibility; and where formal requirements apply, by adopting the principle of 'comply or explain'.

Q3.6. What are the main challenges and the key benefits of a parallel experimentation in the area of corporate reporting?

Resource constraints, the risks of confusing or alienating stakeholders, and the appropriate time-period are all issues that would need to be addressed.

Q4.1. Which obstacles, if any, should policymakers remove to allow for innovation in corporate reporting?

See answer to 3.5 above. Policymakers also need to address companies' concerns around possible litigation if they want to promote experimentation.

Q4.2. Do liability concerns, arising from non-compliance with reporting requirements, form a barrier to innovation?

Yes. See above.

Q4.3. Is the current structure of dialogue between policy makers and corporate reporting constituents effective? If not, how should this be improved?

Dialogue is fragmented along organisational, sectoral and professional lines. There is a place for a wider, more inclusive dialogue.

Q4.4. What other mechanisms are needed to ensure requirements can adapt over time to achieve better coordination and consistency between different pieces of legislation?

Difficult to say at this point: but use by regulators of the 'comply or explain' principle would help.

Q4.5. Do you have any examples of policies that enable innovation from your country? Should these examples be replicated at a European or an international level?

The ECIIA is an international confederation: so it would be inappropriate to comment on this: but there have been some relevant initiatives in some of the jurisdictions of our members.

Q4.6. Do you agree with the proposal for a group to assist in identifying the main challenges and the key benefits from new innovative proposals for the corporate reporting of the future?

The ECIIA would be happy to participate in, and contribute to, such discussions.

Q4.7. Are there any other suggestions you have for policymakers as to how they can foster innovation in corporate reporting?

For progress to be made, it is important that all relevant policymakers have a clear and sound understanding of the role of each actor involved in the process of establishing the processes and controls for corporate reporting and governance within companies, and how they interact. The ECIIA considers that the current consultation exercise offers a useful opportunity to educate those policymakers, in particular in relation to the 'three lines of defence' model; the integrated assurance approach and stands ready to contribute to that process.