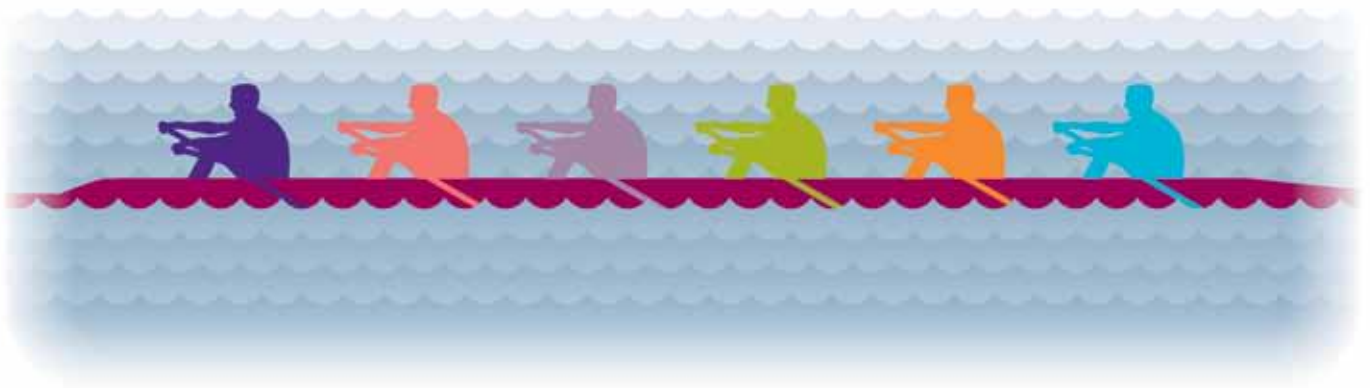




## AUDIT COMMITTEE BRIEFING

# The role of internal audit in non-financial reporting and integrated reporting



### Key points

- New regulations, from the UK Companies Act to the EU Non-financial reporting Directive have increased the focus on non-financial information in company reports
- As a result of a number corporate failures there is also increased public interest in companies' reporting on environmental, social, human rights, diversity and other issues
- Stakeholders including investors, customers, local communities, and legislative/regulatory policy-makers need to know that the information contained in these reports, collected from disparate parts of an organisation, is fit for purpose.
- Internal audit has a broad view across the organisation's systems and processes and it should have a role in providing assurance over the quality of information contained in the strategic and integrated reports.
- This key role is well within the remit of a well resourced, appropriately positioned and influential internal audit function.

*Our full report, including the four case studies (The Crown Estate, Marks & Spencer, SAB Miller and Philips) can be found here: [www.iaa.org.uk/nonfinancialreporting](http://www.iaa.org.uk/nonfinancialreporting)*

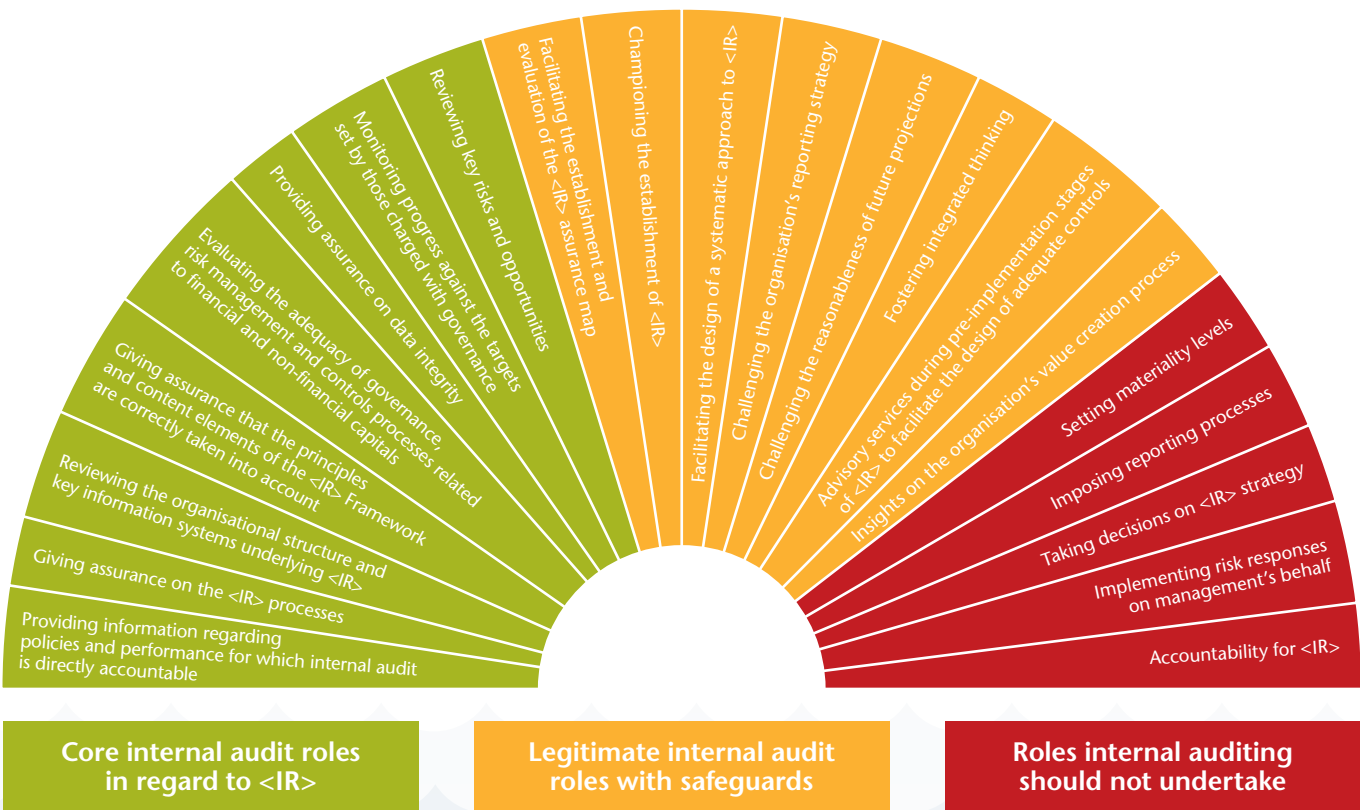
# Issues for internal audit

## Move from assurance to advisory role

Internal audit's role is likely to move from an advisory to an assurance role as the organisation's integrated reporting programme becomes more mature. As integrated reporting develops, internal audit will also be tasked with assessing the process by which the report is constructed by determining whether there are robust internal systems for producing the report. This falls comfortably within the existing remit of internal audit.

## Challenges in embedding integrated reporting

As an organisation moves towards integrated reporting there will need to be a full understanding of the different factors which affect value creation over time, and the connections and interdependencies between these factors. There will also need to be a more joined-up approach to the way information is drawn together from across the organisation to report on performance.



Guidance on integrated reporting suggests that some elements of integrated reporting can be difficult to implement (such as conciseness) or even seem contradictory (conciseness vs. completeness, transparency vs. competitiveness, reporting constraints vs. operational performance).

## Assurance around non-financial information and risk

There will be challenges relating to the internal controls, as there have been historically around any information that is presented outside of the finance process. The development of robust internal controls, however, has developed in other areas such as environmental impact and should do so too in integrated reporting.

Integrated reporting should also inform and improve risk management, providing additional focus on and measure of materiality i.e. those areas that matter to a business. There should be a responsibility to give a view on the reasonableness of both the process that delivers the conclusion and the conclusion itself. Internal audit can provide this view on non-financial materiality.

It is worth noting, however, that integrated reporting is a process in its infancy where there will be continued development, and claims of providing full, or even reasonable, assurance at this stage may later be seen as premature. Furthermore, whilst the degree of assurance which can be given in some areas may increase over time, there may remain areas where it will never be possible to provide assurance because of the nature of the reporting.

## Skills

Internal audit can contribute significantly to the relevance of integrated reporting by looking at 'new' reporting areas required for integrated reporting that need to be measured and qualitative judgements made, including areas such as sustainability.

Many of the skills within the internal audit community that will enable them to provide assurance around integrated reporting are already there. As the integrated reporting process becomes more established in an entity, internal auditors should be able to develop and practise those skills as they become more experienced in the field.

## Routes to integrated reporting

UK firms are already required to comply with the Strategic Report requirements of the 2013 Companies Act and to report on a range of non-financial factors. The FRC has released guidance on the Strategic Report for companies which states that the Strategic Report should be fair, balanced and understandable. Directors should also take into consideration the Strategic Report when ensuring that the annual report, when taken as a whole, is also fair, balanced and understandable. The FRC states that "the majority of the disclosures in the Directive are already reflected in the strategic report requirements in the Companies Act."

Internal audit functions that are already providing assurance around environmental, social and governance (ESG) factors are well on the path towards integrated reporting.



# About the Chartered Institute of Internal Auditors

First established in 1948, the Chartered Institute of Internal Auditors (IIA) obtained its Royal Charter in 2010. It is the only professional body dedicated exclusively to training, supporting and representing internal auditors in the UK and Ireland. It has over 8,700 members in all sectors of the economy including private companies, government departments, utilities, voluntary sector organisations, local authorities and public service organisations such as the National Health Service.

Over 2,000 members of the institute are Chartered Internal Auditors and have earned the designation CMIIA. Over 800 of our members hold the position of head of internal audit and the majority of FTSE 100 companies are represented amongst the institute's membership.

Members of the Chartered Institute of Internal Auditors are part of a global network of over 180,000 members in 170 countries. All members across the globe work to the same International Standards and Code of Ethics.

More information on the Institute is available at [www.iaa.org.uk](http://www.iaa.org.uk)

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