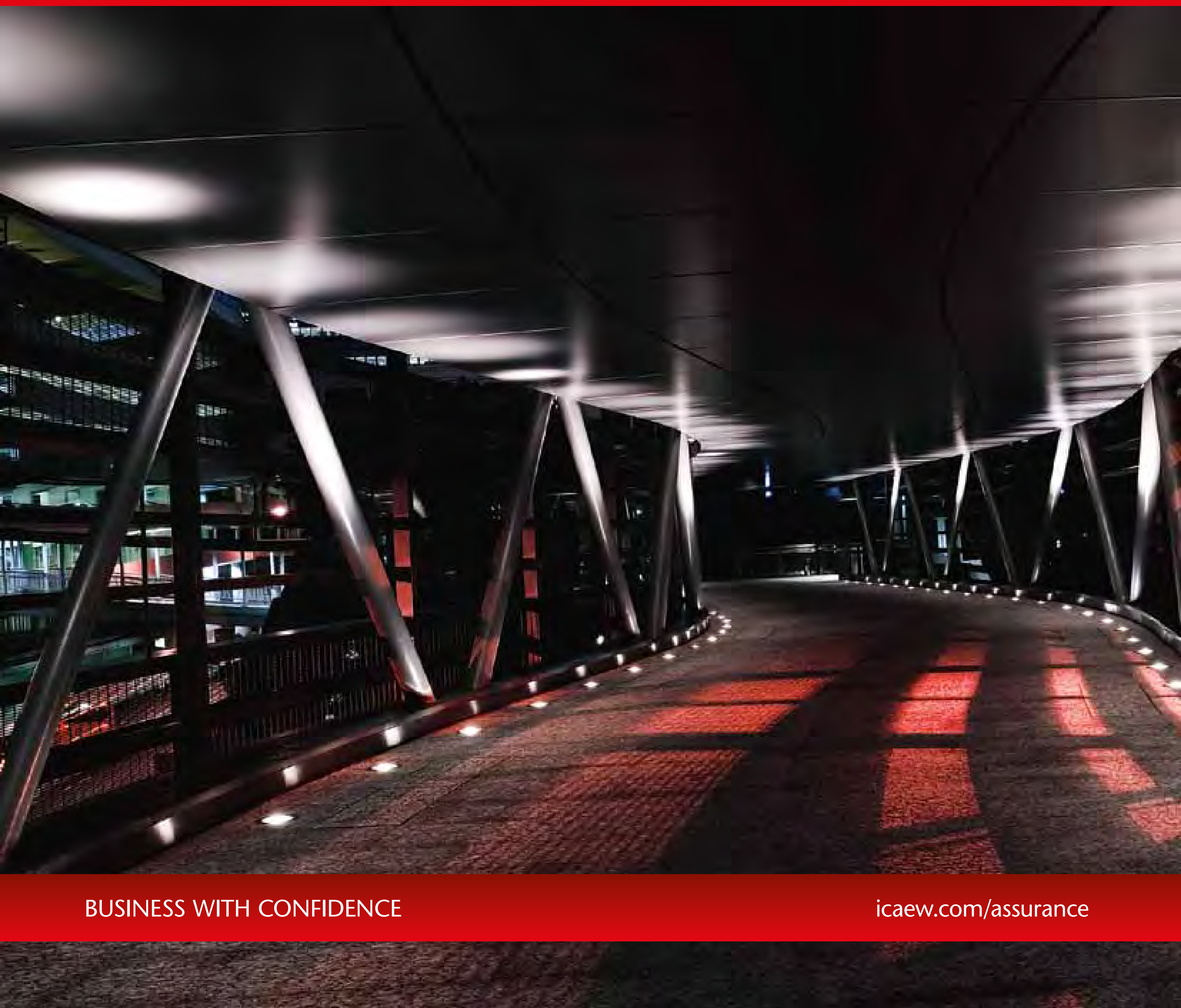
ICAEW AUDIT & ASSURANCE FACULTY

THE JOURNEY: ASSURING ALL OF THE ANNUAL REPORT?

RE: ASSURANCE INITIATIVE – BEYOND THE CURVE



ICAEW AND ASSURANCE SERVICES

All types of business, public and voluntary bodies, investors, governments, tax authorities, market regulators and their stakeholders need to be able to rely on credible information flows to make decisions. Confidence suffers when there is uncertainty about the integrity of information or its fitness for purpose.

ICAEW's Audit and Assurance Faculty is a leading authority on external audit and other assurance services. It is recognised internationally by members, professional bodies and others as a source of expertise on issues related to audit and assurance.

The *re:Assurance* thought leadership programme aims to:

- Find out where assurance services could strengthen markets and support economic confidence by making information flows more credible.
- Ask how the International Framework for Assurance Engagements can be applied and developed.
- Answer demands for practical guidance to meet emerging market needs.
- Share best practice examples and promote the high-quality assurance engagements already carried out by many ICAEW members.

WHAT ARE ASSURANCE SERVICES?

Assurance services are engagements in which an independent chartered accountant takes a close look at some specified business information, comparing it to agreed criteria. The accountant is then able to gather evidence to support a conclusion, which is provided in a written report.

The purpose of any assurance engagement is to build trust. When a chartered accountant signs an assurance report, they attach their reputation for expert knowledge and integrity. This makes the business information covered by the report more credible, and gives confidence to the people using that information.

To learn more about what assurance can do, take a look at the articles, guidance and reports on icaew.com/assurance or telephone Ruth Ward on + 44 (0)20 7920 8639.

ISBN: 978-0-85760-938-0

THE JOURNEY: ASSURING ALL OF THE ANNUAL REPORT?

RE: ASSURANCE INITIATIVE – BEYOND THE CURVE

CONTENTS

INTRODUCTION

Assurance services are carried out to build trust in business information. The most well-known example is the audit of the financial statements. The exact nature of an audit engagement, and the format of the report and related documents, has evolved. The underlying principle remains unchanged: it is valuable to invite an independent expert in to add credibility to the statements made by an organisation.

THE SCOPE OF FINANCIAL AUDIT

Audit is still an essential activity, providing assurance over the core financial data reported by an organisation. However, the scope of financial audit is limited to the financial statements, giving rise to an assurance gap where other business information in the annual report is concerned. The picture painted by the financial statements is predominantly historical, relating to the recent past, rather than forward looking.

Readers might assume that the audit report covers the whole of the annual report, but in fact the auditor's only responsibilities in respect of the information in the front half are:

- to report anything that comes to their attention that is not consistent with the financial statements or with the knowledge acquired in the course of performing the audit; and
- to react to any 'material misstatement of fact' that comes to their attention.

There is no requirement to provide an opinion or written assurance over the information other than the financial statements, which means there is no requirement for the auditor to go looking for factual misstatements. This can lead to another gap, an expectations gap, between what the audit report implies and what readers assume it implies.

THE POTENTIAL OF ASSURANCE

Beyond the financial statements a modern organisation has many other ways of publishing information about its finances and activities. Websites, preliminary announcements, press releases, quarterly updates, management accounts, and investor briefings all add to the amount of business information available. This information is used by investors, lenders, regulators and many others, all of whom need to know that it is trustworthy.

A professional accountant can provide an assurance report to add credibility to almost any piece of business information, whatever its form.[1] This is not to say that every professional accountant can provide assurance over every piece of information as there are some areas (such as oil and mineral reserves) where specialist knowledge will be required. The level of credibility that can be added will also vary from case to case, depending on the nature of the information. It is clear however, that assurance reports can enhance confidence in the information reported.

THE ASSURANCE JOURNEY

Assurance engagements have been developed to support business information in many different situations, and the common pattern of development has been one of a journey.

In the case of assurance over the annual report, there are a range of views as to where this journey should take us. Four scenarios for assurance are set out in this initial concept paper, together with five challenging questions that will need to be addressed as we move forwards.

A single assurance opinion covering the whole of the annual report is one possible outcome, but it is not inevitable. Assurance cannot be regarded as a panacea. If assurance providers want to move towards a single opinion, assurance must be developed as a service that adds value to companies, investors and society as a whole.

The ICAEW Narrative Assurance Working Party has been formed to explore the challenges and opportunities involved in assurance over the annual report. This concept paper sets out our initial observations and challenges, as a contribution to the current debate on assurance over narrative reporting. It will be followed by a longer report, exploring the issues in more detail.

[1] A good example of the potential of assurance can be found in ICAEW, TECH 01/13 CFF *Guidance on Financial Position and Prospects* (2013), pp23-28.

THE BEGINNING: A NEED FOR ASSURANCE

In the wake of the global financial crisis, trust in business and in the financial world has been severely damaged. Many people are asking what can be done to make business information more trustworthy. We believe that assurance on the annual report, going beyond the audit of the financial statements, is a vital part of the practical solution to this problem.

Professional accountants are already providing assurance opinions over information that is included in the annual report, but not in the financial statements. One good example is the report provided by KPMG for Channel 4, the television company, over some of the performance information included in their annual report.

Assurance over information in the annual report: Channel 4 case study

'Effective accountability and transparent reporting are important to the Channel 4 Television Corporation. As a publicly-owned broadcaster with a remit enshrined in legislation, Channel 4 is accountable to a range of stakeholders and the general public for its performance. So as well as meeting its statutory reporting requirements and those placed on it by regulators such as Ofcom, back in 2009, Channel 4 introduced its own 'public impact methodology' – voluntarily. This was used to monitor its performance against a 'basket of key measures' and after the results had been independently assured by the accountants KPMG they were published in Channel 4's annual report – helping this to win an award from *Accountancy Age* to go along with the many awards the television corporation has won for its programming.'[2]

FTSE 100 companies are increasingly likely to obtain assurance reports over business information that may not be included in the annual report. A good example is an assurance report provided by EY over sustainability information published online by BP in 2012. In both the Channel 4 and BP examples, the same international assurance standard has provided a technical framework for the engagement. The sustainability assurance market has also benefitted from the presence of widely known principles developed in the AccountAbility assurance standard.

Assurance over information published online: 2012 sustainability web content at BP

'BP recognizes the importance of external and internal assurance – from verifying a report to the independent monitoring of a project

We believe that independent assurance reassures readers and BP's management that the information we publish is accurate, complete and material, and therefore contributes to building trust and credibility with key interest groups.

External assurance of sustainability reporting

We engage professional auditors who combine the strengths of financial auditing experience with technical competency in environmental and social standards.

As in previous years, we asked our group auditors Ernst & Young to provide assurance on our sustainability reporting based on the principles of the AccountAbility AA1000 Assurance Standard and the ISAE3000 – International Federation of Accountants' International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. This is the fourth year that our report has been assured against the revised AccountAbility AA1000 Assurance Standard 2008 principles of inclusivity, materiality and responsiveness.'[3]

Accountants from audit firms also report that many of their clients are obtaining private assurance reports for internal use. The fact that some organisations are already seeking more wide ranging assurance reports indicates that there is a market need for more assurance than is required by law. It also indicates that this need can be met, at least in part, by professional accountants making use of existing standards and techniques.

[2] ICAEW, KPMG/Channel 4 Assurance Insights case study, www.icaew.com/~/media/Files/Technical/Audit-and-assurance/assurance/assurance-insights-kpmg-c4.pdf.

[3] www.bp.com/en/global/corporate/sustainability/about-our-reporting/assurance.html.

CONTEXT: WHO USES THE ANNUAL REPORT AND ACCOUNTS?

Business information needs to be, and be perceived to be, trustworthy so that people external to the business can make decisions based on that information and hold businesses to account. It is important, therefore, to determine who is using the annual report and accounts as a basis for decision making.

SHAREHOLDERS, INVESTORS, AND ASSET MANAGERS

The primary audience for the annual report and accounts is the holders of ordinary shares, as the providers of the risk capital and bearers of the residual risk. The annual report and accounts should be prepared so as to provide them with the information they need for the purposes of deciding to buy, sell or hold their shares and to help them fulfil their responsibilities as owners – assessing the directors' stewardship of the company and the strategies adopted for the longer term.

The fact that the information is subject to quality assurance is pivotal to ensuring that markets value the information reported. Investors need to be able to believe what they are told about the financial position of their investee companies. If this presumption is exposed as flawed, then confidence in the system would be severely undermined.

The information is supplemented by investor briefings, press releases, company websites, and many other sources. However, the annual report remains the first point of reference, and is therefore likely to be the primary source of in depth information for casual or private investors. It also has an important confirmatory role for the market as a whole.

ANALYSTS

Professional analysts have a great deal of responsibility for understanding business activity and interpreting it against the background of the economic climate. Out of all the information included in the annual report and accounts, however, it is likely that only some metrics will be of real importance for analysis, and these will change over time. As this analysis will often lead to an invest/disinvest/hold recommendation, it is fair to say that they are making use of business information to make decisions. These decisions will support those of shareholders, investors, and asset managers.

JOURNALISTS

When a big multi-national business publishes its annual report and accounts, journalists may be interested in reporting some of the key information. However, given the easier access to key pieces of information provided by press releases, it is likely that the full length annual report and accounts will be of lesser interest. It should also be noted that journalists are more likely to be passing the information on to their readers rather than using it for decision-making themselves.

REGULATORS

A regulator commonly has access to direct sources of information from their subject bodies, in addition to that already available in the public domain. However, the law may require specific disclosures in the annual report as a means of regulating companies.

EMPLOYEES AND OTHER STAKEHOLDERS

Unless a business is employee-owned, it is unlikely that employees will be making frequent decisions based chiefly on the information presented in the annual report and accounts. However, employees, and many other stakeholders such as local community groups, do have an interest in understanding how a business works and may need to be able to hold that business to account.

CONCLUSION

A range of different stakeholders have an interest in information presented in annual reports, but it is clear that financial investors, shareholders, and those that advise them are the groups most likely to be making significant investment and stewardship decisions based on that information. This does not mean that the needs of other stakeholders are irrelevant, but it does mean that a lack of trust in the annual report will affect the business primarily through the impact it has on investors.

CONTEXT: CHANGES TO NARRATIVE REPORTING

One of the many impacts of the global financial crisis has been a re-evaluation of the nature and impact of narrative reporting. Requirements vary from one jurisdiction to another. In the UK, the Department for Business, Innovation and Skills (BIS) introduced a new requirement for companies to prepare a strategic report as part of their annual report. BIS has expressed eagerness for companies to experiment in the interests of producing a more useful annual report.

> 'The Financial Reporting Council's (FRC) aim is to promote high quality corporate governance and reporting to foster investment. The FRC believes that encouraging entities to prepare a high quality strategic report – which provides shareholders with a holistic and meaningful picture of an entity's business model, strategy, development, performance, position and future prospects – is a key part of achieving this aim.'[4]

Initiatives such as the Integrated Reporting <IR> project are attempting to design a reporting framework that better represents the whole of the business and its prospects. This will integrate, rather than merely combine, financial information, sustainability reporting, and other disclosures. The ICAEW Narrative Assurance Working Party intends to work with the International Integrated Reporting Council (IIRC) to explore the practicalities of assurance over <IR> reports.

> 'The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that corporate reporting needs to evolve to provide a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.'[5]

'FAIR, BALANCED, AND UNDERSTANDABLE'

Another recent development to the annual report in the UK is a requirement that directors include a statement affirming that the annual report and accounts, taken as a whole, is fair, balanced and understandable. This illustrates the connection between the contents of the annual report and its assurance, and underlines the need for assurance to develop further. In order to feel comfortable making this assertion, directors may well seek private comfort from accountants on this area. This could even be provided by their auditors, to the extent that this is considered acceptable under ethical standards on independence.

Once best practice is established, companies may find it beneficial to demonstrate their integrity through the inclusion of an independent accountant's assurance opinion on whether the annual report and accounts are fair, balanced, and understandable.

> When the FRC updated the UK Corporate Governance Code in late 2012 the accountability section was revised. The main principle remained:
>
> **'The board should present a fair, balanced and understandable assessment of the company's position and prospects.'**
>
> However, some of supporting guidance changed. Directors are now required to include a statement to the effect that:
>
> '…they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.'[6]

[4] Exposure Draft: Guidance on the Strategic Report, FRC, p3.
[5] Consultation draft of the international <IR> Framework, IIRC, p1.
[6] UK Corporate Governance Code. FRC, pp17 and 30.

THE REPORTING FRAMEWORK

An auditor must evaluate whether financial statements are prepared in accordance with an acceptable financial reporting framework. The framework is needed to ensure that there is a common understanding of what good financial statements should look like. Part of the journey towards assurance over the whole of the annual report is the development of a shared understanding of what a good annual report should look like.

The existing assurance standards could support assurance opinions on whether the annual report had been prepared in accordance with such a reporting framework. The level of assurance provided could vary depending on the needs of businesses and investors.

Levels of assurance

Under current assurance standards, a report can offer one of two possible levels of assurance:

- **Assurance expressed in negative terms (limited assurance)**
  This is the kind of assurance provided by, for example, independent examinations of charity accounts. The report contains a conclusion drawn in negative terms. For example: 'nothing has come to my attention during the course of my work to indicate that this information is not fair, balanced, and understandable'.
- **Assurance expressed in positive terms (reasonable assurance)**
  A statutory audit of the financial statements is an example of a reasonable assurance engagement. The report contains an opinion expressed in positive terms. For example: 'in my opinion, in all material respects, this information is fair, balanced, and understandable'.

Expressing an opinion in positive terms gives a higher level of comfort, and is therefore likely to prove more valuable to investors. However, expressing assurance in negative terms allows for greater flexibility about the scope of the work performed in order to reach the conclusion. More evidence is required to support assurance expressed in positive terms, and the engagement can prove more of a burden. Limited assurance can provide a lighter touch, or form a cost-effective half-way house for an organisation in the process of developing its assurance regime.

'BALANCED AND REASONABLE'?

In discussing the changing nature of narrative reporting and the need for assurance, this paper enters into an existing debate. One set of proposals in particular is relevant: the suggestions put forward by the Institute of Chartered Accountants in Scotland (ICAS) in their recent discussion paper, *Balanced and reasonable.*

> 'We envision that a new assurance spectrum may require to be developed to meet the needs of users in the future. It is envisaged that such a spectrum would allow auditors to provide a broader range of assurance than is possible at present. We believe that a 'balanced and reasonable' opinion will take the form of a 'medium assurance' engagement, which would provide a lower level of assurance than that provided by an audit engagement, but greater than that provided by a review engagement.'[7]

ICAEW agrees with ICAS that assurance over every element of the annual report, both numerical and narrative, could be achieved and be highly valuable. Our approach varies, however, in that we do not think it is necessary to set aside existing standards for this purpose, or to provide an opinion on the whole annual report in one great leap forward.

Accountants are already providing assurance over narrative elements of company reports under the existing framework. Companies are already considering whether their annual report meets the FRC's 'fair, balanced, and understandable' requirement. Recognising and building on this existing work will allow the profession to develop assurance in step with the needs of the preparers and the users of annual reports.

[7] *Balanced and reasonable*, ICAS, p4.

THE JOURNEY: WHERE ARE WE GOING?

Broadly speaking, there are four scenarios for assurance over narrative reporting:

Scenario	Details	How might we get there?
No assurance is given over any part of the annual report apart from the financial statements.	Currently there is no requirement for assurance over any part of the annual report. However, the auditor of the entity is still required to read information disclosed elsewhere in the annual report to assess, among other things, consistency with the financial statements.	This is the current situation for many companies, but some are already making greater use of assurance reports. Though there is no need to publish an assurance report over other aspects of the annual report, directors can obtain private assurance reports to gain confidence over any significant area. As these reports are confidential by definition, it is not clear how common this is.
The audit report is accompanied by an assurance report covering one or two other aspects of the financial statements.	Some pieces of information in the annual report will be of more interest to investors than others. A retailer might want to add credibility specifically to their calculation of sales growth, for example, or a construction business to reassure investors about the state of their order book. Separate assurance reports could be provided, each covering a specific piece of information. These might vary from company to company, though we would expect to see sector trends emerge.	Directors remain responsible for the disclosures made in the annual report, and may want an extra assurance report for their own comfort, perhaps in private as discussed above. Once an assurance report is available, publishing it to reassure users of the annual report is a natural next step. We have already seen some organisations doing this.
The audit report is accompanied by an assurance report covering most of the rest of the annual report. Innovation may be needed to keep this report brief and readable.	Once the elements of the annual report covered by assurance began to expand, a single report could provide an opinion over a wide range of information. The assurance report might be included in one place in the document, but a kitemark could be used next to each piece of information that it covered, to make its range clear to an investor.	A successful assurance engagement and report over one area might lead to attention focusing elsewhere. With greater understanding of the business and its systems, the assurance provider could expand the scope of the engagement. As the scope grows, the information covered by the assurance report will need to be clearly identified as such if investors and other users of that information are to benefit.
A single assurance report replaces the audit and gives one opinion over the whole of the annual report.	Finally, once most of the information in the annual report is covered by an assurance opinion, it is possible that the report could give one opinion to cover everything not already under the scope of the audit. This could then be combined with the audit report, so that a single report covered the whole of the annual report and accounts.	As the scope of assurance grows, the challenge of moving from separate assurance engagements to a single engagement covering the whole of the annual report will shrink. Some elements will prove harder to bring into the assurance process than others, but over time we believe that this can be achieved. The most efficient way to approach this might be for the company to use one provider of assurance. This could lead to some complications as assurance providers struggle to develop the breadth of experience to support the developing market.

It is not inevitable that we will see a linear journey through these scenarios, or that we will see any development beyond the first scenario which represents the current status quo. The demand for assurance may remain muted, or may be met by those outside the accountancy profession.

ICAEW believes that the independent professional judgement of a qualified expert is more valuable than any of the other options that companies might turn to for assurance. A trained expert from a regulated profession can bring a wider skills base to bear, and professional scepticism. The journey towards a full assurance process brings with it an external perspective on the systems and controls in place to support the business information cycle. This provides clear benefits to the company even before the assurance report is published.

A number of challenges remain to be addressed before assurance is provided over the whole annual report. Investors and other users of the annual report may not benefit from assurance over all of the information customarily included. Questions about assurance are connected to questions about content. If users do not value a piece of information being rendered more trustworthy, is that information relevant enough to users to be included in the report at all?

In practical terms, much depends on the developing market for these engagements, and the level of demand from investors. It is possible, of course, that regulators in any given jurisdiction could decide to short circuit this debate by requiring an assurance report over the whole of the annual report. Currently, as the developing market is in the process of resolving issues by practical experience, ICAEW would strongly advise against imposing a theoretical solution.

THE JOURNEY: HOW DO WE GET THERE?

Existing assurance standards are not restrictive and they provide support for firms and businesses to experiment with assurance. As discussed earlier, this experimentation takes place in the context of changes to narrative reporting and of interest from users of the annual report and accounts, primarily investors.

It is in the interests of governments, regulators, and the wider economy as a whole to see trust and therefore confidence in business information, encouraging investment and economic activity. As the annual report changes, there should be consultation not only with investors who seek assurance but also with the professional accountants who can provide it.

MEETING THE CHALLENGES

The ICAEW Narrative Assurance Working Party has been formed to map out the journey towards the effective and widespread use of assurance over management commentary. The group includes not only assurance providers but also analysts and investors who make use of annual reports.

We have started by identifying a few of the difficult questions that are currently being addressed by assurance providers. A consensus on best practice in these areas must be established if an assurance opinion is to be provided over narrative information at all. As these questions are answered, ongoing engagement with investors and companies should give rise to an understanding of how assurance can be used effectively.

1. What does 'fair, balanced, and understandable' mean in practice?

In order to sign off an assurance opinion, an assurance provider will need to be able to determine what a 'fair, balanced, and understandable' piece of narrative reporting should look like.

When the subject of the assurance opinion is a number drawn from background data, this is relatively simple. It becomes more complex if there is no agreed industry standard on how that number should be calculated. The journey towards providing assurance over industry metrics is likely to benefit analysts and investors by motivating businesses and sectors to agree on clear, comparable calculation methods.

When the subject of the assurance opinion is a narrative statement, perhaps a value judgement, it may prove more challenging. We do not think that it will be impossible to provide assurance on narrative statements, as the significant claims made in a piece of narrative should be identifiable and can be evidenced. Professional accountants who perform audits have a wealth of experience on how to assess numerical information. The way to build up a similar pool of knowledge on how to assess narrative information is to encourage experimentation and share best practice.

2. How can a business preparing an annual report, and their assurance provider, know what the content of the annual report should be?

The information presented in the annual report varies from one organisation to the next, and from one sector to the next. The assurance provider will need to have some way of judging what should be included and what excluded. This particularly relates to the 'balanced' element of 'fair, balanced, and understandable'.

In the absence of a single agreed framework on the contents of the annual report, assessment can still be made in the present through a process of dialogue with shareholders and investors. In time, this is one of the areas where developments in reporting conventions will directly shape the assurance engagement.

3. How do a business preparing an annual report, and their assurance provider, decide what is material in a narrative report?

Materiality is a key concept in audit and assurance. Materiality is the line by which an assurance provider separates the trivial (such as 50p lost down the back of the sofa) from the important (such as £50m accidentally paid into the chief executive's private bank account).

Deciding where to draw the materiality line is always a judgement call, and it involves more than just deciding how much is too much. For example, a £100 mistake in a set of transactions that add up to £100m is not likely to be material because of its value. If it became clear that that £100 had been fraud on the part of one of the directors, then despite its small value it could still be material because of its sensitive nature.

The accountancy profession has clear guidance on materiality in the context of financial matters, set out in ISA 320. It is not yet clear how an assurance provider should determine what is material in a narrative report.

ISA (UK and Ireland) 320: Materiality in the Context of an Audit

2. Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:

   - Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
   - Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
   - Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.[8]

Making a judgement about the significance of qualitative information is notoriously difficult. The underlying principle is that anything which might influence the economic decisions made by those using the information should be considered material. This suggests that the best way of developing some rules of thumb for materiality in narrative information would be an open discussion with investors and analysts.

4. How can an assurance opinion on risk disclosures conclude that they are fair, balanced and understandable?

Businesses are increasingly being required to disclose information about the risks that they judge to be significant. This is a natural response to the financial crisis, an attempt to ensure that the risks inherent in any given way of doing business are revealed so that an industry is less likely to be taken by surprise.

There are many questions for an accountant looking to provide an assurance opinion over risk disclosures. Are the right risks included? Are enough risks disclosed? Conversely, has the business disclosed too many risks, camouflaging a real source of concern? The decision on what risks to disclose is the responsibility of management, but an assurance provider will need to know what a fair and balanced list of risks should look like in order to give an opinion.

Further discussion of the difficulties associated with reporting business risks can be found in ICAEW's report *Reporting business risks: meeting expectations*. As that report points out, 'subjectivity seems to be a problem that is inherent to risk reporting'.[9] A financial statement audit already includes an assessment over information that is a matter of judgement, such as accounting estimates. An assurance opinion over risk disclosures is certainly possible, but not until there is more clarity about how risks should be assessed and reported by a company.

[8] FRC, ISA (UK and Ireland) 320, p2.

[9] *Reporting business risks: meeting expectations* (2011) ICAEW, p20, s3.2.

5. How can an assurance opinion over forward-looking information be supported with evidence?

Some of the most useful information provided by a business in its annual report is focused on the future rather than the past. Forward-looking information is difficult to evidence because it is not possible to assess confidently how accurate a prediction is until the event it refers to has occurred. That is, there is no evidence available at the time of the prediction that will confirm the outcome of that event.

Fortunately, there is a developed body of knowledge as professional accountants already provide assurance over forward-looking information. Forward looking key performance indicators such as oil reserves, roll-on percentages in general insurance, or the state of an order book are further examples of information relating to future performance that can be supported with some evidence.

Even predictions of the future in some cases are covered by assurance opinions. Directors of a company seeking listed status in the UK are required to establish procedures to make proper judgements about the financial position and prospects of the company. Once the directors assert that they have established these procedures on a reasonable basis, professional accountants frequently provide assurance reports.

The focus of these assurance reports is not on the accuracy of the predictions about the future, but on the nature of the procedures used to generate those predictions.[10] However, the regulations state that a professional accountant should not give a report if they consider that the assumptions are unreasonable. So the act of giving the report is, in a sense, a silent indicator that the professional accountant is happy with the assumptions. It remains to be seen how useful this precedent will be from the perspective of the annual report.

[10] A good example of assurance over prospective information can be found in the Auditing Practices Board's (APB's), Standards for Investment Reporting (SIR) 3000, *Investment reporting standards applicable to public reporting arrangements on profit forecasts*, pp31-33

CONCLUSION

Businesses need to convince investors that their information is trustworthy. Investors and analysts need to be confident in the information that shapes their economic decisions. Professional accountants are in a position to meet this need, bringing both their professional expertise and their professional integrity to the task.

Existing assurance standards and current practice provide a strong starting point for this assurance journey. More work is needed, however, to address the challenges and to make sure that assurance reports over narrative information truly meet the needs of those relying on that information.

Over time best practice can be identified, based on experience, and this should then be drawn together to form more specific standards and guidance. Accountants, analysts, investors, companies and regulators should work together to apply assurance to narrative reporting. The goal should not be a specific model of reporting, determined in advance. A compliance requirement that does not fit the situation is likely to lead to increasing volumes of boilerplate disclosures from the business, and an assurance report that creates significant costs without adding practical value. Instead we should be working towards a situation in which assurance creates a climate of trust and openness that permits everyone to do business with confidence.

APPENDIX 1: NARRATIVE ASSURANCE WORKING PARTY

CHAIR

James Roberts
Partner, BDO

MEMBERS

Helen Brennan
Director, KPMG

David Chopping
Partner, Moore Stephens

Frank Curtiss
Head of Corporate Governance, RPMI Railpen Investments

Stephen Eames
Partner, Mazars

Richard Gillin
Director, Deloitte

Tom Haywood
Financial Reporting and Analysis Adviser, CFA

Josephine Jackson
Director, Grant Thornton (correspondent member)

Shonaid Jemmett-Page
Non-executive director, GKN plc

Liz Murrall
Director, Investment Management Association

Vincent Papa
Director, CFA Institute

Geoff Swales
Director, PwC

John Ward
Consultant

Richard Wilson
Partner, EY

ICAEW is a world leading professional membership organisation that promotes, develops and supports over 140,000 chartered accountants worldwide. We provide qualifications and professional development, share our knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession.

As leaders in accountancy, finance and business our members have the knowledge, skills and commitment to maintain the highest professional standards and integrity. Together we contribute to the success of individuals, organisations, communities and economies around the world.

Because of us, people can do business with confidence.

ICAEW is a founder member of Chartered Accountants Worldwide and the Global Accounting Alliance.

www.charteredaccountantsworldwide.com
www.globalaccountingalliance.com

Chartered Accountants Worldwide

GAA Global Accounting Alliance

ICAEW
Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

T +44 (0)20 7920 8450
E tdaf@icaew.com
icaew.com/assurance

facebook.com/icaew
twitter.com/icaew
linkedin.com – ICAEW