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April 29, 2017

Re: The International Integrated Reporting Council (IIRC)
International <IR> Framework Implementation Feedback

To Whom It May Concern:

The Institute of Internal Auditors (IIA) is pleased to share the following implementation feedback on the International <IR> Framework. As an organization that has aided sound governance and risk management efforts in public- and private-sector organizations for more than 75 years, The IIA supports all efforts to encourage strong governance and internal control and an enterprise-wide approach to risk management.

On behalf of more than 185,000 global members of The Institute of Internal Auditors (IIA), the following comments were submitted to the IIRC on April 29, 2017.

Questions:

1.a What is your experience with the multiple capitals approach in integrated reports?

No comment

1.b What, if anything, should be done and by whom to improve this aspect of the implementation?

Organizations that are looking to improve their approach to integrated reports from a multiple capitals perspective can look to internal audit for both insight and assurance.

- With its enterprise-wide understanding of the organization, internal audit understands the risks, opportunities, and interdependencies of <IR> capitals (financial, manufactured, intellectual, human, social and relationship, and natural). For an organization implementing <IR>, internal audit should be actively involved on the project team from its inception, leveraging its enterprise-wide understanding to lend advice and insight to the development and implementation of a multiple capitals approach to integrated reports. However, for obvious reasons of potential impairments to both independence and objectivity, internal audit should not own, or be responsible for the implementation of, <IR> processes, policies, or procedures.

- For integrated reports to be seen as a reliable instrument for assessing an organization's ability to create value in the short, medium, and long term, organizations will need to find a suitable way to provide assurance regarding the information on each of the capitals reported therein – paying particular attention to IT systems that generate the source of data. Internal audit can provide a third line of defense in effective risk management and controls for the multiple capitals approach to integrated reports, as it is already accustomed to providing a third line of defense for an organization's other reporting objectives.

2.a What is your experience with connectivity in integrated reports as an indication of integrated thinking and/or enabler of enhanced decisions?

No comment

2.b What, if anything, should be done and by whom to improve this aspect of the implementation?

Integrated thinking addresses not only how an organization approaches external reporting, but also how it looks at its business activities. Integrated thinking challenges an organization to draw connections between disparate reporting elements to communicate a more accurate and complete picture of value creation. In action, <IR> has the potential to break down silos and lead to greater innovation, according to the report "Integrated Reporting and the Emerging Role of Internal Auditing," published by The Institute of Internal Auditors (IIA) in 2013. This is congruent with the three lines of defense model detailed by The IIA in its 2013 position paper, "The Three Lines of Defense in Effective Risk Management and Control." Three lines of defense serve to break down silos for risk management and control processes to integrate and coordinate activities among:

1. Operational managers who own and manage risks (first line);
2. Functions that oversee risks, such as risk management and compliance functions (second line);
3. Internal audit, a third line of defense that provides independent assurance on the effectiveness of governance, risk management, and controls.

Internal audit can, and should, transfer its knowledge and experience in integrating and coordinating activities among the three lines of defense, to reinforce the organization's efforts to break down silos, leading to integrated thinking.

3.a What is your experience with the identification, in integrated reports, of key stakeholders' legitimate needs and interests and how those needs and interests are considered and addressed?

No comment

3.b What, if anything, should be done and by whom to improve this aspect of the implementation?

Internal audit is uniquely situated within an organization to provide insight on, and support for the implementation of, integrated reporting. As a trusted advisor, internal audit can influence the adoption of <IR> to improve and strengthen communications with internal and external stakeholders.

4.a What is your experience with the Framework's definition of materiality, in particular:

- Application of the value creation lens?
- Use of different time periods to identify material matters?

4.b What, if anything, should be done and by whom to improve this aspect of implementation?

The Framework's definition of material/materiality is: "A matter is material if it could substantially affect the organization's ability to create value in the short, medium, or long term." This concept of materiality requires professional judgment and insights to determine or predict when a matter reaches the threshold to substantially affect the organization.

The internal audit function has considerable experience in enterprise risk management, which similarly to <IR>, must be an integral part of how business is done and has a strong relationship with value creation and value preservation. Internal audit is adept at evaluating and understanding the

likelihood and impact of risks and opportunities on the ability of the organization to meet its objectives. Leveraging this experience, internal audit can assess the connection between objectives and value, and help the organization evaluate, understand, and communicate the degree to which a matter will have a material effect (negative or positive) on the organization's ability to create value in the short, medium, or long term. This includes providing assurance that management is basing its conclusions about materiality on information that was sufficient, reliable, relevant, and useful.

5.a What is your experience with the conciseness of integrated reports?

No comment.

5.b What, if anything, should be done and by whom to improve this aspect of implementation?

No comment.

6.a What is your experience with the reporting of business model information, particularly outputs and outcomes?

No comment.

6.b What, if anything, should be done and by whom to improve this aspect of the implementation?

No comment.

7.a What is your experience with whether reports: (i) identify the involvement of those charged with governance, and (ii) indicate that they are presented in accordance with the Framework? What are the implications of excluding such information?

No comment.

7.b What, if anything, should be done and by whom to improve these aspects of implementation?

No comment.

8.a What is your experience with the application of these remaining Guiding Principles in integrated reports? (the guiding principles referenced are:)

1. Strategic focus and future orientation

2. Reliability and completeness (see Assurance on IR, Overview of Feedback and Call to Action)

3. Consistency and comparability.

No comment.

8.b What, if anything, should be done and by whom to improve these aspects of implementation?

Regardless of the assurance model, internal audit is well-suited as a key contributor of both direct assurance and support for assurance provided by others. Internal audit also is uniquely situated within an organization to provide insight on, and support for the implementation of, integrated reporting. Internal audit:

a. Is familiar with the strategic objectives of the organization, and the processes implemented to achieve those objectives;

b. Can effect consistency of communication of metrics across business units;

c. Should provide internal assurance to increase the credibility of metrics in the integrated report;

d. Is uniquely positioned to offer insight on potential risks to the organization;

e. Can be perceived as a trusted advisor that can positively influence the adoption of <IR> to improve and strengthen communications with internal and external stakeholders;

f. Is adept at working with external assurance providers.

The IIA strongly believes that internal audit plays at least three critical and distinct roles in supporting the reliability and creditability of <IR>. These roles are:

1. For a company implementing <IR>, internal audit should be actively involved on the project team from its inception, to lend advice and insight to the implementation activity and to be in

a position to provide assurance to those charged with governance that the implementation is being done effectively. However, to avoid the perception of or actual impairments to both independence and objectivity, internal audit should not own, or be responsible for the implementation of, <IR> processes, policies, or procedures.

2. For a company that implements some or all aspects of <IR>, internal audit should provide assurance on the accuracy and reliability of the data being reported, both internally and, as appropriate, externally.

3. And, for a company that has some aspect of <IR> receiving external assurance, internal audit should partner with the external assurance providers to ensure the assurance engagement is conducted in a cost-effective, efficient, and reliable manner.

9.a What is your experience with how these remaining Content Elements are reported in integrated reports?

No comment.

9.b What, if anything, should be done and by whom to improve these aspects of implementation?

See comment at Q8b.

10.a Aside from any quality issues already raised in Q1-9, what is your experience with the quality of integrated reports?

No comment.

10.b What, if anything, should be done and by whom to improve this aspect of implementation?

No comment.

11.a What is your experience with enablers, incentives or barriers to Framework implementation not covered by other questions, including the extent to which they apply particularly to:

- Specific jurisdictions?
- Large or small organizations?
- Private, public or non-profit sectors?
- Different stages of Framework implementation?

No comment

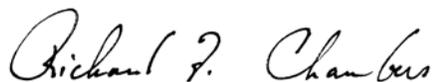
11.b What, if anything, should be done and by whom to improve these aspects of implementation.

No comment.

The IIA appreciates the opportunity to offer its comments, observations and insights on this important framework and stands ready to support <IR>'s continuing efforts to enhance sustainable development through sound governance, risk and control.

Sincerely,

Best regards,



Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA
President and Chief Executive Officer