

Counting more than only Euros

A discussion paper about new ways for the accountability and assurance of non-financial information



NIVRA-debating sessions 2009

Title

Counting more than only euros

A discussion paper about new ways for the accountability and assurance of non-financial information

Project manager

Michèl Admiraal RA, advisor Royal NIVRA

Project group

Drs. Ron Admiraal RA, drs. Wim Bartels RA, Marcel van Dijk RA RE CIA CISA, drs. Didi Hoezen, Jennifer Iansen-Rogers, drs. Robert Mul MPA (chair), drs. Bob Seemann RA, drs. Annemiek Tavecchio, dr. Rudi Turksema, Maureen Vermeij-de Vries RA and Marc Wagemans B.ec.

Guidance committee

Prof. Hans Gortemaker RA (chair), drs. Hans Huisman RA, dr. Nancy Kamp-Roelands RA, prof.dr. Barbara Majoor RA, drs. Robert Mul MPA and prof.drs. Arie Verberk RA.

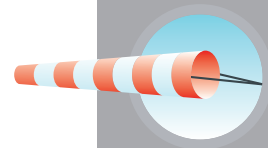
Editing

Michèl Admiraal RA, advisor Royal NIVRA (author) and Jennifer Iansen-Rogers (reviewer).

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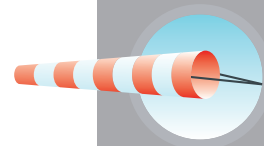
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Foreword

The past few years have seen a growing focus on non-financial information (NFI) in both the public and the private sector. The success of an organization is not only judged by financial results, but also by other information. Users want more insight in strategic goals, performance, compliance or risk management systems. The annual report is just one means of communication; non-financial information can be presented in many ways.

Users want information for their economic decision making. Reliability is paramount, but relevance, understandability and comparability are also important. When users and providers of information (in this paper called: preparers) think it important that this information should be examined by an independent professional, the auditor comes into picture. Providing assurance for financial statements is the core competence of the auditor. However, he can render many more services and these are not restricted to financial information only. As advisor or reporter of factual findings he also can add value to information. His role may already start by giving advice on how to construct and implement an information system. It is crucial that the auditor maintains a permanent dialogue with the preparer and the users of the information. However, he is not the only professional on the subject of non-financial information; there are various competitors. Therefore the auditor needs to be prepared to fully exploit his competences.

The increasing importance of non-financial information prompted the Royal NIVRA to start a Key Project on this subject in mid-2008. After a successful project for the public sector which resulted in the NIVRA guide *Non-financial information in progress* in 2008, it was decided to give the Key Project a broader perspective. Not only the perspective of the auditor, but also that of the user and the preparer of non-financial information was addressed. One of the conclusions of the project is that it is not the nature of the information that is relevant to the role of the auditor, but the stage in its development.

The discussion paper *Counting more than only Euros* is the result of the NIVRA Key Project. The English version summarizes the main issues of the Dutch paper that are also relevant at an international level. It formulates nine propositions for discussion. These are intended for everyone who is involved in non-financial information; preparers, users and auditors alike. The publication concludes with three recommendations, as a call for further action. One of them is to set up a NIVRA task force for non-financial information, an operational task force to stress the importance of reliable non-financial information and to promote the different roles of the auditor.

The discussion period ends on March 31, 2010. The Royal NIVRA urges the readers of this paper to participate in the discussion and to respond to the propositions and recommendations. Your response should be directed to the project manager, Michèl Admiraal RA (0031 203010319 or m.admiraal@nivra.nl).

Drs. B.G. Wammes
Chief Executive Royal NIVRA

February 2010

Summary

The discussion paper *Counting more than only Euros* is the result of the NIVRA Key Project *Accountability and assurance of non-financial information*. The project started mid-2008 and culminated in the publication of the Dutch version of this paper on Januari 14, 2010.

The English version of the discussion paper is divided into three parts:

- Chapter 2: A survey of non-financial information.
- Chapter 3: Nine positions for further discussion.
- Chapter 4: Three recommendations for future action.

Non-financial information

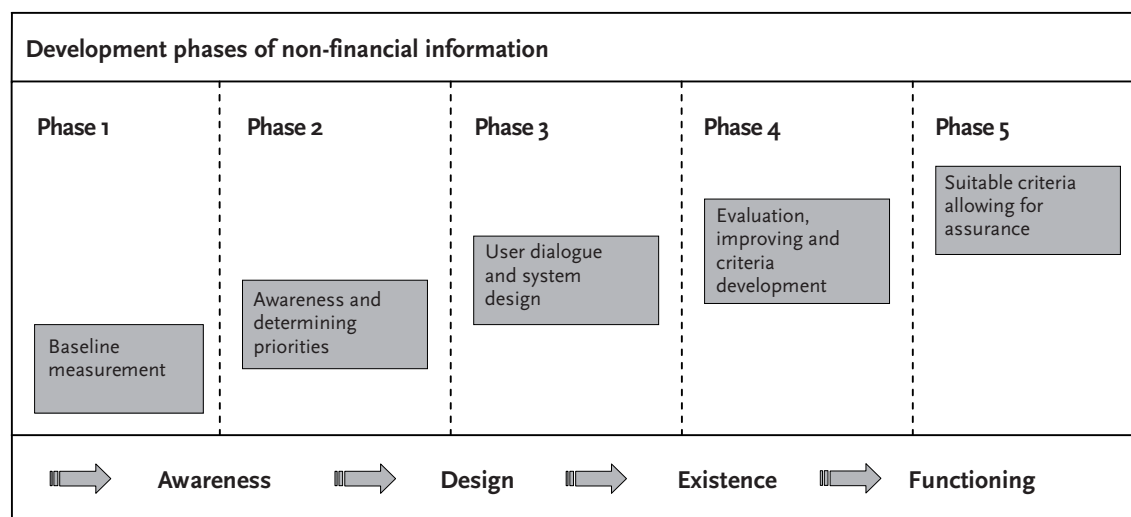
This paper defines non-financial information as follows:

Non-financial information comprises all quantitative and qualitative data on strategy, business operations and results, in the form of performance or impacts, without the need for a direct link with a financial registration system.

Non-financial information has a broad perspective which varies from performance indicators, compliance with regulations and risk management to systems and processes.

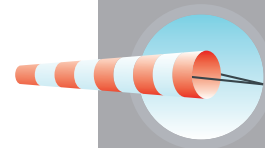
Non-financial information is not synonymous with sustainability information (corporate social responsibility or CSR). Sustainability information may include financial information, while not all non-financial information is about sustainability. This paper uses the term non-financial information in a broad perspective, sustainability being the most common example of it.

Defining non-financial information does not solve the problem of determining the role of the auditor. It is not the nature of the information that is relevant, but the stage of its development. Because of this an alternative approach has been developed. Depending of the maturity of the information and its embedding in the organization, five phases of development can be defined. These phases are explained in the following diagram:



Each stage of the development of the information provides a different role for the auditor, varying from creating awareness in the organization (phase 1) to providing limited or reasonable assurance (phase 5).

In the following scheme a link is made between each development phase and the role of the auditor. The colours in the scheme represent the possibility of assurance, with green as the final phase. The last column describes the most important principles for the auditor. The Code of Ethics (CoE) is relevant for all phases. Depending on the situation other principles and regulations may be relevant. It is possible that in the same organization differences exist between the development phases for different types of non-financial information. As a result, the auditor cannot provide the same level of assurance on all information.



Propositions for discussion

This paper formulates nine propositions regarding non-financial information. They are a first step for a further discussion among users, preparers and auditors about the accountability and assurance of non-financial information.

Phases of development	Embedding in the organization	Maturity of information	Primary role of accountant	Basic principles for the auditor
1. No awareness			Advice: baseline	Only CoE
2. Awareness-design			Advice: design	Only CoE
3. Design-existence			Advice: testing	Only CoE
4. Existence-functioning			Factual findings	ISRS 4400
5. Functioning-maturity			Assurance	ISAE 3000

Propositions
1. Non-financial information only has value if it is <i>tailored</i> to the needs of the users. This requires user dialogue, with a role for both the preparer and the auditor.
2. The user needs <i>information</i> , the distinction between financial and non-financial information is not relevant to him. For the discussion it is advisable to use an integrated concept of information.
3. There is a <i>tension</i> between the reliability and the relevance and timeliness of non-financial information. The auditor should make users aware of this and advise the preparer in choosing the appropriate form of presentation for non-financial information.
4. Accountability and assurance of non-financial information can only succeed if it is <i>embedded</i> in the governance structure and the reporting supply chain of the organization. The information must be part of the core business.
5. Preparers of non-financial information are too busy with their own business case, instead of learning from each other. This creates an unnecessary diversity of solutions, while there is a need for an <i>integrated vision</i> .
6. Assurance of non-financial information requires a clear <i>framework</i> for accountability. This is no different from financial information. It is preferable to use three levels of standards: general, sectoral and company specific.
7. The auditor must understand that he can fulfil more roles than just assurance provider for historical financial information. For the preparers and users of non-financial information, these other roles are equally valuable, but it requires a different <i>attitude</i> of the auditor
8. If the auditor wants to play a significant role in the accountability and assurance of non-financial information, he will have to develop and exploit his <i>competences</i> . The auditor should promote himself and raise his profile in the future.
9. The auditor is only successful with assurance of non-financial information if he can develop a product that <i>meets</i> the expectations of the users. This is not about expanding the number of assurance levels, but about clarifying what the current levels of assurance really mean.

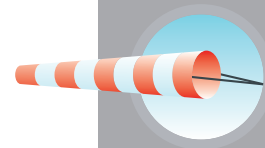
Recommendations

Accountability and assurance of non-financial information are constantly developing and changing, and require ongoing dialogue and discussion. This paper is not the end of the discussion, but only the beginning, a call for action. The paper therefore concludes with three recommendations. Each lays down a challenge for a specific target group.

1	Recommendation for auditors, users and preparers
	Establish a task force for non-financial information and organize concrete actions. Involve users and preparers and approach non-financial information from the perspective of integrated governance information embedded in the reporting supply chain.
2.	Recommendation for standard setters of reporting standards
	Develop an integrated framework for both financial and non-financial information. Translate this framework into specific standards for the various forms of information.
3.	Recommendation for standard setters of assurance standards
	Improve the existing reporting forms for the assurance of non-financial information in dialogue with preparers and users. Investigate if the existing assurance framework needs improvement or expansion.

The solution to the accountability and assurance of non-financial information is in integration and dialogue. There is a need for an overarching framework vision on information in general. Confidence in non-financial information starts with dialogue.

The Royal NIVRA plays a coordinating and facilitating role in the debate. The debate started with the publication of this paper in Februari 2010 and will end on March 31, 2010. The outcome of the discussion will be used to define further actions for the Royal NIVRA. Because non-financial information is a currently a subject of international debate, the discussion paper will also be presented to professional bodies and organizations such as the International Federation of Accountants (IFAC), the International Auditing and Assurance Standards Board (IAASB), the Federation of European Accountants (FEE) and, for the public sector, the International Organization of Supreme Audit Institutions (INTOSAI).



1 Introduction

The NIVRA Key Project *Accountability and assurance of non-financial information* started mid-2008 and ended by presenting the Dutch version of this paper at a NIVRA debate on Januari 14, 2010. This chapter provides information about the project and the purpose of the discussion paper.

1.1 NIVRA Key Project NFI

The Royal NIVRA considers non-financial information an important topic for auditors, both in the public and private sector. Users of information want more insight in strategic goals, performance indicators, compliance with regulations or the results of risk management processes. The annual report is just one means of communication. Sustainability reporting is becoming more frequent, but this is only one example of the broad perspective of non-financial information. Acting as an assurance provider for annual reports is the core competence of the auditor. Because of the increasing importance of non-financial information and the need of users for reliable data, the auditor should also be prepared to play a role in this area. Users and preparers of information need to realize that the auditor can deliver more services than just assurance. The service can already start by creating awareness and by giving advice how to construct an information system. To do this, it is necessary to analyze the nature of non-financial information and maintain a permanent dialogue between users, preparers and auditors.

The Royal NIVRA first carried out a project in the public sector, since non-financial information in this sector is equally important as financial information. It is all about outputs and outcomes. This project resulted in the NIVRA guide *Non-financial information in progress* in 2008. To give the accountability and assurance of non-financial information a broader perspective and to analyse the private sector as well, the board of the Royal NIVRA decided to make non-financial information a Key Project for 2009. The main goal of the project was to develop a model for the accountability and assurance of non-financial information, through which auditors may meet the increasing needs of users for reliable non-financial information. The model was to be presented in the form of a discussion paper, this publication being the result of this.

Being the main responsibility of the board of the Royal NIVRA, the management of the project was split between a project group and a guidance committee. The project group included representatives of different sectors and disciplines, including auditors, controllers, and preparers of information. Robert Mul (director public trust Royal NIVRA) acted as chairman, Michèl Admiraal (advisor Royal NIVRA) was responsible for the overall project management. The guidance committee, with Hans Gortemaker (professor EUR Rotterdam) as chairman, supervised technical issues. The project group organized a discussion meeting with users and preparers of non-financial information in May 2009. One of the main conclusions was that non-financial information is not 'nice to know', but 'need to know'. It should be an integrated part of the core business of an organization and should not be different from financial information. The users of information want an adequate view of the organization, regardless the nature of the information. Reliability is an issue, but does not always imply assurance by an auditor. The meeting was followed by an internet survey in June 2009. The survey produced interesting results which were included in the nine propositions of this paper. One of them was about the meaning of the terms 'limited assurance' and 'reasonable assurance'.

1.2 Purpose of this paper

The discussion paper is built around four simple questions: how important is non-financial information, what are the characteristics of this information, which parties are involved in the reporting supply chain and what roles can the auditor fulfil.

The question about the importance of non-financial information was easily solved, since users of information are more and more interested in issues other than financial results.

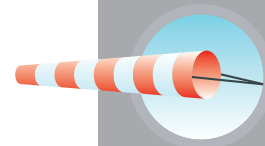
Recent discussions in society about climate change, risk management in the financial sector and performance indicators in the public sector are examples of this. Non-financial information is more than a glossy CSR report, it is about overall control of an organization, on an equal level with financial information.

Before determining the role of the auditor it is important to understand the characteristics of the information and the parties involved.

Chapter 2 starts with defining non-financial information and analyzing the reporting supply chain. This delivers the material for an alternative approach to non-financial information. Since assurance is the core competence of the auditor, the assurance-framework for non-financial information is also discussed. Assurance is more than a technical issue for auditors. It is about finding the right way to report to users, in a way they can understand. The terms limited and reasonable assurance are not very clear to users and preparers of information, and even auditors differ in their views. This calls for further action such as surveys and inquiries, discussion about the effectiveness of the assurance framework and the publishing of best practices. The chapter ends with a summary of six business cases involving non-financial information in The Netherlands. These best practice cases demonstrate different solutions for handling non-financial information. The full version of the cases can be found in the Dutch version of this paper.

To stimulate discussion about the accountability and assurance of non-financial information, chapter 3 provides nine propositions for discussion. These are followed in chapter 4 by three recommendations for further action. The discussion is intended for everyone who is involved in non-financial information: preparers, users and auditors alike. The Royal NIVRA will play a coordinating and facilitating role in this debate.

The Royal NIVRA urges the readers of this paper to participate in the discussion and to respond to the propositions and recommendations. Every contribution to the debate is welcome. Responses should be sent to the project manager, Michèl Admiraal RA by March 31, 2010. The contributions will be used to define further actions.



2 Non-financial information

This chapter deals with the basic concept for the accountability and assurance of non-financial information. This lays the foundation for the propositions and the recommendations of the following chapters. The chapter starts with discussing the framework and definition of non-financial information. To function properly, the information must be part of the reporting supply chain of an organization. In this chain each party plays its own role. However, to determine the role of the auditor an alternative approach is developed. It is not the nature of the information that is relevant to his role, but the stage of its development. The function of assurance provider needs special attention, in order to comply with the needs of users and preparers. The chapter ends with a summary of six business cases involving non-financial information.

2.1 Framework and definition

Before examining the accountability and assurance of non-financial information a suitable definition and classification is needed. Non-financial information may be presented in many ways and has to meet various quality requirements.

2.1.1 Definition of non-financial information

Providing a definition of non-financial information is complicated because of the non-word. A definition should not be about formulating what something is not, but about defining the positive characteristics. It would be very helpful to the discussion if 'non-financial' could be replaced by another, positively formulated term.

Non-financial information is in fact a container full of all sorts of information that do not have to be directly linked to the accounting records of an organization. The information should be part of business operations. That is in fact the essence of the definition. This paper follows therefore the definition of the NIVRA guide *Non-financial information in progress*:

Non-financial information comprises all quantitative and qualitative data on strategy, business operations and results, in the form of performance or impacts, without the need for a direct link with a financial registration system.

Concerning this definition, the following remarks can be made:

- The definition can also be applied to the public sector by replacing the terms strategy, performance and impacts with the terms policy, output and outcome;
- The essence is about three parts of the business cycle: planning, operations and results. There may be a direct link with a financial registration system like the accounting records, but mostly there will only be an indirect link or no link at all;
- The difference between financial and non-financial is not equal to quantitative and qualitative data. Examples of quantitative non-financial information are the number of students at a university, the visitors of a festival or tons of CO₂ emission. Qualitative non-financial information may be about the description of a market strategy, an in-control statement by management or the effects of a strategy on street cleanliness;
- Non-financial information is not identical to sustainability information. CSR information also may include financial information, while not all non-financial information is about sustainability. CSR can be used in different ways. In the narrow sense of information that is only about people, planet and profit. In a broader perspective CSR is used to describe an integrated business policy on sustainability. In fact, non-financial information and CSR information are two separate, but partially overlapping areas. This paper handles CSR information as the most common example of non-financial information.

Currently there is not a better alternative to the term 'non-financial information'. Other terms can also apply to financial information, are too much connected to CSR or suggest that the information is less important, like extra-financial or non-traditional information. Internationally, non-financial information is widely used. The International Corporate Governance Network (ICGN) uses the term non-financial business reporting: 'information relevant to the assessment of economic value, but which does not fit easily into the traditional

accounting framework'. To complement 'the information provided by traditional accounting', it should provide 'information that helps put historical performance into context, and portrays the risks, opportunities and prospects for the company in the future'. Since an alternative term is still to be found, this paper uses the term non-financial information.

2.1.2 Accountability and reporting

Preparers can present non-financial information to the users in various ways. Most of the time the information is combined with financial information:

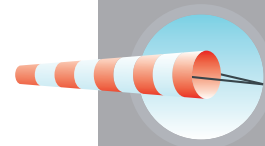
- *In combination with general or special purpose financial statements*, like the annual report or grant reports. It is the most traditional form of accounting, with an accent on financial information. Publishing can take place in paper form, on a digital data carrier (usb or DVD) or by internet (pdf or interactive). The non-financial information forms part of the financial statements, as a supplement to the notes, like the average number of employees. Or the information is enclosed in a separate report. In that case the non-financial information is not part of the financial statements, but of the accompanying report from management. The difference is important for the auditor's opinion. In a financial statement audit all information in the financial statements is covered by the auditor's report. The information in the management board report is only assessed for consistency with the financial statements. For the auditor ISA 700, ISA 800 and related standards are relevant;
- *In a separate statement*, like a CSR report or an in control statement. The financial and non-financial information are presented together. Because of this combination the auditor provides assurance in the form of an assurance report instead of an auditor's report (ISAE 3000). If no assurance is necessary, the auditor can report to the users in the form of a report of factual findings following an agreed-upon-procedures engagement (ISRS 4400);
- *As separate information through other media*, like flyers, brochures, press releases and prospectuses. This can be in paper or digital form. The purpose is not to give a complete overview, but to provide non-financial information about a particular topic. The eXtensible Business Reporting Language (XBRL) is focused primarily on the online distribution of financial information, but can also be used for non-financial information. It offers users the ability to choose for themselves the information that is relevant to them. This may lead to a change in the frequency of information distribution and thus in the role of the auditor. The possibility of interactive information gathering also offers a dilemma about the scope of the assurance given by the auditor. Users have to know what information is part of the auditor's opinion. The emphasis may shift to the continuous reliability of the underlying system, rather than providing assurance on the individual information. This is the principle of continuous auditing. External users obtain much information about an organization from the media and internet, beyond the traditional routes of accountability, without any assurance at all. The auditor has to decide whether he also can play a role in this field of information.

2.1.3 Quality requirements

There are several conceptual frameworks for accounting and accountability. Organizations like the International Accounting Standards Board (IASB), the Global Reporting Initiative (GRI) and the Dutch Accounting Standards Board (DASB) are using similar principles, but differ in classification. No universal conceptual framework yet exists. In general, there are four basic principles, that are the same for both financial and non-financial information:

- *reliability*: completeness, accuracy, neutrality and verifiability;
- *relevance*: materiality, focused and timeliness;
- *comparability*: consistency, both continuously and simultaneously;
- *understandability*: transparency, classified, presented clearly and concisely.

In addressing the elements of the last three principles, the knowledge and needs of the users of the information are also important. A balance of costs and benefits is to be made. The focus on one element may be at the cost of another element. Not all elements are always equally important. For example, users may be more interested in security trends and the impact of a given security policy, then in the exact number of accidents and one hundred percent reliable figures. According to a public sector survey of the Royal NIVRA among representatives of parliament, county councils and municipalities, users regard relevance as important as reliability, but they often start from the assumption that the information is reliable in itself.



Communication between providers, users and auditors of non-financial information is essential. This requires an understanding of governance and the reporting supply chain.

2.2. Reporting supply chain

Information is an essential part of the governance of an organization. It is an instrument for management control, but also a means for accountability. Non-financial information must be incorporated in the reporting supply chain of an organization. The relevant parties involved in this chain can be divided into three groups: preparers, users and auditors.

2.2.1 Governance principle

Information and accountability are directly linked to governance and the reporting supply chain. Governance is the way in which organizations are directed and controlled, the way in which management operates and communicates with the stakeholders and participants of the organization. There are various definitions, which usually address four elements: management and control (internal focus) and accountability and monitoring (external focus). These four elements should be in balance to obtain good governance. The internal organization focuses on management information, by using risk management and planning and control. To stakeholders outside the organization the focus is on accountability, management being principally responsible. The organization accounts for its actions by using information. This information must not be isolated, but has to be part of internal management and control. Control can have the form of a planning and control unit, a separate controller or an internal audit department. Accountability and monitoring take also place in the organization itself, because management and control also imply delegation of tasks and responsibilities. This creates an obligation for reporting information. In the organization monitoring and supervision may be formalized in a supervisory board or an audit committee. Outside the organization this function can be set by government or by an agreement between private parties.

2.2.2 Reporting supply chain

Management and control require an adequate information system. Adequate safeguards and controls must be incorporated to guarantee the quality and reliability of the information, both financial and non-financial. The planning and control cycle is an important aid in this regard. The reporting supply chain includes all processes and parties involved in the preparation, approval, audit, analysis and use of the information of an organization. All links in the chain need to be of high quality and closely connected to supply high quality reporting. Traditionally the focus is on financial information, so the term financial reporting supply chain is used.

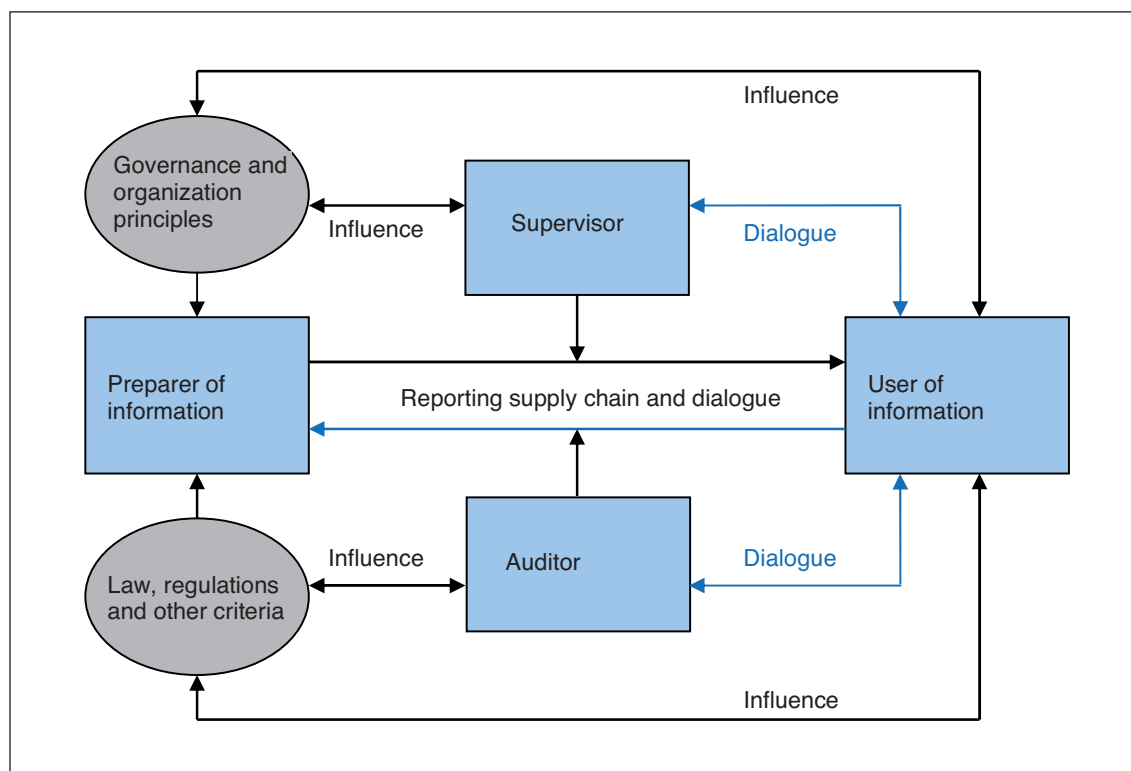
Besides financial figures users also need other information about the functioning of an organization, the non-financial information. The distinction between financial and non-financial is not really relevant in this context. Therefore the term corporate reporting supply chain or simply reporting supply chain is more convenient. This indicates that each type of information can be relevant. In the public sector the term management cycle is also used. This cycle which starts with the formulation of strategic goals and policy and which ends with rendering account and making adjustments in policy and processes.

2.2.3 Relevant parties

Within the governance structure and the reporting supply chain of an organization several relevant parties can be distinguished, both inside and outside the organization. According to the IFAC report *Financial Reporting Supply Chain: Current Perspectives and Directions* the cycle both starts and ends with the capital providers and other stakeholders who want to make informed economic decisions about the organization and, therefore, require financial information to do so. Management prepares, under the general direction of the supervisory board, the information for eventual approval by the board and, in some countries, the general meeting of shareholders. The auditors interact with management and the board while auditing the information and providing assurance. The media and others channels distribute the information, and analysts and credit-rating agencies evaluate it, to be used by the capital providers and other stakeholders. Other parties involved are regulators, standard setters and professionals such as investment bankers and lawyers, who provide advice to the other participants of the cycle. Each party plays its own role in the supply chain.

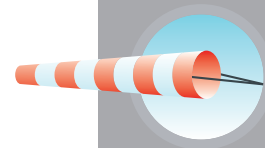
This report distinguishes three main parties in the cycle: preparers, users and auditors. This format is also used by DASB. Supervisors are considered as a special subgroup of users. Internally in the form of a supervisory board or an audit committee, externally set by the government or by an agreement between private parties.

The following diagram explains the primary relationships in a simplified manner. The schedule is applicable to both the internal and external reporting supply chain. Influence relations are black, dialogue relations blue.



2.2.4 Perspective of the user

The user of information is at the beginning and the end of the reporting supply chain and plays the main role in the governance framework. Literature uses different terms: shareholders, stakeholders, participants or users. In a strict sense, stakeholders are all individuals, groups or organizations that affect and/or could be affected by an organization's actions, products or services and associated performance. Not every stakeholder is a user of information and vice versa. This paper focuses on the use of information and applies the general term user. The user needs information to make informed economic decisions about an organization. In so far as he cannot assess the quality of the information himself, he will have the need for an independent expert, the auditor. Depending on the position of the user in the reporting supply chain (inside or outside the organization) this may be an internal or external auditor. This basic relationship between user and auditor is complicated by several factors. Users are not homogeneous and may differ in needs and expectations. The interests of users and preparers do not necessarily run parallel. Auditors cannot express their opinions in any way, they have to follow professional standards.



User groups

Users can be classified in different ways. From the perspective of the organization they can be divided into internal and external users, from the perspective of involvement with the organization in primary and secondary users. The preparer can also be classified as a user within the organization, because he uses management information himself. Without drawing a complete picture, the following main user groups can be distinguished:

- Financial and economic stakeholders. Capital providers like equity owners and investors, lenders like (investment) banks, insurance companies and pension funds. This also includes related professionals like analysts, credit-rating agencies and research bureaus;
- Employees. This can be formalized in the form of a trade union or another form of employee representation. It also includes temporary employees and seconded personnel;
- Suppliers and customers (consumers), including business partners and subcontractors;
- Supervisory boards. Internally like the board of supervisors, with or without a separate audit committee. Externally set by government or an agreement between private parties;
- Governmental bodies and regulators. This includes also politicians;
- Non-governmental organizations and special interest groups, like human rights groups;
- Stakeholders who work and live in the direct neighbourhood of the organization;
- Media and other information channels like internet.

Each main group can be divided in one or more subgroups. Every individual or organization may be part of several groups at the same time. An employee can also be a capital owner, a customer or a member of a special interest group.

User dialogue

The interests and expectations of users may differ per organization and over time, it is not a static situation. It is impossible for an organization to continuously meet all users' needs. When the provision of non-financial information has not yet been laid down by legislation, the solution to this problem is user dialogue. User dialogue or stakeholder engagement can be described as the structured dialogue of an organization with its environment, in order to meet the needs of relevant parties or stakeholders. This dialogue is often only linked with CSR reporting, but it can relate to a much wider scope of information. It may lead to entirely new themes or needs for information. User dialogue must be performed on a structural basis and be embedded in the governance of the organization. It can take various forms, like consumer panels, customer councils, internet surveys or expert committees. The *Stakeholder Engagement Standard AA1000SES* van AccountAbility offers a concrete roadmap.

Information needs

The exact wording of the user's need for information can be a problem. The interests of the preparer may conflict with that of the user, expectations may differ per user group and users often cannot describe the information they really need because of a lack of knowledge. Models like the Balanced Scorecard or ISO 26000 can help in this respect. Clarity is needed around which criteria are relevant for users. Users often start from the assumption that the information is reliable in itself, not a point for discussion. They focus on relevance, timeliness and transparency. However, they should be aware that a tension may exist between reliability versus relevance and timeliness. Focus on one element may be at the cost of another. Users should cooperate with the preparer to identify the information on which the opinion of an auditor is desirable.

2.2.5 Perspective of the preparer

This section analyses the role of the board of directors (management) as the preparer of non-financial information. The board uses information not only to render account to internal and external users, but also to manage and control the organization. In this sense the board is also an (internal) user of information. For the preparer it is important to know what information is relevant for users. This may cause a conflict of interest, as is the case with market-sensitive or confidential information. On the other hand, the initiative for disclosure may start with the preparer himself, if he wants to make users aware of information that is relevant for them.

Costs and benefits

The preparer will always wonder whether the required investments in the information system outweigh the user's need for more transparency. Additional registration systems or applications may be needed that are not always necessary in the context of internal management and control. Information that is not embedded in the governance structure and the reporting supply chain of an organization does not have added value. Not for the preparer, because he experiences the information as unnecessary, nor for the user because the quality and reliability of the information is not guaranteed. For this information engaging an auditor as assurance provider costs more than it produces, because he cannot rely on internal control. The user must realize that the preparer of information will always want a cost-benefit analysis.

Engaging an auditor

Because the interests and expectations of users may change, investing in non-financial information systems requires flexibility. User dialogue may help. To enhance the degree of confidence of the intended users in the non-financial information, the preparer can engage an independent professional, the auditor. The mandate to the auditor depends of the level of assurance that the preparer can and wants to assign to the information. This may differ from the expectations of the users. To prevent an expectation gap, it is advisable to involve the intended users in the engagement of the auditor. In this way the preparer and the users agree the role of the auditor together, reducing the potential for misunderstanding.

2.2.6 Perspective of the auditor

The auditor is the last main party in governance and the reporting supply chain. He fulfils the role of the independent professional who, on behalf of the users, examines the quality of the reported information by the preparer. As an intermediate he neutralizes the differences in interests and in available information of both parties. When users have the need for an independent examination of information or preparers find it important to make themselves accountable with verified information, the auditor comes into picture. The core competence of the auditor is enhancing the degree of confidence of users in the quality of the information, so they can use this information to make informed economic decisions. The focus is mainly on audit and assurance, but the auditor can also act as advisor or reporter of factual findings. His role may already start by creating awareness about non-financial information or by giving advice on how to design and implement an information system.

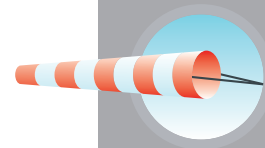
Auditors

The term auditor in this report is used for professional accountants acting as an auditor. In accordance with the *Code of Ethics for Professional Accountants* of IFAC it is the category of the professional accountants in public service (section B). This category includes external auditors, internal auditors and accountants working as a governmental auditor. Accountants in a financial or another function (accountants in business) are excluded. Like controllers, these professionals are considered as part of the preparers of non-financial information. The function of auditing and the role of the auditor are described in several theories, of which the Agency Theory is the most common. In all theories it is about the relationship between organizations as the preparers of information and stakeholders as the users of that information. Confidence is the keyword. When confidence in the reliability of information is not guaranteed by itself, an intermediary is needed who enhances the degree of confidence. The auditor fulfils this function by providing assurance about the information.

Different roles

Acting as an assurance provider on financial information is the core competence of the auditor. However, providing assurance on non-financial information is not the exclusive right of auditors. Several other competitors such as consultants or engineering agencies are also qualified for this. Auditors can render more services than assurance alone. Because of their auditing skills, knowledge of reporting and control and their branch expertise, they can play a major role in the area of non-financial information. The Code of Ethics for Professional Accountants and the *International Framework for Assurance Engagements* of IFAC form the basis for this:

- *Advisor* on the design, implementation and improvement of information systems and processes. This may vary from creating awareness in an organization about the main objectives, to giving advice on the development and implementation of an information system. There are no specific standards for the auditor, only the Code of Ethics of IFAC applies;
- *Reporter of factual findings* on the preparation process for the information or the information itself, without giving an opinion or assurance. Users of the auditor's report assess for themselves the procedures and findings reported by the auditor and draw their own conclusions from the auditor's work. The Code



of Ethics and ISRS 4400 (Engagements to Perform Agreed-upon Procedures Regarding Financial Information) apply. ISRS 4400 is written mainly for financial information engagements, but the principles can also be used for non-financial information engagements. The report is restricted to those parties (users and preparers) that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results. This form is used by the Seventh Framework Programme (FP7), a European Commission grant programme;

- *Assurance provider* on the preparation process for the information or the information itself. The auditor reports in the form of an assurance report, which may contain one or more conclusions. The level of assurance can be limited or reasonable, or both in case of more than one subject matter. The report may be for internal or external use. The Code of Ethics, the International Framework and ISAE 3000 (Assurance Engagements other than Audits or Reviews of Historical Financial Information) apply. The Netherlands has developed a specific standard for CSR reports: ISAE 3410N (Assurance Engagements Relating to Sustainability Reports).

Cooperation

The auditor works closely together with already existing control functions in the organization, like controllers or internal audit units. He will also communicate with the supervisory board on a regular basis. For this a special committee may be established, the audit committee. The audit committee focuses on supervising the activities of the management board with respect to the operation of the internal risk management and control systems, the provision of information, compliance with recommendations and observations of internal and external auditors, the role and functioning of the internal audit function and other relevant financial and audit related activities. Depending of the nature and extent of the organization there will be a separate internal audit function, in addition to the controller and the external auditor. The internal auditor can play the same roles as the external auditor, ranging from advice to providing internal assurance.

Multidisciplinary teams

As non-financial information moves away from financial accounting, and specialist knowledge is required, the auditor will feel the need for more specific disciplines such as operational auditors, business economists, engineers or sociologists. This can be made operational by forming multidisciplinary audit teams, while the auditor ensures coordination and monitoring procedures. Depending on the input of the other disciplines, it may enhance the degree of confidence of the intended users if reports of auditors are also signed by these disciplines. Transparency should be more important than limiting liability.

Competitive position

Laws and regulations demanding assurance on non-financial information are few, generally limited to specific areas such as carbon emission in the European context and the SarbanesOxly Act (SOX) in the United States. Non-financial information is not an area that is exclusive for a professional accountant acting as an auditor, there are various other competitors. However, due to his skills, knowledge and brand he has very good credentials, providing he is able to deliver a product that fully meets the expectations and needs of the intended users and he follows high professional standards. The auditor needs to develop and exploit his competences. His added value must be visible to the users of non-financial information.

2.3 An alternative approach

The classic classification of non-financial information does not provide an answer to the degree of assurance possible. It is not the nature of the information that is relevant to the role of the auditor, but the stage of its development. From this perspective an alternative approach for non-financial information has been developed. In this model a direct link is formed between the development phase of the information and the role of the auditor. Two factors are key: the way the information is embedded in the organization and the maturity of the information itself.

2.3.1 Methods of classification

Non-financial information can be classified in various ways - by the subject of the information, from the perspective of the organization or by the requirements for obtaining assurance. Different models can be used, as was discussed in the perspective of the user. The International Framework for Assurance Engagements distinguishes four main types of non-financial information:

- non-financial performance or conditions: non-financial results, like key indicators;
- systems and processes: quality from an organizational perspective;
- behaviour: compliance with laws and regulations, like corporate governance;
- physical characteristics: description of a situation or a condition.

This classification of non-financial information does not provide a solution for determining the level of assurance that can be provided. Information may be verifiable in one organization and not in another one. Often combinations of the four major examples exist, for example in CSR reporting. As no universal framework exists yet, it is more efficient to look at the maturity of the information and its organizational embedding.

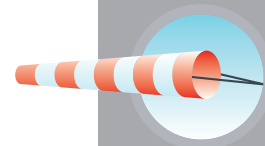
2.3.2 Stages of development

The role of the auditor is determined by two dimensions: the maturity of the information and its embedding in the organization. Each dimension has several criteria that are relevant for the development phase of the information. They also provide the conditions for entering the next phase of development:

Criteria Embedding in the organization	Criteria Maturity of the information
<ul style="list-style-type: none"> • An appropriate information system exists with a link to the financial accounting records. • This system is part of the internal cycle of planning and control • The information is part of the internal governance and management control structure • User dialogue exists resulting in a constant improvement of the system 	<ul style="list-style-type: none"> • An appropriate and identifiable subject matter is available • The subject matter is verifiable and relevant evidence is available • Suitable criteria exist for accounting and verification • It is possible to provide assurance on this basis • It is clear what issues are relevant for the intended users and what information is needed for this.

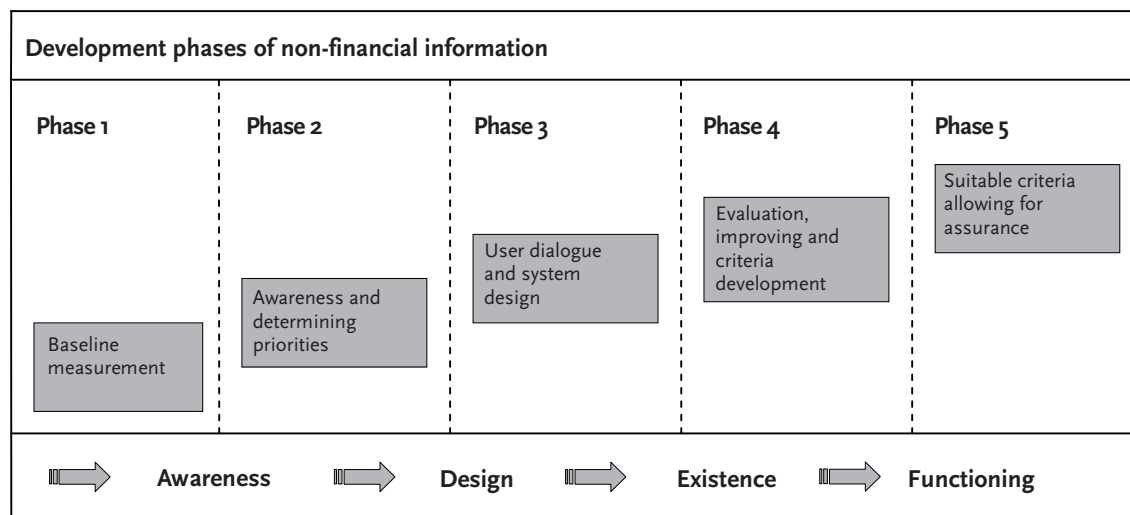
On the basis of these criteria five phases of development can be defined:

1. No system for non-financial information exists, the organization sees no need for this. User dialogue is absent. There always will be a certain degree of non-financial information, but the use of it is informal and not structured. It is basically a zero situation;
2. A certain level of awareness in the organization already exists. Non-financial information is identified on the basis of an internal analysis of priorities and key issues. The system is designed and implementation is underway;
3. The system is implemented. Although the systems exists, proper functioning is not yet guaranteed. Implementation in governance and the reporting supply chain is limited. The organization explores how user dialogue can be established most effectively;
4. The non-financial information system functions within the governance and the reporting supply chain, but the criteria for reporting and assurance are still being developed. Providing assurance is usually not possible. The focus is on examination and reporting of factual findings for improvement, with feedback through user dialogue;



5. The non-financial information functions within a clear set of suitable criteria for reporting and assurance, with periodical adjustments through user dialogue. Providing limited or reasonable assurance is possible. However, the users decide if assurance is necessary and whether an independent professional, like the auditor, is needed for this.

These five phases are explained in the following diagram:



Each stage of the development of the information provides a different role for the auditor and different principles to follow, varying from creating awareness in the organization (phase 1) to providing reasonable assurance (phase 5). In the following scheme a link is made between each phase of development and the role of the auditor. The colours in the scheme represent the possibility of assurance, with green as the final phase. The last column describes the basic principles for the auditor. The Code of Ethics (CoE) is relevant for all phases. Depending on the specific situation other principles or regulations may be relevant.

Phases of development	Embedding in the organization	Maturity of the information	Primary role of the accountant	Basic principles for the auditor
1. No awareness			Advice: baseline	Only CoE
2. Awareness-design			Advice: design	Only CoE
3. Design-existence			Advice: testing	Only CoE
4. Existence-functioning			Factual findings	ISRS 4400
5. Functioning-maturity			Assurance	ISAE 3000

The name of the phase is linked to the system providing the information, not to the contents of the information itself. It is possible for an auditor to provide assurance on the design of an information system, provided that the system that produces this design and the design information itself are in phase five. The new ISAE 3402 (Assurance Reports on Controls at a Service Organization) of IFAC is an example of this.

It is possible that in the same organization differences exist between the development phase of different types of non-financial information. As a result, the auditor cannot provide the same level of assurance on all information.

Subphases

Phase five (assurance) can be divided into sub-phases. This depends on the choices made between internal and external assurance and between assurance on the preparation process of the information or on the information itself:

- Internal assurance can be a preliminary stage for external assurance. It offers the possibility to repair weaknesses without any damage to the reputation of the organization. Because of the restricted distribution of the report, specific criteria may be set. In this case the involvement of the internal auditor is more intensive than that of the external auditor;
- In those situations that the intended user can assess the quality of the information for himself and draw his own conclusions, it may be rational to limit the assurance to the process of preparing the information, the functioning of the information system. This requires transparent communication, since the preparation process is not a guarantee for the quality of the information itself. That depends on the quality of the evidence. This form of assurance is used in the Dutch public sector, with the aim of reducing the audit burden for the preparer of the information.

Moving to another phase of development does not automatically mean a change in the role of the auditor. This must be determined in dialogue with the preparer and the users of the information. The reporting of factual findings on the functioning of an information system can be of more value than assurance on the outcome. For example, detailed insight in the functioning of a complaints handling system may be more important than assurance on the exact number of complaints. Assurance is possible in the final phase of development, but this does not always mean that assurance is the ultimate goal.

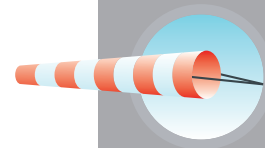
Dilemmas

Keeping up with the development of non-financial information also brings dilemmas for the auditors which are related to the basic conditions for assurance and the risk of verifying against criteria that the auditor has developed in an earlier development phase:

- The auditor has to decide whether to accept an assurance engagement only if all criteria for assurance are met, or that a growth path is possible, in direct dialogue with the preparer and the users of the non-financial information. In the latter case, the auditor already performs assurance procedures, but he gives no assurance yet or only on specific items. The advantage of this approach (also called pre-audit) is in recognizing possible impediments for assurance at a very early stage;
- Keeping up with the development of non-financial information may create the risk of verifying self-developed criteria that were advised in an earlier phase of development, when the auditor switches over from advice to providing assurance. In the stage of advising the auditor must already incorporate enough safeguards. Decision making, criteria definition and implementation must be left to the organisation itself. Essentially this problem is no different than with any other combination of assurance and advice.

2.4. Auditor and assurance

This paragraph focuses on the core competence of the auditor: providing assurance on information. After an overview of the assurance framework, the various aspects of an assurance engagement are discussed: what is assurance, what are the elements of the engagement and how is the conclusion expressed in the assurance report. It ends with the conclusion that the way assurance is provided to users must be improved.



2.4.1 Roles of the auditor

As discussed before, the auditor can play three roles regarding non-financial information: advisor, reporter of factual findings and assurance-provider. Assurance of non-financial information is not an exclusive right for auditors, there are other competitors. Auditors are held to ethical standards (Code of Ethics) and professional standards (International Framework of Assurance Engagements and related Standards). The following diagram explains the relationship between the standards for auditors, the development phase of non-financial information and the role of the auditor in the given situation:

Auditor's engagements - Code of Ethics					
Assurance engagements			Non-assurance engagements		
Audit and review historical financial information		Other assurance engagements	Agreed-upon-procedures	Other engagements and advisory services	
Annual report	Other financial statements				
ISA 100 - 2999		ISAE 3000 - 3999	ISRS 4400		
Development phase →		NFI Phase 5	NFI Phase 4	NFI Phase 1 - 3	

The role of advisor does not need much explanation. Agreed-upon procedures resulting in a report of factual findings without assurance (ISRS 4400) are not yet very common, but are becoming more popular. The Seventh Framework Programme (FP7), a major European Commission grant programme, exclusively asks for a report of factual findings, whereas its predecessor (FP6) still asked for an auditor's report.

2.4.2 Assurance engagements

An assurance engagement is aimed at providing assurance about the quality of information by measuring the information against criteria, to enhance the degree of confidence of the intended user in this information. Absolute assurance does not exist, because even with a full measurement of information the probability of an error never can be excluded at one hundred percent. However, the effort required to obtain the last percentage of assurance does normally not outweigh the extra cost. An assurance engagement should strive for a balance between the level of assurance, the necessary costs and the expectations of the intended users. Providing assurance essentially means reducing the risk that information does not meet prescribed criteria and therefore identifies misstatements that are relevant for the economic decision making of the users. Assurance is directly related to risk: the auditor will reduce the risk of expressing an inappropriate conclusion when the subject matter information is materially misstated to a level that is acceptable for both the users and preparer of that information. There are no absolute criteria for assurance: in principle, the level of assurance may vary from zero to one hundred percent.

Assurance is closely linked to trust. The need for confidence is the basis for assurance. An assurance provider enhances the degree of confidence of the users only if he radiates confidence himself. Providing assurance also provides benefits for the preparer of the information. Confidence in information contributes to the confidence of the preparer. The audit of information and related systems strengthens the governance and the reporting supply chain of the organization. Assurance as the cornerstone of internal management control.

Relevant factors

The Code of Ethics, the International Framework for Assurance-engagements and related standards from IFAC provide the basis for assurance. For non-financial information ISAE 3000 is also relevant. An assurance engagement consists of five elements, that apply to both financial and non-financial information:

1. Three parties: the preparer (responsible party), the (intended) users and the auditor;
2. An appropriate and identifiable subject matter;
3. Suitable criteria for reporting and verification;
4. Sufficient appropriate evidence;
5. A written assurance rapport as a result.

Elements two, three and four relate directly to the maturity of the information. The first element is at the basis of governance. The last element is the only result from the engagement that is visible for the users; it determines the success of the auditor. Users want to know on what assurance is provided, to what extent and in what form. The reporting by the auditor should meet their expectations. The auditor should therefore discuss with the preparer and the users whether the desired level of assurance is consistent with the phase of development of the non-financial information and the available budget for assurance.

Materiality

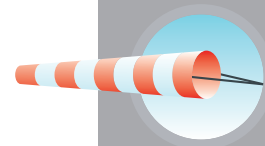
Information is material if its omission or misstatement could reasonably be expected to influence the economic decisions of users. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. It provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful. Judgements about materiality are made in the light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both. Materiality is closely linked to relevance: material information is always relevant to users, but not all relevant information influences their decision making.

Although materiality is normally discussed within the context of financial information and financial statements, it also applies to non-financial information and statements. The basic principles are the same.

Factors that determine materiality from a user's point of view can be of a quantitative or qualitative nature. Quantitative factors indicate the absolute or relative importance of a separate element in the statement as a whole. For financial or quantitative non-financial information this can be expressed as a number or a percentage. Qualitative factors relate to the subject and the nature of the information, by which public opinion or political debate may play an important role. Examples are information about management remuneration and integrity. The user of the information determines the limits of materiality, not the auditor. Dutch Standard 3410N uses the term legitimate information needs: the information that an average representative of the intended users or user groups can demand based on legislation, generally accepted reporting standards, case law, or agreements between the reporting organisation and these intended users or user groups. User dialogue is an important means for determining the information needs, and therefore the materiality of the information.

The auditor's determination of materiality in an audit is a matter of professional judgment, and is affected by the auditor's perception of the information needs of users of the financial or non-financial statements. The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the statement and in forming the opinion in the auditor's report. These principles are laid down in ISA 320 (Materiality in planning and performing an audit). Providing assurance is, in fact, reducing the risk that information which is material to users contains undetected omissions or misstatements.

The level of assurance can be limited or reasonable, depending on the agreed engagement. When non-financial information is of a more qualitative nature or relating to a range of different subjects, it becomes more difficult to assess its materiality. For example, in a CSR report very different subjects are discussed. It is difficult to determine to what level omissions or misstatements are permissible without affecting the overall opinion of the users. If no general standards for reporting exist or user dialogue is not yet completed, a solution for this problem may be providing assurance only on individual topics, without an overall conclusion. Another solution could be explicitly stating the factors that were considered when the auditor was assessing his overall opinion.



More than reliability

The traditional approach to assurance concentrates on the reliability of financial information, in terms of completeness and accuracy. For financial statements like the annual report the concept of true and fair view is used, indicating that the statements are free from material misstatements. Paragraph 2.1.3 showed that relevance, comparability and understandability are also basic principles for accountability. According to a public sector survey of the Royal NIVRA among representatives of parliament, county councils and municipalities relevance is just as important as reliability. There is an overload of irrelevant and unusable information, information that is not adapted to their needs. This phenomenon may also arise in the field of CSR reporting and in the reporting of policy results in the public sector. The statements concentrate mostly on policy and strategic goals, instead of reporting outputs and outcomes. The auditor can provide assurance on all four basis principles of accountability, if the development phase of the information allows this. Provided that the users of the information are demanding assurance and the relevant standards are clear.

User and assurance

For providing assurance, the auditor can use two forms of reporting: an auditor's report (only for historical financial information) or an assurance-report (all other forms of information, including non-financial information). There are two levels of assurance:

- *Reasonable assurance.* The risk of expressing a wrong opinion (the risk of undetected material misstatements) is reduced to an acceptably low level. The auditor expresses his opinion in a positive form;
- *Limited assurance.* The risk of expressing a wrong opinion (the risk of undetected material misstatements) is reduced to a level that is acceptable in the circumstances of the engagement, but that is greater than reasonable assurance. The auditor expresses his opinion in a negative form. This negative assurance has the form of a double negation ('nothing has come to our attention to believe that is not').

Nowhere in the International Framework for Assurance engagements and the related Standards of IFAC is the meaning of the two levels of assurance actually described. The levels are neither defined nor quantified by figures or percentages. Auditors are not used to explaining the level of assurance in their reporting. This can easily create an expectation gap about the significance of assurance, in particular in the case of negative assurance as the intended user of the report is only interested in positive opinions. The user considers assurance as a whole: the information is correct or not correct. From the IAASB report *Matters to Consider in a Revision of International Standard on Review Engagements 2400, Engagements to Review Financial Statements* and the internet inquiry of the Royal NIVRA can be learned that a user's perception of limited assurance varies from 5 to 95 percent. Even auditors cannot quantify this level of assurance, since their answers vary in the same range. Here lies a clear challenge for the auditing profession!

If the auditor cannot explain clearly in his report what a given level of assurance really implies, he will never have any success with the assurance of non-financial information.
This is especially the case with a report that provides only negative assurance.

Assurance framework

In principle, assurance may vary from zero to one hundred percent. The auditor can provide any level of assurance in his report. In this concept of flexible assurance the auditor determines the level of assurance in dialogue with the preparer and the intended users. Important factors are the development phase of the information, the available budget for assurance and the preferred form of reporting. The user decides, in discussion with the preparer, which level of assurance best matches his needs and the budget.

For the moment the concept of flexible assurance is a bridge too far. Before this is possible, it must be absolutely clear to the intended user what assurance really means and what the value is of a few percent more or less assurance. Otherwise it will only lead to an even greater expectation gap. As long as the users do not understand what the existing two levels of assurance mean, it is no use developing a customized framework with even more levels of assurance.

Therefore, this report proposes the following approach, centred on the user:

- The auditor should explain the user what the current levels of assurance really stand for. The meaning of limited and reasonable assurance should be clear. The existing definition is inadequate. This requires communication and dialogue;
- The conclusion in the assurance report should be converted into a readable text for users. Users want to know what information the auditor has examined, in which way and with a simple conclusion: the quality of the information is acceptable or not. To make this more transparent other ways of expression can be used: barometers (percentages), labels (colours), glasses (levels), scores (one to five) or signs (plus/minus). Paragraphs on the division of responsibilities do not belong here, this is material for the engagement letter. Expressing an opinion in a negative rather than a positive way is weak.

Filling in the assurance framework for auditors starts with entering a dialogue with the users and preparers of information. The solution lies not in technology, but in meeting the users' needs. This requires surveys, scientific research and the promotion of best practices.

2.5 Business cases

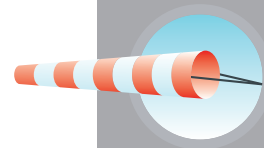
This chapter ends with six business cases involving non-financial information in the Netherlands. The full version of the cases can be found in the Dutch version of the paper. The cases are a good example of the diversity of non-financial information. First, the cases are presented, followed by a summary overview and a short analysis of the lessons learned.

2.5.1 Akzo-Nobel: integrated annual reporting

Case 1 discusses the annual report 2008 of the listed company *Akzo-Nobel*. Akzo-Nobel has integrated sustainability and other non-financial information in its annual report. This report is divided in four sections. One of them is the section Financial Statements and one is a section containing sustainability facts and figures and additional information. The sustainability facts and figures contain both qualitative and quantitative non-financial information, such as carbon emission, industrial accidents and compliance issues. The separate section for sustainability is also intended to define the scope of the assurance given by the auditor. Although sustainability information can be found throughout the annual report, two separate auditors' opinions are given: a traditional auditor's report with the financial statements (containing only financial information) and an assurance report with the sustainability information (being mostly non-financial information). Integration would be complete if there was only one auditor's opinion, covering all financial and non-financial information in the annual report. What makes Akzo-Nobel best practice is the integration of non-financial issues in the strategy and business concept, especially sustainability issues. Non-financial information is embedded in the reporting supply chain. Achieving non-financial targets is part of the remuneration system of both management and employees. User dialogue is an important means of communication with the different groups of users of the annual report. This is accounted for in a separate chapter of the report, which describes all dialogue activities by Akzo-Nobel, like seminars, roundtable conferences and discussion meetings. On the basis of these characteristics Akzo-Nobel is a good example of the last development phase of non-financial information.

2.5.2 Rabobank Nederland: governance and user dialogue

Case 2 discusses the governance structure regarding the CSR reporting of Rabobank Nederland. In contrast with Akzo-Nobel the sustainability information is not part of the annual report, but presented as a separate CSR report. The report is published on the internet together with the assurance report of the external auditor. The case is particularly interesting because of the embedding of the non-financial information in the governance structure of the bank, the close cooperation between the internal and external auditor in the assurance process and the special attention given to user dialogue. The bank has developed a CSR monitoring system based on the GRI guidelines and uses issue management to decide what indicators are relevant



for CSR reporting. User dialogue is part of this process. Every year an issue analyse is made to decide on the most important topics for the reporting, such as promoting sustainable production to clients, economic participation or social cohesion. For this a matrix is used, which states the importance for internal and external users. CSR reporting is the responsibility of a special CSR directorate, placed directly under the board of directors. The assurance process of the CSR information can be divided into four phases: identification of material subject matter, selection of important statements, gathering and evaluation of evidence and producing the assurance report and management letter. In all stages of the process the internal and external auditor work close together, to obtain maximum efficiency. The management letter is a coproduction of both auditors. For the assurance process both the AA1000AS standard of AccountAbility and the Dutch standard 3410N are used. On the basis of these characteristics Rabobank Nederland is also a good example of the last development phase of non-financial information.

2.5.3 TNT Post: assurance of a non-financial quality indicator

Case 3 discusses the assurance process of a particular performance indicator of the listed company TNT Post. In The Netherlands the distribution of mail is not fully liberated. TNT Post has a concession for the distribution of a certain category of mail that is still controlled by law and regulations. To keep this concession TNT Post has to prove each year that at least 95 percent of this category is delivered within 24 hours. The governmental institution OPTA is acting as a supervisor. Each year TNT Post presents OPTA a report about this quality indicator, accompanied by an assurance report of the external auditor. The case demonstrates that the assurance of the quality indicator is an essential part of controlling the core business of TNT and not merely a legal obligation. To manage and control the quality of mail distribution, non-financial information about this process is essential. TNT Post can only survive as a business (and keep its concession) by using detailed information about the delivery of the mail. This would even be the case if there was no legal obligation for maximum delivery times. The quality information is used for different purposes: increasing quality and minimizing costs, assessing management, and negotiating with existing and new clients. The whole process of mail delivery is evaluated by the internal and external auditor of TNT Post. For the audit of the mail delivery processes specialized external agencies are used under supervision of the internal auditor. What makes TNT Post a best practice is the fact that the quality indicator is fully embedded in the governance structure and the reporting supply chain, so that providing assurance is no problem at all. User dialogue is formalised, since OPTA is the only external user of the quality indicator. TNT Post is therefore the third example of the last development phase of non-financial information.

2.5.4 NIBE-SVV: performance measuring without assurance

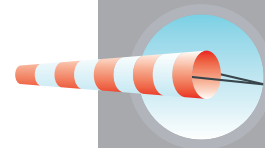
Case 4 discusses the annual performance reporting by NIBE-SVV, a certified examination institute for banks and insurance companies. The Dutch financial supervision act (FSA) requires that professionals in the finance sector comply with legal defined expertise criteria. This can be accomplished by obtaining FSA certificates. Only institutes that are approved by government are allowed to organize FSA examinations. The governmental institution CDFD sets the examination criteria, supervises the process and reviews the annual performance reports by the examination institutes. Financial information is of little significance for success. Examination results are far more important to survive as an institute. Pass rates are only a part of this, more important is the quality of the examination itself. This is about the quality of the questions asked, the outcome of evaluations and made appeals by candidates. NIBE-SVV uses examination committee's with external experts to supervise the quality of the examinations and to modify the questions if necessary. Furthermore, the information about the examinations is integrated in the planning and control cycle. Management receives detailed performance information each month, a summarized version of which is discussed with the supervisory board. Like the case of TNT Post this case shows a fully integrated and operational supply chain of non-financial information. The information is crucial to survive in the market. The preparer of the information has every interest in reliability. In contrast with TNT Post the performance information is not certified by any auditor. Because of the already existing system of checks and balances no opinion of an auditor is required by CDFD. This institute uses its own methods for assessing the reliability of the information. Regular visitation of the institutes is part of this. Based on the annual performance reporting or received signals, the institute can decide to ask additional questions, start a visit or organize special inquiries. No auditors take part in these examinations. Although the non-financial information is not certified by any auditor, the case shows all characteristics of the last development phase of non-financial information. Reliability and assurance are important, but because of the alternative checks and balances no auditor is needed. The need for reliable non-financial information does not always imply contracting an auditor.

2.5.5 SNV: management audits and key performance indicators

Case 5 describes the management information supply chain of SNV, a Dutch organization for development aid in 32 nations all over the world. SNV employs 1.200 advisors, who are working from 100 local offices. Most of the funds are governmental grants. SNV has 5 regional management teams, a central board of directors at headquarters and a supervisory board. They are all users of internal information, but with different needs. To keep control of the whole organization, a well-functioning system of management information is indispensable. The mission of SNV is promoting sustainable development by supporting local organizations. Non-financial information is crucial for this. To test the quality of the management information system and the related controls, the Dutch headquarters organizes regular management audits. These audits are conducted by the internal auditor of SNV. The internal auditor has also acted as an advisor during the implementation of the information system, by evaluating the reliability of internal controls and key performance indicators. The indicators vary from the number of consultations (divided in advisory services, knowledge brokering to advocacy), performance assessment reviews and compliance issues to information about gender and seniority balance. To perform the management audits, standard audit programs were developed that were tailored to the specific subject matter. The audits start with interviews with key staff. Through these the audit scope and the key risks are defined, resulting in an audit plan. This plan consists of several procedures like dossier reviews, observations, gathering audit evidence and show-me-meetings with local staff. Every audit results in two reports. The first report contains the opinion of the internal auditor on the state of control of the organization. All findings are qualified as negative, neutral or positive. This leads to the overall conclusion whether the organization is in control or not. The second report contains findings that lead to proposals for improvement. The risk level of every finding is qualified, from low to high risk. The case shows that the auditor can play a role in every development phase from non-financial information, from implementation to assurance. For the time being the management audits are only an internal activity, without a role for the external auditor.

2.5.6 Koninklijke DSM: accountability for risk management

Case 5 describes the functioning of risk management in the listed company Koninklijke DSM. DSM pays particular attention to the accountability of its risk management, both in the annual report and on the corporate website. DSM is one of the few listed companies that also provide insight into material weaknesses and planned or already implemented improvements. The risk management information is not yet certified by the external auditor. The auditor of DSM gives an opinion on the quality of the risk management system in his management letter, but this letter is for internal purpose only, intended for the board of directors, the audit committee and the supervisory board. DSM has a decentralized organization consisting of several business units. The board of directors has final responsibility for the corporate risk management. An integrated risk management system was developed, based on the principles of COSO-ERM. Integrated because the control procedures are incorporated in the core business and basic processes. Every year the board conducts a corporate risk assessment. For this purpose corporate requirements are developed. Each unit of DSM has to report on the compliance with these requirements on a regular basis, with a statement by management. Since 2009 a half-yearly risk update is required (status, incidents and new risks). The staff unit Corporate Risk Management supervises and consolidates this information for the board. All business units and the most important service units have their own audit committee. Important issues like the outcome of corporate audits and business risk assessments, material weaknesses or failing control procedures are discussed with the responsible board member. The staff unit Corporate Operational Audit performs independent audits, following a programme that is approved by the audit committee. The teams consist only of operational auditors, no financial audits are conducted. The results are used for improving the risk management system. By providing assurance about the functioning of the system Corporate Operational Audit acts as a third line of defence. However, no assurance is provided about the risk information itself. Because of the absence of assurance by an internal or external auditor, DSM can be defined as an example of the fourth development phase of non-financial information. The system is functioning, but the criteria for assurance are still under development and up to now the external auditor plays no role as assurance-provider.



2.5.7 Overview and lessons learned

The following diagram summarizes the characteristics of the cases. It shows that the accountability and assurance of non-financial information can be treated in different ways, but it also stresses the importance of paying attention to basic principles. These principles are also the main factors that define the development phase of the information:

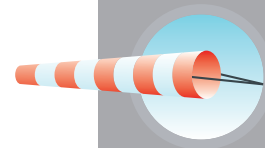
	Case 1 Akzo-Nobel	Case 2 Rabobank	Case 3 TNT-Post	Case 4 NIBE-SVV	Case 5 SNV	Case 6 DSM
Characteristics	CSR reporting	CSR reporting	Quality indicator	Quality indicator	Performance indicators	Risk management
Accountability	Integrated in the annual report	Separate CSR report	Separate statement	Separate statement	Internal management reporting	Part of the annual report
Basic criteria for reporting	GRI	GRI	Dutch law	Dutch law	Internal	COSO-ERM
Part of the governance structure	Yes	Yes	Yes	Yes	Yes	Yes
NFI phase	Phase 5	Phase 5	Phase 5	Phase 5	Phase 5	Phase 4
Users and user dialogue	External users and formalized user dialogue	External users and formalized user dialogue	One external user with direct dialogue	One external user with direct dialogue	Only internal users with direct dialogue	External user without dialogue
Role of auditor	External assurance	External assurance	External assurance	No role at all	Internal assurance	No assurance
Cooperation with other disciplines	Emphasis on external auditor using a multidisciplinary audit team	Emphasis on cooperation with internal auditor	Specialised agencies auditing the basic process	External user uses his own review methods	Emphasis on the role of the internal auditor	Emphasis on cooperation internal and external auditor
Future perspective	Integrated assurance for financial and non-financial items of the annual report	Integration of the CSR and the annual report is investigated	Separate engagement influenced by changes in Dutch law	Existing system of checks and balances needs no improvement	Possible demand for external reporting and assurance	Assurance of the in-control statement by the external auditor

The cases of Akzo-Nobel and Rabobank are much alike. The non-financial information is embedded in the governance structure and the reporting supply chain, user dialogue is formalized and assurance is provided by an external auditor. This is possible because of already existing criteria, a close cooperation with the internal auditor and using a multidisciplinary audit team. The importance of the information being part of the core business is shown in the cases of TNT-Post, NIBE-SVV and SNV. Nevertheless these three cases are filled in differently. TNT Post provides the legal supervisor with a performance report, accompanied by an assurance report of the external auditor. In the case of NIBE-SVV the supervisor does not ask for assurance, but uses its own methods for assessing the reliability of the information. The management information system of SNV asks only for internal assurance. The case of Koninklijke DSM shows a fully developed risk management system, but without assurance as yet.

All cases show the importance of embedding the non-financial information in the planning and control cycle of the organization. To guarantee the reliability of the information, the information must be used and controlled by the organization itself. If suitable criteria are present, assurance can be provided. This may start with internal assurance, but can end with assurance provided by an external auditor. The possibility of external assurance does not automatically mean that an external auditor is engaged. This depends on users' needs, as is clearly shown by the cases of NIBE-SVV and SNV. User dialogue and communication between preparer, users and auditor is crucial for success. This may concern internal or external users. To make this possible, relevant user groups must be recognized.

To provide assurance on non-financial information the auditor has to cooperate with already existing control mechanisms in the organization, such as controllers and internal auditors. In the case of TNT Post specialized external bureaus are used. Depending on the nature of the information, it is advisable to put together a multidisciplinary audit team. Internal assurance can be a preliminary stage for external assurance, as is shown in the case of Koninklijke DSM.

As is shown in all six cases, non-financial information is an essential part of the business of organizations. Not nice to know, but need to know. The auditor has to realize that providing assurance is only one side of the coin. Acting as an advisor or reporting factual findings can also meet user demands. Because of the diversity of non-financial information, the development phases of the information may differ. For example, the accountability for sustainability information is more developed than risk management, because of the already existing GRI criteria. But even this field of non-financial information is not yet fully developed. This calls for the development of an integrated framework for both financial and non-financial information.



3 Propositions for discussion

The nine propositions of this chapter are a first step for a discussion among users, preparers and auditors about the accountability and assurance of non-financial information. The Royal NIVRA will play a coordinating and facilitating role in this debate.

1.	Non-financial information only has value if it is <i>tailored</i> to the needs of the users. This requires user dialogue, with a role for both the preparer and the auditor.
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Providing information that does not meet the expectations of the users leads to waste and unnecessary administrative obligations for the preparer. According to a public sector survey of the Royal NIVRA among representatives of parliament, county councils and municipalities, it is often common practice that too much information is provided, information that is not relevant and therefore unusable. An annual report of a CSR report is more than just a glossy signboard, it must contain information for the user that is reliable, relevant, understandable and comparable.

It can be a problem to make the information needs more explicit. The interests of the preparer may conflict with that of the user, the user needs can vary and change over time. Disclosure is a dynamic process. It is often impossible for an organization to take into account the interests of all users. Where providing information has not been formalized through legislation, the solution for this problem lies in the continuous dialogue between preparer and users. In his advisory role the auditor can help with determining the contents and the materiality of the information needed. It is important to realise that development of standards and criteria takes time. Assurance is not always the best option. Therefore the first phase in the development model of non-financial information is creating awareness about the strategic objectives of the organization. It is also a balancing of costs and benefits, and of needs and possibilities. Because of his expertise and his knowledge of accounting and control the auditor can play an excellent role as advisor in this matter.

2.	The user needs <i>information</i> , the distinction between financial and non-financial information is not relevant to him. For the discussion it is advisable to use an integrated concept of information.
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The user of information wants an adequate view of the functioning of an organization or a particular aspect of its business. A CSR report is a good example of the integration of financial and non-financial information, but usually not an integrated part of the annual report. For a complete picture different sources of information are necessary. From the point of view of the user the difference between financial and non-financial information is a purely technical discussion. He is interested only in quality and content, irrespective of the characteristics of the information. The discussion with users and preparers should therefore not focus on the differences between financial and non-financial information, but on their integration. Creating an integrated framework for accountability and assurance. To stimulate discussion, the concept of non-financial information should be replaced by a more appealing term. Even better, a comprehensive term for both types of information should be used, since the principles and requirements remain the same.

3.	There is a <i>tension</i> between the reliability and the relevance and timeliness of non-financial information. The auditor should make users aware of this and advise the preparer in choosing the appropriate form of presentation for non-financial information.
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Users want relevant and timely information at their disposal. Continuous disclosure through the media comes first, it is no longer sufficient to publish an annual report. Internet is an important means of communication. The user demand for information becomes more and more incident driven, information that was not relevant yesterday can be today's headline. It is difficult for users to assess the value of information, too often they rely on the implicit reliability. Newspapers regularly publish score lists, for example the top 100 hospitals in Holland. Readers are inclined to accept the results, without even considering how the information was collected and analysed, and what criteria were used. The most important question, about the reliability of the information, is not asked. This is the complete opposite of the attitude of users towards annual reports, where a true and fair view is the central topic.

The auditor has a dual role in this context. As an advisor he may assist the preparer in choosing the appropriate form of presentation for non-financial information. The preparer wants to know what information is appropriate to include in the report, in what manner and with what frequency, in order to meet the users' demands. User dialogue is the most suitable instrument for this purpose. In addition, the auditor can play an informative role towards the users of the non-financial information, by explaining the scope of an auditor's report. This is particularly true for information that is made available online. It should be clear to the user that reliable information has a price, which may decrease timeliness and hence relevance. The audit of information simply takes time.

The choice is up to the user, but it should be an informed choice. It is about finding the right balance and awareness is important. The auditor must demonstrate the value of assurance by an independent and professional expert. With the increasing interest in society for non-financial information the auditor has to prove his competency in this area of work as well. Otherwise, he runs the risk that users and preparers will overlook him and move to other professionals who can meet their needs and demands more easily. Assurance of non-financial information is not the exclusive right of certified auditors.

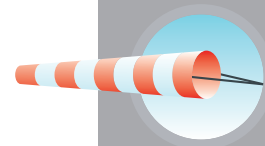
4.	Accountability and assurance of non-financial information can only succeed if it is <i>embedded</i> in the governance structure and the reporting supply chain of the organization. The information must be part of the core business.
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Non-financial information that is not embedded in the governance and the reporting supply chain of the organization does not have any value. Neither for the preparer, because he experiences the information as unnecessary ballast, nor for the user, because the quality of the information is not guaranteed due to the lack of an adequate internal control system. In this situation the involvement of the auditor as assurance provider has little benefit. Like financial information, non-financial information should be part of the core business. The organization itself must consider the information as essential, the preparer being the internal user of the information. Non-financial information must fulfil a role in the strategic objectives of the organization. It helps if systems for financial and non-financial are integrated as much as possible. Environmental goals (carbon emission) could well be combined with financial targets (cost efficiency). The implementation of non-financial targets in employee reward systems can improve the value and significance of the information. As with any performance indicators there is a risk of perverse effects. The achievement of certain indicators becomes more important than achieving the underlying objectives. However, this also applies to financial information. It can be prevented by making clear agreements, to formulate suitable criteria and, if necessary, to engaging an auditor to provide assurance on the information.

The extent to which non-financial information is embedded in the organization is one of the determining factors for the stage of development. It starts with creating awareness, the construction of registration systems and developing adequate standards. It may end with external assurance as the cornerstone of management control. The auditor can play a valuable role in each phase, as is shown in the development model of chapter 2. Management audits and internal assurance can act as a preliminary stage for external assurance. Assurance ensures that the organization is scrutinised and is a signal to the users that matters are taken seriously. Capital investors judge companies on how they deal with non-financial information, because it is a measure of the quality of the management. CSR reporting is already part of the selection criteria of several Dutch investment funds.

5.	Preparers of non-financial information are too busy with their own business case, instead of learning from each other. This creates an unnecessary diversity of solutions, while there is a need for an <i>integrated vision</i> .
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The preparers of non-financial information are focused mainly on their own business, internal use and necessity come first. Competitive or market-sensitive information to the outside world is avoided whenever possible. This may clash with the needs of external users to open disclosure. The preparer will also wonder whether the required investments outweigh the desire for transparency. Additional registrations, applications and office hours may be needed, which are not always necessary in the context of internal control. This has a detrimental effect on the quality of the information, because it is not part of the main processes. User dialogue is the solution, a balance must be found between needs and possibilities. The auditor can play an advisory role in giving concrete form to the expectations, developing standards and implementation in the organization



Since there are hardly any standards for the accountability and assurance of non-financial information, organizations tend to choose their own solutions, without further investigation. This leads to wasted energy and the creation of a diversity of (suboptimal) solutions that endanger comparability. The GRI guidelines for CSR reporting are an exception. However, their voluntary nature gives much room for individual solutions. There is need for a helicopter view, an integrated approach that overlooks the entire playing field, a challenge to rise above the level of the individual business. This begins with the collection of good practices, sharing experiences and organizing dialogue. Learning from each other does not necessarily mean that sensitive information is disclosed. Because of his expertise and his knowledge of accounting and control, the auditor is well suited to a coordinating role. The Royal NIVRA can play a stimulating and facilitating role by establishing a knowledge centre or publishing manuals or example statements. However, the preparers of non-financial information must take a first step. Learning is achieved through trial and error. Organizations must dare to report targets that were not achieved. Users appreciate transparent and open disclosure.

6.	Assurance of non-financial information requires a clear <i>framework</i> for accountability. This is no different from financial information. It is preferable to use three levels of standards: general, sectoral and company specific.
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According to the International Framework of Assurance Engagements the essence of auditing is the evaluation or measurement of a subject matter against criteria. The distinction between financial and non-financial information is not relevant. The requirements remain the same. The stage of development of the information will determine whether assurance is possible. It also determines the choice of control methods. The toolkit of the auditor is well filled, but must take into account new (online) developments. The problem is more about the standards for accountability and reporting of non-financial information. Accounting for financial information has a long history of development. There are already generally accepted accounting standards available, such as IFRS or US GAAP. This is much less the case with non-financial information, with the GRI guidelines as an exception. Given the diversity of the information the question is whether this is a feasible and meaningful goal. Standards for performance measurement are quite different from standards for reporting on risk management or compliance with law and regulations. It is more effective to create a universal framework for the accountability and reporting of all types of information and to develop company-specific standards per sector or industry. It should start with the formulation of clear and consistent concepts and definitions. Users and preparers should aim for a growth path and not directly for assurance. Even the development of financial standards is not yet finished, as evidenced by recent discussions on fair value. Where there is direct contact between preparer and user this discussion is of less importance, since the standards are jointly determined. The same applies to the internal accountability of non-financial information. In this case assurance becomes an option a lot earlier. Internal standards can be developed by trial and error, without any risk of liability. Shortcomings are recoverable without direct reputational consequences in relation to the outside world. Using company-specific standards for accountability and reporting enhances the value of information because it is custom made, but might lack comparability and transparency. As said with the first proposition, the solution lies in continuous dialogue between preparers and users.

7.	The auditor must understand that he can fulfil more roles than just assurance provider for historical financial information. For the preparers and users of non-financial information, these other roles are equally valuable, but it requires a different <i>attitude</i> of the auditor.
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Acting as an assurance provider in the governance structure and reporting supply chain of an organization is the core competence of the auditor. This does not mean that his role should be limited only to historical financial information and providing assurance. The International Framework of Assurance Engagements allows for the assurance of all types of information. Yet the emphasis in the professional standards of bodies like IFAC lies on the assurance of financial statements, such as the annual report. The standards for the assurance of other information or for non-assurance engagements are limited and, even here, the focus is on the financial dimension. The Dutch standard 3410 N (Assurance Engagements Relating to Sustainability Reports) is an exception, but focuses only on CSR reporting. Too few auditors understand the importance of non-financial information. This was reflected in the low response of auditors in the internet inquiry of the Royal NIVRA in June 2009. The response of users and preparers was much higher, apparently considering this kind of information more important. A cause for concern! Auditors risk missing great opportunities if they are unable to meet the demand from users and preparers. As result other professionals may benefit and take the lead in this area.

Chapter 2 showed that the auditor can play three roles concerning non-financial information. They fit perfectly with the different phases in the development model of non-financial information:

- *Advisor* on the design, implementation and improvement of information systems and processes;
- Reporter of *factual findings* on the preparation process for the information or the information itself, without giving an opinion or assurance;
- *Assurance provider* on the preparation process for the information or the information itself.

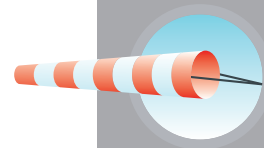
In a situation where information is still being developed, the role of advisor or reporter of factual findings provides more added value than assurance. The auditor should consult both preparers and users of the information. It is about dialogue, sharing successes and gaining experience by setbacks. The parties involved should accept that a growth path may be needed first and no assurance is possible yet. The auditor may assist in drawing action plans. Towards the users he may assist in the development of standards and the awareness of the tension between needs and possibilities. Towards preparers he may advise on the implementation of the information in the governance structure and the reporting supply chain. Of course he must take into account the risk of self-review if he proceeds from advice to assurance. Therefore decision-making, determining standards and implementation should be left to the organization itself. At this point there is no difference from advice and assurance on financial information.

This change in attitude can only be successful if the auditor is willing to make himself vulnerable. He must leave the safe comfort zone of the auditing of financial statements. Risks must be approached as opportunities. For the audit and assurance of annual reports comprehensive management and control systems are designed, where possible risk- and claim-proof. These offer security for the auditor. However, too much emphasis on the prevention of excessive liability and risk aversion may lead to formalistic behaviour. Filling in audit forms becomes more important than professional judgement. This constrains the function of observation, learning and developing new initiatives. The auditor should develop a comprehensive vision and a total package of services, for both financial and non-financial information. Challenges lie in the integration of disclosure and in communicating the package of services to the market.

8.	If the auditor wants to play a significant role in the accountability and assurance of non-financial information, he will have to develop and exploit his <i>competences</i> . The auditor should promote himself and raise his profile in the future.
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Acting as an advisor and an assurance provider is not the exclusive right of auditors. In the field of CSR reporting or carbon emission several other competitors are active. Partly because specialized knowledge is needed that falls beyond the competence of the auditor. Partly because they are subject to less regulation so it is easier to provide customer-focused assurance. The role of the auditor in relation to non-financial information is not obvious, he has to prove himself. Preparers and users see the auditor mainly as a financial expert. However, because of his expertise in audit and control and his knowledge of the industry, he is also well equipped to play a significant role regarding non-financial information. Financial and non-financial information have many interfaces, the tool-box of the auditor is applicable to for both. The auditor must comply with a comprehensive framework of ethical and professional standards with integrity and objectivity at the top of the list. This provides a guarantee for quality and trust. Assurance is closely linked with trust: the need for confidence is the basis for assurance. An assurance provider enhances the degree of confidence of the users only if he radiates confidence himself. Despite all the incidents in recent years, the auditor still has an excellent reputation at this point. This combination of expertise, standards and brand ensures that the auditor has very good testimonials concerning non-financial information. It is not necessary to have expertise in every area, this can be solved by the acquisition of new competences and by forming multidisciplinary audit teams. Even with financial audits the auditor has to work with other experts, like EDP auditors, actuaries, tax experts or lawyers.

The question is not just knowledge and skills, but also about profiling yourself. Preparers and users of non-financial information must understand that the auditor is more than just a financial expert. The auditor should exploit his skills. This requires publicity, information campaigns and dialogue with preparers and users. For preparers assurance is the cornerstone of management control, for users a signal that the preparer takes the issues seriously and that the reliability of the information is made transparent. It also implies that in the training and permanent education of auditors sufficient attention must be given to the accountability, reporting and assurance of non-financial information. The auditor can compete with other professio-

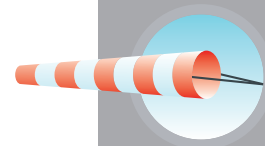


nals by taking their expertise into his own team and by listening carefully to what users and preparers find important.

9.	The auditor is only successful with assurance of non-financial information if he can develop a product that <i>meets</i> the expectations of the users. This is not about expanding the number of assurance levels, but about clarifying what the current levels of assurance really mean.
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The auditor provides assurance on non-financial information in the form of an assurance-report. For his opinion two levels of assurance are available: limited and reasonable. However, in the professional standards of the auditor the content of these two concepts is neither defined nor quantified. It is obvious that this can easily create an expectation gap about the significance of assurance. If the auditor cannot explain the meaning of a certain level of assurance, how can the users and preparers be expected to understand anything about assurance? This is especially the case when the auditor's opinion for a limited assurance engagement is formulated as a negative conclusion ('nothing has come to our attention that causes to believe that ... is not ...'). The response of the internet inquiry of the Royal NIVRA in June 2009 made this very clear. The user of non-financial information simply wants to know about what information, and to what extent, assurance is provided. He wants to read in plain language what the auditor has done and what his conclusions are: whether the quality (reliability) of the information is acceptable or not. All other additions about responsibilities and liabilities are of no concern to him. These should be in the engagement letter, for those who are interested in legal and technical details.

In a way, the main product of the auditor is also his Achilles heel. Irrespective of whether it concerns the auditor's report, an assurance report or a report of factual findings. The current design is too much dictated from the technical point of view, preventing any liability. Because other professionals are less strict by professional standards and liabilities, they are better able to deliver an assurance product that more closely meets the expectations of users and preparers. The auditor should approach the concept of assurance from an entirely different perspective: from the point of view of demand. The auditor needs to enter into dialogue with users and preparers, to determine what level of assurance is desirable and whether it is proportionate to the development stage of the information and related costs. In principle, assurance may vary from zero to one hundred percent. This concept of flexible assurance is for the moment a bridge too far. Before that, the auditor needs to make absolutely clear what the current two levels of assurance really mean. The question can even be posed whether one level of assurance is not sufficient. Professional bodies can play an important role in this discussion. Even better, they have to take the lead in this.



4 Recommendations

The field of accountability and assurance of non-financial information is constantly changing. New ways require time to explore. Dialogue and discussion are important. However, with this discussion paper the work is not complete. It is really a beginning, a start to the discussion. This publication therefore concludes with three recommendations. Each lays down a challenge for a specific target group.

1 Recommendation for auditors, users and preparers

Establish a task force for non-financial information and organize concrete actions. Involve users and preparers and approach non-financial information from the perspective of integrated governance information embedded in the reporting supply chain.

Non-financial information should be prominent on the agenda, not only of auditors, but also of users and preparers. The discussion should continue, it is time for action. It is best to set up a task force with a concrete programme that involves auditors who lead the way in non-financial information. Depending on the activity relevant users and providers will be involved. The Royal NIVRA should provide the coordination, means and the secretariat. The task force may organize various activities. Examples include:

- developing and promoting a clear vision of the audit profession;
- coordinating and promoting awareness, discussion meetings and seminars;
- carrying out targeted surveys and seeking media attention;
- writing articles and publishing best practices in various professional journals;
- acting as a help desk for auditors, users and preparers;
- developing manuals, tool boxes and example statements.

2 Recommendation for standard setters of reporting standards

Develop an integrated framework for both financial and non-financial information. Translate this framework into specific standards for the various forms of information.

At an international level various institutes are engaged in improving and developing general frameworks for reporting standards. They focus on financial information and financial statements, like the annual report. Each framework differs slightly in emphasis. However, there is a need for an integrated concept that makes no distinction between financial and non-financial information. This concept should be developed to specific standards tailored to the type of information and the type of industry. The approach of GRI is a good example for this.

In the Netherlands the Dutch Accounting Standards Board (DASB) may take the lead, because it already consists of representatives of preparers, users and auditors. The scope of the DASB should be extended to more than just financial reporting, to reporting information in general. In 2003 DASB published the Guide to Sustainability Reporting (revised in 2009). It is recommended to develop similar guides to other types of (non-financial) information.

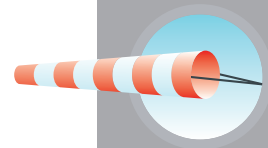
3 Recommendation for standard setters of assurance standards

Improve the existing reporting forms for the assurance of non-financial information in dialogue with preparers and users. Investigate if the existing assurance framework needs improvement or expansion.

The existing reporting formats for the assurance of non-financial information still raise too many questions with users (and preparers). The opinion of the auditor must be understandable to the users. The negative conclusion of a limited assurance engagement may be perfect from a technical point of view, but as an expression of the auditor's opinion it is a sign of weakness. A user is not interested in ifs and buts. The auditor must deliver a product that meets the needs and demands of users and preparers. It is therefore recommended that auditors start a dialogue with the preparers and users of non-financial information, to decide on the most appropriate form of reporting. It is important to develop basic elements and wording, so a clear reporting is guaranteed, without undermining its flexibility.

Professional bodies like the Royal NIVRA should take the lead on this subject, providing means and coordination. The DASB could play a significant role in the second recommendation. However, the discussion has also an international dimension because both accounting and auditing standards are developed by international bodies like IAASB and IASB. Research is needed into the effectiveness of the existing assurance framework. This requires dialogue, surveys and scientific research. This is not only a matter for professional bodies, universities and large audit firms should also participate in this. The recommended task force can act as an independent platform, which coordinates the efforts of several types of audit professionals.

The solution to the accountability and assurance of non-financial information is in integration and dialogue. There is a need for an overarching framework vision on information in general. Confidence in non-financial information starts with dialogue.



Glossary of terms

Auditor	Professional accountant in public practice
CoE	Code of Ethics for Professional Accountants
CSR	Corporate Social Responsibility
DASB	Dutch Accounting Standards Board (Raad voor de Jaarverslaggeving)
ERM	Enterprise Risk Management
FEE	Federation of European Accountants
GRI	Global Reporting Initiative
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
ICGN	International Corporate Governance Network
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standard on Auditing
ISAE	International Standard on Assurance Engagements
ISRE	International Standard on Review Engagements
ISRS	International Standard on Related Services
XBRL	Extensible Business Reporting Language



Antonio Vivaldistraat 2-8
Postbus 7984
1008 AD Amsterdam

T 020 301 03 01
F 020 301 03 02
E nivra@nivra.nl
I www.nivra.nl