Non-financial assurance

Improving the transparency of your non-financial disclosures

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Non-financial assurance: a vehicle for transparency

For financial statements, those reviewed by external auditors are seen as more credible, honest and reliable than unaudited financial statements. The same applies to non-financial statements, whereby external assurance gives those disclosures credibility, honesty, and reliability.

The benefits of assurance include:

— **Improved trust and credibility from investors and other key stakeholders.** Assurance gives stakeholders, including investors, a greater sense of security that statements and claims made are clear, accurate, and transparent.

— **Reduced risk and increased value.** Data quality can be a significant issue in Corporate Responsibility reports, and assurance plays an important part is not only reviewing the claims but also the processes used to support the claims.

— **Improved Board and CEO engagement.** As with financial assurance, non-financial assurance requires input from the Board and senior management. Having their support for non-financial matters through attaining assurance signals to the market their commitment for better management of their organisation’s non-financial risks.

— **Improved internal reporting and management systems.** Knowing claims will be subject to external assurance drives businesses to ensure their supporting systems and processes are robust and can be relied upon.

The release of the new NZX Corporate Governance Code and its requirement to include non-financial performance data in financial reports is expected to see an increase in integrated assurance in New Zealand over the next few years.
A report free from material misstatement enhances both the credibility and reliability of the company. Further, assurance can provide practical suggestions to improve the efficiency of data collection to enhance reporting.

Recommendations from assurance can assist businesses to improve their procedures to drive internal performance improvements and implement better practices to ensure future reporting is more accurate and robust.

The assurance process provides businesses and their stakeholders with comfort over:
— The effectiveness of internal controls
— The organisation’s risk management processes
— Compliance with reporting standards and frameworks
— That appropriate key performance indicators (KPIs) are used within the business

“Internal and external benefits of assurance can be easily identified, often aimed at building trust and confidence in the areas of governance, management and stakeholder relations.”

Global Reporting Initiative
Assurance over New Zealand reporting

Internationally, assurance of non-financial disclosures continues to steadily grow. The 2017 KPMG Survey of Corporate Responsibility Reporting1 revealed the number of companies investing in third-party assurance has doubled since 2005. Assurance of non-financial disclosures is now accepted standard practice among the world’s 250 largest companies, with more than two thirds (67 percent) of these companies seeking independent assurance. The global average rate of the 100 largest businesses in 49 countries also continues to steadily increase, from 33% in 2005 to 45% in 2017. Our peers in the United Kingdom and Australia have assurance rates among their 100 largest businesses of 64 percent and 40 percent respectively.

In New Zealand, we fall well short of these averages, and have one of the lowest rates of assurance globally, with only six of our 100 largest businesses who report locally seeking assurance. When reporting through their global parent entity, this figure rises to 23%.

The advent of the NZX’s requirement to include non-financial disclosures within financial reports is expected to drive a rapid increase in the demand for independent assurance. This more so given ever increasing scrutiny shown by investors and consumers over a company’s non-financial claims.

Ensuring completeness and accuracy of reporting is essential in gaining and maintaining the trust of inventors and the wide range of key stakeholders.

The assurance process

Assurance opinions can be provided for disclosures in an annual report or a stand-alone Corporate Responsibility report.

Limited assurance is most common in New Zealand although there are two levels of assurance; limited and reasonable. Limited assurance is the lower of the two and is a negative form of assurance, stating the report is free from material misstatement. Whereas, reasonable assurance is a positive opinion stating the report is true and fair.

KPMG offers opinions against the International Standard on Assurance Engagements, (ISAE) 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information.

Though it is most common to assure all standalone non-financial disclosures, it is possible to assure segments of disclosures such as greenhouse gas emissions. These assurance opinions are provided against mandatory the International Standard (ISAE) 3410: Assurance on Greenhouse Gas Statements.

Whilst alignment to an external reporting framework is not a pre-requisite for assurance, frameworks do aid in providing for a smooth assurance process. Frameworks such as GRI or <IR> create a structured report and provide an ideal platform for the assurance process.
Getting started

To achieve the most from the assurance process, an established report or the outlined content or your Corporate Responsibility report with understanding of your data capture processes is vital.

The following pre-requisites are required:

- **Relationship**: A recognised relationship between the three parties: the assurance provider; the engager (management) and the recipient of the assurance opinion (the Board)

- **Appropriateness**: Identification of your material issues and KPIs, the level of assurance desired and which disclosures to be assured

- **Reporting criteria**: The assurance standard to be used and the reporting standards and frameworks which have been followed. For first timers a pre-assurance readiness review should be performed

- **Evidence**: Your supporting evidence, for disclosures and claims made

- **Integration**: Whether disclosures are to be integrated with financial disclosures

How KPMG can assist

KPMG can support you in building a business that is sustainable in the long-term. KPMG completes the majority of non-financial assurances in New Zealand. You can rely on our credibility and experience to provide pre-assurance and assurance services to enhance the transparency of your disclosures.

Using accounting methodology and rigour, we also offer integrated assurance, integrating assurance opinions for your financial and non-financial disclosures.

Further reading

- Global Reporting Initiative: the external assurance of sustainability reporting
- Assurance on <IR>: an introduction to the discussion.

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3 http://integratedreporting.org/resource/assurance/