



27 January 2017

Mr Marek Grabowski
Chair – Integrated Reporting Assurance Working Group
International Auditing and Assurance Standards Board
529 5th Avenue
New York, New York 10017, USA

Submission – ‘Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements’

This submission is made by Deakin University (‘Deakin’), which is a member of the Integrated Reporting Australia Education Consortium (‘the Consortium’). The Consortium was selected in 2016 as the International Integrated Reporting Council’s (IIRC) Australian Foundation Training Partner, and includes KPMG Australia and the University of New South Wales.

The International Auditing and Assurance Standards Board (IAASB)’s paper, ‘Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements’ (‘the IAASB paper’), relates to assurance over all emerging forms of external reporting. This submission relates only to assurance over integrated reporting, as a particular emerging form of external reporting, as the Consortium works to build system capacity through education in the skills required to prepare and assure integrated reports and integrated reporting.

Deakin, and indeed the Consortium expresses support for the Australian Auditing and Assurance Standard Board submission on the request for comment on the IAASB paper. In particular, we believe that:

- there must be a parallel path for developing the integrated reporting assurance framework (with the <IR> Framework); and
- guidance on an <IR> assurance framework and examples are required at this stage, not standards.

Accordingly, this submission focuses on assurance matters and does not address many of the questions raised in the IAASB paper.

Content of Integrated Audit Reports

A key matter not addressed in the IAASB’s discussion paper from an educational perspective is what an integrated audit report (a reasonable or limited assurance report on an integrated report prepared in accordance with the IIRC’s Integrated Reporting Framework) ‘looks like’.

A prototype report needs to be developed and exposed for public comment to allow interested parties to fully appreciate the nature of, and solutions to, the ten key assurance challenges,

particularly regarding the competencies of the assurance practitioner and the ability of the assurance practitioner to exercise professional scepticism.

For example, given that one of the fundamental concepts of the Integrated Reporting Framework is the value creation process, key elements of which are the business model and the oversight activities undertaken by those charged with governance, it would be expected that the integrated audit report would, among other things, provide assurance on:

- Whether the business model described in the integrated report is in fact the business model applied in practice; and
- Whether the assertion by those charged with governance about their oversight of the processes leading to the preparation of the integrated report reflect what they actually did in practice.

Conduct of an Integrated Audit

Developing an integrated audit report does not require any value judgements about the quality of the business model or its sustainability. It just requires a statement of fact about the fairness of the reporting of the business model.

This is not to under-state the implications of this requirement for the competencies of the assurance practitioner. With 'the business' being at the centre of an integrated report, the assurance practitioner will require strong business skills and a detailed knowledge of the business subject to audit. The assurance practitioner will need to have the skills, and be strong enough, to be able to analyse and question whether the business model being reported is the 'real' business model, which may require the assurance practitioner to challenge and debate with the CEO and other executives on this matter.

With governance being a critical element of an integrated report, the assurance practitioner will also require a detailed understanding of quality governance practices and a strong knowledge of how governance is applied in the organisation subject to audit. The assurance practitioner will need to be experienced enough to be able to analyse and question whether governance is fairly reported, which may require the assurance practitioner to challenge those charged with governance on this matter.

The concept of presenting information 'through the eyes of management' (and the Board) is well understood in areas such as segment reporting in financial reports. In effect in the integrated audit, assurance practitioners are being asked to confirm that the governance framework, business model, strategic objectives, material risks, key value drivers, and KPIs measuring each of these, are indeed the areas of focus and oversight for the Board and management as they create value for the short, medium and long term.

Educational Implications

These matters are critical from an education perspective. Development of the above-mentioned skills, knowledge and attributes in relation to preparing integrated reports and the conduct of an integrated audit will require education.

Today's assurance practitioners are typically not taught these business and governance skills in an assurance context, as this is not required to deliver financial statement audits or assurance on sustainability reports. Going further, if these skills are not deemed to be required by current-day

assurance practitioners, then today's educational institutions will not build them into their assurance courses.

In fact, they are not yet built into reporting courses either. Typical commerce degrees have at their core, financial and management accounting, financial reporting and audit standards, economics, company law and tax. Sustainability reporting electives are growing in availability – they focus on the Global Reporting Initiative and its G4 Framework and underlying standards.

Students may take electives dealing with some of the skills required for integrated reporting assurance, such as strategy, business process analysis, risk management, corporate finance, governance and marketing, but these electives are not emphasised for those wanting corporate reporting and assurance careers, and integrated reporting and assurance are not yet taught in such degrees.

This will need to change if the graduates of the future are to be equipped for when integrated reporting and integrated auditing become 'the corporate reporting and assurance norm' in the not-too-distant future.

Auditing and assurance of financial reports and other accounting documents is clearly the domain of the accounting profession. In Australia, companies are required to apply financial reporting standards and to have an audit conducted by a registered company auditor under the Corporations Act. Thus in Australian tertiary institutions, auditing and assurance is taught in business and commerce degrees.

Given that there are no mandated standards for integrated or other emerging forms of external reporting, or for the assurance of these reports, it is possible that other groups (such as engineers, environmental professionals, scientists) will move into this assurance arena. These groups typically have no education in auditing and assurance of information that will be used by the capital markets to inform investment decisions and will not be required to comply with existing auditing and assurance standards.

This will create a credibility problem: What would be the value of an assurance report prepared by someone who has not undertaken rigorous assurance training? Assurance reports could potentially be cheaper as the practitioners will not have had to follow defined assurance procedures, may not have the requisite business skills discussed above, and may not be as independent and sceptical as the market expects. This may encourage many organisations to use these practitioners rather than those who have been through requisite assurance training.

This also creates an education problem: In which courses should auditing and assurance be covered? Who has the skills to teach this in degrees other than business and commerce? If non-accountant practitioners are undertaking assurance work and not using auditing standards, frameworks or guidance, should auditing and assurance be included in courses other than business and commerce? This matter goes to the heart of the relevance of the accounting profession and how it is educated.

This is not to suggest that the leadership of integrated auditing engagements will or should remain the exclusive domain of the accounting profession. Integrated auditing engagements will often require a broader skill-set (e.g. including engineers, environmental professionals and /or scientists) to that required for financial or sustainability report engagements. However, it is essential that such engagements are led and conducted by teams with the requisite rigorous assurance skills, be they defined in law, regulation or assurance standards.

Today's financial statement auditors require accreditation in these areas skills, and will be well-placed to continue to lead integrated audit engagements, with teams including the requisite skills, if the matters raised in this submission are addressed.

Training Delivered by IIRC-Accredited Training Partners

The skills referred to in this submission are emphasised in the IIRC's Competencies Matrix for the Integrated Reporting Framework, and are required to be included in training courses being developed by the IIRC's Foundation Training Partners. There is a strong case for IIRC accreditation as a Foundation Training Partner to be extended to accreditation in integrated assurance. We recommend that the IAASB take a position on this matter.

It is likely that current assurance practitioners will take those courses as executive education, in addition to them being used at under- and post-graduate levels. They will need to become core subjects in courses for those wanting corporate reporting and assurance careers (typically commerce degree students) as integrated reporting becomes the corporate reporting norm.

These matters are at the forefront of Deakin's, and the Consortium's, consideration in planning 2017 courses.

Concluding Remarks

The IAASB will need to strongly encourage academia, particularly business schools, to move now in this area if their degrees are to remain relevant, in demand and priced for value.

The table in the Appendix to this submission elaborates on the matters raised above, and provides further details. It is arranged to show the current position of today's assurance frameworks and standards on the key educational challenges, where they need to get to, and the changes required.

Should further information on this submission be required, please contact Michael Bray, *KPMG Fellow in Integrated Reporting at Deakin University* (m.bray@deakin.edu.au).

Yours faithfully

A handwritten signature in black ink, appearing to read 'Michael Bray', with a large, stylized flourish underneath.

Michael Bray
Deakin's KPMG Research Fellow in Integrated Reporting
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Appendix - Integrated Reporting Australia Education Consortium Submission to IAASB

Changes Required to Assurance Framework and Standards

| Key Educational Challenges | From | To | Change |
|--|--|--|---|
| <p>Teaching <IR> Reporting and Assurance Frameworks</p> | <p>Teaching assurance assertions about compliance International Financial Reporting Standards (IFRS) (reasonable and limited); requirements for auditors to review for consistency the remainder of reports which include financial reports (eg annual ports, including management commentary therein); requirements for auditors to report on effectiveness of internal controls over financial reporting in accordance with US GAAP (eg Sarbanes Oxley – reasonable assurance); assurance on selected GRI G4 indicators (usually on a limited basis).</p> <p>Assurance on strategy, performance (except past financial prospects) and prospects not required.</p> <p>Preparers, investors and other stakeholders have a limited understanding of today’s assurance model, particularly ‘limited assurance’, and so also need to be educated on this as well as integrated reporting and assurance.</p> | <p>Teaching the competencies (knowledge, skills & experience) required to perform integrated reporting assurance engagements on:</p> <ul style="list-style-type: none"> • assertions about strategy, business model, governance, performance and prospects in the <IR>; • assertions about internal controls over the integrated reporting process, especially on assertions about strategy, performance and prospects; • exercising the required professional scepticism and judgment about the quality of reporting of the business model, value drivers, risk mitigation performance, prospects and governance in the <IR>. <p>Preparers, investors and other stakeholders need to understand assurance, and so also need to be educated. Long form assurance reports will be required in relation to integrated audits.</p> | <p>Training in business strategy, business models and governance as critical elements of integrated reporting will be required for preparers and users, as well as assurers.</p> <p>In addition, the three fundamental concepts of the integrated reporting framework (value creation for the short, medium and long term; business model; and governance) are quite different, even though many of the guiding principles and content elements of the integrated reporting framework are the same or similar to those in financial and sustainability reporting frameworks.</p> <p>Principles and content which are different in the integrated reporting framework when compared to financial and sustainability frameworks include: strategic focus; future orientation; risks and opportunities; outlook; connectivity; and conciseness.</p> <p>These matters are not new, and educational institutions and firms are well equipped to train them. In addition, the concepts are not inherently difficult. The change is that they are not typically included in training as core components of corporate reporting and assurance. This matter needs to be addressed in parallel with the development of the integrated reporting assurance framework.</p> <p>How can universities and other educational institutions build sufficient systems capacity in the right timeframe? What are the universities planning regarding integrated reporting assurance for 2017 and later?</p> |

| Key Educational Challenges | From | To | Change |
|--|--|--|---|
| | | | <p>A key matter to be addressed is that knowledge can be trained with suitable frameworks and examples, but skills and experience can only be built in practice.</p> <p>Integrated reporting and integrated reporting assurance training will require different delivery models (eg more of a focus on workshops) to those used today (eg lectures).</p> |
| <p>Teaching how to determine materiality for the different and diverse (business-centric) information in an integrated report when there is little guidance in existing reporting frameworks.</p> | <p>One set of rules for financial reporting materiality (quantitative) and another for 'non-financial' reporting materiality (qualitative), and no frameworks for proving assurance on the diagrams, graphs and narratives which will for a significant component of integrated reports.</p> | <p>This matter is linked to the role of those charged with governance. The assessment of materiality of those charged with governance, informed by stakeholder information needs, and management's view of the strategy and business model, will be the starting point for setting materiality for the integrated report.</p> <p>The assurance provider would assess the framework determined by management and those charged with governance to form an opinion on the fairness of the reporting on materiality in the integrated report, and to plan and carry out the procedures for collecting assurance evidence support of the integrated audit report.</p> <p>Questions that an assurance provider may consider in assessing materiality include:</p> <ul style="list-style-type: none"> • Would or should the reporting of a matter shift an investor's model (eg change a key assumption, a projection of cash flows - quantum as well as timing, or discount rate - in a net present value model)? Or would the omission of a matter lead an investor to leave a model unchanged when a significant change may have been warranted? | <p>A common feature of integrated, financial and sustainability reporting frameworks is materiality. Although there are similarities in the way that the term is defined and applied, there are also significant differences and these need to be addressed in both the integrated reporting and integrated reporting assurance frameworks.</p> <p>For instance, the integrated reporting framework requires preparers to consider both what is significant to value creation from their perspective (eg is a matter material to their business model?) and what is important to their providers of capital (all six capitals) in relation to their contributions and outcomes. This could be referred to as matching an 'inside looking out' and 'outside looking in' view of what is important to value creation.</p> <p>Sustainability reporting has a focus on the 'outside looking in' perspective, and financial reporting has an 'inside looking out' perspective as defined in financial reporting standards.</p> <p>There will be a need to teach an integrated and consistent approach to materiality determination in both integrated reporting and integrated assurance. This will require a foundation which bridges the change from materiality in financial / sustainability reporting and assurance to that in integrated reporting.</p> <p>Again, how can universities and other educational institution build sufficient systems capacity in the right timeframe? What are the universities planning regarding integrated reporting assurance for 2017 and later?</p> |

| Key Educational Challenges | From | To | Change |
|---|---|---|---|
| | | <ul style="list-style-type: none"> • Would another key stakeholder (eg a customer, employee, supplier or regulator) make or change a decision if they knew of a matter reported, or not reported? | <p>A key matter to be addressed is that knowledge can be trained with suitable frameworks and examples, but skills and experience can only be built in practice.</p> <p>Integrated reporting and integrated reporting assurance training will require different delivery models (eg more of a focus on workshops) to those used today (eg lectures).</p> |
| <p>Teaching how to obtain assurance with respect to:</p> <ul style="list-style-type: none"> • narrative information, future-oriented information and risk management performance information, and • quality and execution of reporting strategy, ... in integrated reports | <p>Audit reports focused on IFRS and GRI compliance.</p> | <p>Audit reports focused on the:</p> <ul style="list-style-type: none"> • quality of reporting on the strategy, performance and prospects, including business model viability (ie the <IR> Framework); • quality of reporting strategy and effectiveness of reporting process performance; and • Connectivity throughout the integrated report, and its balance and conciseness, while still having regard to materiality. | <p>Teaching:</p> <ul style="list-style-type: none"> • an integrated and consistent approach to reporting narrative, future-oriented and risk management performance information in integrated reports; and • How to audit the quality of the reporting strategy and the effectiveness of the reporting process. <p>Some guidance can be obtained from non-financial assurance frameworks, but this is largely new ground.</p> <p>Again, how can universities and other educational institution build sufficient systems capacity in the right timeframe? What are the universities planning regarding integrated reporting assurance for 2017 and later?</p> <p>A key matter to be addressed is that knowledge can be trained with suitable frameworks and examples, but skills and experience can only be built in practice.</p> <p>Integrated reporting and integrated reporting assurance training will require different delivery models (eg more of a focus on workshops) to those used today (eg lectures).</p> |
| <p>Teaching effective communication on the:</p> <ul style="list-style-type: none"> • ‘what’ (internal control over preparation of the integrated report); and | <p>Today’s assurance reports are focused on IFRS and GRI compliance (typically reasonable assurance on IFRS and limited assurance on GRI).</p> <p>Internal controls over non-financial information typically lack the rigour of</p> | <p>Reports focused on the</p> <ul style="list-style-type: none"> • quality of reporting on the strategy, performance and prospects (including business model viability) and | <p>Again, how can universities and other educational institution build sufficient systems capacity in the right timeframe? What are the universities planning regarding integrated reporting assurance for 2017 and later?</p> |

| Key Educational Challenges | From | To | Change |
|---|---|---|---|
| <ul style="list-style-type: none"> 'how' (internal control over integrated reporting) - in the integrated audit report | <p>internal controls over financial information.</p> <p>Typically, there is little or no assurance over financial and sustainability reporting processes.</p> <p>Finally, providing assurance on reporting on value creation, business models, strategies and governance, as well as other principles of the integrated reporting framework (eg connectivity) is breaking new ground.</p> | <ul style="list-style-type: none"> Quality and execution of the reporting strategy. <p>Teaching of Integrated Reporting Management Systems, and investments required in them, will be necessary for integrated reporters, users and assurers. Preparers will be investing significantly in these areas as they build their integrated reporting.</p> | <p>A key matter to be addressed is that knowledge can be trained with suitable frameworks and examples, but skills and experience can only be built in practice.</p> <p>Integrated reporting and integrated reporting assurance training will require different delivery models (eg more of a focus on workshops) to those used today (eg lectures). You can train knowledge, but how do you train skills and experience?</p> <p>What will attract a qualified audit report? It will not be when there is a poor business model.</p> <p>How can universities and other educational institution build sufficient systems capacity in the right timeframe? What are the universities planning regarding integrated reporting assurance for 2017 and later?</p> <p>A key matter to be addressed is that knowledge can be trained with suitable frameworks and examples, but skills and experience can only be built in practice.</p> <p>Integrated reporting and integrated reporting assurance training will require different delivery models (eg more of a focus on workshops) to those used today (eg lectures).</p> |