



21 June 2019

Mr Arnold Schilder
Chairman
International Auditing & Assurance Standards Board
529 5th Avenue
New York, New York 10017

Dear Arnold

Deakin University congratulates the International Auditing & Assurance Board (IAASB) on its Extended External Reporting Assurance Consultation Paper.

The project and paper are very important and particularly timely given recent developments in extended external reporting, particular the pace and scale of adoption of integrated reporting, and emerging demand for assurance of integrated reports.

Deakin University thanks the IAASB for the opportunity to make a submission.

About Deakin University and Integrated Reporting

Deakin University is one of Australia's fastest growing universities, proud of its inclusive and student-focused culture and with a reputation for being technologically adept, agile and with a responsive approach much valued by its industry partners.

The Deakin Business School established a focus on integrated reporting in 2016, a first among Australian universities. This was a strategic move by the university in anticipation of Australia following other major capital markets in adopting integrated reporting as a key tool of corporate governance, as companies, institutions and governments take actions to improve transparency and restore trust.

Deakin was, with KPMG and UNSW (the *Integrated Reporting Education Australia Consortium*), selected by the International Integrated Reporting Council (IIRC) in 2016 as one of the IIRC's eight global Foundation Training Partners, giving it a unique position in integrated reporting in Australia.

This appointment enabled Deakin to commence teaching integrated reporting to business degree under-graduate and post-graduate students in 2017, standing Deakin apart in preparing for the next step in the evolution of Australian corporate reporting. We expect that our courses will be a significant contributor to the process of building the required system capacity in integrated reporting, as demand for integrated reporting skills grows. This is a key 'ask' of universities as the now inevitable move towards integrated reporting as the corporate reporting norm gathers pace.

Deakin was also selected in June 2018 by the IIRC to be the inaugural chair of the Oversight Body of its Global Academic Network. The Body will oversee the IIRC's Global Academic Network, a group of around 100 universities and other educational bodies around the world which are currently only loosely connected and without a united agenda.

We have taken this approach as we believe that integrated reporting will become the corporate reporting norm in the years to come, and system capacity in commerce and other graduates will be required to meet demand for integrated reporting skills.

The benefits of adoption are not enjoyed only by listed public companies. Universities are among those benefiting from the adoption of integrated reporting. For example, the British Universities Finance Directors Group (BUFDG) became a significant proponent of integrated reporting some years ago¹, and leading universities such as the University of Edinburgh² are leading the charge, based on the proven business benefits of adoption.

Deakin published its own first integrated report two months ago (for the 2018 year), the first by an Australian University. Among other things, Deakin will explore obtaining assurance on its integrated report as it continues its integrated reporting journey.

Deakin will launch a dedicated Integrated Reporting Centre in July 2019 to add depth and breadth in its capacity to lead integrated reporting and assurance research and education in Australia, and globally, as part of the mission to make integrated reporting a significant contributor to improved business performance, more efficient capital markets, and enhanced Australian competitiveness, in addition to restoring trust through the greater credibility that an assured integrated report can assist in bringing.

A summary of our recommendations follows. Deakin University's full submission on the Consultation Paper is attached.

Extended External Reporting Assurance Guidance - Summary of Recommendations

Reporting Frameworks

- 1 Cross-reference to both the <IR> Framework and Management Commentary Practice Statement guidance as useful sources for an assurance practitioner who is evaluating an integrated reporting assurance engagement, particularly the examples contained therein (eg of business model disclosures), giving guidance on how to assure these examples.

Terminology

- 2 Provide guidance regarding, and examples of, the wide variety of terminology used by organisations to describe the *what*, *with* and *how* of their own business, and how the what, their underpinning reporting on performance and prospects.

Subject Matter Information

- 3 Guidance should be provided about what the assurance practitioner should look for in the subject matter information, focusing on the:
 - underlying subject matter (the report) eg strategic objectives and associated Key Performance Indicators (KPIs); and

¹ <https://www.bufdg.ac.uk/search?s=integrated+reporting>

² <https://www.accaglobal.com/an/en/professional-insights/global-profession/Insights-into-integrated-reporting-2-walking-the-talk/university-of-edinburgh.html>

- qualitative characteristics of the report as to whether suitable criteria have been used.
- 4 The level of depth must be sufficient to provide meaningful assurance. Defined minimums need to be established if enough guidance is to be provided to guide an assurance practitioner in determining whether to be associated with an integrated report prepared under either the <IR> Framework or a Basis of Preparation founded on integrated reporting principles, as neither the <IR> Framework nor the MCPS get to this level of detail.
 - 5 Guidance will be needed as to minimum levels of documentation to support a claim of adoption of the <IR> Framework or integrated reporting principles, supported by examples.

Underlying Subject Matter

- 6 The EERA guidance should formally acknowledge that the content elements of the <IR> Framework are appropriate underlying subject matter for the purposes of ASAE 3000.

Suitable Criteria

- 7 Suitable criteria for an integrated report assurance engagement should be defined and analysed, and examples included, using the <IR> Framework and/or Management Commentary Practice Statement as the basis.
- 8 The EERA guidance should formally acknowledge that the <IR> Framework was developed by a recognised body of experts (the IIRC³) who followed a transparent due process, and that the guiding principles in the <IR> Framework⁴ are suitable criteria for the purposes of ASAE 3000, meeting the requirements of relevance, completeness, reliability, neutrality and understandability in ASAE 3000.
- 9 It would be helpful for assurance practitioners if narrative guidance and examples are included in the EERA guidance as to strategy, resources and relationships, business model and competitive edge
- 10 A differential level of guidance may be required for <IR> Framework versus Basis of Preparation (integrated Reporting principles-based) assurance engagements. The guidance will need to specify minimum levels regarding the what, with, how and why of the business for the assurance practitioner to judge if a Basis of Preparation explaining the use of integrated reporting principles is sufficiently close to the <IR> Framework to credibly assert that the report is an integrated report.
- 11 Further guidance and examples are needed for the more judgemental content in an integrated report related to the what, with and how of the business, and the appropriateness / connectivity of metrics chosen to measure operation of the what, with and how in practice.

³ It can similarly recognise that the Management Commentary Practice Statement guidance will have been issued by a recognised body of experts (the IASB) following a transparent due process when that guidance is issued.

⁴ Strategic focus and future orientation; Connectivity of information; Stakeholder relationships; Materiality; Conciseness; Reliability and completeness; and Consistency and comparability.

Internal Control as it Relates to Integrated Reports

12 The <IR> Framework is largely silent about internal control systems as they relate to integrated reports. Such guidance is needed in the EERA guidance.

Please contact Michael Bray on mgbay@kpmg.com.au or +61 407 257 226 should you have any questions in relation to this submission.

Yours faithfully



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Extended External Reporting (EER) Assurance - IAASB Consultation Paper

Submission by Deakin University

The Australian Auditing & Assurance Standards Board held roundtable consultations on the IAASB Consultation Paper, *Extended External Reporting (EER) Assurance*, in Melbourne and Sydney on 23 and 24 May 2019.

There was much discussion, and a number of significant matters were raised, particularly as to the ability of the proposed guidance to adequately guide the acceptance and performance of an engagement to assure an integrated report, or a management commentary (under the as-yet-incomplete IASB Management Commentary Practice Statement - see below).

A Key Issue – Multiple Reporting Frameworks Are at Various Stages of Evolution and Adoption

The draft EERA guidance is said to be reporting framework neutral, covering reporting including, but not limited to, integrated reporting, sustainability reporting and other reporting by entities about environmental, social and governance (ESG) matters.

However, after mentions of integrated reporting in paragraphs 1 and 7 of the guidance without elaboration, there are no further mentions of integrated reporting in the draft guidance nor examples specific to it. The document is almost exclusively geared towards guiding assurance engagements on GRI-based sustainability reports, with a focus on the GRI Standards on standardised reporting of GRI metrics. The GRI and SASB standards are specifically acknowledged in paragraphs 127 and 134, and paragraph 12 of Appendix 1, of the draft EERA guidance.

ASAE 3000 is an appropriate foundation for engagements to assure extended external reports, including integrated reports. However, there are significant differences between the guidance that is needed for integrated report assurance engagements and that needed to guide GRI-based sustainability report assurance engagements.

Given:

- that the IIRC has moved to its Global Momentum Phase in recognition of the pace and scale of integrated reporting adoption around the world,
- the parallel paths of the development of the IASB's MCPS and the IAASB's EERA guidance projects and likely convergence of the timing of release of deliverables from these projects, and
- rapidly developing demand from investors for assurance of integrated reports,

the state of the IAASB's EER Assurance Guidance is inadequate as it relates to integrated reporting / management commentary (eg an OFR in Australia, a Strategic Report in the UK, or an MD&A in the USA).

Integrated Reporting <IR> Framework and Management Commentary Practice Statement

Good progress is being made by the International Accounting Standards Board on the revision of its Management Commentary Practice Statement (MCPS) guidance. Based upon materials released to date (principally slide decks with illustrative drafting of the MCPS guidance) the MCPS guidance is progressing towards **substantive equivalence** of management commentaries prepared under the MCPS and integrated reports prepared under the <IR> Framework. Indeed, it is likely that a Management Commentary prepared under the MCPS guidance will be substantively equivalent to an integrated reports prepared under the <IR> Framework, and vice versa, with two exceptions explained below.

Reporting on governance is a required feature of an integrated report⁵ under the <IR> Framework, but not the MCPS materials. This area may be accepted as a substantive difference between the two sources of extended external reporting guidance.

Management commentaries under the MCPS will be more oriented towards impact on likely future net cash inflows than is the case under the <IR> Framework, a difference in emphasis.

The best integrated reports will be those dealing explicitly with **both** governance and impact on likely future net cash inflows.

Accordingly, it will probably be appropriate in the EER Assurance guidance to cross-reference to both the <IR> Framework and Management Commentary Practice Statement guidance as useful sources for an assurance practitioner who is evaluating an integrated reporting assurance engagement, particularly the examples contained therein (eg of business model disclosures), and giving guidance on how to assure these examples.

As central elements of the <IR> Framework and MCPS are substantively equivalent. Accordingly, for ease of drafting, this submission focuses on integrated reporting and the <IR> Framework. References to integrated reporting should be taken equally as references to management commentary under the MCPS.

Both the <IR> Framework and Management Commentary guidance (as it has evolved to date) recognise the need to allow for language used by individual organisations on the various aspects of the what, with and how of their business covered in an integrated report / management commentary.

For simplicity this submission refers to an integrated report or management commentary describing the *what, with* and *how* of the business:

- **What** – strategy, risks and opportunities,
- **With** – resources and relationships¹, and
- **How** – business model, including governance, strategic management and other key business processes

It will be useful to provide guidance regarding, and examples of, the wide variety of terminology used by organisations to describe the what, with and how of their own business, and how the what, their underpinning reporting on performance and prospects.

The most significant area of need for integrated reporting assurance guidance in the chapters drafted to date is about the **pre-conditions for assurance** (Chapter 3 of the EERA draft guidance). Without getting this right, poorly founded integrated reporting assurance engagements may be accepted which will contribute to their ultimate success or otherwise.

It is understood that engagement scoping, the other part of Chapter 3 of the EERA draft guidance, will largely be covered in Phase 2. However, it is critical to consider the current status of integrated reporting adoption around the world in scoping an integrated report assurance engagement (that is, in Chapter 3) – will it be about an integrated report under the <IR> Framework or an integrated report under a Basis of Preparation? – as an element of evaluating the subject matter information, and for determining whether limited or reasonable assurance would be best in the circumstances.

⁵ As an element of an organisation’s Value Creation Process and under the Governance content element

Particular organisations may find it more appropriate at this stage of their integrated reporting journey to stop short of asserting full adoption of the <IR> Framework, and instead apply various principles of integrated reporting, explaining the extent to which the full <IR> Framework has been applied in using those principles in a Basis of Preparation.

This will remain the case until at least until 2022, when the IIRC expects that integrated reporting is will move to its Global Adoption phase, when integrated reports prepared under the <IR> Framework will be more prevalent.

Guidance should be provided about what the assurance practitioner should look for in the subject matter information, focusing on the:

- ***underlying subject matter (the report) eg strategic objectives and associated Key Performance Indicators (KPIs); and***
- ***qualitative characteristics of the report as to whether suitable criteria have been used.***

The level of depth must be sufficient to provide meaningful assurance. Defined minimums need to be established if enough guidance is to be provided to guide an assurance practitioner in determining whether to be associated with an integrated report prepared under either the <IR> Framework or a Basis of Preparation founded on integrated reporting principles, as neither the <IR> Framework nor the MCPS get to this level of detail.

The Value of Integrated Reporting Assurance

The assurance conclusion on a limited or reasonable assurance engagement will in effect be a conclusion on the fairness of the organisation's communication of, 'This is our strategy, risks and opportunities, resources and relationships, business model and governance, and our performance in implementing the strategy and prospects for continuing to implement it in the future' - a communication to investors and others in substance saying 'in our opinion, this is the business as it really is' (*what, with and how*).

Such assurance will be a significant matter - a valuable communication to investors and other stakeholders for use in their decision making. However, this area also has significant implications for the skills, professional scepticism and professional judgement of the EERA practitioner, focus areas for Phase 2 (Chapters 3 and 4). Of the chapters partially developed, a lot more is needed in Phase 2 on assuring narrative and future-oriented information in the specific context of integrated reporting.

Consultation Questions

Q1: Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1? If not, where and how should it be improved?

The draft guidance says little about the matters covered above, and more specific aspects of the pre-conditions for assurance covered below. Accordingly, it does not adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in Phase 1 as it relates to integrated reporting. This submission makes suggestions as to where and how the guidance could be improved.

Pre-Conditions for Assurance

Paragraph 24 of ASAE 3000 sets down pre-conditions for an assurance engagement. In order to establish whether the preconditions for an assurance engagement are present, the assurance practitioner shall, on the basis of a preliminary knowledge of the engagement circumstances and discussion with the appropriate party(ies), determine whether:

- **Underlying subject matter** - the underlying subject matter is appropriate

Under paragraph A40, an appropriate underlying subject matter is identifiable and capable of consistent measurement or evaluation against the applicable criteria.

The EERA Guidance has only one example regarding underlying subject matter –greenhouse gas emissions data. This relates to natural capital in terms of the <IR> Framework. The example has no connectivity to the *what, with* and *how* of the business.

At the very least, it will be necessary for the strategy, risks and opportunities, resources and relationships, business model and governance, to be documented by management as a basis for reporting on these matters in an integrated report.

Guidance will be needed as to minimum levels of documentation to support a claim of adoption of the <IR> Framework or integrated reporting principles, supported by examples.

The EERA guidance should formally acknowledge that the content elements of the <IR> Framework are appropriate underlying subject matter for the purposes of ASAE 3000.

- **Suitable criteria** - the criteria that the assurance practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances

Under paragraph A48, it is recognised that criteria can be selected or developed in a variety of ways, including being issued by an authorised or recognised body of experts that follow a transparent due process.

The EERA Guidance has only:

- financial reporting examples (financial position, performance and cash flow, revenue classes of transactions) and various non-financial reporting examples (ESG, social / human matters, staff diversity, greenhouse gas emissions, employee survey, water intake, energy usage), but not extending to the other capitals of the <IR> Framework, such as intellectual and human capitals – innovation, intellectual property, technology, strategic management process, use of people in pursuing the strategy;
- no examples exploring the connectivity⁶ of the financial reporting and sustainability reporting examples included to the *what, with* and *how* of the business;
- three customer metric and market share examples, again with no connectivity to the *what, with* and *how* of the business; and
- a generic narrative on the evolution of reporting processes, but nothing that would guide an assurance practitioner in practice.

Suitable criteria for an integrated report assurance engagement should be defined and analysed, and examples included, using the <IR> Framework and/or Management Commentary Practice Statement as the basis.

The EERA guidance should formally acknowledge that the <IR> Framework was developed by a recognised body of experts (the IIRC⁷) who followed a transparent due process, and that the guiding principles in the <IR> Framework⁸ are suitable criteria for the purposes of ASAE 3000, meeting the requirements of relevance, completeness, reliability, neutrality and understandability in ASAE 3000.

⁶ A guiding principle of the <IR> Framework

⁷ It can similarly recognise that the Management Commentary Practice Statement guidance will have been issued by a recognised body of experts (the IASB) following a transparent due process when that guidance is issued.

⁸ Strategic focus and future orientation; Connectivity of information; Stakeholder relationships; Materiality; Conciseness; Reliability and completeness; and Consistency and comparability.

Both the <IR> Framework and the Management Commentary Practice Statement guidance developed to date require reporting of the:

- *what* – the **strategy**⁹.

It would be helpful for assurance practitioners if narrative guidance and examples are included in the EERA guidance as to:

- the level of detail needed to communicate the strategy in an extended external report - how an assurance practitioner can identify Purpose, Strategic Objectives and associated strategic level Key Performance Indicators (KPIs), Risks and associated Key Risk Indicators (KRIs) in an integrated report, irrespective of the terminology that a particular organisation may use for these business management terms; and
- how these details can be subject to an assurance engagement, focusing on management's documentation of the strategy; the design of and ability to implement the strategy; and analysis of appropriateness of KPIs and KRIs for given objectives, risks **and opportunities**¹⁰.

- *with* – the **resources and relationships**¹¹ used to implement the strategy.

It would be helpful for assurance practitioners if narrative guidance and examples are included in the EERA guidance as to:

- the level of detail needed to communicate the resources and relationships, and associated key performance indicators relating to outcomes for those providing the resources and involved in the relationships, and alternative terminology that may be used¹², in an extended external report; and
- how these details can be subject to an assurance engagement, focusing on management's documentation of the resources and relationships; the design and operating effectiveness of the strategy as it relates to the use of resources and relationships; and analysis of the appropriateness of outcome KPIs for given resources and relationships.

- *how* – the organisation's **business model**¹³ (including governance and strategic management processes) uses its resources and relationships.

It would be helpful for assurance practitioners if narrative guidance and examples are included in the EERA guidance as to:

- the level of detail needed to communicate the business model, including the critical activities / success factors within the strategic management, governance and other key business processes¹⁴, and associated process level (activity-based) KPIs and KRIs, and
- how these details can be subject to an assurance engagement, focusing on management's documentation of the business model; the design and operating effectiveness of the

⁹ The first fundamental concept of integrated reporting, *value creation for the organisation and others in the short, medium and long term*, and reflected most in the strategy component of the *strategy and resource allocation* content element, and the *organisational overview and external environment, risks and opportunities and performance outlook* content elements of the <IR> Framework

¹⁰ GRI reporting tends to focus on risks. The <IR> Framework emphasises the need for a balanced view on opportunities as well as risks.

¹¹ The second fundamental concept of integrated reporting, *the capitals*, and reflected most in the resource allocation component of the *strategy and resource allocation* content element of the <IR> Framework.

¹² For instance, *capitals, value drivers or enablers*. The <IR> Framework allows and in fact encourages reporting organisations to use terminology to describe their capitals which suits their own circumstances.

¹³ The third fundamental concept of integrated reporting, *value creation process*, and reflected most in the governance and business model content elements of the <IR> Framework.

¹⁴ Including materiality, stakeholder relationship, information management, performance measurement and reporting processes, along with core operating processes.

business model; and analysis of appropriateness of activity-based KPIs and KRIs for given business processes.

- *why* – competitive edge

It would be helpful for assurance practitioners if narrative guidance and examples are included in the EERA guidance as to:

Why is the organisation better than its competitors for investors / members and other key stakeholders through ...

... using its innovation, intellectual property, technology, brand and reputation, customer relationships, employee engagement, financial resources, property, plant and equipment (both owned and used), community relationships and natural resources (**resources and relationships**, or capitals) ...

... in its strategic management, governance and other key business processes (**business model**¹⁵)...

... to create positive outcomes for them (**strategy implementation**, or value creation) in the short, medium and long term?

Guidance at this level of detail will assist the assurance practitioner in determining the suitability of criteria used for the integrated report, and providing proper context for determining assurance procedures in relation to the reporting of performance and prospects in the integrated report. Such guidance would be helpful in relation to both limited and reasonable assurance engagements under either the <IR> Framework or a Basis of Preparation using integrated reporting principles.

A differential level of guidance may be required for <IR> Framework versus Basis of Preparation (integrated Reporting principles-based) assurance engagements. The guidance will need to specify minimum levels regarding the what, with, how and why of the business for the assurance practitioner to judge if a Basis of Preparation explaining the use of integrated reporting principles is sufficiently close to the <IR> Framework to credibly assert that the report is an integrated report.

If the assurance engagement includes a claim in the integrated report that it complies with the <IR> Framework, the report must also contain the other 'black letter' requirements of the Framework, including:

- a Basis of Preparation¹⁶, which will focus on the report being prepared in accordance with the Framework instead of the extent to which the Framework has and has not been applied in a Basis of Preparation;
- it being a designated, identifiable and concise report;
- an explanation of departures from the Framework and remediation timeframe; and
- an accountability statement for the report from those charged with governance.

The assurance practitioner will need to take these matters into account in performing the assurance engagement and forming the assurance conclusion.

¹⁵ Value Creation Process in the <IR> Framework

¹⁶ A Basis of Preparation will be required for both integrated reports applying the <IR> Framework and integrated reporting principles.

- **Internal control system** - the internal control system as a pre-condition for an assurance engagement under ASAE 3000 is not fully addressed in either ASAE 3000 or the EERA draft guidance

ASAE 3000 distinguishes between reasonable and limited assurance engagements in this area:

- *Reasonable assurance engagements*

Paragraph 47R of ASAE 3000 states that the assurance practitioner shall, in obtaining an understanding of the subject matter information (the outcome of the measurement or evaluation of the underlying subject matter against the criteria – eg an integrated report adopting the <IR> Framework in full, or an integrated report using integrated reporting principles under a Basis of Preparation), evaluate the design of controls relevant to the engagement and determine whether they have been implemented by performing procedures in addition to enquiries of responsible personnel.

- *Limited assurance engagements*

Paragraph 47L of ASAE 3000 states that the assurance practitioner shall, in obtaining an understanding of the subject matter information (the outcome of the measurement or evaluation of the underlying subject matter against the criteria – eg an integrated report adopting the <IR> Framework in full, or an integrated report using integrated reporting principles under a Basis of Preparation), consider the process used to prepare the integrated report.

The discussion in paragraphs 58-60 of ASAE 3000 and narrative guidance in paragraphs 23-26 of the EERA draft guidance is helpful. However, there are only high level narratives about ‘considerations for the practitioner’, and examples with a transactions / metric focus (employee diversity, service performance information of a public sector entity) to support paragraphs 23-26.

There is no guidance about how to ensure statements about the *what*, *with* and *how* of the business. The guidance and examples included in the draft are more suited to routine classes of transactions and individual performance metrics.

Further guidance and examples are needed for the more judgemental content in an integrated report related to the what, with and how of the business, and the appropriateness / connectivity of metrics chosen to measure operation of the what, with and how in practice.

Internal controls required in relation to integrated reporting are different to those required for routine classes of transactions, and individual performance metrics, the focus of financial reporting and sustainability reporting internal control systems. An integrated reporting-based internal control system must cover among other matters:

- The unique strategies and business models of individual organisations;
- Reporting on all resources and relationships used (all six capitals, including human and intellectual capitals), which is broader in focus than financial reporting, which is most concerned with financial and manufactured capitals, and GRI-based sustainability reporting, which is most concerned with natural capital and aspects of social and relationship capital (not including customer satisfaction or employee strategic alignment); and
- The need for information management and reporting processes to manage the integrity, processing and report compilation of and for this broader, more strategic and judgemental array of information – regarding the what, with and how of the business and its performance.

Areas in which guidance and examples are needed in the EERA draft guidance include:

- Is the reporting process designed so that the integrated report will meet the <IR> Framework / Basis of Preparation¹⁷?
- Are reporting systems enabling the reporting process fit for purpose and do reporting personnel possess adequate integrated reporting knowledge, skills and experience to carry out their activities within the integrated reporting-based reporting process?
- Conditions for assurance should focus on the existence and documentation of the *what, with* and *how*, not the **quality** of the strategy, resources and relationships and business model, as these are matters for the preparer. The task of the assurance practitioner is determining whether the *what, with* and *how* - **as they exist** - are reliably presented in the integrated report.

At the assurance engagement acceptance / continuation stage, the focus will be mainly on documentation of the existence of the information discussed above, rather than a full evaluation of its design and operating effectiveness, which would be carried out during the assurance engagement, the extent of which will depend upon whether the engagement is a limited or reasonable assurance engagement.

The <IR> Framework is largely silent about internal control systems as they relate to integrated reports. Such guidance is needed in the EERA guidance.

Planning an Integrated Reporting Assurance Engagement

If the conditions for acceptance are satisfied, the following considerations will be relevant to planning the assurance engagement. This submission does not go into these considerations in any detail as it is assumed that they will be focus areas for Phase 2 of the EERA project:

Reasonable assurance engagement

Controls within the reporting process would need to be tested to determine whether integrated reports are likely to meet the requirements of the <IR> Framework / Management Commentary Practice Statement or Basis of Preparation – that is, testing whether the reporting process operates as designed in relation to the preparation of integrated reports.

Substantive evidence would need to be obtained so as to be able to conclude on whether the integrated report reflects the business as designed and in operation, and complies with all requirements of the <IR> Framework / Basis of Preparation. This will include procedures regarding:

- reading the strategic / business planning documentation;
- reading other documentation such as of the business model and governance, risk management, resources and relationships, and board and management reporting; **and**
- attending board and management meetings to observe and evaluate whether and how the above matters are documented and designed, and whether the documentation reflects their operation in practice.

Limited assurance engagement

The reporting process would be considered to determine whether integrated reports will meet the requirements of the <IR> Framework / Basis of Preparation – that is, does the reporting process operate as designed as it relates to the preparation of integrated reports?

¹⁷ Or Management Commentary Practice Statement

Enquiries would be made and analysis carried out to be able to conclude whether there are any reasons to believe that the integrated report does not fairly reflect the business (*what, with and how*) as designed and in operation, and complies with the <IR> Framework / Basis of Preparation included in the integrated report.

This **may** include attending board and management meetings to observe and evaluate whether and how such matters are documented and designed, and whether that documentation reflects their operation in practice.

The planning of integrated reporting assurance engagements of the nature described above will have significant implications for Chapter 4, 'Applying appropriate skills'; which has been allocated to Phase 2 of the EERA project. Arguably, the assurance team will require more inbuilt knowledge of business strategies, business models (particularly governance, strategic management, stakeholder management processes) than is the case for financial reporting and sustainability assurance engagements.

Concluding on an Integrated Reporting Assurance Engagement

This submission does not go into any detail on concluding on an integrated reporting assurance engagement as it is assumed that this will be a focus area for Phase 2 of the EERA project.

If a conclusion is reached that the integrated report is misleading in its portrayal of the *what* (strategy, risks and opportunities), *with* (resources & relationships) or *how* (business model and governance) of the business, or that the design or operation of the reporting process is inadequate as it relates to integrated reporting, a modified assurance opinion would need to be expressed.

This would be a very significant finding in the eyes of investors and other stakeholders, going to the trust they place in the organisation. This is an area where the value of integrated reporting assurance can be central to the future of the assurance profession.

Reaching conclusions on integrated reporting assurance engagements of the nature described above has significant implications for Chapter 5, 'Exercising professional scepticism and professional judgement', which has been allocated to Phase 2 of the EERA project. Arguably, the assurance team will require more or at least different attributes in these areas (for example, in being able to judge whether the strategy and business model reported in the integrated report are 'the real' strategy and business model as they operate in practice) than is the case for financial reporting and sustainability assurance engagements.

Integrated Thinking

Where does Integrated Thinking, the foundation of integrated reporting, fit in to evaluating the appropriateness of the subject matter information, the suitability of criteria and internal control system as it relates to extended external reporting? To what extent must an organisation practice integrated thinking in order to support a claim of:

- Adoption of the <IR> Framework or integrated reporting principles in an integrated **report**?

It is not required that an organisation preparing an integrated report under the <IR> Framework or Basis of Preparation to have perfected its integrated thinking. The integrated report must reflect the business **as it is**, and the assurance engagement will be focused on whether the integrated report communicates the business **as it is**.

- Integrated **reporting** adoption (as distinct from preparing an integrated report)?

This is an unresolved topic which should be considered by the IIRC.

The EERA guidance notes the opportunity for the assurance practitioner to advise the preparer on improving the reporting process (paragraph 60), even where the pre-conditions for an EER assurance engagement have not been met.

Whether the judgement is made that the subject matter information is or is not adequate to support an EER assurance engagement, the non-assurance opportunity for the assurance practitioner extends to advising the preparer on applying more integrated thinking to better integrate business planning and performance throughout the organisation, which will be reflected in future integrated reports.

This is another area where the value of integrated reporting assurance can be central to the future of the assurance profession.

As already mentioned, the ability of the integrated report assurance practitioner to be effective in this area will require a team with broader skills than is the case for financial reporting and sustainability assurance engagements, including being able to exercise appropriate professional judgement in these value adding areas.

Country-Specific Considerations

In Australia, under the new ASX Corporate Governance Council Recommendation 4.3, effective in 2020, listed entities will be:

- required to report on an ‘if not, why not?’ basis whether they have a process to verify the integrity of any periodic report that it releases to the market that is not audited or reviewed by an external auditor;
- encouraged to use integrated reporting principles as explained in the <IR> Framework in preparing Operating & Financial Reviews, the Australian version of a Management Commentary, which are specifically included in the list of periodic reports covered by Recommendation 4.3; and
- encouraged to obtain external or internal assurance on reports such as the OFR when not already assured or reviewed by the entity’s external auditor.

Accordingly, the EERA guidance will be important in Australia as listed entities, and non-listed entities who adopt ASX Corporate Governance Principles & Recommendations as best practice corporate governance, develop their reporting under Recommendation 4.3 and make adoption assertions on that recommendation in their periodic reports to investors.

Other countries adopting integrated reporting through corporate governance codes may find the EERA guidance useful for the same reasons as it will be in Australia.

Arguably, the auditor of financial statements already has some level of responsibility under Auditing Standard ASA 720, *The Auditor’s Responsibilities Relating to Other Information*¹⁸, where management commentaries using integrated reporting principles have been used as the underlying framework, through his or her responsibility for ‘other information’ included in annual reports containing audited financial statements.

Financial statement auditors will develop a certain level of awareness about internal control over periodic reports released to the market, including management commentary included in the annual report (eg Operating & Financial Reviews in Australia and Strategic Reports in the UK) as they plan and perform their financial report reports, and read and consider the management commentary for material inconsistencies with the financial report.

Q2: Is the draft guidance clear and easy to understand, including through the use of examples and diagrams, and the way terminology is used? If not, where and how should it be improved?

¹⁸ The international equivalent is International Standard on Auditing (ISA) 720, The Auditor’s Responsibilities Relating to Other Information

The language is complex and highly technical. It would be improved in relation to integrated reporting assurance engagements if the guidance and examples suggested above under Consultation Question 1 are included.

Q3: Do you support the proposed structure of the draft guidance? If not, how could it be better structured?

On the basis of the above submission regarding Consultation Question 1, there is a case to have appendices dealing with the focus areas requiring practical guidance for each of the major reporting frameworks which may be subject to assurance, including the <IR> Framework / Management Commentary and GRI Standards.

The draft guidance could be better structured if direct lifts from ASAE 3000 were removed and replaced by hyperlinks, and if diagrams are introduced to bring some of the more technical aspects of the draft guidance to life.