



13 July 2020

Mr Tom Seidenstein  
Chair  
International Auditing and Assurance Standards Board  
By IAASB website

Dear Tom

**Submission: Extended External Reporting Assurance Consultation Paper**

The Deakin University Integrated Reporting Centre (DIRC) congratulates the International Auditing & Assurance Board (IAASB) on its Extended External Reporting Assurance Consultation Paper. It is critically important to the credibility of the global corporate reporting system. Thank you for the opportunity to comment.

This guidance is essential now, as integrated reporting assurance continues to develop in practice. There were four instances of integrated reporting assurance globally in 2019. Others are known to be under development. In 2018, there were none. Investors are increasingly talking about the need for assurance as a technique to enhance the credibility of integrated reports. There is now regulatory interest and best practice guidance in relation to assurance in this area<sup>1</sup>.

This submission links to the DIRC submission on the earlier consultation paper of 11 June 2019.

**Question 1: Does the draft Guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft Guidance? If not, where and how should it be improved to better serve the public interest in EER assurance engagements?**

Overall, we believe that there is a need in the final guidance to:

- adjust the main guidance document in a number of ways which will assist practitioners on matters which are unique to integrated reporting assurance. They relate to the distinctive contribution of integrated reporting to the global corporate reporting system

---

<sup>1</sup> For instance, the European Commission's consultation on its non-financial reporting directive is seeking specific input on assurance of non-financial reporting. Also, Recommendation 4.3 in the 4<sup>th</sup> Edition of the Australian Securities Exchange Corporate Governance Principles and Recommendations says in relation to assurance, "Where a corporate report of this type [an integrated report] is not subject to audit or review by an external auditor, it is important that investors understand the process by which the entity has satisfied itself that the report is materially accurate, balanced and provides investors with appropriate information to make informed investment decisions. This can be disclosed in the report itself or more generally in the entity's governance disclosures in its annual report or on its website." These examples are in addition to the IAASB's EERA guidance.

- retain and enhance Example 10 in Supplement B to accommodate the evolving status of integrated reporting assurance. This is where assurance practitioners will need most practical guidance in the next two to three years, as integrated reporting assurance evolves beyond the four instances in 2019, which were all limited assurance in nature. These engagements would have involved extensive consideration of whether the pre-conditions for assurance had been met or whether an assurance readiness review would have been more suitable at that time. Little guidance on these matters is currently included in Example 10.

Key <IR> Assurance Area	Guidance including short examples	Example 10
The distinctive contribution of <IR> and consequent assurance implications <ul style="list-style-type: none"> <li>Business-based conceptual framework</li> <li>Describes the business as report foundation</li> <li>Strategic business context for self-determination of non-standard metrics</li> </ul>	X	X
Evaluation & Measurement		
<ul style="list-style-type: none"> <li>Narrative about ‘The Business’ (Evaluation)</li> </ul>	X	X
<ul style="list-style-type: none"> <li>Standardised metrics (Measurement)</li> </ul>	√	√
<ul style="list-style-type: none"> <li>Self-determined metrics (Evaluation and Measurement)</li> </ul>	X	X
Limited versus reasonable assurance?	√	X

- Have regard to the educational matters explained in this submission, including the teaching implications for building sufficient system capacity of professionals who are equipped to carry out integrated reporting assurance engagements; and for the IAASB to consider sponsoring targeted academic research as recommended in this submission. The DIRC would be delighted to carry out such research for the IAASB.

#### Main Guidance Document

The following matters need to be addressed in the main guidance document:

##### **1. Distinctive contribution of integrated reporting**

An integrated report is *inherently* a future-oriented document, which is designed and presented (along with the much wider array of mediums to which stakeholders have access today) in a manner which enhances understanding by its investor and other stakeholder users. It is often largely delivered in narrative form, increasingly by way of diagrams, pictures, graphs and hyperlinks, as well as words.

An integrated report describes *The Business*, and the Performance and Prospects of the business. This sets an integrated report apart from other EER frameworks, which tend to focus on metrics and related narrative without a holistic focus on ‘The Business’ to provide strategic context, and metrics which in many cases are about the past or at a point in time and not future-oriented.

Integrated reporting makes a distinctive contribution to the global corporate reporting system which standards it apart from financial and all forms of sustainability reporting:

- It has a business-based conceptual foundation – the <IR> Framework - that is increasingly being accepted as at least the starting point for the conceptual framework for connecting all corporate reporting;

- It is the only reporting framework which starts from the foundation of reporting of The Business, and so assuring the description of ‘The Business’<sup>2</sup> and associated self-determined non-standard metrics in the integrated report stands integrated reporting assurance apart.

It needs to emphasise that assuring an integrated report is not about independently reporting on the **quality** of the strategy, resources and relationships and business model, nor their **fitness-for-purpose**, as these matters are a preparer responsibility. It is about assuring the faithful description of The Business as it really is in the integrated report.

- With its multi-capitals approach for all stakeholders, integrated reporting is broader than other reporting frameworks.

Each of these attributes brings unique assurance implications. It would be possible to deal these matters in the main body of the guidance without much added volume.

Short examples illustrating assurance considerations related to self-determined non-standard metrics also need to be included in the main body of the guidance to balance and contrast to the short examples illustrating the narrower focus of metrics required by ESG standards.

The preparer’s Basis of Preparation is particularly important in an integrated reporting assurance engagement, given the strategic business context provided by the <IR> Framework for the self-determination of metrics not required by financial and ESG reporting standards. These metrics will typically relate to an organisation’s intellectual capital / intangibles. The source of the information and basis of calculation needs to be explained in some detail.

The Basis of Preparation should also contain information to explain updates, enhancements or particular interpretations made in relation to these metrics, as well as restatements / adjustments and related disclosure within the subject matter information, similar to the requirements of financial reporting frameworks, aspects of which are subject to update / enhancement from time to time and therefore give rise to restatements / adjustments and additional disclosure within the financial statements.

## 2. Evaluation v Measurement as assurance techniques

Broadly, an integrated report is comprised of two types of information, qualitative (narrative) and quantitative (metrics). This distinction is critical from an assurance perspective:

- **Qualitative** narrative and forward-looking information. Broadly, this information is about the *What, With, How* and *Why* of The Business. It reflects significant business judgements about The Business, and its performance and prospects. This information requires **evaluation** from an assurance perspective.
- **Quantitative** information. Broadly, this information is metrics demonstrating the performance and aspects of the prospects of The Business. This information requires **measurement** from an assurance perspective.

This broad distinction is useful to guide assurance practitioners on **how** to perform an integrated report assurance engagement. Integrated reporting assurance guidance needs to focus on the implications of the qualitative dimension for the practitioner, and so evaluation rather than measurement techniques, and on the professional skills and judgement of the practitioner, as they

---

<sup>2</sup> We use the ‘*what*’ of the business (the Value Creation fundamental concept of the <IR> Framework) to summarise the purpose, strategy, risks and opportunities of The Business; the ‘*with*’ to the resources and relationships available to and used by The Business (The Capitals fundamental concept of the <IR> Framework); that ‘*how*’ to the business model, governance framework and risk management process of The Business (the Value Creation Process fundamental concept of the <IR> Framework); and the ‘*why*’ as the competitive edge (integrated thinking under the <IR> Framework) of The Business – why it is better than its competitors in using its with, in its how, to achieve its what, ad so realise its purpose.

relate to **evaluation** of relevant **qualitative information** at various stages of the assurance engagement.

Guidance on the difference between these two types of assurance techniques is critical given the need to evaluate narrative and other ways of describing The Business, and the other aspects of the distinctive contribution of <IR>. Guidance on evaluation needs to be built up.

### **3. Limited versus reasonable assurance**

Having evaluated that the preconditions for assurance have been met (Example 10 assumes that the preconditions have been met, and so does not explore the significant challenges for the assurance practitioner involved in this evaluation), the bridge between limited and reasonable assurance is likely to be significant. This is best demonstrated by the way in which substantive assurance evidence would be gathered in relation to the description of The Business in the integrated report.

*Design* of the governance, strategic management process and risk management process, as well as the *what, with, how* and *why* of The Business, will largely be capable of evaluation by reading the relevant documentation and making appropriate confirmatory observations and enquiries.

However, it will be possible to obtain evidence as the *effective operation* of The Business as described in the integrated report only by observing those charged with governance, strategic management and risk management (the *how*) in action, focusing on ‘Is the way in which The Business is described in the integrated report how it operates in practice?’

These factors are probably part of the reason while all instances of integrated reporting assurance to date have been limited assurance engagements.

However, the existing Example 10 assumes that reasonable assurance has been chosen. Significant guidance in on the assurance evidence bridge between limited and reasonable assurance is needed.

### **5. Pre-conditions for assurance**

We believe that a number of aspects of engagement performance need to be drawn out in Example 10 to a greater extent than they currently are:

- *the competence of the assurance practitioner* (Chapter 1) – Given the distinctive contribution of integrated reporting, financial report audit engagement leaders will ordinarily be suitably qualified to lead an integrated report assurance engagement for a business within their area of industry expertise given that they are required by international standards of auditing to obtain a sufficient knowledge of their client’s businesses. So too will financial statement audit professionals in teams led by those engagement leaders ordinarily be suitably qualified to participate in integrated report assurance engagements.

This is not to say that an organisation’s financial statement audit team must be the assurer of its integrated report, only that financial report audit professionals will ordinarily be suitably qualified to lead, scope, plan, obtain evidence for, document and report on an integrated report assurance engagement, supported by other subject matter experts as required.;

- *considering the system of internal control* (Chapter 5) – The reporting management system underlying the preparation of an integrated report (*‘Integrated reporting management system’*) will have similarities to the systems underlying financial and sustainability reporting, but there are also differences, with significant assurance implications. The integrated reporting management system will require appropriate rigour regarding the reporting of the business judgements and documentation of the *what, with, how* and *why* as they are described in the integrated report.

Readiness for integrated reporting assurance will for many organisations seeking it require a shift in their focus and expectations regarding documentation of The Business.

It will require the *what, with, how* and *why* of the business to be documented with rigour, with the documentation owned by the executive and approved by those charged with governance. The assurance practitioner will be expected to exercise professional scepticism and judgement on this documentation, and the ‘business judgements’ underlying it (refer comments above on ‘evaluation’ versus ‘measurement’ as assurance techniques).

## **6. Academic considerations**

There are number of considerations from an academic perspective, from both teaching and research perspectives.

### Teaching

We teach integrated reporting at both under-graduate and post-graduate levels at Deakin University. Our integrated reporting course has one week of 10 devoted to integrated report credibility enhancement, including external assurance of integrated reports under ISAE3000. We have plans to develop a dedicated integrated reporting assurance module for the university’s auditing and assurance curriculum as integrated reporting adoption momentum continues, and as investor and other stakeholder demand for assurance of integrated reports grows. Finalised Extended External Reporting Assurance (EERA) guidance by the IAASB, enhanced as recommended above, will be an essential pre-requisite for this educational offering. It will be the foundation for our teaching.

A key issue for universities, accounting bodies, the accounting firms, and standard setters – broadly, the accounting profession – as integrated reporting and assurance becomes the norm will be that the vast majority of today’s assurance professionals do not have integrated reporting, or integrated reporting assurance, accreditation.

This submission summarises the distinctive contribution of integrated reporting as the basis for making submissions associated with the unique challenges of integrated reporting assurance among the range of challenges facing EER assurance practitioners.

The world’s assurance profession faces a significant system capacity issue in this area. Deakin as an educator will do what it can to train assurance practitioners on integrated reporting assurance.

This means that it will not be an essential component of only our courses at graduate and post-graduate level. There will be significant demand for executive education to prepare today’s existing experienced assurance professionals. Accordingly, it is essential that the IAASB’s guidance prepares and guides practitioners on the unique challenges of integrated reporting assurance engagements, which are derived from the distinctive contribution of integrated reporting, if it is to support best practice and manage the assurer’s risk in practice.

We recommend that the IAASB has significant regard to this matter as it finalises the EERA guidance.

### Research

We believe that there is significant scope for research into the unique challenges of integrated reporting assurance in the context of the distinctive contribution of integrated reporting in capital markets. There is minimal, if any, existing research in this area.

The value proposition of integrated reporting is well known. Highly regarded quantitative research now exists in support of the capital market benefits of high quality integrated reporting for investors and analysts. Research is planned to extend that research to broader stakeholder groups.

Anecdotal evidence is emerging on the internal business benefits (integrated thinking) from integrated reporting adoption is now emerging. Academic-standard qualitative research in this area is planned.

Parallel research on the value proposition of integrated reporting assurance is also required. The research could be either qualitative or quantitative in nature. Both will add value in establishing / confirming the benefits of assurance of integrated reports. Furthermore, there is a significant knowledge gap regarding assurance of integrated reports in today's academic research community. It is our view that this gap needs to be addressed in going forward.

The value proposition for integrated reporting assurance is well developed at a high level. Such research needs to cover the benefits to:

- all stakeholders, including investors, of integrated reporting assurance;
- organisations from undergoing an integrated reporting assurance journey.

Again, the IAASB's guidance will be a critical underpinning of such research.

We recommend that the IAASB consider sponsoring such research and educational development. The Deakin University Integrated Reporting Centre would be delighted to work with the IAASB on such an undertaking.

\* \* \* \* \*

The appendix to this letter contains further detail related to these recommendations. Please contact me if you require further information.

Please contact Barry Cooper on [barry.cooper@deakin.edu.au](mailto:barry.cooper@deakin.edu.au) or +61 488 661 558 should you have any questions in relation to this submission.

Yours faithfully



Professor Barry J Cooper

*Executive Director – Integrated Reporting Centre*



Michael Bray  
Professor of Practice

*KPMG Fellow in Integrated Reporting  
in Deakin Integrated Reporting Centre*



Associate Professor Luckmika  
Perera

*Director – Integrated Reporting Centre*

## Appendix - 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. It:

- launched its 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.
- 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.
- 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.
- commenced 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. We also teach integrated reporting assurance. This is a key 'ask' of universities as the now inevitable move towards integrated reporting as the corporate reporting norm gathers pace.
- was 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.