

20 June 2019

Reference: IAASB Consultation Paper – Extended External Reporting Assurance (February 2019)

Dear IAASB Team,

The International Integrated Reporting Council (IIRC) is pleased to contribute to the above-referenced Consultation Paper.

The IIRC is a global coalition of regulators, investors, companies, standard setters, the accounting profession and non-governmental organizations. The coalition promotes communication about value creation as the next step in the evolution of corporate reporting. Our vision is to align capital allocation and corporate behaviour to the wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking.

We applaud the IAASB's efforts to date on this ambitious and much-anticipated initiative and hope you find our feedback useful in your deliberations.

Should you have any questions, please do not hesitate to contact us.

Kind regards,



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Enclosure

IIRC RESPONSE TO IAASB CONSULTATION PAPER

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 Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1?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?

In our view, the Draft Guidance does not yet fully address the challenges that practitioners face, as identified in Phase 1 scoping. To that end, we offer the following comments and recommendations, most of which are provided in the context of integrated reporting.

A. Chapter 3: Determining Preconditions and Agreeing the Scope

Underlying subject matter is identifiable (p. 24)

We acknowledge the example provided in Paragraph 48 of the Draft Guidance, but would recommend the treatment of a broader range of subject matter – including a preparer’s *business model, strategy and resource allocation, and risks and opportunities* – for the benefit of practitioners. We believe it is important to set out minimum documentation requirements with respect to these subject matter elements as a basis for reporting on them. We further recommend that at least one example in this section address the implications of the [International <IR> Framework’s](#) Guiding Principle on *Connectivity of information*.

Relatedly, and recognizing the reference to integrated reporting in Paragraph 1 of the Draft Guidance, we recommend that the guidance formally recognize the Content Elements of the International <IR> Framework as appropriate underlying subject matter for the purposes of ASAE 3000 (Revised).

B. Chapter 6: Considering the System of Internal Control

Understanding the entity’s system of internal control (p. 28)

In its present form, the Draft Guidance is best suited to individual performance measures and routine transactions. In our view – and recognizing the inclusion of integrated reporting in Paragraph 1 of the Draft Guidance – further guidance and examples are needed in relation to subject matter information that is more subjective, qualitative and descriptive in nature. We offer this recommendation in the context of understanding and ensuring appropriate internal control systems for integrated reporting-based assurance engagements.

More specifically, these systems of internal control should, at a minimum, cover the preparer’s **strategy** (or strategies over various time horizons), associated **resource allocation** and unique **business model** (including the inputs, business activities, outputs and outcomes components of the business model). Such systems should also address the need for appropriate information management and reporting processes to support the integrity of this extended subject matter information and the subsequent report compilation.

C. Chapter 7: Determining the Suitability of Criteria

Requirements for suitable criteria (p. 35)

Recognizing the inclusion of integrated reporting in Paragraph 1 of the Draft Guidance, we recommend that the guidance define and analyze suitable criteria for an integrated report assurance engagement, using the [International <IR> Framework](#) and its Content Elements as a basis. We believe assurance practitioners will benefit from guidance and examples in specific areas of integrated reporting, including those discussed below.

Business model

In our opinion, guidance and illustrative examples should, at a minimum, address:

- The level of detail to which the preparer should communicate externally the inputs, business activities, outputs and outcomes of its business model, including the capitals (i.e., resources and relationships) on which it relies and/or has an effect (*ref: Paragraph 4.12 of the International <IR> Framework*)
- How the above matters can be subject to an assurance engagement, with an emphasis on: (i) minimum documentation, (ii) the design and operating effectiveness of the business model, and (iii) the appropriateness of measures and targets related to business model components.

Strategy and resource allocation

In our opinion, guidance and illustrative examples should, at a minimum, address:

- The level of detail to which the preparer should communicate externally its strategy, strategic objectives, resource allocation plans and related targets and achievement measures (*ref: Paragraph 4.28 of the International <IR> Framework*)
- How the above matters can be subject to an assurance engagement, with an emphasis on: (i) minimum documentation, (ii) the design of, and ability to implement, the strategy and (iii) the appropriateness of related targets and achievement measures.

We believe guidance and examples in these areas will help practitioners: (i) determine the suitability of criteria used and (ii) provide context for determining assurance procedures in relation to disclosing performance and prospects in the integrated report.

Established criteria (p. 42)

We recommend that the guidance reference the International <IR> Framework as having been developed by a *'recognized body of experts that follows a transparent [due process](#)'*. We further recommend that the guidance recognize the Guiding Principles in the International <IR> Framework as suitable criteria for the purposes of ASAE 3000 (Revised), meeting the requirements of relevance, completeness, reliability, neutrality and understandability in ASAE 3000 (Revised).

D. Other

As noted in Paragraph 41 of the Explanatory Memorandum, narrative information and future-oriented information warrant specific guidance, as such information is more common in EER than in financial statements. We acknowledge that Chapters 10 and 11 are only partially developed, but would nonetheless flag that the Phase 2 material should offer more fulsome guidance in these areas, particularly in the context of integrated reporting.

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?

A. Clarity of EER scope

Certain aspects of the ‘*extended external reporting*’ definition – as provided in Chapter 1: Introduction, Paragraph 1 (p. 16) of the Draft Guidance – are potentially open to interpretation.

- With its use of ‘*including... but not limited to*’, the opening sentence necessarily broadens the scope of the Draft Guidance, and that of the assurance engagement.
- In the opening sentence, it may be unclear whether the term ‘*about environmental, social and governance (ESG) matters*’ applies to either of:
 1. The three listed report forms (i.e., integrated, sustainability and other)
 - or
 2. The third report form alone.

This ambiguity has a significant bearing on the scope of the Draft Guidance and, therefore, the scope of the underlying assurance engagement.¹

- In relation to the above, we consulted the various examples in the Draft Guidance to observe reference to human rights, greenhouse gas emissions, water use/quality and other important matters traditionally allocated to the field of ESG.² Notably, matters related to the quality of, or accessibility to, public or private infrastructure (*manufactured capital*), the role of intellectual property and institutional knowledge (*intellectual capital*) and other key contributors to strategy, business model viability and financial performance are not covered. Based on the preceding definitional concerns and scope of illustrative examples, we recommend one of two courses of action:
 1. Amend the title of the guidance to more accurately reflect its ESG focus
 - or
 2. Clarify the broader scope of the guidance by: (i) revising the opening sentence of Paragraph 1 to resolve the above-noted ambiguity (see second bullet point) and (ii) extend the subject matter of examples to include forms of manufactured capital, intellectual capital and other key contributors to strategy, business model, risks and opportunities, and overall value creation.

¹ Under Interpretation 1, the scope would include only those elements of an integrated report that relate to ESG. Under Interpretation 2, the scope would extend to disclosures about manufactured, intellectual, and social and relationship capital, as well as business model, strategy and other topics not normally covered in traditional financial reporting.

² We are generally cautious about using the terms ESG and sustainability, which can marginalize such information. With this in mind, the International <IR> Framework favours capitals-based terminology (i.e., financial, manufactured, intellectual, human, social and relationship, and natural capital). For a given organization, disclosures on these capitals factor into the integrated report to the extent that they are material to value creation.

B. ‘EER report’ terminology

In our view, the term ‘EER report’ is problematic for two reasons:

1. Of minor note, the term’s unabbreviated version reads *Extended External Reporting reports*, which is presumably non-ideal phrasing.
2. More significantly, inclusion of the word ‘report’ implies a discrete disclosure channel for the extended subject matter information. This contradicts a core philosophy underpinning integrated reporting, namely that preparers should communicate matters that substantively affect their ability to create value in a cohesive and connected way, rather than via multiple, potentially disjointed, channels.

In other words, material matters generally link to one or more of the preparer’s strategy, governance, performance and prospects. It follows, then, that the related disclosures should also reflect these links within the preparer’s mainstream report (whether an integrated report, management commentary, management’s discussion and analysis, directors’ report, operating and financial review, or other core investor-oriented document).

On this basis, we recommend that alternative terminology (e.g., *EER information* or *extended external disclosures*) be considered.

C. Clarity of terminology

Overall, we recognize that the terminology in the Draft Guidance is generally consistent with that used in other audit and assurance standards and guidance, including ISAE 3000 (Revised). We are also mindful that the terminology lends an expected level of precision to a field in which consistency and accuracy are of paramount importance. Finally, we appreciate that audit and assurance practitioners are generally conversant in this terminology.

Notwithstanding these observations, we see an opportunity to simplify the language, which, in our view, is overly cumbersome and complex. We believe that the precision offered by this ‘traditional’ terminology should not preclude a broader-based understanding of assurance concepts by reasonably-informed participants in the corporate reporting system. As the assurance field extends to new and emerging subject matter information, accessibility should become all the more important. This rationale is well captured by the Explanatory Memorandum’s Paragraph 21 (p. 8), which states, “*While the draft guidance is intended to be primarily a resource for practitioners, in some areas it includes details about the preparer’s role in relation to an assurance engagement. This is because an appropriate understanding of the nature of the preparer’s role in preparing an EER report is likely to assist practitioners in performing effective EER assurance engagements.*”

D. Clarity of diagrams/examples

In general, we find the flow charts and illustrative examples (including, notably, the *narrative information* example in Paragraph 195 of the Draft Guidance and the *apple analogy* in Paragraph 10 of the Contextual Information) to be helpful. Nonetheless, we see opportunities for improvement as follows:

- As noted in Section A of this response, we believe the scope of examples should be extended to include manufactured capital, intellectual capital and other material contributors to an organization’s strategy, business model, risks and opportunities, and overall ability to create value.

- Further to our comments in Section C of this response, we recommend that the examples (such as that provided in Paragraph 190 of the Draft Guidance) be reviewed for conciseness and readability.

E. Materiality process

We agree with the use of the term ‘*materiality process*’ as referenced in Paragraph 34 of the Explanatory Memorandum. Of minor note, we believe the term ‘*materiality determination process*’ would be more accurate and appropriate.

We recommend that the IAASB clarify the concept of ‘*materiality*’ as presented in both ISAE 3000 (Revised) and the Draft Guidance, highlighting any key interpretive differences to avoid confusion.

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

We appreciate the challenge of presenting such a vast body of information in a single document. Furthermore, we acknowledge that there may be divided opinions on how to best structure the information. In preparing this submission, we surfaced mixed views on the proposed sequencing of chapters and sub-sections. To some, the contents as presented on page 14 of the Consultation Paper followed a logical flow. To others, the Draft Guidance appeared fragmented, prompting a suggestion that the guidance be structured into two main sections:

1. *Procedures of the Assurance* – containing Chapters 2, 3, 4, 5, 6, 7, 12 and 13
2. *Content of the Assurance* – containing Chapters 8, 9, 10 and 11

On this basis – and subject to other consultation feedback received – we recommend testing both the original and above-proposed approach with a diverse focus group, prior to the next exposure draft.

Q5. Do you agree with the way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised)?

Paragraph 20 of the Explanatory Memorandum notes, “*The draft guidance does however cover matters not addressed in ISAE 3000 (Revised), for example how to consider an entity’s ‘materiality process’ and whether or how to use assertions.*”

We agree with this decision and further recommend that the guidance, as an aid in applying ISAE 3000 (Revised), clearly signpost the matters not previously addressed in the standard.

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