

15 July 2013

Professor Mervyn King
Chairman
International Integrated Reporting Council
29 Lincoln's Inn Fields
London WC2A 3EE
United Kingdom

Via website: www.theiirc.org

Dear Professor King,

Consultation Draft: International Integrated Reporting Framework

Thank you for providing us with the opportunity to comment on the Consultation Draft: *International Integrated Reporting Framework* (Consultation Draft) issued by the International Integrated Reporting Council (IIRC) in April 2013.

The Australian Institute of Company Directors is the second largest member-based director association worldwide, with members from a wide range of corporations, publicly-listed companies, private companies, not-for-profit organisations, charities and government and semi-government bodies. As the principal Australian professional body representing a diverse membership of directors, we offer world class education services and provide a broad-based director perspective to current director issues in the policy debate.

The Australian Institute of Company Directors is a member of the Global Network of Director Institutes (GNDI). GNDI was founded in 2012 and brings together member-based director associations from around the world with the aim of furthering good corporate governance. Together, the member institutes comprising the GNDI represent more than 100,000 directors from a wide range of organisations.

We would like to thank Professor King and Mr Druckman for attending a meeting with members of our Corporate Governance and Reporting Committees in May 2013.

We wish to commend the IIRC on the development of the Consultation Draft. We encourage the IIRC to continue in working to reduce the reporting burden on organisations and develop further the integrated reporting framework.

1. Summary

In summary, the Australian Institute of Company Directors comments are as follows:

- a) We continue to be concerned about the potential personal liability of directors for the disclosures within an integrated report.
- b) The varying regulatory environments across the world with respect to the treatment of future orientated information may impact on an organisation's ability to provide detailed forward looking information.

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- c) If integrated reporting is mandated, the disclosures within an integrated report may become compliance driven and overly prescriptive and difficult to implement.

Below are the Australian Institute of Company Directors' more detailed concerns and specific comments in response to the questions posed in the Consultation Draft.

2. General Comments

When presented with the Consultation Draft our members raised significant concerns about the intention and content of the proposed integrated reporting framework. In particular, they raised the following concerns:

- integrated reporting is likely to increase the reporting burden on organisations, as the integrated report would be in addition to the current corporate reporting of the organisation;
- increased costs, including an investment in technology is likely to result from having to collect the data required for inclusion within an integrated report;
- the Consultation Draft did not put forward any compelling evidence as to the significant benefits which would accrue to an organisation preparing an integrated report;
- the type of investors, who would utilise the disclosures within an integrated report remains unclear;
- currently about 69% of Australian shareholders do not receive the annual report at all and directors are therefore concerned that the integrated report would be produced by a company at great cost but would not be used by a significant number of shareholders;
- in Australia, there remains the potential for directors to be personally liable for the disclosures within the integrated report, and this is of particular concern given the future orientation of the disclosures required and the lack of protection provided to directors by the Australian corporate law framework;
- financial information included within an integrated report may vary depending on the accounting framework under which such information is prepared, and users need to be aware of this when making comparisons; and
- there may be challenges for organisations that operate in multiple jurisdictions, particularly if each jurisdiction has differing integrated reporting requirements.

The Australian Institute of Company Directors is strongly opposed to any moves to mandate integrated reporting in Australia even if such a requirement is restricted to listed entities. In Australia, 2155 listed entities would be required to provide an additional layer of reporting in excess of the extensive requirements that already exist in our domestic laws, unlike many "main" boards overseas, the distribution of ASX listed companies is widely spread and includes many smaller entities. As at November 2012, the average market capitalisation of the bottom 1000 entities listed on the ASX was \$8.9 million compared to the average market capitalisation of the top 1000 ASX listed entities which was \$1.3 billion. We believe that should entities wish to prepare an integrated report then it should be done on a voluntary basis.

We are of the view that mandating integrated reporting, with the current regulatory environment, would result in integrated reports becoming compliance driven and filled with "boilerplate" disclosures in order to limit the potential for litigation against the organisation and/or its directors.

The Australian Institute of Company Directors in its paper, *The non-executive director's view of integrated reporting* stated that an integrated reporting framework should be “a principles based, non-regulatory “if not, why not” styled framework that recognises the diversity of business, encourages innovation and promotes entrepreneurial activity.”¹

We are concerned that the following constraints of the Australian regulatory regime would significantly impact the ability of Australian organisations to prepare an integrated report, in accordance with the framework contemplated by the Consultation Draft.

- In Australia the responsibility for ensuring the accuracy of corporate reporting is on the board and its directors². For example, the directors (rather than management) must approve the financial statements and the directors' report. As such, “those charged with governance” under the integrated reporting framework would be the board of directors in Australia. If integrated reporting is mandated in Australia, it is likely that directors would be required to approve the integrated report and thus the directors would be personally liable for any omissions or misstatements within the integrated report. This would increase the compliance burden on the directors to ensure that they are satisfied with the disclosures included within the integrated report. This additional work on the integrated report would be required over and above the work that directors currently undertake on their current extensive corporate reporting obligations.
- Section 180(2) of the Australian Corporations Act includes a statutory business judgment rule. This rule has narrow operation in Australia and is limited to breaches of section 180(1), namely the duty of care and diligence. This rule is also specifically limited to “business judgments”, which is defined in the Act as “any decision to take or not take actions in respect of a matter relevant to the business operations of the corporation”³. It is unclear whether business judgments would include the decisions and elections made by the organisation and its directors when preparing an integrated report.
- Further, a range of other contraventions, relevant to corporate reporting also exist within the Australian Corporations Act. These include personal liability for misleading or deceptive conduct and failure to comply with Australia's onerous continuous disclosure obligations. Directors alleged to have breached these provisions, are not afforded any protection by the business judgment rule.
- There is no adequate and appropriate safe harbour for forward looking information in Australia. Generally statements as to future matters must be made on a reasonable grounds. If they are not, directors risk contravening the Act's misleading or deceptive conduct provisions. These legal requirements are inconsistent and irreconcilable with the aspects of the Consultation Draft which require the inclusion of information, even when that information is uncertain. As such, Australian organisations preparing an integrated report would be limited in their ability to provide future orientated disclosures given that by their very nature forward looking information is uncertain. It may also be subject to external variations outside the control of the organisation.
- Listed entities in Australia are also required to comply with section 674 of the Australian Corporations Act, *Continuous disclosure – listed disclosing entity bound by a disclosure requirement in the market listing rules* (Continuous disclosure). This

¹ Australian Institute of Company Directors paper “*The non-executive director view on Integrated Reporting*”

² See Section 295 Contents of annual financial report, *Corporations Act 2001*

³ Section 180(3) of *Corporations Act 2001*

section requires an entity to notify the exchange in compliance with ASX Listing Rule 3.1.⁴ ASX Listing Rule 3.1 provides:

“Once an entity becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity’s securities, the entity must immediately tell ASX that information.”

- We note that section 3D of the Consultation Draft, defines materiality for the purposes of an integrated report. That definition provides:

“A matter is material if, in the view of senior management and those charged with governance, it is of such relevance and importance that it could substantively influence the assessments of the primary intended report users with regards to the organisation’s ability to create value over the short, medium and long term.”

The integrated reporting framework also requires that only “material” information be included in the integrated report. In an Australian context it could be argued that by simply including information in an integrated report, the company is implying that the information is material for the purposes of the Australian continuous disclosure regime. While we are of the view that the definition of materiality in a continuous disclosure and integrated reporting context is different, there is a risk that the introduction of the integrated reporting framework in Australia could significantly extend the range of disclosures that the organisation would be required to continually monitor, to ensure that they are meeting the continuous disclosure requirements and making the necessary announcements to the market, should one of the disclosures within an integrated report change.

- The concerns about the integrated reporting framework in Australia are wider than the legislation and process. A significant amount of Australian organisations and their directors are concerned that the costs and complexity of implementing an integrated reporting framework in any form far outweighs the benefits that may be obtained.

While the comments above focus on the potential impact of integrated reporting within the Australian regulatory framework, the Australian Institute of Company Directors is of the view that other jurisdictions may have similar impacts.

⁴ ASX Guidance Note 8

3. Specific comments

Below, the Australian Institute of Company Directors has provided comments in response to the specific questions in the Consultation Draft. We do not wish for our comments below to be seen as providing tacit support for even a “non-mandatory” implementation of the integrated reporting framework.

Chapter 1: Overview

1. Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why?

The Australian Institute of Company Directors is concerned about the requirement in paragraph 1.12 of the Consultation Draft, which requires organisations to disclose any information that they have omitted and why they have omitted such information. We are of the view, that such disclosures will be boilerplate and will state that certain items have been omitted because they may result in competitive harm or because they are in conflict with specific legal prohibitions. We do not see the value in requiring preparers of an integrated report to make such assertions.

The challenge with the development of a reporting framework is that although the intention is that the framework is principles-based, it may over time tend towards conformity, particularly if the framework is mandated.

2. Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?

The Australian Institute of Company Directors, is concerned that the preparation of an integrated report as set out in paragraph 1.18 will increase the reporting burden on organisations. We do not see how the addition of an extra report, without the removal of other domestic requirements in any way reduces the reporting burden faced by Australian companies. We are of the view that organisations are currently required to make significant corporate reporting disclosures and are concerned that the integrated report is adding to and not reducing that burden.

Paragraph 1.20 further states that the intention of an integrated report is to have a combined emphasis on: conciseness, strategic focus and future orientation. However, we are of the view that the disclosures required in paragraph 4.5 only result in unnecessarily increasing the size of the integrated report. These disclosures would remain static from reporting period to reporting period and as such would add significant bulk to the integrated report, without providing valuable or useful information. In particular, those disclosures in paragraph 4.5 that require the organisation to disclose why certain capitals are not significant or setting out the organisation’s materiality determination process would add unnecessarily to the bulk of the integrated report.

All of the corporate reporting prepared by an organisation needs to complement each other and therefore the underlying basis for the preparation of all reporting should be the same. We are therefore of the view that the integrated reporting framework needs to be cognisant of this issue and enable this process.

3. If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others which references should be included?

There is a need to be careful when introducing reference materials, so as not to introduce “quasi-guidance”. The reference materials should provide further information but not introduce further reporting requirements.

4. Please provide any other comments you have on Chapter 1.

The Australian Institute of Company Directors is concerned that although the Overview section of the Consultation Draft puts forward the nature and extent of an integrated report, it does not articulate the perceived benefits to an organisation of preparing such a report.

We are of the view that the audience of the integrated report should be limited to the organisation’s investors. It is important to limit the audience of the integrated report and if the report is of value to other stakeholders that is ancillary. Without this focus on the target audience, the integrated report is likely to lack clarity of purpose and will attempt to report to multiple masters ineffectively. This is particularly relevant in Australia given the high proportion of retail shareholders.

Paragraph 1.11 states that in order to comply with the Framework, an organisation is required to apply all the principles-based requirements that are set out in the Consultation Draft in **bolded italics**. We are concerned that by requiring organisations to comply with all the bolded items, that this would restrict the ability of organisations to focus on those principles that are significant to their organisation. Where they have determined that there are immaterial items they are required in paragraph 1.12 to disclose what they have excluded, why it has been excluded and the impact of the exclusion. Again, this information adds to the bulk of the integrated report and would include the same information year on year, without significant benefit to the user.

Chapter 2: Fundamental concepts

The capitals (Section 2B)

5. Do you agree with this approach to capitals? Why, why not?

No. The Australian Institute of Company Directors is not supportive of the notion of multiple capitals. We are of the view that the concept of capitals will not be intuitive for a significant proportion of an organisation’s stakeholders and as such we would recommend that the IIRC de-emphasize these capitals. We are of the view, that the integrated report should be written in a language that an unsophisticated investor or other interested party would easily be able to understand and we are not convinced that the multiple capital model enables that communication effectively. We have found that organisations currently already disclose this information rather successfully in broad terms and are not limited to just the financial aspects.

The Australian Institute of Company Directors is of the view that including a disclosure as to why an organisation has excluded certain capitals does not provide valuable or necessary information to the report users. One would expect that the key reason for omitting a reference to a capital would be because the organisation has determined that the omitted capitals are not significant in the context of their organisation. One would further expect that this would not significantly change from reporting period to reporting period.

We are further concerned, that although these capitals have been subject to much academic analysis, it is unlikely that they will be able to be quantified in a meaningful way and that the costs incurred by an organisation in seeking to report these capitals could be enormous and the outcome thereof may be of little or no value to investors in their decision making.

There appears to be an inconsistency within the framework, as paragraph 4.5 requires disclosures around the capitals, however paragraph 2.19 states that the use of capitals is not required.

6. Please provide any other comments you have about Section 2B.

We have no further comments on section 2B.

Business model (Section 2C)

A business model is defined as an organisation's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26)

7. Do you agree with this definition? Why/ Why not?

The Australian Institute of Company Directors is of the view that language may be an impediment to the understanding of an organisation's business model disclosures for the unsophisticated investor. When one considers many of the disclosures around the business model currently prepared by organisations, (for example within their investor presentations or in the annual report), many organisations will have already disclosed the attributes of the business model set out in the Consultation Draft, and probably in more user friendly language.

We do not believe that the business model concept in the Consultation Draft introduces any new concepts into current corporate disclosures; organisations have for many years been making such disclosures about their business model and have generally articulated these disclosures reasonably well.

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organisations business activities and outputs.

8. Do you agree with this definition? Why, why not?

The definition of outcomes in the Consultation Draft is rather broad and academic in nature and we struggle to determine how disclosures around the outcomes would form part of a meaningful disclosure about an organisation's operations. For example, paragraph 2.35 of the Consultation Draft notes that one internal outcome may be "employee morale". In the case where an organisation is rationalising its operations there is likely to be an impact on employee morale. Is the IIRC suggesting that such an organisation include a statement to the effect although there is likely to be a decrease in staff morale, the reason for making the decision is to ensure the long term sustainability of the organisation?

The definition is also linked to the "internal and external consequences for the capitals". In paragraph 2.19 of the Consultation Draft, the IIRC acknowledge that the "framework does not require that the categories identified above be adopted by all organisations." An organisation that is not using the multiple capitals set out in the integrated reporting framework would be required when considering the outcomes in their business model assessment to relate this disclosure to these capitals and disclose the impact of their business activities thereon.

Given the Australian Institute of Company Directors concerns around the multiple capitals (refer to question 5 above); we are of the view that the definition of outcomes should not be linked to the capitals.

9. Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?

We do not have any further comments on the business model, other than those made above.

Other

10. Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.

The Australian Institute of Company Directors is concerned with section 2D Value creation. We are concerned that there is a risk that organisations will seek to monetise all of the disclosures dealing with value creation.

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Materiality is determined by reference to the assessments made by the primary intended report users (paragraph 3.23-3.24). The primary intended report users are providers of financial capital (paragraph 1.6-1.8).

11. Do you agree with this approach to materiality? If not, how would you change it?

The Australian Institute of Company Directors does not agree with the approach to materiality set out in the Consultation Draft. The Consultation Draft introduces a new materiality threshold for the organisation to consider based on the definition set out in paragraphs 3.23 and 3.24. There may be a need to provide further clarity with respect to what is meant by “substantively” and how to determine if an item is likely to “influence the assessments of the primary report users”. In essence, the definition is asking those charged with governance to put themselves in the position of the primary report user to determine materiality. This assessment is likely to differ depending on the nature of an organisation’s primary report users.

Organisations are already required to consider numerous materiality thresholds set by various standard setters, for example:

- Accounting standards: IAS 1, *Presentation of Financial Statements*, defines material omissions or misstatements⁵;
- Audit materiality as set out in the International Auditing Standard, ISA 320, *Materiality in Planning and Performing an Audit*.
- Sustainability reporting, this would depend on the particular framework being used for example, G4 of the Global Reporting Initiative.
- In Australia, the continuous disclosure regime for listed entities, includes a materiality assessment (refer to our comments in the general section above on the continuous disclosure regime).

Based on the above, we are of the view that the materiality set in the integrated report should be consistent with existing requirements, although there may be a challenge to achieve global consistency. The framework could allow organisations to set out how they have set their materiality in reference to their individual circumstances. The framework may also include guidance as to how to balance the use of this terminology and its differing applications across reporting regimes.

Having multiple materiality thresholds has the potential to increase an organisation’s litigation risk, particularly in the form of class actions.

⁵ Paragraph 7 of IAS 1, *Presentation of Financial Statements* defines a material omission or misstatement of items as “material if they could individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in surrounding circumstances. The size and nature of the item, or a combination of both, could be the determining factor.

12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B)

The Consultation Draft refers to both “senior management” and “those charged with governance” as being responsible for setting the materiality threshold for the integrated report. The Consultation Draft does not include a description as to who they envisage would be included in “senior management” and we recommend that the Consultation Draft consider aligning “senior management” with “key management personnel” as defined in the International Accounting Standards, IAS 24, *Related Party Disclosures* so as to avoid introducing a new “management description” into corporate reporting.

The challenge with respect to the materiality determination process as set out in the Consultation Draft is that it requires the organisation to consider materiality not purely from an internal perspective, but to consider it externally as well, from the position of the primary report user. This is difficult to achieve as the organisation would need to consider “how far to cast its net” and with hindsight those elections may be considered inadequate.

The materiality determination process also requires consideration of the future effect on the organisation’s ability to create value over time and the potential effect on value creation. These assessments would be difficult to perform within any certainty given that they relate to future events, and as such may be subject to variation outside of the control of the organisation.

Subject to our previous comments about the various materiality thresholds the organisation is already required to consider, we are of the view, that the organisation and its board should be responsible for setting the materiality threshold for the integrated report from the organisation’s perspective.

The requirement in paragraph 3.28 for an organisation to disclose the materiality determination process would in our view add unnecessary bulk to an integrated report and these disclosures should not differ significantly from year to year.

We recommend that static information of this nature should not be included within an integrated report, but may be best placed in an external document or on the organisation’s website and referred to in the integrated report.

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31)

13. How should the reliability of an integrated report be demonstrated?

Reliability and completeness of disclosures, goes to the integrity of the organisation and the data management and data collection systems that are in place to record and collate the information that forms the basis of the disclosures in the integrated report.

In order to improve the data collection within an organisation, there may be a need to invest in technology, thus resulting in additional cost to an organisation. Part of this process would also involve the organisation educating their employees about the need to collect data and the need for that data to be free from significant error where possible.

An organisation may also when considering the reliability of disclosures, look to engaging an external auditor to perform a set of agreed upon procedures on the disclosures for the integrated report. Again, the cost versus the benefit of such review by the auditors, and whether they are the correct professionals to undertake such work needs to be considered by the organisation.

14. Please provide any other comments you have about Section 3E.

Paragraph 3.47 of the Consultation Draft states that an organisation with respect to future –orientated information may wish to include information about the underlying assumptions, the volatility of those assumptions, and how the information could change.

Organisations struggle to provide these disclosures in a meaningful manner. The challenge with all such disclosures is that they require an organisation to look forward, and the further forward they consider the information, the less certain and more variable the likely result is to be.

The regulatory regimes in some countries (e.g. Australia) also provide little protection for such uncertain statements by an organisation and until that protection is more balanced, it is unlikely that organisations will be enabled to provide the disclosures that the integrated reporting framework considers necessary.

Due to these onerous requirements directors and auditors in Australia have recently begun calling for more legal protection should they in future be required to assure such forward looking statements.

15. Please provide any other comments you have on Chapter 3 that are not already addressed by your responses above.

No further comments.

Chapter 4: Content Elements

16. Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here)

Future outlook

The Australian Institute of Company Directors has consistently raised concerns about the future orientation of the integrated report and the potential liability risk for the organisation and its directors where it is suggested that statements as to future matters are not made on reasonable grounds. We are of the view that future orientated information is by its very nature uncertain. The assumptions and due diligence underlying such disclosures may be subject to variation and will often not be within of the

control of the organisation. We are of the view, that users of the integrated report should be cautioned as to the nature and variability of such disclosures and that they should not place any reliance on such information for their investment decision making. We are concerned given that the integrated report is looking for disclosures around the short, medium and long term horizon and the further out an organisation predicts the more uncertain and incorrect that information is likely to be.

The Consultation Draft in paragraph 5.15 states that if there is uncertainty within some of the disclosures that an organisation should provide an explanation of the uncertainty, the range of possible outcomes and the certainty range of confidence. We are of the view that requiring “uncertain” disclosures to be made places companies and its directors in Australia at risk of breaching the misleading and deceptive conduct provisions of our Corporations Act because these statements as to future matters must be made on reasonable grounds.

Further, we are of the view, that the following information would not be of significant benefit for users and much of this information is currently included in the financial statements disclosures.

Organisational overview and external environment

The Australian Institute of Company Directors is of the view, that much of the information proposed in paragraph 4.7 in the Consultation Draft would be information that the organisation would not necessarily wish to disclose in significant detail, given the competitive nature of such disclosures. This information is also unlikely to significantly change from reporting period to reporting period and as such we question the relevance of providing such disclosures. We also see that the proposed disclosures on the external environment would also be similar to that described above and question whether this information should be included within an integrated report.

Governance

The Australian Institute of Company Directors is of the view that the potential disclosures described under paragraph 4.10 -4.11 would be duplicative in nature as disclosures around the governance of the organisation are already required elsewhere within an organisation’s corporate reporting. In Australia, listed entities are required to include numerous corporate governance disclosures, detailing on an “if not, why not” basis how they have applied the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations⁶.

Remuneration and incentives

In Australia, listed entities are required to prepare extensive remuneration reports in compliance with section 300A of the Australian Corporations Act, as well as remuneration amounts included within the financial statements. We are concerned that by including additional remuneration disclosures in an integrated report, an organisation will have a third set of remuneration values that would be required to be explained to users. Our strong preference is for the simplification of remuneration disclosures. We have put forward a principles based framework for remuneration disclosures, which is set out in our Position Paper 15: *Remuneration Reports*⁷.

⁶ Link to ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations : http://www.asxgroup.com.au/media/PDFs/cg_principles_recommendations_with_2010_amendments.pdf

⁷ Link to Position Paper 15 Remuneration Reports: http://www.companydirectors.com.au/Director-Resource-Centre/Policy-on-director-issues/Policy-Papers/2010/~media/Resources/Director%20Resource%20Centre/Policy%20on%20director%20issues/2010/Paper/Position%20Paper_No%2015%20Remuneration%20Reports_4%20June%202010_F.ashx

Chapter 5: Preparation and presentation

Involvement of those charged with governance

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organisations to disclose the governance body with oversight responsibility for <IR>.

17. Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report. Why/ why not?

Absolutely not. The Australian Institute of Company Directors does not support the inclusion of such a statement, as we are of the view that the responsibility of those charged with governance is sufficiently clear. The inclusion of such a statement may result in “quasi” extension of the director’s obligations and may unnecessarily heighten the potential personal liability of directors in Australia. The disincentive for non-executive directors to sign such reports for the mass of material for possible defences could detract from any benefits.

We are also cognisant of the increase in workload for those charged with governance in order to review and approve the integrated report. There is a risk that this would reduce the capacity of the board to consider other strategic issues; there is also an increase in board time on compliance issues, which would require the board members to provide additional work and responsibility.

Further to the above, a board would need to consider what additional board committees (or added to audit committee responsibilities) and processes would be required to enable the board to consider and approve the integrated report.

18. Please provide any other comments you have about involvement of those charged with governance (Section 5D).

No further comments.

Credibility

The Framework provides reporting criteria against which organisation and assurance providers assess a report’s adherence (paragraph 5.21).

19. If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?

The Australian Institute of Company Directors is concerned as the disclosures covered by an integrated report extend beyond the traditional realm of the auditor. The auditor has always been responsible for the audit of the financial statements and expressing an opinion thereon. Assurance engagements in respect of reporting under existing non-financial frameworks, such as sustainability reporting, has tended to be inconsistent in terms of the subject matter and criteria applied, and level of assurance conveyed. We are concerned such inconsistency could extend to assurance engagements in respect of

integrated reporting. We are further concerned that a new expectation gap will emerge as users of the integrated report may not necessarily understand the level of assurance provided by the auditors.

If the auditors utilise the current International Standard on Assurance Engagements ISAE 3000, *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, as the basis for assurance engagements in respect to integrated report, taking steps to ensure consistency and that the users of the integrated report understand the level of assurance conveyed in an assurance report will be critical.

Should the integrated report include the audited financial statements, then the auditor would be required to review the integrated report to ensure that there are no material inconsistencies between the financial statements and the integrated report. This work would be performed in accordance with the International Auditing Standard, ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing the Audited Financial Statements*.

There is significant cost attached to assurance and organisations would need to weigh the cost against the benefit of providing assured information within the integrated report.

Auditors in Australia have questioned whether there is a need to extend the protection provided to them under the Australian Corporations Act if they are required to provide assurance on the future orientated information included in the integrated report.

20. Please provide any other comments you have about Credibility (Section 5E). Assurance Provider are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.

We have no further comments on credibility.

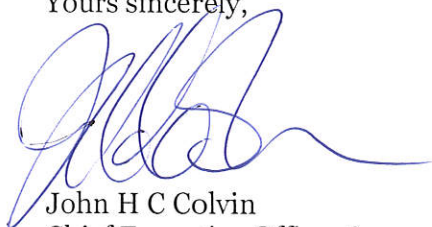
Other

21. Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B]) in your answer to question 11 rather than here)

No further comments.

We hope that our comments will be of assistance to you. If you wish to discuss any of our views please do not hesitate to contact me or Nicola Steele on +61 2 8248 6600.

Yours sincerely,



John H C Colvin
Chief Executive Officer &
Managing Director