

Consultation questions

The IIRC welcomes comments on all aspects of the Draft International <IR> Framework (Draft Framework) from all stakeholders, whether to express agreement or to recommend changes.

The following questions are focused on areas where there has been significant discussion during the development process. Comments on any other aspect of the Draft Framework are also encouraged through the questions.

Please provide all comments in English.

All comments received will be considered a matter of public record and will be posted on the IIRC's website (www.theiirc.org).

Comments should be submitted by Monday 15th, July 2013.

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| Stakeholder group: | <input type="text" value="Assurance provider"/> |

If replying on behalf of an Organization please complete the following:

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| Organization name: | <input type="text" value="Office of the Auditor General"/> |
| Industry sector: | <input type="text" value="Not applicable"/> |
| Geographical region: | <input type="text" value="Oceania (Australia & New Zealand)"/> |

Key Points

If you wish to briefly express any key points, or to emphasize particular aspects of your submission, or add comments in the nature of a cover letter, then the following space can be used for this purpose. Please do not repeat large amounts of material appearing elsewhere in your comments.

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| <p>Our key points:</p> <ul style="list-style-type: none">- the framework is likely to be used in other sectors, outside the primary focus (large corporations), including the public sector. It is useful to ensure the framework itself does not preclude such expansion.- the emphasis on the future in the report means the notion of the current state seems significantly less important, and yet the connection between current state and future intention is critical to assessing the ability of the entity to achieve its anticipated value creation.- the framework advises that entities can omit information where there is 'unavailability of reliable data' (para 1.12). We observe limited discussion in the framework about the trade-offs not only between cost and timeliness of available data, but that there may never be perfect, or complete, information. We suggest the framework includes guidance on making transparent the trade-offs. For example, making transparent decisions to use real time information over audited information, or precise measurement over proxy indicators - or vice versa. In addition, the <IR> report should be transparent about the consequences relating to strategy and performance when information is not reliable enough to be included in the report. |
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Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

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

No further comment.

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

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

We support the principle that the <IR> process be applied continuously to all relevant reports and communications. We also support the recommendation to link the integrated report to other related, or more detailed, reports and information. In addition, we would also like to see encouragement of the <IR> combining the requirements of multiple report purposes. That is, either an <IR> report, or an existing alternative report, could, where appropriate, incorporate the requirements of several different reports into one report. This would mean stakeholders can identify the key information needed to inform their decision making in fewer locations. Encouraging the amalgamation of multiple types of reports, where possible, will also encourage 'integrated decision-making and actions to create value over' time (paras 1.16-1.17).

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?*

No further comment.

Other

4. *Please provide any other comments you have about Chapter 1.*

No further comment.

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. *Do you agree with this approach to the capitals? Why/why not?*

The capitals framework provides a useful way of distinguishing the different ways that value can be created. In particular we support entities disclosing the judgments they have made in determining both the relevance and significance of the capitals for which they have collected information.

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

No further comment.

Business model (Section 2C)

A business model is defined as an organization'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?*

No further comment.

Business model (Section 2C) continued

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

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

While this definition highlights the consequences 'for the capitals', we suggest information on the business model, might also take into consideration the consequences 'of the capitals' use/transformation on the company and in particular, other stakeholders. Considering both the consequences of, and for, the capitals will further encourage integrated thinking, and reinforce interconnectedness.

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)?*

No further comment.

Other

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

2D: Para 2.38 indicates that providers of financial capital (the users of this report) are 'focused on value in the form of financial returns'. Para 2.44 also mentions the externalities associated with capital use/transformation. While these concepts are not mutually exclusive, it may be useful to make more explicit the idea that some investors will be as interested in positive and negative externalities as they are in financial returns. The investor should have enough information to choose between (potentially) lower financial returns, if there is significant positive externalities for stakeholders they care about (eg a community or issue), as part of the value creation story.

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

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

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

The section on materiality is based in a 'likelihood of occurrence v. effect' decision frame. This is a useful starting point. It may also be useful to differentiate the 'effect' element into breadth of stakeholder effect and intensity of effect on fewer numbers. Additional value could be further added by discussing the relationship between material inclusions & omissions and other information. Making explicit the need to ensure users can distinguish material information from 'extra' information will be critical to ensuring they are not bombarded with information overload. While this idea is embedded in the concept of 'conciseness', it would assist preparers if the framework were explicit about the need to ensure that users not only know the process for determining materiality but also what information the governors use to make long term decisions. Finally, it is unclear, as written, whether materiality should be considered at the individual or aggregate levels. We suggest it should be considered at both levels.

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

see above.

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?

No further comment.

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

Additional emphasis could be given to being transparent about not only the reliability of the information provided, but also the consequences for strategy and performance in the absence of reliable information. Para 3.41 highlights that if information is unavailable and material, the entity should seek to rectify this. Nevertheless, decisions impacting the firm's future are being made in the meantime, and further, situations often arise where reliable information is not, and never will be available, given the <IR> will include information about the future. Confidence in the entities ability to make decisions that create value over time will be enhanced if the <IR> report makes transparent not only information system improvements to obtain reliable data but also the considerations the entity gives to the trade-offs inherent in selecting the purposes for which information will be collected, designing information collection, collection techniques, and analytics.

This same point is applicable to para 3.38 on cost effectiveness. The <IR> report should not only include the cost trade-offs on the value of information, but also what is being done instead, if (and when) cost prohibits collection of reliable information.

Other

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

We support section 3F and para 3.50. This point could be further reinforced by making explicit an obligation on the preparer to ensure users not only have available all the information, but are able to navigate that information successfully enough to make informed decisions.

3B: Given the purpose of the <IR> is to include the future state information in the value creation story, this has received significant attention in the framework. Less well emphasized is the need for the user to understand the connection between current capabilities and strategy, governance, performance and prospects. To strengthen an evidence-based connection between current and future states, it may be useful to include specific time-frames to the changes discussed in the bullets of para. 3.10. This would make transparent the evidence used to determine the current strategy and the likelihood of it being achieved. The importance of this point also suggests further emphasis of this connection (between current capitals/capabilities and future prospects) may be needed in earlier sections of the framework.

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).

In paras 3.5 and 4.16 the framework refers to avoiding 'boilerplate' disclosures. It seems this point is not only relevant to the two elements under which it is discussed. The users ability to determine the key information for decision making requires that the report contain only material information and discussing it in such a way as to aid decision making, rather than obscure less positive information.

4G: This section offers another opportunity to reinforce the connectedness of using current available information to assist the user understand the future outlook of the company.

4B: In addition to the information about governors requested in this section, the users may also find useful the length of service of board members, the average turnover rates over time, and how often dissenting votes are recorded in the company minutes.

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations 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?

Yes, sign-off at the governance level ensures governors are, at minimum, taking responsibility for the information in the report. At best, it can encourage integrated thinking as governors engage with the material to be included in the report, and the systems needed to enable the report.

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

No further comment.

Credibility (Section 5E)

The Framework provides reporting criteria against which organizations 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 purpose of the <IR> framework is to encourage both integrated thinking and reporting. The basis for providing assurance should be the same. That is, an integrated assurance of the whole report. A well written integrated report would not lend itself to partial assurance, and the focus of the assurance should be on the integration, as well as the components.

The New Zealand Office of the Auditor General has developed specific central and local government audit methodologies to ensure it can appropriately audit the qualitative and non-financial elements required in government reporting. This methodology aims to not only provide assurance that the information is accurate, but that the report is fit for purpose in communicating the council or departments' performance story (equivalent to the value creation story).

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

Given the integrated purpose of an <IR> report, auditors need a scope of audit work appropriate to the breadth of the proposed <IR> reporting. The new scope and intent of the <IR> report needs recognition and acceptance by both parties (company and assurance provider), including on matters of appropriateness; materiality; governance and reporting arrangements and range and depth of the information base. This agreement and recognition is even more important than assurance done in areas where more substantive reporting standards have been developed.

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 above rather than here).

5C: The framework highlights the need to disclose material matters, including where information is indeterminable and the reason for its indeterminacy. Further value could be added to the users, if this para (5.15 bullet 3) also included the need to state the consequences of the absence of information.

Overall view

22. *Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?*

No further comment.

Development of <IR>

23. *If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?*

No further comment.

Other

24. *Please provide any other comments not already addressed by your responses to Questions 1-23.*

No further comment.

Please save the completed PDF form to your computer and submit via the IIRC website at www.theiirc.org/consultationdraft2013