

1 December 2014

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

Via email: assurance@theiirc.org

Dear Professor King,

Assurance on <IR>, an exploration of issues

Thank you for providing us with the opportunity to comment on the paper: *Assurance on <IR>, an exploration of issues* (discussion paper) issued by the International Integrated Reporting Council (IIRC) in July 2014.

The Australian Institute of Company Directors is one of the two largest member-based director associations worldwide with over 35,000 members, including individual 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 professional body in Australia 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 has consistently advocated that the International Integrated Reporting Framework (the Framework) should be a "principles-based", "market-driven" framework that does not increase the reporting burden on entities.

We do not support the regulation of integrated reporting as this would limit any benefits that may be achieved by preparing an integrated report.

Further, we have highlighted the potential personal liability for directors for the disclosures included within the integrated report, particularly in respect of Australia's regulatory environment. Under this regulatory environment, Australian entities and their directors will struggle to make meaningful forward looking disclosures as envisaged by the Integrated Reporting Framework. The Australian Institute of Company Directors has developed a proposal for reform, *The Honest and Reasonable Director defence*¹ which may assist in providing appropriate protection for directors when making forward looking disclosures.

We are of the view that significant additional work is required, not only by the IIRC but other standard setters including the International Auditing and Assurance Standards Board to enable the development of an appropriate audit regime to provide an independent opinion on the integrated report.

¹Available on www.companydirectors.com.au

The Australian Institute of Company Directors is concerned that an independent external audit will always be unable to **ensure** the enhanced credibility and trust in an integrated report, that the IIRC seeks to address in the discussion paper.

Further, it is our view that once they understand the significant cost to the entity for such an audit the vast majority of users of the integrated report (especially shareholders whose funds will be used), are unlikely to be convinced of the benefits.

In addition and most importantly, the auditing profession does not have auditing standards that adequately cover the range of non-financial information likely to be included in integrated reporting, narrative or future-oriented information. Paragraph 2.5 of the discussion paper refers to the need for “developing relevant assurance methodologies or standards”, and this process will be fundamental to the auditor’s ability to report appropriately. Considerable time is needed for this process to run its course, from research to standard setting, training and implementation. Until that time any assurance being provided needs to be carefully considered as undue reliance by users of the assurance report is a real and significant risk.

We are also of the view that para 2.8 of the discussion paper erroneously states that those charged with governance (e.g. boards of directors) would be able to take comfort from an external audit of the integrated report. Based on our understanding of para 1.20 those charged with governance are **required to satisfy themselves**, both individually and collectively, as to the integrity of the integrated report and as such they are unable to place reliance on an external audit of the integrated report.

Below are some of the additional challenges that we believe require consideration in the development of any assurance model for integrated reporting:

- how an auditor would determine the completeness of an integrated report;
- the setting of the terms of reference for the audit and the ability to provide one comprehensive, concise opinion or conclusion on the entire integrated report;
- to whom the audit report is addressed as the audience of an integrated report is much broader than the members of the entity, as for the financial statement audit;
- the likelihood that users may place undue reliance on the integrated report without understanding the nature, extent and inherent limitations of the audit;
- the need to consider how to undertake an audit of the “forward-looking information” which is a considerable part of an integrated report;
- the development of procedures to assist in the assurance of the “value creation” model of the entity; and
- the development of a framework for the setting of audit materiality thresholds for the integrated report.

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