



Australian Government

Auditing and Assurance Standards Board

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Professor Mervyn King
Chairman
International Integrated Reporting Council
Submitted to: assurance@theiirc.org

Dear Professor King,

AUASB Submission on Assurance on <IR> An Introduction to the Discussion

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on *Assurance on <IR> An Introduction to the Discussion* which continues the debate on assurance matters on <IR> as they evolve internationally.

The AUASB supports the IIRC's initiative in considering Assurance on <IR> as a key part of the <IR> journey and as a perceived enabler in assisting with the trust and credibility over the <IR> in the short, medium and long term. Exploring options that may help achieve corporate reporting that better meets the information needs of users is clearly in the public interest.

In formulating its response, the AUASB sought input from its constituents through three major "roundtable" discussions on the role of assurance in <IR> and specifically addressing the questions posed in the discussion paper. The roundtables were held in conjunction with the Business Reporting Leaders Forum and the Australian Accounting bodies and were attended by 70 stakeholders from a broad range of backgrounds, including audit firms, assurance providers, professional accounting bodies, board members, executives and academia.

Our responses to the specific questions raised in the discussion paper are presented so as to articulate the views of these stakeholders where appropriate.

There are a number of key points which the AUASB would like to make and encourages the IIRC to further consider in continuing the discussion and defining the next steps on Assurance on <IR>:

- It is widely acknowledged that moving to broader and more integrated reporting will be a journey for entities rather than a single step. An entity's internal systems and processes together with internal and external reporting must evolve to reflect increasing expectations of Corporate Reporting in local jurisdictions.
- Assurance on <IR> needs to mature as <IR> reporting matures. As this occurs, the assurance needs of users particularly financial capital providers and those charged with governance (TCWG) can be better articulated. <IR> is seen by investors as assisting with their overarching goal of efficient decision making in capital allocation. As such it will require an ongoing dialogue between entities embarking on <IR>, investors and assurance practitioners as to the 'best fit' approach to meeting their needs and ensuring credibility and trust in the <IR> in the short, medium and longer term.



- Assurance should play a large role in the credibility and trust of the <IR>. The traditional assurance model generally has three components being TCWG/management, internal and external audit. Whether this model will continue to work under the current assurance framework for an entity that is preparing an <IR> which may be at the embryonic stage of its Integrated Thinking needs to be tested. The level, approach and maturity in Integrated Thinking of an entity drives the behavioural changes in corporate reporting required for adoption of <IR>. Assurance on the <IR> will then need to evolve as Integrated Thinking evolves and matures as led by the market. The market may also consider different approaches to assurance. For example, the PwC model¹ of assessing levels of maturity across the different capitals and the maturity of integration and balance in the reporting will be tested. However, assurance on the <IR> should not be seen as an impediment to the implementation or adoption of <IR> internationally.
- At the recent Australian roundtables and supported by the AUASB, it was suggested that the International Auditing and Assurance Standards Board (IAASB) should play a crucial role in addressing any need for assurance standards or guidance on <IR>. The IAASB in considering assurance on <IR> may need to challenge the International Framework for Assurance model to find the ‘best fit’ approach to meeting the assurance needs of the users of <IR> in the short, medium and long term.
- The general view of attendees at the Australian roundtables, is that there are many technical issues that will require further time and consideration as assurance on <IR> matures e.g. scope, suitability of criteria, subject matter, materiality determination, connectivity, reporting boundary and completeness. The use of professional judgement by assurance practitioners is likely to increase in importance when assuring an <IR> as there will be increased focus on the integration and balance of the information being reported. Assurance practitioners will need to consider the impact of technical and assurance framework issues on the cost of assurance on <IR> which may in the short or medium term outweigh the benefits to entities and the providers of financial capital.
- It was recognised by attendees at the Australian roundtables, that there is a high level of competency and strong skill base of assurance practitioners in Australia, which will continue to be enhanced as the breadth and depth of assurance skills and expertise required to undertake assurance in the emerging area of <IR> continues to evolve. It will also be important for assurance practitioners in Australia to utilise the experience gained in the sustainability and Greenhouse Gas areas. Firms adapted to a multi-disciplinary team model and engaged experts as required in these types of assignments, as well as traditional financial audits. There may be a need for greater experience in understanding business models, strategy and risk thereof for <IR>. This will be important in maintaining confidence in the assurance work undertaken and in the quality of <IR>. There is also a need to look at the longer term role of the audit profession and the part universities and professional bodies can play in increasing the knowledge base of future assurance practitioners and continuing professional development in this emerging area.
- The Australian company director community continues to raise the issue of directors’ liability and their unwillingness to broaden the disclosure of an entity’s value proposition and forward looking statements without a “hold harmless” clause being in place. Where information is disclosed in good faith this should be considered by local jurisdictions in the context of their current legislative and regulatory environments. In parallel with this, traditionally assurance

¹ See *Inspiring trust through insight*, PriceWaterhouseCoopers, 2014.



practitioners are less comfortable in opining on prospective information especially when it extends to the “long term” view of an entity.

- The role of internal audit and the interaction between internal and external audit is important in the evolution of assurance on <IR>. TCWG rely on internal audit to assist in providing information about the robustness of reporting processes and controls around <IR>. TCWG will rely on the external auditor to assure key reporting processes, elements of the <IR> or the <IR> as a whole. The internal audit and external assurance providers need to work together in achieving the desired assurance outcomes for all of the <IR> users. As an entity’s integrated thinking and <IR> processes evolve so too should the knowledge and expertise of the external assurance practitioners. Internal audit is important in the <IR> journey for providing an insight into the integrity of systems and controls and highlighting where improvements can be made in the <IR> processes. Internal systems on non-financial data/metrics are not likely to be as robust or mature as the processes that support the financial data in an <IR>.

The AUASB’s responses to the specific questions raised in the Assurance on <IR> *An Introduction to the Discussion* paper are provided in Attachment A.

Should you have any queries regarding this submission, please do not hesitate to contact either myself or Marina Michaelides, Senior Project Manager (mmichaelides@auasb.gov.au).

Yours sincerely,



Richard Mifsud,
Executive Director



Q1. What priority should be placed on assurance in the context of driving credibility and trust in the <IR>?

The majority of attendees thought that independent assurance should play a large role in the credibility and trust of the <IR> in the short, medium and long term. There was a strong view from attendees that the level and type of assurance on <IR> needs to be driven by the needs of the users of the <IR> predominantly being investors who provide financial capital.

The majority of attendees thought that the credibility and trust in the <IR> could be demonstrated as a three part approach which involves TCWG (Directors and management) acknowledging their responsibility for the <IR> and the entity's processes that drive the <IR>, internal audit who play a role in reviewing and recommending improvements to the processes and controls that drive the <IR> and external assurance that may be provided on the robustness, reliability and operating effectiveness of the process for preparation of the <IR>, and/or the narrative and metrics in the <IR> itself. The level of assurance (limited or reasonable) provided by the assurance practitioner may be different for each of these areas.

It was widely acknowledged by attendees that as entities are transitioning their reporting, the <IR> processes, including internal controls around <IR>, are still likely to be less developed and may be different in maturity for different types of capital compared to financial reporting. Therefore at these early stages in <IR>, rather than adapting limited/reasonable assurance for <IR>, it may be that providing users with a summary that gives insight into the maturity of the reporting process around the different capitals may be seen as useful². Similarly, users may benefit from insight into the extent to which integrated thinking is embedded in strategy, risk and opportunity, management and corporate governance structures. This would demonstrate and provide some transparency into the status of integrated thinking adopted by the entity.

As <IR> evolves in Australia and there is greater voluntary adoption, so too would the level and type of external assurance provided on both the financial and non-financial metrics and the qualitative narrative included in the <IR>.

Q2. What are the key features of assurance that will best suit the needs of users of integrated reports in years to come?

It was widely accepted that the concept of assurance is clearly established through international frameworks for assurance engagements and its role is generally understood in the Australian marketplace. As such, there is a strong view that the concept of assurance is sufficiently broad and principles based, to enable and support the developments in <IR>.

The majority of attendees thought that materiality and the materiality determination which is at the core of a good <IR> is important to help achieve standardisation in the assurance over the <IR>. Assurance practitioners have extensive knowledge in this area and can provide assistance with the materiality determination process adopted by TCWG and management of the entity to ensure a level of completeness in the <IR>.

² See *Inspiring trust through insight*, PriceWaterhouseCoopers, 2014.



The majority of attendees thought that any external assurance on <IR> will need to be more iterative in nature and as such be continual throughout a period and be sufficiently rigorous to provide value to the users of the <IR>. The value add for providers of assurance will be their ability to provide assurance (limited or reasonable) on an entity's value chain over time and whether it has achieved its strategy through connectivity between the content elements, capitals, financial and other information.

The <IR> includes much narrative information, including on strategy, governance and management. Although there is some guidance in the International <IR> Framework, there remains much flexibility on how to report on these topics. Therefore, assessing such narrative information requires a higher degree of professional judgment than may be needed with regard to quantitative information. In addition a sceptical attitude is needed and the text included may lead to in-depth discussions with the entity. Also, the materiality threshold is more difficult to define than for quantitative information. In addition, the assertions underlying the narrative information need to be defined clearly to prevent an expectations gap that an unqualified conclusion includes conclusions on the sufficiency and effectiveness of policies, governance and management, which would extend beyond an assurance conclusion about whether the information is materially misstated.

One point not raised by attendees but which the AUASB thinks important to note, is the key feature of independence that an external assurance provider can provide over the following:

- process for preparation of the integrated report
- narrative or qualitative data-sets
- metrics or quantitative measures in the integrated report
- <IR> as a whole.

Q3. Is the availability of suitably skilled and experienced assurance practitioners a problem in your jurisdiction and if so what needs to be done, and by whom, to remedy the situation?

The majority of attendees thought that assurance practitioners in Australia can continue to develop the capability required to have available to them multi-disciplinary teams with the suitable skills, expertise and experience to provide the breadth and depth of knowledge that may be required to provide assurance on the <IR>. This would include methodology training in the emerging area of <IR> and on the job training as the <IR> market becomes more mature. It should however be noted that the use of multi-disciplinary teams and experts has been embedded in the traditional audit approach for some time and these skills can be applied to <IR>.

As <IR> evolves and greater voluntary adoption of <IR> is seen in Australia, we will see an increase in the skill set of the assurance practitioners as they embark on the <IR> assurance journey alongside the entities producing the <IR> as the market dictates.

In Australia, we have seen a Greenhouse and Energy Auditor registration process under National Greenhouse and Energy Reporting Scheme (NGERS) that certain competency, experience and performance measures need to be met dependent upon the level of registration sought. This has required the accounting firms and other assurance providers to have a broader recruitment base to ensure the skill set requirements are met in this emerging area. In the short term, this may require greater time by more senior assurance practitioners especially in the areas of strategy, risk and opportunities or forward looking statements and the connectivity of these to the capitals.



In the short to medium term, the majority of attendees thought that the accounting bodies could provide some training in this emerging area either as standalone or as part of the professional training programs in addition to the traditional focus on the financial assurance skill sets.

In the longer term, the majority of attendees thought that universities could play a role in providing a better cross section of assurance skills on both financial and non-financial areas of a business e.g. strategy, industry issues, business models, communication etc which would help to produce a more integrated thinking assurance professional. This thinking needs to start early but may be driven by demand for these skill sets in the market.

Some attendees also raised the issue of the scope and range of the internal auditors' skill set. It was noted that there may be an opportunity for the internal audit profession to review training and qualification requirements coupled with adherence to performance standards etc.

Q4. What needs to be done, and by whom, to ensure the quality of assurance on <IR> is maintained at a high level, including practitioners' adherence to suitable educational, ethical (including independence), quality control and performance standards?

Guidance from the IAASB on the implementation of ISAE 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* for <IR> assurance would assist with consistency in quality control and performance standards, including:

- multi-disciplinary team approach
- quality assurance
- subject matter
- criteria
- materiality determination
- risk assessment procedures
- evidence gathering and sampling techniques
- evaluating findings and conclusions
- communicating findings – short and long form reporting
- report modifications – example reports
- narrative / qualitative information (interplay with ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* as appropriate)

Ethical standards are not widely understood by non-financial assurance providers and should be specifically referenced and summarised in guidance from the IAASB on <IR> assurance.

Auditor registration could assist educational and performance standards for assurance practitioners. Greenhouse and Energy Auditor registration under the NGERS in Australia, is a good example of how this can be used effectively. Certain experience and performance requirements must be met dependent upon the level of registration sought by the auditor. Another option could be specialist accreditation from the professional accounting bodies. The accounting and auditing profession needs to move beyond a concentration on the financial elements of an entity's reporting to include a focus on the strategy, governance, forward looking and narrative information.



Q5. Is the robustness of internal systems a problem, and if so, what needs to be done, and by whom, to remedy the situation?

The majority of attendees thought that internal financial systems are typically more robust than the non-financial equivalent. Internal non-financial systems can be immature and will develop over time, dependant on the entity and the use and purpose of such systems. Some non-financial metrics have become progressively more quantitative, driven by legislative compliance in some jurisdictions and the drive for cost savings in many, including:

- Energy use and greenhouse gas (GHG) emissions
- Water use
- Waste volumes

Future-oriented information and narrative reporting may be derived from different internal systems to those typically used for financial and even non-financial information. Establishing the robustness and reliability that can be placed on such systems may be a challenge for assurance practitioners.

Non-financial reporting can be seen as a “nice to have” as this information may not be required by regulation or compliance to be reported externally. As a result, you may see less rigour placed on ensuring robust data collation and reporting systems.

The majority of attendees thought that internal audit needs to play a role in assisting the entity with improving and driving the robustness of internal systems and controls over corporate reporting. Internal audit would need to report to TCWG on the robustness of systems and controls and the reliance that can be placed on them for <IR>.

It was noted by some attendees that if external assurance was sought by TCWG and investors on the process for preparation of the <IR> that this would assist in driving an improvement to the robustness of internal systems and assist the entity in a better understanding and implementation of <IR>. However, external assurance on the robustness of internal systems should not be provided too early in the <IR> evolution as the value of the assurance (e.g. potential for a qualified conclusion) may outweigh any value to the users of the <IR>. Therefore, it was suggested by some attendees when the internal systems around non-financial data and future oriented information are in their infancy a limited scope assurance engagement or agreed upon procedures engagement (AUPs) e.g. ‘readiness review’ may provide some early value to the entity and the users of <IR>. Due regard may be given to the PwC maturity model approach³ as a complementary assurance model in the emerging area of <IR> where it may not yet be possible to provide more traditional assurance.

Q6. Is assurance likely to be a cost effective mechanism to ensure credibility and trust over (a) the short/medium term; (b) the long term?

The majority of attendees thought that in the short/medium term the most cost effective mechanism to ensure credibility and trust of the <IR> would need to be the role that TCWG play in ensuring that the <IR> derives from reliable and robust internal systems. This may lead TCWG to provide some statement or assertion acknowledging their responsibility for the <IR> and the reliability, robustness and completeness of the entity’s internal systems and processes that drive the <IR>. This would also capture the interplay between the role of TCWG and internal audit.

³ See *Inspiring trust through insight*, PriceWaterhouseCoopers, 2014.



Most attendees thought that in the short/medium term, the most cost effective assurance on <IR> would focus on the process for preparation of the <IR> and metrics or quantitative measures in the <IR> and be limited in nature. This may include a review of the materiality determination made by the entity under the International <IR> Framework. They also thought that assurance would be market led.

In the longer term, the majority of attendees thought that external assurance is likely to be a cost effective mechanism to ensure credibility and trust over the <IR>. It should be noted with the need for multi-disciplinary assurance teams with wider expertise and experience particularly around understanding the strategy and connectivity of information including the impacts up and down the value chain of the entity, that this is likely to increase the overall cost of assurance.

Q7. If so [assurance is likely to be a cost effective mechanism to ensure credibility and trust over (a) the short/medium term; (b) the long term], what needs to be done, and by whom, to maximise the net benefits of assurance?

A few attendees thought assurance practitioners will need to work on perception/expectation gap as to the users' understanding of what the assurance engagement on <IR> will include or provide. The Australian assurance practitioners and professional bodies need to continue to educate the users of assurance as to what can be achieved under the current assurance framework in Australia and the role the assurance practitioner can play in enhancing the credibility and trust of the <IR> in both the short/medium and long term.

A further few attendees thought that the current assurance framework may need to be challenged to accommodate emerging areas like <IR>. The IAASB in considering assurance on <IR> may need to challenge the traditional international assurance framework model and whether the current reasonable assurance opinion and the limited assurance conclusion provide adequate flexibility for the assurance practitioner to communicate the outcomes of an <IR> assurance engagement.

Q8. Should assurance standard setters develop either (a) a new assurance standard; (b) guidance, to ensure consistency of approach to such issues?

The majority of attendees thought that it was important for the IAASB to play a crucial role and be the driver of any assurance standards or guidance that may be required for assurance on <IR>. This would ensure that any standards or guidance undertaken would be considered under the International Framework for Assurance and be consistent with assurance standards (e.g. ISAE 3000) and other pronouncements as deemed appropriate by the IAASB.

The majority of attendees thought that due to the early stage of adoption of <IR> internationally and assurance on <IR> that a guidance statement that provides application guidance on how to assure an <IR> which may include the process for preparation of the <IR>, financial and non-financial metrics and narrative under the existing suite of international auditing standards (ISAs) and considers the other technical issues raised at questions 4, 10 and 12 to be useful.

Q9. Should any such standard/guidance be specific to <IR>, or should it cover topics that are also relevant to other forms of reporting and assurance, e.g., should a standard/guidance on assuring narrative information, either in an integrated report or elsewhere, be developed?

The majority of attendees thought that ISAE 3000 (Revised): *Assurance Engagements other than Audits or Reviews of Historical Financial Information* as an overarching standard would be a good



basis from which guidance specific to <IR> could be developed. This guidance should include considerations around assuring narrative/qualitative information and other areas noted at question 4. As <IR> evolves and adoption is increased internationally the guidance can be revised to demonstrate 'best practice' in assurance on <IR> as experience is gained over time.

- Q10. What are the (a) key challenges and (b) proposed approaches that assurance standard setters consider with respect to:
 - Materiality?
 - The reporting boundary?
 - Connectivity?
 - Completeness?
 - Narrative reporting and future-oriented information?

Some of the attendees thought that it was too early in the <IR> journey to determine what an Integrated Report might include, how concise the <IR> will be and whether it will replace the Operating and Financial Review in Australia, or become the normal Annual Report. Until this is clear, attendees found it difficult to answer this question. It was acknowledged that the Australian entities that are part of the <IR> Pilot programme e.g. Stockland, bankmecu Limited, CPA Australia and National Australia Bank Limited are all producing different types of integrated reports depending on their progress in the <IR> journey. As each <IR> is different, so too is the assurance being obtained, if any, on parts of the <IR>. It was highlighted by attendees that scoping an assurance engagement on an integrated report is critical in these early stages of reporting and provision of assurance services. It would appear that what is currently occurring in Australia is that only certain elements of the <IR> are being included in the scope of the assurance engagement e.g. financial and/or non-financial metrics and/or materiality determination with other areas being considered out of scope until consensus can be reached as to how or what can be assured and the cost benefit.

Some of the attendees thought the key challenges for assurance standard setters were as follows:

The connectivity principle may place some challenges for the assurance practitioners as to where a subject matter begins and ends. This would also interplay with the reporting boundary concept which may include identifying and describing outcomes which may require disclosure of both positive and negative effects on capitals up and down the value chain and the overall completeness of the <IR>.

Narrative reporting and future-oriented information – The Australian company director community has raised the issue of directors' liability and their unwillingness to broaden the disclosure of an entity's value proposition and forward looking statements without a "hold harmless" clause being in place. Where information is disclosed in good faith this should be considered by local jurisdictions in their current legislation and regulatory environments. This matter still needs to be adequately resolved within the Australian company director community. Any assurance on narrative reporting and future-oriented information should be market led and driven by the needs of the users, primarily providers of financial capital.



Q11. What other technical issues, if any, specific to <IR> should be addressed by assurance standard setters?

There was a general consensus from attendees that there would be many other technical issues that should be addressed by standard setters, however due to the infancy of <IR> in Australia and the types and levels of assurance being provided in this area, they thought that it was too early to adequately articulate what these areas will be and how over time they may be resolved.

Q12. What are the (a) key challenges and (b) proposed approaches that assurance standard setters should consider with respect to:

- Reasonable assurance?
- Limited assurance?
- Hybrid engagements?
- Agreed-upon procedures engagements?
- Other approaches?

The majority of attendees thought that assurance on <IR> is likely to be transitional and move along a spectrum depending on where an entity is in its <IR> journey and the maturity of its reporting processes. This may range from an AUP 'readiness review' where no assurance is obtained; limited assurance on the process for preparation of the integrated report, narrative or qualitative data-sets metrics or quantitative measures in the <IR> through to reasonable assurance on the whole of the <IR>. This approach may also be complemented by the use of the PwC maturity model⁴ where assurance practitioner's expertise and professional judgement is applied differently in the emerging area of <IR> where it is not yet possible to provide traditional assurance. It is likely as <IR> matures so too will the assurance approach and this may consist of both reasonable and limited assurance on different aspects of the <IR>. It will also be important to consider the cost/benefit of the level and type of assurance as the entity moves along the spectrum and the value derived from such assurance by the user of the <IR>.

Some attendees raised the issue around the subject matter and suitability of criteria test under the International <IR> Framework. The International <IR> Framework focuses on the entire report content and its underlying guiding principles. In practice the entire report is not always the subject matter of assurance, but for example assurance may only be obtained on financial metrics e.g. Key Performance Indicators (KPIs). This may challenge the conclusion that the subject matter is prepared, in all material respects, with the applicable criteria as the criteria not only include the content elements but also the guiding principles. In particular, the materiality principle about whether an integrated report discloses information about matters that substantively affect the entity's ability to create value over the short, medium and long term is a challenge.

The majority of attendees thought that there is already some confusion regarding the levels of assurance obtained on financial reporting and that the investor market is not highly educated on the differences between limited and reasonable assurance. It is therefore important that this does not create a larger expectation gap between the users of the <IR> and assurance practitioners which may impact the value derived by users from the assurance report on <IR>.

The majority of attendees felt that forward looking statements, business strategy and narrative on future outlook are more challenging to assure, although evidence can be sought in the form of

⁴ See *Inspiring trust through insight*, PriceWaterhouseCoopers, 2014.



business plans, benchmarking, forecasting and justification of assumptions made within the process. The issue will be whether sufficient appropriate audit evidence can be obtained in these areas to allow for a meaningful level of assurance to be provided to the users of the <IR>. Traditionally, assurance practitioners are less comfortable in opining on prospective information especially when it extends to the “long term” view of an entity. In the early stages of <IR> adoption for entities, Agreed-Upon Procedures (AUPs) engagements may be undertaken on the soft data and narratives, where no assurance is obtained.

Q13. What are the (a) key challenges and (b) proposed approaches that should be considered, and by whom, to ensure assurance on <IR> pays due regard to other assurance processes?

The majority of attendees thought that it was the role of TCWG and management of an entity to develop an overall assurance strategy that considers where assurance is required and/or may support the TCWG in their role, what type/level of assurance is required and by whom. This is likely to include consideration of the role of both internal and external audit and areas across the entity that may require assurance e.g. reporting processes and internal controls, financial reporting, other information in the annual report, <IR>, sustainability and regulatory compliance.

It was also noted by a few attendees that it is the role of TCWG to use the <IR> to explain to providers of financial capital how their entity creates value over time in the short, medium and long term. It is therefore the responsibility of TCWG to set the content and boundaries for the <IR> and provide the users of the report with a basis of preparation and presentation of the <IR> under the International <IR> Framework. It was further suggested that there be a requirement for the TCWG to provide an attestation or a ‘trust statement’ which acknowledges their responsibility for the integrity of the <IR> and how they gained comfort around the reliability, robustness and completeness of the reporting processes used to build the <IR>. This may be an area that the IIRC needs to revisit in the International <IR> Framework to enhance the trust and credibility over the <IR>. This attestation would also provide the assurance practitioner a place to start when assuring parts or all of the <IR>.