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Submitted to: assurance@theiirc.org

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Dear Professor King,

### **Materiality Counts Submission on Assurance on <IR> An Introduction to the Discussion**

Thank you for the opportunity to contribute to the discussion on <IR> assurance, the progression of which is fundamental to building credibility and trust in <IR> from the outset.

Materiality Counts' key points for each of the 13 questions posed are detailed below.

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

- *Critical to credibility:* assurance is critical to credibility with stakeholders – it should be a priority from the outset.
- *An **independent** assurance audit can help to build stakeholder trust:* covering aspects such as:
  - Accuracy.
  - Completeness.
  - Focus on material issues.
- *Ongoing stakeholder engagement:* will also build trust, but in the context of reporting, assurance is fundamental.
- *Financial assurance:* is required for Annual Reports.
- *Non-financial assurance of Sustainability Reports:* has become widely accepted as best practice.
- *Role of internal audit:* requires further consideration.
- *Role of those charged with governance (TWCG):* requires further consideration.
- Hence, assurance of Integrated Reports will be expected to demonstrate best practice, achieve credibility with stakeholders and engender trust.

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

- *Clarity on assurance scope*, including:
  - *Financial assurance*: compliance-based.
  - *Non-financial assurance*: materiality-based.
  - *Review of materiality determination process*: for its robustness and proximity to best practice. There is limited guidance on scoping non-financial assurance, hence materiality has become a consistent and valid basis.
  - *Limited versus reasonable assurance*: and clarity for users on exactly what this means in terms of the assurance that they are being provided.
- *Use of layman's terms and visuals*: to explain the level of assurance provided, approach taken, findings made and conclusion formed.
- *Appreciation of the different language used in financial versus non-financial assurance*.

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

- *Skill sets and experience are present in Australia*: separate for financial and non-financial assurance.
- *Financial and non-financial assurance providers do not typically work together*: non-financial assurance providers could learn a lot from the robust and well-established approach to financial assurance. However financial and non-financial assurance providers do not typically work together and certainly don't speak the same language/understand each other. This collaboration is, however, increasing.
- *Multi-disciplinary assurance teams needed*: respecting the relative expertise of financial versus non-financial assurance providers and the value to <IR> users of bringing these skills sets and experience together.
- *Standard-setters could bring together financial and non-financial assurance providers*: to further explore synergies and divergence in their approach, alongside how to work together effectively to implement standards.
- *Training needs*:
  - *Financial assurance providers in non-financial assurance and vice versa*.
  - *"On-the-job" training in multi-disciplinary teams*: with a focus on developing multi-skilled juniors would be a good approach.

**4. What needs to be done, and by whom, to ensure that 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 standard-setters on the implementation of ISAE3000 for <IR> assurance*: would assist with the achievement of consistency in approach and quality assurance audits, including:
  - Multi-disciplinary team approach.
  - Ensuring the independence of team members.
  - Quality control procedures.
  - Assurance procedures.

- Subject matter of the assurance.
  - Criteria for the assurance.
  - Use of materiality as a basis.
  - Evidence gathering and sampling techniques.
  - Making conclusions.
  - Communicating findings – short and long form reporting.
- *Ethical standards*: are not widely understood by non-financial assurance providers and should be specifically referenced and summarised in guidance from standard-setters on <IR> assurance.
  - *Auditor registration*: could assist in practitioner educational and performance standards in particular. Greenhouse and Energy Auditor registration under the National Greenhouse and Energy Reporting Scheme (NGERS) in Australia is a good example of how this can be used effectively. This is administered by the Clean Energy Regulator (CER). Certain experience and performance requirements must be met dependent upon the level of registration sought.
  - *ISAE 3000 could require multi-disciplinary teams for <IR> assurance*: demonstration of sufficient auditor mix requirements for multi-disciplinary audit teams.
  - *Auditor training*.

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

- *Internal financial systems are typically more robust*: than the non-financial equivalent, built on many more years experience in financial systems.
- *Internal non-financial systems can be in their infancy*.
  - Data collation and reporting on some non-financial issues remains qualitative.
  - Some non-financial issues 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 – some progress has been made with water accounting.
    - Waste volumes.
    - Community investment – London Benchmarking Group (LBG) has driven the change in this area.
- *Future-oriented information is a new area*:
  - May result from different internal systems to those typically used for financial and even non-financial information.
  - Establishing the robustness of basis and assumptions made for forward-looking statements will be a challenge.
  - This understandably represents a key area of risk raised by the Company Director community in Australia.
- *Non-financial reporting can be seen as a “nice to have”*: it is not required hence less rigour is often placed on ensuring robust data collation and reporting systems.
- *Non-financial assurance providers can often find themselves “correcting data” across the board*: during the assurance audit. This level of error would not be acceptable in the financial “space”.

- *Guidance is needed from standard-setters on:*
  - Level of effort typically involved in the first, second and third year of non-financial assurance. This would assist in non-financial assurance planning.
  - Suggested approach to the assurance of future-oriented information, including the basis of such information and robustness of assumptions made.
  - How to assure:
    - Strategy.
    - Business model.
    - Connectivity of information.
    - Materiality determination.

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

- *Short term not cost effective:* as substantial effort will be required in the first one to two years with each reporter:
  - In the early years, as assurance providers “bed down” their approach and learn how to work in multi-disciplinary teams, the level of effort and related costs may be relatively high.
- *Long term will be cost effective:*
  - As assurance is repeated, typically three or five year terms, with the same assurance provider, costs should reduce year-on-year.

**7. If so, what needs to be done, and by whom, to maximise the net benefits of assurance?**

- *Guidance on assurance report templates:* to ensure that <IR> users understand and use the assurance provided, including:
  - Scope.
  - Reporting boundary.
  - Materiality basis.
  - Basis of conclusion.
  - Findings, often presented in the non-financial “space” but not the financial.

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

- (a) *No:* ISAE3000 can be used.
- (b) *Yes:* guidance is essential in areas such as:
  - *Level of effort typically involved:* in the first, second, third year of non-financial assurance. This would assist in non-financial assurance planning.
  - *Suggested approach to the assurance of future-oriented information:* including the basis of such information and robustness of assumptions made.
  - *How to assure:*
    - Strategy.
    - Business model.

- Connectivity of information.
- Materiality determination.

**9. 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, eg. should a standard/guidance on assuring narrative information, either in an integrated report or elsewhere, be developed?**

- *Guidance on assuring narrative information that is more widely applicable:* would present the most value add.
- *A table of synergies could be presented at the back of such guidance:* showing the relative requirements of:
  - <IR>.
  - Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines.
  - OFR narrative and more.
- *Guidance could be included on <IR>-specific aspects, such as:*
  - Strategy.
  - Business model.
  - Connectivity of information.
- *Materiality could form the backbone:* of such guidance as it should apply to all forms of narrative reporting.

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

**a. Materiality?**

- *Robustness of financial materiality determination:* versus inconsistency and lack of understanding of non-financial materiality.
- *Variation in approach to non-financial materiality determination:* from completely independent to entirely internal and “tweaked” by management.
- *Inconsistent approach to quantification:* in non-financial materiality.
- *Desire to “report on everything”:* rather than what is material.
- *“Tick box approach”:* eg. GRI, rather than reporting on what is material.
- *Lack of understanding of what is material to stakeholders.*
- *Guidance on materiality determination:* from the IIRC, the Framework setters rather than the standard setters, would assist in achieving consistency and quality control.

**b. The reporting boundary?**

- Key areas of challenge are:
  - *Supply chain.*
  - *Contractors.*
  - *Joint ventures.*
- *Guidance on what should come within the reporting boundary:* from the IIRC, the Framework setters rather than the standard setters. This could cover what represents direct control, influenced control and no control.

### **c. Connectivity?**

- *Without integrated thinking:* reporters may not have reached this point of connectivity between material issue areas - between the capitals.
- *Allow for progression:* towards connectivity.
- *IIRC guidance.*

### **d. Completeness?**

- *ISAE 3000 covers completeness:* it is core to assurance to this standard.

### **e. Narrative reporting and future-oriented information?**

- *Developing area.*
- *Needs research.*
- *No one has the answer yet.*
- *IIRC Pilot Program and Business Network involvement:* in the development of guidance in this area.

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

- Already covered above.

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

### **a. Reasonable assurance?**

- *Sheer volume:* of financial and non-financial information.
- *Availability of non-financial evidence:* for complete datasets.
- *Guidance:* from standard setters should incorporate this.

### **b. Limited assurance?**

- *Scoping.*
- *Materiality and risk review:* should be used as a basis.
- *Ensure of most use to users:* as the assurance provision is limited, materiality and risk review should be used as a basis for ensure that the assurance provided is of most use to users.
- *Guidance:* from standard setters should incorporate this.

### **c. Hybrid engagements?**

- *Examples of what this means:* important before guidance can be provided.
- *Guidance:* from standard setters should incorporate this.

### **d. Agreed-upon procedures engagements?**

- *Examples of what this means:* important before guidance can be provided.
- *Common terminology in the financial "space":* but means very little to majority of non-financial assurance providers.

- *Guidance*: from standard setters should incorporate this.

**e. Other approaches?**

- *Examples of what this means*: important before guidance can be provided.
- *Guidance*: from standard setters should incorporate this.

**13. 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?**

- *<IR> assurance brings together a number of assurance processes*:
  - *Financial*: including *Annual Report* assurance.
  - *Non-financial*: including *Sustainability Report* assurance.
  - *Future-looking statements*: new.
  - *Narrative in OFR*: new.
- *By building on existing standards*: such as ISAE 3000 and integrating the approach adopted in each of the above areas into guidance from standard-setters, due regard will inherently occur.

Thank you for this opportunity to contribute to the discussion on <IR> assurance.

Yours sincerely,



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