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IAASB Consultation Paper
Extended External Reporting Assurance

As a general comment, we find that the guidelines for Extended External Reporting Assurance contained in IAASN consultation paper are positive.

> They provide practical and considered ways of approaching the delivery of assurance services within an immature and imperfect system.
>
> The system as it stands means that there will (continue to) be significant flaws (ref UK's Brydon review) in Audit, and more so in EER Assurance. It is not news that there are significant reputational and systemic trust risks inherent in this situation.
>
> Professional efforts to provide assurance services are (in all likelihood) better than a system without them, and a necessary stepping stone. This work from the IAASB has the potential to improve the effectiveness of these services in the immediate term.
>
> However, we suggest that current approaches to assurance are insufficient to the current and emerging challenges - even with the advantage of this IAASB guidance.
>
> As introduced in this submission, we have identified a model that is engineered to enable organisations to operate and optimise within this complexity through the application of improved controls and enhanced governance. This model provides a basis for sufficient future-looking and fit-for-purpose assurance, and a costing of future-risk.
>
> We call on the IAASB and its broader stakeholder base to take a leadership role in convening the necessary global collaborations to further develop, mature, test and disseminate the enhanced integrated multi-disciplinary practices identified by the work of our Institute.

New Thinking:

We seek to make the IAASB, and its stakeholders, aware of the Institute of Performance Sciences' work in developing and promoting breakthrough new practice for engaging long-term capital with sustained high-performance value-creation… inside companies and across capital markets.

We do not suggest a magic bullet 'fix' for assurance.

Rather, we identify enhanced approaches to sustained value creation that can be applied systemically to achieve a range of recognised benefits.

Benefits include provision of audit / assurance services that meet heightened market and continually emerging public expectations. We note:

- Audit cannot be 'fixed' in isolation.
- Systemic behaviour change is feasible - where self-interest is broadly served, and the required enhancement *collaboratively* activates and integrates existing efforts.

We have developed preliminary evidence for models linking governance and performance:

- 'Governance of Value Creation' demonstrates material causal links to organisations' sustained value-creation performance, and
- 'Value Creation Maturity Assessment' provides a pathway to a globally scalable, auditable, costing of future-risk, for use by long-term investors and other stakeholders.

This identifies a new approach for assuring "the long-term sustainable success of the company, generating value for shareholders and contributing to wider society"[1] . It operates in a context where "boards are increasingly being called upon to address new or emerging issues including around culture, conduct risk, digital disruption, cyber-security, sustainability and climate change"[2].

Our work can potentially be considered as new generation of COSO controls, that are fit-to-purpose to engage, make integrated decisions and optimise future-outcomes across the complete range of emerging EER areas of focus.

Our 'performance sciences' approach develops a "strengthened framework around internal controls" required to enable sustainable '21st Century Decision Making' in this continually developing context.

We demonstrate how these controls are assessed as an assurable costing of future-risk.

In other words, the enhanced governance that is required to engage appropriately (and proportionally) for the whole range of emerging risks, is shown (in preliminary research) to:

- Promote sustained performance increase (productivity) of financial and non-financial outcomes
- Assist boards (and other decision makers) engage effectively with complexity, uncertainty and change
- Improve effectiveness of investment in knowledge economy, intangible value and social outcomes
- Improve Long Term Behaviours and Performance.

There are a broad range of emerging issues of importance to the public, and to investors (refer Larry Fink's 'Letter to CEOs' 2019 and similar). Our approach shows how organisations can engage these effectively, how boards can procure assurance of their internal and external information, and how investors and the public can rely on statements made using this information.

Some reflection on the application of Governance of Value Creation to the issues raised is expanded in Appendix A of our response. However, we have not made an attempt in this response to outline the full workings, the current knowledge, or the future roadmap of these approaches. We invite the engagement that will be required to facilitate the full understanding required to secure support for further action.

[1] FRC's UK Corporate Governance Code, 2018
[2] ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, 4th edition

Collaborative Development:

Systemic behaviour change is required. This will only come from broad-based collaborative participation on development of improved practice, as has long been the case for the ongoing development of accounting and audit standards.

We Propose:

We call on the IAASB and its broader stakeholder base to take a leadership role in convening global collaborations to further develop, mature, test and disseminate the enhanced integrated multi-disciplinary practices identified by our Institute.

Our work provides new perspectives that open up significant new pathways for action.

Please contact us to explore the most appropriate way to work together to develop further understanding and address our common objectives.

Many thanks, yours,

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APPENDIX A: Governance of Value Creation. An Overview

We would like to bring a research breakthrough and growing collaborative response to your attention. We recommend its potential to provide material contribution to enabling effective future-looking EER assurance.

Our work provides a unique approach for costing of future-risk (financial and non-financial), that complements the many existing global initiatives in measurement, principles, and reporting. It enables systemic inclusion of the broader range of 'next generation' compliance, conformance and alignment issues within assurable practice.

Preliminary research evidence supporting this new approach can only be matured to effective industry practice through collaboratively engaged cross-industry initiatives in the style of FCLT, Embankment Project, IIRC, et al – that then offers its output to IAASB and aligned standardisation.

Breakthrough practice alone does not produce systemic change. We call on relevant parties to actively participate in a convening an appropriate collective response.

Technical Background

Our academic and commercial research has engaged over 100 of Australia's most senior economic leaders including directors at each of the ASX10 (7 at Chair), and their equivalents within asset owners and fiduciaries, Departments, agencies, regulators and Executive Government – and many of their global counterparts.

Our work identifies a new approach for assuring "the long-term sustainable success of the company, generating value for shareholders and contributing to wider society"[3] in a context where "boards are increasingly being called upon to address new or emerging issues including around culture, conduct risk, digital disruption, cyber-security, sustainability and climate change"[4].

We have developed models and preliminary evidence of a causal link between governance and performance.

Our approaches can be universally applied across companies and investment portfolios as well as government and community service outcomes, enhancing both performance and assurable communication with professional, regulatory and public stakeholders.

'Governance of Value Creation' is an integrated multi-disciplinary model for sustained value-creation in large scale organisations. It has been recognised as the 'how to achieve Integrated Thinking'. And, it has been described as the 21st Century Decision Making alongside IIRC's 21st Century Reporting to address A4S's 21st Century Challenges.

- **For companies**, this enables leaders to address the Future Fiduciary question, how can I ASSURE that we are "optimally invested in our own future?". How do you optimise across IIRC's 6 capitals, UN SDGs, or social outcome measures across multiple timelines - within increasingly complex and uncertain contexts.

  Preliminary research demonstrates a link to sustained out-performance - with the leading practitioner in our research performing 500% ahead of the index over 10 years.

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[3] FRC's UK Corporate Governance Code, 2018

[4] ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, edition 4

- **For investors** the related 'Value Creation Maturity Assessment' provides a costing of future-risk that could be expanded to a globally scalable disclosure framework.

  It provides a mechanism of assessing the level of certainty associated with an organisation's future prospects. It is a knowledge economy, intangible value and social outcome equivalent to the JORC/SAMREC/SME codes used to disclose certainty of asset value / future prospects in the global resources sectors.

The structure of our approach includes parallels to the relationship between financial disclosure and audit.

Integration of Non-financial Measures

A company's value is based on risk and uncertainty mitigated future projections in a context where the past is an increasingly poor indicator of future performance. Financial accounts alone have long been deemed insufficient to assess a company's value. And, past performance is even less relevant to informing us on the future achievement of non-financial measures.

Point-in-time measures (in a company or across a portfolio) have little public meaning (tonnes of carbon, litres of water, ??? social outcome values, SDG measures, et al). These measures do not yet demonstrate the maturity and specificity of application seen in Financial Governance. And, the internal controls (central to assuring the reliability of Financial reporting) lack standardisation and widespread use for non-financial measures.

Periodic reporting of reliable 'future-value' measures enhances internal and external investment decisions, and brings greater relevance to a consumer audience.

Our work demonstrates the link between the existence of a necessary and sufficient set of integrated controls, and multi-outcome performance.

"The Result Must Be More Useful and Forward-Looking Audit"

> *Assurance is commonly defined as "a positive declaration intended to give confidence; a promise". In the business world the definition is often extended to imply the use of a process that justifies such a declaration. The assurance this Review is concerned with is independent assurance, or lack thereof, concerning the statements made by directors of companies.* Review into Quality and Effectiveness of Audit
>
> *"The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework."* ISA (UK) 200

We observe:

- Audit provides increased stakeholder confidence from an independent assurance that announcements from a company are likely to be free from deliberate or accidental misstatement.
- Audit is achieved through an expert review that the applicable standardised accounting practices and controls have been appropriately applied.
- Standardised accounting practice is not forward-looking or multi-bottom-line. It does not include forward-looking controls. It does not include non-financial controls.
- It is not possible to review the 'appropriate application of standardised practices and controls' in a forward-looking manner, because we do not have an integrated forward-looking framework of standardised practices and controls to review against.

- It is not possible to deliver a forward looking audit without a standardised integrated set of forward looking practices and controls.
- The creation of an appropriate set of forward looking practices and controls would enable the delivery of a forward looking audit, enabling independent assurance that forward-looking announcements from a company are likely to be free from deliberate or accidental misstatement. We suggest this would be 'useful'.

In our work, we propose a basis for development of forward-looking practices and controls that would support forward-looking audit.

Enhanced multi-disciplinary governance is required to deliver the enhanced audit and reporting that a future-fit market requires.

Preliminary research indicates a causal link between these practices and performance. It indicates and approach that would enable organisations to make periodic, externally assured, future-oriented announcements in accordance with an auditable standard in a manner that does not disclose competitive strategic information, and does not extend director liability beyond assured compliance.

Knowledge to Impact. A Precedent

The Institute's Governance of Value Creation, and the associated Value Creation Maturity Assessment can be seen as a future-oriented analogue to Financial Governance and Audit.

> Simplistically, Financial Governance is made up of standardised components of practice that integrate together to provide insight through a P&L and Balance sheet and a few other instruments. Practices, and hence the reports, are audited against mature standards, providing (an imperfect) level of assurance against directors' Fiduciary Responsibility.
>
> Financial Governance is silent in response to the 'Future Fiduciary' question, "How can I assure that we are optimally invested in our own future?"
>
> On the forward looking side we have a variety of (immaturely) standardised practices that do not integrate and provide no integrated insight.
>
> Our work demonstrates how integration of standardised practice, and forward-looking insight can be achieved, and its impact.

Considering a parallel to Financial Governance can be a little hard to grasp for a 'secular' audience. **A more obvious precedent is demonstrated by the JORC code.**

The JORC code was developed in Australia as a response to the Poseidon nickel boom and resulting stock market crash in the 1960s.

The Australasian Joint Ore Reserves Committee (JORC) developed standardised reporting on the levels of certainty associated with extracting value from Mining and Resource assets. It is an 'accounting for' the extent and results of scientific testing of geophysics and geochemistry that is now enforced by ASIC and the ASX as part of resource sector listing rules. It has been duplicated in similar disclosure regimes in a dozen jurisdictions across the world, and is now subject to global harmonisation efforts.

It has been suggested that the JORC code is in part responsible for the fact that near 50% of the Australian Stock Exchange is now represented by mining and resource sector stocks. JORC made mining investible by costing risk. They are not necessarily all 'good investments', but the prospective investor is able to make a judgement based on assurable consistent information.

The Institute of Performance Sciences promotes a cross-sector, knowledge economy, societal-value, intangible-value-creation equivalent to JORC providing periodic demonstration of the level of certainty associated with an organisation's future prospects. It provides a globally-scalable costing of future-risk suitable for engaging long-term capital with sustained high-performance value-creation - inside companies, across investment portfolios and across capital markets - in a new era of a complex, volatile, global economy.

Our work will contribute to making long-term, environmentally sustainable, stakeholder-engaged business a) visible, and b) investible.

It is a singular capability-lifting market-mechanism that directly answers the written calls from FRC, BlackRock and many others, across many disciplines, for enhanced behaviours.

Systemic behaviour change through collaboration

Preliminary work can only be developed to systemic behaviour change and impact through collaborative cross-industry participation:

- The **Global Institute of Performance Sciences** (www.ipsglobal.online) seeks to engage global investors in collaboration on improved practice (see Letter to Fiduciaries) engaging long-term capital with sustained high-performance value-creation - inside companies, funds and across capital markets.

- The **Australian Institute of Performance Sciences** (www.aips.online) seeks to 'move the needle' on effective long-term value creation performance in the top500 (focus on top50 = 50% of GDP) participants in the Australian economy made up of large corporates, government jurisdictions and large-scale investors. The Australian component serves as a pilot of systemic uptake of enhanced practice in a G20 economy.

The assurable 'accounting for future value' practices we have identified to you in this response address the missing-link between increasingly healthy systemic awareness and stubbornly weak systemic action.

Collaborative development and dissemination of enhanced practice will serve to engage long-term capital with sustained high-performance (financial and non-financial) value-creation - inside companies, funds, across capital markets, and across government and community networks.

And further, it will enable better communication of the value and value creation efforts of companies and public organisations to the general public.

We seek your participation in convening these forums.

APPENDIX B: Responding to Matters Raised in the Consultation

> **Please note:** Governance of Value Creation approaches provide genuinely new perspectives that open up new pathways for action on known issues. **The responses below seek to provide brief 'outcome based discussion starters'.** We invite the further engagement that will be required to facilitate full understanding of our approach, including what is known today, and the pathways to the collaborative work that remains to be done.

As a general comment, we find that the guidelines for Extended External Reporting Assurance contained in this paper are a positive contribution.

Commentary regarding paragraph #58-#61.

We endorse your identification of significant issues involved in considering systems of internal control as they appear at different phases of maturity within an organisation.

Our work provides a framework for assessing the maturity of the range of relevant and material controls for future-looking achievement of an organisation's broader financial and non-financial objectives. Our approach demonstrates the relationship between this maturity assessment and the level of confidence in the future-achievement of stated (reported) future-outcomes. It includes a structured approach to incorporate materiality in internal and external use.

We invite discussion on our extensive work in this area, and how it may be further developed.

Commentary regarding paragraph #62-#66.

Our work suggests this section contains an overstatement of the role of risk, at the expense of consideration of decision-making.

Our analysis (which we will not try to expound here) suggests this may source from a mismatch or distinction between "Assurance of reporting", and "Assurance of outcomes" (ref: scope of Brydon review).

We invite discussion on our extensive work in this area.

Commentary regarding paragraph #67-#68.

Our work suggests that "selection or development of criteria including materiality", whilst important, should not be left to the skill of the auditor. Assurance is a statement that quality discipline has been successfully applied in a manner appropriate to the need. Extensive definition, development and subsequent standardisation will be required to provide assurance of the quality and reliability of accounting and financial audit to the range of emerging EER issues.

We invite discussion on our extensive work in this area, and how it may be further developed.

Commentary regarding paragraph #71.

Our analysis (which we will not try to expound here) suggests a mismatch or distinction between "Assurance of reporting", and "Assurance of outcomes" (ref: scope of Brydon review).

We recommend that fit-for-purpose assurance needs to be more than an assurance of the preparation of the report. It needs to provide an assurance that the underlying issue is being effectively engaged by the organisation. This is not adequately communicated in this section.

We invite discussion on our extensive work in this area.

Commentary regarding Chapter 7.

Roughly speaking, our approach in this area has been to identify where an organisation is (or is not) relying on a standard measurement within its reporting. Our approach to assessment then allows us to determine a level of confidence in the historical, and future reporting against those standards.

We consider that (generally speaking) there is reduced value to users of reporting if organisations choose to report without reference to standards – regardless of the assurance of, or confidence in, those statements. This may vary depending on the maturity of practice in the relevant subject area.

We invite discussion on our extensive work in this area.

Commentary regarding Chapter 8.

We recommend the need for a systemic approach to materiality.

Commentary regarding Paragraph #184-#185, and chapter 12.

We would suggest that the types of misstatements listed in #184, consistent with financial assurance, are still important, but insufficient for EER, and even less sufficient for future-oriented disclosures.

Misstatement from ‘not knowing’ is considered likely, from our research, to be material. This can be from poor understanding of the issue, immature disciplines (in an organisation, or generally across all sectors), uncertainty, volatility and complexity.

Our work uses practices to help organisations understand ‘how well known’ their data is. And, to help them make use of certainty in decision-making and communication. We invite discussion on our extensive work in this area.

Commentary regarding Chapter 10.

We believe that systems for materially enhanced quantified information are the key to providing reliable assurance for reporting and decision-making that adequately serves users’ needs.

Narrative should support, not replace, quantified information – as it does with Financial Reports.

However, we understand that adequate (effective and practical) systems for quantified information are not yet in place for the range of EER issues.

Narrative is better than silence, and the proposals in Chapter 10 should serve to help improve the quality of narrative reporting that is performed.

We very strongly recommend the need for a systemic approach to future-oriented information that includes reporting of certainty of achievement of future objectives.

Our preliminary research indicates that the use of such practices is directly linked to an organisation's sustained value creation, and its Long Term Value.

Enhanced disciplined practice is suggested as the key to increased productivity and improved stewardship of (and achievement of) sustainable outcomes.

This is the prime interest of investors and all other stakeholders.

We invite discussion on our extensive work in this area, and how it may be further developed.