BRLF
Business Reporting Leaders Forum

Mr Tom Seidenstein
Chair
International Auditing and Assurance Standards Board
Via IAASB website

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Dear Sir

Submission: Extended External Reporting Assurance Consultation Paper

Thank you for the opportunity to comment on the International Auditing & Assurance Standards Board's (IAASB) Extended External Reporting (EER) Assurance Consultation Paper.

I am Chairman of the Australian Business Reporting Leaders Forum, which is a business forum that discusses developments in corporate reporting and assurance in Australia and globally. I congratulate the IAASB on a comprehensive guidance document, however I note two matters for further consideration prior to finalising the guidance:

- Expand the guidance to assist practitioners understand the unique nature of integrated reporting, and so the complexities that will be faced when planning for and undertaking integrated reporting assurance.

- Build on Example 10 in Supplement B, or add an additional detailed Example 13, to accommodate the likely path organisations will take towards integrated reporting assurance, being readiness reviews (pre-conditions for assurance), limited assurance and ultimately reasonable assurance on full adoption of the IIRC's International Integrated Reporting <IR> Framework.

I expand on these matters below.

Main Guidance

Integrated reporting on the Business

An integrated report is predominantly a business report, setting out how the organisation has used its key resources and relationships to execute on strategy, manage risk and deliver sustainable value for its shareholders and broader stakeholders. The integrated report describes *the Business*, its performance and future prospects. This sets an integrated report apart from other EER frameworks, which tend to focus on specific metrics and related narrative on those metrics, without a holistic focus on *the Business* and its future prospects over the short, medium and longer term.

Integrated reporting is seen by the IIRC and other commentators as making a 'distinctive contribution' to the global corporate reporting system for the following reasons:

- The <IR> Framework is the only reporting framework which starts from the foundation of reporting on *the Business*, and so assuring the description of *the Business* stands integrated reporting assurance apart.

- The <IR> Framework was developed through a robust standard setting process over three years with preparer and user pilots and two rounds of public comment - it is increasingly being accepted as the starting point for the conceptual framework for connecting all corporate reporting (financial and non-financial information).

- With its multi-capitals approach and strategic focus on *the Business*, integrated reporting is much broader in its coverage than other reporting frameworks, meeting the information requirements of a broader set of stakeholders.

Each of these attributes brings unique assurance implications, which could be dealt with in the main body of the guidance without much added volume through explanation and short examples.

Integrated reporting – assurance techniques

An integrated report includes qualitative (narrative) and quantitative (metrics) information. This distinction is critical from an assurance perspective:

- Qualitative narrative and forward-looking information is generally used in an integrated report to describe *the Business*, its purpose, strategy, available capitals, risk framework, governance and business model. It includes significant business judgements by the Board and Executive on *the Business*, its performance and future prospects. This information requires 'evaluation' from an assurance perspective.

- Quantitative lead and lag metrics are used to explain the performance and prospects of *the Business*. This information requires 'measurement' from an assurance perspective.

This broad distinction is useful to guide assurance practitioners on how to perform an integrated report assurance engagement. The EER assurance guidance covers assurance over the measurement of metrics, but it should provide further support and examples to assist practitioners apply their professional skills and judgement in the evaluation of qualitative disclosures.

Pre-conditions, limited and reasonable assurance

Organisations moving towards integrated report assurance will need to have adequate systems and controls over their end to end integrated reporting process, including over the capture of required information. Many will engage their assurance practitioner to undertake a readiness review before moving towards assurance.

Example 10 in the appendix to the guidance assumes that the preconditions for assurance have been met for reasonable assurance, and so does not explore the significant challenges for the assurance practitioner involved in firstly the evaluation of the pre-conditions for assurance, and then the complexity in assurance procedures of moving from limited to reasonable assurance.

Pre-conditions

The reporting management system underpinning preparation of an integrated report will build on traditional financial and sustainability reporting systems to enable reporting on *the Business* as described in the integrated report. For many organisations, readiness for integrated reporting assurance will require a shift in their focus and expectations regarding documentation of the 'integrated reporting management system' and the resultant description of *the Business*.

Documentation of *the Business* will need to be owned by the Executive and approved by those charged with governance (the Board). The assurance practitioner will be expected to exercise professional scepticism and judgement to 'evaluate' this documentation, the 'business judgements' underlying it, as well as the design and operation of the integrated reporting management system.

The EER assurance guidance could be updated to explain the unique nature of integrated reporting assurance (as noted earlier) and include a short example on the need for a readiness review to assess the pre-conditions for assurance; in other words, to evaluate the documentation, business judgements and underlying integrated reporting management system and assess whether they are of sufficient quality to withstand independent assurance. Alternatively, this could be addressed as part of a longer example in the appendix to the guidance, together with the transition from limited to reasonable assurance (see below).

Limited to Reasonable assurance

In the global cases of integrated report assurance to date, the practitioner has provided limited assurance on the integrated report's application of the <IR> Framework. The pre-conditions have been met to move towards assurance, but there is a big assurance step from providing limited to reasonable assurance.

This is best demonstrated by considering how substantive assurance evidence would be gathered on the description of *the Business* in the integrated report.

Design of the integrated reporting management system, including the processes to describe *the Business* and address business judgements, will largely be capable of evaluation by reading the relevant documentation and making appropriate confirmatory observations and enquiries. This will support limited assurance.

However, it will only be possible to obtain evidence as the *effective operation* of *the Business,* as described in the integrated report, by observing those charged with governance and executive management actually implementing strategy, managing risks, and allocating the capitals in a manner similar to how they have described *the Business* in the integrated report. Reasonable assurance, although possible once the pre-conditions for assurance have been met, will not be straight-forward to plan and implement such that the practitioner can capture sufficient audit evidence without significant impost on the organisation throughout the reporting period.

Consideration should be given to providing an additional longer example in the appendix, either building on example 10 or as new example 13, to the guidance on how the practitioner should practically approach planning and executing the move from limited to reasonable assurance over the organisation's integrated report.

Thank you for considering these recommendations. As we move globally towards adoption of more 'connected' or 'integrated' reporting, I believe these proposed enhancements will be of significant value to the assurance practitioner, as well as report preparers and users, now that the breakthrough on integrated reporting has been achieved and momentum is expected to grow.

If you have any questions please email me at john.v.stanhope@gmail.com.

Yours faithfully

John Stanhope

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