



1 December 2014

Mr Paul Druckman
Chief Executive Officer
The International Integrated Reporting Council

Via email: assurance@theiirc.org

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Dear Paul

Assurance on <IR>: an introduction to the discussion

CPA Australia welcomes the opportunity to provide input to the International Integrated Reporting Council (IIRC) in regard to Assurance on <IR>: an introduction to the discussion (DP). CPA Australia represents the diverse interests of more than 150,000 members in 121 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

In formulating this submission, CPA Australia has reached out to its network and received views from members operating in Australia, Hong Kong, Malaysia, Singapore, China and New Zealand. CPA Australia has also worked jointly with the IIRC, Australian Auditing and Assurance Standards Board, the Australian Business Reporting Leaders Forum (BRLF), Chartered Accountants Australia and New Zealand and the Institute of Public Accountants in co-hosting roundtables to discuss the assurance of integrated reports in Australia.

CPA Australia vigorously supports the objectives and vision of <IR> and concurs with the DP's suggestion that independent assurance is likely to be critical to its long-term credibility and establishment as "investment grade" information. We agree with the DP's overall assessment of the challenges involved in developing and implementing the capability for meaningful and cost-realistic independent assurance of integrated reports.

In particular, CPA Australia highlights the following matters:

- While financial statement boundaries, related authority and their positioning within law and regulation is well established in most jurisdictions, <IR> is broadly still very much under development across these dimensions. This can create challenges in applying existing assurance frameworks, which will potentially be curbed with the further establishment of <IR> practice worldwide.
- While established assurance practices and frameworks exist for separate components which may underlie integrated reports (for example, sustainability reporting and financial reporting), it is CPA Australia's view that in the context of <IR>, 'separate assurance', however clearly this is communicated, cannot replace the value and imperative of assurance that addresses the connectivity between all of the information disclosed in an integrated report. Notwithstanding the value of assurance on separate underlying components such as sustainability and financial reports for specific users of those reports, CPA Australia supports the development of 'integrated assurance'.

- The challenges and effort involved in meaningfully addressing assurance on <IR>, including connectivity, are substantial and are likely to involve revisiting fundamental underpinnings of assurance, such as the internationally accepted *Framework for Auditing and Assurance Engagements*, issued by the International Auditing and Assurance Standards Board (IAASB). CPA Australia notes the recent increased priority given and formation of a taskforce by the IAASB to address <IR> assurance as a particularly important and encouraging development.

<IR> Assurance: *Bringing it together* published in INTHEBLACK in October 2014 sets out further detail in regard to CPA Australia's views on these and additional challenges. It also develops the importance of addressing them in establishing <IR> and for the global assurance profession in retaining and enhancing its relevance to providers of capital and other stakeholders¹.

CPA Australia notes that the suggestion of requiring a disclosure by those charged with governance outlining how they gained confidence in regard to the credibility of their company's integrated report (possibly through a combination of both or either internal and external processes and assurance) has been put forward at several of the recent roundtables on <IR> assurance worldwide, including those hosted by CPA Australia. In particular, this proposal recognises the potential value of a role for internal auditors in assessing and commenting on the processes involved in deriving an integrated report.

CPA Australia's view is that this suggestion presents a 'double edged sword':

- an opportunity to deal with some of the immediate challenges involved in establishing an additional level of credibility and trust in <IR>;
- but also a potentially problematic deferral of considerable work and attention required to effusively address independent, external <IR> assurance and associated capability building.

CPA Australia recognises that the practice of <IR> is still in its infancy and hence some of the challenges involved in <IR> assurance may be curbed somewhat by the passing of time and maturing of practice in reporting. This context supports the introduction of such a statement by those charged with governance in the shorter term. However ultimately, we do not believe that an internally generated statement, albeit from those charged with governance, will fulfil the need and value of well understood independent, external assurance in establishing <IR> as an "investment grade", widely known and used source of information amongst providers of capital.

We note that some company directors in Australia have expressed considerable concern in respect to <IR> and in particular the requirement for a statement by those charged with governance in regard to responsibility for the integrated report. While we understand that this circumstance is accentuated in the Australian corporate governance environment and steps are underway in Australia seeking "safe harbour" or "due diligence" based reprieve through legislative changes, it is nonetheless important to consider in assessing how practical the introduction of a statement by those charged with governance would be in lieu of independent, external assurance.

Overall, we agree that the proposed statement may be desirable in the short term; however, we would query what additional value is provided over the existing statement by those charged with governance required by the International <IR> Framework and strongly urge continued effort toward addressing independent, external assurance.

¹ Simnett, R & Ghandar, A. (2014), <IR> Assurance: *Bringing it together*, INTHEBLACK, October 2014 <http://www.itbdigital.com/opinion/2014/10/14/integrated-assurance-bringing-it-together/>

CPA Australia recognises that a number of alternative assurance reporting options have been proposed to address the possible complexity involved in reporting on separate assurance engagements and frameworks underlying different aspects of integrated reports. These have included the proposal for pictorial depiction of assurance communiques, supported by appropriate detailed commentary. A model where ‘harder’ elements within an integrated report such as audited financial disclosures would be presented with a higher level of assurance than ‘softer’ elements where assurance around process rather than disclosure has also been put forward.

While we commend the innovative approach taken in developing such proposals as very much what is needed to address the challenges of building capacity for <IR> assurance, we would draw attention to the critical importance of simplicity from the perspective of users. At its extreme, this simplicity would be embodied in an essentially binary opinion which while detailing key context and necessary caveats, allows users to determine easily and quickly to what extent they can rely on the information being presented – much like the opinion currently offered by financial statement auditors.

Achieving simplicity in assurance outputs necessarily involves dealing with considerable complexity in process, particularly in the context of <IR> practice, which is still at an early stage of development. It is our view that dealing with inherent complexity within assurance and reporting as far as is possible through evolved process and methodology is preferable to presenting a more complex than necessary picture for users, particularly in light of the IIRC’s aim of “concise communication”. However, we recognise some level of complexity in assurance reporting may be required in the initial stages developing practice in both <IR> assurance and reporting.

While changes are currently underway in auditor reporting, which will introduce commentary on key audit matters, we would point out that the forthcoming changed auditor reporting model and the underlying impetus for change does not necessarily translate neatly to the introduction of assurance on <IR>. Key differences include the stage of development of <IR> and understanding amongst users compared to financial reporting and related assurance practices and the nature of the information presented (arguably, many of the factors which have led to the development of <IR> have also been pivotal in creating an impetus for the forthcoming changed financial statement auditor reporting model).

Overall, CPA Australia would counsel the goal of developing <IR> assurance as much as is possible toward an integrated approach which would result in the simplest possible statements by assurance practitioners. We would recommend development of alternative <IR> assurance reporting approaches may be appropriate after addressing more critical assurance capabilities such as those concerned with connectivity and the establishment of a basic <IR> assurance model which is understood by users to a reasonable degree – in addition to further establishment of <IR> itself.

If you require further information on any of our views expressed in this submission, please contact Amir Ghandar, CPA Australia by email at amir.ghandar@cpaaustralia.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alex Malley', with a flourish at the end.

Alex Malley FCPA
Chief Executive