



15 July 2013

Professor Mervyn King
Chairman
International Integrated Reporting Council

Submitted via www.theiirc.org/consultationdraft2013

Dear Professor King,

Consultation draft of the International <IR> Framework

The Institute of Chartered Accountants Australia (the **Institute**) welcomes the opportunity to make a submission on the Consultation Draft of the International <IR> Framework (**the Framework**) released by the International Integrated Reporting Council (**IIRC**) on 16 April 2013.

The Institute is the professional body for Chartered Accountants in Australia and members operating throughout the world. Representing more than 70,000 current and future professionals and business leaders, the Institute has a pivotal role in upholding financial integrity in society. Members strive to uphold the profession's commitment to ethics and quality in everything they do, alongside an unwavering dedication to act in the public interest.

Chartered Accountants hold diverse positions across the business community, as well as in professional services, government, not-for-profit, education and academia. The leadership and business acumen of members underpin the Institute's deep knowledge base in a broad range of policy areas impacting the Australian economy and domestic and international capital markets.

The Institute is a founding member of the Global Accounting Alliance (GAA), which is an international coalition of accounting bodies and an 800,000-strong network of professionals and leaders worldwide.

The Institute has been a long time advocate of the need to provide better information as part of corporate reporting. Some years ago our Broad Based Business Reporting (BBR) thought leadership papers examined the need to broaden reporting to include non-financial information and indicators to provide a more accurate picture of an organisation's performance and prospects. We support the work of the IIRC and the creation of the Framework. We believe the draft Framework is a good first step towards the adoption of integrated reporting.

The Institute supports the principles-based approach the IIRC is taking towards integrated reporting. However, it is important the language used in the Framework supports this approach. At times the Framework uses language that is at odds with a principles-based approach. For example, it states 'to be in accordance with the Framework, an integrated report should comply with the principles-based requirements.' The IIRC should review the language used in the Framework to ensure it reflects its stated principles-based approach.

The Institute believes integrated reporting is equally important to not-for-profit entities, public sector entities and other non-corporates as it is to corporations. We recommend extending the scope from 'corporate reporting' to more neutral 'organisational reporting' throughout the text. The Framework already refers to organisations. We do not believe paragraph 1.10 sufficiently explains or makes the case for why the Framework would be 'intended primarily for application by private sector, for-profit companies.'

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The specific questions in the Framework have been addressed in Appendix A.
If you have any questions regarding this submission, please do not hesitate to contact either Geraldine Magarey at Geraldine.magarey@charteredaccountants.com.au or myself.

Yours sincerely,



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APPENDIX A

Comments on the Specific Questions Outlined in the [IIRC Consultation Questions](#)

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Stakeholder group: Accountancy profession
Organization name: Institute of Chartered Accountants in Australia
Industry sector: Not applicable
Geographical region: Oceania (Australia and New Zealand)

Chapter 1: Overview

Principles-based requirements

To be in accordance with the Framework, an integrated report should comply with the principles-based requirements identified throughout the Framework in bold italic type (paragraphs 1.11-1.12).

1. *Should any additional principles-based requirements be added or should any be eliminated or changed? If so, please explain why.*

Any additional requirements will be referred to as required in providing comments on the individual chapters.

Interaction with other reports and communications

The <IR> process is intended to be applied continuously to all relevant reports and communications, in addition to the preparation of an integrated report. The integrated report may include links to other reports and communications, e.g., financial statements and sustainability reports. The IIRC aims to complement material developed by established reporting standard setters and others, and does not intend to develop duplicate content (paragraphs 1.18-1.20).

2. *Do you agree with how paragraphs 1.18-1.20 characterize the interaction with other reports and communications?*

The Institute agrees with how paragraph 1.18-1.20 explains the interaction with other reports and communications. However, it should also refer to the role of integrated thinking which is key to integrated reporting.

The Institute also believes that an integrated report does not have to be a separate report, for example, it is possible to apply the Framework within an annual report or annual review document. An organisation should decide which way to present the information described in the Framework.

3. *If the IIRC were to create an online database of authoritative sources of indicators or measurement methods developed by established reporting standard setters and others, which references should be included?*

Using established indicators will allow a degree of consistency and comparability in reporting between organisations. Sources which are regarded as authoritative include the Global Reporting Initiative (GRI), the Greenhouse Gas Protocol and the work of the World Intellectual Capital Initiative (WICI). In addition, there may be indicators that are required by different countries and sectors which may be included when an organisation develops its integrated report. While these specific indicators should not be listed specifically, they could be referred to generally by the Framework.

Other

4. *Please provide any other comments you have about Chapter 1*

Balance between Financial Capital and Other Capitals

Financial capital is singled out and given undue prominence in the Objectives of Integrated Reporting section. This appears to conflict with information given in the Framework which refers to enhancing accountability and stewardship with respect to broad base capitals.

The Objective of This Framework

The Institute believes assisting organisations to establish the content of their integrated report, rather than develop their integrated reporting process, is the primary objective of this Framework. Therefore, the text in paragraph 1.9 should be amended.

Corporate Reporting expanded to Organisational Reporting

As stated in our introductory remarks, the Institute believes integrated reporting is equally important to not-for-profit entities, public sector organisations, and all other non-corporates as it is to corporations.

Therefore, we recommend expanding the scope from “corporate reporting” to the more neutral “organisational reporting,” throughout the Framework especially because it already talks about organisations throughout the text and because the text in paragraph 1.10 does not sufficiently explain or make the case *why* the Framework would be “intended primarily for application by private sector, for-profit companies.”

Cost/Benefit Analysis

Paragraph 1.11 refers to circumstances when the Framework may not be followed. It does not refer to the cost of providing the information being a consideration. It may be helpful to refer to cost/benefit considerations having an impact and allowing organisations to include cost/benefit analysis in their considerations on application of the Framework. There is good explanation of cost/benefit of information in paragraphs 3.38 to 3.41 which could be referenced.

Chapter 2: Fundamental concepts

The capitals (Section 2B)

The Framework describes six categories of capital (paragraph 2.17). An organization is to use these categories as a benchmark when preparing an integrated report (paragraphs 2.19-2.21), and should disclose the reason if it considers any of the capitals as not material (paragraph 4.5).

5. *Do you agree with this approach to the capitals? Why/why not?*

Although the Institute agrees with the capitals approach at a conceptual level, it does seem to be causing difficulties for report users and preparers on a practical level. We believe this may be due to the language which is not well understood and means different things to different people. More commonly used terms

such as resources or inputs could be considered. We do believe the elements referred to as the six capitals capture generally agreed thinking about the inputs that create value in an organisation. Alternatively more guidance could be provided from the Capitals discussion paper. As referred to in our general comments we do not believe financial capital should be singled out as the primary capital.

6. *Please provide any other comments you have about Section 2B?*

The Institute is conscious that in a country like Australia, natural resources play an important role creating and sustaining value in many of our largest organisations. Some of these natural resources could be considered both a natural capital as well as financial capital, for example, gold. It may be helpful to discuss this in the Framework.

Business model (Section 2C)

A business model is defined as an organization's chosen system of inputs, business activities, outputs and outcomes that aims to create value over the short, medium and long term (paragraph 2.26).

7. *Do you agree with this definition? Why/why not?*

The Institute agrees with this definition, however, some further context should be given to show how inputs, business activities, outputs, and outcomes interact to create and maintain value.

Business model (Section 2C) continued

Outcomes are defined as the internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs (paragraphs 2.35-2.36).

8. *Do you agree with this definition? Why/why not?*

The Institute agrees with this definition. We believe it is important to define outcomes as different to outputs which are defined in an earlier paragraph (2.34).

9. *Please provide any other comments you have about Section 2C or the disclosure requirements and related guidance regarding business models contained in the Content Elements Chapter of the Framework (see Section 4E)?*

No further comments about Section 2C or 4E.

Other

10. *Please provide any other comments you have about Chapter 2 that are not already addressed by your responses above.*

We note paragraph 2.4 refers to the 'elements of an organisation'. The use of the word elements is different to its use later in the Framework when it refers to Content Elements. It may be helpful to use different terminology in paragraph 2.4.

Chapter 3: Guiding Principles

Materiality and conciseness (Section 3D)

Materiality is determined by reference to assessments made by the primary intended report users (paragraphs 3.23-3.24). The primary intended report users are providers of financial capital (paragraphs 1.6-1.8).

11. Do you agree with this approach to materiality? If not, how would you change it?

The Institute agrees with the proposed approach to materiality. However, it is important that it is clear how the materiality used in an integrated report relates to the materiality used in any underlying report. For example, it is likely some information in the integrated report would be drawn from the organisation's financial report and the materiality levels would be different. This difference should be made clear so that it is understood by the users of the various reports.

12. Please provide any other comments you have about Section 3D or the Materiality determination process (Section 5B).

It is important that any reference to materiality refers to the role of professional judgment in making a materiality assessment. Materiality is not an exact science so it is important that both users and preparers of an integrated report understand the role of professional judgement in materiality.

Reliability and completeness (Section 3E)

Reliability is enhanced by mechanisms such as robust internal reporting systems, appropriate stakeholder engagement, and independent, external assurance (paragraph 3.31).

13. How should the reliability of an integrated report be demonstrated?

The Institute believes many of the existing methods used to ensure the reliability of a financial report are appropriate for demonstrating the reliability of an integrated report. The reliability will be enhanced by an effective reporting process which includes the role of internal controls. The governance within an organisation and the role of an audit committee is also important in demonstrating reliability of the integrated report. The assurance process by an external auditor as well as the role of any internal audit process is also important in demonstrating reliability. Communication between the board, audit committee and external auditor is vital in ensuring reliability. The integrated report could briefly describe how this communication has taken place.

14. Please provide any other comments you have about Section 3E.

Two persistent criticisms of integrated reporting are the potential loss of competitive advantage and disclosing future-oriented information. A lot of the criticism arises from a lack of understanding of what the Framework is proposing in these paragraphs (3.42 to 3.47). When early adopters of integrated reporting explain what they are doing in respect of these areas, many of these concerns diminish. It is important that the expectations are clearly communicated around competitive advantage and forward looking statements to ensure they are understood by the preparers of the integrated report and those charged with governance.

Other

15. Please provide any other comments you have about Chapter 3 that are not already addressed by your responses above.

We do not have any further comments on Chapter 3.

Chapter 4: Content Elements

16. *Please provide any comments you have about Chapter 4 that are not already addressed by your responses above (please include comments on the Content Element Business Model [Section 4E] in your answer to questions 7-9 above rather than here).*

Opportunities and risks

The balance of the Framework is towards the positive factors in explaining the value creation story of an organisation. Risk and understanding how an organisation approaches, identifies and counters risk is very important to users of an integrated report. Consideration should be given to including more information around risk.

Future outlook

This is an area which is causing concern to some potential preparers of an integrated report. It may assist preparers and those charged with governance if further guidance was included. This may include reference that statements around future outlook should be made with consideration to local regulations on continuous disclosure and prospective statements.

Chapter 5: Preparation and presentation

Involvement of those charged with governance (Section 5D)

Section 5D discusses the involvement of those charged with governance, and paragraph 4.5 requires organizations to disclose the governance body with oversight responsibility for <IR>.

17. *Should there be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report? Why/why not?*

The Institute does not believe there should be a requirement for those charged with governance to include a statement acknowledging their responsibility for the integrated report. We believe that signing the integrated report is sufficient to acknowledge their responsibility for the report.

18. *Please provide any other comments you have about involvement of those charged with governance (Section 5D).*

Involvement of those charged with governance

The reference in the Framework to the involvement of those charged with governance should be expanded. The Institute strongly believes those charged with governance have a vital role in the reporting process including integrated reporting. It is important that the role of governance is acknowledged as being more than responsibility for strategy, performance and prospects. The importance of setting the right ethical leadership is also crucial.

For many years the Institute has acknowledged the importance of the audit committee as part of the governance framework as well as its important role in the reporting process. There is no reference to the role of the audit committee in the Framework. The Framework should include reference to the audit committee and its role in the reporting process.

Credibility (Section 5E)

The Framework provides reporting criteria against which organizations and assurance providers assess a report's adherence (paragraph 5.21).

19. *If assurance is to be obtained, should it cover the integrated report as a whole, or specific aspects of the report? Why?*

The Institute is part of the IIRC's working group which is looking at assurance over an integrated report. We believe assurance will play an important role in ensuring the credibility and reliability of integrated reports. There are challenges to providing assurance based on the current criteria and the current assurance framework. Although we do not wish to pre-empt the work of the assurance working group, we believe the aim should be assurance over the integrated report as a whole. If assurance is not provided over the entire integrated report, it is important that it is very clear which specific parts of the report have been assured to avoid any confusion by users and preparers.

20. *Please provide any other comments you have about Credibility (Section 5E). Assurance providers are particularly asked to comment on whether they consider the Framework provides suitable criteria for an assurance engagement.*

The Institute does not have any further comments on assurance other than stated in the previous section.

Other

21. *Please provide any other comments you have about Chapter 5 that are not already addressed by your responses above (please include comments on the materiality determination process [Section 5B] in your answer to question 11 above rather than here).*

The Institute does not have any further comments on Chapter 5.

Overall view

22. *Recognizing that <IR> will evolve over time, please explain the extent to which you believe the content of the Framework overall is appropriate for use by organizations in preparing an integrated report and for providing report users with information about an organization's ability to create value in the short, medium and long term?*

The Institute believes the Framework is an important first step in developing an approach to integrated reporting. However, we believe the Pilot Programme, which is still ongoing, has an important role to play in determining whether the concepts within the Framework such as application of the Capitals are practical for implementation.

Development of <IR>

23. *If the IIRC were to develop explanatory material on <IR> in addition to the Framework, which three topics would you recommend be given priority? Why?*

Based on feedback received in Australia, it appears that further guidance is required on the type of information provided as part of the Framework around business models and forward looking information. We believe the type and nature of information that is suggested is not well understood by the existing preparers of financial reports.

Other

24. *Please provide any other comments not already addressed by your responses to Questions 1-23.*

The Institute has no further comments.