

**SUBMISSION**



NEW ZEALAND  
INSTITUTE OF  
CHARTERED  
ACCOUNTANTS

**SUBMISSION ON:**

**Consultation Draft of the International <IR>  
Framework**

**15 July 2013**



5 July 2013

Professor Mervyn King QC  
Chairman  
International Integrated Reporting Council

Electronic submission via [www.theiirc.org/consultationdraft2013](http://www.theiirc.org/consultationdraft2013)

Dear Professor King

### **Consultation Draft of the International <IR> Framework (“the Framework”)**

The New Zealand Institute of Chartered Accountants (NZICA) welcomes the opportunity to comment on the Framework and commends the International Integrated Reporting Council (IIRC) for taking the initiative on this important topic. NZICA has over 33,000 members who work across New Zealand and the world. Our members operate throughout the economy, participating in and advising all types of businesses, entities and individuals.

NZICA views the Framework as an important element in seeking transformative change to corporate reporting and is principally supportive of the initiatives outlined in the Consultation Draft. New Zealand relies heavily on a broader natural and social context in the provision of our two main exports of agriculture and tourism. Having the ability to demonstrate inter-relationships about these two primary economic activities is where integrated reporting could add value.

In recognising the importance of non-financial information, a Financial Reporting Bill is currently before the New Zealand Parliament. If the Bill is enacted in its current form, it is likely to provide the legislative mechanism to support non-GAAP standards such as integrated reporting. Further, New Zealand is a nation largely comprised of small to medium enterprises (SMEs) and we consider that the concepts and principles underlying the Framework can be extended to SMEs, NFPs and public sector entities. We acknowledge that the needs of the users of these reports may vary and encourage the IIRC to provide further guidance on the relevance of integrated reporting for these entities.

In forming the content of this submission and the responses to the specific questions, NZICA attended the presentations that you gave during your visit to New Zealand and sought feedback through NZICA's Corporate Sector Advisory Group, as well as other interested NZICA members. An electronic survey was also developed to collate member responses. NZICA has also held discussions with the Institute of Chartered Accountants Australia (ICAA) who share our views on the Framework.

**Addendum A** contains more comprehensive comments to the specific questions raised in the Consultation Draft.

New Zealand Institute of Chartered Accountants  
Submission on the *Consultation Draft of the International <IR> Framework*

If you have any questions regarding this submission, please contact Dr Michael Fraser CA  
(Director – Technical Services) on +64 4 917 4594 or [michael.fraser@nzica.com](mailto:michael.fraser@nzica.com).

Yours sincerely

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## **Addendum A – Responses to Consultation Questions**

### **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.

#### **NZICA responses and comments**

No, we consider the principles-based requirements underlying the Framework to be comprehensive.

#### **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?

#### **NZICA responses and comments**

NZICA agrees in principle with how the Framework characterises the interaction with other reports and communications. Feedback collated from members suggests that clearer, specific guidance on the basic form and content of the integrated report will encourage adoption of, and assist the preparers of, the integrated report. We recommend the inclusion of illustrative 'best practice' examples to be considered in the draft Framework to ensure consistency of use and comparability of form and content.

The integrated report is described as a stand-alone report. However, members suggest that there is merit in considering the integrated report being prepared as a single primary report rather than a separate stand-alone report. This is to primarily reduce the burden of corporate reporting and also lower the risk of duplication of content. To add value, the integrated report should seek to become the evolution of the corporate reporting suite. Technology (i.e. web-based media) will further assist in enhancing stakeholder engagement and reduce the administrative and environmental costs of reporting.

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?

#### **NZICA responses and comments**

NZICA acknowledges that there is a wide range of authoritative sources of indicators and measurement methods available. In regards to financial reporting disclosures, we agree that regulatory measures, such as the IASB (IFRSs) for financial reporting and IAASB (ISAs) for auditing, are clearly appropriate to reference given the mandatory nature of the financial reporting framework. However, there appears to be a vast choice of authoritative sources for environmental, social and governance disclosures. Based on member

feedback, there is a preference for references to be excluded to ensure that integrated reporting does not evolve into a “tick the box” compliance exercise.

The IIRC is commended in running the Pilot Programme and compiling a database of reports in the Emerging Integrated Reporting Database, as these are seen to be a valuable tool for preparers of integrated reports. Members suggest that illustrative ‘best practice’ examples are appropriate within the Framework and recommend that, after the pilot phase has concluded, consideration be given to the incorporation of authoritative references.

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

#### **NZICA responses and comments**

No further comment noted.

#### **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?

#### **NZICA responses and comments**

NZICA agrees with the approach to the six categories of capital in the Framework. As mentioned in NZICA’s prior submission on the Discussion Paper “Towards Integrated Reporting: Communicating Value in the 21st Century”, there is a vast amount of literature regarding the use of capitals and the necessary process of monetisation. Members would further benefit from guidance and clarification on the measurement of the capitals, for example whether the measurement of capitals is monetised or complemented by the use of qualitative measures.

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

#### **NZICA responses and comments**

No further comment noted.

##### **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?

#### **NZICA responses and comments**

Yes. We agree in principle that the business model exists at the core of an organisation and represents the fundamentals of the organisation’s activities in the entire value chain.

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?

#### **NZICA responses and comments**

NZICA agrees with this definition of outcomes as it requires organisations to consider the capitals more broadly than those that are owned or controlled by the organisation. However, a cohort of members indicated that they would benefit from further details on how the outcomes relate to the six capitals.

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)?

#### **NZICA responses and comments**

No further comment noted.

Other

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

#### **NZICA responses and comments**

NZICA observes that it may be difficult for New Zealand organisations to articulate value creation and disclose their value creation, especially in the long term where commercial sensitivity is the key challenge. Conceptually the fundamental concepts make sense, but in practical terms there are challenges to understand the connection between the capitals and the value drivers. We understand that the IIRC will be issuing a background paper on the 'values' later this year, we look forward to receiving further guidance to explain value creation.

#### **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?

#### **NZICA responses and comments**

NZICA largely agrees with this approach to materiality and acknowledges that the primary intended report users are providers of financial capital, however there is merit to consider widening the user audience from providers of financial capital to include a broad range of stakeholders. Furthermore, by involving stakeholders in the materiality assessment process can provide additional benefits to the organisation to identify relevant material issues, which senior management and those charged with governance, may not have considered. We encourage the IIRC to further explore the relationship of materiality and stakeholder responsiveness.

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

#### **NZICA responses and comments**

No further comment noted.

#### **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?

#### **NZICA responses and comments**

NZICA acknowledges that the reliability of an integrated report can be demonstrated in a number of ways.

We recommend that an organisation should consider firstly those mechanisms which already exist within the organisation, such as robust internal reporting systems and corporate governance. Reliability may be enhanced by the existence of specialist internal committees such as internal audit, risk, health and safety and remuneration committees which assist the Board and management in meeting its regulatory and compliance responsibilities. An organisation should also consider including their current level of stakeholder responsiveness.

Whilst we acknowledge that external and independent assurance provides a high level of reliability over the integrated report, this mechanism may not be a viable option for all entities. Given the cost and time involved with carrying out independent assurance, we recommend and we agree the above mentioned mechanisms be given stronger consideration.

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

#### **NZICA responses and comments**

No further comment noted.

#### **Other**

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

#### **NZICA responses and comments**

No further comment noted.

#### **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).

#### **NZICA responses and comments**

No further comment noted.

#### **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?

#### **NZICA responses and comments**

NZICA agrees that there is merit in the inclusion of a statement from those charged with governance to acknowledge their responsibility for the integrated report. We consider that those who are charged with governance have a responsibility to ensure that information in the integrated report is not false or misleading in a material manner.

It is important to acknowledge that there may be hesitation from directors to provide this statement, in particular on the organisation's future outlook and long term prospects. However, this potential liability should not impact the director to withhold reporting matters which may be of material nature to stakeholders. Stakeholders will primarily benefit from having this statement to gain reliability over the integrated report.

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

#### **NZICA responses and comments**

No further comment noted.

##### **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?

#### **NZICA responses and comments**

As mentioned in NZICA's prior submission on the Discussion Paper "Towards Integrated Reporting: Communicating Value in the 21st Century", NZICA supports greater exploration of appropriate assurance mechanisms to enhance the credibility of preparing an integrated report. However, we acknowledge that there will be practical challenges to doing this.

Principle-based standards have implications for the external auditor. They require a higher level of professional judgment and can potentially create more risk and liability for the audit firm. The auditor may need to form a multi-disciplinary team with external subject matter experts or specialist advisors for assurance of non-financial reporting aspects, for example, environmental or health and safety reporting.

Further, while it may be difficult to provide assurance over the future outlook and long term aspects of an integrated report, this area presents an opportunity for the audit profession to take lead and add value beyond the financial audit and potentially assist to fill the 'strategy gap' that exists in many New Zealand organisations. Integrated reporting will be a process for many organisations and NZICA recognises that it is likely to be some time before assurance is provided on the whole of the report.

In the meantime, those carrying out assurance on integrated reports should clarify the scope and limits of their assurance engagements.

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.

#### **NZICA responses and comments**

Members suggest that the Framework could be improved by the consideration of appropriate benchmarks as suitable criteria for an assurance engagement. NZICA recommends that the IIRC work closely with the International Auditing and Assurance Standards Board (IAASB) to identify and resolve potential audit issues before the Framework is finalised. We acknowledge the IIRC will be publishing further background papers on assurance and look forward to receiving this material.

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).

#### **NZICA responses and comments**

No further comment noted.

**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?

#### **NZICA responses and comments**

We consider that the draft Framework's content is somewhat appropriate *for use by organisations in preparing an integrated report*. In the New Zealand context, larger listed companies are likely to be the primary preparers of integrated reports in the first instance. However, we consider that the concepts and principles underlying the Framework are equally important for SMEs, NFPs and public sector entities. We acknowledge that the

needs of the users of these reports may vary and encourage the IIRC to provide further guidance on the relevance of integrated reporting for these entities.

We also consider that the Framework's content is somewhat appropriate for *providing report users with information about an organisation's ability to create value in the short, medium and long term*. NZICA believes that greater corporate transparency can improve an organisation's access to capital. Transparency of short and medium term information is often easier for an organisation to articulate but disclosure of long term information may be more difficult as such information could be commercially sensitive and potentially compromise the competitive nature of an organisation. We agree that integrated reporting is a step in the right direction. However, it will not be sufficient unless there is investor demand for such information. We commend the IIRC continue working with the Investor Network to gain an understanding of what investors need for better decision-making.

**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?

**NZICA responses and comments**

Based on member feedback collated, we recommend that the Framework provide greater clarity and guidance on assurance, stakeholder responsiveness and future outlook.

**Other**

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

**NZICA responses and comments**

No further comment noted.