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NZ Auditing and Assurance Standards Board (NZAuASB)
External Reporting Board
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By email: submissions@xrb.govt.nz

Submission on Extended External Reporting (EER) Assurance

The Institute of Directors (IoD) appreciates the opportunity to provide comment to the [XRB](#) on the [consultation paper](#) on Extended External Reporting Assurance published by the International Auditing and Assurance Standards Board (IAASB).

Extended External Reporting (EER) using a range of frameworks (eg Integrated Reporting) is gaining significant global traction and increasing take-up in New Zealand. It is important that EER is trusted and there is a growing demand and need for assurance over EER, both to enhance the credibility of EER and also to help meet the expectations and needs of investors, stakeholders and other users.

It is therefore important that the IAASB provides guidance to enable more consistent and appropriate application of ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. We note the (non-mandatory) guidance is intended to be applied to assurance over a wide range of EER matters being reported on and we support this given the range of EER frameworks being used.

As EER and assurance over EER evolve it is important that standards and professional practices keep pace with user needs and expectations. Standards need to support meaningful and useful reporting. There is a risk that developments in EER assurance may drive unintended consequences such as reducing EER.

We encourage the IAASB to prioritise the review and development of standards and guidance relating to EER to ensure they meet current and future needs, and provide cohesion. It is also critical that there is a strong focus on developing professional capability and competence in relation to EER reporting and EER assurance.

About the Institute of Directors

The IoD is a non-partisan voluntary membership organisation committed to driving excellence in governance. We represent a diverse membership of over 9,000 members drawn from listed issuers, large private organisations, small and medium enterprises, state sector organisations, not-for-profits and charities.

Our Chartered Membership pathway aims to raise the bar for director professionalism in New Zealand, including through continuing professional development to support good corporate governance.

The IoD's submission provides general comment on EER assurance and the proposed guidance. Notwithstanding our comments here, the IoD may make further and broader comments as the project progresses.

Extended External Reporting

Demand for greater transparency about corporate activities and for more holistic corporate reporting has increased significantly in recent years.

Stakeholder interest and scrutiny, including from investors, customers and employees has extended beyond profit to a greater focus on what businesses are doing, how they are doing it, and their impact on the environment and society.

Much of the value of a company now resides in intangible assets (eg data, human capital, brand and reputation) which are now commonly regarded as representing more than 80% of an organisation's value. Many EER frameworks (such as the six capitals in the Integrated Reporting Framework) provide better frameworks to reflect an organisation's value and performance.

It is therefore not surprising to see the increased (generally voluntary) take up by many organisations, including listed companies, of broader reporting frameworks. These include Integrated Reporting, the Global Reporting Initiative (GRI), sustainability, UN Sustainable Development Goals (SDGs), climate-related financial disclosures and other environmental, social and governance (ESG) reporting, for example NZX guidance.

Assurance over EER

With the increasing take-up and maturing of EER reporting there is now also increasing demand and need for assurance over the information being used and reported.

We note the research by the XRB and McGuinness Institute in 2017 which found that 76% of users thought that EER should be independently assured.¹

Users of EER reports need to be able to rely on the reports and it is important that EER reports are credible and reliable to support trust and confidence in corporate reporting and in business generally. Strong governance over the reporting process, including effective internal control systems is critical.

We agree with the IAASB that the guidance should be able to be applied to a wide range of matters being reported on and to assist with assurance over EER reports of entities of all sizes and a broad range of EER matters. Reporting and assurance both need to be relevant and meaningful to users and stakeholders.

A particular challenge with the diverse range of information across EER reports is determining materiality and what should be included in EER reports. It is important that a materiality process and criteria include relevance and completeness as suggested by the IAASB.

Preconditions for accepting assurance engagements

Comprehensive, reliable and appropriate information helps enable effective decision-making by boards and is important for accountability purposes. It also helps enable boards to monitor performance and risk.

It is essential that directors, and other governors, are able to rely on EER information for decision-making and reporting. As such independent assurance (internal as well as external) is important.

¹ *Survey Highlights: A Summary of the 2017 Extended External Reporting Surveys*, March 2018.

The EER reporting (with a range of frameworks) and assurance disciplines are still in the early stages of evolution and it is important that access to assurance is not inhibited by impracticable requirements.

We agree with the IAASB that systems of internal control don't necessarily need to be 'mature' or 'robust' but should be 'adequate' for a practitioner to take on the assurance engagement.

Cohesion and consistency

We note that the International Integrated Reporting Council (IIRC) is convening the Corporate Reporting Dialogue and Better Alignment Project, to respond to the need for greater coherence, consistency and comparability between corporate reporting frameworks, standards and related requirements.

We are unclear about the extent that the IAASB is involved in these projects but hope and expect there is a strong connection to ensure development of EER assurance aligns and reflects any developments for greater coherence and cohesion in EER reporting.

Professional capability

As noted above, EER reporting and EER assurance are still evolving disciplines. Professional capability and competency is also still developing for preparers of reports, and for auditors and assurance providers.

It is important that standards and guidance are easily understood, and are as succinct and pragmatic as possible. We encourage the IAASB to provide clear guidance and also to prioritise and support the development of professional capability and competency in respect of EER assurance.

Conclusion

The increasing uptake of EER reflects the importance and value that more holistic reporting brings to organisations and to stakeholders. It also supports better governance and enhanced accountability.

We support the development of IAASB guidance that will help enable more consistent and appropriate application of ISAE 3000 (Revised).

Standards need to support meaningful and useful reporting. As EER and assurance over EER evolve it is important that standards and professional practices keep pace with user needs and expectations. We note that there is a risk that developments in EER assurance may drive unintended consequences such as reducing EER.

We appreciate the opportunity to comment on behalf of our members and would be happy to discuss this submission with you.

Yours sincerely



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