

International IR Framework revision – Focused Engagement – Topic Paper 1 *Responsibility for an integrated report*

1. Should the emphasis of Paragraph 1.20 shift from a statement of responsibility to process-related disclosures? Please explain.

The CPA Australia argue herein for retention of the status quo. Our reasons are outlined below noting also the anticipated release in the second-half of 2020 of the exposure draft updating the IFRS Practice Statement 1 *Management Commentary* which might in many jurisdictions influence the regulation of narrative disclosures of which <IR> is, in part, a subset.

Taking Proposal A's reorienting para. 1.20 towards process-related disclosures, along with the first dot-point concerning "measures to ensure the integrity of the integrated report", there are as we see it, substantial risk of the <IR> Framework becoming unduly prescriptive, along with an associated proliferation of information within an integrated report having questionable information utility for users.

Our view is that the proposal outlined in the second dot-point under Proposal A, to retain reference to "measures to ensure that a collective mind is applied" within the <IR> Framework section that would be headed Process-related disclosures, may not negate the concerns outlined under **Legal considerations** on page 4 of Topic Paper 1. Ultimately, in a common law jurisdiction such as Australia, whether or not an appropriate level of care and diligence has been applied to a disclosure will be determined with reference to an objective standard of reasonableness, to which then, a subjective assessment is made as to the individual's meeting of that standard. As it currently standards, para 1.20 at least compels 'those change with governance' to turn their minds to these significant matters.

Concerning the third dot-point under Proposal A that seeks a statement as to the extent of adherence to the 19 requirements of the <IR> Framework, our view is that it would lead to some 'circularity', as invariably the question would be raised as to whose judgment is it that is being applied to such an assessment and associated disclosure.

We acknowledge the sentiment expressed under **Legal considerations** pertaining to the challenges of applying a principle-based framework across a range of diverse legal systems. However, we offer the following more general observations in support of retention of paragraph 1.20 in its current form:

- Paragraph 1.20 acts to 'focuses the mind' on the qualitative attributes expressed variously across Guiding Principles A through G. In any substantive reorientation of para. 1.20, we urge the IIRC to be mindful of the possibility of an unintended steering of disclosure emphasis towards reputation

management and corporate storytelling and thus away from intended purposes around business model resilience within a transformational environment.

- The sixth paragraph of the <IR> Framework Executive Summary directly contemplates the adaptation of an entity's integrated report into an existing compliance requirement – most likely as regulatory-based strategic or management analysis reports. In these circumstances, para. 1.20 indirectly reinforces what is contemplated around responsibility for these 'extra-financial' disclosures. Moreover, in these avenues of <IR> Framework application assurance standards will be brought to bear, most notably with ISA 720 *The Auditor's Responsibilities Relating to Other Information* and the evolving understanding of ISAE 3000 application to <IR> (refer our response to Topic Paper 3).
- Topic Paper 1 at page 2 identifies a series of seven matters under consideration, most notably - director liability concern. Relevant content within the <IR> Framework are Guiding Principle 3A *Strategic focus and future orientation* and the cautionary guidance provided in paragraphs 3.52-3.53. Such liability risks arise regardless of para. 1.20 being a function of jurisdiction specific legal principles and rules related to such matters as reliance-based detriment or change of position. Without giving an absolute definitive view, we argue that continuity of para. 1.20 in its present form provides a positive incentive for directors to assess the boundaries of uncertainty (refer para. 3.53) along with actions which may minimise risk of litigation¹.

2. To which systems, procedures and controls should the guidance refer?

We do not specifically address this question given our views with respect to Proposal A and the specific observation in our response to Question 1 concerning proliferation of information.

3. Should the guidance encourage the disclosure of key roles and responsibilities in the integrated reporting process? Please explain.

- We address here the fourth dot-point under Proposal B and associated analysis in Topic Paper 1, particularly the third dot-point under **Process-related disclosures** concerning 'collective mind'.
- We point to one likely source of the notion of 'collective mind' adopted into the <IR> Framework being that of corporate law. The leading Australian practitioner text states:
- Company law contemplates that directors will **act collectively** as a board, but in carrying out functions as a member of the board each director is individually subject to statutory and common law duties to act in good faith

¹ Refer for example the recent inclusion in [ASIC's Regulatory Guide 247](#) reference to the minimal risk of liability for misleading or deceptive forward-lookings statements where, amongst other factors, "the statements have a reasonable basis, which involves good governance at board level for signing off the statements".

in the best interests of the company, to act for a proper purpose, and to act with reasonable care and diligence.² (emphasis added)

- In these terms, we suggest that any extensive elaboration on roles and responsibilities relating specifically to the integrated reporting process potentially distracts from the broad and appropriate thrust of the <IR> Framework as can be deduced from parts of the Framework, such as Content Element 4B **Governance**. Here the emphasis is on disclosing how an entity's governance structures support the value creation process. Building into reporting a further open-ended disclosure around process potentially distracts from communicating endeavours towards governance best practice – matters again the collective responsibility of 'those charged with governance'.
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 - Further, this is a matter alluded to in the first dot-point under **Scope and terminology** on page 4 of Topic Paper 1. Although there is merit in the idea that "departments [should] work together" we do not see this as a subject appropriately addressed within the scope of a reporting framework. Relatedly, such expression risks confusing the organisational attitudes and aptitudes of best practice in preparing an integrated report, with the ultimate responsibility for the efficacy of disclosures made to markets and stakeholders and who it will be who bears responsibility for errors and omissions or false and misleading statements.
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 - Although none of the consultation questions under Proposal A asks about clarification of the term 'collective mind' we urge both its retention in the <IR> Framework and some level of articulation of its meaning and significance given by Council.
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- 4. Should the guidance cite a voluntary 'statement of responsibility from those charged with governance' as best practice? Please explain.**

We do not specifically address this question given our views with respect to Proposal A.

5. Is there value in clarifying the term 'those charged with governance'?

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- As noted on page 4 of Topic Paper 1, 'those charged with governance' is elaborated on in the <IR> Framework's glossary. The words in the glossary bear a close similarity to the definition of 'Those charged with governance' presented in International Standard on Auditing (ISA) 260 *Communication with Those Charged with Governance* (para. 10.(a)). To emphasise the obligations of those charged with governance, ISA 260 goes on to include in para. 10.(a), "overseeing the **financial reporting process**" (emphasis added) and in para.

² R P Austin & I M Ramsay, *Ford, Austin and Ramsay's Principles of Corporation Law*, (17th ed.) LexisNexis 2018, page 243.

10.(b) defines *Management* as “executive responsibility for the conduct of the entity’s operations.” Additionally, ISA 260 in paras. A1 to A8 addresses various jurisdictional and entity characteristics.

- It is suggested that the <IR> Framework glossary definition could be modified to include ‘overseeing the **external reporting process**’ and emphasise the distinction with management responsibility. Further, bearing in mind the need for suitable brevity in a principle-based framework, cross-referencing could be given to ISA 260 paras. A1 to A8 as a source for reconciling specific jurisdictional and entity-based challenges.