

INTEGRATED REPORTING AND CORPORATE REPORTING STRUCTURE AROUND THE WORLD - AUSTRALIA

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INTEGRATED REPORTING
COMMITTEE (IRC)
OF SOUTH AFRICA

ANNUAL CONFERENCE

2022

#IRCSAConf22

Australian Financial Reporting System - 2022

Australian Government		Treasurer – Jim Chalmers		Assistant Treasurer – Andrew Leigh		Australian Government The Treasury		Tom Dickson John Stanhope letter			
System Oversight		Corporate Reporting		Standards		Regulation		Stock Exchange		Corporate Governance	
 <p>Australian Government Financial Reporting Council</p>		 <p>BRLF Business Reporting Leaders Forum</p>		 <p>Australian Government Australian Accounting Standards Board</p>		 <p>ASIC Australian Securities & Investments Commission</p>		 <p>ASX</p>		<p>ASX Corporate Governance Council</p>	
<p>Chair – Andrew Mills</p> <p>Members include: Keith Kendall, Bill Edge, Suzanne Bell, Tracey Carroll, Michele Embling (NZ), Cameron McDonald</p>		<p>Chair – John Stanhope; Vice-Chairs: Pru Bennett, David Atkin</p> <p>Executive – Michael Bray and other members of DIRC management team</p>		<p>Chair – Keith Kendall</p> <p>Australia participates in development of IASB standards through AASB being on IASB</p>		<p>Chair – Joe Longo Chief Accountant – Doug Niven</p> <p>Australia participates in IOSCO through ASIC</p>		<p>Listed public company</p> <p>Chair – Damien Roche ACC – Peter Nash CEO – Helen Lofthouse CFO – Andrew Tobin Chief Compliance Officer (Acting) – Daniel Moran</p>		<p>Independent representative body: Chair – Elizabeth Johnstone</p> <p>Members include: ASX, Investor Relations Assn, Council of Superannuation Investors, Institute of Company Directors, Shareholders Association, Business Council [CEOs], CPA Australia, Governance Institute, Group of 100 [CFOs], CAANZ, Inst of Internal Auditors, Insurance Council, Law Council, Property Council</p>	
<ul style="list-style-type: none"> Oversees AASB and AUASB Peak Australian corporate reporting body ASIC Act Section 225: "The FRC functions are ... (g) to promote and advance the main objects of this part, and (h) any other functions that the Minister confers on the FRC by written notice to the FRC Chair ASIC Act Section 224: "The main objects of this Part are ... (b) to facilitate the Australian economy by (i) reducing the cost of capital and (ii) enabling Australian entities to compete effectively overseas." 		<ul style="list-style-type: none"> Voluntary body of key participants in Australian corporate reporting system (about 200) – formed 2010 KPMG and John Stanhope IFRS Foundation Australian Regional IR Community Secretariat provided by Deakin University Integrated Reporting Centre Reporting Stakeholder for Financial Reporting Council (advisory relationship) 		 <p>Australian Government Auditing and Assurance Standards Board</p> <p>Chair – Bill Edge</p> <p>Australia participates in development of IASB standards through AASB being on IASB</p>		<ul style="list-style-type: none"> Financial reporting and auditing compliance and enforcement Implementation of ASX referrals for listing and operating rule (includes ASC Listing Rules) breaches via Corporations Act Section 792 Deakin University proposal to outsource quality of ASX Corporate Governance Council Recommendation 4.3 disclosures John Stanhope and Michael Bray have met Joe Longo 		<ul style="list-style-type: none"> ASX Compliance oversees with ASX listing and operating rules (listing rules includes ASX corporate governance recommendation disclosures), Confidence in operations of ASX is reinforced in market by ASIC, as well RBA oversight of financial system stability. Monitoring of adherence to listing rules under Corporations Act Section 792 as compliance with reporting requirements is a listing rule Deakin University report on quality of first time Recommendation 4.3 disclosures in 2021 under ASX Listing Rules 		<ul style="list-style-type: none"> Secretariat provided by ASX 'Teeth' as compliance is through Listing Rules, which have force of law under Section 792 of Corporations Act Recommendation 4.3 (and 7.4) – integrity of all corporate reports, including OFR, integrated reports and sustainability reports Deakin University study of first time ASX Corporate Governance Recommendation 4.3 disclosures in 2021 	
<p>AASB / AUASB Extended External Reporting Sustainability Reporting Advisory Panel - Chair – Bill Edge – Michael Bray a Member</p> <ul style="list-style-type: none"> Key issue – what will be Australian equivalent of ISSB? What will the FRC look like? 											
International Equivalents											
Global - IFRS Foundation		IFRS Foundation		IASB and IAASB		IOSCO (Joe Longo / Doug Niven)		Put R4.3 forward		Put R4.3 forward	
UK FRC								LSX		UK FRC	

AUSTRALIAN BUSINESS REPORTING LEADERS FORUM (BRLF)

The Deakin Integrated Reporting Centre (DIRC)



The DIRC strategy is to drive the integrated reporting agenda and create the link between academia and industry through pursuing **three pillars of excellence**

Research

Thought Leadership and Industry Engagement

Education and Training

BRLF - AUSTRALIAN REGIONAL INTEGRATED REPORTING COMMUNITY FOR IFRS FOUNDATION

BRLF SECRETARIAT PROVIDED BY DEAKIN UNIVERSITY INTEGRATED REPORTING CENTRE

DIRC ADVISORY BOARD IS CHAIRED BY JOHN STANHOPE (Chancellor, Deakin University; Former Co-Chair IIRC). MEMBERS INCLUDE Penny Stragalinos (KPMG), Mike Suffield (ACCA), Professor Yew Kee Ho (Singapore Institute of Technology), Simon Hann (CAANZ), Professor Sanjay Kallapur (Indian School of Business), Professor Mervyn King (Former Judge of the Supreme Court of South Africa and Chair of IIRC), Karen McWilliams (CAANZ), Liz Prescott (IFRS Foundation), Nick Ridehalgh (KPMG)



Overall, we have seen an improvement in reporting with more companies moving up the reporting continuum with an increase in those in the ASX200 applying the <IR> Framework.

FY2021
11%

FY2020
7%

79%

of organisations surveyed focused their reporting on value creation for shareholders and/ or other stakeholders and not just on historic financial earnings (2019: 74%).

98%

of organisations surveyed use the Annual Report as the 'Flagship Corporate Report' (2019: 94%).

46

The average number of pages in the Flagship Corporate Report, excluding statutory financial statements and remuneration report (2019: 41).

2021 AND 2020 FINDINGS ABOVE

2022 REPORT TO BE ISSUED NOVEMBER 2022

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IRC Annual Conference 2022

ASX CORPORATE GOVERNANCE RECOMMENDATION 4.3

A LISTED ENTITY SHOULD DISCLOSE ITS PROCESS TO VERIFY THE INTEGRITY OF ANY PERIODIC CORPORATE REPORT⁴⁸ IT RELEASES TO THE MARKET THAT IS NOT AUDITED OR REVIEWED BY AN EXTERNAL AUDITOR.

COMMENTARY

INCREASINGLY, INVESTORS ARE RELYING ON A BROADER RANGE OF PERIODIC CORPORATE REPORTS THAN AUDITED OR REVIEWED FINANCIAL STATEMENTS TO INFORM THEIR INVESTMENT DECISIONS. THIS INCLUDES AN ENTITY'S ANNUAL DIRECTORS' REPORTS, QUARTERLY ACTIVITY REPORTS, QUARTERLY CASH FLOW REPORTS AND, IN SOME CASES, INTEGRATED REPORTS (IF PREPARED AS A SEPARATE ANNUAL REPORT)⁴⁹ AND SUSTAINABILITY REPORTS.

WHERE A CORPORATE REPORT OF THIS TYPE IS NOT SUBJECT TO AUDIT OR REVIEW BY AN EXTERNAL AUDITOR, IT IS IMPORTANT THAT INVESTORS UNDERSTAND THE PROCESS BY WHICH THE ENTITY HAS SATISFIED ITSELF THAT THE REPORT IS MATERIALLY ACCURATE, BALANCED AND PROVIDES INVESTORS WITH APPROPRIATE INFORMATION TO MAKE INFORMED INVESTMENT DECISIONS.

THIS CAN BE DISCLOSED IN THE REPORT ITSELF OR MORE GENERALLY IN THE ENTITY'S GOVERNANCE DISCLOSURES IN ITS ANNUAL REPORT OR ON ITS WEBSITE.

⁴⁸ 'PERIODIC CORPORATE REPORT' IS DEFINED IN THE GLOSSARY.

⁴⁹ 'INTEGRATED REPORT' HAS THE MEANING GIVEN TO IT IN THE INTERNATIONAL <IR> FRAMEWORK. THE PRINCIPLES OF INTEGRATED REPORTING CAN BE USED IN PREPARING EXISTING REPORTS, FOR EXAMPLE, THE DIRECTORS' REPORT OR THE OPERATING AND FINANCIAL REVIEW.

GLOSSARY: PERIODIC CORPORATE REPORT: AN ENTITY'S ANNUAL DIRECTORS' REPORT, ANNUAL AND HALF YEARLY FINANCIAL STATEMENTS, QUARTERLY ACTIVITY REPORT, QUARTERLY CASH FLOW REPORT, INTEGRATED REPORT, SUSTAINABILITY REPORT, OR SIMILAR PERIODIC REPORT PREPARED FOR THE BENEFIT OF INVESTORS.

- INTRODUCED IN 4TH EDITION IN 2019 – EFFECTIVE FOR 2021 CORPORATE REPORTING
- RELATIONSHIP TO RECOMMENDATION 7.4 – CLOSE ALIGNMENT
- NATURAL ALIGNMENT WITH PARAGRAPHS 1.20 AND 1.24 OF INTEGRATED REPORTING FRAMEWORK – NEDBANK EXAMPLE
- 'FINANCIAL REPORTING' HAD BEEN REPLACED BY 'CORPORATE REPORTING' IN 3RD EDITION IN 2014
- DEAKIN REVIEW OF FIRST-TIME ADOPTION:



Effectiveness of Communication

To measure the effectiveness of ASX 300 entities' communication in relation to their Recommendation 4.3 obligations, we rated their endeavours on a 4-point scale ranging from 0-3:

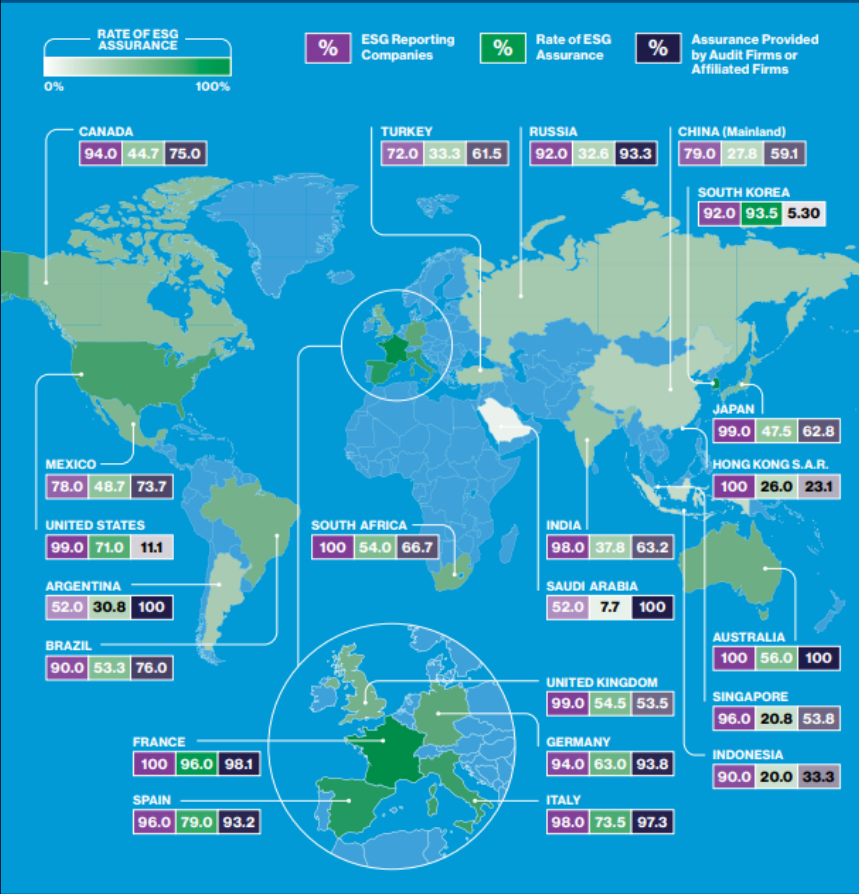
- No disclosure (0)
- Boilerplate (non-entity specific) disclosure (1)
- Limited entity-specific disclosure (2)
- Clear and comprehensive disclosure (3)

Effectiveness of communication	Number of entities
No disclosure	29 (12%)
Boilerplate disclosure	36 (15%)
Limited entity-specific disclosure	114 (48%)
Clear and comprehensive entity-specific disclosure	61 (25%)
TOTAL	240 (100%)

SUSTAINABILITY ASSURANCE, INCLUDING IR ASSURANCE

THE STATE OF PLAY IN SUSTAINABILITY ASSURANCE | BENCHMARKING GLOBAL PRACTICE

MAPPING GLOBAL REPORTING AND ASSURANCE PRACTICES



Efficacy of Integrity Enhancement Mechanism

While the primary focus of Recommendation 4.3 is on the effective communication of the integrity enhancing mechanisms or processes, the ASX has also made clear its interest in ensuring investors and other users have confidence in the credibility of all periodic corporate reports. Accordingly, we developed a unique measure to rate the efficacy of integrity enhancement processes and mechanisms. Entities were rated on a 3-points scale ranging from 1-3:

- Internal control (1)
- Internal verification (2)
- External assurance (3)

Integrity enhancement mechanism	Number of entities
Internal control	67 (38%)
Internal verification	62 (36%)
External assurance	46 (26%)
TOTAL	175 (100%)

Integrated Reporting Assurance Is ...

ABN AMRO Example – Integrated Reporting Assurance

EY's opinion on the ABN Amro integrated annual report is expressed as follows: "Based on our review nothing has come to our attention that causes us to believe that the non-financial information is not prepared, in all material respects, in accordance with the reporting criteria as explained in the section "Reporting criteria" of our report. In our opinion the section "Our value-creating topics" is prepared, in all material respects, in accordance with the reporting criteria explained in the section "Reporting criteria" of our report". The Reporting Criteria section of the integrated report states, "The reporting criteria used for the preparation of the non-financial information are the **International Framework of the Value Reporting Foundation** and the supplemental reporting criteria applied as disclosed in the appendix "Our approach to reporting" in the Integrated Annual Report." [our emphasis]

Integrated Reporting Assurance Today

Company	Country	Type	Industry	Auditor
ABN Amro	Netherlands	Listed	Banking	EY
IIRC	UK	NFP	Not-for-Profit	Crowe
Cbus	Australia	Members	Pension Funds	KPMG
CPA Australia	Australia	Members	Accounting	KPMG
Cipla	India	Listed	Pharmaceuticals	DNV GL
Petronas Chems	Malaysia	Listed	Oil & Gas	KPMG
Soft Logic Life	Sri Lanka	Listed	Life Insurance	KPMG
DIMO	Sri Lanka	Listed	Automotive	KPMG
Hayleys	Sri Lanka	Listed	Conglomerate	KPMG
Dexus	Australia	Listed	Property	PwC
Rosseti UES	Russia	Listed	Electricity supply	GT
Rosatomb	Russia	Listed	Nuclear	GT
Top 100 companies	France	Listed	All sectors	Big 6 + Mazars
Big latent market – all annual reports containing audited financial statements				

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