AUSTRALIAN SCHOOL OF BUSINESS™
THE UNIVERSITY OF NEW SOUTH WALES

Audit and Assurance SIG (AFAANZ)

New Assurance Services: Current Developments, Hot topics & Research and Teaching Opportunities

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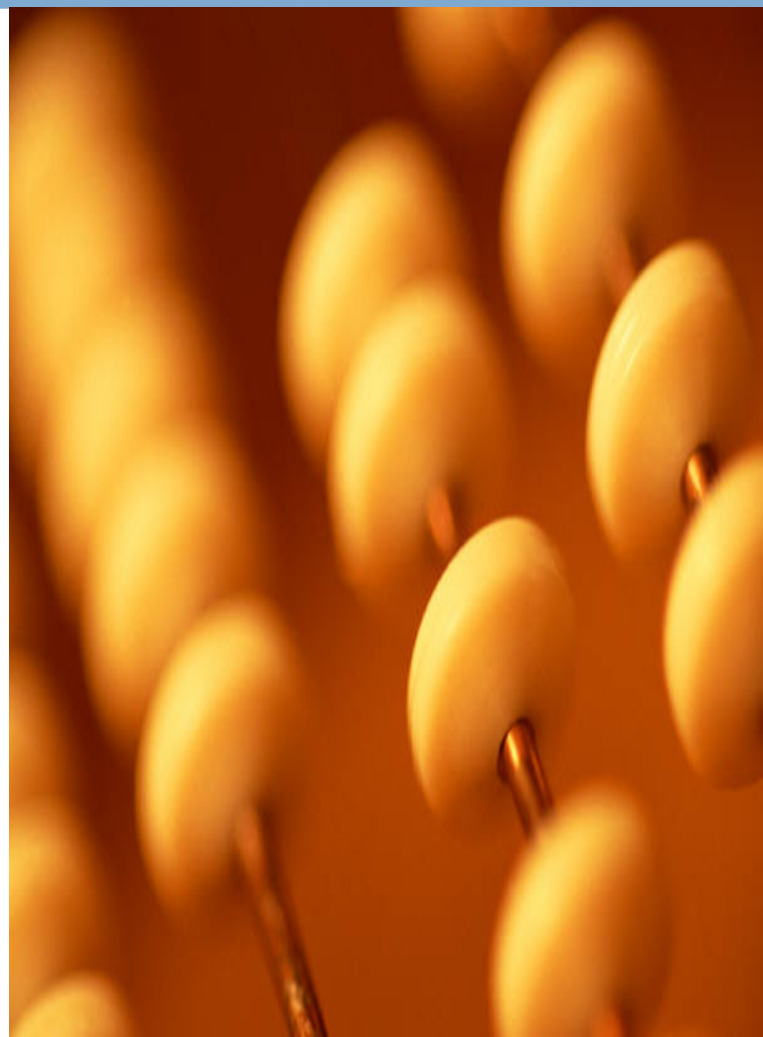
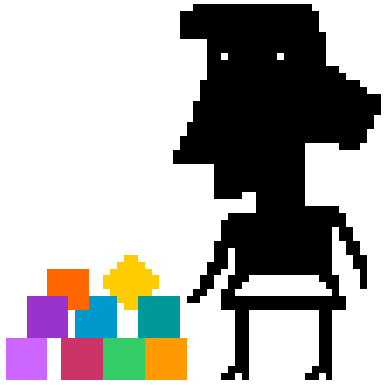
Darwin,
3 July 2011

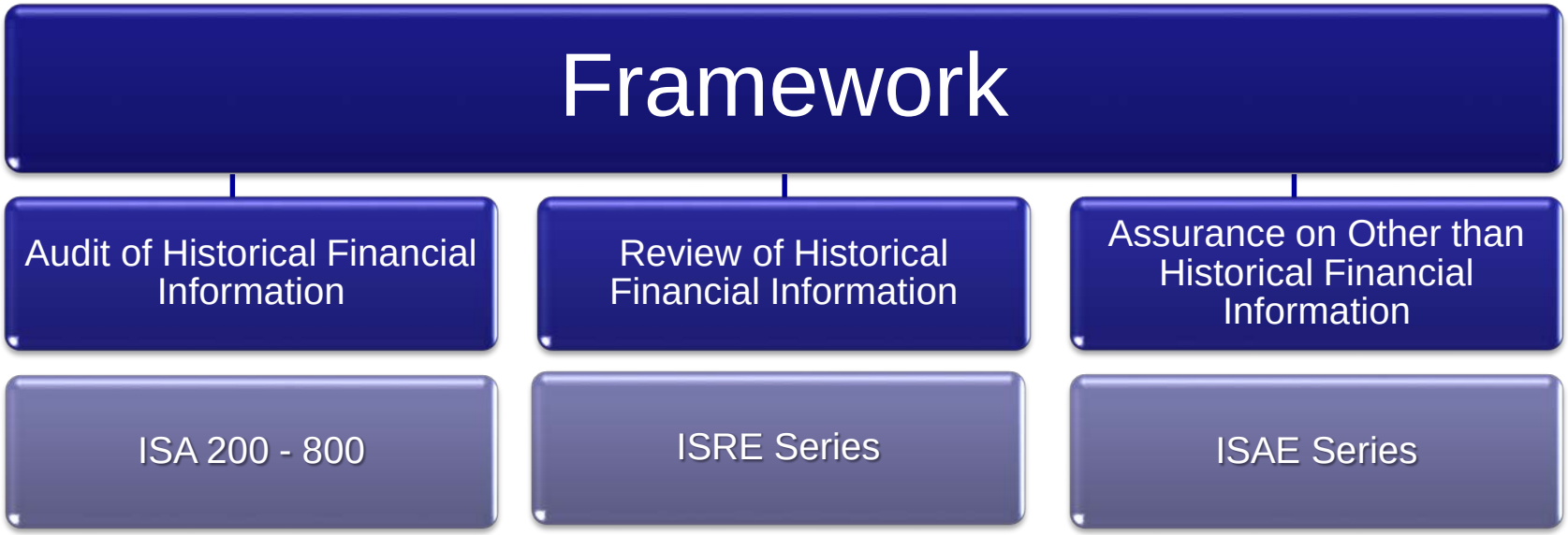


Structure of the presentation

1. What assurance services am I talking about?
2. Factors driving growth in assurance provision
3. Some current assurance services and research opportunities
   - 3.1 IAASB Discussion Paper on Disclosures
   - 3.2 International Integrated Reporting Committee
   - 3.3 Assuring GHG Statements
4. Teaching Opportunities



1. What assurance services am I talking about?



- **ISAE Series: ISAE 3000, ISAE 3400 PFI, ISAE 3402 Controls at Service Organisations**
- **Proposed ISAE 3410, ISAE 3420 Proforma**

2. Why the growth in assurance services?

- Leveraging off financial statement audit model
  - Risks ⇒ assertions
- Growth opportunities
- Regulatory initiatives
- Financial and non-financial information (NFI) in Annual Report and other reports, and growth in NFI

3.1 IAASB Discussion Paper: Evolving Nature of Financial Reporting – Disclosure & Its Audit Implications

- The evolving nature of financial reporting: disclosure and its implications
  - Recognise that there is a large increase in financial reporting **disclosure** practices – more than financial line items, but includes disclosures of assumptions, models, alternative measurement bases and sources of estimation uncertainty
  - Under ISAs required to address RMM of disclosures at the assertion level. But is this done to same extent as financial line items?

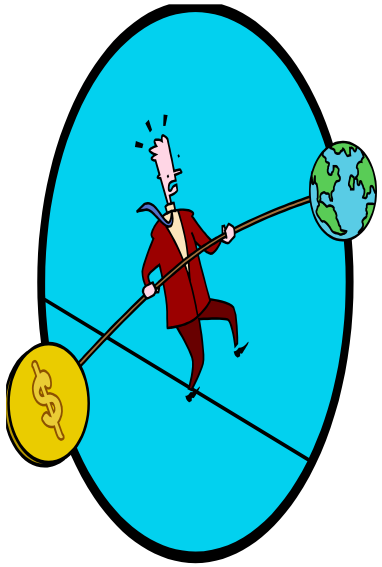
Recent Concerns Expressed about Audit of Disclosures

- Recent GFC, perceptions that auditors did not exert enough effort in auditing disclosures
- Suggestions that auditors need to use greater judgement and professional scepticism in this area
- Research issues include
  - What does sufficient appropriate audit evidence mean for disclosures?
  - How does materiality apply to disclosures?
  - How are misstatements evaluated?
  - Are there types of disclosures that are not auditable? What to do with these?

3.2 The International Integrated Reporting Committee (IIRC)

The IIRC was established in 2010 with the following mission:

- *"To create a globally accepted Integrated Reporting Framework which brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format. The aim is to help with the development of more comprehensive and comprehensible information about organizations, prospective as well as retrospective, to support the transition to a sustainable global economy."*



Why needed?

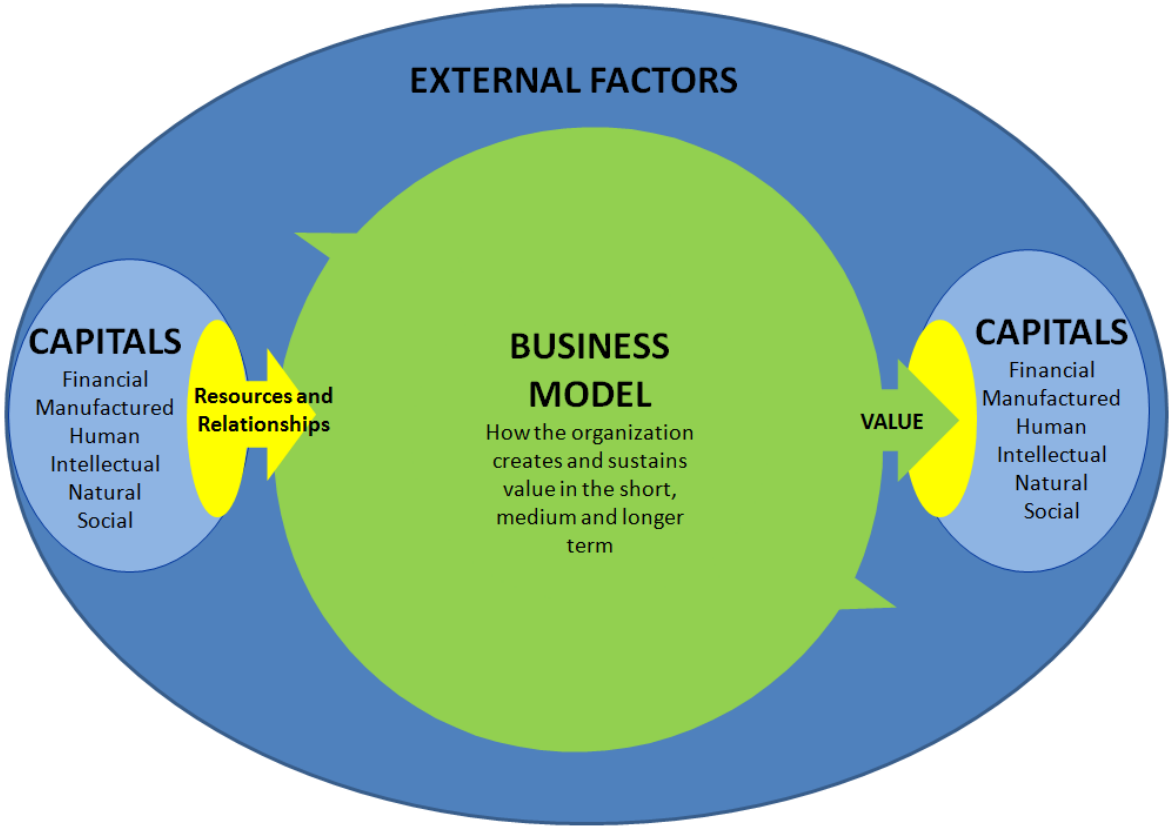
Annual financial reporting is the main basis for investor allocation of capital decisions and management accountability. But is it still fit for purpose?

- **Length and Complexity of Annual Reports:**
  New reporting requirements have been added through a patchwork of laws, regulations, standards, codes, guidance and stock exchange listing requirements (e.g. notes, additional statements). As a result, traditional reporting has become more compliance oriented, and more lengthy, complex and detailed (and components not integrated).
- **Changing Business Context:**
  Factors that drive value creation have changed rapidly in recent times (e.g. shift from the tangible to the intangible). Also, other reporting such as ESG reporting have gathered momentum over the past few decades (again not integrated).

What would be different?

- **Focus:** Past, financial ⇨ future, connected, strategic
- **Timeframe:** Short term ⇨ Short, medium and longer term
- **Detail:** Long and complex ⇨ concise and material
- **Compliance:** Rule bound ⇨ responsive to individual circumstances
- **Presentation:** Paper based ⇨ technology based
- **Trust:** Narrow disclosures ⇨ greater transparency
- **Thinking:** Silos ⇨ integrated
- **Stewardship:** Financial ⇨ all the capitals

A Possible Integrated Reporting Model

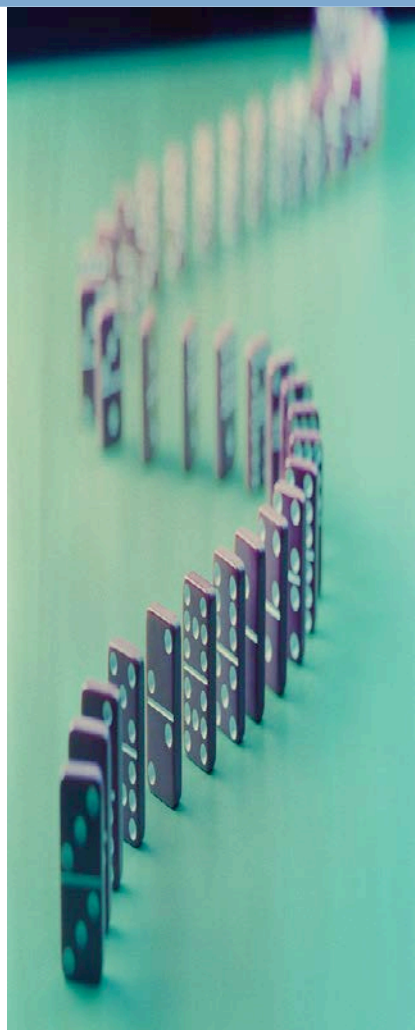


What are "The Capitals"

- **Financial capital:** The pool of funds that is available to the organisation for use in the production of goods or the provision of services.
- **Manufactured capital:** Manufactured physical objects (as distinct from natural physical objects) that are available to the organisation for use in the production of goods or the provision of services
- **Human capital:** People's skills and experience, and their motivations to innovate
- **Intellectual capital:** Intangibles that provide competitive advantage
- **Natural capital:** Natural capital and the natural processes that generate them, including air, water, land, biodiversity, eco-system health, and natural sources of energy.
- **Social capital:** The institutions and relationships established within and between each community, group of stakeholders, and other networks to enhance individual and collective well-being, which together support the business model.

Do current IAASB initiatives address IR issues?

- These reports potentially contain a deal of integrated financial and non financial information
  - If there is a governing assurance standard will it be ISAE 3000? Will this stand up?
- These reports potentially contain a deal of forward looking information?
  - What will the governing assurance standard be?
- These reports potentially contain a deal of narrative information.
  - Feedback from the Discussion Paper on Disclosure potentially very relevant



3.3 Assuring GHG Statements

- Such assurance engagements (within the profession), as with Sustainability Reports. Currently undertaken under ISAE 3000.
- ISAE 3000 is standing up reasonably well in practice, but practitioners want more specific guidance.
- Originally tried for broad assurance standard on sustainability reporting but lack of suitable criteria (GRI).
- Carbon emissions inventory narrower (but high public interest) subject matter.

Westpac GHG Statement 2008

Greenhouse Gas Emissions[1] – Australia (tonnes CO_2-e)

	2008		2007	
	Consumption	Emissions	Consumption	Emissions
Scope 1 emissions				
Car fleet (kL)	1,842	3,393	1,859	3,507
Natural gas (GJ)	8,858	454	6,375	330
Total Scope 1 emissions		**3,847**		**3,837**
Scope 2 emissions				
Electricity (MWh)	123,009	112,047	120,418	109,521
Renewable energy (MWh)	5,000	-4,450	5,000	-4,465
Total Scope 2 emissions		**107,597**		**105,056**
Scope 3 emissions				
Paper (total tonnes less recycled)	3,049	7,623	2,333	5,833
Transmission line losses – electricity (MWh)	123,009	17,914	120,418	18,323
Transmission line losses – gas (GJ)	8,858	116	6,375	118
Fleet (kL)	1,842	248	1,859	438
Air travel (m km)	66	7,740	67	7,840
Waste to landfill (tonnes)	470	1,175	545	1,363
Total Scope 3 emissions		**34,816**		**33,915**

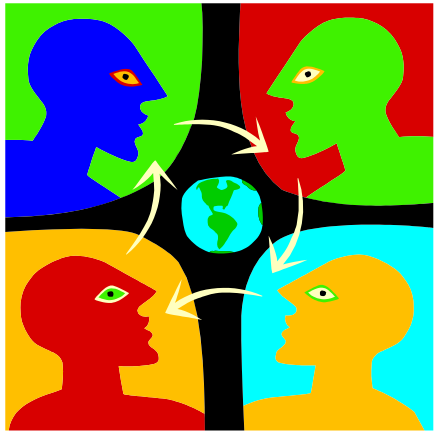
1 Calculated using the National Greenhouse Accounts (NGA) Factors and GHG Protocol for air miles. Boundaries for consumption data provided in subsequent tables in the factpac. 2007 Data has been re-stated due to a change in the reporting year and extrapolation of electricity data for approx 100 retail sites not previously reported. Data pre-2007 is available in 2007 Stakeholder Impact Report.

ISAE standard development issues

- IAASB considered issues paper in December 2008. Primarily considered issues from roundtables.
- IAASB considered first read of draft proposed ISAE 3410 at June 2009 meeting (significant changes requested).
- Aimed for exposure at September 2009 meeting (not successful).
- Discussion paper released for comments October 2009, comments returned February 2010.
- ED released January 2011 (5 months exposure).

Research Issues

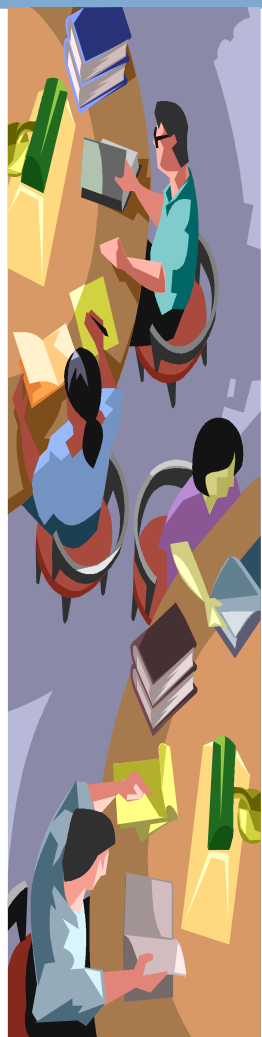
- Experts/multidisciplinary teams
- Analytical procedures
  - Often important high level of precision; research into use needed
- Internal control
  - Not always necessary to look at IC, but increasingly important
- Assertions
  - Risk assessment at assertion level is to be undertaken. How does it work?
- Materiality, estimates and uncertainty
- Fraud
- Reporting – limited and reasonable



Example research agenda - assurance

Research desperately needed to aid assurance standard setting

- Most research undertaken by auditing researchers examines financial statement auditing
  - Mature product, little incremental benefit
- Consider market-based research
  - Evolving, competitive market
- Consider behavioural research
  - Engagement team research → greater divide between assurance expertise and subject matter expertise for these engagements compared with financial statement audits.



4. Teaching assurance in the classroom: The framework for assurance engagements

- Introduction to Audit & Assurance Course
  - Many parties provide reports to users as an aid to making decisions.
  - Reports are potentially biased due to the vested interests of the report providers.
  - Users may demand that the credibility of the report be enhanced by having an independent expert examine it.
  - Financial statements are just one type — the most common — of report that can be assured.
- Concluding Assurance Course with assurance service example
  - Teach an example assurance service such as Assurance on sustainability reports or GHG statements towards end of course, to show how assurance approach can be adapted to different subject matter and suitable criteria.