Integrated Reporting Centre

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Disclosure of Processes to Verify the Integrity of Periodic Corporate Reports

A comparative analysis of ASX Corporate Governance Recommendation 4.3 disclosures by Australia's largest listed entities

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The Deakin Integrated Reporting Centre

The Deakin Integrated Reporting Centre (DIRC) provides strategic and operational leadership in integrated reporting policy and technical knowledge, as well as academic and executive education and cutting-edge research. The DIRC aims to provide a focus for researchers to identify issues of interest to industry, conduct research, and disseminate knowledge about integrated thinking and integrated reporting through publications, education and professional development courses. The DIRC team and Advisory Board members are drawn from both industry and academia and have many years of experience in integrated reporting. The DIRC is jointly funded by the Chartered Accountants Australia and New Zealand (CAANZ) and Deakin University (Faculty of Business and Law).

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Foreword

Established in 2001, the Australian Council of Superannuation Investors (ACSI) exists to provide a strong voice on financially material sustainability matters on behalf of its members who are some of Australia's largest investors. Its members include Australian and international asset owners and institutional investors with more than $1.9 trillion in funds under management.

Investors and other stakeholders depend on receiving high quality information to support their decision making. Australia's sustainability reporting regime aims to enhance the quality and comparability of information available to investors.

High quality encompasses not only the content reported about an organisation's business, performance and prospects, but also the integrity and credibility of that information. Investors and other stakeholders need to trust the information they receive.

Deakin Integrated Reporting Centre's (DIRC's) work in relation to researching the quality of disclosures under Recommendation 4.3 of the ASX Corporate Governance Principles & Recommendations continues to make a significant contribution to the understanding of how listed entities approach this issue, with the white paper now into its third year.

The DIRC's report shows that there is some improvement in the quality of disclosures under ASX Corporate Governance Recommendation 4.3 in 2023 and suggests that further improvement is needed.

The Consultation Draft of the 5th Edition of the ASX Corporate Governance Principles & Recommendations proposes an updated Recommendation 4.2 (replacing Recommendation 4.3).

We support the DIRC in calling for more widespread consideration of integrated reporting and integrated thinking. Integrated reports can include sustainability disclosures, providing business context.

Integrated reports prepared in accordance with the International Integrated Reporting Framework should contain a statement from the board of directors acknowledging their responsibility for ensuring the integrity of the integrated report; and their opinion or conclusion about whether, or the extent to which, the integrated report is presented in accordance with the International Integrated Reporting Framework. Such statements go hand in hand with high quality Recommendation 4.3 or 4.2 disclosures.

We encourage you to read this report and consider its recommendations.

Louise Davidson
Chief Executive Officer
Australian Council of Superannuation Investor

Table of Contents

1 Executive Summary

This paper is the third in a series of reports by the Deakin Integrated Reporting Centre (DIRC) analysing how Australia's largest listed companies have responded to a major initiative by the ASX Corporate Governance Council (the Council) to drive improvements in the quality and integrity of company reporting to investors.

1.1 Background

In 2019, the Council published a 4th Edition of its Corporate Governance Principles and Recommendations for listed entities. The revisions came in the wake of a series of high-profile corporate scandals, giving rise to what the Council called

"emerging issues around culture, values and trust, fuelled by then-recent examples of conduct by some listed entities falling short of community standards and expectations" (ASX 2019, p1).

The 4th Edition of the Principles and Recommendations included a new Recommendation 4.3, stating:

"A listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor" (ASX 2019, p20).

The above statement referred to the common practice of large, listed companies (otherwise referred to by the ASX as "entities") to produce various periodic reports to investors in addition to their audited financial statements. Examples of what the ASX calls "periodic corporate reports" include,

"annual directors reports, annual and half-yearly financial statements, quarterly activity reports, quarterly cash flow reports, integrated reports, sustainability reports, or similar periodic report prepared for the benefit of investors." (ASX 2019, p35).

Under Recommendation 4.3, published in 2019, listed entities have been encouraged for the first time to disclose the processes they use to ensure the integrity of their unaudited periodic corporate reports.

In our two previous reports on this subject — published in August 2022 and June 2023 — we examined disclosures by ASX 300 companies in response to Recommendation 4.3 for the 2021 and 2022 financial years (ending 30 June). For this report, we have applied a revised methodology to assess the level and quality of disclosures over three financial years: 2021, 2022 and 2023. By analysing disclosure data separately for each year, we have been able to identify trends in reporting practices since the publication of Recommendation 4.3.

1.2 Sample and methodology

Our study sample was based on the list of Australia's largest 300 listed companies, the ASX 300. Entities exempt from Recommendation 4.3 — typically because their primary listing is overseas, or they are investment vehicles — were excluded from our analysis, leaving a final sample of 241 companies in 2021, 257 in 2022 and 266 in 2023.

We analysed companies' disclosures based on two key variables: disclosure type, and types of integrity-enhancing mechanisms disclosed.

(A) Disclosure type

We separated companies' Recommendation 4.3 disclosures into four categories:

- **No disclosure**
- **Generic or boilerplate disclosure:** lacking entity-specific details on mechanisms used to verify the integrity of unaudited periodic reports.
- **Opting out of disclosure:** based on an "if not, why not" approach
- **Disclosures specifying at least one integrity-enhancing mechanism (IEM).**

(B) Types of integrity-enhancing mechanism

We applied a "Three Lines of Defence" model to classify different types of integrity-enhancing mechanisms used to verify reports. The model includes the following categories:

- **No identifiable line of defence**
- First line of defence: **internal control systems**
- Second line of defence: **board oversight and signoff**
- Third line of defence: **independent external assurance.**

1.3 Major findings

Our analysis reveals the emergence of positive trends in reporting standards, with more of Australia's largest listed companies acting on their Recommendation 4.3 obligations in 2023 than in the previous two years. More companies also disclosed processes and mechanisms they used to enhance the integrity of their unaudited periodic reports

The proportion of companies disclosing the use of at least one integrity-enhancing mechanism to verify periodic reports increased from

78% (189 of 241) in 2021 to → 84% (225 of 266) in 2023.

More companies are using multiple (rather than single) mechanisms to verify their periodic reports.

The proportion of our sample group disclosing the use of both internal control and board oversight increased from

48% (115 of 241) in 2021 to → 52% (139 of 266) in 2023.

Despite the emergence of these positive trends, a significant minority of ASX 300 companies have continued to neglect their Recommendation 4.3 obligations.

10% (26 of 266) made no disclosure in 2023.

4% (10 of 266) provided only generic or boilerplate disclosures in 2023.

Among the remaining (majority) ASX 300 companies that disclosed the use of at least one integrity mechanism to verify periodic reports, we found persisting disparities in the quality of their disclosures.

There was a concerning fall in the proportion of companies specifying which of their unaudited periodic reports were subject to verification processes, from

49% (98 of 200) in 2022 to → 44% (100 of 225) in 2023.

In effect, this means investors in more than half of Australia's largest listed companies — along with other stakeholders — are uninformed about which unaudited reports are subject to verification.

On a positive note, a growing, though still relatively small, number of Australia's largest listed companies are disclosing external assurance to verify otherwise unaudited periodic reports.[1]

The proportion of companies disclosing the roles of external auditors in relation to the verification process increased from

6% (15 of 241) in 2021 to → 9% (25 of 266) in 2023.

Among these companies, some have also disclosed that their external auditors have a responsibility to read and consider unaudited information within annual reports in line with

Auditing Standard 720

Companies are increasingly using boards of directors and top managers to verify unaudited periodic reports.

The proportion of companies disclosing board oversight increased from

56% (136 of 241) in 2021 to → 64% (171 of 266) in 2023.

The proportion of companies disclosing reviews by senior executives increased from

36% (87 of 241) in 2021 to → 57% (152 of 266) in 2023.

While the disclosure of reviews by senior executives has become more prevalent among smaller entities, Top 100 companies disclosed that they used other internal control mechanisms, including reviews by direct line managers or peers, internal subject matter experts, and external consultants or advisers.

Top 100 companies disclosed higher use of a broader range of internal control mechanisms

Top 100 companies also reported the lowest rate of non-disclosure relative to those in the 101-200 and 201-300 company size ranges

Of 140 companies consistently included in our sample throughout the three years of our study,

59% (82 of 140) made no change to their disclosures, using identical wording each year.

13% (18 of 140) made slight text modifications that in practice did not alter the clarity about the IEMs used.

23% (33 of 140) expanded their disclosures.

5% (7 of 140) made reduced disclosures.

These findings align with the overall improvements in Recommendation 4.3 disclosures

We identified stark differences between industries in the quality of periodic report verification.

Companies involved in **consumer staples, communication services** and **health care** typically produced the highest levels of disclosure, while firms in capital-intensive industries such as **energy** and **utilities** tended to rate lowest on the quality of disclosure.

Detailed breakdowns of performances by industry — and by company size — are provided in Section 7 of this report.

Our research brought to light some creditable current examples of better practice by ASX 300 companies in their responses to Recommendation 4.3.

In Section 8 of this report, we provide detailed examples of better practice disclosures by Qube Holdings Limited, Infomedia Limited and Integral Diagnostics Limited.

**A breakdown of different types of disclosure across the sample group of companies is provided in Table 4 (Section 4). Full details of the disclosure of different integrity-enhancing mechanisms are provided in Table 5 and Table 6 (Section 5).*

1.4 Key recommendations

Based on the above findings, we have prepared a series of recommendations to Australian companies, regulators, policymakers and professional bodies to help drive further improvements in the quality and integrity of Recommendation 4.3 disclosures. These are summarised as follows:

Preparers of corporate reports

To improve future disclosures under Recommendation 4.3, Australian listed entities should:

1) Specifically identify each unaudited periodic report subject to verification processes
2) Provide detailed and entity-specific disclosures on the use of integrity-enhancing mechanisms for each report
3) Disclose the extent of board involvement in, and responsibility for, verification of each unaudited periodic report
4) Disclose the role of external auditors in verifying the integrity of otherwise unaudited reports
5) Use a simplified table to summarise the lines of defence (integrity-enhancing mechanisms) used to verify each periodic report
6) Specify the location of Recommendation 4.3 disclosures in Appendix 4G.

ASX Corporate Governance Council

On 27 February 2024, the ASX Corporate Governance Council released consultation materials for the proposed 5th edition of the Corporate Governance Principles and Recommendations, with Recommendation 4.3 now reclassified as Recommendation 4.2 (ASX, 2024). It is encouraging to note that several recommendations from our prior reports on Recommendation 4.3, along with DIRC's submission on the proposed 5th Edition (DIRC, 2024), have been incorporated in the draft. We support the overall direction of the proposed 5th edition and provide these additional recommendations based on the findings of this paper:

1) Encourage formal acknowledgement of board involvement in the verification process, and confirmation of the board's responsibility for integrity of disclosures
2) Encourage the disclosure of the use of internal auditors in the review process.

Australian Securities Exchange (ASX)

Despite improvement in the quality and quantity of disclosures from 2021 to 2023, there is considerable room for further improvement, particularly in relation to details on verification processes and responsibilities of reviewers. Accordingly, the ASX should consider enhancing its ongoing process to monitor the quality of Recommendation 4.3 disclosures.

Australian Auditing and Assurance Standards Board (AUASB)

As the Australian Auditing and Assurance Standards Board considers the future of assurance standards, we recommend that the board evaluates how the diverse range of integrity-enhancing mechanisms can complement external assurance for entities with assured periodic reports, or how the disclosure of such mechanisms can achieve similar objectives for those entities whose reports, or parts of reports, are not assured.

Accounting bodies

Australia's major accounting bodies should provide targeted education and guidance to their members to reinforce the importance of enhancing the integrity of unaudited periodic corporate reports through the wider use of integrity-enhancing mechanisms.

** A fully detailed version of these recommendations is provided in Section 9.*

2 Study Sample

In Table 1, Panel A outlines the composition of the sample group of entities in each of the years 2021, 2022 and 2023.

The initial sample pool comprised the top 300 companies listed on the Australian Stock Exchange (ASX) by market capitalisation (ASX 300) at 30 June each year. Certain groups of entities were excluded from the sample for specific reasons:

Foreign exempt entities

From the initial group of 300, 31 were excluded in 2021, 12 in 2022 and 26 in 2023 because they are primarily subject to the regulations of their home foreign exchanges.

Delisted entities and entities subject to AQUA rules

A further 28 entities were excluded in 2021, 31 in 2022 and 8 in 2023 because they either delisted during the period or were investment vehicles following Schedule 10A of the ASX Operating Rules (AQUA rules).[2]

The final sample comprised 241 entities in 2021, 257 in 2022 and 266 in 2023.[3] Panel B breaks down the sample by market capitalisation, categorising ASX 300 entities in the size ranges 1-100 (largest), 101-200 and 201-300 for each year.[4]

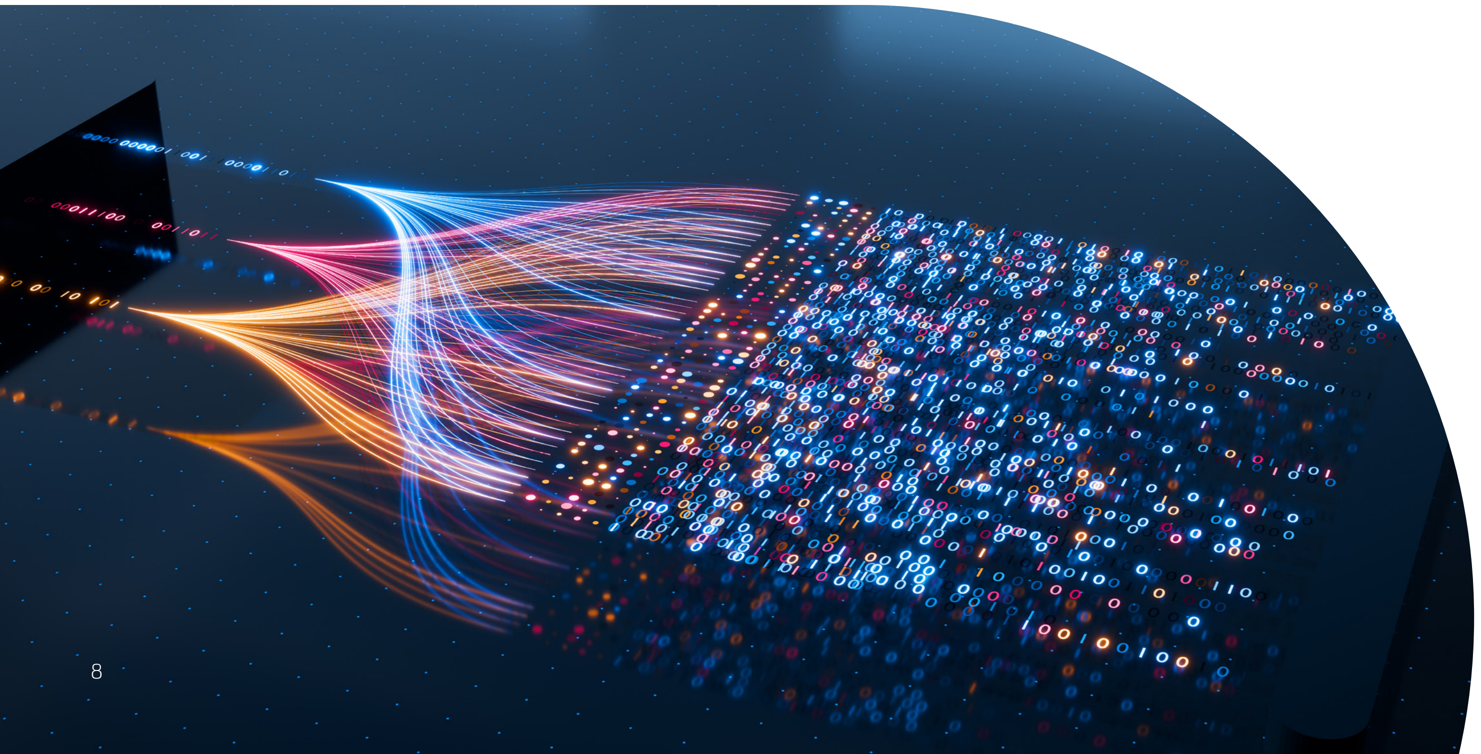
Table 1 – Sample

Panel A: Sample

	2021	2022	2023
ASX 300 companies at 30 June	300	300	300
Exclude:			
Foreign exempt entities	*-31*	*-12*	*-26*
Others (e.g., delisted, investment vehicles)	*-28*	*-31*	*-8*
Final sample	**241**	**257**	**266**

Panel B: By market capitalisation

Breakdown	2021	2022	2023
1-100	86	91	88
101-200	79	95	86
201-300	76	71	92
Final sample	**241**	**257**	**266**



3 Research Methodology

The Recommendation 4.3 disclosures were hand-collected through the following steps:

Review of Appendix 4G disclosures.

We identified entities' responses to Recommendation 4.3 through their Appendix 4G disclosures.[5] Entities communicated their responses in various ways, including a simple checkmark to indicate adoption, specifying the locations of disclosures within their reporting suite (e.g., page numbers in the corporate governance statement, annual report, or a specific webpage), and providing reasons for not following the recommendation under the "if not, why not" approach.

Manual extraction of disclosure.

We extracted entities' Recommendation 4.3 disclosures from their reporting suites, which include corporate governance statements and annual reports. We also reviewed the webpages of entities that provided online links in Appendix 4G.[6]

After extraction, we assessed Recommendation 4.3 disclosures with reference to two variables:

Type of disclosure.

This involved identifying the various types of Recommendation 4.3 disclosures and specific informative elements within them.

Type of integrity-enhancing mechanisms.

This involved identifying the specific mechanisms used to verify the integrity of periodic reports.

3.1 Classifying Recommendation 4.3 disclosures

We divided responses to Recommendation 4.3 by ASX 300 entities into four mutually exclusive categories: (a) no disclosure, (b) generic or boilerplate, (c) opting out of disclosure, and (d) disclosures specifying the use of at least one integrity-enhancing mechanism. Table 2 details how each type of disclosure was assessed and classified.

Table 2 – Classifying Recommendation 4.3 disclosures

Disclosure type	Definition
(a) No disclosure	There was no disclosure with reference to the verification of the integrity of unaudited periodic corporate reports in the entity's reporting suite.
(b) Generic or boilerplate	The entity provided boilerplate disclosures that did not contain entity-specific details on the mechanisms used to verify the integrity of unaudited periodic reports. For instance, some entities state that a verification process exists but do not provide specifics about the reviewer responsible, the board's responsibilities, or the governance structure of the process. There is therefore no basis for investors to assess the effectiveness of integrity-enhancing mechanisms.
(c) Opting out of disclosure	The entity explained why it has not adopted a mechanism to ensure the integrity of unaudited periodic corporate reports. This follows the "if not, why not" approach, which is fundamental to the operations of the ASX Principles and Recommendations in ensuring that stakeholders receive appropriate information about the entity's governance arrangements (ASX, 2019).
(d) Disclosures specifying the use of at least one integrity-enhancing mechanism	The entity provided disclosures that specify the use of at least one specific mechanism to verify the integrity of unaudited periodic corporate report, regardless of the level of detail provided. The term integrity-enhancing mechanism encompasses internal control, board oversight and external assurance (explained in Table 3).

3.2 Classifying integrity-enhancing mechanisms

We applied the "Three Lines of Defence" model to differentiate and assess the various types of mechanisms disclosed by entities to verify the integrity of unaudited periodic corporate reports (KPMG, 2016; Gay and Simnett, 2023).[7]

Table 3 outlines the three lines of defence: internal control (line 1), board oversight (line 2) and external assurance (line 3), along with detailed coding rules for each line.

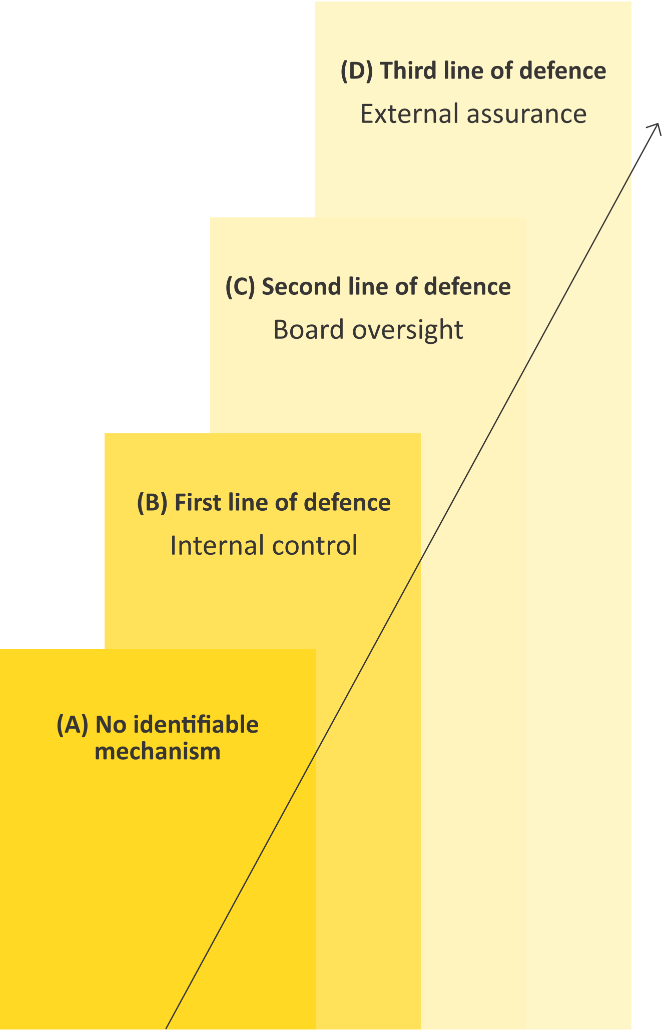


Table 3 – Classifying integrity-enhancing mechanism

Mechanism type	Definition
(A) No identifiable mechanism	If no specific mechanism is identified, it indicates that the entity either does not provide a disclosure, provides only generic or boilerplate disclosures, or opts out of disclosures, making it difficult to determine the extent and quality of any verification.
(B) First line of defence: Internal control	This line involves regular internal controls implemented variously by operational management, staff and/or experts who are directly responsible for executing verification processes. Controls can include preparers signing off on reports, reviews conducted by direct line managers or peers, senior executives (such as the CEO, CFO, and others), internal subject matter experts, and externally-hired advisers or consultants. Internal control can also include verifying unaudited reports against source documents. Additionally, following ASA 610 (AUASB 2022), we consider internal audit part of internal control because internal audit's independence from management helps to ensure objectivity and credibility.[8]
(C) Second line of defence: Board oversight	This involves the board of directors providing oversight to support and monitor the first line in effectively verifying unaudited reports. This oversight can include setting policies and frameworks, monitoring the verification processes, and reviewing and signing off on reports that have been reviewed under the first line of defence. In some cases, a disclosure committee can be appointed to oversee these processes.
(D) Third line of defence: External assurance	External assurance is conducted independently of the first two lines of defence and involves external verification of the integrity of periodic corporate reports (or parts thereof).

4 Types of Recommendation 4.3 disclosure

Table 4 lists the four distinct types of Recommendation 4.3 disclosures made by ASX 300 entities from 2021 to 2023, highlighting key differences in disclosure practices across the sector. It also illustrates variations between the different company size categories (1-100, 101-200 and 201-300) in disclosure practices.

Table 4 – Types of disclosure under Recommendation 4.3

	2021				2022				2023			
	1–100 (n=86)	101–200 (n=79)	201–300 (n=76)	TOTAL (n=241)	1–100 (n=91)	101–200 (n=95)	201–300 (n=71)	TOTAL (n=257)	1–100 (n=88)	101–200 (n=86)	201–300 (n=92)	TOTAL (n=266)
(A) No disclosure	8%	12%	21%	13%	5%	15%	21%	13%	4%	9%	15%	10%
(B) Generic/ boilerplate	7%	6%	10%	8%	7%	8%	4%	7%	6%	1%	4%	4%
(C) Opting out	0%	1%	1%	1%	0%	0%	9%	2%	0%	0%	6%	2%
(D) Disclosures specifying the use of at least one integrity-enhancing mechanism	85%	81%	68%	78%	88%	77%	66%	78%	90%	90%	75%	84%

Over the three-year study period, there was a rise in the number of entities disclosing the use of at least one IEM, a relatively consistent (and small) rate of entities opting out of disclosure, and a decrease in entities providing no disclosure or generic disclosures.[9]

The proportion of entities providing **no disclosure** decreased from 13% in both 2021 (32 of 241 entities) and 2022 (34 of 257) to 10% in 2023 (26 of 266).

Similarly, the proportion of **generic or boilerplate disclosures** dropped from 8% in 2021 (18 of 241 entities) to 7% in 2022 (17 of 257), and to 4% in 2023 (10 of 266).

The decrease in non-disclosure signals an encouraging shift towards greater transparency and accountability to investors. Similarly, the decline in generic or boilerplate disclosures suggests that more entities are beginning to provide meaningful and detailed reports. This trend suggests a growing commitment among ASX 300 companies to enhance the integrity of their periodic reports.

In some instances of boilerplate disclosure, it is apparent that a formal verification process has been conducted, yet the disclosures lack essential details. Specifically, these disclosures often fail to specify key elements such as the structure of the verification process, the roles of the reviewers, and the responsibilities of the board. The following two examples demonstrate how such shortcomings can manifest.

Example 1

"XXX has formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting."

Example 2

"Where a periodic corporate report is not required to be audited or reviewed by an external auditor, XXX conducts a comprehensive internal verification process to verify the integrity of the report and ensure that the content of such reports is materially accurate, balanced and provide investors with appropriate information to make informed investment decisions."

The proportion of entities **opting out of disclosure** remained relatively low over the study period, rising from 1% in 2021 (2 of 241 entities) to 2% in 2022 (6 of 257) and 2023 (5 of 266). The following is an example of an entity disclosing valid reasons for not adopting an IEM:

Example 3

"The Company does not release any periodic financial report that is not audited or reviewed by an external auditor."

The **proportion of disclosures specifying the use of at least one IEM** increased from 78% (189 of 241) in 2021 and 2022 (200 of 257) to 84% in 2023 (225 of 266). Most entities now provide detailed explanations of their verification processes for unaudited periodic reports, clearly defining the reviewers' responsibilities and outlining the review structure, often involving multiple reviewers. This increase is encouraging, as evidence suggests that Recommendation 4.3 disclosures provide tangible benefits, particularly in building trust among investors. For example, Sakchuenyos et al. (2024) found that disclosing internal controls and board oversight leads to higher evaluations of the perceived credibility of sustainability information by investors. For current better practice disclosures by this subset of entities, see Section 8 of this report, which showcases the various disclosure practices used to incrementally enhance the clarity of verification processes.

Within this group, most entities disclosed their verification processes in their Corporate Governance Statements, either through a stand-alone report or within the body of the annual report. A small number of entities provided disclosures on company websites. This was the case for 1% (3 of 240) of entities in 2021, 2% (5 of 257) of entities in 2022 and 3% (6 of 266) of entities in 2023. An exemplar of this practice is Nufarm Limited, an ASX101-200 company, which provided a "Statement on Verifying Unaudited Periodic Corporate Reports" document within the corporate governance section of its website throughout the sample period.[10] The document outlines procedures for reporting and verification — clearly specifying the individuals responsible for each step — with respect to unaudited information in annual and half-year reports, as well as sustainability reports.

4.1 Disclosure types by market capitalisation

As shown in Table 4, the largest entities in the ASX 300 had the highest proportion of disclosures specifying the use of IEMs. Among sampled entities in the Top 100, 85% (73 of 86) specified the use of at least one IEM in 2021, 88% (80 of 91) in 2022 and 90% (79 of 88) in 2023. These larger entities also showed the lowest proportion of no disclosure in each year: 8% (7 of 86) in 2021, 5% (5 of 91) in 2022 and 4% (4 of 88) in 2023.

Among entities in the 101-200 range, disclosures specifying the use of verification mechanisms varied during the study period, from 81% (64 of 79) in 2021, dipping to 77% (73 of 95) in 2022, and rising sharply to 90% (77 of 86) in 2023 — equalling the proportion for Top 100 entities.

Entities in the 201-300 range also improved their performances on average, with the proportion of non-disclosures decreasing from 21% (16 of 76) in 2021 and 2022 (15 of 71) to 15% (14 of 92) in 2023. This group also had the highest proportion of entities in the opting-out category, which, notably, included no Top-100 entities across all three years.

We also found smaller entities increasingly shifting away from generic disclosures to more specific and integrity-focused disclosures. In the 101-200 range, the proportion of generic disclosures decreased from 6% (5 of 79) in 2021 to 1% (1 of 86) in 2023. In the 201-300 range, the proportion decreased from 10% (7 of 76) in 2021 to 4% (4 of 92) in 2023.

4.2 Specification of unaudited periodic reports

An important element of disclosure quality — which continues to be neglected by many companies — is the specification of which of their unaudited periodic reports are subject to the verification processes disclosed. Unaudited reports typically include directors' reports, operating and financial reviews, Corporate Governance Statements, Modern Slavery Statements, Sustainability Reports, ESG reports, unaudited sections of the annual report, quarterly activity reports and exploration reports.

Figure 1 shows the proportion of entities that identified their unaudited periodic report portfolios subject to at least one IEM.[11] We found a reduction over the course of the study - from 46% (86 of 189) in 2021 to just 44% (100 of 225) in 2023. The decline is concerning, as fewer entities are providing transparency on which reports undergo verification.

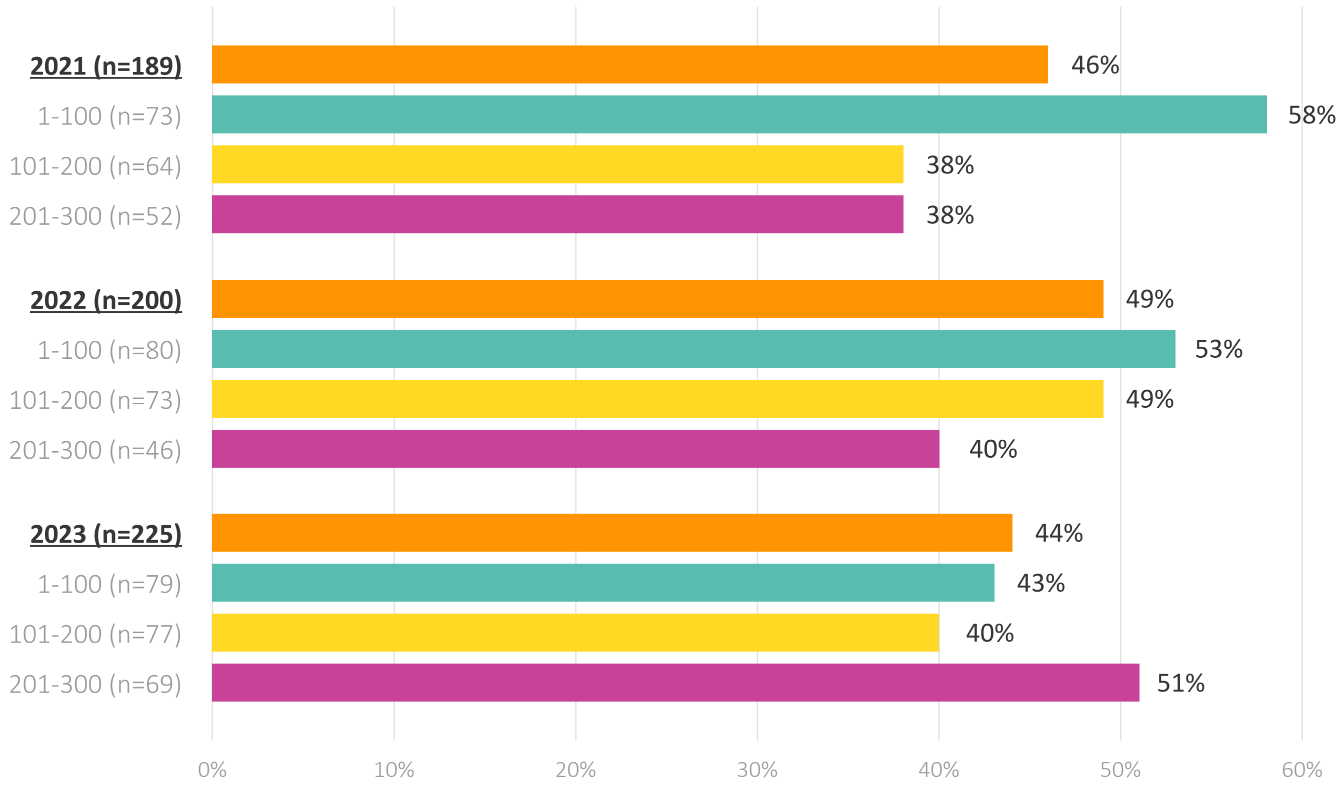
The most concerning — and perhaps surprising — drop-off in the proportion of companies identifying which reports were subject to verification was among those in the Top-100 size category. Among this group, specification of reports subject to IEMs dropped from 58% (42 of 73) in 2021 to 53% (42 of 80) in 2022 and just 43% (34 of 79) in 2023 — lower than the corresponding figure for companies in the 201-300 size range in the same year.

Entities in the 101-200 range specifying unaudited reports rose from 38% (24 of 64) in 2021 to 49% (36 of 73) in 2022, before decreasing to just 40% (31 of 77) in 2023.

Entities in the 201-300 range showed the most improvement in accountability to investors on this measure, with 51% (35 of 69) specifying their reports in 2023, up from 38% (20 of 52) in 2021 and 40% (19 of 47) in 2022.

In summary, with fewer than half of the sampled ASX 300 entities identifying which reports were subject to IEM processes, most investors and other stakeholders are left with incomplete information about this critical aspect of transparency and accountability.

Figure 1 – Specification of unaudited periodic reports



5 Types of integrity-enhancing mechanism

As mentioned in Section 3, we adapted the "Three Lines of Defence Model" as a structured framework to identify and analyse the different types of mechanisms disclosed by entities to verify the integrity of unaudited periodic corporate reports (KPMG, 2016; Gay and Simnett, 2023).

Table 5 shows the number and proportion of entities disclosing different mechanisms across the three lines of defence: internal control, board oversight and external assurance. It also shows the number and proportion of entities with no identifiable mechanism. This group includes, variously, those that provided no disclosure or generic disclosure, or opted out of disclosure, as shown previously in Table 4.

Around 22% (52 of 241) of entities in 2021 and 2022 (57 of 257), and 15% (41 of 266) in 2023 had no identifiable mechanism.

The findings in Table 5 highlight the widespread adoption of a multi-level review approach (confirmed by the sum of proportions of each type of line of defence exceeding 100%). Over the three-year period, disclosures covering all three lines of defence have steadily increased.

Table 5 – Disclosure rates of lines of defence

	2021		2022		2023	
Mechanism	**(n=241)**		**(n=257)**		**(n=266)**	
No identifiable mechanism	52	22%	57	22%	41	15%
Internal control	175	73%	185	72%	207	78%
Board oversight	136	56%	138	54%	171	64%
External assurance	15	6%	17	7%	25	9%

Table 6 provides a more detailed picture of the multi-level review approach, showing combinations of disclosed IEMs by ASX 300 companies from 2021 to 2023, across the three size ranges 1-100, 101-200 and 201-300, as well as the total sample for each year.

The **combination of internal control and board oversight** remains the most prevalent, communicated by 48% (115 of 241) of entities in 2021, 44% (113 of 257) in 2022, and increasing to 52% (139 of 266) in 2023.[12] The growing involvement of boards in oversight underscores their critical role in ensuring the effectiveness of internal controls (IFAC, 2022).

The second most common approach is a **single-tier defence system using only internal control**. This method was employed by 19% of entities in 2021 (46 of 241), 21% (55 of 257) in 2022 and 17% (44 of 266) in 2023. Further details on the specific types of internal control are discussed in Section 5.2.

While the proportion of entities disclosing all three lines of defence increased over the study period, it remained relatively low at only 6% (15 of 266) in 2023, up from 4% (10 of 257) in 2022 and 3% (8 of 241) in 2021. This can be attributed, in part, to an issue highlighted in our 2022 report relating to the term "unaudited periodic reports" in Recommendation 4.3 guidelines. If a report is audited, the current recommendation implies no need for entities to disclose the decision to engage an independent audit as part of their integrity-enhancing mechanisms. For example, according to Ampol Limited's 2023 Corporate Governance Statement, the company has implemented a dual-tiered defence system. However, we also found that while the company obtained limited assurance over selected sustainability information (with KPMG's limited assurance statement disclosed in their 2023 Sustainability Report), this information is not communicated in their Recommendation 4.3 disclosures.[13]

Table 6 – Disclosure rates for different integrity-enhancing mechanisms

	2021				2022				2023			
	1–100	101–200	201–300	TOTAL	1–100	101–200	201–300	TOTAL	1–100	101–200	201–300	TOTAL
	(n=86)	(n=79)	(n=76)	(n=257)	(n=91)	(n=95)	(n=71)	(n=257)	(n=88)	(n=86)	(n=92)	(n=257)
No identifiable mechanism disclosed	15%	19%	32%	22%	12%	23%	34%	22%	10%	10%	25%	15%
Single line of defence disclosed												
Internal control	23%	23%	11%	19%	21%	19%	25%	21%	16%	22%	12%	17%
Board oversight	2%	5%	9%	5%	3%	10%	4%	6%	2%	11%	7%	7%
External assurance	1%	0%	0%	0%	0%	0%	0%	0%	1%	0%	0%	0%
Two lines of defence disclosed												
Internal control + Board oversight	46%	51%	47%	48%	48%	47%	34%	44%	55%	49%	53%	52%
Internal control + External assurance	5%	2%	0%	3%	8%	0%	0%	3%	7%	3%	0%	3%
Board oversight + External assurance	0%	0	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Three lines of defence disclosed												
Internal control + Board oversight + External assurance	8%	0%	1%	3%	8%	1%	3%	4%	9%	5%	3%	6%

We have observed a growing (though still minor) trend of entities discussing the use of limited assurance over certain sustainability information,[14] as highlighted below in Example 4.

Example 4

"… The Sustainability Report includes a statement from Ernst & Young who provide limited assurance in accordance with Australian Standards on Assurance Engagements ASAE 3000. Ernst & Young's assurance is provided over key sustainability performance indicators …"

Some entities have also started to address the role of external auditors in relation to unaudited information within their annual reports. In these instances, the entities disclosed that their external auditors have a responsibility to read and consider unaudited information within annual reports in line with Auditing Standard ASA 720 (AUASB, 2022).

5.1 Types of integrity-enhancing mechanism by market capitalisation

Table 6 highlights how Top 100 entities — more than those in the 101-300 size range — are increasingly disclosing a dual-tiered review process combining internal control with board oversight. The proportion of such disclosures rose from 46% (39 of 86) in 2021 to 55% (48 of 88) in 2023, indicating a growing recognition among the largest companies of the need for multiple layers of oversight to ensure transparency and investor confidence. In contrast, reliance solely on a single mechanism — internal control — declined, from 23% (20 of 86) in 2021 to 16% (14 of 88) in 2023.

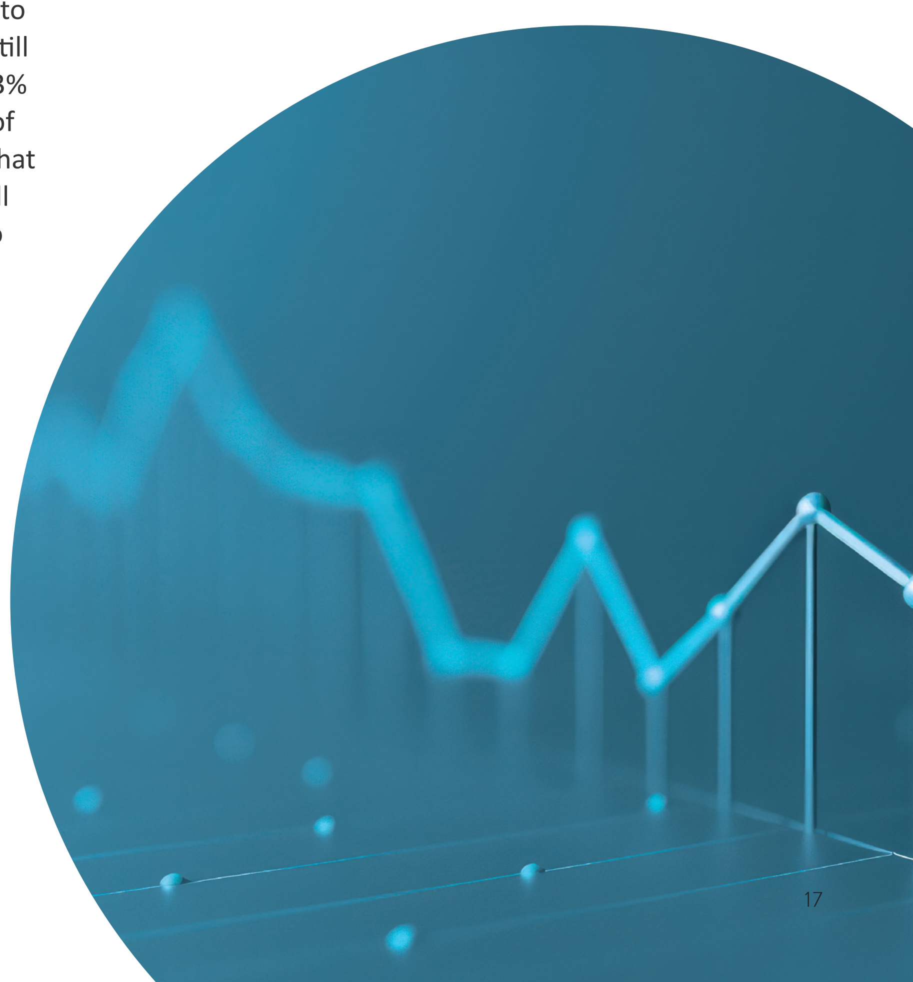
Among entities in the 101-200 size range, internal control combined with board oversight remained the predominant approach, though its use slightly decreased from 51% (40 of 79) in 2021 to 49% (42 of 86) in 2023. Reliance on internal control alone also decreased slightly, from 23% (18 of 79) in 2021 to 22% (19 of 86) in 2023, indicating some improvement in governance practices, albeit at a slower rate than among larger entities.

Among 201-300 entities, combining internal control and board oversight was also the most preferred approach, increasing from 47% (36 of 76) in 2021 to 53% (49 of 92) in 2023. The use of all three mechanisms — internal control, board oversight and external assurance — among smaller ASX 300 entities has increased but remains relatively low. Among 101-200 entities, disclosure of all three mechanisms increased from 0% in 2021 to 5% (4 of 86) in 2023 — an improvement, but still very low numbers. In the 201-300 size range, 3% of entities in both 2022 (2 of 71) and 2023 (3 of 92) used the three-tier approach, suggesting that while the adoption of external assurance is still limited, some smaller entities are beginning to see its value in bolstering investor confidence.

5.2 Types of internal control

The previous section demonstrates that internal control, whether used independently or alongside other mechanisms, remains a crucial element of unaudited report verification for Australian listed entities. This section explores seven types of internal controls implemented by operational management, staff and experts. These controls include preparers signing off on the reports, reviews done by direct line managers or peers, senior executives (i.e., CEO, CFO, other chiefs), internal auditor, internal subject matter experts, and externally-hired advisers, as well as verifying the unaudited information against source documents.

Table 7 shows the disclosure of different types of controls over the three-year study period across different company size categories and the total sample.



DISCLOSURE OF PROCESSES TO VERIFY THE INTEGRITY OF PERIODIC CORPORATE REPORTS

Table 7 – Disclosure of specific types of internal control

	2021				2022				2023			
	1–100 (n=86)	101–200 (n=79)	201–300 (n=76)	TOTAL (n=241)	1–100 (n=91)	101–200 (n=95)	201–300 (n=71)	TOTAL (n=257)	1–100 (n=88)	101–200 (n=86)	201–300 (n=92)	TOTAL (n=266)
Reviews by												
Direct line managers or peers	38%	34%	33%	35%	43%	38%	24%	36%	45%	20%	12%	26%
Internal subject matter experts	48%	30%	22%	34%	48%	37%	14%	35%	48%	30%	21%	33%
Senior executives	44%	30%	33%	36%	40%	32%	39%	37%	53%	62%	57%	57%
Internal auditor	3%	4%	0%	2%	5%	7%	0%	5%	3%	5%	1%	3%
Externally-hired adviser or consultants	20%	11%	11%	14%	22%	12%	10%	15%	20%	14%	4%	13%
Preparer:												
Preparer sign-off	22%	9%	7%	13%	24%	8%	4%	13%	15%	10%	3%	9%
Other:												
Verification with source documents	31%	22%	13%	22%	32%	23%	24%	26%	30%	14%	13%	19%

For the final sample

The top three internal controls disclosed remained consistent over the three years, with reviews by senior executives, direct line managers or peers, and internal subject matter experts consistently occupying the top spots. Conversely, the internal control with the lowest proportional use each year has been review by internal auditors, remaining relatively under-utilised at 2% (6 of 241) in 2021, 5% (12 of 257) in 2022 and 3% (8 of 266) in 2023. This limited use of internal auditors could be due to resource constraints in some cases, or simply a preference for more operational-level controls in other cases.

The disclosure of all internal control types decreased over the three-year study period. The most significant declines were seen in reviews by direct line managers or peers, which dropped from 35% (85 of 241) in 2021 to 26% (68 of 266) in 2023. This decline may indicate a shift away from middle-management verification in favour of a more centralised review process. Similarly, the verification of unaudited reports against source documents decreased from 22% (54 of 241) in 2021 to 19% (50 of 266) in 2023, suggesting that fewer entities are relying on detailed cross-checking of original documentation as part of their verification processes.

An exception to the overall trend is the significant increase in reviews conducted by senior executives, including CEOs and CFOs. The proportions jumped from 36% (87 of 241) in 2021 and 37% (94 of 257) in 2022 to 57% (152 of 266) in 2023. This shift reflects a broader trend toward consolidating accountability at the highest levels of management, with companies increasingly centralising their internal controls to enhance oversight and streamline decision-making at the executive level.

There has also been a significant shift to dual-tiered defence systems, combining internal control and board oversight, as shown in Table 6. When this is considered alongside the data in Table 7, it becomes evident that entities are increasingly consolidating review responsibilities at the highest management levels, with the board providing oversight. This shift may help explain the observed decrease in other internal control mechanisms in 2023, as companies streamline their governance structures to emphasise executive and board-level oversight.

Types of internal control by market capitalisation

Reliance on reviews conducted by senior executives, or the C-suite, has increased across all ASX 300 size categories, but particularly among smaller entities. In 2023, this reliance peaked at 53% (47 of 88) for the largest 100 entities, 62% (53 of 86) among entities in the 101-200 range, and 57% (52 of 92) for entities in the 201-300 range.

The largest 100 entities had the lowest reliance on senior executives in 2023 compared to smaller entities, but higher engagement with other internal control types. In 2023, 45% (40 of 88) of these entities used direct line managers or peers to conduct reviews, 48% (42 of 88) involved internal subject matter experts, 30% (26 of 88) required preparer sign-off, and 20% (18 of 88) engaged external consultants. Considering the information in Table 6, which shows that largest 100 entities also lead in board oversight and external assurance, it becomes clear that these entities are using a broader range of internal controls to verify their periodic reports.

6 Disclosure practices of entities tracked over three years (constant sample)

With our refined research methodology and three years of longitudinal data, we analysed the behaviour of entities that have remained in the sample group over the full study period.

This approach allows us to conduct a more robust trend analysis of disclosures, increasing the rigour of our findings compared to our previous two reports. In total, 140 entities remained in the sample throughout the study period from 2021 to 2023, allowing us to examine the changes in their disclosure practices over time.

Table 8 – Disclosure changes from 2021 to 2023

No change	82	59%
Minor changes	18	13%
Improved disclosures	33	23%
Reduced disclosures	7	5%
Constant sample	**140**	**100%**

Table 8 categorises disclosure changes over the three-year period into four types: **no change, minor changes, improved disclosures** and **reduced disclosures.**

We found that 59% of the constant sample (82 of 140) made no change to their Recommendation 4.3 disclosures, with each using the same wording for each of the three years. Further analysis (results untabulated) shows that most of these entities — 84% (69 of 82) — maintained the disclosure of the use of at least one IEM, resulting in both the nature of disclosures and the specifics of their verification processes remaining unchanged. However, 9% (7 of 82) provided no identifiable Recommendation 4.3 disclosures throughout the period, while 7% (6 of 82) consistently used generic, boilerplate disclosures.

The remaining 41% (58 of 140) of the constant sample changed their disclosures in at least one of the years from 2021 to 2023.[15]

In the **minor changes** category, we included companies that made slight text modifications that in practice did not affect the categorisation of the nature of Recommendation 4.3 disclosures (no disclosure or boilerplate) or did not alter the level of information or clarity about the IEMs used.

As shown in Table 8, 13% (18 of 140) of constant sample entities made minor changes, with two making minor changes across two years, nine in 2022 relative to 2021, and seven in 2023 relative to 2022. Examples of minor changes include maintaining the same text regarding verification processes with slight adjustments in the specification of periodic corporate reports or rephrasing without changing the type of mechanism (e.g., replacing “key management personnel” with “senior management”).

We consider **improved disclosure** to have occurred when there was a significant change in the text from the prior year, reflecting an enhancement in the categorisation of Recommendation 4.3 disclosures (e.g., moving from no disclosures to boilerplate or informative disclosures) and/or an increase in specific information about the IEMs used.

Among the constant sample, 23% (33 of 140) of entities improved their disclosures over the study period. Of these, six entities demonstrated improvements over two consecutive years.

Reduced disclosures were defined by significant text changes between years indicating a deterioration in the categorisation of Recommendation 4.3 disclosure types. This category could involve moving from some form of disclosure to no disclosure, or maintaining the same type of disclosure but with reduced specifics about IEMs disclosed in a later year. Only 5% (7 of 140) of companies in the constant sample exhibited reduced disclosures — either over the three-year study period (one entity) or in 2023 relative to 2022 (five entities).

Overall, the results from our constant sample support our general findings on improvements in Recommendation 4.3 disclosures discussed in the earlier sections.

7 Industry analysis [16]

Table 9 presents a comprehensive breakdown and analysis of Recommendation 4.3 disclosure types by industry — categorised by Global Industry Classification Standard (GICS) 4-digit codes across different size categories.

The various types of Recommendation 4.3 disclosures (TYPE) were converted into a three-point scale, with scores ranging from 0 to 2. This scale offers a straightforward method for categorising and comparing the nature of Recommendation 4.3 disclosures:

- **Score 0: No identifiable disclosure**
- **Score 1: Boilerplate or generic disclosures**
- **Score 2: Disclosing the use of at least one IEM or opting out with a valid reason**

The application of the highest score to companies opting out of disclosure — as well as those specifying the use of IEMs — acknowledges the transparency and accountability involved in the opting out process.

To analyse the use of integrity-enhancing mechanisms (IEM), the "Three Lines of Defence" model was adapted to create a four-point scale, with scores ranging from 0 to 3. This approach allowed the evaluation of the average number of defence lines disclosed by each industry across various size categories:

- **Score 0: No disclosure of any line of defence**
- **Score 1: Disclosure of one line of defence**
- **Score 2: Disclosure of two lines of defence**
- **Score 3: Disclosure of all three lines of defence**

Table 10 provides a comparison of the highest and lowest TYPE and IEM scores. Across all years, the consumer staples, communication services and health care industries consistently achieve the highest TYPE scores. In 2023, more industries achieved higher TYPE scores, reflecting a shift toward more detailed and transparent disclosures. This trend suggests an increasing commitment across a broader range of sectors to improve the quality of Recommendation 4.3 disclosures, whether through specifying the use of IEMs or offering clearer explanations for opting out.

The lowest TYPE scores were consistently found in capital-intensive industries including energy, utilities and industrials, suggesting a reluctance or lower priority in adopting comprehensive governance practices as outlined in Recommendation 4.3.

Table 10 also shows that high TYPE scores do not always align with high IEM scores. For example, while the real estate industry achieved the highest TYPE score in 2023 (2.00), its IEM score was lower than other industries. Capital-intensive industries such as energy and utilities also repeatedly recorded relatively low IEM scores, underscoring their challenges in implementing robust governance frameworks.

Table 9 – Industry analysis

Panel A: 2021	1-100		101-200		201-300		TOTAL	
	TYPE	IEM	TYPE	IEM	TYPE	IEM	TYPE	IEM
Communication services	1.80	1.60	1.50	1.25	2.00	2.00	1.70	1.50
Consumer discretionary	1.43	1.14	1.67	1.25	1.00	0.78	1.39	1.07
Consumer staples	2.00	2.00	2.00	1.50	2.00	1.86	2.00	1.85
Energy	2.00	2.00	2.00	2.00	0.00	0.00	1.78	1.78
Financials	1.88	1.75	1.50	1.00	1.33	0.94	1.56	1.22
Health care	1.75	1.00	2.00	1.75	1.50	0.83	1.71	1.14
Industrials	2.00	1.64	2.00	1.75	1.80	1.60	1.96	1.65
Information technology	1.00	0.50	1.71	1.57	1.71	1.29	1.56	1.22
Materials	1.82	1.41	1.92	1.58	1.63	1.38	1.78	1.44
Real estate	1.78	1.67	1.45	0.91	1.33	1.17	1.54	1.23
Utilities	1.00	0.67	2.00	1.50	-	-	1.40	1.00
Total	**1.77**	**1.49**	**1.71**	**1.34**	**1.49**	**1.18**	**1.66**	**1.34**

Panel B: 2022	1-100		101-200		201-300		TOTAL	
	TYPE	IEM	TYPE	IEM	TYPE	IEM	TYPE	IEM
Communication services	1.60	1.60	2.00	1.50	1.43	1.29	1.57	1.43
Consumer discretionary	1.43	1.29	1.50	1.25	1.50	0.50	1.48	1.10
Consumer staples	2.00	1.75	1.67	1.33	0.67	0.67	1.56	1.31
Energy	1.83	1.67	1.33	1.00	2.00	1.50	1.77	1.46
Financials	1.94	1.76	1.53	1.07	1.33	0.78	1.66	1.29
Health care	2.00	1.60	2.00	1.20	1.88	1.13	1.94	1.28
Industrials	2.00	1.77	1.89	1.33	0.86	0.43	1.69	1.31
Information technology	1.60	0.80	1.50	1.50	1.75	1.13	1.65	1.12
Materials	1.89	1.44	1.63	1.32	1.73	1.47	1.75	1.40
Real estate	1.75	1.75	1.54	1.23	1.75	0.75	1.64	1.32
Utilities	1.33	1.00	-	-	-	-	1.33	1.00
Total	**1.62**	**1.25**	**1.62**	**1.25**	**1.54**	**1.03**	**1.67**	**1.30**

Panel C: 2023	1-100		101-200		201-300		TOTAL	
	TYPE	IEM	TYPE	IEM	TYPE	IEM	TYPE	IEM
Communication services	2.00	2.00	2.00	1.67	2.00	2.00	2.00	1.93
Consumer discretionary	1.75	1.75	1.57	1.36	1.73	1.45	1.67	1.48
Consumer staples	2.00	2.25	2.00	1.33	1.71	1.86	1.86	1.86
Energy	2.00	1.86	1.00	1.00	0.80	0.60	1.43	1.29
Financials	1.87	1.80	1.64	1.45	1.70	1.30	1.75	1.56
Health care	2.00	2.00	2.00	1.40	1.89	1.22	1.95	1.50
Industrials	1.75	1.42	2.00	1.64	1.67	1.22	1.81	1.44
Information technology	1.60	1.00	2.00	1.86	1.78	1.22	1.81	1.38
Materials	1.90	1.52	1.81	1.54	1.52	1.24	1.74	1.43
Real estate	2.00	2.00	2.00	1.00	2.00	2.00	2.00	1.43
Utilities	1.33	0.67	-	-	-	-	1.33	0.67
Total	**1.85**	**1.65**	**1.80**	**1.49**	**1.65**	**1.34**	**1.77**	**1.49**

Table 10 – Comparing highest and lowest TYPE and IEM scores

Year	Size category	Highest TYPE score	Lowest TYPE score	Highest IEM score	Lowest IEM score
2021	**1-100**	Consumer staples, energy, industrials (2.00)	Information technology (1.00)	Consumer staples, energy (2.00)	Information technology (0.50)
	101-200	Consumer staples, energy, industrials, health care (2.00)	Real estate (1.45)	Energy (2.00)	Real estate (0.91)
	201-300	Consumer staples, communication services (2.00)	Energy (0.00)	Communication services (2.00)	Energy (0.00)
	Total	**Consumer staples (2.00)**	**Consumer discretionary (1.30)**	**Consumer staples (1.85)**	**Utilities (1.00)**
2022	**1-100**	Health care (2.00)	Utilities (1.33)	Health care (1.60)	Information technology (0.50)
	101-200	Health care (2.00)	Energy (1.33)	Communication services (1.50)	Energy (1.00)
	201-300	Energy (2.00)	Industrials (0.86)	Energy (1.50)	Industrials (0.43)
	Total	**Health care (1.94)**	**Consumer discretionary (1.48)**	**Materials (1.40)**	**Utilities (1.33)**
2023	**1-100**	Consumer staples, communication services, energy, health care, real estate (2.00)	Utilities (1.33)	Consumer staples (2.25)	Utilities (0.67)
	101-200	Consumer staples, communication services, health care, industrials, information technology, real estate (2.00)	Energy (1.00)	Information technology (1.86)	Energy, real estate (1.00)
	201-300	Communication services, real estate (2.00)	Energy (0.80)	Communication services, real estate (2.00)	Energy (0.60)
	Total	**Communication services, real estate (2.00)**	**Utilities (1.33)**	**Communication services (1.93)**	**Utilities (0.67)**

8 Current better practice disclosures

This section highlights specific examples of better practice employed by some ASX 300 companies in response to Recommendation 4.3 during the study period.

Examples of better practice disclosures included:

1) Using various structured approaches to enhance the clarity of disclosures. For example, categorising verification processes by report type or by stages of review. Some disclosures were presented in a clear table format, providing a visual representation of the specific reviewers for each report.

2) Detailing the roles of preparers, reviewers and approvers in a multi-level review system, with relevant expertise assigned to each report.

3) Presenting disclosures in a stand-alone document published in the corporate governance section of the entity's website, providing easily accessible information on the verification processes of unaudited information.

4) Highlighting the importance of complying with relevant environmental reporting regulations as a key aspect of the verification process — an approach adopted by several ASX 300 companies.

5) Placing Recommendation 4.3 in the directory page immediately following the cover page of an annual report, ensuring that readers are informed about which information is unaudited as they begin reading the report.

6) In addition to employing external assurance on selected reports, some entities have also disclosed that their external auditors have a responsibility to read and consider unaudited information within annual reports in line with Auditing Standard (ASA) 720.

Through our research, we have identified companies across each ASX 300 size category that exhibited better-practice disclosures during the three-year study period. Details of how three of the stand-out performers — **Qube Holdings Limited, Infomedia Limited** and **Integral Diagnostics Limited** — approached their responses to Recommendation 4.3 in 2023 are provided below, along with our explanatory comments in yellow highlight boxes.

Qube Holdings Limited (QUB)

QUB's Corporate Governance Statement 2023

Recommendation 4.3

A listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor.

4.11 During the Reporting Period, Qube released the following key non-audited corporate reports, all of which are prepared by management, reviewed by senior management and relevant Committees and the Board as noted below:

a) Workplace Gender Equality Agency (WGEA) Report 2022-23 — this report was prepared by Qube's Director - People, Culture & Safety with the assistance of Qube's internal remuneration consultant based on an interrogation of payroll records and enquiries made of payroll and HR managers. The draft report was reviewed by Qube's Nomination and Remuneration Committee before lodgement.

b) Sustainability Report 2023 — Qube's Corporate Affairs Director co-ordinated preparation of this year's report with Qube's Group Sustainability Manager, GM - Safety, Health & Sustainability and Qube's Director - People, Culture & Safety to engage with the safety, health and sustainability functions across the business. The draft Report was then reviewed and endorsed by the SHSC to the Board for issue. In relation to FY23

Greenhouse Gas (GHG) emissions reporting as set out in this report (and in the Annual Report), the Committee requested and revised a detailed verification document describing the calculation boundaries, methodologies, assumptions and key references used in the calculations of the Qube's reported Scope 1 and scope 2 GHG emissions.

Qube's GHG emissions are calculated consistent with the methodologies described in the National Greenhouse Gas Reporting Act (NGER) applying the Australian National Greenhouse Accounts Factors.

c) Modern Slavery Statement — preparation of the FY 23 statement is being overseen by Qube's GM - Safety Health and Sustainability based on processes implemented under Qube's modern slavery framework. Various procurement and supply chain managers are providing input into the content of the statement. The Corporate Counsel and Company Secretary will review the statement for compliance with the seven mandatory reporting criteria under the legislation. The draft statement will then be reviewed by the SHSC and recommended to the Board for final approval to issue. The FY 23 Modern Slavery Statement will be issued by 31 December 2023 in accordance with the legislative requirements.

The unaudited periodic reports are specified.

The process includes a review for compliance with relevant environmental reporting regulations.

Each report specifies the preparers, reviewers and approvers, highlighting a multi-level review process with relevant expertise for each distinct report.

Infomedia Limited (IFM)

IFM's Corporate Governance Statement 2023

4.3 Integrity of non-audited periodic corporate reports

The Company takes its commitment to ensuring the integrity of all materials released to the market, including those materials released to market which are not subject to audit. The Company generally applies the following peer review framework to test the integrity and accuracy of materials before release to the market:

	Examples	Primary Responsibility	First Peer Review	Second Peer Review	Third Peer Review[a]
Annual and Interim Reports (unaudited components)	Directors' Report, Governance Report and Interim Financial Reports	CEO / CFO	A senior team member of the Company's finance, legal, secretariat or investor relations team	One or more members of the Continuous Disclosure Committee	One or more Non-Executive Directors
Other Financial information	Corporate actions, investor briefing slides and interim investor updates	CFO	Senior member of the Infomedia finance team	One or more members of the Continuous Disclosure Committee	One or more Non-Executive Director(s)
Other Business statements	Corporate actions, investor briefing slide and interim investor updates, outlook statements and statements on risk	CEO / CFO	CFO, CEO or Head of Investor Relations		

Notes:

a. shaded boxes represent processes that are used on an 'as needed' basis as determined by management and are reserved for matters of enhanced sensitivity or importance, or which require special knowledge or experience to vet;

b. the above review process is subject to the Company's Market Disclosure Policy which outlines various contingencies which may be enacted in urgent circumstances. A copy of the policy can be found at: www.infomedia.com.au/investors/corporate-governance/market-disclosure/

The table categorises the disclosures by:

(1) **The types of unaudited reports**, with examples provided for each category; and

(2) **The three-level peer review process**, with specific reviewers for each level clearly identified.

The review process is aligned with the company's market disclosure policy.

Disclosures are presented in a clear table format rather than as narratives.

Integral Diagnostics Limited (IDX)

IDX's Corporate Governance Statement 2023

Recommendation 4.3: A listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor.

IDX is committed to providing clear, concise and effective disclosure in its corporate reports. The Company's goal is that periodic corporate reports will be accurate and balanced, and provide investors with appropriate information to make informed investment decisions.

The Company's process for verifying unaudited periodic corporate reports is as follows:
- reports are prepared by, or under the supervision of, subject matter experts;
- material statements in the reports are reviewed for accuracy and material requirements; and
- all announcements considered to be of fundamental significance to the Company must be approved by the Board.

This process is intended to ensure that all applicable laws, regulations and Company policies have been complied with, and that appropriate approvals are obtained before a report is released to the market.

Consistent with these principles, the non-audited sections of the Annual Report, the Investor Presentation, Modern Slavery Statements, Environment, Social and Governance (ESG) Report and Corporate Governance Statement for the reporting period were prepared by the relevant subject matter experts, and reviewed and verified by relevant senior management personnel prior to review and consideration by the Board and, if thought fit, approval.

External assurance is conducted over selected information in the Company's ESG Report.

Copies of IDX's ESG Reports and related Assurance Statements can be found on the Company's website: www.integraldiagnostics.com.au/reports. The FY23 ESG Report will be available prior to the Company's AGM.

There is a clear multi-level process and distinct separation of duties between preparers, various reviewers, and approvers.

Selected information in the ESG Report is assured, and a link to the related Assurance Statement is provided.

The unaudited periodic corporate reports are specified.

9 Recommendations

Drawing on our research findings, we make the following recommendations to report preparers, the ASX Corporate Governance Council, the ASX, AUASB and the accounting bodies.

Report preparers

Our three-year analysis of Recommendation 4.3 disclosures by Australia's largest listed entities shows ongoing improvement in the efforts of many to disclose the processes used to verify unaudited periodic corporate reports. Notably, we observed a significant reduction between 2021 and 2023 in the number of entities using generic or boilerplate disclosures. However, significant room for improvement in the general standard of disclosure and verification remains. Accordingly, report preparers should consider the following in future disclosures.

1) Specifically identify each unaudited periodic report subject to verification processes.

Entities should specify each unaudited periodic corporate report that is subject to the disclosed verification processes. In 2023, only 44% (100 of 225) of entities that specified at least one IEM did so. Given that verification processes may vary between reports, the lack of specific identification creates uncertainty for investors regarding which processes were applied to which reports to ensure their integrity and credibility.

2) Provide detailed and entity-specific disclosures on the use of integrity-enhancing mechanisms.

Entities should provide clear and comprehensive descriptions of their verification processes, specifying the roles of preparers, reviewers, and approvers. If a multi-level review process is in place, entities are encouraged to clearly outline all lines of defence adopted. By providing detailed information about who is responsible for each stage of the review and approval, along with the expertise involved, companies can demonstrate the robustness of their verification process. Refer to Section 8 for examples of best practices that showcase how detailed, entity-specific disclosures can enhance understanding and clarity of the verification processes.

3) Disclose the extent of board involvement in, and responsibility for, verification of unaudited periodic reports.

Entities should clearly disclose the board's role in overseeing and monitoring the verification processes undertaken at the operational and management levels. Disclosure should also outline the board's responsibilities, such as providing final review, approval, and sign-off on each unaudited periodic report, and the performance of the board in executing these responsibilities.

4) Disclose the role of external auditors in verifying otherwise unaudited reports.

With the passing of the Australian Sustainability Reporting Standards (AASB S1 and AASB S2), and legislation requiring assurance of resultant disclosures for larger entities, other Australian entities will face greater expectations for independent assurance on sustainability disclosures. We encourage entities that are already obtaining independent assurance on sustainability disclosures to disclose this. If independent assurance is not obtained, entities should consider either discussing the role of external auditors in reading and considering unaudited information within the annual report, in line with Auditing Standards ASA 720; or explain why their internal verification approach is deemed sufficient to ensure the integrity of the unaudited periodic reports.

5) Use a table to summarise the lines of defence adopted for each periodic report.

Entities using a multi-level review approach should consider presenting a simplified table summarising the mechanisms applied to each periodic report, as demonstrated by the hypothetical example in Table 11 below. A clear, visual representation of the specific reviewers and processes applied to each report will assist investors and other stakeholders to understand the integrity measures in place.

6) Disclose the location of Recommendation 4.3 disclosures in Appendix 4G.

While most entities include Recommendation 4.3 disclosures in their corporate governance statements, some have published them in stand-alone documents on the corporate governance section of their website. To improve accessibility, we recommend that entities specify the location of their Recommendation 4.3 disclosures in Appendix 4G — whether it is the page number in the corporate governance statement or annual report, or a URL link to the relevant section on the company website.

Table 11 – Summary of the line of defence used for each unaudited periodic corporate report

Unaudited periodic corporate report	Internal control	Board oversight	External assurance
Chair's Report	✓*		
Director's report, including the Remuneration Report (audited) and Operating & Financial Review (those parts not audited)	✓	✓	
CEO's Report	✓	✓	
Corporate Governance Statement	✓	✓	
Sustainability Report	✓	✓	✓
Climate Statement	✓	✓	✓
Integrated Report	✓	✓	

** Tick indicates an entity has implemented a particular line of defence for an unaudited periodic corporate report*

ASX Corporate Governance Council

It is encouraging to note that several recommendations raised from our prior reports on Recommendation 4.3, along with DIRC's submission to the proposed guidelines (DIRC, 2024), have been incorporated in the proposed 5th edition of the Corporate Governance Principles and Recommendations (ASX, 2024).

We support the overall direction of the proposed 5th edition, and our findings provide valuable evidence in favour of these changes. For instance, although many companies obtained limited assurance over selected sustainability information, only 9% of our sample group of ASX 300 companies disclosed external assurance adoption as part of their verification processes in 2023. This aligns with the changes being proposed around the broader inclusion of external assurance in the disclosure of verification processes.

We also provide additional recommendations based on the findings of this paper:

1) Encourage formal acknowledgment of board involvement in the verification process, and confirmation of the board's responsibility for integrity of disclosures.

Our findings highlight a growing involvement of board oversight in ensuring effective internal controls. Specifically, the combination of internal control and board oversight remains the most prevalent IEM, disclosed by 48% (115 of 241) of entities in 2021, 44% (113 of 257) in 2022, and increased to 52% (139 of 266) in 2023. Given this trend, we recommend that the board of directors include in the 4.2 disclosures as to whether, and to what extent, they have fulfilled their responsibilities under the revised Recommendation 4.2 (formerly Recommendation 4.3). If not, an explanation should be provided.

The proposed Commentary to Recommendation 4.2 suggests management provide an opinion on risk management and internal control (ASX, 2024). While this is a positive step, we believe this responsibility should be attributed to the board of directors, as they have the ultimate responsibility for ensuring a sound system of risk management and internal control.

2) Encourage the disclosure of the use of internal auditors in the review process.

Our research reveals that internal audit is one of the least disclosed IEMs among ASX 300 entities, with only 2% (6 of 241) disclosing internal audit in this context in 2021, 5% (12 of 257) in 2022, and 3% (8 of 266) in 2023. The Council should consider promoting the importance of internal audit as a key mechanism to enhance the integrity of periodic corporate reports across entities.[17]

The ASX

Enhance the monitoring and enforcement of adherence to Recommendation 4.3.

The ASX should implement a more robust system to regularly assess the quality of Recommendation 4.3 disclosures as part of its broader compliance monitoring under ASX Listing Rules. This process would help identify entities that either provide no identifiable disclosures or rely on generic, boilerplate statements, thereby allowing for targeted improvements in disclosure quality. The DIRC stands ready to support the ASX in improving this process, with further details outlined in our submission to the proposed 5th edition of the Corporate Governance Council Principles and Recommendations (DIRC, 2024).[18]

Australian Auditing and Assurance Standards Board (AUASB)

Consider how a broader range of integrity-enhancing mechanisms can interact with assurance practices.

As the AUASB considers the future of assurance standards, we recommend that the Board evaluates how the diverse range of IEMs can complement external assurance for entities with assured periodic reports, or how the disclosure of such mechanisms can achieve similar objectives for those entities whose reports, or parts of reports, are not assured.

Our findings show that Australian entities are employing multiple integrity-enhancing mechanisms to verify unaudited information, which has direct implications for the AUASB, particularly with requirements for sustainability assurance soon to be in operation. We believe that it will be advantageous for the AUASB to acknowledge this diversity in practices, as even for those entities requiring assurance, certain disclosures may be challenging to assure externally due to their context-specific nature and reliance on qualitative judgements. In such instances, internal controls and board oversight serve as credible and cost-effective alternatives that provide flexibility while aligning with the practical constraints of the assurance process.

Accounting bodies

Educate and guide members on the importance of enhancing the integrity of unaudited periodic corporate reports.

Australia's major accounting bodies should provide targeted education and guidance to their members, reinforcing the importance of enhancing the integrity of unaudited periodic corporate reports and effective communication with reference to the selection of integrity-enhancing mechanisms.

Endnotes

Integrated Reporting Centre

1) This can be partly attributed to an issue raised in our 2022 report concerning the term “unaudited periodic reports” in Recommendation 4.3 commentary. If a report is audited, the current recommendation implies that entities are not required to disclose the decision to engage an independent auditor as part of their IEMs. This issue is addressed in the proposed fifth edition of the ASX Corporate Governance Principles and Recommendations.
2) The AQUA rules are tailored specifically for managed funds, exchange traded funds, and structured products. Unlike the ASX Listing Rules, the AQUA Rules provide issuers with greater flexibility in product designing and listing on the ASX, thereby offering investors a wider range of product choices.
3) The complete list of entities included in the sample can be found in the online appendix on the Deakin Integrated Reporting Centre’s website: https://www.deakin.edu.au/faculty-of-business-and-law/research/deakin-integrated-reporting-centre
4) The Appendix presents the industry distribution across each size categories for each year, along with industry distribution for the constant sample.
5) Appendix 4G helps readers locate governance disclosures made by a listed entity under the ASX Corporate Governance Council’s recommendations and verifies that entities meet the disclosure requirements of Listing Rule 4.10.3 (ASX, 2019).
6) In a few instances, entities included a URL link in their Appendix 4G to a market disclosure policy document on their website, specifically addressing Recommendation 4.3.
7) The terms “first”, “second”, and “third” lines are intended to differentiate roles rather than denote structural elements. The numbering does not imply sequential operations and all roles operate concurrently.
8) In the model developed by the Institute of Internal Auditors (IIA 2020), the third line of defence is internal audit. However in this study, we take an external perspective, designating external audit as our third line of defence.
9) The observed trend may be attributable to changes in the sample rather than a shift in entities’ approaches. This issue is further examined using a constant sample in Section 6.
10) Available at : https://cdn.nufarm.com/wp-content/uploads/2018/10/30113451/Nufarm-ltd-Verification-Statement-amended-30-November-2020.pdf
11) As outlined in Table 4, 189 entities made such disclosures in 2021 (73 in top-100, 64 in 101-200 size range, and 52 in 201-300 range); 200 entities in 2022 (80 in top-100, 73 in 101-200 range, and 47 in 201-300 range); and 225 entities in 2023 (79 in top-100, 77 in 101-200 range, and 69 in 201-300 range).
12) Table 6 also reveals low instances of entities using certain combinations. Few entities disclosed using board oversight only and combinations of internal control and external assurance, and no entities disclosed using both board oversight and external assurance. We believe these combinations are not common practices because internal control and board oversight should complement each other rather than act as substitutes (Gay and Simnett, 2023). Thus, it is likely that these entities lack informative disclosures that fully reflect the verification process.
13) Ampol Limited’s 2023 Recommendation 4.3 disclosures are available at: https://www.ampol.com.au/about-ampol/investor-centre/corporate-governance; and the 2023 Sustainability Report is available at https://www.ampol.com.au/about-ampol/investor-centre/sustainability-reports
14) The analysis on the sustainability engagement type (e.g., limited or reasonable) among ASX 300 entities in 2022 is studied in Zamir et al. (2023).
15) 16% (23 of 140) of the constant sample made one-year change in their disclosures, both between 2021 and 2022 and between 2022 and 2023. The remaining 9% (12 of 140) exhibited changes over two years.
16) The number of entities in each industry for each size group is provided in Appendix.
17) A step specifically encouraged by the international Institute of Internal Auditors. See IAA (2020).
18) Some key recommendations from DIRC (2024) include incorporating specific aspects of the International Integrated Reporting Framework into the commentary for the updated Recommendations 4.2. This alignment would enable more effective monitoring of adherence to the ASX Corporate Governance Principles & Recommendations. Additionally, the DIRC urged the introduction of a Recommendation 4.2-style “integrity net” in relation to Principle 5 (“Make timely, balanced and accurate disclosure”), which would extend communications with investors outside the scope of periodic corporate reports (for e.g., substantive investor and analyst presentations).

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Appendix: Industry distribution

Panel A: 2021

	1-100		101-200		201-300		Total	
Communication services	5	6%	4	5%	1	1%	10	4%
Consumer discretionary	7	8%	12	15%	9	12%	28	12%
Consumer staples	4	5%	2	3%	7	9%	13	5%
Energy	3	3%	5	6%	1	1%	9	4%
Financials	16	19%	16	20%	18	24%	50	21%
Health care	4	5%	4	5%	6	8%	14	6%
Industrials	14	16%	4	5%	5	7%	23	10%
Information technology	4	5%	7	9%	7	9%	18	7%
Materials	17	20%	12	15%	16	21%	45	19%
Real estate	9	10%	11	14%	6	8%	26	11%
Utilities	3	3%	2	3%	0	0%	5	2%
Total	**86**	**100%**	**79**	**100%**	**76**	**100%**	**241**	**100%**

Panel B: 2022

	1-100		101-200		201-300		Total	
Communication services	5	5%	2	2%	7	10%	14	5%
Consumer discretionary	7	8%	16	17%	6	8%	29	11%
Consumer staples	4	4%	9	9%	3	4%	16	6%
Energy	6	7%	3	3%	4	6%	13	5%
Financials	17	19%	15	16%	9	13%	41	16%
Health care	5	5%	5	5%	8	11%	18	7%
Industrials	13	14%	9	9%	7	10%	29	11%
Information technology	5	5%	4	4%	8	11%	17	7%
Materials	18	20%	19	20%	15	21%	52	20%
Real estate	8	9%	13	14%	4	6%	25	10%
Utilities	3	3%	0	0%	0	0%	3	1%
Total	**91**	**100%**	**95**	**100%**	**71**	**100%**	**257**	**100%**

Panel C: 2023

	1-100		101-200		201-300		Total	
Communication services	6	7%	3	3%	5	5%	14	5%
Consumer discretionary	8	9%	14	16%	11	12%	33	12%
Consumer staples	4	5%	3	3%	7	8%	14	5%
Energy	7	8%	2	2%	5	5%	14	5%
Financials	15	17%	11	13%	10	11%	36	14%
Health care	6	7%	5	6%	9	10%	20	8%
Industrials	12	14%	11	13%	9	10%	32	12%
Information technology	5	6%	7	8%	9	10%	21	8%
Materials	21	24%	26	30%	25	27%	72	27%
Real estate	1	1%	4	5%	2	2%	7	3%
Utilities	3	3%	0	0%	0	0%	3	1%
Total	**88**	**100%**	**86**	**100%**	**92**	**100%**	**266**	**100%**

Panel D: Constant sample

	1-100		101-200		201-300		Constant sample	
Communication services	5	6%	2	4%	0	0%	7	5%
Consumer discretionary	7	9%	13	25%	3	25%	23	16%
Consumer staples	3	4%	3	6%	3	25%	9	6%
Energy	6	8%	2	4%	0	0%	8	6%
Financials	14	18%	7	14%	0	0%	21	15%
Health care	5	6%	3	6%	3	25%	11	8%
Industrial	11	14%	3	6%	1	8%	15	11%
Information technology	5	6%	3	6%	1	8%	9	6%
Materials	17	22%	13	25%	1	8%	31	22%
Real estate	1	1%	2	4%	0	0%	3	2%
Utilities	3	4%	0	0%	0	0%	3	2%
Total	**77**	**100%**	**51**	**100%**	**12**	**100%**	**140**	**100%**

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