

Innovation, Needs and Future Opportunities Working Group

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Agenda Item 5-A
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Innovation, Needs and Future Opportunities Working Group (INFO WG)

Agenda

- **INFO WG overview**
 - Objectives
 - Identification and prioritization of topics
 - Possible recommended actions
- **Integrated Reporting <IR>**
 - Why important to the IAASB?
 - <IR> Overview
- **Q&A**

INFO WG Terms of Reference – Objective

Explore emerging developments in the audit, assurance and related services fields for the purpose of assisting the IAASB in identifying opportunities for relevant and effective standard setting, or determining other potential actions, in a timely and informed manner

INFO WG Terms of Reference – Responsibilities

- Identify areas of focus within the audit, assurance and related services fields that have particular relevance to users' information or assurance needs
- Make recommendations on specific topics for the IAASB to pursue, exploring those areas of focus by:
 - Undertaking further study or deliberation, as appropriate;
 - Acting as a focal point for liaison regarding research or input from external parties, as appropriate; and
 - Considering whether, in the public interest, audit, assurance, or related service needs should be addressed through standard-setting or other initiatives

INFO WG Principal Activities

- Monitor emerging developments globally in audit, assurance and related services fields
- Identify emerging areas (topics) for further activities
- Consider market needs/demands for services in these emerging areas
- Consider audit and assurance implications, including threats to the relevance of IAASB standards
- Inform and update IAASB and CAG
- Recommend actions, up to and including standard-setting projects (new standards or revisions to existing standards)

Topics of Interest Identified to Date

• Integrated reporting <IR>

• Sustainability*	• “Front part” of annual report (e.g., management commentary,* KPIs,* non-GAAP measures)
• Internal control*	• Corporate governance*
• Conflict minerals/human rights	• Risk management*
• Cloud computing	• Cyber security
• Data analytics (includes “Big Data” and auditor’s use of data analysis techniques)	• XBRL

* Topics with a relationship to <IR>

How Topics Were Identified

- General awareness
- Discussions with IAASB CAG and other stakeholders
- Previous IAASB strategy consultations
- Staff preliminary research and analysis
- INFO group brainstorming

Possible Actions that INFO May Recommend

Information Gathering

- Private outreach/dialogue
- Academic research

Follow-up Actions

- Thought piece/awareness (Staff publication/IAASB “position paper”)
- Public outreach (e.g. roundtables, other fora)
- Consultation Paper or Discussion Paper (IAASB or jointly with IIRC or others)

Standard Setting Project

- Formation of task force (including suggestions for including outside expertise)

Integrated Reporting – Relevance to IAASB

- Focus on <IR> is consistent with feedback heard in our outreach with various global stakeholders
- Need to stay abreast of an important emerging area with implications for assurance
 - Continue to be informed by activities of the IIRC (e.g., assurance paper and public roundtables) and others
- Maintaining the relevance of IAASB assurance standards (particularly ISAE 3000) in an evolving world

Integrated Reporting - Overview

- <IR> objectives
 - What <IR> is (and what it is not)
- IIRC activities
 - Framework (and assurance paper)
 - Pilot program and investor network
- Current environment
 - Internal and external demand for services
 - Opportunities and threats

The Objectives of <IR>

- Improve quality of information available to providers of financial capital to support their capital allocation decisions
- Promote a cohesive approach to corporate reporting to communicate the full range of factors that affect an organization's ability to create value over time
- Enhance accountability and stewardship for all capitals of an entity and their interdependencies
- Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term

What is <IR>?

Integrated Reporting

A process founded on integrated thinking that results in a periodic integrated report (and related communications) about an organization's value creation over time

Integrated Report

A concise communication about how an organization's strategy, governance, performance and prospects, in the context of its environment, lead to creation of value in the short, medium and long term

What is it not?

Separate reports on different subject matters collated and presented in a single report

IIRC Activities

- IIRC Framework Released December 2013
 - Establishes Guiding Principles and Content Elements for preparation of an integrated report
 - Defines six categories of capitals related to the value creation process (Financial, Manufactured, Intellectual, Human, Social and Relationship, and Natural)
- Assurance background paper drafted in February 2014
 - To explore the potential application of assurance on an integrated report prepared in accordance with the <IR> Framework
- Pilot program and investor network

Current Environment: Hype v. Reality?

Regulatory environment

- EU proposals to expand non-financial information in the director's report seen as a first step towards an integrated report
- Corporate Governance Codes and requirements on increased transparency, e.g., Europe, Asia/Oceania, South Africa
- Approximately 20 stock exchanges (from 17 countries) have requirements, voluntary measures or guidance regarding increased transparency for non-financial information

<IR>: Internal and External Demand

	Decision Support	Oversight
Internal	<ul style="list-style-type: none"> • Business strategy • Innovation and investment • Product development • Process improvements • Mergers and acquisitions 	<ul style="list-style-type: none"> • Supervisory boards • Non-executives
External	<ul style="list-style-type: none"> • Investment (including potential investors) • Lending by banks and other financiers 	<ul style="list-style-type: none"> • Government and other regulators

Opportunities and Threats

Opportunities

- Enhancing corporate reporting quality (<IR>) through assurance by multidisciplinary teams
- Strategic thinking about, and alignment with, corporate reporting developments at an early stage in order to be able to devise a timely response when necessary
- IIRC's assurance paper and potential roundtables

Threats

- Risk of inconsistent or improper application of ISAE 3000 (including in conjunction with other existing assurance standards, e.g., AccountAbility, ISO) to the specific subject matter of <IR>, which may affect the overall credibility of assurance
- Risk of assurance standards developed by others being inconsistent with ISAE 3000

Q&A Session

- Do the Board members have any questions or comments on the topics (other than <IR>) preliminarily identified by the INFO WG?
- In your view, should any of these topics be prioritized by INFO WG for additional monitoring or follow-up actions?
- What are, in your opinion, key trigger points to move a topic from monitoring to a recommendation for a standard-setting project or other actions by the Board?

