

**Meeting:** IAASB Consultative Advisory Group  
**Meeting Location:** New York  
**Meeting Date:** September 8–9, 2014

## Agenda Item E

### Innovation Working Group

#### Objectives of Agenda Item

1. To provide a report back on comments of the Representatives on this project as discussed at the March 2014 CAG Meeting.
2. To receive an update on the activities of the Innovation Working Group (Innovation WG),<sup>1</sup> in particular its recommendations for establishing separate WGs for priority topics identified and the preliminary views on the work plan for these topics.

#### Papers to be Referred to during Discussion

3. The discussion of this topic will follow the structure of this CAG paper. Within this paper, reference is made to the update presentation included as **Agenda Item E.1**. Where relevant, reference is also made to **Agenda Item L.2**, *The IAASB's Work Plan for 2015–2016*, which also highlights plans for the Innovation WG and matters relevant to the Report Back below.

#### Project Status and Timeline

4. The Innovation WG has the remit to 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. The CAG discussed the Terms of Reference (ToR) for the Innovation WG at its April 2013 meeting, and the ToR were subsequently approved at the April 2013 IAASB meeting.
5. The Appendix to this paper provides a project history, including links to the relevant CAG documentation.

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<sup>1</sup> The name of the Innovation, Needs and Future Opportunities Working Group (INFO WG) was changed in August 2014 to Innovation WG.

## March 2014 CAG Discussion

6. Below are extracts from the draft minutes of the March 2014 CAG meeting on the discussion of Agenda Item D,<sup>2</sup> as well as an indication of how the Innovation WG or IAASB has responded to the Representatives' and Observers' comments.

Representatives' Comments	Working Group/IAASB Response
<b>IAASB INNOVATION WG</b>	
Mr. Fukushima noted IOSCO's concern with the growing use of outsourcing of audit procedures as a means of improving the efficiency of the audit. He suggested the IAASB should consider whether it could form a view as to which procedures could be assigned to offshore centers.	Point taken into account.  The IAASB intends to consider concerns raised about offshore shared service centers in both its proposed new projects on Group Audits – ISA 600 and Quality Control <i>(see descriptions of these proposed projects in the Work Program included as Agenda Item L.1)</i> .
Mr. Waldron, as Rapporteur of the CAG's INFO WG, noted the WG's support for <IR> as well as for the IAASB exploring the implications of data analytics, cloud computing and internal control. He suggested that the IAASB consider factors such as global applicability, relevance and divergence in practice in determining whether to move forward on a particular topic.  Ms. Lopez mentioned that trigger points or criteria might be whether there is sufficient evidence that practice is emerging and whether there is already sufficient demand for assurance.	Support noted and point accepted.  The suggestions for criteria have been taken into account in the criteria to be used by the Innovation WG in making recommendations for the IAASB to proactively engage on a particular topic.
Ms. Blomme noted support for <IR> and mentioned that, while there is still a need for further evolution before assurance is widely demanded, the IAASB needs to bear in mind the time necessary to develop a standard, so that processes are in place by the time <IR> has evolved.	Support noted and point taken into account.  The proposed recommendation to establish a separate <IR> WG will enhance a further focus on the topic and timely action by the IAASB to respond to market developments. <i>(See also Agenda Item E.1 for suggested actions for the period 2014–2016)</i> .
Ms. Blomme also suggested the WG could further consider the needs of SMEs in light of the potential changes in Europe that the audit requirement for SMEs might be removed or scaled down. To this end there might be a demand for guidance or	Point taken into account.  The IAASB's proposed Work Plan for 2015–2016 includes consideration of the revision of the IAASB's standard on Agreed Upon Procedures (ISRS 4400). In addition, as the IAASB

<sup>2</sup> The March 2014 minutes will be approved at the September 2014 IAASB CAG meeting.

Representatives' Comments	Working Group/IAASB Response
standards on other services, such as reviews and compilations.	<p>contemplates this topic, wider consideration will also be given to exploring evolving engagements in this area (for example, “hybrid” engagements) to consider whether standard-setting or other activities may be appropriate to address any emerging needs.</p> <p>The international standards on review engagements (ISRE 2400) and compilation engagements (ISRS 4410) were revised more recently to respond to calls to address services other than audits that may be performed by SMEs. A post-implementation review of these standards is planned for 2017 (the process to conduct such reviews will be developed in 2015–2016). (See <b>Agenda Item L.2.</b>)</p>
Ms. Blomme was of the view that the topic of cloud computing is currently being explored by the auditing firms and may be relevant for the IAASB, while topics such as conflict minerals and human rights may have greater implications for the auditor’s ethical responsibilities rather than assurance.	<p>Point taken into account.</p> <p>The Innovation WG, after having obtained further information on each of the topics of interest as presented to the CAG at its March 2014 meeting, has determined data analytics and the effect on the financial statement audit to be a priority topic. Subject to approval by the IAASB at its September 2014 meeting, a separate WG will be established. (See <b>Agenda Item E.1</b>)</p>
Mr. Hines suggested the IAASB should consider work already done on certain topics by other organizations (such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the IVSC), and consider how this work may input into any future work of the IAASB. Ms. de Beer agreed, noting the potential threat to the auditing profession if assurance is provided by non-practitioners using non-IAASB standards. She suggested that the IAASB seek to collaborate with such organizations to come up with global solutions.	<p>Point accepted.</p> <p>After further consideration, the topics of &lt;IR&gt; and data analytics and the effect on the financial statement audit have been selected as priority topics for which separate WGs will be formed. For these topics, further liaison at the Chair, Staff or WG level is planned with organizations and experts in these domains for the purpose of determining the appropriate approach for any international standard-setting activities relevant to these topics. (See <b>Agenda Item E.1</b>)</p> <p>For the other topics that have not been selected as priority topics, a more passive monitoring by the Innovation WG will be performed (including consideration of ongoing developments of other organizations) with annual evaluation of priorities planned.</p>

Representatives' Comments	Working Group/IAASB Response
<p>Mr. Koktvedgaard noted that it is essential to identify in advance what type of assurance users are seeking. He cautioned against having too many topic-specific assurance standards and suggested a broader consideration as to what is necessary in relation to certain topics. For example, on the topic of cloud computing, he suggested to first identify the objective of the assurance required and how ISAE 3000 (Revised) may already address the matter in terms of reasonable and limited assurance, then to assess whether a new standard is necessary.</p>	<p>Point accepted.</p> <p>The suggested actions relevant to priority topics identified by the Innovation WG include considering the appropriate approach to standard-setting, including the appropriateness of the development of a Practice Note or other non-authoritative guidance. <b>(See Agenda Item E.1 and paragraphs 13 of Agenda Item L.2)</b></p> <p>In addition, the proposed <i>Strategy for 2015–2019</i> acknowledges that ISAE 3000 (Revised) is intended to be applied as the overarching assurance standard addressing reasonable assurance and limited assurance engagements other than audits or reviews of historical financial information. The consideration, however, of whether a topic-specific standard for a new assurance engagement is needed on an international basis poses distinct challenges for the IAASB from a strategic perspective. It can often be difficult to gauge whether the global market demand for assurance in a particular area is sufficient to warrant the IAASB devoting significant Board and staff resources to it. Similarly, an international standard may not be feasible, in particular if suitable criteria have not yet been developed. <b>(See paragraph 17 of Agenda Item L.1).</b></p>
<p>Mr. Dalkin noted the topic of conflict minerals is very common in the US government audit environment because of US legislation and is conducted as a direct engagement (i.e., a performance audit). He suggested that a standard addressing direct engagements would allow for many types of assurance engagements to be performed.</p>	<p>Point not accepted.</p> <p>Direct engagements have been discussed during the IAASB December 2013 meeting. The IAASB decided to explore national developments first before committing to the possibility of developing an international standard explicitly addressing direct engagements. The possibility of doing so will be further considered during the process of setting the Work Program for 2017–2018.</p>
<p>Mr. James asked for further attention to be paid to the requirements for joint audits.</p>	<p>Point not accepted.</p> <p>In discussion that followed relating to the IAASB's future strategy and work plan, Ms. Blomme explained that joint audits are currently not prohibited in Europe but to date had only been</p>

Representatives' Comments	Working Group/IAASB Response
	<p>utilized in France, and it is unclear whether other member states would use joint audits. As a result, she suggested this may not be as high a priority for the IAASB as other topics.</p> <p>Feedback from consultation did not indicate that the topic of joint audits is a priority topic relative to other initiatives on the IAASB's agenda. Accordingly, at present there are no plans for the IAASB to consider work in this area. However, if the use of joint audits increases, the Innovation WG could consider whether this topic should be included in its ongoing monitoring activities.</p>

## Matters for CAG Consideration

### I. Priority Topics and the Establishment of Separate WGs in Relation to These Topics

7. In 2013, the IAASB agreed that the Innovation WG should monitor the developments relating to International Integrated Reporting Council's (IIRC) *The International <IR> Framework*, with a view to determining the most appropriate time for IAASB action. At the March 2014 CAG meeting,<sup>3</sup> a further update was provided on the latest developments in <IR>.
8. The Innovation WG also discussed other topics that could be of interest to monitor at the both the CAG and IAASB March 2014 meetings. In addition, information was obtained from the National Auditing Standard Setters (NSS). In advance of the IAASB-NSS May 2014 meeting, a survey was sent to obtain input on developments within these topics at a national level and obtain views from the NSS of the relevance to international standard-setting. In addition to <IR>, NSS perceived the topics of data analytics and sustainability to be the topics of highest priority for IAASB monitoring or other activities. In addition, the Innovation WG reviewed and considered the responses to the consultation on the *Proposed Strategy for 2015–2019* and *Proposed Work Program for 2015–2016*.
9. Based on these different sources of input, the Innovation WG noted that, in addition to <IR>, the data analytics/effects on the audit emerged as a priority topic. At the same time, monitoring of assurance on non-financial information, including sustainability reports; assurance on corporate governance reporting; and assurance on internal control over financial reporting, including aspects of internal control such as risk management were also supported.
10. To inform the IAASB about the emerging topic of data analytics, a presentation was held at the June 2014 IAASB meeting. The IAASB agreed the topic is of increasing importance to international standard setting and confirmed the view of the Innovation WG that <IR> and data analytics should be priority topics.
11. **Agenda Item E.1** (which will also be presented at the September 2014 IAASB meeting) therefore

<sup>3</sup> Section D of the March 2014 CAG public session minutes (Agenda Item B) summarizes Paul Druckman's (IIRC Chief Executive) presentation on <IR> and Representatives' comments thereon.

includes the Innovation WG's recommendation to establish separate WGs on these topics. The benefits of establishing separate WGs include improving the focus on a particular topic and enabling the Board to gather more in-depth knowledge, as well as allowing Board, technical advisor (TA) and Staff resources to be deployed effectively. These WGs will also involve outside experts and NSS to leverage this expertise, including for any publications that may be developed (e.g., thought leadership, discussion papers, etc.).

12. The IAASB's Work Plan for 2015–2016 (see paragraph 13 of **Agenda Item L.2**) therefore describes the establishment of separate WGs to specifically monitor:
  - (a) The developing interest in Integrated Reporting (<IR>) and the demand for assurance on integrated reports. This includes initial thinking on the nature of such engagements, including the scope of the subject matter, the suitability of criteria and other matters related to assurance on integrated reports. The Innovation WG will also consider the appropriate approach to standard-setting.
  - (b) Data analytics and the effect on the audit. This includes the various applications of data analysis, "big data", sophisticated audit techniques, and the relationship to the audit, such as the effect on risk assessments, testing approaches, analytical procedures and other audit evidence.

## II. Ongoing Role and Activities of the Innovation WG

13. **Agenda Item E.1** also includes recommendations as to the ongoing role and activities of the Innovation WG to identify emerging areas with relevance to auditing, assurance and related services and to recommend actions as needed, guided by input from CAG and NSS in particular.
14. The intention is that, by establishing the separate WGs, the Innovation WG will keep its strategic focus on monitoring efforts on identified and emerging topics and, as appropriate, making recommendation to the IAASB in relation to these topics. In connection with its ongoing monitoring activities, the Innovation WG intends to update the IAASB and CAG at least annually on emerging topics, including newly identified ones, and those determined to be priority topics for further attention of the Innovation WG. In addition, the Innovation WG will consider whether topic-specific background papers or presentations by subject-matter experts may be useful to further inform the IAASB and CAG about such topics as necessary.

### Matter for CAG Consideration

1. Representatives are asked for their views on establishing separate working groups for the two priority areas identified.
2. Representatives are asked for their views on maintaining the Innovation WG as a group with a high-level strategic focus to monitor emerging developments relevant to international standard setting.

## Material Presented – IAASB CAG PAPERS

Agenda Item E.1

Update on the Innovation WG

## Project History

### Project: Innovation WG

#### Summary

	CAG Meeting	IAASB Meeting
Preliminary Discussions	March 2012	March 2012
Approval of Terms of Reference of WG	April 2013	April 2013
Updates / Briefings	March 2014	March 2014 June 2014
Discussion on Proposed Way Forward	September 2014	September 2014

#### CAG Discussions: Detailed References

<b>Preliminary Discussions</b>	<p><u>March 2012</u></p> <p>See IAASB CAG meeting material:  <a href="http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-Agenda_Item_D-Strategy_Report_Back-v1-02.pdf">http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-Agenda_Item_D-Strategy_Report_Back-v1-02.pdf</a></p> <p>See CAG meeting minutes (in Agenda Item D of the following):  <a href="http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_A_March%202012_Public%20Minutes-APPROVED.pdf">http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_A_March%202012_Public%20Minutes-APPROVED.pdf</a></p>
<b>Approval of Terms of Reference</b>	<p><u>April 2013</u></p> <p>See IAASB CAG meeting material:  <a href="http://www.ifac.org/sites/default/files/meetings/files/20130403-IAASB-CAG-Agenda_Item_G-3-INFO_TOR-final.pdf">http://www.ifac.org/sites/default/files/meetings/files/20130403-IAASB-CAG-Agenda_Item_G-3-INFO_TOR-final.pdf</a></p> <p>See CAG meeting minutes (in Agenda Item G of the following):  <a href="http://www.ifac.org/sites/default/files/meetings/files/April%202013%20IAASB%20CAG%20Public%20Minutes%20a%20Approved.pdf">http://www.ifac.org/sites/default/files/meetings/files/April%202013%20IAASB%20CAG%20Public%20Minutes%20a%20Approved.pdf</a></p> <p>See report back on April 2013 CAG meeting at Agenda Item J.2:  <a href="http://www.ifac.org/sites/default/files/meetings/files/20130909-IAASB-CAG-Agenda_Item_J2-Strategy_Report_Back-Final.pdf">http://www.ifac.org/sites/default/files/meetings/files/20130909-IAASB-CAG-Agenda_Item_J2-Strategy_Report_Back-Final.pdf</a></p>
<b>Updates / Briefings</b>	<p><u>March 2014</u></p> <p>See IAASB CAG meeting material:  <a href="http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASBCAG-Agenda_Item_D-INFO_Integrated_Reporting-Cover-final.pdf">http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASBCAG-Agenda_Item_D-INFO_Integrated_Reporting-Cover-final.pdf</a>  <a href="http://www.ifac.org/sites/default/files/meetings/files/20130411-IAASBCAG-Agenda_Item_D1_INFO_WG_Presentation_WideScreen-final.pdf">http://www.ifac.org/sites/default/files/meetings/files/20130411-IAASBCAG-Agenda_Item_D1_INFO_WG_Presentation_WideScreen-final.pdf</a>  <a href="http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASBCAG-Agenda_Item_D2-INFO_Integrated_Reporting_and_Assurance_Briefing_Paper-">http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASBCAG-Agenda_Item_D2-INFO_Integrated_Reporting_and_Assurance_Briefing_Paper-</a></p>

	<p><a href="#">final.pdf</a></p> <p>See CAG meeting minutes (Agenda item D):</p> <p><a href="http://www.ifac.org/sites/default/files/meetings/files/20140908-Agenda_Item_B-IAASB_CAG_March_2014_Meeting_Minutes_Marked_for_CAG_Rep_Feedback-final.pdf">http://www.ifac.org/sites/default/files/meetings/files/20140908-Agenda_Item_B-IAASB_CAG_March_2014_Meeting_Minutes_Marked_for_CAG_Rep_Feedback-final.pdf</a></p> <p>See report back on March 2014 CAG meeting:</p> <p>Paragraph 5 of this Agenda Item</p>
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