

**Meeting:** IAASB Consultative Advisory Group  
**Meeting Location:** New York, USA  
**Meeting Date:** March 9–10, 2015

## Agenda Item E

### Innovation Working Group (WG) – Report Back

#### Objectives of Agenda Item

1. To provide a report back on comments of the CAG Representatives and Observers on this project as discussed at the September 2014 CAG Meeting.

#### Project Status and Timeline

2. 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.
3. The CAG discussed at its September 2014 meeting the recommendation of the Innovation WG to establish two separate WGs to address integrated reporting (<IR>) and data analytics and the effect on the audit (data analytics), as well discussed the recommendation to continue the monitoring activities of the Innovation WG on other topics.
4. The Appendix to this paper provides a project history relating to the overarching Innovation WG, including links to the relevant CAG documentation. **Agenda Item E.1** includes an appendix with a project history relating to <IR>.

#### March 2014 CAG Discussion

5. Extracts from the draft minutes of the September 2014 CAG meeting on the discussion of Agenda Item E,<sup>1</sup> as well as an indication of how the Innovation WG or IAASB has responded to the Representatives' and Observers' comments are included in the table at the following page.

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<sup>1</sup> The September 2014 minutes will be approved at the March 2015 IAASB CAG meeting.

Representatives' and Observers' Comments	Working Group/IAASB Response
IAASB INNOVATION WG	
Mmes. Diplock, Elliott, Lang, Molyneux, and Sucher and Messrs. Ahmed, Hansen and Waldron expressed support for the Innovation WG to continue its strategic monitoring. Support was also expressed for the recommendation of the two separate WGs for <IR> and data analytics and the retention of the separate Innovation WG. However, Mr. Hansen encouraged the IAASB to continually evaluate whether there continues to be a need for a separate Innovation WG, in light of the activities of the IAASB's SC.	Support noted and point accepted.  The Innovation WG will at least annually update the IAASB CAG and will continually assess the need for a separate Innovation WG in light of the IAASB's Steering Committee (SC). To-date, the Innovation WG provides relevant input to the IAASB's SC on new and emerging developments relevant to the IAASB.
Mr. Bollmann suggested that the IAASB explore to what extent there is an opportunity for the Innovation WG to become a more proactive "think tank" to identify, explore and support innovation with respect to audit issues. Mr. Koktvedgaard agreed, making reference to the significant impact of technology in designing audit procedures.	Point taken into account.  Mr. Montgomery responded that the activities of the Innovation WG are intended to be proactive. He noted how the various outreach activities of IAASB have already led to new thinking. He explained that the rationale for forming the Innovation WG was to ensure that the IAASB was focusing on the right projects, at the right time, to support its mission in the public interest. Prof. Schilder provided different examples of how the IAASB is proactive and innovative, including its publication of the Framework for Audit Quality, its projects on auditor reporting and ISAE 3000 (Revised), <sup>2</sup> as well as the new project on agreed upon procedures and formation of a separate WG to further pursue the area of data analytics.
Mr. Ahmed suggested that Innovation WG should focus on risk management as a potential topic in the future. Ms. Molyneux agreed and suggested a focus on corporate governance and internal control as the investor community relies heavily on internal control reporting. She also noted the increased relevance of sustainability reporting for investors and suggested that the IAASB continue to monitor developments relating to assurance in these areas.	Point taken into account.  The Innovation WG has identified assurance on corporate governance reporting and assurance on internal control over financial reporting, including aspects of internal control such as risk management as two priority topics to monitor.

<sup>2</sup> ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Information*

Representatives' and Observers' Comments	Working Group/IAASB Response
<p>Mr. Hansen suggested that, in exploring the various topics, it would be important for the IAASB to consider whether there were sufficient underlying frameworks on which to base the proposed assurance engagements and whether such frameworks were developed by appropriate bodies. He noted that the IAASB should consider the attributes of groups developing frameworks, in particular their independence and governance structures, in assessing their outputs.</p>	<p>Points taken into account.</p> <p>In its information-gathering activities, the Innovation WG will consider whether the frameworks applicable to the underlying subject matter of the assurance engagement exhibit the suggested attributes.</p>
<IR>	
<p>Mr. Waldron questioned whether there was sufficient market demand for the IAASB to prioritize &lt;IR&gt; as opposed to other projects, for example, exploring assurance on non-financial information including sustainability reporting. Mr. Montgomery explained that exploratory work to be undertaken on &lt;IR&gt; could highlight matters more broadly applicable to the assurance on non-financial information such as management commentary, key performance indicators (KPIs) or other types of reports in the various jurisdictions.</p>	<p>Point taken into account.</p> <p>Mr. Montgomery noted that, compared to sustainability reporting, addressing the assurance of &lt;IR&gt; might result in a more holistic approach. He noted that part of the rationale for starting a separate WG was the growing interest in this area globally, which suggests a need for the IAASB to begin to explore possible issues relating to assurance on integrated reports at an early stage.</p>
<p>Ms. Lang asked how the Innovation WG assessed the demand for work on &lt;IR&gt; and its prioritization relative to other projects, as she expressed concern that &lt;IR&gt; could become a very significant project that would demand significant resources. She expressed support for the Innovation WG's recommendation to liaise with and leverage the work of NSS.</p>	<p>Point taken into account</p> <p>The Innovation WG assessed the demand for work on &lt;IR&gt; drawing from:</p> <ul style="list-style-type: none"> <li>• The feedback received on the IAASB's public consultation in developing its Strategy 2015-2019 and its Work Plan 2015-2016, and</li> <li>• Interaction with NSS and further research on market demand for these type of assurance engagements.</li> </ul> <p>In alignment with the IAASB Work Plan 2015-2016 prioritization of projects, the activities of the Integrated Reporting WG will focus on information-gathering. The IAASB plans to leverage the efforts and activities of the NSS in undertaking this work.</p>
<p>Ms. Borgerth, citing evidence from various public meetings including those of the United Nations, national developments in Brazil and the IAASB NSS Liaison Group meeting in May, noted that</p>	<p>Points taken into account.</p> <p>Mr. Montgomery confirmed that there are significant global developments relating to &lt;IR&gt;, noting that many large and influential companies</p>

Representatives' and Observers' Comments	Working Group/IAASB Response
<p>there is a strong demand for &lt;IR&gt;. Ms. Borgerth explained that although there is not yet a significant demand for assurance on &lt;IR&gt;, having the IAASB involved in the process now is critical to ensuring a robust framework for providing future assurance on &lt;IR&gt;. Mmes. Blomme, Elliott and Molyneux agreed. Ms. Elliott noted that the OECD's activities as well as recent industry surveys indicated that &lt;IR&gt; is becoming increasingly important. Ms. Blomme noted that the International Integrated Reporting Council (IIRC) has issued a consultation paper exploring assurance on &lt;IR&gt;. Ms. Blomme added that IAASB is an important standard setter, but not the only one, and encouraged the IAASB to be more visible on the topic. She also informed the CAG that FEE would be hosting a roundtable to discuss the IIRC's consultation paper in October 2014.</p>	<p>are exploring &lt;IR&gt;. Mr. Montgomery explained that those companies are at different stages and are already asking questions of their auditors regarding assurance. He agreed that IAASB needs to be ahead of the curve with respect to &lt;IR&gt; and cited plans for the IAASB to proactively discuss issues with relevant parties to evaluate whether ISAE 3000 (Revised) is fit for the purpose, or whether additional guidance or a new standard is needed to address &lt;IR&gt; assurance engagements. He also acknowledged the need for the IAASB to consider whether there are threats to the IAASB's standards if practitioners issue assurance reports on integrated reports where such engagements have been conducted in accordance with standards other than ISAE 3000 (Revised). The IAASB participated in some of the IIRC roundtables. A summary was provided in the Integrated Reporting WG's presentation at the IAASB December 2014 meeting.</p>
<p>Ms. Diplock encouraged the IAASB to continue to focus on public interest and the needs of investors as it progresses the &lt;IR&gt; project. She noted her membership on the Board of the IIRC and commented on the global developments relating to &lt;IR&gt;. She noted that assurance is already being provided on some integrated reports and that there is a risk that these assurance engagements may be to the detriment of what is in the public interest in the absence of an appropriate assurance standard for these engagements. She agreed with Ms. Borgerth that it is important for the IAASB to be involved in &lt;IR&gt; now to instill the appropriate level of rigor for assurance on integrated reports.</p>	<p>Point taken into account</p> <p>In its information-gathering activities the Integrated Reporting WG liaises with investors as well as the IIRC to obtain further insights into their specific assurance needs. The IAASB has submitted a comment letter to the IIRC consultation on its Discussion Papers on Assurance on &lt;IR&gt;. In this letter, the IAASB included a proposed timeframe for its activities on the topic taking into account the input from the September 2014 CAG meeting.</p>
<p>Ms. de Beer expressed agreement with the comments raised in support of the prioritization of &lt;IR&gt;. She referred to a recent panel discussion held in South Africa where the IIRC's consultation paper was discussed. She suggested that the IAASB consider the feedback on the IIRC's consultation paper to further inform its position. This might possibly lead to an IAASB thought piece</p>	<p>Point taken into account</p> <p>The IAASB will consider the feedback on the IIRC's Discussion Paper Assurance on &lt;IR&gt; which is expected to be released in March/April 2015. The IAASB will continue to facilitate the debate about the need for assurance in &lt;IR&gt; in with its plans for first, the release of a Working Group Awareness Paper in April 2015, followed by an IAASB</p>

Representatives' and Observers' Comments	Working Group/IAASB Response
to start the debate on assurance on integrated reports.	Discussion Paper (DP) later in 2015. A draft of this DP will be provided to the CAG for input at its September 2015 meeting. <i>[See Agenda Item E.2 for a draft of the Working Group Awareness paper.]</i>
DATA ANALYTICS	
Ms. Sucher noted that in Europe, a continued focus on stress testing of assets is likely to be relevant to the topics of data analytics and audits of financial institutions. Mr. Ahmed agreed and confirmed the relevance of data analytics to stress testing in the financial sector, in particular to improve information systems.	Point taken into account The IAASB has established a Data Analytics WG. This WG is scheduled to start its information-gathering activities during February 2015 and will take these developments into account.
Ms. Diplock noted that she was pleased to learn about the impact of data analytics within the financial sector. She encouraged the IAASB to continue to keep the needs of investors and the public interest at the forefront as it progresses this project, noting the audit profession's keen interest in this area.	Mr. Montgomery agreed, noting the importance of the ISAs serving the public interest by support high-quality audits. He explained that the IAASB needs to ensure the ISAs support the use of new and emerging techniques in a way that supports audit quality.

#### Matters for CAG Consideration

- The Representatives are asked to note the Report Back above, in particular the changes made as a result of the CAG's comments.

## 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
Report Back	March 2015	N/A

#### 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_D1_INFO_WG_Presentation_WideScreen-final.pdf">http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASBCAG-Agenda_Item_D1_INFO_WG_Presentation_WideScreen-final.pdf</a></p>

	<p><a href="#"><u>Agenda Item D2-INFO Integrated Reporting and Assurance Briefing Paper-final.pdf</u></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"><u>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</u></a></p> <p>See report back on March 2014 CAG meeting (Agenda Item E):</p> <p><a href="http://www.ifac.org/sites/default/files/meetings/files/20140908-IAASB_CAG-Agenda_Item_E-Innovation_WG_Report_Back_Cover-final.pdf"><u>http://www.ifac.org/sites/default/files/meetings/files/20140908-IAASB_CAG-Agenda_Item_E-Innovation_WG_Report_Back_Cover-final.pdf</u></a></p> <p><u>September 2014</u></p> <p>See IAASB CAG meeting material:</p> <p><a href="http://www.ifac.org/sites/default/files/meetings/files/20140908-IAASB_CAG-Agenda_Item_E.1-Innovation_WG_Presentation-final.pdf"><u>http://www.ifac.org/sites/default/files/meetings/files/20140908-IAASB_CAG-Agenda_Item_E.1-Innovation_WG_Presentation-final.pdf</u></a></p> <p>See report back on September 2014 CAG meeting in paragraph 4 of this paper.</p>
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