

Innovation Working Group

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Agenda Item I.1

IAASB-CAG Meeting, September 15-16, 2015

New York, USA

Purpose of the Session

- Inform the CAG on new developments that may have an impact on international standard setting
- Obtain views to what extent the IAASB should obtain further information with regard to these topics
- Obtain views on any other developments they see as being relevant to international standard setting

Innovation WG Objectives

- *Identify* emerging areas with relevance to auditing, assurance and related services and therefore relevant to the work of the IAASB
 - *Monitor* developments and *update* the IAASB and CAG at least annually (September) on emerging topics and the priority topics identified for Innovation WG attention
 - Further *inform* the IAASB and CAG about selected topics, as necessary to provide background and increase awareness
- *Recommend* action(s) to the IAASB

Process for Recommendations to the IAASB

- Timing is based on the perceived need for the IAASB to proactively engage on a topic
- Recommendation to commence activity beyond ongoing monitoring, including the creation of a separate Working Group, is premised on:
 - Market needs and demands for services in these emerging areas
 - Audit and assurance implications, including the possible need for revisions to existing standards or new standards, or other non-authoritative guidance

Sources of Input to the Innovation WG

- Principal sources
 - NSS (annual meeting as well as increased ongoing interaction)
 - CAG
- Other sources
 - Forum of Firms and outreach with firm assurance leadership
 - Other outreach, in particular with organizations addressing specific topics (including IFAC)
 - Strategy and Work Plan consultation

Topics Identified and Feedback on Relevance from NSS in 2014

	Highly	Reasonably	Somewhat	Not	Relevance
Data analytics	7	4	3	-	0.76
Sustainability	7	4	3	-	0.76
Front part of annual report	5	6	2	1	0.69
Corporate governance	4	6	3	1	0.64
Internal control	4	5	5	-	0.64
Risk management	5	2	6	1	0.60
Cybersecurity	2	6	4	2	0.52
XBRL	1	4	7	2	0.43
Human rights	1	2	5	6	0.28

Innovation WG Ongoing Monitoring Activities

- Assurance on non-financial information, including sustainability
- Assurance on corporate governance reporting
- Assurance on internal control over financial reporting, including aspects of internal control such as risk management

Assurance on Non-Financial Information

- Integrated Reporting WG has expanded its information-gathering activities to include other emerging developments in external reporting
- Newly established Agreed-Upon Procedures WG also includes non-financial information in its information-gathering activities

Assurance on Corporate Governance Reporting

- Revised OECD Guidelines, 2015 and ICGN Principles, 2014
 - Developments at national level
 - More requirements on transparency
 - Corporate Governance reporting, separate and embedded in other guidance on integrated reporting, annual reporting and other emerging developments in external reporting
 - Demand for assurance separately or embedded within these developments?
- Innovation WG to continue to explore developments

Internal Control over Financial Reporting and Risk Management

Two angles:

- Assurance engagements over the operating effectiveness of internal control of financial reporting
- Assurance engagements (to support the supervisory role assumed by those charged with governance), including:
 - Risk Management System over (Strategy and) Operations
 - Internal Control over (Financial) Reporting

Internal Control over Financial Reporting and Risk Management (cont.)

- Criteria under revision or recently revised (COSO, ISO)
 - In the USA, performed as a result of Sarbanes Oxley Act
 - Demand worldwide noted: increasing number of jurisdictions as well as broadening the scope to wider than IC over financial reporting
 - Demand not only from a company's executive board but also from non-executives in their supervisory role
- Innovation WG to continue explore developments

IDW project governance, risk management and internal control

- Supervisory board has certain oversight responsibilities for risk management, internal control and internal audit
- In supporting their responsibility, the supervisory board or the audit committee request assurance practitioners to perform certain types of assurance engagements
- The IDW has commenced a project for assurance on governance, risk management, internal control, internal audit and compliance (GRC Project)

Cybersecurity

- Threats increasingly apparent
- Demand is expected to come from a company's management, board, regulators, investors, and customers who desire an independent assessment of the company's ability to protect its systems and information
- Criteria for processes and systems cybersecurity available, for example from US National Institute of Standards and Technology
- Auditors evaluate the effect of IT, including cybersecurity, in planning the audit

Cybersecurity (cont.)

- AICPA has initiated a project on cybersecurity
- Goal of the project
 - Identify the information needed by users for decision making
 - Develop cybersecurity information subject to the assurance engagement
 - Identify suitable criteria for evaluating the underlying subject matter
 - Develop practitioner guidance

Discussion with the CAG

- To what extent are the areas identified of relevance to continue to monitor in light of international standard setting?
- What other developments do the CAG see as being relevant to international standard setting?



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