

**Meeting:** IAASB Consultative Advisory Group  
**Meeting Location:** New York, USA  
**Meeting Date:** March 8-9, 2016

## Agenda Item **K.1**

### Integrated Reporting Working Group (IRWG)

#### Objectives of Agenda Item

1. To provide an update to Representatives and Observers on the activities of the IRWG and obtain their views on the questions raised in **Agenda Item K**, for which the draft Discussion Paper scheduled as **Agenda Item K.1.1** serves as the basis. The session is a joint break-out session with the Agreed-Upon Procedures Working Group (AUPWG).
2. In addition, the IRWG would like to obtain any overall views on the proposed direction of the draft Discussion Paper as included as **Agenda Item K.1.1**.

#### Project Status and Timeline

3. The Appendix to this paper provides a history of previous discussions with the CAG and IAASB on this topic, including links to the relevant CAG documentation.
4. The following provides a brief summary of the IAASB's activities to date in relation to the topic of integrated reporting:
  - (a) September 2014–Initiation of the IRWG. The Terms of Reference for the IRWG include monitoring the developing interest in integrated reporting and the demand for assurance on integrated reports. The initial thinking on the nature of such engagements included the scope of the assurance engagement, the suitability of the criteria, and other matters related to assurance on integrated reports.<sup>1</sup>
  - (b) December 2014–Discussion at the IAASB meeting on the objectives, stakeholder engagement, and proposed timeline as well as a Briefing Paper<sup>2</sup> summarizing some existing market research and investor and preparer surveys to date both with regard to integrated reporting and other emerging assurance issues.
  - (c) March 2015 – Discussion on the objectives, stakeholder engagement, and Staff Awareness Paper with the CAG and on Staff Awareness Paper with the Board.

<sup>1</sup> The IAASB Work Plan 2015-2016.

<sup>2</sup> IAASB December 2014 meeting - Integrated Reporting Working Group Briefing Paper – Agenda Item 10B *Integrated Reporting and Emerging Assurance Issues Relevant to IAASB*[http://www.ifac.org/system/files/meetings/files/20141201-IAASB-Agenda\\_Item\\_10-B-IRWG\\_Briefing\\_Paper\\_Market\\_Developments\\_Integrated\\_Reporting\\_and\\_Assurance.pdf](http://www.ifac.org/system/files/meetings/files/20141201-IAASB-Agenda_Item_10-B-IRWG_Briefing_Paper_Market_Developments_Integrated_Reporting_and_Assurance.pdf)

- (d) July 2015 – Issued Working Group Publication: *Exploring Assurance on Integrated Reporting and Other Emerging Developments in External Reporting*.<sup>3</sup>
- (e) September 2015 – Discussion on market developments, assurance issues, and proposed way forward.

## September 2015 CAG Discussion

5. Extracts from the draft minutes of the September 2015 CAG meeting on the discussion of Agenda Item M.1,<sup>4</sup> as well as an indication of how the IRWG or IAASB has responded to the Representatives' and Observers' comments are included in the table below.

Representatives' and Observers' Comments	Working Group/IAASB Response
<p>Ms. Borgerth noted her support for the IRWG's activities. She also noted that the IIRC is working further with regard to materiality in the context of the International Integrated Reporting &lt;IR&gt; Framework. She noted that non-financial information is becoming increasingly important to inform stakeholders about companies and that the purpose of the International &lt;IR&gt; Framework is to bring non-financial information to the same level of quality as financial information. Therefore, in her view, the possibility of assurance on non-financial information will be essential. However, Ms. Borgerth agreed that the IAASB should not rush in terms of assurance on non-financial information as the International &lt;IR&gt; Framework will continue to evolve. Rather, she suggested that the IAASB continue to follow developments and the focus on non-financial information to be in a position to respond to assurance needs in the future.</p>	<p>Point accepted – The IRWG has followed developments to date and to explore further with stakeholders is developing a discussion paper that can form the basis for roundtables and other types of engagement. The discussion paper recognizes that reporting frameworks in emerging external reporting (EER) are in development. It also looks at the needs of stakeholder in the broader context of credibility and trust. The IRWG would like to have this open discussion before taking any decisions on how to move forward in this area.</p>
<p>Mr. Waldron and Ms. Singh cited results of a recent CFA Institute survey noting the increased use of non-financial information as well as investors' increasing interest in both required environmental, social and corporate governance disclosures by companies and independent verification of these disclosures. Mr. Waldron also noted the feedback from investors that they use this information to</p>	<p>Point noted – The IRWG has included this survey in its information-gathering as well as looked into the demand from investors more broadly by engaging with investors and reviewing other surveys.</p>

<sup>3</sup> [www.iaasb.org/publications-resources/exploring-assurance-integrated-reporting-and-other-emerging-developments](http://www.iaasb.org/publications-resources/exploring-assurance-integrated-reporting-and-other-emerging-developments)

<sup>4</sup> The March 2015 IAASB CAG minutes will be approved at the September 2015 IAASB CAG meeting.

Representatives' and Observers' Comments	Working Group/IAASB Response
<p>manage risk in portfolios. They agreed to distribute the survey to Representatives and Observers.<sup>5</sup></p>	
<p>Ms. Molyneux cited different results from a recent PwC survey on investors' expectations with respect to environmental, social and corporate governance disclosures to support her view that the IAASB should not unduly delay its work in this area. She noted the existence of a wide variety of different standards addressing environmental, social and corporate governance reporting and provided examples of developments in different jurisdictions and different industries. Mr. Rockwell agreed that the variety of information, standards and implementation across jurisdictions is concerning. Ms. Molyneux was of the view that investors need environmental, social corporate governance and other non-financial information and need to know that it is reliable. She suggested that the IAASB's work should track current practice, out of which will likely come some cohesion and consistent expectations. Ms. Borgerth noted she supports the concept of integrated reporting because, in her view, it will likely be difficult for the other different regulations and initiatives to be sufficiently connected to give integrated information about the entity.</p>	<p>Ms. Kamp-Roelands explained that differences in jurisdictions as well as demand for assurance on some or all of the information will always remain and, as such, flexibility is relevant to the further work of the IRWG. She reiterated that the IRWG is exploring the thought process of the practitioner in deciding whether to undertake an assurance engagement, starting with the options for an appropriate assurance conclusion, to the underlying subject matter, subject matter information, management assertions and risks of material misstatements. Ms. Kamp-Roelands noted that this initial consideration will help the IAASB's future discussions, including identifying areas where limitations may occur due to the criteria, as well as the skillsets of practitioners.</p> <p>Point accepted- In its information-gathering activities the IRWG has obtained further insights on current practice in EER, investor's expectations and the variety of EER frameworks and the key messages are reflected in the draft discussion paper.</p>
<p>Ms. Robert explained the new European Directive on disclosure of non-financial and diversity information, which amends the Accounting Directive 2013/34/EU,<sup>6</sup> will require large PIEs to report on a number of key performance indicators, including human rights. She also noted that the Directive includes an option for individual member states to ask practitioners to verify this information. As such, Ms. Robert explained that FEE is currently monitoring these developments, including how practitioners are responding to these requests. She noted that, most often, ISAE 3000</p>	<p>Point accepted – The IRWG has included in its information-gathering the developments of the European Commission as well as the latest FEE publication addressing this. The draft discussion paper tries to reflect that different forms of external reporting are emerging and the implications this may have on the need for credibility and trust and assurance engagements in particular.</p>

<sup>5</sup> [http://www.cfainstitute.org/ethics/Documents/issues\\_esg\\_investing.pdf](http://www.cfainstitute.org/ethics/Documents/issues_esg_investing.pdf)

<sup>6</sup> See also Directive 2014/95.

Representatives' and Observers' Comments	Working Group/IAASB Response
<p>(Revised)<sup>7</sup> is being used, although ISO standards have also been used. She also confirmed the relevance of the IAASB having a broader focus than integrated reporting as it may take several years for integrated reporting to mature, while the need for assurance on non-financial information may be more urgent.</p>	
<p>Mr. Rockwell questioned whether all information related to environmental, social and corporate governance disclosures fall within the professional competence skills of the auditing profession. While in some cases the controls over this information may be similar to financial reporting and therefore assurance concepts may also be similar, in his view, the nature of controls over governance and social policy may be very different. Mr. Rockwell therefore suggested it would be important in considering whether to develop a standard for the IAASB to further explore whether boundaries to assurance engagements may be needed in light of the scope of the practitioner's professional confidence, to prevent an assurance report on certain areas becoming merely a "check the box" exercise. Ms. Molyneux agreed, highlighting the complexity of topics that may be subject to an assurance engagement on non-financial information, and her view that cooperation with other disciplines (such as engineers and other experts) may be necessary in light of the limitations of what practitioners can do. She cited the flexibility that the European Directive allows in selecting the reporting framework under which to report, and asked the IRWG to further consider what is possible within the competencies of the accountancy profession.</p>	<p>Ms. Kamp-Roelands confirmed that audit firms are currently using multi-disciplinary teams when performing these types of assurance engagements, but also acknowledged that assurance in relation to particular topics, such as human rights, may be inherently difficult.</p> <p>Point accepted - the competence of the practitioner and the cooperation with other disciplines is addressed in the draft discussion paper. The draft discussion paper also notes that different EER frameworks are available, and also discusses how the maturity of such frameworks may impact the scope of the assurance engagement. It further describes how new aspects of governance such as stakeholder dialogue can play a role in strengthening credibility and trust. It also addresses the relevance of communication to prevent that unrealistic expectations being created.</p>
<p>Ms. Borgerth noted that a recent IASB ED sets out the view that an entity's accounting policies should be based on its business model, so auditors will need to consider the entity's business model in conducting audits in the near future. However, she</p>	<p>Point accepted – The challenge with regard to the skillset is now explicitly included in the draft discussion paper as well as the relevance of communication to prevent that unrealistic expectations being created.</p>

<sup>7</sup> ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

Representatives' and Observers' Comments	Working Group/IAASB Response
<p>agreed with Mr. Rockwell's view that assurance on non-financial information may require additional skills that practitioners may not currently have. She also noted that the biggest supporters of integrated reporting are audit firms as it conveys business opportunities for them, so in her view they will acquire the skills necessary to conduct these engagements. Mr. Rockwell continued to caution that the audit profession may need to acknowledge the boundaries of its expertise. Mr. Yoshii expressed the view that the most important aspect of disclosure in integrated reports is the entity's business models and its long-term prospects, noting these differ within industries. In his view, the accountancy profession may find it difficult to assure such information because they are experts in auditing, not the entity's business.</p>	

## Format of the Session

6. The March 2016 session on the Integrated Reporting Working Group will be a break out session jointly with the AUPWG. The format of the session is a roundtable for **which Agenda Item K and K.1** provide the basis. As introduction to the break-out session Ms. Kelsall chair of the IRWG will provide a brief introduction to the draft discussion paper and proposed way forward.

## Information-gathering activities in developing the draft discussion paper

7. Since the September IAASB CAG meeting in developing the draft discussion paper the IRWG held two physical meetings and various conference calls. The IRWG also:
  - (a) Had interaction with investors, preparers and practitioners;
  - (b) Considered a wide range of publicly available information, including surveys, reports and academic research;
  - (c) Performed a preliminary high-level gap analysis between key assurance issues identified in the IAASB Briefing Paper and its existing standards to identify at a high level any barriers in the standards that would prevent the flexibility needed in this emerging area, or potential missing guidance to facilitate the quality of engagements that are performed.
8. The key messages are reflected in the draft discussion paper and relate to three key themes:
  - (a) The evolving nature of emerging external reporting (EER). There is a demand for wider information and this is reflected in the various EER frameworks being developed.
  - (b) The demand for action to support credibility and trust. This demand is broader than just assurance engagements. It also includes demand for action to enhance credibility and trust

through effective governance and control – looking to the roles of the different ‘lines of defense’, and the oversight of those charged with governance, within the entity.

- (c) The flexibility in ‘external assurance’ as reporting frameworks evolve. There is a need for flexibility in the nature of ‘external assurance’ to enable it to be delivered appropriately wherever companies are along their path of development in terms of assimilating the wider impacts of the organization into their business processes and information systems, whilst encouraging and nurturing such development. This includes a need to consider innovation in ‘external assurance’ engagements beyond those covered by the IAASB’s International Standards, such as reporting on the evaluation or assessment of the maturity of the organization’s systems and processes.
9. The IRWG also noticed during its information-gathering activities that some elements within its International Standards are not correctly interpreted, in particular with respect to limited assurance engagements. Also, the IRWG identified with regard to assurance engagements, that the root cause of some assurance challenges identified within assurance engagements by practitioners were actually reporting framework issues caused by the fact that the reporting framework is in development.
10. In developing the structure for the draft discussion paper, the IRWG therefore took the following approach:
- (a) The factors that influence credibility and trust internally and externally;
  - (b) The demand for professional services by practitioners, internally and externally, in the broader context of credibility and trust, in particular the nature of assurance or other engagements that would be most relevant in meeting the expectations of users of EER, recognizing the need for innovation due to new EER Frameworks and new features of governance processes (Section III);
  - (c) The implications for standard-setting:
    - Coverage: The type of engagements performed by practitioners to be covered by the International Standards;
    - Flexibility: The flexibility in the International Standards to accommodate engagements with regard to EER; and
    - Guidance: The guidance needed in the International Standards, in particular for the assurance model as covered in ISAE 3000 (Revised) to facilitate globally consistent interpretation in performing assurance engagements. This includes the need for guidance on competencies and how to most effectively communicate the outcome of an assurance engagement (Section IV); and
  - (d) The best way to continue the dialogue with stakeholders and international organizations on supporting credibility and trust in EER.
11. The IRWG would like to point out to the CAG that the paper is still in development and therefore the content of some tables is missing, and that some sections of the text, such as that describing different types of engagement or describing particular assurance challenges, still needs more work. However, the full draft discussion paper has been provided to the CAG to enable the CAG to have an overview

of how the Discussion Paper may look.

## Way forward

12. The IRWG intends to:
  - (a) Continue the dialogue: After the discussion with the IAASB and IAASB CAG the IRWG intends to have further dialogue to explore the relevance and completeness of the topics in the discussion paper, including:
    - the Global Public Policy Committee, Forum of Firms, Professional Accountants in Business, Small and Medium Sized Practices Committee;
    - Organizations that develop EER frameworks.
  - (b) Explore views of national auditing standard setters (NSS) during the IAASB-NSS meeting;
  - (c) Schedule a next version of the IRWG discussion paper for the June IAASB meeting.
13. The publication of the Discussion Paper is dependent on the outcome of the discussion in the IAASB and IAASB CAG.
14. The IRWG anticipates a comment period of 100 days.

## Matters for CAG Consideration

15. In considering the questions raised in Agenda Item K, Representatives and Observers are asked to take into account the full draft of the IRWG Discussion Paper as provided in **Agenda Item K.1.1**. During the break-out session, Representatives and Observers are asked to provide their views on the following:
  - (a) *The broader context of credibility and trust*: Is discussing professional services in the broader context of factors that influence credibility and trust helpful? Would there be any other factors that need to be considered? (Section III of **Agenda Item K.1.1**)
  - (b) *Professional services* What type of professional services are relevant in strengthening credibility and trust in EER? Are there in your view any other types of professional services that are missing? Is innovation in professional services sufficiently addressed? (Section III of **Agenda Item K.1.1**)
  - (c) *Assurance Issues*: The overview provides an insight into the challenges in assurance engagements that emerge due to EER Frameworks, the maturity of governance and reporting processes. Are these assurance issues the most relevant ones? Are there any relevant assurance issues missing? (Section IV of **Agenda Item K.1.1**)
16. In addition, the IRWG would like to obtain any overall views on the proposed direction of the draft Discussion Paper as included as **Agenda Item K.1.1**.

## **Material Presented – IAASB CAG PAPERS**

Agenda Item K1.1

Working Group Draft Discussion Paper: *Supporting Credibility and Trust in Emerging Forms of External Reporting*

## **Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY**

Working Group Paper: [https://www.iaasb.org/system/files/publications/files/IAASB-Integrated-Exploring Assurance on Reporting-Working-Group-Publication\\_0.pdf](https://www.iaasb.org/system/files/publications/files/IAASB-Integrated-Exploring%20Assurance%20on%20Reporting-Working-Group-Publication_0.pdf)  
Integrated Reporting and other Emerging Developments in External Reporting

## Project History

### Project: Integrated Reporting WG

#### Summary

	CAG Meeting	IAASB Meeting
Approval of Terms of Reference of Innovation WG	April 2013	April 2013
Updates / Briefings Innovation WG where topic of Integrated Reporting was discussed	March 2014	March 2014 June 2014
Discussion on Proposed Way Forward of the Innovation WG and the Initiation of the IRWG	September 2014	September 2014
Proposed Way Forward of the IRWG and Awareness Paper	March 2015	March 2015
Panel discussion		June 2015
Discussion on Proposed Way Forward to consult stakeholders on market demand and key assurance issues	September 2015	September 2015

#### CAG Discussions: Detailed References

<b>Approval of Terms of Reference Innovation WG</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 (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-">http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASBCAG-Agenda_Item_D2-</a></p>

	<p><a href="#">INFO Integrated Reporting and Assurance Briefing Paper-final.pdf</a></p> <p>See CAG meeting minutes (Agenda item D): <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 (Agenda Item E): <a href="http://www.ifac.org/sites/default/files/meetings/files/20140908-IAASB_CAG-Agenda_Item_E-Innovation_WG_Report_Back_Cover-final.pdf">http://www.ifac.org/sites/default/files/meetings/files/20140908-IAASB_CAG-Agenda_Item_E-Innovation_WG_Report_Back_Cover-final.pdf</a></p> <p><u>September 2014</u></p> <p>See IAASB CAG meeting material: <a href="http://www.ifac.org/sites/default/files/meetings/files/20140908-IAASB_CAG-Agenda_Item_E.1-Innovation_WG_Presentation-final.pdf">http://www.ifac.org/sites/default/files/meetings/files/20140908-IAASB_CAG-Agenda_Item_E.1-Innovation_WG_Presentation-final.pdf</a></p> <p>See report back on September 2014 CAG meeting in paragraph 4 of Agenda Item E. <a href="http://www.ifac.org/system/files/meetings/files/20150309-Agenda_Item_E-Innovation_WG_Report_Back_Issues-final.pdf">http://www.ifac.org/system/files/meetings/files/20150309-Agenda_Item_E-Innovation_WG_Report_Back_Issues-final.pdf</a></p> <p><u>March 2015</u></p> <p>See IAASB CAG meeting material <a href="http://www.ifac.org/system/files/meetings/files/20150309-IAASB-CAG-Meeting-Agenda_Item_E.1-Integrated_Reporting-CoverNote-Clean_final.pdf">http://www.ifac.org/system/files/meetings/files/20150309-IAASB-CAG-Meeting-Agenda_Item_E.1-Integrated_Reporting-CoverNote-Clean_final.pdf</a> <a href="http://www.ifac.org/system/files/meetings/files/20190309-IAASB-CAG-Agenda_Item_E.2_IR_Awareness_Paper-final.pdf">http://www.ifac.org/system/files/meetings/files/20190309-IAASB-CAG-Agenda_Item_E.2_IR_Awareness_Paper-final.pdf</a></p> <p>See report back on September 2015 CAG meeting in paragraph 4 of Agenda Item M. <a href="http://www.iaasb.org/system/files/meetings/files/20150915-IAASB_CAG_Agenda_Item_M-Integrated_Reporting_Cover_Note-final.pdf">www.iaasb.org/system/files/meetings/files/20150915-IAASB_CAG_Agenda_Item_M-Integrated_Reporting_Cover_Note-final.pdf</a></p> <p><u>September 2015</u></p> <p>See IAASB CAG meeting material <a href="http://www.iaasb.org/system/files/meetings/files/20150915-IAASB_CAG_Agenda_Item_M-1-Integrated_Reporting_Issues_Paper-final.pdf">http://www.iaasb.org/system/files/meetings/files/20150915-IAASB_CAG_Agenda_Item_M-1-Integrated_Reporting_Issues_Paper-final.pdf</a> <a href="http://www.iaasb.org/publications-resources/exploring-assurance-integrated-reporting-and-other-emerging-developments">http://www.iaasb.org/publications-resources/exploring-assurance-integrated-reporting-and-other-emerging-developments</a></p>
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