

Meeting: IAASB
Meeting Location: New York, USA
Meeting Date: June 21 - 24, 2016

Agenda Item 11

Integrated Reporting Working Group (IRWG)

Objectives of Agenda Item

1. The objectives of this agenda item are to:
 - (a) Obtain views from the Board on the draft Discussion Paper (DP) *Supporting Credibility and Trust in Emerging Forms of External Reporting* (EER) (see **Agenda Item 11-A**)
 - (b) Obtain views from the Board regarding how to include the additional tables (see **Agenda Item 11-B**) and in which section of the DP this would be appropriate.
 - (c) Obtain views from the Board on providing further context to developments in EER relevant to the DP and various organizations that are actively participating in EER, including the most effective manner in which to provide this information to stakeholders responding to the DP (see **Agenda Item 11-C**).
2. The discussion of this topic will follow the order set out in the section below, **Action Requested**.

Integrated Reporting Working Group (IRWG)

3. The IRWG was launched in September 2014 and consists of the following members:
 - Merran Kelsall, IAASB Member and Chair of the IRWG
 - Marek Grabowski, IAASB Member
 - Ron Salole, IAASB Member
 - Sue Almond, Grant Thornton
 - Beth Schneider, Director Deloitte
 - Sandy van Esch, Representative of Independent Regulatory Board for Auditors (IRBA)
 - Michael Nugent, Technical Director International Integrated Reporting Council (IIRC) (Correspondent Member)

Activities

4. September 2014 – Upon the initiation of the IRWG, the Terms of Reference for the IRWG were concluded, which include monitoring the developing interest in integrated reporting and the demand

for assurance on integrated reports. This included initial thinking on the nature of such engagements, including the scope of the assurance engagement, the suitability of the criteria, and other matters related to assurance on integrated reports.

5. December 2014 – Discussion at the IAASB meeting on the IR project (objectives, stakeholder engagement and proposed timeline) as well as a discussion on the Briefing Paper, *Update on Market Developments in Integrated Reporting and Emerging Assurance Issues*, which summarizes some existing market research and investor and preparer surveys to date, both with regard to integrated reporting and other emerging assurance issues.
6. March 2015 – Discussion at the IAASB meeting on the Staff Awareness Paper, *Assurance on Integrated Reports: An Emerging and Innovative Landscape*.
7. June 2015 – Panel discussion with external experts to update the IAASB on developments in integrated reporting and other forms of external reporting and the relevant assurance issues to date.
8. July 2015 - Issued Working Group Publication: *Exploring Assurance on Integrated Reporting and Other Emerging Developments in External Reporting*.¹
9. September 2015 – Discussion at the IAASB meeting on market developments, assurance issues and proposed way forward.
10. March 2016 – Discussion at the IAASB meeting of the draft DP, *Supporting Credibility and Trust in Emerging Forms of External Reporting*. Appendix A includes the meeting minutes of the IAASB's discussion.

Activities since IAASB March 2016 Meeting

11. Since the March 2016 IAASB meeting, the IRWG had a physical meeting in April 2016 and held teleconferences in May. The IRWG worked on revising the draft DP based on the input received from the IAASB and finalized Section IV of the DP, that was still under development at the time the DP was presented to the IAASB in March 2016 (see **Agenda Item 11-A**). A tables on key challenges in EER assurance engagements and a table on connecting these challenges with the paragraphs that include a more detailed technical discussion are included in a separate document as **Agenda Item 11-B**. Further the IRWG worked on the request from the IAASB to provide more context to developments in EER relevant to the DP and provide information regarding various organizations that are actively participating in EER (see **Agenda Item 11-C**).
12. Significant changes in the DP (**Agenda Item 11-A**) since the March 2016 IAASB Meeting include:
 - (a) Information on relevant developments in EER and organizations that actively participate in EER have been included in a separate document with a reference to this information in Section I of the DP;
 - (b) The factors that affect credibility and trust in the context of EER are further clarified;
 - (c) The text on ISA 720 (Revised)² has been further revised to provide more balance compared to the description of other professional services. In addition, it clarifies what the auditor of financial

¹ www.iaasb.org/publications-resources/exploring-assurance-integrated-reporting-and-other-emerging-developments

² ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*

- statements is already doing to address societal expectations with respect to the broader demand for information in annual reports, as well as what the boundaries are in this regard;
- (d) The description of the difference between 'external assurance' in the context of professional services to strengthen credibility and trust (Section III) and 'assurance engagements' (Section IV) has been improved;
 - (e) Section IV now includes a more explicit reference to professional skepticism and the work of the professional skepticism working group; and
 - (f) Section IV now includes more details on the type of guidance that might be useful and the Questions seek feedback on whether respondents agree.
13. The IRWG has:
- (a) Continued its outreach to investors, preparers and practitioners (see **Appendix B** of this cover note); and
 - (a) Maintained its monitoring and consideration of publicly available information on this topic, including surveys, reports and academic research.
14. The IRWG has already performed a preliminary gap analysis between key assurance issues identified through outreach and research and the IAASB's International Standards in order to identify, at a high level, any barriers in the IAASB's International Standards that would prevent the flexibility needed in this emerging area and whether guidance is necessary to support the performance of quality engagements on this topic. The outcome of this assessment is reflected in Section IV of **Agenda Item 11-A**.

Background to the Discussion Paper

15. The key themes that have been identified from information gathering in developing the DP are:
- (a) The EER is still evolving to meet the emerging needs of a variety of stakeholders for wider information about the entity and this is reflected in the various EER frameworks being developed.
 - (b) There is demand for action to support credibility and trust, but this is not limited to calls for purely external assurance. This demand is broader and includes demand for action to enhance credibility and trust through effective governance and control, for example including the roles of the different 'lines of defense', and the oversight of those charged with governance, within the entity.
 - (c) There is a need for flexibility in the nature of 'external assurance' as reporting frameworks evolve, in order to enable the assurance to be delivered appropriately and at the same time encourage and nurture the development of EER. 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.
16. The IRWG noticed during its information gathering activities that some elements within the IAASB's 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 certain challenges identified related to assurance engagements were actually reporting framework issues caused by the immaturity of the underlying reporting framework or the entity's reporting systems and related internal control and oversight.

17. The IRWG has proposed the following structure for the DP:
- (a) Explaining the factors that influence credibility and trust internally and externally.
 - (b) Exploring the demand for professional services relating to EER reports to be provided for external and internal stakeholders, 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 stakeholders, recognizing the need for innovation due to developments in EER Frameworks and related governance processes).
 - (c) Understanding the implications of these matters for standard-setting by the IAASB, including:
 - o Coverage: The types of engagements that would be performed by practitioners which need to be covered by the IAASB's International Standards.
 - o Flexibility: How flexibility in the IAASB's International Standards could be achieved to accommodate engagements with regard to EER.
 - o Guidance: The guidance that might be necessary to support the performance of engagements under the IAASB's International Standards, recognizing that ISAE 3000 (Revised) was recently revised to facilitate global consistency in performing assurance engagements.
18. The IRWG has also developed a separate document that includes developments in EER relevant to the DP and provides information regarding various organizations that are actively participating in EER which is aimed at providing background information for stakeholders.

Way forward

19. The IRWG intends to:
- (a) Publish the DP after responding to the comments received from the IAASB during the June 2016 meeting.
 - (b) Develop a brief "At a Glance" document to guide stakeholders through the paper, including what sections and paragraphs may be most important to particular stakeholder groups.
 - (c) Publish the additional background information included in **Agenda Item 11-C** on the project page of the IRWG on the IAASB website.
 - (d) Allow stakeholders to respond within a comment period of 120 days.
 - (e) Continue the dialogue on the DP with stakeholders through various outreach activities.

Action Requested

20. The IRWG would like to obtain the following views from the Board on **Agenda Item 11-A**, **Agenda Item 11-B** and **Agenda Item 11-C**:

Length

- (a) How can the IRWG best manage the length of the DP and find an appropriate balance between being succinct yet providing the information necessary to facilitate a wholesome discussion?

Content

- (b) *The broader context of credibility and trust* (Section I-III): Does the revised content contain sufficient background to enable the discussion on credibility and trust? Is there sufficient balance between the information in the DP and the additional information in **Agenda Item 11-C**?
- (c) *Professional services* (Section III): Does the revised content reflect the range of professional services that may be relevant in strengthening credibility and trust in EER and what might be expected from the IAASB in this respect? Does the IAASB agree with including the general information on assurance engagements in Section III? Do you agree to include table 3 of **Agenda Item 11-B** in Section III?
- (d) *Assurance Issues* (Section IV): Have the assurance issues been properly addressed? Does the revised overview provide sufficient detail on the type of guidance that might be needed?
- (e) Has the IRWG included sufficient background information in **Agenda Item 11-C**, in addition to that already included in the DP, to enable stakeholders to understand developments in EER relevant to the DP and the activities of various organizations that are actively participating in EER?

Clarity

- (f) Is the DP sufficiently clear for stakeholders to understand the issues?

Questions

- (g) Are the questions appropriate to solicit feedback from a broad range of stakeholders?

21. The IAASB is also asked to share its views on the way forward as suggested in paragraph 19 above.

Material Presented

- Agenda Item 11-A Draft Discussion Paper: *Supporting Credibility and Trust in Emerging Forms of External Reporting*
- Agenda Item 11-B Supporting Credibility and Trust in Emerging Forms of External Reporting (EER) - Additional Tables Referenced in the Draft Discussion Paper (DP)
- Agenda Item 11-C.1 Organizations and Developments in the Emerging Forms of External Reporting (EER) Context - Relevant to the International Auditing and Assurance Standards Board (IAASB) Discussion Paper (DP) *Supporting Credibility and Trust in Emerging Forms of External Reporting*
- Agenda Item 11-C.2 Organizations and Developments in the EER Context - Relevant to the IAASB Discussion Paper-Appendix A

Minutes – IAASB March 2016 Meeting³

Integrated Reporting

Ms. Kelsall introduced the topic and explained the public interest issues on which the Integrated Reporting Working Group (IRWG) is focused. She reported back on the key messages conveyed at the break-out session on integrated reporting and agreed-upon procedures at the IAASB CAG meeting, including that there was support for

- The IRWG moving ahead with further discussions in the broader context of credibility and trust and the framework-neutral approach;
- Exploring innovation in emerging forms of external reporting (EER) and assurance; and
- Discussing the professional services on a demand-led basis.

In relation to the planned discussion paper and next steps, the CAG Representatives and Observers variously suggested that the IRWG and IAASB should:

- Consider the competencies that are needed for assurance engagements in EER more explicitly, including the ability to operate in multidisciplinary teams;
- Consider the maturity of reporting systems and whether it would be useful to develop a view as to what a sufficient mature reporting system may look like from the perspective of the practitioner; and
- Include the SMP perspective more explicitly and consider direct engagements as used in the public sector. Ms. Kelsall also noted that some CAG Representatives and Observers expressed caution about considering engagements outside the current scope of the International Standards, and that there were mixed views on the timeframe in which to take action.

Ms. Kelsall explained the activities in preparing the draft discussion paper in **Agenda Item 5-A** and the key outcomes of the high-level gap analysis. The Board was supportive of the draft discussion paper and framing the issues in the broader context of credibility and trust, as well as taking a framework-neutral approach. In addition to various editorial comments received in advance, the Board raised the following comments on the draft discussion paper:

- It should not be pitched at a too high a level, but should emphasize the most important issues more clearly and link them to concise questions.
- A separate appendix should be developed to provide more background on current developments in reporting frameworks, existing surveys, and the different organizations and the role they play. In this regard, it would also be helpful to highlight the genesis of the IAASB's work in this area, and how it has been informed by consultations by other organizations and outreach to a number of active participants in the debate.

³ These draft minutes are still subject to IAASB review and may be subject to further change.

- The discussion paper should further clarify the concepts of reliability of information, credibility and trust, and take into account recent academic research that is both supportive as well as critical to the concept of credibility and trust. This section of the paper should also cover the existing trust in the audit of financial statements and how to ensure that this is not undermined by assurance on EER, given the different competencies needed.
- The discussion paper should also provide more background on the “lines of defense model,” since this is interpreted in different ways. It was noted that this should not only take into account the Institute of Internal Auditors model, but also consider other models such as the five lines of assurance as included in the recently launched Draft *King IV Report on Corporate Governance* for South Africa.
- There was concern expressed that the draft discussion paper gave too much prominence to the potential impact of ISA 720 (Revised)⁴ on EER reports.
- Although there was support for being open to how practice might emerge, , the IAASB did not believe that some of the engagements suggested in paragraph 59 of the draft discussion paper would appropriately be characterized as professional services.
- The IRWG should consider using a different term for “external assurance” where it is used in a sense broader than what is intended by the IAASB’s International Standards.
- The discussion paper should be more explicit about when ISAE 3000 (Revised)⁵ is difficult to apply and what additional guidance might be needed, including a link to the earlier published International Integrated Reporting Council (IIRC) paper. It was suggested that the IRWG should better explain the impact of the maturity of governance over the reporting process and how the assurance challenges identified could potentially be addressed, for example, by proactively considering a methodology for assessing the suitability of criteria, given that existing EER frameworks include various judgmental areas for which reporting entities develop their own reporting policies.
- Section IV of the discussion paper could be more specific in terms of existing standards that may be relevant, for example, ISAE 3000 (Revised), ISAE 3410⁶ and ISAE 3402⁷.. To stimulate responses, the discussion paper could also set out the IAASB’s preliminary thinking about whether certain issues under consideration would be adequately addressed by these standards, and whether an International Practice Note might be sufficient to provide further guidance on assurance engagements.

IAASB CAG CHAIRMAN’S REMARKS

Mr. Waldron agreed with Ms. Kelsall’s summary of the IAASB CAG break-out session. He also provided additional context of the investor perspective by referencing a survey performed by the CFA Institute on

⁴ ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

⁵ ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

⁶ ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

⁷ ISAE 3402, *Assurance Reports on Controls at a Service Organization*

how environmental, social and governance information is used by investors. He confirmed the increased interest from investors in this type of information.

With regard to timing of future actions, Mr. Waldron suggested that the IRWG explore a step-by-step approach that could enable the IAASB to be ready when the demand for assurance becomes really mainstream.

PIOB OBSERVER REMARKS

Prof. Van Hulle complimented the IRWG on the quality of the paper. He noted the relevance of auditors developing more forward-looking thinking to anticipate the changing expectations from society. He noted that new forms of reporting often arise from demand in a political environment in which accountability to reflect the societal changes plays an important role. He highlighted that society already expects auditors to pick up the broader demand for information and that it is in the public interest and therefore it is in the profession's interest to pay attention to this demand. He also referred to recent discussions on tax as an example of how the audit profession came into the spotlight.

Prof. Van Hulle also noted his view that auditors are not part of the lines of defense and suggested that the IRWG clarify this more explicitly in the discussion paper.

WAY FORWARD

The IRWG will present a revised discussion paper for the June 2016 Board meeting, with the intention of it being finalized and issued in the third quarter.

List of stakeholders with whom assurance on EER has been discussed during IRWG and IAASB meetings

Preparers:

1. Simon Braaksma, Philips (Netherlands)
2. Kathryn Caulfield/Aileen Zerrundo, Clorox company (United States of America (USA))
3. Jennifer Crutchfield, Adobe (USA)
4. Antonio Fuertes, Gas Natural (Spain)
5. John Lelliott, The Crown Estate (United Kingdom (UK))
6. Mary O'Malley, The Prudential Insurance Company of America (USA)
7. Dylan McNeill, Philips Lightning (Netherlands)
8. Suzanne Stormer, Novo Nordisk (Denmark)
9. Femke Weijtens, formerly DSM, audit committee member Wereldhave (Netherlands)
10. Stathis Gould, Public Accountants in Business (International)

Investors:

11. Rients Abma, Eumedion (Netherlands)
12. Martijn Bos, Eumedion (Netherlands)
13. Roland Bosch, Hermes Investment (International)
14. Linda Broekhuizen, FMO (Netherlands)
15. Justine Chang Pan Huo, FMO (Netherlands)
16. Joyce Haboucha, Rockefeller & Co (USA)
17. Eugenia Jackson, Allianz Global Investors (International)
18. Liz Murrall, The Investment Association (UK)

Assurance practitioners:

19. Wim Bartels, KPMG (International)
20. Remco Bleijs, EY (Netherlands)
21. Agustin Parisi, EY (International)
22. Diana Hillier, PwC (International)
23. Douglas Johnston, EY (UK)
24. Benjamin Miller, EY (International)

25. Jonathan Morris, BSR Assurance and Consulting (USA)
26. Todd Rahn, Deloitte (USA)
27. Matt Ruter, EY (USA)

Accountancy bodies/standard setters:

28. Desire Carroll, American Institute of CPAs (USA)
29. Paul Hurks, Nederlandse Beroepsorganisatie van Accountants (Netherlands)
30. Ciara Reintjes, Independent Regulatory Board for Auditors (South Africa)

Reporting Guidance:

31. Paul Druckman, International Integrated Reporting Council (IIRC)
32. Neil Stevenson, IIRC
33. Mark Brand, IIRC
34. Matthias Schmidt, IIRC
35. Bastian Buck, Global Reporting Initiative (GRI)
36. Maaïke Fleur, GRI
37. Eric Hespeneheide, GRI and World Business Council for Sustainable Development (WBCSD)
38. Eric Dugelay, WBCSD

Other outreach activities

- Participation in IIRC Assurance Roundtable – September 2014
- Attendance at the annual IIRC Pilot Program conference - October 2014
- Interaction with IIRC leadership during 2014, 2015 and 2016
- Engagement with WBCSD during 2015
- Interaction with GRI and the GRI Global Sustainability Standards Board
- Participation in United Nations Conference on Trade and Development-International Standards of Accounting and Reporting Consultative Group Meeting on Enhancing the Role of Reporting in Attaining the Sustainable Development Goals March 2015 and March 2016
- Participation in roundtable at the Principles for Responsible Investment – September 2015
- Participation in GRI Assurance Roundtable – September 2015
- Discussion at the IAASB National Auditing Standard Setters meetings in 2014 and 2015
- Participation in the joint event of the Fédération des Experts-comptables Européens, Consultative Committee of Accountancy Bodies and Chartered Financial Analyst Institute's on the future of corporate reporting - May 2016

- Participation GRI Conference – May 2016