

May 9, 2024

Chair Gabriela Figueiredo Dias
International Ethics Standards Board for Accountants
529 5th Avenue
New York, New York 10017

RE: The IIA Response Regarding IESBA’s Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code relating to Sustainability Assurance and Reporting

Dear Chair Figueiredo Dias and IESBA Professional Standards Team:

On behalf of The Institute of Internal Auditors (The IIA), the international professional association representing over 245,000 internal auditors, I appreciate the opportunity to comment on the International Ethics Standards for Sustainability Assurance Exposure Draft set forth by the International Ethics Standards Board for Accountants (IESBA).

For over 80 years, The IIA has been recognized across the globe as the internal audit profession’s leader in standards, certification, education, research, and technical guidance.

After reviewing the IESBA’s Exposure Draft, The IIA commends the efforts of the IESBA in advancing an ethical framework for sustainability assurance. Ethics represent an important cornerstone in the work internal auditors do, and internal auditors play a pivotal role within the ecosystem of sustainability assurance. This first point is demonstrated in our Global Internal Audit Standards™ (Standards). Standard 1.2 Organization’s Ethical Expectations states that,

“Internal auditors must encourage and promote an ethics-based culture in the organization. If internal auditors identify behavior within the organization that is inconsistent with the organization’s ethical expectations, they must report the concern according to applicable policies and procedures.”¹

In this spirit, and to further strengthen the IESBA’s proposed ethical standards and their application, The IIA recommends the following:

Inclusion of Internal Audit in Notifications of Non-Compliance:

The IIA recommends explicitly listing the internal audit function among the parties to be notified about actual or suspected non-compliance with laws and regulations. Internal audit functions report to the highest governing authorities within organizations and are key to strong governance and sustainability reporting. Internal audit's role is pivotal in evaluating and mitigating risks of non-compliance within

¹ https://www.theiia.org/globalassets/site/standards/globalinternalauditstandards_2024january9.pdf



organizations. Their early involvement ensures a comprehensive response and aids in the safeguarding of organizational integrity and ethical standing.

Internal auditors possess a unique and comprehensive understanding of the organization's operations, processes, and risk landscape. Their expertise and position within organizations allow them to assess the implications of non-compliance in a holistic manner, ensuring that potential organizational risks are identified and addressed promptly. To illustrate how internal audit fits into governance alongside the governing body, senior management, and other external stakeholders, The IIA would like to reference the [Updated Three Lines Model](#).² Moreover, the internal audit function coordinates with stakeholders both internally and externally to provide robust assurance. In Europe, for example, sustainability regulations require the involvement of an increasing number of stakeholders beyond the organization to provide sustainability assurance, which positions internal auditors in the vanguard of assurance professionals.

Furthermore, internal auditors play a crucial role in the development and implementation of effective internal controls and governance practices that can prevent future instances of non-compliance. By being included in the list of notified parties about issues of actual and suspected non-compliance, internal auditors can act swiftly to further investigate root causes and recommend remedial actions, thereby reducing the potential impact on the organization's reputation, operations, and financial standing. This may even overlap with ongoing internal audit performance or activity that the internal audit function is already leading. Their involvement is essential for fostering a culture of transparency, accountability, and ethical behavior across all levels of the organization.

Conformance to The IIA's Standards, specifically including Quality Assurance and Improvement Programs (QAIPs), as a Criterion for Evaluating Internal Audit Services:

Under the section titled, "Risk of Assuming Management Responsibility When Providing an Internal Audit Service," The IIA recommends that the IESBA's Exposure Draft include a reference to our Standards, and a specific reference to QAIPs, to help others evaluate the adequacy of internal audit services. The IIA's Standards are part of the International Professional Practices Framework® (IPPF), which organizes the authoritative body of knowledge for the professional practice of internal auditing. The IPPF includes the following:

- Global Internal Audit Standards™.
- Topical Requirements.
- Global Guidance.

As the internationally recognized, profession-wide benchmark, the Standards instill confidence in internal auditors' work that allows stakeholders (e.g., governing bodies, senior management, external audit, sustainability assurance providers and preparers, etc.) to make key decisions to help strengthen organizations. The IIA regularly conducts a comprehensive, robust multi-year assessment process to ensure that our Standards are aligned with modern practices and fit for purpose across a wide range of internal audit functions. QAIPs promote continuous improvement and help provide evidence of internal

² <https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf>



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audit functions' conformance to the Standards and insights on achieving performance objectives. This will ensure a uniform criterion is applied across different jurisdictions and industries, enhancing the consistency and reliability of internal audit assessments in support of fair sustainability reporting and its ethical underpinnings.

Clarification and Specificity of the Use of the Terms Involving “Audit”:

The IIA recommends that the IESBA consider the explicit use of the terms “internal audit” and “external audit” given that the standalone term “audit” may be unclear. This clarification will prevent ambiguity and differentiate between the work and functions of internal auditors and external auditors. A clearer delineation supports the understanding and expectation of stakeholders regarding the roles and responsibilities of each. This distinction is important, as the scope, objectives, and governance of these functions vary.

Ethics requires clarity and accountability. By specifying the audit-related terminology used in the Exposure Draft, the IESBA provides a clear understanding of the responsibilities of the different stakeholders involved in assurance as they perform their work and use the work of others. Moreover, the definitions related to internal audit functions must be clear, especially when juxtaposed with the terms established for external audit (e.g., “audit team”), ensuring coherence and comprehensive understanding across the various facets of audit terminology. Incorporating these recommendations will enhance the clarity and applicability of the IESBA’s ethics standards, further reinforcing the pivotal role of internal audit in promoting integrity and accountability across organizations.

Thank you for your consideration of our views and recommendations. Should you have any questions regarding this matter, please do not hesitate to contact Alex Sload, IIA’s Senior Manager for Advocacy, at Alex.Sload@TheIIA.org.

Sincerely,

Anthony J. Pugliese, CIA, CPA, CGMA, CITP
President and Chief Executive Officer
The Institute of Internal Auditors, Global Headquarters

The Institute of Internal Auditors
Comments on the Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code relating to Sustainability Assurance and Reporting

Please note that The IIA's replies to this proposal have also been submitted electronically through the response portal.

SECTION 5360 RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS
(Page 56)

R5360.11 If the sustainability assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the practitioner shall discuss the matter with the appropriate level of management, **the internal audit function**, and, where appropriate, those charged with governance.

5360.11 A4 The sustainability assurance practitioner might also consider discussing the matter with internal auditors, where applicable.

R5360.12 If the sustainability assurance practitioner believes that management is involved in the noncompliance or suspected non-compliance, the practitioner shall discuss the matter with those charged with governance **and the internal audit function of the organization**.

SUBSECTION 5605 – INTERNAL AUDIT SERVICES (Page 171)

Requirements and Application Material

Description of Service

5605.2 A1

Internal audit services comprise a broad range of activities and might involve assisting the sustainability assurance client in the performance of one or more aspects of its internal audit activities. Internal audit activities might include, **but are not limited to**:

- **Evaluating the impact and likelihood of the different risks of an entity.**
- Monitoring of internal control – reviewing controls, monitoring their operation, and recommending improvements to them.
- Examining financial and operating information relevant to sustainability by:
 - o Reviewing the means used to identify, measure, classify and report that financial and operating information.



- o Inquiring specifically into individual items including detailed testing of transactions, balances, and procedures.
- Reviewing the economy, efficiency, and effectiveness of operating activities relevant to sustainability including non-financial activities of an entity.
- Reviewing compliance with:
 - o Laws, regulations, and other external requirements.
 - o Management policies, directives, and other internal requirements.

5605.2 A2

The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of those charged with governance as well as the needs and expectations of management. They might involve matters that are **financial**, operational, or **strategic** in nature that will be subject to consideration in relation to the assurance of sustainability information.

Risk of Assuming Management Responsibility When Providing an Internal Audit Service (Page 172) R5605.3

Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to a sustainability assurance client, the firm shall be satisfied that:

...

- (c) The client evaluates the adequacy of the internal audit services, ~~and~~ the findings resulting from their performance, **whether the internal auditors follow the latest global internal audit standards, as promulgated by The Institute of Internal Auditors, and whether the internal audit function maintains a Quality Assurance and Improvement Program.**

CHAPTER 2 – PROPOSED REVISED GLOSSARY (Page 186)

External Assurance engagement

An engagement in which a professional accountant in public practice aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information. (ISAE 3000 (Revised) describes the elements and objectives of an assurance engagement conducted under that Standard and the Assurance Framework provides a general description of assurance engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) International Standards on Assurance Engagements (ISAEs) and International Standards on Sustainability Assurance (ISSAs) apply.)

External Audit engagement

A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing. This includes a Statutory Audit, which is an **external** audit required by legislation or other regulation. *In Part 4A, the term "external audit engagement" applies equally to "review engagement."*

External Audit report

In Part 4A, the term "external audit report" applies equally to "review report."

External Audit team

- (a) All members of the engagement team for the **external** audit engagement;
- (b) All others within, or engaged by, the firm who can directly influence the outcome of the **external** audit engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the **external** audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
 - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and
 - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and (c) Any other individuals within a network firm who can directly influence the outcome of the audit engagement.

In Part 4A, the term "external audit team" applies equally to "review team." In the case of a group audit, see the definition of group audit team.

If [external] "audit team" is defined, the definition of an internal audit function should also be included. Below is a definition of "internal audit function."

Internal Audit Function

A professional individual or group within a covered entity who, in conformity with globally accepted internal auditing standards, is responsible for providing: the board of directors, an audit committee, if applicable; and management with: objective assurance over the covered entity's governance, risk management, and internal controls; consulting services; and strategic advice on risk mitigation. An internal audit function shall be—



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- (a) Independent from management, reporting to the organization's board of directors, a committee, or another body to which the board of directors has delegated certain functions;
- (b) Led by a qualified professional responsible for effectively managing all aspects of the internal audit function and ensuring the quality performance of internal audit services;
 - (i) The leader of the internal audit function, and relevant staff, shall hold appropriate professional certifications or other credentials, such as the Certified Internal Auditor credential.
- (c) Required to establish a written internal audit charter agreed upon by both the board of directors and the qualified professional leading the internal audit function.