

July 28, 2021

IFRS Foundation Trustees
7 Westferry Circus, Canary Wharf
London E14 4HD, UK

Re: Proposed targeted amendments to the Constitution
Sent via electronic mail to commentletters@ifrs.org

Dear Trustees,

The Institute of Internal Auditors is pleased to provide input on proposed amendments to the IFRS Foundation Constitution to accommodate creation of an International Sustainability Standards Board.

As a member of the Value Reporting Foundation, The IIA is committed to addressing the broader issues associated with environmental, social, and governance (ESG) matters on a global level and advocating for the critical role of independent internal assurance. Internal audit, with its holistic view and understanding of risks across an organization, is uniquely positioned to provide assurance on effective governance structures and systems of internal control that, in turn, ensure complete, accurate, and reliable information around ESG. The active engagement of internal audit in all aspects of sustainability reporting greatly enhances the auditability of external reports, making the work of external auditors more effective and efficient.

It is imperative to identify specific metrics that enable accurate, relevant, and comparable sustainability reporting across organizations. In December 2020, we provided our support for creation of a global set of internationally recognized sustainability reporting standards. We continue to support your focus on enterprise value, building upon existing frameworks, and working with standard-setters from key jurisdictions.

Regarding the current exposure draft, we endorse the proposed changes to the IFRS Constitution to create a new board, establish sustainability standards, and ensure alignment within the Constitution. However, we would like to provide some additional feedback.

The question asking whether this governance structure will provide legitimate oversight of the standard-setting process is difficult to answer because of the vast amount and complexity of work involved in bringing key parties together and crafting truly comparable global standards. The governance structure mirrors that outlined for financial reporting, but creating sustainability standards that satisfy diverse

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jurisdictions is new territory. We were pleased to note that Trustees will continue to engage to ensure a “globally consistent and comparable sustainability reporting baseline” while providing the much-needed “flexibility for coordination on reporting requirements that capture wider sustainability impacts.” We see this as crucial to successful IFRS standard-setting and the creation of enterprise value.

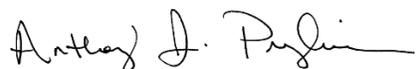
While those in the accounting profession have naturally led the development of reporting standards for financial statements, it should be recognized that sustainability goes far beyond the traditional expertise of accountants and external auditors. This should be reflected in the future training needs of external auditors, and in the composition of the various panels, boards, and advisory groups contributing to sustainability reporting standards. Other disciplines and interests must be strongly represented. Among these should be internal audit, which provides assurance on nonfinancial information, including the adequacy and effectiveness of all aspects of governance, risk management, and internal controls.

We also suggest that, to be equally relevant to all sectors, the Foundation take a broader view of stakeholders to include the public sector, rather than focusing solely on information that is material to the decisions of investors and other participants in the world’s capital markets. Governments everywhere are trying to deliver greater service and achieve public policy goals while dealing with climate crises and other growing risks and regulations regarding ESG. The current emphasis on ensuring sustainability reporting that satisfies investors downplays social and environmental imperatives for responsible stewardship. Furthermore, mindful of criticisms often levied at international standard-setting mechanisms, much care should be taken to ensure that whatever structure is implemented encourages economy, agility, and responsiveness, and avoids bureaucracy in favor of utility.

Lastly, The IIA fully supports creation of a multi-stakeholder expert consultative committee, and we ask for the opportunity to work with Foundation Trustees and the International Organization of Securities Commissions to explore its development and to participate going forward. For nearly 80 years, The IIA and its more than 200,000 internal audit members globally have aided sound governance and risk-management efforts in public- and private-sector organizations, encouraging strong internal controls and an enterprisewide approach. The sustainability standard-setting process can only benefit from the internal audit perspective, as strong internal control environments are required to produce valid information for ESG reporting and to create trust for investor *and* all stakeholder decision-making.

For further discussion, please contact me or The IIA’s Vice President Of Advocacy, Kathy Anderson, at kathy.anderson@theiia.org.

Sincerely,



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