

May 21, 2021

**Via Electronic Mail**

The Honorable Gary Gensler  
Chair  
U.S. Securities and Exchange Commission  
100 F St, NE  
Washington, DC 20529-1090

**Re: Public Input on Climate Change Disclosures**

Dear Chair Gensler:

On behalf of The Institute of Internal Auditors (IIA), I appreciate the opportunity to submit this letter in response to the March 15, 2021 request for public comments on climate change disclosure. We commend the Commission's efforts to address this important issue and its consideration of creating a single disclosure framework.

As the new President and CEO of The IIA, one of my key priorities is to focus our association and profession on issues of sustainability. Business performance is no longer judged purely on short-term financial returns. Environmental, social and governance (ESG) issues represent a broad range of risks, including to external supply chains, internal operations, third parties, general control weaknesses, data accuracy, human capital, and more.

Reporting of climate risk has grown, with many organizations providing some form of self-published disclosure. However, such voluntary reporting, which well-intentioned, has led to a lack of uniformity and consistency, preventing comparative assessments and accurate assurance. A single system of climate disclosures would provide an opportunity for comparability among corporations and investors and allow for more informed business decisions that consider ESG impacts. This also would enable long-term organizational resilience. In fact, The IIA recently [commented](#) on The International Financial Reporting Standards Foundation (IFRS) *Consultation Paper on Sustainability Reporting*, noting the need for a global set of internationally recognized sustainability reporting standards.

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## **Disclosure Controls**

Consideration should also be given to other federal compliance mandates regarding climate and pollution. While there are existing financial reporting requirements surrounding segment reporting vis-a-vis consolidated reporting, one could use the same application for organizations with varying degrees of climate compliance concerns.

Compliance is more than verification of accurate data reporting. To evaluate and assure the quality and relevancy of data and other information, organizations must first have a robust system of policies, processes, and internal controls. Ensuring the reliability of these systems and the information generated requires oversight and assurance independent from management. This is the role and strength of internal audit.

Because ESG reporting can contain a wide variety of metrics, organizations must establish policies, processes, and internal controls that generate reliable information for decision-making and ensure the quality of data being produced and reported. Similar to financial reporting, the data used to create sustainability reports are based on the day-to-day operations and decisions driving organizations toward achieving objectives. Proper control activities must be designed and operating effectively — from the operational steps through the collection and analysis of the data that will be used in reporting. While operationalizing sufficient control activities is the responsibility of management, internal audit is necessary to provide objective assurance, independent from management, that established control activities are properly designed and operating effectively, thus providing confidence and trust to stakeholders.

## **Disclosure Governance**

The widely accepted [Three Lines Model](#), published by The IIA in 2020, articulates the core components of effective governance, emphasizing the need for clear roles and responsibilities toward confronting applicable risks, and the crucial importance of effective coordination, communication, and collaboration. Those roles include:

- Accountability by a governing body (board) to stakeholders for organizational oversight through integrity, leadership, and transparency.
- Actions (including managing risk) by management to achieve the objectives of the organization through risk-based decision-making and application of resources.
- Assurance and advice by an independent internal audit function to provide clarity and confidence and to promote and facilitate continuous improvement through rigorous inquiry and insightful communication.

As with any new requirement, management will need to establish an effective system of internal control to ensure that required disclosures are based on complete, accurate, and reliable information. During the implementation of the Sarbanes-Oxley Act of 2002, the COSO Internal Control – Integrated Framework was adopted by most organizations to ensure the system of internal controls was, in fact, robust and comprehensive. The COSO Framework will be equally applicable in the case of any future ESG disclosure requirements.

Within an effective governance structure, internal audit that is well resourced and positioned ensures integrity, trust, transparency, compliance, and accountability. This is enabled by The IIA's [International Professional Practices Framework \(IPPF\)](#), which includes globally recognized *Standards* and authoritative guidance that drive high quality internal audit work.

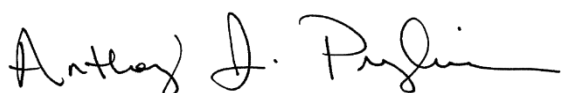
Listed companies that publish climate-related disclosures should acknowledge to shareholders whether they have an internal audit function that is sufficiently independent from management. This would contribute to confidence in the markets. Finally, as the establishment of effective internal audit practices has been included in a number of SEC enforcement decisions, a more proactive approach is warranted.

### **Considerations beyond Climate Change Disclosures**

As a member of the International Integrated Reporting Council, The IIA is committed to addressing the broader issues associated with ESG on a global level and advocating for the critical role of independent internal assurance. Internal audit, precisely because of its holistic view and understanding of risks across an organization, is uniquely positioned to provide assurance on effective governance structures and systems of internal controls that, in turn, ensures complete, accurate, and reliable information around ESG. It is imperative to identify specific reporting metrics that accurately reflect relevant and comparable sustainability efforts across organizations. We are here to facilitate that.

The IIA thanks the Commission for the opportunity to provide our input and expertise on this important issue. We welcome the opportunity for further discussion with the Commission and Commission staff. Thank you for your consideration.

Sincerely,

A handwritten signature in black ink that reads "Anthony J. Pugliese". The signature is fluid and cursive, with a long horizontal stroke at the end.

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