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IFRS Foundation Trustees  
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Sent via electronic mail to [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

Dear Trustees,

The Institute of Internal Auditors (IIA) is pleased to comment on the IFRS Foundation's *Consultation Paper on Sustainability Reporting*, on behalf of its more than 200,000 members worldwide.

Sustainability in its broadest sense means organizations are adding value by maintaining sustainable operations and ensuring their net long-term environmental impacts are neutral. The IIA recognizes sustainability is a goal of governance, and that internal audit (independent assurance) is indispensable to governance.

Effective sustainability processes start with governance and must be directed by the governing body with the independent and objective assurance that internal audit provides. The IIA strongly recommends that the IFRS Foundation focus its thinking around assurance as it moves forward to include the independent assurance provided by internal audit throughout the process, even before external assurance is sought. Investors and stakeholders want to understand sustainability issues in the short, medium and long term. Internal audit's unique position in an organization allows it to have a broad view beyond financial matters and provide that valuable insight.

Answers to your 12 questions follow. Please contact Mr. Francis Nicholson, The IIA's Vice President of Global Relations, at [francis.nicholson@theiia.org](mailto:francis.nicholson@theiia.org), if we can be of assistance or to answer any questions.

Sincerely,

Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA  
President and Chief Executive Officer  
The Institute of Internal Auditors

**Q1 Is there a need for a global set of internationally recognized sustainability reporting standards?**

- a) If yes, should the IFRS Foundation play a role in setting these standards and expand its standard setting activities into this area?**
- b) If not, what approach should be adopted?**

Yes, there is a need for a global set of internationally recognized sustainability reporting standards and the IFRS Foundation should certainly play a role. However, The IIA recommends that IFRS expansion of its standard setting activities into this area be pursued cautiously and done through collaboration and inclusiveness.

Given the progress made within the scope of sustainability reporting and standards development, The IIA recommends that the IFRS focus its attention on building upon what is already established and work toward improving upon it through collaboration with all interested groups. There is great commonality between existing frameworks, presenting an opportunity for eventual consolidation and conformity in the nonfinancial reporting arena.

**Q2 Is the development of a sustainability standards board (SSB) to operate under the governance structure of the IFRS Foundation an appropriate approach to achieving further consistency and global comparability in sustainability reporting?**

Yes, it is of utmost importance to establish a consistent approach that encourages consensus and facilitates long-term value creation globally. That requires measurement against one standard.

If the SSB is the entity that creates this global standard, The IIA does not believe it would be valuable to reinvent the wheel. SASB, for example, may be better positioned, as it already has existing standards being utilized for nonfinancial information, developed primarily to give the investment community a view of the financial stability of an organization on a long-term basis.

We must join together to move away from short-term, quarterly information and toward long-term security and stability – sustainability. If proven standards are currently being used for what a new standards board hopes to do, then what is already working should be transitioned to this new global board.

**Q3 Do you have any comment or suggested additions on the requirements for success as listed in paragraph 31 (including on the requirements for achieving a sufficient level of funding and achieving the appropriate level of technical expertise)?**

We urge recognition that effective sustainability processes start with effective governance, and these must be directed by the governing body supported by the independent and objective assurance that internal audit provides. Investors and stakeholders want to understand sustainability issues in the short, medium and long term. That requires not only looking back at financials but ahead at relevant information and data. Internal audit is uniquely positioned in an organization to do that, and is a fundamental component of success.

Additionally, while the requirements for success cover a wide range of stakeholders and issues, The IIA recommends a clearer reference to the support of the organizations and bodies already working in this arena. Support from other standard setters and reporting organizations will be crucial to the process.

**Q4 Could the IFRS Foundation use its relationships with stakeholders to aid the adoption and consistent application of SSB standards globally? If so, under what conditions?**

The IIA recommends the IFRS Foundation's first step be to identify all the stakeholders involved in the adoption and consistent application of proposed SSB standards globally, and not rely only on current relationships. Once identified, the IFRS Foundation must decide how it is going to enlist these additional stakeholders by creating an outreach and collaboration plan. Consensus will be critical to success.

**Q5 How could the IFRS Foundation best build upon and work with the existing initiatives in sustainability reporting to achieve further global consistency?**

The business community is increasingly amplifying the call to convene, collaborate, consolidate, and reach consensus. The world needs this to happen so there aren't unnecessarily duplicative approaches to "sustainability reporting." Perhaps the IFRS Foundation can lead this collaboration, and play the role of convener. There are many formal and informal groups and networks with expertise in sustainability, governance, investor demands, risk management, etc., that could help the IFRS Foundation achieve global consistency.

**Q6 How could the IFRS Foundation best build upon and work with the existing jurisdictional initiatives to find a global solution for consistent sustainability reporting?**

The IIA recommends in identifying key stakeholders a focus on collaborating with regulators and governmental leaders to build consensus. In its research, the Foundation can tie principles-based standards to regulations to ensure broad coverage.

**Q7 If the IFRS Foundation were to establish an SSB, should it initially develop climate-related financial disclosures before potentially broadening its remit into other areas of sustainability reporting?**

The IIA recommends that the IFRS Foundation not limit its initial work to climate-related financial disclosures. The momentum in sustainability reporting includes a broader range of disclosures, and other movements have already spread a wider net. Also, climate-related financial disclosures would limit the impact of this effort and such disclosures do not always translate into social and governance pieces, which must be included for long-term sustainable value. While climate-related issues are basic and broad, the world can't wait for incremental steps, and instead needs a hard push to expand its thinking and the potential for longer-term outcomes.

**Q8 Should an SSB have a focused definition of climate-related risks or consider broader environmental factors?**

A focused definition of climate-related risks will be important to communication efforts and consistency in reporting and disclosures. However, it will very likely have to be at a high level because climate-related risks is such a broad concept. There may be other organizations better suited for this.

**Q9 Do you agree with the proposed approach to materiality in paragraph 50 that could be taken by the SSB?**

Yes. Organizations are accountable, or should be accountable, to a wide range of stakeholder interests. Therefore, disclosures and other reporting should reflect impacts on the wider environment, which is consistent with attaching responsibility to a wider set of shareholders. Not to say it is easy, but if reporting is to be against the U.N.'s Sustainable Development Goals, this is important and should be included. Accounting statements should include items that are material to the financial statements, profit and loss, etc. Standards related to materiality should additionally look at what is material from other perspectives.

**Q10 Should the sustainability information be disclosed be auditable or subject to external assurance? If not, what different types of assurance would be acceptable for the information disclosed to be reliable and decision-useful?**

Yes, the sustainability information disclosed should be auditable and require independent, objective assurance of its validity. It is important to recognize and convey that independent assurance is crucial prior to any involvement by external accountants. Internal audit is there from the beginning with great understanding and expertise, including providing assurance on nonfinancial information, including culture, and a range of other indicators, whereas accountants are not.

The IIA recognizes that some organizations will need a change in mindset and in their operations before they are ready to make detailed reports to external stakeholders beyond traditional financial statements. Internal audit is ideally positioned to support boards and senior management through all stages of this journey by providing authoritative insight and independent assurance.

Internal audit should be considered a crucial partner from the outset of this process. Standards and guidance developed for sustainability reporting need to take into account the stages organizations must go through and the important role played by internal audit.

To be considered reliable, information shared externally must require independent vetting by the internal audit function. That, in turn, will build trust with shareholders and investors and improve the likelihood of long-term success. IFRS would do the nonfinancial reporting process a great disservice if internal audit is not specifically included as a crucial player within organizations to provide independent assurance.

**Q11 Stakeholders are welcome to raise any other comment or relevant matters for our consideration.**

The IFRS notes investors as key stakeholders, but the paper does not reference governing bodies (those charged with governance) or the internal audit activity. The IIA strongly encourages including these important contributors to bolster investor confidence.

Over the past 100 years, the internal audit profession has been relied upon by governing bodies, stakeholders, investors, and regulators to review and assure internal controls are properly executed over financial and nonfinancial reporting. Internal audit also considers risks across the enterprise, and performs both assurance and advisory engagements. Ultimately, internal audit is an independent and objective function that serves at the pleasure of the governing body, and is a fundamental component of effective governance along with executive management and the governing body.

The IIA urges the IFRS Foundation to adhere to general practices of effective governance in establishing its sustainability standards. The governing body should have responsibilities for steering, governing, and supporting nonfinancial reporting, but it should not manage, or get too far into the details of approvals that more appropriately belong to management.

The governing body also must ensure the quality and veracity of reported information by indicating the role of an internal audit function in providing independent, objective assurance over the accuracy of that information. Organizations can make broad claims and assertions that influence readers of nonfinancial reports. Internal audit helps to ensure the accuracy of claims and assertions in qualitative content of nonfinancial reports.

We strongly recommend utilizing the framework for effective governance demonstrated in The IIA's widely adopted "Three Lines Model," which clearly defines the three main roles within effective

governance as accountability, actions, and assurance. These roles are typically undertaken by three essential players in governance: the governing body, management, and internal audit. This straightforward view better helps organizations to identify structures, design processes, and assign responsibilities that best assist the achievement of objectives and facilitate strong governance and risk management.

Internal audit ensures the appropriateness of processes, systems and internal controls over financial reporting – skills that also are applied to nonfinancial/ESG reporting. The paper is deficient if assurance is equated with external audit. Other assurance providers are involved in this process, including the internal audit function (the “third line role” of governance, based on the Three Lines Model, in providing independent assurance), as well as “second line role” audit functions for environmental, health & safety, supply chain, and other high-risk ESG topical areas.