

18 November 2021

Via Electronic Mail: commentletters@ifrs.org

Andreas Barckow

Chair

International Accounting Standards Board

Re: Public Comment on Exposure Draft ED/2021/6; *Management Commentary*

Dear Mr. Barckow:

On behalf of The Institute of Internal Auditors (IIA), I appreciate the opportunity to provide comments on the Exposure Draft ED/2021/6 *Management Commentary* dated May 2021 and published by the International Accounting Standards Board (IASB) for comment only. The IIA commends the IASB and International Financial Reporting Standards (IFRS) work to revise and supersede the existing Practice Statement.

We would agree with the objective that management should have a process to identify the information to be presented (that investors and creditors need) and that this information should be balanced (financial and nonfinancial; short and long term) and presented clearly. Organizations should use their internal audit functions to provide independent assurance as to the effectiveness of this process and the quality (including completeness, balance, accuracy, clarity, and materiality) of the information presented.

One sub-objective is for the organizations to ensure that the process has sufficient discipline to facilitate external assurance – but there is no mention of internal assurance, independent of management, that can be used to enhance confidence in the information coming from organizations. We would respectfully ask for consideration that before external assurance is engaged that organizations use their internal audit functions to provide independent, internal assurance of both the information and the processes used to provide it so that users have high confidence in what is reported directly from organizations. This assurance should be disclosed as part of the management commentary.

Missing from the Exposure Draft is the role of effective governance, and those charged with same, in assuring objectives are met and risks are appropriately managed, including with respect to *Management Commentary*.

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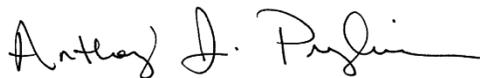
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While operationalizing sufficient control activities is the responsibility of management, organizations should consider their internal audit function as necessary in providing objective assurance and advice that established control activities are properly designed and operating effectively to manage risk within tolerance, thus providing confidence and trust to stakeholders. Effective governance includes an internal audit activity that assures trust, as it is situated within the organization and can be confidently relied upon when adequately resourced, independent from management, and following the profession's international standards.

Thank you again for the opportunity to comment on your Exposure Draft. Please see **Annex A** for The IIA's comments on some of the proposals and questions thereon. If you have any questions regarding this issue, please contact me or Timothy Berichon, The IIA's Director of Global Advocacy, at tim.berichon@theiaa.org.

Sincerely,

A handwritten signature in black ink that reads "Anthony J. Pugliese". The signature is fluid and cursive, with the first name "Anthony" and last name "Pugliese" clearly legible.

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

Attachment: Annex A

ANNEX A

Question 2: Statement of Compliance.

- **Paragraph 2.5 proposes that management commentary that complies with all of the requirements of the Practice Statement include an explicit and unqualified statement of compliance. While Paragraph 2.6 proposes that management commentary that complies with some, but not all, of the requirements of the Practice Statement may include a statement of compliance that is qualified and identify departures from the requirements of the Practice Statement and giving reasons for those departures.**
 - **The IIA's comments:** Firstly, we would suggest removing "may"; that we agree that management commentary should include a statement of compliance that is either qualified or unqualified. Additionally, organizations should use their internal audit activity to provide independent internal assurance to optimize confidence in these statements.

Question 3: Objective of Management Commentary.

- **Paragraph 3.1 proposes that an entity's management commentary provide information that includes insight into factors that could affect the entity's ability to create value and generate cash flows across all time horizons, including in the long term. Paragraph 3.2 further proposes that the information being provided be material meaning if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by investors and creditors.**
 - **The IIA's comments:** This paragraph highlights the importance of the information provided in *management commentary*. Organizations should have a process in place, inclusive of effective internal controls, that mitigates the possibility of omitting, misstating or obscuring information that would be deemed material. Consequently, organizations should use their internal audit activity to gain independent, internal assurance that these processes, inclusive of internal controls, are effective in achieving the objective of not omitting, misstating or obscuring information that would be deemed material.

Question 4: Overall approach.

- **That the Exposure Draft proposes an objective-based (not rules-based) approach, and if this approach can be both operationalized (to meet the objectives) and enforced (by auditors and regulators)**
 - **The IIA's comments:** We believe an objective-based approach can be both operationalized and enforced. Organizations should use their internal audit activity to gain independent internal assurance on the design and effectiveness of processes, inclusive of internal controls, put in place to reasonably meet the objectives of *management commentary*. Organizations can also use their internal audit activity to assess readiness for any external audits. External auditors and regulators should feel

confident to use the work of organization's internal audit activity that is independent of management, objective, competent, and adequately resourced.

Question 6: Disclosure objectives for the areas of content.

- **Chapters 5-10 propose the (management commentary) disclosure objectives for six areas of content: business model, strategy for sustaining the business model, resources and relationships, risks, external environment, and financial performance and position.**
 - **The IIA's comments:** While we agree with the proposed six areas of content, we note missing is content around the area of effective governance. Included in management commentary, organizations should describe their governance structures and processes that oversee and ensure that objectives are met, both short and long term, including those regarding management commentary.

Question 11: Completeness, balance, accuracy and other attributes (clear and concise, comparable, verifiable, coherent).

- **Chapter 13 proposes to require information in *management commentary* to be of certain attributes (listed above), and provides guidance to help organizations ensure the information possesses these attributes.**
 - **The IIA's comments:** While we use different attributes to describe quality information, we feel the provided guidance generally helps organizations ensure the management commentary is of high quality. The one exception is we would suggest the addition of timeliness as a key attribute to include. Another important attribute is reliability which we believe is covered by the guidance provided within "verifiable." With an objective-based approach that includes attributes that require some degree of subjectivity, it is important that organizations use their independent internal audit activity to optimize reliability of the information disclosed in *management commentary*.