July 9, 2020

International Auditing and Assurance Standards Board
Re: Response to Public Consultation on Proposed Non-authoritative Guidance on Extended External Reporting March 2020

Submitted online to the IAASB website

To IAASB:

The Institute of Internal Auditors (IIA) welcomes the opportunity to comment on the International Auditing and Assurance Standards Board’s draft consultation on Proposed Non-authoritative Guidance on Extended External Reporting (EER) Assurance. This guidance addressing challenges commonly found in applying ISAE 3000 (Revised) reflects responses made to exposure of a prior draft to which The IIA responded in June 2019.

For nearly 80 years, The IIA has led the internal audit profession globally, encouraging strong internal controls and an enterprise-wide approach to risk management. The IIA’s more than 200,000 members worldwide routinely look beyond financial reporting to provide transparency and insight into all facets of an organization’s activities, performance, and position. In delivering independent and objective assurance and insight on governance, controls, and risk management, internal auditors are fundamental to the integrity of the nonfinancial information their organizations provide.

We are disappointed to find that our concerns raised in response to the prior exposure of June 2019 do not appear to have been addressed in this new consultation paper. While we recognize the guidance is intended for “practitioners performing engagements in compliance with the Standard,” it is our view that the document makes certain assumptions that, if not stated explicitly, can create confusion and weaken its overall effectiveness.

Most significantly, we believe the guidance overlooks the benefits of a strong relationship among external auditors, the finance and accounting function, and internal audit. There is a journey to Extended External Reporting Assurance that begins with important preparatory steps and a pervasive, integrated mindset across the organization. Going through these essential preliminary stages shines a light on all sources of value, with internal audit uniquely positioned to partner with management and the governing body.
What’s more, while the guidance is focused on providing assurance on external reporting, practitioners need to understand that without internal audit’s involvement, they are seeing only the end of the process, not the entire process. Without the context and all the stages an organization must go through before it is ready to make disclosures, the practitioner is in danger of being confused or misdirected.

Internal audit is a key partner, because it typically has made the whole “integrated thinking” journey with the organization, and is therefore the resident expert to provide independent and objective assurance on all the structures and processes needed to gather, validate, analyze, and report nonfinancial data. Furthermore, by focusing exclusively on assurance of the external report, with no account of the preparation and stages an organization needs to go through to be ready to even think about making such disclosures, the guidance is incomplete. As a consequence, practitioners may struggle to deliver a service to the client organization in the most effective and efficient manner.

The guidance draft references internal audit only twice (not including reference to The IIA). It lists internal auditors as one of nine stakeholders valued in ongoing discussions of EER, and again in Chapter 8, Obtaining Evidence, as one of the considerations when determining what evidence is needed and available. It prompts practitioners to ask: “Does the entity have an internal audit function and, if so, what work have they performed in relation to the subject matter information, and what are their findings? How does that affect the assessment of risk?”

The information covered in these questions can be of huge value to the practitioner, and greatly enhance the practitioner’s work. Yet, this note is one of a dozen suggested considerations positioned two-thirds of the way through the guidance. As such, it easily could be missed, and the opportunity to cooperate with internal audit, a vital function in organizations and especially in validating nonfinancial information, easily could be lost.

We recommend the guidance list internal audit as an integral partner in the extended reporting process in Chapter 1, guidance on “the assignment of the engagement team with the competence and capabilities that may be needed to perform an EER assurance engagement.”

In preparing for an audit, an initial meeting is needed to determine the key individuals who may provide valuable assistance to the engagement. External auditors should be directed to seek out internal auditors as natural allies, experts in all matters on risk and control, and fully conversant in providing assurance on nonfinancial information.

With regard to an engagement to provide assurance on EER, internal auditors are able to assist external auditors by:

- Sharing knowledge and expertise related to the organization, including its “integrated thinking journey” and the maturity of its data gathering and reporting processes;
- Providing independent assurance on the accuracy and credibility of nonfinancial information used in reports;
- Providing assurance on aspects of nonfinancial reporting, including sections of an external report.

External auditors can be confident of the reliability of the work of internal auditors when conducted in conformance with the International Professional Practices Framework. This assurance frees external auditors from performing certain tasks.
Chapter 1 includes a focus on the practitioner’s competence to execute and the need for expertise. However, it does not spell out the value of including internal audit on the engagement team. The assurance skills and techniques required, as shown in the draft guidance in Chapter 1, Section 28, are those routinely possessed by internal audit. Specifically, the guidance in this section, following the list of skills a, b, c, d, could be edited to insert the following: “Accordingly, internal audit should be included on the engagement team from the outset. Internal audit provides independent and objective assurance on all of the structures and processes needed to gather, validate, analyze, and report nonfinancial data.” (The language currently there that follows “Accordingly” could be moved to just above the skills list.)

Section 29 in Chapter 1 notes the need on some engagements for a multidisciplinary team that includes those with “appropriate assurance competence.” This again would be an excellent place to guide practitioners to include internal audit on these teams as a matter of course.

It is important to recognize the independence of internal audit by virtue of being accountable to the governing body or an independent audit committee of the governing body. The internal audit function performs its activities independent of management and management responsibilities, free from interference in planning and executing its services. This independence, together with a deep and holistic understanding of the organization, enables internal audit to provide objective, credible, and authoritative insight and assurance.

As mentioned above, the guidance includes internal audit as a valued stakeholder in ongoing discussions of EER, and we would welcome the opportunity to participate as such. The IIA expresses its unwavering support of the IAASB and values the productive relationship our two organizations have built over many years. Please do not hesitate to contact The IIA’s Managing Director of Global Advocacy and Interim Managing Director of Global Relations, Francis Nicholson, at francis.nicholson@theiia.org for questions or comments.

Sincerely,

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