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Accountancy Europe

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To Accountancy Europe:

The Institute of Internal Auditors (IIA) is pleased to share feedback on Accountancy Europe's paper *Interconnected Standard Setting for Corporate Reporting*. With more than 200,000 members worldwide today, The IIA has supported sound governance, strong internal control, and effective risk management in public- and private-sector organizations for almost 80 years. Indeed, internal audit is indispensable to providing assurance and advice on the adequacy and effectiveness of governance and risk management, including financial and nonfinancial information.

We commend Accountancy Europe for assembling a well-researched and thoughtful paper on this important topic of connecting financial and non-financial reporting by organizations. There is a need to move this dialogue forward on a global basis to bring clarity, order, and consensus to a growing demand for green investment based upon a standard set of reporting guidelines. This will help ensure corporate reporting can be validated through the audit process involving both internal and external auditors to eliminate the green washing and green wishing being inserted to ESG, CSR and sustainability reports.

Of the four suggested options in the paper, we favor Approach 4 – Global Corporate Reporting Structure. It is wise to enhance the monitoring body beyond capital markets to include a broader representation of public authorities, multilateral agencies, and other international bodies, as proposed in Approach 3. Approach 4 goes further by recommending a new Corporate Reporting Foundation to extend executive oversight and develop and maintain a framework for connected reporting. This aligns with our belief that the future requires a global scope, and any standard setting needs to be truly representative and credible, authoritative, have the necessary political clout, and bring together all the key players. We recognize the many significant challenges to these ideas, some pointed

out in the paper, including reaching consensus among current members, defining the attributes and experience of new members, recruitment, and funding.

While Approach 4 is the best option, it is not perfect. Like all of the options, it provides no consideration of assurance over the nonfinancial information. It lacks the structure and process required to secure adequate assurance that could be provided by an independent, objective, and properly resourced internal audit function.

With so many challenges — politics, legislation, bureaucracy, infighting, urgent need, vested interests — it strikes us that creating new and enhanced boards may unnecessarily complicate oversight. Adding the nonfinancial requirements to the duties of the financial standard-setting board would bring financial and nonfinancial together at the outset, rather than separate them in a conceptual framework only to try to bring them back together again for the purposes of monitoring and reporting.

### **Recommendations for consideration:**

*Interconnected Standard Setting for Corporate Reporting* is too narrow in its focus and runs the risk of overlooking substantive issues that will become roadblocks to effective adoption and implementation. There are greater barriers to better corporate reporting on nonfinancial information than the absence of globally recognized standards, including:

- A lack of awareness of the value of such reporting.
- A misapprehension that sustainability and environmental concerns are at odds with organizational success.
- A perceived lack of incentive (an absence of regulatory or legislative requirements).
- Logistical complexities inherent in applying available frameworks and standards.
- An inability to gather the appropriate information in a reliable and consistent fashion.
- A lack of confidence in making disclosures and any clear guidance on assurance (from internal and external audit).

Before an organization is ready to think about making disclosures to its external stakeholders, it must be in a position where financial and nonfinancial information is routinely used internally for strategic and operational decision-making. In most cases, this requires a significant change in mindset and a commensurate revision of strategy, structures, systems, and processes.

Organizational leaders need to understand that their organization is inextricably interlinked with other organizations, with people, and with the planet through a common pool of financial and nonfinancial capitals. Thinking, planning, acting, and, finally, reporting as if the organization stands alone is fundamentally flawed. It is as if each organization is but a subsidiary of the world with shared objectives (as represented by the UN's Sustainable Development Goals).

Furthermore, such a perspective is not only entirely consistent with but absolutely necessary for long-term organizational success. Doing good and doing well are not opposing objectives but two sides of the same coin. It is also increasingly what stakeholders explicitly demand. They want organizations to be both successful and responsible. This applies not just to investors but also to employees, customers, suppliers, tax payers, local communities, governments, and members of the public.

By mimicking the structures and practices used to develop standards for financial reporting in a process led by accountants, there is a danger of recreating those same mistakes. Financial and

nonfinancial information must be understood together, not separately, as being indivisible through all aspects of organizational thinking, planning, and action.

Therefore, greater consideration must be given to how organizations can be persuaded to adopt a new way of thinking and acting that relies on a thorough appreciation of financial and nonfinancial factors. There needs to be a strategy for moving organizations to a state of readiness for reporting nonfinancial information before standards will be successfully deployed. Any standard-setting processes therefore must reflect:

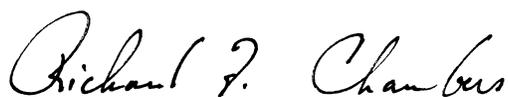
- An entirely new way of understanding organizational behavior and the need for organizational leaders to transform their thinking and practices. Changing reporting is not enough to bring about the more fundamental changes needed in mindset and behavior.
- The primacy of the UN's Sustainable Development Goals for all organizations.
- The needs and interests of organizations of all sizes and sectors. The proposed approaches in *Interconnected Standard Setting for Corporate Reporting* seem tailored for larger private sector enterprises only.
- The needs and interests of all stakeholders. The proposed approaches in *Interconnected Standard Setting for Corporate Reporting* seem tailored primarily for investors.
- The importance of maintaining an integrated mindset throughout, from strategic planning onward. It is not effective to bring financial and nonfinancial aspects together only at the point of external reporting.
- The need for independent and objective insight and assurance through internal and external audit to ensure transparency and reliability of information.

**In answer to the question “what will you do to contribute to the system change,” we will:**

- Continue our work to change mindsets regarding effective governance, including recognition that sustainability is at its core.
- Advocate for SDGs, including working with UNDESA, IDI, INTOSAI and others.
- Help organizations make the transformational journey.
- Equip internal auditors to support organizations on this journey through independent insight and assurance.
- Equip internal auditors to provide effective assurance on nonfinancial matters.
- Support the standard setting process as an active participant.
- Maintain active partnerships with leading bodies in nonfinancial reporting to advocate for change, including IIRC, IAASB, INTOSAI, UNDESA, and others.

The IIA thanks Accountancy Europe for the opportunity to comment on *Interconnected Standard Setting for Corporate Reporting*. Please do not hesitate to contact The IIA's Managing Director of Global Advocacy, Francis Nicholson, at [francis.nicholson@theiia.org](mailto:francis.nicholson@theiia.org) for questions or comments.

Sincerely,



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