



March 31, 2022

Edward J. Waitzer
Chair, Independent Review Committee on Standard Setting in Canada
c/o 277 Wellington Street West
Toronto ON M5V 3H2

Sent via email to: info@ircsscanada.ca

RE: Consultation Paper – *Independent Review Committee on Standard Setting in Canada*

Dear Chairman Waitzer:

The Institute of Internal Auditors (IIA) and our affiliate, The Institute of Internal Auditors Canada (IIA–Canada), appreciate the opportunity to comment on the December 2021 Consultation Paper, ***Independent Review Committee on Standard Setting in Canada***. As a short introduction, The IIA is an international professional association that serves more than 210,000 members and has awarded 180,000 Certified Internal Auditor (CIA) designations worldwide. The IIA-Canada is affiliated with this global body, serving the needs of more than 7,400 members in Canada. The IIA is recognized as the internal audit profession's leader in standards, certification, education, research, and technical guidance throughout the world.

On behalf of The IIA and IIA-Canada, we are writing to express our support for a formalized structure in setting expectations of accounting and assurance standards. Effective application in Canada should include alignment with global direction, reporting expectations, and independence. A formalized structure will assist Canada in adjusting from a static approach to an adaptive approach to sustainability, beginning with climate-related risks and opportunities. Consistency with global parameters in the Canadian structure is paramount in ensuring Canada does not materially deviate from global market participants. However, it also is important to be mindful of the uniqueness of the Canadian economy and its alignment with sustainability-related solutions and disclosures. Independence in organizational structure, expense management, and reporting instills confidence in the standard-setting process and enhances transparency.

In order to create a national system that is “world-class and responsive to stakeholders’ needs,” determination of these stakeholders is of critical importance. The IIA and IIA-Canada commend the Committee for their identification of the three concepts for their mandate — the public interest; diversity, equity, and inclusion; and Indigenous rights. This context provides the appropriate breadth of diverse stakeholders to engage. The Committee also should recognize the contributions of internal audit groups within organizations across Canada in representing the need and drive for reliability in corporate disclosures. Internal auditors are required to provide assurance for the information provided in disclosures to external stakeholders and verify the value of Environmental, Social, and Governance (ESG) reporting. Internal audit can play a pivotal role in helping organizations across the country consistently understand, develop, implement, and adhere to established requirements.



The Institute of Internal Auditors
L'Institut des auditeurs internes
Canada

Please see the attached Annex A for our comments on specific questions within the Consultation Paper – Independent Review Committee on Standard Setting in Canada. Should you have any questions regarding the comments provided, please contact Paul Forgues at paul.forgues@theiia.org.

Sincerely,

Paul Forgues
Executive Director
The IIA Canada

Annex A

QUESTION 2

Do you think the development of a common public interest framework would be helpful to Canada's standard-setting boards and oversight councils?

Yes, Canada is unique in our adoption of the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), which defines Indigenous involvement and inclusion. We are also a country that is commodity-based, with a heavy reliance on exporting, and comprised of many small and mid-sized organizations. This focus on the value-driving differentiations in Canada is essential to building a future economy of value. Given this, the general requirement for "all organizations" to adopt requirements poses some concern. Consideration for thresholds for adoption and timing of when adoption is required or phased in for mandatory reporting should be provided. We cannot expect everyone to comply within the same timeframe. Allowances should be offered to smaller organizations to prepare and execute on defined expectations.

QUESTION 4

Do you agree that a Canadian sustainability standards board should be established? Are there any special factors, beyond those outlined, that should be considered in addressing this threshold issue?

We recommend creation of a Canadian sustainability standards board to work alongside Canada's existing accounting and assurance boards and liaise with the new International Sustainability Standards Board (ISSB). This will ensure the proper attention is given to sustainability while being mindful of its interrelationship with accounting and assurance. A Canadian sustainability standards board also will be positioned to provide targeted contributions to the global community through the ISSB.

It should be noted, however, that the additional layer of a separate sustainability standards board would impact both the complexity of guidance as well as further entrench the current perception that sustainability-related topics are separate from mainstream accounting guidance in Canada. Integration of financial and sustainability-related information within one report is an end goal to which global entities are moving in their recommended approach to ESG reporting. While the ISSB is currently recommending a separate source for sustainability reporting not included with financial reporting, the expectation is that the release of both financials and sustainability is aligned. Because integrated reporting is the end goal, the Canadian approach may benefit from a planned progression from initial alignment of established organizations and reporting to future integration.

QUESTION 5

Are there any special matters the Committee should consider in developing recommendations with respect to the sustainability assurance standard-setting process and oversight thereof?

Standard setting in Canada requires input from users of reporting. Engaging and obtaining meaningful input has been a challenge. However, investors, capital market participants, financial institutions, and other key stakeholders are demanding change. Their voices are being heard, and capital is beginning to move based on the sustainability posture of companies.

Users of reported information require transparency, consistency, comparability, and accountability for disclosures. Reporting now includes the essential requirement of assurance to provide comfort that disclosures are complete and accurate, and this reporting relies on materiality shaped through a lens of both financial (traditional sense) as well as non-financial factors that have an impact on corporate performance, assets, or going concern. Assurance activities for disclosures need to be provided by both external sources as well as internal sources (Internal Audit). As is the case of the approach to Sarbanes Oxley and NI 52-109 compliance requirements, Internal Audit plays a necessary role in meeting the demands of external stakeholders, including third party firms providing assurance of the control environment. We would recommend providing clarity over level of disclosure assurance services and audit opinions required based on varying stakeholder needs (business-to-business, investors, other third parties, etc.) in order to provide additional assistance in setting expectations of audit planning and execution.

QUESTION 14

Do you have any suggestions to improve stakeholder engagement (users in particular) in the development and ongoing monitoring of the effectiveness of standards? Should different considerations apply with respect to sustainability standards?

Reflection of stakeholder needs is essential for clarity on direction and for consistency in adoption for rapid uptake and implementation across the country. The robustness of stakeholder identification, consultation, and inclusion in the future of standard setting in the country will be essential to drive real value across the full value chain. Without key stakeholders involved in both standard setting as well as delivery, success will be stymied and real change delayed. This means critical groups, such as internal auditors, need to be a part of this solution moving forward, and recognized for the advisory and assurance value they can bring to building sustainability in Canada.

QUESTION 15

Given the special considerations relating to sustainability reporting standards, do you have any suggestions on how best to foster (and balance) timeliness with robust stakeholder involvement in sustainability standard setting?

The need of financial statement users for material sustainability-related disclosures is growing at a velocity not previously seen. However, our standard setting bodies are not keeping pace. The significance of other performance reporting — including sustainability — is changing the concept, determination, and measurement of going concern, financial viability, and materiality, which could cause a misalignment with the financial reporting of organizations in Canada. We need to balance the need for consultation with the expectation that public policy will be needed to adjust course from business as usual today. Consultation takes time and with it, we lose the ability to timely address changing global requirements. In order to remain competitive as Canada we need to focus on leadership, which may include bringing along those who are not as accepting of the current sustainability posture globally.