



# The Institute of Internal Auditors

*Te Kaiarotake Matua o Aotearoa  
New Zealand*

27 September 2022

**XRB**  
**Dr Amelia Sharman**  
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Via email

Kia ora Amelia

## **Submission on Aotearoa New Zealand Climate Standards**

The Institute of Internal Auditors (IIA) appreciates the opportunity to comment on XRB's climate-related disclosures, as outlined in its draft exposure documents.

### **Summary of IIA submission**

The IIA congratulates the XRB on the substantial work it has completed to date and note that it expects to issue the standard by December 2022. This is the first time that the IIA has been able to comment on these standards and we look forward to being able to participate in the implementation of these initiatives, as this is a critical step for New Zealand in meeting climate change challenges. We are a small professional services membership organisation with limited resources, although we are keen to add value for climate change processes, procedures, and disclosures, as we view that an internal audit function is instrumental to, and a key pillar of good governance for organisations in meeting their climate change challenges.

The IIA is a supporter of the Australian and New Zealand Professional Bodies Climate Action Charter which with maturity will support the initiatives of business in their quest for practical standards within their organisations.

Overall, the IIA supports the exposure draft contents. Our submission is mainly in relation to:

- the critical assurance requirements that are needed if the disclosures are going to be meaningful
- internal audit's role in supporting good governance for organisations to ensure that appropriate policies, processes, procedures, and controls (and thus outcomes) are achieved around climate change disclosures.

At the Office of the Auditor General hosted August forum for Audit & Risk Committee Chairs, a representative from Auckland Council spoke about their experience with

climate change reporting. It is worthy of note that the Council's risk and assurance team (internal audit) were, and continue to be, directly involved in giving assurance and advice for the development of the framework for climate change within the Council.

### **About the Institute of Internal Auditors**

The Institute of Internal Auditors New Zealand (IIA NZ) is an affiliate of IIA Inc, Global. We are a member-led professional organisation that draws on the skills and knowledge of our over 750 members in the private and public sectors across the country. We've been established in New Zealand since 1986.

We're affiliated with and draw on the International Professional Practices Framework, including International Standards, a Code of Ethics, and globally recognised post graduate certification as well as extensive guidance, white papers, and resources of the IIA's global Institute. There are 170 affiliates and chapters, in 110 countries, with over 200,000 members worldwide, and one of the few Professional bodies to have such a global reach.

### **What do Internal Auditors do?**

Internal audit is an independent, objective assurance and consulting activity designed to add value in seeking to improve the efficiency and effectiveness of the organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, the control environment and governance processes.

Internal audit professionals are widely recognised, respected, trusted, and valued as the leading providers of assurance and advice on risk management, internal control, and governance for the benefit of organisations and their stakeholders.

### **Overview of XRB's Climate Related Disclosures and overall IIA view**

The overarching purpose of the XRB reporting standards is to ensure uniformity across organisations when reporting on climate change. Primary users' needs will be met through utilising the standards appropriately and guidance provided will be useful in ensuring disclosure consistency.

Practical concerns about the feasibility of preparing the required disclosures are detailed in the commentary below – and we believe that internal audit is well placed to assist in supporting the success of organisation's climate change objectives.

### **IIA commentary**

The IIA welcomes the XRB's initiative to develop climate change disclosure standards to ensure they are fit for purpose, and up to date with developments and trends in governance.

The internal audit function can assist the organisation in understanding the climate change risks and be able to add value proactively, timely, and effectively. It is important to assess whether the organisation fully grasps the implications of climate change risks. Internal audit can:

- Champion a focus on climate change-related risks by participating in the risk analysis process and educating management on the best practices in climate change-related governance, risks, and controls.
- Evaluate climate change risks and execute related audit engagements providing assurance to governance boards and management
- Incorporate climate change risks into the organisation's risk register and ensure climate change functions are included in the internal audit work plan. Identified risks can be embedded in each audit engagement as part of the planning for climate change assurance.

As a partner in a good governance process, the internal audit function can be pivotal in addressing climate change by positioning itself as an agent of change.

Compliance is more than verification of accurate data reporting. To evaluate and assure the quality and relevancy of data and other information, organisations must first have a robust system of policies, processes, and internal controls. Ensuring the reliability of these systems and the information generated requires oversight and assurance independent from management. This is the role that internal audit can play in the organisation.

Because climate change reporting can contain a wide variety of metrics, organisations must establish policies, processes and internal controls that generate reliable information for decision-making and ensure the quality of data being produced and reported. Like financial reporting, the data used to create climate change reporting are based on the day-to-day operations and decisions driving organisations to achieve their objectives. Proper control activities must be designed and operating effectively – from the operational steps through the collection and analysis of the data that will be used in reporting. While operationalising sufficient control activities is management's responsibility, internal audit is necessary to provide objective assurance, independent from management, that established control activities are properly designed and operating effectively, thus providing confidence and trust to stakeholders.

Internal audit – precisely because of its holistic view and understanding of risks across an organisation, is uniquely positioned to provide assurance of effective governance structures and systems of internal controls that, in turn, ensures complete, accurate and reliable information around climate change. It is critical to identify specific reporting metrics that accurately reflect relevant and comparable sustainability efforts across organisations. Internal audit is there to facilitate that.

## **Conclusion**

The IIA thanks the XRB for the opportunity to provide our input and expertise in this area. We appreciate the opportunity to comment on behalf of our members, and we would be happy to discuss our submission. We look forward to a proactive relationship with the XRB and are committed to strongly support your efforts to ensure that New Zealand organisations have strong and robust systems in place to support climate change programmes and disclosures.

Ngā mihi nui

Jeffrey Galt  
Chair of the Advocacy Committee

Steve Downes  
Chief Executive