

NEW REGULATORY FOCUS ON ESG REPORTING

Internal audit practitioners should be prepared to act quickly in response to a March 4 [announcement](#) by the U.S. Securities and Exchange Commission (SEC) about increased enforcement efforts on climate and ESG-related disclosures. As providers of independent assurance on risk management, internal auditors have an obligation to alert stakeholders to best practices and compliance vulnerabilities in this emerging risk area.

The SEC move to create a 22-member Climate and ESG Task Force in the Division of Enforcement signals that federal regulators have a keen interest in how organizations report their climate- and ESG-related disclosures to investors. Investor interest in climate and sustainability reporting has grown significantly in recent years. Indeed, according to the Governance & Accountability Institute (G&A), the percentage of S&P 500 companies issuing some kind of sustainability report has grown from 20% in 2011 to 90% in 2020.

G&A's most recent survey found that 70% of reporting companies rely on frameworks and standards such as those created by the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

The new SEC task force will "develop initiatives to proactively identify ESG-related misconduct. The task force will also coordinate the effective use of Division resources, including through the use of sophisticated data analysis to mine and assess information across registrants, to identify potential violations," according to an SEC news release.

The challenges associated with regulatory compliance on ESG reporting are not limited to the U.S. The most recent issue of Carrots & Sticks, GRI's flagship publication on sustainability reporting, finds Europe is leading the ESG disclosure agenda, "accounting for 245 reporting instruments, while the Asian markets (174) are increasingly active. North America has a low number of reporting provisions (47), a fact that in part reflects the lower number of national jurisdictions in North America." Country comparisons found higher numbers of reporting provisions, including reporting requirements and resources, in the UK, Spain, U.S., Canada, Brazil, Colombia, and China.

So what steps can internal auditors take now to prepare their organizations for increased regulatory scrutiny? Providing assurance on ESG reporting should not be significantly different than other assurance engagements involving regulatory compliance. What's more, audit leaders should proactively discuss the issue with their stakeholders, including the audit committee and C-suite.

Below are 11 questions internal audit should know the answer to in order to begin assessing the risks associated with the completeness, accuracy, timeliness, and relevance of ESG reporting.

Starter questions for assessing ESG reporting

1. Is the organization subject to any regulatory requirements related to ESG reporting?
2. What is the direction from the board regarding ESG reporting?
3. What ESG reporting does the organization currently perform?
4. What standards (e.g., GRI, SASB, TCFD) are used by the organization to determine their ESG reporting, if any?
5. Does the board have oversight of ESG reporting?
6. Who has operational responsibility in the organization for ESG reporting?
7. How is the determination made as to what to include in ESG reporting?
8. How are ESG reports disseminated?
9. What controls are in place to ensure the quality (completeness, accuracy, timeliness, and relevance) of ESG reporting?
10. How does management and the board receive assurance as to the quality of ESG reporting?
11. Has internal audit provided any level of assurance related to ESG reporting?

IIA RESOURCES



- [OnRisk 2021: A Guide to Understanding, Aligning and Optimizing Risk](#)



- [The Responsible Organization](#)
- [Internal Audit: Are you ESG Ready?](#)
- [Beyond the Numbers](#)



- [IIA Virtual Symposium: Environmental, Social, and Governance](#)
- [Environmental, Social and Governance \(ESG\): the Growing Importance to Corporate Boards \(PDF\)](#)

Other Resources

- [Enterprise Risk Management: Applying enterprise risk management to environmental, social and governance-related risks \(PDF\)](#)
- [ESG Reporting and Attestation: A Roadmap for Audit Practitioners](#)
- [G&A's 2020 S&P 500 Flash Report](#)
- [GRI Standards by language](#)
- [SASB Standards](#)
- [TCFD Implementation Guide - English](#)

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