

ESG Assurance Readiness: Preparing for Verification

Takeaways for Internal Audit Leaders



Over 300 Internal Audit leaders attended “ESG Assurance Readiness: Preparing for Verification” last week at IIA’s General Audit Management conference. My co-presenter **Edward Olson**, (Partner and [Canadian] National Lead of the ESG Practice at MNP LLP) and I gave a tour of standards, design and operational effectiveness of controls, and common gaps. We offered these takeaways; they’re applicable to Internal Audit, Compliance, Sustainability, and Risk. And to the Board and Management.

- 1) **Sustainability reporting occurs to capital markets, and several other channels.** There’s the “general purpose capital market” – regulated by SEC. Analysts are another channel; for them, the standard reporting and disclosures aren’t enough. B2B reporting goes up & down the value chain. In fact, B2B reporting is necessary to support some disclosures in other channels. Each channel has its own needs.
- 2) **The call for assurance is growing stronger.** The SEC’s proposed climate disclosure rule would have GHG emissions inventories subject to attestation. GRI recommends “an organization seek external assurance for sustainability reporting, in addition to the use of internal controls.”¹ Companies that do not seek external assurance are required to explain why not. While there is considerable variability in scope of assurance, type of assurance – the trend is for more assurance.
- 3) **The COSO Internal Control Integrated Framework is suitable** for design, implementation of controls supporting sustainability reporting. Mr. Hileman is an author of a COSO report linking the Internal Controls Integrated Framework to Sustainability reporting – scheduled for release March 30, 2023. The ICIF is topic-neutral; it can be applied to sustainability/ ESG. Our session provided examples how – the COSO report will go further.
- 4) **Internal Audit can help inspire confidence.** With its charter from the board as an independent function, Internal Audit is in an ideal position to provide confidence in completeness, accuracy, and verifiability of any/ all content of any sustainability data or narrative.
- 5) **IA assurance readiness efforts can add value.** External assurance is expensive. First-time assurance likely generates many findings; each requires formal efforts to monitor, close, and verify internally and externally. Internal Audit can lead an advance team, and reduce this unproductive, costly effort.
- 6) **The time is now!** The scope of ESG/ sustainability reporting has snowballed in the last decade. “Voluntary” is becoming mandatory. Internal Audit should increase (or begin!) discussions, launch advisory and/or focused assurance engagements, expand the horizons and competence of staff – and show our stakeholders what we’re made of.



¹ See “GRI Universal Standards 2021; FAQs, December 2022; accessed 3/17/2023 at <https://www.globalreporting.org/media/zauil2g3/public-faqs-universal-standards.pdf>