

How to Audit ESG Risk and Reporting

Key Considerations for Developing Your
Environmental, Social, and Governance
Audit Strategy

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“Is your organization focused on ESG as a path to long-term value creation?”

Introduction

Global interest in environmental, social, and governance (ESG) issues, compliance, and reporting has grown dramatically since 2020. Against the backdrop of climate change impacts, social change movements, and the COVID-19 pandemic, consumers, employees, investors, governments, and other stakeholders reexamined and recalibrated their expectations for how businesses can be held accountable for responsible ESG performance.

Internal audit has a role to play in responding to this surge in demand for better ESG transparency. The American Institute of Certified Professional Accountants (AICPA), the Chartered Institute of Management Accountants (CIMA), and the Center for Audit Quality (CAQ) defined the three components of ESG in their recent publication, [“ESG Reporting and Attestation: A Roadmap for Audit Practitioners.”](#) Understanding the individual components and where they do or don’t intersect is crucial to begin to understand the unique requirements for examining the veracity and completeness of ESG reporting. Here’s how the three groups define each component:

“The **E**, or environmental, component of ESG information encompasses how a company is exposed to and manages risks and opportunities related to climate, natural resource scarcity, pollution, waste, and other environmental factors, as well as a company’s impact on the environment.

The **S**, or social, component of ESG comprises information about the company’s values and business relationships. For example, social topics include labor and supply-chain information, product quality and safety, human capital topics such as employee health and safety, and diversity and inclusion policies and efforts.

The **G**, or governance, component of ESG encompasses information about a company’s corporate governance. This could include information on the structure and diversity of the board of directors; executive compensation; critical event responsiveness; corporate resiliency; and policies and practices on lobbying, political contributions, and bribery and corruption.”

While ESG's environmental dimension has long enjoyed stakeholder focus, social and governance concerns also rose to the forefront. Now, even private companies are held up to a public microscope. Ethics, diversity and inclusion, human rights, labor practices, material sourcing and supply chain, access, data security/privacy — it's all fair game for public scrutiny.

Unsurprisingly, these changing stakeholder expectations are resulting in increasing demand for ESG transparency, accountability, and assurance. Both in the U.S. and globally, regulators are beginning to draft and implement more formal ESG performance standards. But many stakeholders are going a step further, pushing businesses to embrace ESG for value creation.

The overarching message is that mere compliance isn't enough. Consumers, capital investors, employees, and other stakeholders want businesses to integrate ESG considerations into the very core of how they do business. They want strong ESG value propositions and performance, and they are ready to withhold their business, funding, and support to ensure they get them.

Ultimately, regulators' reporting standards and frameworks will help you direct your ESG audit, risk management, and reporting activities. But it's up to your organization to go the extra mile stakeholders are demanding. **Is your organization focused on ESG as a path to long-term value creation?** Our guide to developing your ESG audit strategy can help you get on track.

Overview of the ESG Landscape

ESG Performance Is Business Performance

Before we dive into the nuts and bolts of how to drive ESG audit efforts, it's important to bring into focus the bigger-picture ESG business imperative of long-term value creation, as well as the stakeholder expectations that are driving it. As outlined by Deloitte in "[Tectonic shifts: How ESG is changing business, moving markets, and driving regulation](#)," consumers, capital investors, and employees alike "are looking for organizations to put purpose at the core of their operations, caring for the issues that concern their employees, communities, industries, and the world at large." In a forward-looking [2013 article on the same topic](#), Deloitte wrote, "Business value is created in a context that is based on what both the company and its stakeholders value. Consequently, **the pursuit of stakeholder value and a healthy environment helps a business maximize its financial value.**"

In other words, ESG is being directly linked to business performance. As cited in [Gartner's "2022 Audit Plan Hot Spots"](#) — which pinpoints ESG as a top-ten risk area for internal audit department focus in 2022 — over the past two years, double the institutional investors have committed to investing responsibly. They are incorporating ESG data into investment analyses and decisions. More creditors are issuing loans that adjust rates according to ESG performance. Employees and consumers are signaling they will end relationships with poorly performing organizations.

In response to this increased financial impact of ESG on companies, financial reporting and accounting standard setters have made significant changes to their organizations to support the need for better reporting of both financial and operational metrics such as ESG. For example, in November 2021, the International Financial Reporting Standards Foundation (IFRS) [announced the creation of the International Sustainability Standards Board \(ISSB\)](#) to complement the International Accounting Standards Board (IASB) in issuing standards on better corporate disclosures. In addition, the Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) [merged into the Value Reporting Foundation \(VRF\)](#) in June 2021 to “help businesses communicate drivers of their long-term value to providers of financial capital.” Then, in June 2022, the Trustees of the IFRS Foundation and the Board of Directors of the VRF voted to approve the consolidation of the VRF into the IFRS Foundation effective July 1, 2022.

These new sources for reporting standards, corporate trends, and research are unambiguous. ESG is a significant driver of business performance now and into the future.

US SEC Updates on ESG Disclosures

Learn more about the latest SEC [disclosure requirements](#).

Many Organizations Still in Early Stages of ESG Readiness

Indeed, most organizations are clear that they will be impacted by ESG. According to a 2021 AuditBoard survey of over 900 risk and compliance professionals across North America, more than 60% of respondents anticipated either a significant or moderate impact, less than a quarter expected a low impact, and only 16% were unsure. Against this backdrop, however, less than half of respondents reported that they currently consider ESG in their internal audit plans and scoping.

Figure 1. *My team currently considers ESG in our internal audit plans and scope*

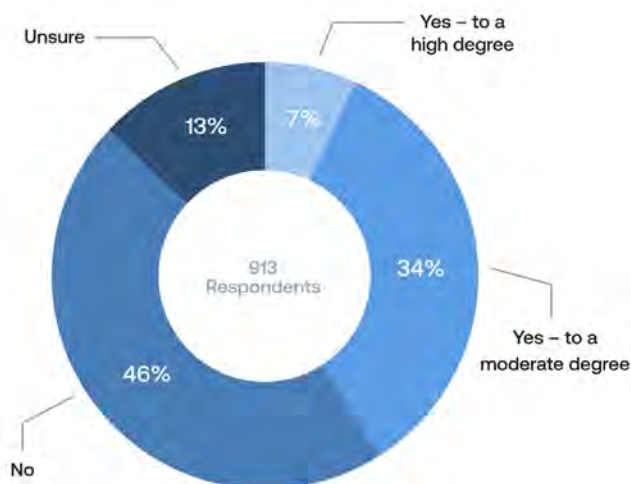


Figure 2. *I anticipate the rapidly evolving ESG disclosure landscape to have the following impact on my organization in the next year*



ESG Integration Required for Better Performance and Resilience

The charge is clear: Organizations need to build and integrate ESG performance and resilience metrics into their corporate reporting. They must prepare to disclose relevant, transparent, and high-quality ESG information and the resulting financial impacts. To enable these disclosures, they must employ the same financial reporting discipline and focus used for designing and implementing reliable, risk-based policies and processes that support effective oversight, internal controls, and assurance.

As we’ve discussed, organizations must also integrate ESG considerations in a way that drives long-term value creation. So, let’s start getting tactical: How can your organization embrace ESG-driven business transformation to turn risk into opportunity? And how can you create reporting that reflects not only how your ESG efforts connect with each other and your finances, but also how they connect with value creation?

[Deloitte’s “The Sustainability Transformation”](#) identifies three far-reaching strategies, advising:

Looking ahead.	Looking inside.	Looking around.
“Understand what threats and, more importantly, opportunities the pressures toward sustainability present for the future of the business.”	“Consider how business operations could be reconfigured to accelerate the transformation toward greater sustainability.”	“Leverage the surrounding business ecosystem to create competitive advantage.”

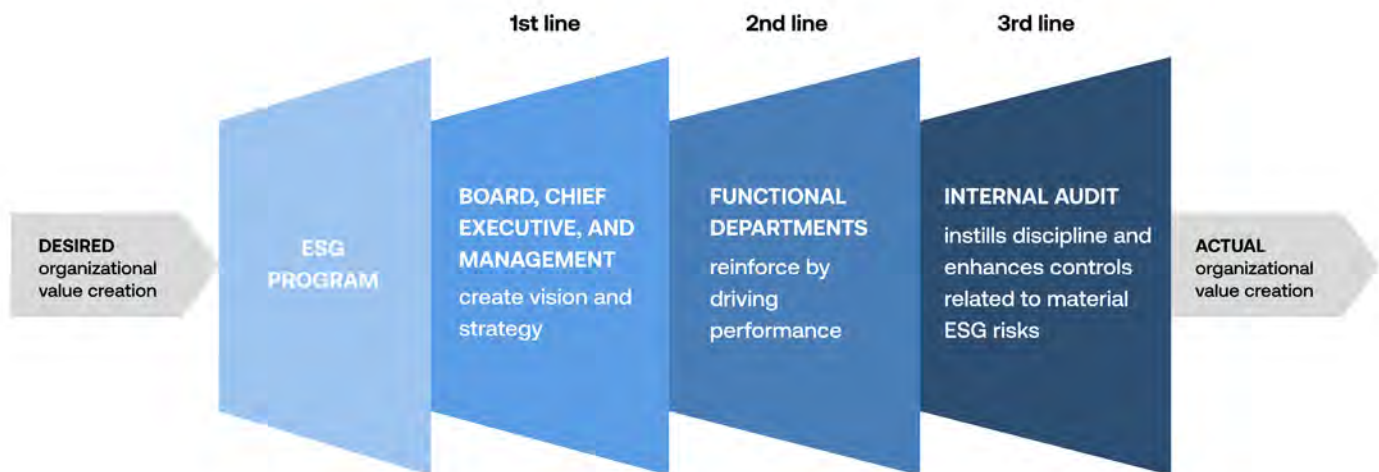
What does that mean for your business? It may be time to widen and extend your perspective, thinking bigger and longer-term about how ESG is reshaping your industry, business model, and future. It may also be time to take a long look inside your organization to see what you can do today to sustainably innovate products, services, and strategies in ways that facilitate growth and open up new opportunities. Finally, it’s important to look for opportunities to strategically tap into your broader business ecosystem. Can you engage external ESG capabilities or influence in ways that accelerate your organization’s ESG efforts? While your organization likely has work to do in this area, you may have options to mobilize partner or vendor ESG capabilities, or to band together with other industry leaders to agree on and drive more sustainable business practices.

ESG Integrated Risk and Reporting Responsibilities

Roles across the organization share responsibility to drive organizational alignment, manage ESG risk, and achieve ESG reporting and value creation objectives. This includes not only obvious targets such as internal audit, board and executive leadership, risk, compliance, and sustainability, but also legal, HR, finance, strategy, operations, communications, and potentially others. It’s vital that functions work together to harmonize ESG efforts, ensuring that the different roles aren’t operating in silos. As such, an ESG risk and reporting program should not be implemented in isolation — it should be part of a larger, integrated risk management approach.

The graphic below showcases how the different roles work together in an integrated fashion, amounting to three different lines of defense supporting value creation from ESG efforts.

Figure 3. Value Creation From ESG Efforts



As illustrated in Figure 3, while the ESG program itself is the starting point:

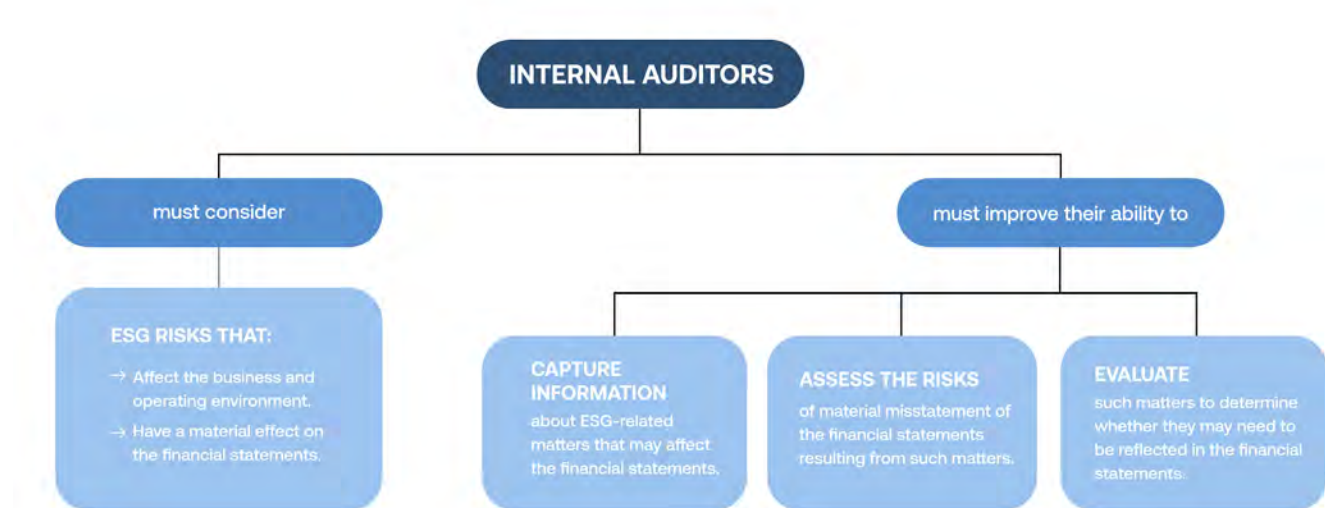
- The board, chief executives, and management act as a first line of defense by setting the wider ESG vision/strategy, establishing a “tone from the top,” and driving urgency and accountability.
- Functional departments become the second line of defense by managing, monitoring, and mitigating ESG risk — owning data and maintaining responsibility for effective processes, controls, and policies supporting ESG risk management and reporting.
- Internal audit serves as the last line of defense, integrating ESG risk and compliance considerations into the audit plan while driving discipline and controls around material ESG risks. Internal audit is responsible for testing relevant controls and risks, advising on ESG reporting, and validating risk mitigation activities. Internal audit also plays a vital role in advising the organization on its broader risk management capabilities, and in anticipating and aligning efforts to emerging ESG risks, strategies, and organizational objectives.

What Internal Auditors Should Consider About ESG

Internal auditors also have a role to play. As noted in a Center for Audit Quality report on [“Audited Financial Statements and Climate-Related Risk Considerations,”](#) companies are required to consider ESG-related risks “when the effect could reasonably be material to the financial statements.” Public Company Accounting Oversight Board (PCAOB) standards require internal auditors to perform risk assessments that include obtaining an understanding of the company and its environment. Those assessments must now consider the potential impact of ESG risks on the financial statements.

The AICPA offers a practice aid on [“Considerations of ESG-Related Matters in an Audit of Financial Statements.”](#) Figure 4 offers a high-level illustration of the considerations for internal auditors.

Figure 4. ESG Considerations for Internal Auditors



ESG Internal Audit Planning Considerations

Just as with any other organizational risk, managing, monitoring, and reporting ESG risks and opportunities requires establishing a strong control environment within an effective governance structure. Internal audit should ensure that ESG is part of the risk conversation, incorporate ESG into the internal audit plan, and perform audits to provide assurance that the control environment is sound. The goal is to extend what you're already doing to incorporate ESG.

As your organization gets focused on more effective ESG audit planning, the most important strategy is to ensure that you're asking all the appropriate questions.

Data Quality: Process Control and Governance

In particular, planning an effective audit of ESG requires an increased focus on data quality, as internal audit strives to validate and assess the relevance, completeness, and accuracy of ESG risk and reporting data. After all, the quality of your reporting is only as good as the quality of your data.

- What ESG data is the organization currently reporting and to whom?
- How complex are the data or metrics? Where is it housed?
- What controls and processes support the data being reported? How does that fit into the internal audit plan? If it doesn't, how does it need to change?

Key ESG Forces Impacting the Traditional Internal Audit Approach

Begin identifying key questions for your internal audit plan by viewing activities in light of the unique ESG assertions impacting the traditional audit approach. These assertions require you to tailor your approach to the nature, extent, and timing of executing your audit plan. Alongside traditional applicable financial reporting assertions of completeness, accuracy, timeliness, cutoff, and understandability (clarity), unique ESG assertions include:

- **Balance** — Are you providing a well-rounded, balanced perspective on ESG activities? Are you identifying not only achievements and progress, but also limitations, weaknesses, and areas for improvement?
- **Stakeholder inclusiveness** — Who are your priority ESG stakeholders? Are you including them in how you contemplate ESG impacts? ESG stakeholders extend beyond capital market investors to employees, customers, consumers, and communities.
- **Sustainability context** — Are you providing reporting information within a framework that makes sense for your business, industry, and the related ESG impacts?
- **Prioritization** — What ESG topics are most important for your organization to focus on? How are you thinking through potential ESG risk impacts? How does that thinking guide your ESG strategy, governance, and disclosures?

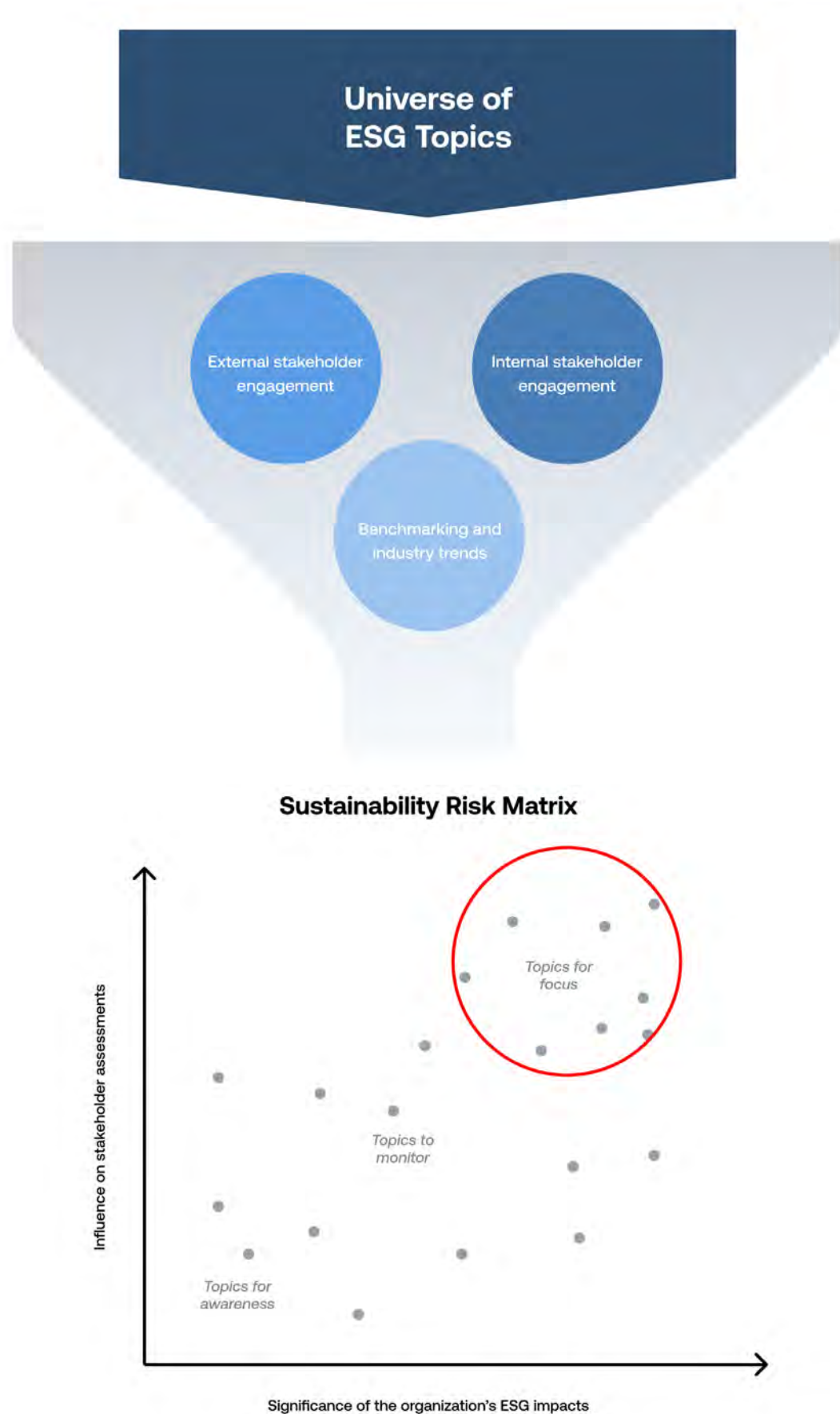
A Risk-Based Approach to Auditing ESG Risk and Reporting

Limited resources and accelerated reporting timelines require a tailored risk assessment grounded in meaningful criteria. Taking a risk-based approach helps to drive the selection and prioritization of ESG focus areas. It's helpful to begin by filtering ESG topics through a lens of stakeholder engagement, industry trends, and benchmarking. From there, the higher-risk areas for your audit response are those where:

- Impacts are the most significant if ESG objectives are not achieved.
- Influence on stakeholder assessments is highest.

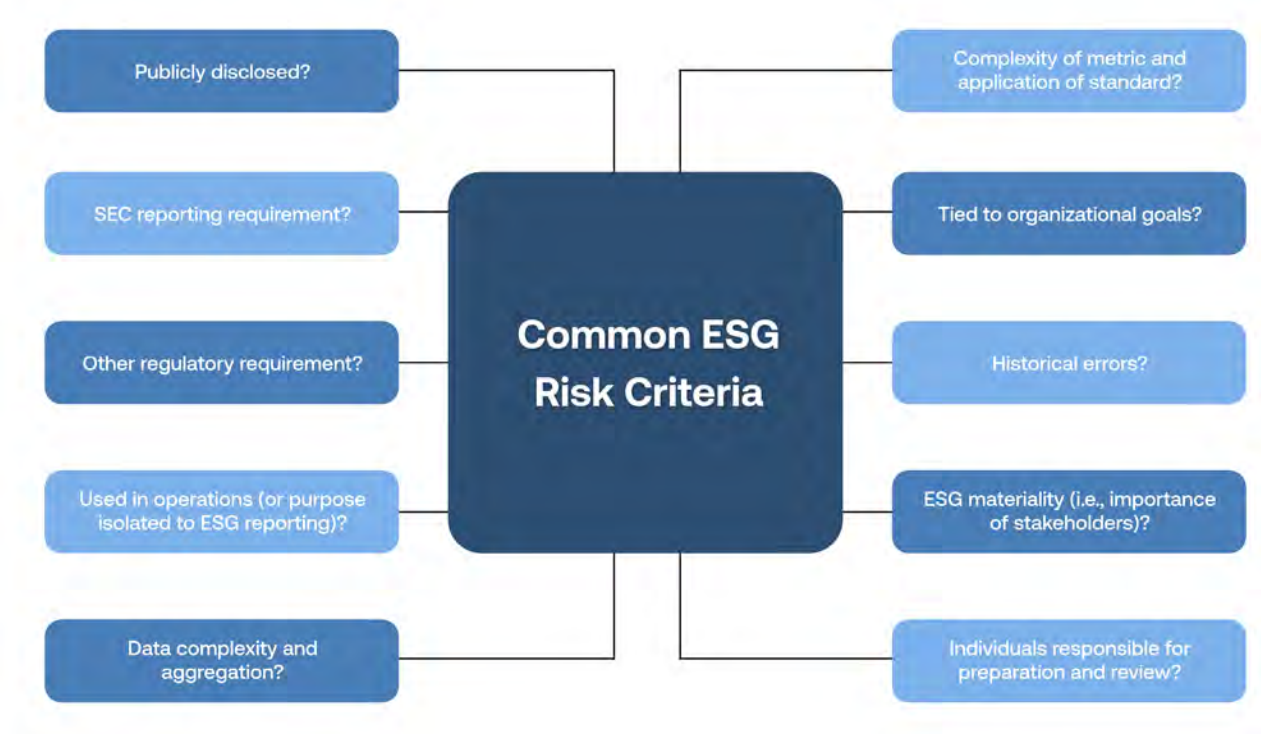
In other words, what matters most to stakeholders? And how does that overlap with your most significant impacts? For many companies, this is a process called a “materiality assessment” undertaken to help determine ESG focus areas for strategy and disclosure. The graphic below illustrates the high-level materiality assessment process that culminates in a relative prioritization of ESG topics to consider.

Figure 5. ESG Risk Assessment Process



Once these material topics are identified, there are additional considerations to a risk-based approach to auditing ESG. The graphic below provides several common examples of ESG-focused criteria you can apply alongside existing risk-based criteria.

Figure 6. Sample Criteria for Assessing ESG Risk and Reporting



Common Approaches to Integrating ESG Risk and Reporting in Internal Audit Plans

Bearing these considerations in mind, how can your organization best integrate ESG activities into its internal audit plan? The answer depends on several factors, including the maturity of your organization and processes, your location, the industry in which you operate, and your ESG risk strategy and appetite. The most common approaches are described below.

Standalone Reviews

Certain elements of your ESG program may be mature enough for internal audit to assess in standalone reviews. These assessments can help organizations understand their ESG policies, control landscape, and responsibilities at a specific point in time. For example, is the appropriate executive sponsorship in place? Are the necessary resources being made available? Are project plans in place to make sure implementations are being done according to plan, and at the appropriate level of detail and specificity? Is the source data substantiating that all ESG disclosures are complete, accurate, and readily available?

Focused Reviews

For ESG areas of high stakeholder concern or low-risk appetite, organizations may wish to undertake more focused reviews. These deep dives can provide valuable assurance in key ESG areas, acting as more traditional audits that help to ensure policies, processes, and other individual ESG program elements are operating as they should. Focused reviews are likely to become more common as regulators begin to require specific ESG disclosures.

Focused reviews can include larger sample sizes over a longer period of time. Internal audit teams may layer in periodic checkpoints, such as six-month check-ins or quarterly updates, to ensure that action or mitigation plans are implemented and issues are effectively remediated. In other cases, however, internal audit teams may perform the focused review, identify findings, and leave it to management's discretion whether to remediate issues, providing no oversight or follow-up.

Figure 7. Incorporating ESG Into an Internal Audit Plan



Integrated Audit Approach

When ESG program elements are not mature enough for standalone assessments, organizations should consider the integrated audit approach. This approach can be used as part of any audit as a pulse check on the business that provides reasonable assurance that ESG-related activities are being appropriately identified, considered, and documented.

Getting started with an integrated audit approach may be as simple as adding ESG-focused questions into the planning documents or checklists used by your internal auditors. Your fundamental objective in adding these questions is to begin gaining an understanding of where potential risks and opportunities lie throughout the organization.

Investing in ESG Competencies

Initially, most internal audit teams may lack deep ESG expertise among their ranks. According to a 2021 AuditBoard survey, 58% of respondents rated their internal audit team's current level of ESG knowledge as "low," with another 12% "unsure." In other words, less than a third of respondents indicated having any significant ESG knowledge on their teams. And more than 56% of respondents indicated that this knowledge gap was their primary concern in integrating ESG into the internal audit plan.

Your organization may need to invest in ESG competencies by devoting resources to:

- Research and monitor ESG regulatory guidance and updates.
- Understand ESG risk and reporting trends and frameworks in your industry.
- Benchmark ESG topics in your industry.
- Assess internal and external stakeholder engagement in ESG topics.
- Build ESG knowledge through targeted training or via certifications such as the [Global Reporting Initiative's Professional Certification Program](#) or [Competent Boards' ESG Certificate Program](#).

As you determine how best to invest in ESG competencies, begin by looking inside your organization for professionals who are motivated to upskill in this area. Internal audit skill sets already bring a foundation of professional skepticism and experience with other transformational change initiatives — a solid foundation for springboarding into ESG. Identify professionals to help you develop your capabilities, and work together on a plan to build needed expertise.

Illustrative Internal Audit Plan and Approach

The illustrative plan below begins to bring together these different components, getting tactical about how organizations can apply the discipline, structure, and rigor of internal audit to ESG. While at this time there is significant interpretation involved in assessing ESG topics, internal audit can begin to simplify judgments by:

- Extending the methodologies traditionally applied to auditing financial reporting to ESG, and directly integrating ESG reporting with financial reporting.
- Viewing ESG efforts through a lens of disclosures, frameworks and standards, and processes and controls.
- Understanding that ESG will be implemented throughout the entire internal audit life cycle, from annual and ongoing risk assessments, audit planning, and audit execution through to reporting and ongoing monitoring.

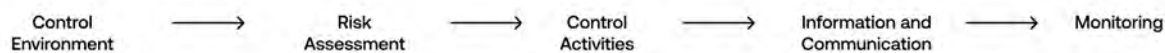
Figure 8. ESG Reporting Internal Audits



Applying an Internal Audit Approach to ESG



Leveraging the COSO Framework for ESG Reporting



ESG Internal Controls: Leveraging the COSO Framework

Your ability to manage ESG risk and reporting depends largely on the design and effectiveness of your internal controls. Without effective controls, you cannot assure the data quality required to provide accurate, meaningful ESG reporting. Many organizations, however, do not yet have robust, reliable controls around ESG data.

As we've outlined, the solution may be better integration of ESG with risk management and financial reporting. What might that look like in practice? "[Leveraging the COSO Internal Control-Integrated Framework to Improve Confidence in Sustainability Performance Data](#)," a whitepaper produced by individual authors from SASB and the Institute of Management Accountants (IMA), offers perspectives and strategies on how this can be done.

The essential idea is that the Committee of Sponsoring Organizations (COSO) Framework can help organizations apply the same rigor to ESG (i.e., how ESG information is measured, managed, and validated) typically applied to financial reporting. The authors' goal is to help organizations better use, assure, and communicate ESG data while emphasizing professional judgment and stakeholder learning.

As indicated in Figure 9, the COSO Framework requires five components. Though the guide offers more detailed discussion and case studies, below is a summary of the relevance of each to ESG audit activities.

COSO Element	Relevance for ESG Internal Audit Approach
Control Environment	• Setting a "control" consciousness (typically from management and the board) that guides ESG reporting objectives while setting the stage for the processes and discipline needed to govern controls. • Establishing the organization's commitment to creating structures that provide ethical, independent, sustainable, and accountable oversight of internal controls development and performance.
Risk Assessment	• Guiding with clear objectives that support the identification and analysis of specific ESG risks to the achievement of organizational objectives. • Considering both internal and external stakeholder needs. • Identifying and assessing changes impacting internal controls (e.g., regulatory changes, M&A, geographical exposures, tech rollouts).
Control Activities	• Establishing policies and procedures to create activities that effectively mitigate or manage identified ESG risks. • Tailoring all activity types appropriately when practical.
Information and Communication	• Gathering or generating timely, relevant, and reliable ESG data to support effective functioning of internal controls. • Verifying that appropriate performance measures (e.g., Key Performance Indicators, or KPIs) and communication processes are in place to describe and share ESG information both internally and externally. • Using risk assessments to guide selection of the most important ESG factors to monitor and disclose.
Monitoring	• Using review activities (separate from reviews performed as control activities) to support the organization in assessing whether all COSO components are present and functioning. • Employing ongoing evaluations built into business processes, periodic separate evaluations (e.g., conducted by internal audit), or independent third-party reviews. • Communicating deficiencies in a timely manner to those responsible for corrective action.

What Lessons Can We Take From SOX to Help Provide Assurance Over ESG?

Much like the Sarbanes-Oxley Act (SOX) in 2002 taught us to establish effective internal control governance related to financial reporting, upcoming ESG-related legislation and regulatory requirements will necessitate a similar level of transparency. Consider applying these common SOX activities to clearly define, assess, and track the impact of climate risks, including against specific financial metrics.

- Identification of material balance sheet accounts.
- Mapping material accounts to underlying processes.
- Identifying key controls and secondary controls for those processes.
- Documenting the processes and controls with walkthrough narratives, flowcharts, and risk/control matrices (RCMs).
- Identifying applications and IT general controls (ITGCs) that support the processes and controls.
- Capturing a risk assessment of the ESG environment.
- Defining your organization's level of required assurance covering internal controls over ESG.
- Training for control owners, reviewers, and internal auditors that includes discussion about the cultural mindset across the organization.
- Providing reporting to senior management.

In addition to the above activities, the following section will discuss how implementing enabling technology is a crucial step to facilitate testing, review, and issue remediation efforts.

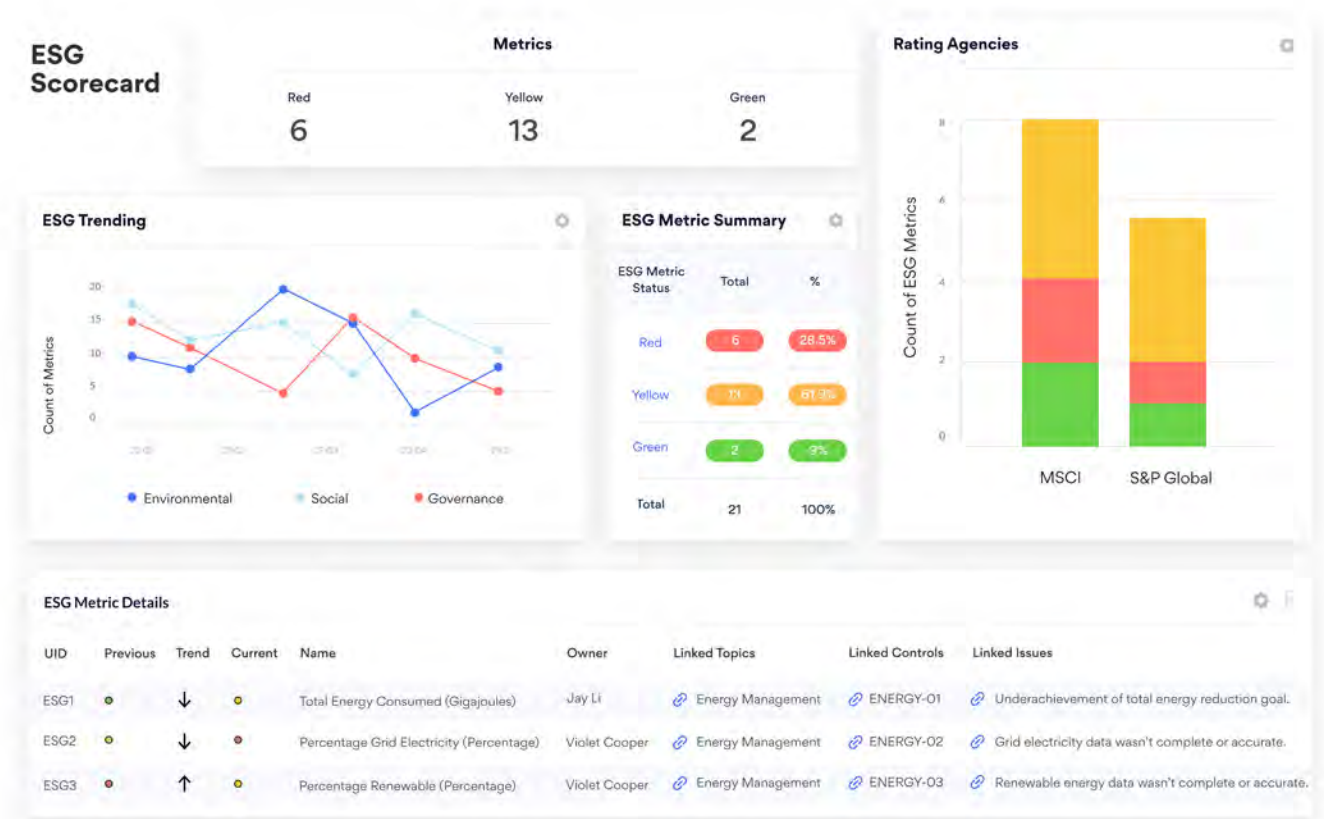
Leveraging Technology to Address ESG Risks and Opportunities

The benefits of leveraging a cloud-based connected risk platform to facilitate a broader, integrated risk management approach have been well-documented. The same fundamentals apply to ESG risk and reporting.

To run an effective ESG risk management program, organizations should consider starting with a single system of record housing all ESG risks, goals, metrics, and disclosures. Once all stakeholders are working off of a single source of truth, organizations can leverage enterprise software to address some of the most common pain points of running an ESG program, including:

- **Lack of visibility for effective prioritization** — With so many diverse components to track and so many organizations building programs from the ground up, it's difficult to know where to begin. It's neither realistic nor effective to tackle every issue at once; instead, internal audit teams should consider risk-ranking and prioritizing which ESG initiatives to address first. In a manual environment, you may lack the visibility required to pinpoint which risks matter most. Technology can provide the robust, flexible risk assessment functionality needed to identify and evaluate ESG risks, standardize how your organization rates and monitors them, and drive insights about how they evolve over time. In addition, it positions teams with the data they may need to justify focus areas and levels of effort as requested by the board, management, or audit committee.
- **Inability to flex framework coverage in a shifting regulatory landscape** — Evolving ESG regulatory standards and frameworks are a moving target for organizations striving to track ESG performance. Framework-agnostic technology can support your organization's ability to quickly flex and pivot ESG efforts to align with new frameworks. It can enable you to add or remove frameworks and their associated requirements — and subsequently map each requirement to specific ESG disclosures and initiatives — thereby ensuring appropriate coverage and gap identification in reporting and scoping. In other words, you can easily convert to new frameworks without losing the value of the work you've already done.
- **Labor-intensive evidence collection** — Going forward, organizations must be able to prove ESG performance via auditable evidence from auditable source systems. Manual processes to collect evidence across disparate, often disaggregated owners and systems can be inefficient, high-effort, and subject to human error. Once ESG targets are housed in a single system of record, teams can leverage workflows to streamline the evidence-collection process. Owners can receive regular (e.g., monthly) reminders to upload data, and organizations can have ready access to timely and auditable data.
- **Lack of timeliness, transparency, and agility for addressing gaps** — As your organization grows and new ESG disclosure requirements are codified, it can be challenging to achieve the transparency needed for timely issue identification, trend monitoring, elevation of data-driven insights, and preparation/deployment of action or mitigation plans. These activities can help you avoid surprises (e.g., out-of-date data, KPIs you're not on track to reach, compliance issues that are too late to address) at year-end or other reporting deadlines. Leveraging a unified risk dashboard underpinned by a single system of record can enable teams to track all issues and their associated action or mitigation plans. This supports ongoing transparency, timely surfacing of "calls to action," increased agility in responding to issues, and continued maturation of your ESG risk management program.
- **Labor-intensive reporting** — When it comes to preparing final reports, manual reporting processes are likely to involve reaching out to a range of siloed stakeholders and disaggregated source systems. Reporting is streamlined when all relevant data lives in the same system of record. That said, reports are only as good as the processes supporting them. Technology can shore up ESG reporting with strong processes that support you every step of the way.

ESG initiatives are not just about risk mitigation. Ultimately, there are strategic objectives that must be measured by performance. Addressing ESG risk with a [connected risk platform](#) can assist you in identifying impacts to strategic business objectives as well as opportunities to further reduce the cost of capital, attract investors, retain employees, and increase the company’s impact on environmental, social, and governance issues. Connected risk software can help you provide the value creation insights your stakeholders demand — in addition to providing better insights on how to deploy resources, streamlining processes, and improving transparency, agility, timeliness, and coverage.



Getting Started: Questions for Assessing ESG Risk

Ready to take action to better understand your organization's ESG risks and opportunities? The questions below offer a starting point for your internal audit function to assess risk across the enterprise. If your organization collaborates with other organizations, you may also wish to use these questions to begin assessing their ESG risks and opportunities.

Key Questions for a Risk-Based Approach to Auditing ESG	
Governance and policy	- Has the organization created a governance structure and culture that supports effective ESG risk management? - Has the organization defined a strategy to strengthen internal awareness and commitment, emanating from top management (setting the "tone at the top")? - Is information on ESG risk being reported to the board?
Risk strategy and appetite	- Are ESG strategy and risk appetite consistently cascaded through the organization, including limits and metrics? - Are ESG-related risks being considered in new products and services? - How has ESG and the changing external business environment affected the resilience of the business model and hence the risk strategy?
Risk assessment, measurement, and analytics	- Has the organization defined a consistent, comprehensive methodology for ESG quantification? - Has stress testing been adapted to reflect the long-term horizon of ESG risk?
Monitoring and reporting	- What ESG-related disclosures around governance, strategy, risk management, KPIs, and KRIs are being published? - How is ESG risk monitoring and reporting being aggregated into existing risk practices?
Portfolio and capital management	- Are there potential capital add-ons that are associated with integrating ESG risk into existing risk management frameworks? - Are there portfolios of ESG risk-related products and services to manage?
Risk data and systems	- Is there readily available, consistent, credible, and sufficiently meaningful data? - What are the "new" data elements that will be required for the organization, as well as for its suppliers, borrowers, and other third parties?
Risk operating model, people, and culture	- Has ownership and accountability for ESG risks been determined, and is it linked with other risk types? - How is the organization monitoring and understanding the complex and evolving regulatory landscape? - How is the organization attracting and retaining resources with ESG skill sets?



Conclusion

Whatever your organization's ESG risk management and reporting status and expected ESG impact, the imperative is to get started. Required disclosures are expected, and internal and external stakeholders alike are directly tying ESG to business performance. Businesses can no longer deny that ESG issues are financially material.

That's why value-driven organizations are taking a proactive approach to understanding the current and evolving impact of ESG issues on their businesses. By focusing on shaping the more sustainable, equitable, and responsible business models, governance frameworks, strategies, products, and behavioral changes stakeholders are demanding, they're positioned to turn ESG challenges into opportunities for long-term value creation.

Planning a more effective internal audit strategy that incorporates ESG risk and reporting is an important step towards moving down the appropriate path — but **your organization must also prepare to go a significant step further, directly connecting ESG efforts with value creation.** That means not only embedding ESG into ongoing risk and reporting activities, but also committing to a bigger vision that incentivizes true transformation — helping you become a more sustainable, resilient organization capable of delivering lasting financial and business value.

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Christine is a partner within Deloitte's Sustainability & ESG Services team with more than 17 years of professional experience. For the last nine years, Christine has worked with clients to help them advance their sustainability initiatives through sustainability materiality assessments, data processes and controls, reporting, assurance, and supply chain initiatives. She has assisted companies in reporting GHG emissions consistent with the GHG Protocol and with addressing the TCFD recommendations through performing TCFD gap assessments, disclosure readiness engagements, and climate risk and opportunity analysis. Her professional experience also includes an assignment to the Sustainability Accounting Standards Board (SASB) where she assisted SASB with their market adoption initiatives. She holds SASB's Fundamentals of Sustainability Accounting (FSA) credential, designed to help professionals understand the link between material sustainability information and financial performance.



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