

Internal Audit's role in sustainability

Internal Audit Megatrends | 5x5: Insights and actions



Many companies are shifting from commitment to action to address evolving stakeholder expectations, focusing on enhanced Environmental, Social, and Governance (ESG) controls and disclosure. Integrating Internal Audit (IA) into assurance plans is a practical step when it comes to readiness for external assurance requirements. However, IA's role is not limited to assurance. The role of a modern IA department has evolved into a trusted business advisor, strategically positioned to anticipate risk and accelerate an organization's approach to ESG. Evaluating and strengthening processes and internal controls over sustainability information can drive transformation, substantiate a company's commitment to sustainability, and support reliable reporting to stakeholders.

5 insights you should know



Climate change rated as a "top three issue" by surveyed CxOs we asked to rank the issues most pressing to their organizations. Climate change ranked ahead of seven others, including innovation, competition for talent, and supply chain challenges.¹



96% of S&P 500 companies published sustainability reports in 2022.² At the same time, 60% of executives surveyed cited quality and availability as two of their greatest challenges with ESG data.³



66% of leaders agree that greenwashing has become a serious problem in their industries.⁴ The total number of global alleged cases of misleading communication on ESG related topics has risen significantly in the last five years.⁵



The scope of the European Union (EU) Corporate Sustainability Reporting Directive (CSRD) is wide reaching and has the potential to affect many US-based companies with activities in the EU. In July 2023, the European Commission adopted the European Sustainability Reporting Standards (ESRS) that provide supplementary guidance for companies within the scope of the Corporate Sustainability Reporting Directive (CSRD).



California is moving ahead. Climate bills (SB-253 & SB-261) applicable to both US public and private companies that do business in California establish the first official US regulation to mandate reporting disclosure requirements for greenhouse gas emissions and climate risks for large companies, ahead of the SEC proposed climate rule.

5 actions you can take



Lay the foundation—Familiarize yourself with the global ESG reporting landscape, including CSRD, the International Sustainability Standards Board (ISSB), U.S. Securities Exchange Commission (SEC) proposed climate rule, and California's climate bills, as well as global standards and frameworks such as Task Force on Climate-Related Financial Disclosures (TCFD), the Global Reporting Initiative (GRI), and the Sustainability Accounting Standards Board (SASB). Understand what your organization has disclosed to date and where there may be gaps.



Assure—Perform traditional assurance work, such as testing of key metrics and disclosures (based on a risk assessment) to determine the completeness and accuracy of reporting. For companies further along on the sustainability reporting journey, ESG-related internal controls may be in place. If so, IA may assess the effectiveness of such controls, identify gaps, and advise on opportunities for optimization.



Advise—Understand the organization's sustainability program and initiatives, including policies, procedures, roles and responsibilities, processes, controls, and systems supporting underlying data. Assess the maturity of governance, strategy, risk management, and metrics and targets, and develop a future state roadmap.



Anticipate—Perform a benchmark against peers and industry leaders. Is your company in line with peers, ahead of the curve, or lagging behind? What initiatives, goals, and disclosures are peers communicating? What additional risks and opportunities should your organization be considering and/or monitoring?



Accelerate change—Establish thresholds and mechanisms to track and communicate progress. Foster transparency and accountability through robust controls around goal and target setting, tracking, changing, and reporting.

¹ [Deloitte 2023 CxO Sustainability Report](#)

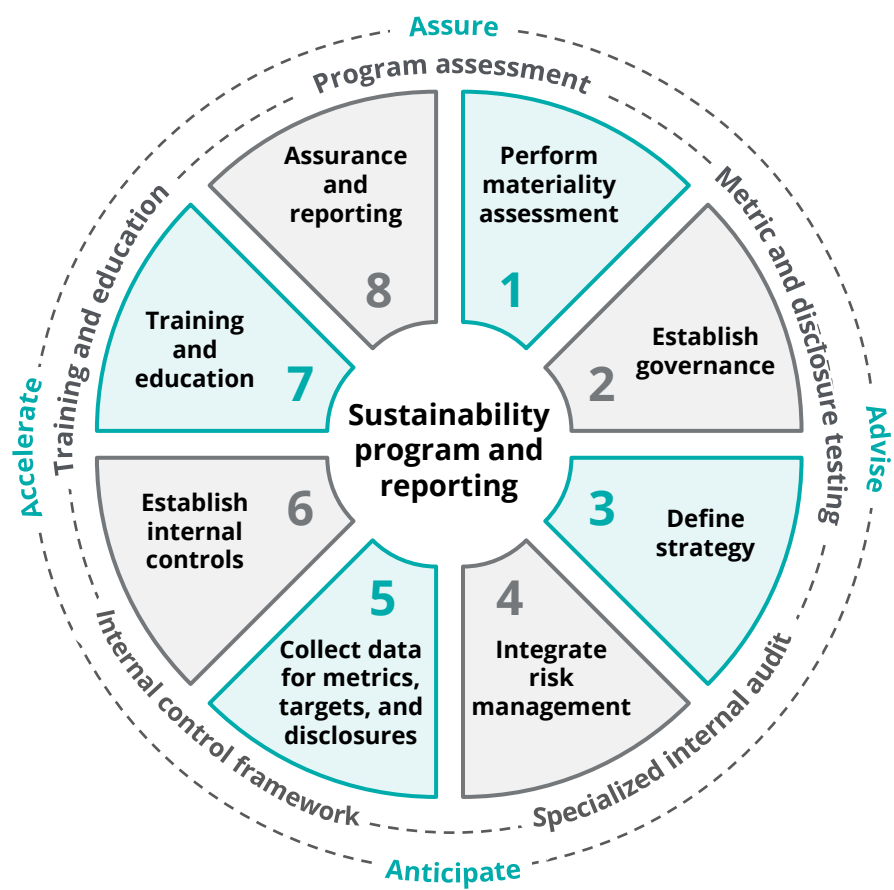
² [Governance & Accountability Institute, Inc., 2022 Sustainability Reporting in Focus, 2022](#)

³ [Deloitte's Sustainability Action Report 2022](#)

⁴ [Deloitte's 2022 Climate Check Survey](#)

⁵ [European Banking Authority, EBA Progress Report on Greenwashing Monitoring and Supervision, May 31, 2023](#)

Sustainability reporting lifecycle: Opportunities for IA to engage



Key considerations	
1 Materiality assessment	<ul style="list-style-type: none">Process, methodology, and key stakeholders (internal and external)How often materiality assessments are performed and/or updatedWhether double materiality is considered, or if focus is on financial materialityResults (topics most important to stakeholders), as material topics drive strategy and reporting
2 Governance	<ul style="list-style-type: none">Overall governance and roles and responsibilities, including the board and/or board committees, disclosure committee, and cross-functional steering committee, reporting structure, and charters
3 Strategy	<ul style="list-style-type: none">Sustainability vision and strategy, including goals, targets, and commitmentsDisclosure strategy, boundaries, applicable criteria (standards and frameworks) and regulationsImpacts, risks, and opportunities per material topic (as applicable)How progress is tracked and communicated
4 Risk management	<ul style="list-style-type: none">How ESG risks are identified, assessed, managed, and integrated into enterprise risk management (ERM) and other risk management processes
5 Metrics, targets and disclosures	<ul style="list-style-type: none">The people, process, technology (from source to report) responsible for data collection, aggregation, calculation, and validation of completeness and accuracyDepending on the number of metrics and disclosures, perform a risk assessment to prioritize effortsWhether targets set by the organization are in-line with the Science Based Targets initiative (SBTi) or other framework(s)
6 Internal controls	<ul style="list-style-type: none">Whether internal controls over sustainability reporting (ICSR) have been designed, implemented, and documented in risk control matrices (RCMs). RCMs may also be developed for an individual topic, metric, and/or disclosure and mapped to applicable standards, frameworks, and regulations.
7 Training and education	<ul style="list-style-type: none">Whether there is training for control owners (performers and reviewers) regarding the level of precision, documentation, consistency, and rigor required
8 Assurance and reporting	<ul style="list-style-type: none">The organization's current assurance obtained from a third party and/or desired level of assurance over certain ESG metrics, disclosures, and/or ICSR.The end-to-end process for publishing the organization's sustainability report (review and oversight)

For more information visit:

[IA ESG Microsite](#)

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