
ECIIA's reaction

ECIIA welcome the European Commission's initiatives in the sustainability areas (CSRD and Standards byEFRAG) and the positioning of Europe, well advanced in these matters.

The ECIIA is the voice of internal audit in Europe. Our role is to enhance corporate governance through the promotion of the professional practice of internal auditing. Our members comprise 34 national institutes of internal auditing from countries that fall within the wider European region, representing 47 700 members. The ECIIA mission is to further the development of good Corporate Governance and Internal Audit at the European level, through knowledge sharing, developing key relationships, and impacting the regulatory environment, by dealing with the European Union, its Parliament and any other European regulators and associations representing key stakeholders.

We share below the main comments on the Corporate Sustainability Reporting Directive consultation.

1. General comments

- ECIIA agrees that business performance is and can no longer be judged on short term financial returns; more and more, stakeholders are asking for long term value creation, and non-financial performance.
- Sustainability issues represent a broad range of risks, including external supply chains and third parties that need to be integrated in the business model of all companies, and the EU has rightly emphasized the importance of the double materiality perspective.
- We observe a lot of voluntary reporting, well-intentioned but leading to a lack of uniformity and consistency, preventing comparative assessments and accurate assurance, also as a result of unclarity of standards. There is a lack of international standards, global harmonization and international requirements for reporting non-financial information. This is why we welcome the EFRAG recommendations to build Standards that are adapted to the business while harmonized for some parts.
- The draft CSRD mentions the need for independent assurance on the sustainability reporting.

We insist on the need for a broader scope including the reporting processes, the data quality, the internal controls and the risk management of sustainability information.

It is Internal Audit's role to provide independent and objective advice and reasonable assurance to the board on all aspects of governance, risk management and internal control, and Internal Audit can be part of the "assurance chain". Many actors are involved in this chain internally and externally, so we encourage the European Commission to be more exhaustive about the potential role that Internal Audit may play and the need for a strong collaboration to deliver combined assurance to the board.

2. ECIIA Recommendation

1. General context

The sustainability reporting is not mature yet although many organizations have embarked in the journey.

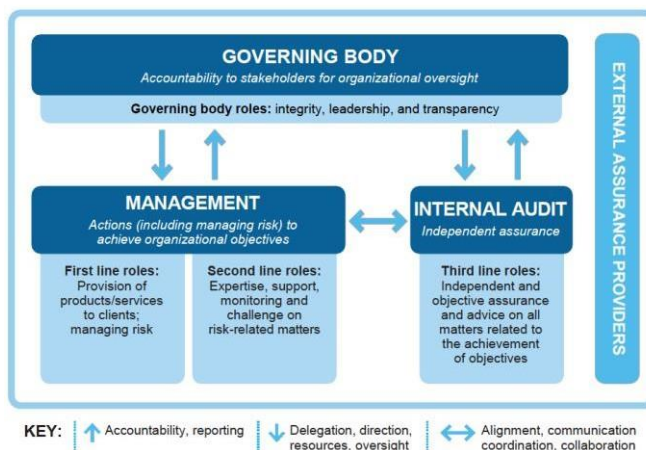
At a first stage, it is crucial to integrate the sustainability aspects in the strategy, in the overall riskmanagement, in the internal controls system and the incentives matrix. The sustainability objectives must beembraced by the governing body, the C Suite Executive and everyone in the organization but also by externalparties involved in the supply chain.

The various Stakeholders are looking for trust and confidence in the data published. Besides this need for reliable and comparable reporting , it needs to be the result of a strong internal control system (efficient andeffective), as part of integrated risk management (e.g. COSO model that integrates the sustainability dimension). Like all risks an organization is facing, reliability of reporting follows from risk analysis, risk appetite setting, risk responses, and risk monitoring. An integrated approach is key, and organizations need a strong governance over ESG , with clear roles and responsibilities, and effective coordination to effectively execute the strategy.

It is important that the CSRD includes these key elements about the need of a strong governance over ESG. IIA has published a [Three Lines Model](#) that articulates the core components of effective governance:

- Accountability by a governing body to stakeholders for organizational oversight;
- Actions, including risk management, by management to achieve the objectives of the organization through risk based approach;
- Assurance and advice by an independent internal audit function to provide clarity and confidence, and to promote and facilitate continuous improvement.

The IIA's Three Lines Model



Each organization must adapt the model to its own environment but it is important to define the accountability of each party involved to ensure the reliability, coherence and transparency of the information needed for the risk based decision making.

Internal audit, in this context, may play a significant role in an organization's sustainability journey. It can add value in an advisory capacity by helping to identify and establish a sustainability control and risk environment. Internal Audit can also provide insight to the governing body and management. And Internal Audit is able to provide reasonable assurance on the governance, risk management and reporting processes (detailed below).

2. Standards

ECIIA agrees that having a uniform language is important to enable clear principles and standards in the Sustainability framework. Standards are needed for comparability among companies and to facilitate informed business decisions that consider sustainability impacts.

So, we welcome the work of EFRAG on ESG Standards but would like to insist on the need to have an advanced level of integration with other frameworks, also linked to risk management and internal controls. An integrated approach, starting with integrated thinking is needed to perform a sustainability-related risk assessment, define risk responses (policies, procedures, controls), organize monitoring, and prepare reporting on sustainability. It is not just about the data published but also the whole process related to the data collection.

Finally, the sector specificities need to be sufficiently considered, to make sure that each company reports information that is relevant to its business, going beyond the obvious.

3. Assurance

The current draft Directive defines the need for "an independent assurance provider".

Internal audit functions that operate in conformance with the IIA's globally recognized Standards* are well positioned to deliver independent and objective assurance on all aspects of governance, risk management and internal controls linked to sustainability.

*[The IPPFs](#) mention that "IA is bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Internal auditors are used to collaborate with external auditors and other assurance providers on financial assurance or other specific reviews. We recommend that the same principles apply for ESG and we recommend a strong collaboration with the second line and the statutory auditors to build a chain of trust, avoid duplication and ensure completeness of the assurance statement.

Internal auditors endorse a Code of Ethics and conduct principles that integrate important elements to deliver trust to the various stakeholders:

Integrity

- Honesty in all engagements
- Acting with diligence
- Taking responsibility
- Compliance with laws and regulations
- Not engaging in acts discreditable to the profession
- Supporting the legitimate and ethical practices of their organisations

Objectivity

- Avoiding engagements that may lead to bias or impair judgement
- Disclosing issues material to reporting and decision making

Confidentiality

- Prudently using and protecting information
- Not using information of personal gain or contrary to law

Competency

- Engaging only in services where relevant knowledge, skills and experience are held
- Applying the relevant standards and frameworks
- Continually improving proficiency, effectiveness and quality of services

Internal auditors have comprehensive expertise for understanding financial and business issues, capable of appreciating the sustainability reporting, the result of:

- **access to all business functions**, operational, managerial and business leaders, affording the whole business view and ability to holistically map risks and opportunities, then assess monitoring of systems and processes to mitigate the risks and realise opportunities.
- **not being responsible or accountable for any specific business function**, supporting independence, and importantly providing thinking space to objectively appreciate the need for changing business priorities.
- **being expected to challenge** by applying professional scepticism
- **being part of an evolving regulated and monitored profession**, where the generally accepted accountancy and assurance standards, frameworks and guidance used are updated to reflect emerging business, environment and societal issues. Further, the expertise is sustained because they are required to remain relevant through Continuous Professional Education beyond qualification.

Internal Audit can provide reasonable assurance of the governance, policies and procedures, and the processes in place to ensure complete, timely and accurate sustainability reporting.

