

Brussels, December 16, 2021.

MEP Pascal Durand

European Parliament Brussels

Submitted via email

Subject: ECIIA views on the draft report on the Corporate Sustainability reporting Directive proposal

Dear MEP Durand,

We welcome the draft report on the Corporate Sustainability Reporting Directive proposal. 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 is a key focus for us and we can help organisations in their journey.

We would like to react on the draft report and more specifically on the need for Standards and the independent assurance on the sustainability reporting.

You will find below more detailed reactions

ECIIA Recommendations

1. *Amendment 2*

We welcome the additions proposed for the consultation of the Directive and would like to emphasize the need to involve European and National professional institutions (e.g. representing internal auditors, risks managers) in the discussion. We believe it is important to involve the various "internal" actors of the sustainability process in the organisations, as those "internal actors" (like internal auditors) are aware of the organisation's perspective of sustainability, and are professionals in (auditing) reporting to management on improvements in the organisational goals

2. *Amendments 7-8-43-49*

The draft CSRD report mentions the need for independent assurance on the sustainability reporting. We insist on the need for a broad scope including the reporting processes, the data quality, the internal controls and the risk management of sustainability processes and information. We also insist on having another look at the roles in the assurance providing process. After all, it is Internal Audit's role to provide independent and objective reasonable assurance and insight to the board and management, on all aspects of governance, risk management and internal control, and Internal Audit can be an important part of the "assurance chain".

Many actors are involved in this chain, both 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. The professional principle of internal audit already provides their independence and professional diligence.

Even now, many internal auditors are involved in auditing the non-financial information in the annual reporting, and sustainability should not be an exception to that. Also even now, many internal auditors report on observations adverse to sustainability goals and/or the ESG strategy, and – in less advanced situations – drive the initiatives to change (together with risk management).

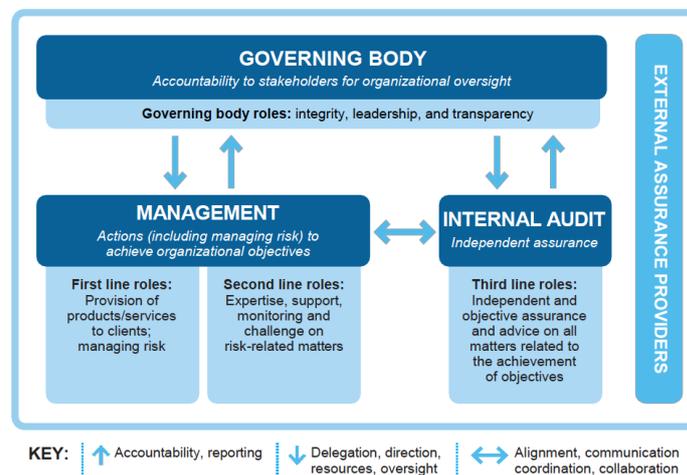
The various Stakeholders (including boards) are looking for trust and confidence in the data published. Besides this need for reliable, transparent, complete, correct, timely and comparable reporting, it needs to be the result of a strong internal control system (efficient and effective), as part of integrated risk management (e.g. COSO model that integrates the sustainability dimension, or ERM model that also includes sustainability issues). Like all risks an organisation is facing, reliability of reporting follows from risk analysis, risk appetite setting, risk responses, and risk monitoring. An integrated approach is key, and organisations 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 organisational oversight;
- Actions, including risk management, by management to achieve the objectives of the organisation 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



The Three lines model already includes the external assurance providers. However, the key responsibility is upon organisational management and Internal Audit. Internal Audit is capable to detect risks at the very early stages and provide a professional assurance immediately.

Each organisation 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 organisation's sustainability journey, as it provides assurance and insight on such important areas of the organisation like: achievement of the organisation's strategic objectives, reliability and integrity of financial and operational information, effectiveness and efficiency of operations and programs, safeguarding of assets, as well as Compliance with laws, regulations, policies, procedures, and contracts. It can add value in an advisory capacity by helping to identify and establish a sustainability control and risk environment, and can provide insight to the governing body and management.

3.Explanatory Statement regarding the sustainability reporting 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, international standards development should also be considered while setting the European obligations and be adopted when they meet the European objectives, in order to facilitate a smooth adoption.

About ECIIA

The European Confederation of Institutes of Internal Auditing (ECIIA) is the professional representative body of 34 national institutes of internal audit in the wider geographic area of Europe and the Mediterranean basin. We represent 48.500 internal auditors.

The mission of ECIIA is to be the consolidated voice for the profession of internal auditing in Europe by dealing with the European Union, its Parliament and Commission and any other appropriate institutions of influence. The primary objective is to further the development of corporate governance and internal audit through knowledge sharing, key relationships and regulatory environment oversight.

Contact

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