

The European standards for sustainability reporting are rapidly nearing, but Wim Bartels is missing an important group that can liaise the front lines with the command centre. Time for that group to make itself known!*

Liaison troops for sustainability

The draft European Sustainability Reporting Standards (ESRS) have been out for about two months now and the temperature among companies and auditors is already rising. What needs to be done to meet the requirements on time? What does it mean for assurance and the auditor's opinion? What are the consequences if a company cannot meet all the requirements (in time)? These are just some of the questions I've had to deal with myself these past few months.

Of course, all very important from a compliance perspective. Indeed, a company that will not be able to comply and will receive a negative auditor's opinion, runs a reputation risk and the risk of other actions taken by stakeholders. And therefore, Finance Directors and external auditors are starting to anticipate that external threat.

But is that the bottom line? Will companies indeed be ready when they meet all the reporting requirements? And will auditors then also be ready when they can say "fine, the report is correct" ["at least, I have no reason to believe that the report is not, in all material respects, incorrect' ...]?

The ESRS are not an end goal in themselves. They are intended to support the movement toward a sustainable European economy by providing relevant information on the status of companies around sustainability. In terms their risk awareness, opportunities and impacts, in terms of objectives, action plans, deployment of resources and performance. So that others - the financial sector at the front - are able to take the right decisions to create that European sustainable economy. A company that shows insufficient progress on the important sustainability issues, has no future in that economy. It also means that its "license to operate" will face pressure, or its access to financing, or its assets valuation because of the sustainability related financial risks. And that brings us back to the external auditor.

Still, we are not there yet, and in a recent conversation this came clear to me. The ESRS, amongst others, also require an explanation of the business model and the strategy. And also how the results of the materiality process have affected the business model and strategy. Logical, because - like for the economy as a whole – it is about companies adapting to the changing conditions. And thus, shifting their strategy when needed, adjusting their objectives accordingly, measuring and managing their performance accordingly, and aligning the deployment of resources, processes and relationships with those objectives.

And that is where a connection is missing. We are missing a group. And we don't hear them. But they have an important liaison function in connecting the front lines to the "command post".

Of course, it is management's first responsibility to set up the organization and plotting the lines. Certainly, that requires internal controls and governance to ensure that management's execution is in line with corporate objectives. But, for larger companies that have a 3rd Line, it is also necessary for that "3rd Line" to get involved in the embedding of solutions to comply with regulations. And that 3rd Line are the internal auditors. We certainly have about 3,000 of them in the Netherlands, half the number of public accountants according to the NBA's membership register. And they have an essential role: ensuring that the reports are not limited to glossy and empty words but are translated into strategy-aligned processes and steering. By auditing, by challenging the board, by disclosing which objectives will not be met, and of course, by helping to initiate solutions. "But they are not equipped" ... No? With additional (technical) knowledge on specific sustainability topics and developments, an internal auditor can, in my opinion, play this role: determine the extent to which business objectives are

sufficiently embedded and controlled in the processes of the organization, and how well the company is able to achieve its strategic objectives.

In the ESRS, the internal auditor is not mentioned. And neither does the CSRD mention that important 3rd Line. Therefore, it is time for internal auditors to put themselves forward. They must make themselves heard and explain their role clearly. As far as I am concerned as the “liaison troup” for sustainability. Within the IIA, but certainly also within the NBA. So, where are the internal auditors in the sustainability domain?

*Original [article](#) by Wim Bartels, Senior Sustainability Partner with Deloitte, on NBA Platform for financials and accountants.

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