



European Confederation of
**Institutes of
Internal Auditing**

ESG IA role

June 13, 2023

Enhancing governance through internal audit

Agenda

- **IA role in ESG reporting**
- Reduction of corporate reporting in the EU by 25%
- CS3D → ECIIA objectives



Context about ESG Assurance

- Limited guidance and disparate data sources, need for clear guidance and governance
- ESG should be fully integrated
- Need to build skills and knowledge for internal auditors
- ESG must create a holistic approach
- We need to avoid tick the box ticking

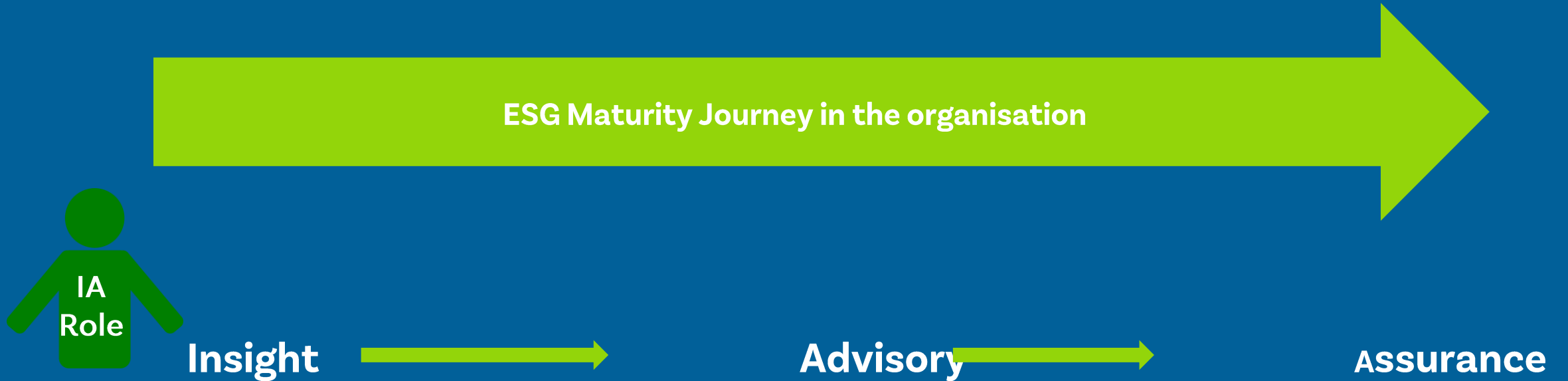


ESG maturity levels

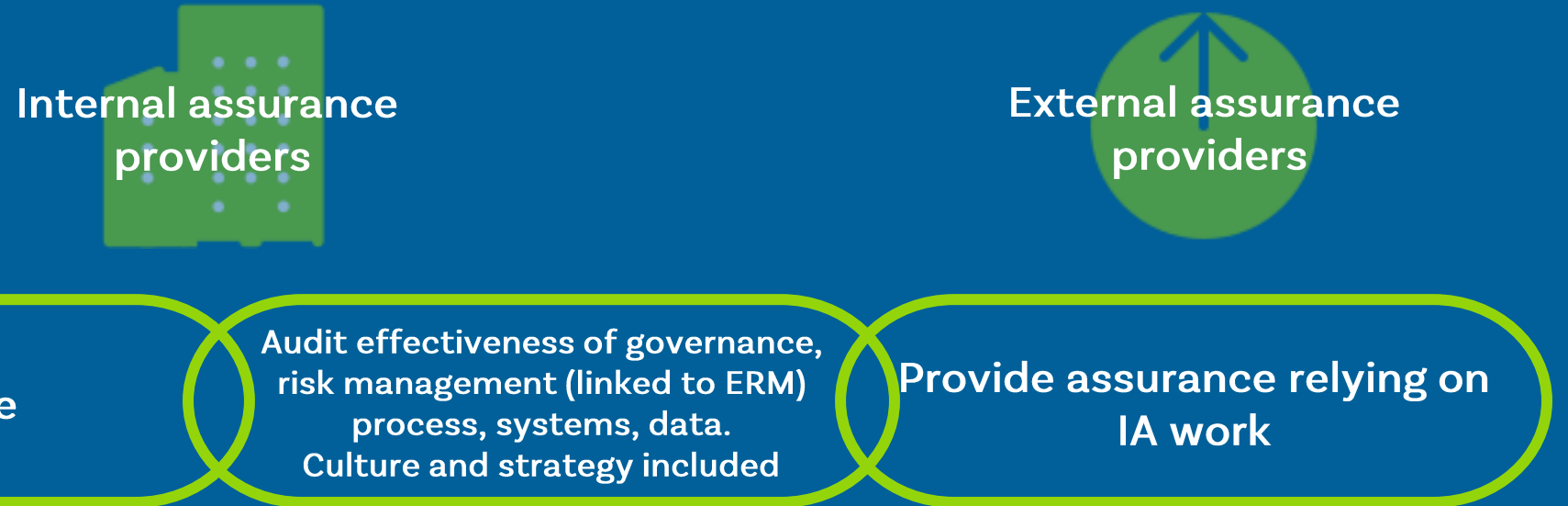
Company has not started at all	Where no formal recognition of ESG has been made; and, for example the company communicates around ESG but it doesn't fit inside the strategy, goals, processes, policies and operations (i.e. greenwashing)
Company in thinking phase	The beginning of reflection on ESG, for example there have been some brainstorming sessions and the company has considered a roadmap around ESG integration
Company in building phase	The rolling out of ESG policies and processes where ESG is implemented into operations and there are some actions related to ESG spelled-out; reporting being prepared
Company has implemented the integrated phase	The company genuinely and obviously addresses ESG throughout its operations, policies, and processes → it is mainstream.



Internal Audit roles



Assurance chain



Internal audit - Roles in ESG

In matured stage: Business as Usual in terms of audit methodology and tools

- Assurance & insight re the ESG management control cycle
 - ESG Governance
 - ESG Strategy setting
 - ESG Culture (*change*)
 - ESG Risk assessment, risk appetite & KPIs
 - ESG *Embedding (program)*
 - ESG Control & Monitoring
 - ESG Reporting Non-Financial Information

Reporting

- Double materiality
- Complex (“intangible”, quantity of data...)
- Detailed and sometimes technical
- Forward looking
- Assurance (limited → reasonable)



- **Internal assurance, cooperating with 2nd Line**
- **Cooperation with external auditor**
- **Key element of the assurance chain**



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Corporate reporting



- Need to consider a broader scope than just the corporate reporting output:
 - The governance
 - The risk management
 - The internal controls
 - The culture
 - The data quality
 - The reporting process itself
- So -/- 25% of what? Integrated?

- Top priority unchanged: Need for useful reporting (towards stakeholders)
- Need of harmonization of regulations in the EU (e.g. SFRD vs ESRS/CSRD....+ fin ind has its own!)
- Need for clear criteria about report quality
- **Need for clear roles of each “assurance provider”**
- Need for clear governance across committees (Audit, Risk, Sustainability, Remuneration...)



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Corporate Sustainability Due Diligence Directive and IA

- Need of harmonization of (due diligence) regulations in the EU (e.g. SFRD vs ESRS/CSRD...) – also national!
- Need to emphasize on strategy, culture, risk management and internal control...and not just reporting
- Need to define a strong internal governance to engage in, manage (duty to care), and monitor, receive adequate information from and report on (due diligence duty)
- Human rights and related adverse impacts not always easy to grasp and/or audit
- **Need to consider the role of IA in the “assurance process” (Board oversight and liabilities) → in fact BaU**
- Need for clear governance cross committees (Audit, Risk, Sustainability, Remuneration...)



**Thank you for your
attention!**

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