ESG GOVERNANCE: QUESTIONS BOARDS SHOULD ASK TO LEAD THE SUSTAINABILITY TRANSITION

Accountancy Europe, ecoDa and ECIIA have published ESG governance: questions that boards should ask to lead the sustainability transition (2023). This new publication aims to help boards with embedding sustainability – and specifically environmental, social and governance (ESG) factors – into company strategy and business models, and to ensure that proper governance supports this.

It sets out practical questions that boards should consider in their efforts on ESG, sustainability transition planning, delivery on sustainability objectives and limiting greenwashing risks.

Find below the key topics and selected questions. For the full set of questions and content, please refer to the publication.

BUSINESS MODEL TRANSFORMATION

> Have we assessed our business' ability to create value in the long-term, considering sustainability challenges and opportunities?

> How is our company's strategy aligned with ESG factors? Are these factors properly translated into objectives, goals, targets, performance indicators, tools and measurement frameworks?

> Has management assessed the impact of changing customer behaviours, investor preferences, stakeholder expectations and regulatory developments on our business model?

> What action is management taking to assess the key ESG risks that can significantly impact our business?

> Have we assessed what new finance opportunities/access to capital markets/business collaborations addressing sustainability could bring for our business?

> Do we receive adequate feedback on how different company functions contribute to our sustainability objectives, to ensure that we have a complete and comprehensive picture?

> Has management assessed potential conflicting KPIs and KRIs between our financial and ESG performance?

> Are ESG aspects integrated in our investment decisions, mergers and acquisitions etc.?

ALIGNING GOVERNANCE WITH SUSTAINABILITY OBJECTIVES

> Do we have the right people around the boardroom table, with the right skillset and mindset, to understand how ESG issues impact our business, strategy, short and long-term plans?

> Do our board and board committee members currently have sufficient competences and expertise to understand ESG topics, and their consequences for our business model?

> Does our stakeholder engagement help us identify which ESG issues are relevant for our company?

> How does management promote a culture that encourages consideration of ESG as part of day-to-day business decisions within and between departments?

> Are our remuneration systems and incentives consistent with our ESG objectives, values, purpose and risk appetite?

> Are board committees' Terms of Reference/charter fit for purpose for our company's sustainability efforts?

> How are ESG factors considered in current risk categories or the organisation's risk register e.g. strategic, operational, credit, political, etc.?

> How does management ensure that they use the right KPIs/KRIs to consider ESG risks? Do they review them regularly?

> Did we identify any potential green or social washing risks? Which mechanisms do we have in place to prevent green and social washing?

> How does the management ensure that internal controls for achieving sustainability objectives are integrated into the overall governance, compliance, performance measurement and corporate reporting frameworks?

SUSTAINABILITY INFORMATION, DISCLOSURE AND ASSURANCE

> What systems, including digital solutions, is management putting in place to make sure they are gathering, analysing and measuring the relevant data?

> How does management ensure the data's reliability and what controls do they have around this data?

> Who is responsible for sustainability reporting? Given the interconnection between financial and sustainability information, what does this mean for the CFO's responsibility? Are the sustainability reporting accountabilities clear?

> Are we using the same/consistent assumptions and estimations for financial and sustainability reporting?

> How does management ensure internal control effectiveness over sustainability reporting? Are there weaknesses and what is being done to address them?

> How is our company preparing for 'double materiality' assessment and reporting? Are we leveraging risk managers' and internal auditors' expertise for this?

> How are we challenging management to ensure all information that is material to our business is disclosed? Who is in charge of controls on completeness of material information?

> Is our internal audit (IA) department involved in the company's ESG transformation, and how? Do we sufficiently leverage their insights and advice?

> Does our IA department integrate ESG in its risk assessment and audit plan?

> Are all assurance providers (internal and external) coordinating their work, not missing any risks, and ensuring that proper controls are in place and no significant gaps?

> Which criteria do we/the audit committee use for the selection of the sustainability assurance provider?