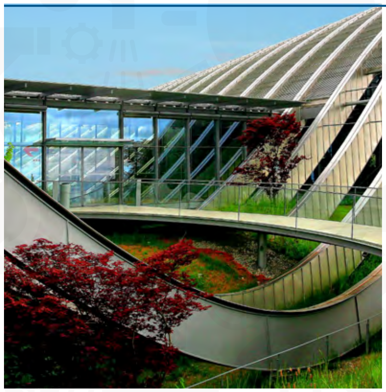
KEY QUESTIONS FOR AUDIT COMMITTEES OVERSEEING SUSTAINABILITY-RELATED DISCLOSURE



To implement the International Sustainability Standards Board's (ISSB's) standards and jurisdictional standards and regulatory requirements, organizations must ensure effective oversight arrangements to deliver high quality, cost effective and decision useful reporting. As reporting and assurance of sustainability-related disclosure evolves, audit committees have a critical role to play in expanding their existing oversight responsibilities for financial reporting and compliance to sustainability-related disclosures.

Given that many professional accountants serve on and are accountable to audit committees, there is also a key role for professional accountancy organizations (PAOs) to support their members to stay up to date with, and prepare for, expanding oversight responsibilities in relation to sustainability.

The Board is responsible for ensuring relevant sustainability and environmental, social and governance (ESG) matters are incorporated into purpose, governance, strategy, decision-making, risk management, metrics and targets, and reporting. But how they discharge this responsibility, and the appropriate board and committee structures needed to ensure effective oversight of sustainability and ESG, vary depending on the company, the industry, and the jurisdiction. Regardless of structure, boards should ensure minimal overlap or fragmentation of duties, while at the same time maintaining connectivity between committee agendas where relevant. Read more on *Board oversight of sustainability and ESG*.

Typical audit committee responsibilities

Notwithstanding the differing board oversight and committee structures, the audit committee can have a key role in:

- Overseeing sustainability and ESG disclosures to be issued at the same time as, and for some or part of, the annual or financial report, and related systems and internal controls.
- Ensuring the financial impacts of material climate-related risks have been considered and, where appropriate, are reflected in the audited financial statements, including through:
  - Oversight of management policies and processes to ensure adequate consideration of sustainability issues and monitoring of ESG compliance risks.
  - Scrutiny of the work of the external auditors, especially their consideration of the impact of material climate risks in the audit of the financial statements.
- Ensuring the consistency and connectivity of sustainability/ESG related disclosures across general purpose financial reporting and other public disclosures.
- Overseeing sustainability/ESG assurance activities, including oversight of compliance and risk management functions, internal audit, and appointment and oversight of external audit, and other sustainability assurance providers.

KEY QUESTIONS FOR AUDIT COMMITTEES

The following is a list of key questions for audit committees overseeing sustainability-related disclosure to help guide audit committee members.

ROLES AND RESPONSIBILITIES ACROSS THE ORGANIZATION

- Are roles and responsibilities for sustainability reporting clearly defined and documented?
  - Which individuals have principal responsibility for the reporting process for mainstream disclosures and regulatory obligations?
  - How is sustainability integrated into policies and formal documents?
- Are the CFO and finance team playing active roles in enabling an integrated mindset to enhance the connectivity and maturity of information and reporting processes? E.g., By connecting relevant teams including sustainability, operations, legal and compliance, and investor relations.
- To what extent are the CFO and controllership function involved in sustainability-related reporting?
  - How are they involved now, and will their involvement change in the future as mandatory disclosure increases in existing statutory reporting obligations?
  - Do they have the capacity and skills?
- Does the audit committee itself have an integrated mindset?
  - Is its mandate as it relates to the oversight of sustainability and ESG reporting and assurance clearly defined and understood, including the connectivity to the board and other board committee agendas in order to facilitate the ultimate oversight role of the board?
  - Are audit committee members also members of other relevant board committees as appropriate to help with connectivity?
- Does the audit committee have adequate knowledge, awareness, and expertise in the sustainability issues relevant to the company and its industry? How much reliance is placed on outside expertise?

KEY QUESTIONS FOR AUDIT COMMITTEES

DATA COLLECTION, PROCESSES, AND CONTROLS

- How is sustainability data currently collected and at what timescales? Do timescales align to financial reporting periods?
- Is data gathered on a consistent basis and to what extent is it complete?
- Are there formalized processes and procedures for collecting data?
- To what extent are the same type of controls for financial reporting and filings extended to sustainability data and processes?
- How is management addressing challenges in data collection? For example:
  - Gathering accurate data from suppliers or customers.
  - Estimation uncertainty, relying on historical data, scenario planning and forecasting with forward looking data.
  - Tolerance for accuracy and estimation, and whether trade-offs have been made.
- How manual (or automated) is the sustainability reporting process? Are investments in technology or existing systems being leveraged to automate data collection?

WHAT IS BEING REPORTED?

- Which sustainability standards and frameworks are currently being used by the organization, including across any subsidiaries in different countries?
- Which stakeholders may place reliance on the organization's sustainability-related information? Do these extend beyond investors and regulators?
- How have risk and materiality assessments been conducted (linked to strategy and the business model), and how do these assessments drive reporting for investors?
- Have ethics related challenges been considered in the preparation of sustainability-related information?
- How is management staying acquainted with, and preparing for, new and revised disclosure requirements, and how do these impact existing reporting requirements?
  - How is management staying up to date on sustainability reporting standards developments, such as those being developed by the ISSB?
  - How is management monitoring the scope of mandatory disclosure requirements, including considering requirements due to its subsidiaries or operating activities?
  - How is management ensuring connectivity and consistency between various information being reported, particularly where it is prepared by different teams?
  - Are metrics and data in sustainability reporting consistent with periodic annual/financial reports and other investor communications?
  - Do new reporting requirements impact existing reporting structures, processes, and responsibilities?

AUDIT AND ASSURANCE

- How has internal audit incorporated sustainability into its audit plan, and what is it doing to review management controls over sustainability data?
- Is the supporting documentation and evidence for sustainability accounting policies, procedures, and calculations adequate for review by an independent third party?
- How has external audit considered material sustainability risks and their potential impact on the audit of the financial statements?
- What sustainability-related information is, and is not, externally assured, and what level of assurance is being obtained (i.e., limited or reasonable assurance)?
- Which audit and assurance standards are being used?
  - An assurance engagement should be conducted in accordance with globally accepted standards for assurance engagements, including the existing *International Standard on Assurance Engagements (ISAE) 3000 (Revised)*. The IAASB is also developing a standard for sustainability reporting assurance, the *International Standard on Sustainability Assurance (ISSA) 5000 General Requirements for Sustainability Assurance Engagements*.
  - These standards require assurance engagements to be conducted by competent practitioners who are subject to quality management standards and an ethics code for conduct and independence. The audit committee should consider whether the practitioner is subject to public oversight, and if there is a mechanism in place to determine that they are in compliance with, and consistently apply, the applicable professional standards.
- With respect to external assurance, how is the audit committee:
  - Monitoring the scope and quality of work, effectiveness, independence, objectivity, appointment, reappointment and removal of the assurance provider?
    - Are they independent in fact and appearance? Including having no financial relationships with the entity, and not being in a position of providing assurance over their own work.
    - Are they subject to record-keeping requirements with respect to the work performed for the assurance engagement and what is the duration of any requirements?
  - Approving assurance services by the external auditor? (If using the existing firm providing the statutory audit as the assurance provider for sustainability reporting)
  - Ensuring the oversight of assurance including key aspects such as materiality and risk assessments, and use of estimates and tolerance levels, recognizing the potential for metrics to be inaccurate due to fraud, error, or immature data?

Explore additional resources: Sustainability Standards | IFAC