

BUILDING TRUST IN SUSTAINABILITY REPORTING: The Urgent Need For Integrated Internal Control



Why is Integrated Internal Control Needed?

Trust in high-quality information is the lifeblood of capital markets. It is also essential for good decision-making and business success.

Investors expect high-quality financial information and are now demanding the same for sustainability information. Reliable and connected financial and sustainability reporting and sustainability-related financial disclosures enable companies and investors to make economic decisions based on high-quality information. Increased confidence in sustainability information and its integration in mainstream reporting also helps companies avoid perceptions of greenwashing and regulatory or legal action.

Given the financial effects of climate change and the sustainability transition and the rapid move to mandatory sustainability reporting and assurance, boards and management must establish an integrated internal control environment for financial and sustainability reporting that is within an effective corporate governance and risk management framework underpinned by senior leadership commitment to sustainability and other objectives.

Business leaders, regulators, investors and others are turning to the accountancy profession to:

- Enhance and validate the systems and processes that can generate quality sustainability data.
- Ensure the integration and connectivity of sustainability and financial information to facilitate understanding of the financial effects of sustainability risks and opportunities and support the disclosure of sustainability-related financial information.

Through an integrated internal control environment based on an [integrated mindset](#), companies will achieve greater connectivity of functions, processes and systems leading to enhanced data quality to improve decision making on strategy, risk, opportunity management and governance-related matters. This is the foundation for transitioning to a more sustainable business model and enhancing investor and stakeholder confidence in sustainability performance.

New Expectations with Mandatory Reporting

The quality of information expected on sustainability risks and opportunities and performance is increasing because of new standards and requirements for mandatory sustainability-related disclosures, including:

- The IFRS Sustainability Disclosure Standards which are a global baseline for investor-focused disclosures. Connected information, including connectivity between sustainability-related financial information and financial statements, is a key requirement
- Jurisdictional legislation and standards, including the European Union's Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS), and in the U.S., the proposed SEC climate change disclosure rules and recently enacted climate reporting laws in California. These jurisdictional requirements also require assurance of sustainability disclosures.

These new standards and legislation all require sustainability disclosures to be issued at the same time as the financial statements and for the same reporting period. Significant efforts will be needed by all companies in scope to ensure that their internal governance, processes and systems are up to the task. The EU's CSRD also requires companies to disclose how their risk management and internal control systems incorporate sustainability reporting processes.

How is Integrated Internal Control Achieved?

An integrated control environment involves the finance function, internal audit, external assurance supporting senior management and the board's need for high-quality information for decision-making, effective governance and oversight and external reporting. The *COSO Internal Control—Integrated Framework* (or equivalent) is already widely used by companies to improve confidence in information, processes and systems particularly related to internal control over financial reporting (ICFR).

ICFR processes and systems can be modified and applied to sustainability reporting to enhance comparability, consistency and reliability of information and to incorporate material financial and non-financial related sustainability information into the financial reporting cycle. This also benefits the independent external assurance practitioner in obtaining assurance on that information.

An integrated internal control environment establishes robust data collection, processes, and controls through:

- **Effective governance** to set "tone at the top" with a purposeful, organization-wide commitment to drive sustainability and a culture that applies the same level of rigor to the measurement and reporting of sustainability information as that applied to the financial reporting. Responsibilities for the oversight of sustainability and integrated reporting will increasingly be with audit committees who will have to coordinate with other relevant board committees (see [Key Questions for Audit Committees Overseeing Sustainability-Related Disclosure](#)).
- **Risk and materiality assessments** aligned to the strategy and business model to identify the data needed to meet business objectives and regulatory and stakeholder needs. A risk assessment also allows the allocation of resources within reporting and control processes to those areas that pose the highest risk of material misstatement.

- **Sustainability reporting policy and process development** to create methodologies to generate consistent data and standardized and controlled processes based on sustainability accounting policies, chart of accounts/ledger, disclosure controls and procedures for material sustainability metrics and disclosures. This is particularly important for consolidation and group reporting and defining KPIs for integrated dashboards.
- **Robust data management and reporting systems** to ensure data accuracy, consistency, reliability, timeliness, and integrity. Sustainability data is ideally incorporated into existing financial or enterprise resource planning systems where process capability already exists, such as automated data feeds and controls from invoices, employee payroll and delivery documentation, or through direct measurement and real-time data collection.
- **Continuous improvement framework** to regularly review and improve sustainability data and reporting processes.

The Unique Challenges of Sustainability Information



The unique challenges associated with collecting, processing and analyzing both quantitative and qualitative sustainability information need to be addressed in the design of the internal control environment. Sustainability information often involves more estimates, is more forward-looking, qualitative and sourced from many parts of the organization and entities in its value chain.

Addressing these challenges involves:

- **Developing policies and documentation, using external standards, and clarifying measurement and reporting principles and roles and responsibilities for information to be captured and reported.** This will help bring about reliable and consistent data gathering from across the organization, suppliers and customers, and other necessary inputs such as carbon pricing. Validating the reliability and completeness of sustainability information sourced from outside the organization can be achieved through reasonability testing and industry benchmarking. Reducing risk in manual data collection requires several levels of review until such data can be standardized, automated and maintained in the enterprise information and reporting system.
- **Establishing an approach to capture, utilize and sustain the most critical data for effective internal decision making, as well as external stakeholder evaluation of performance.** This will require evolving thresholds and tolerances for data quality, particularly when collecting data from suppliers and for forward-looking and scenario-based information. Utilizing advanced analytical tools that handle large volumes of unstructured data can help in managing the complexity and forward-looking nature of sustainability information. Estimation can be reduced over time with the direct measurement of activities and sourcing data from existing systems where possible.
- **Aligning sustainability and financial reporting periods for information across the organization and its value chain.** This improves the connectivity of sustainability information and financial statements allowing the calculation of intensity metrics and enabling integrated reporting. Collaboration with partners in the value chain is necessary where information is material and involves incorporating data management systems and processes across suppliers and customers as part of the internal control environment.
- **Enhancing transparency with external users about the frameworks used for measurement and reporting of sustainability information, the use of estimates and assumptions and the assurance provided.** This supports their judgment on information reliability.

Addressing these challenges requires professional judgment and cross-departmental coordination including finance, risk, governance, sustainability, operations, IT and legal, is critical. Collaboration leads to clear communication channels, shared responsibilities and common understanding among different departments regarding sustainability goals, information and reporting requirements. For additional information on the steps to enhance greenhouse gas reporting, see [Enhancing Greenhouse Gas \(GHG\) Reporting](#).

COSO



ACHIEVING EFFECTIVE INTERNAL CONTROL OVER SUSTAINABILITY REPORTING (ICSR): Building Trust and Confidence through the COSO Internal Control—Integrated Framework

Applying [Committee of Sponsoring Organizations \(COSO\) Internal Control—Integrated Framework to Sustainability Information](#)

COSO's guidance on [Achieving Effective Internal Control Over Sustainability Reporting \(ICSR\) – Building Trust and Confidence through the COSO Internal Control – Integrated Framework](#) shows how COSO's existing five internal control components and seventeen principles apply to sustainability and ESG reporting—to enhance the effectiveness, efficiency, and accuracy of the underlying processes and internal controls.

The Role of the Finance Function

Finance functions enhance the quality and relevance of information internally and improve its timeliness, consistency, comparability, materiality and connectivity. This is the foundation for integrating sustainability information into enterprise planning and dashboards, risk management, remuneration frameworks and decision-making processes to drive relevant and reliable information to senior management and boards and ultimately high-quality integrated information reported externally.

The finance function enhances the quality of sustainability data through the following dimensions:

- Transactional systems for accounting and collection of sustainability data
- Disclosure systems and reporting processes and analytics
- IT architecture and automation of processes and controls
- Interpreting rules and standards, and ensuring reporting is in accordance with sustainability reporting standards.

Given that the reporting of sustainability and financial information is too often separate and unrelated, the finance function can also ensure that sustainability disclosures are aligned with corresponding financial information in the financial statements to facilitate connectivity between sustainability risks and opportunities and their financial impacts for the same reporting period.

The Importance of the Professional Accountant's Skillset

Professional accountants who are preparers, senior managers, board, and audit committee members, or who provide firm advisory services are ideally placed to create and maintain an effective internal control environment over sustainability reporting. Given their experience with risks and controls over financial reporting, professional accountants know what "good" looks like in terms of increasing the reliability of data and can assess the implications of sustainability activities on financial reporting.

They also ensure that the sustainability information collected and reported is aligned with international and jurisdictional reporting requirements and standards and is coordinated with relevant internal audit and independent external assurance activities.