

How can a company build the infrastructure with people, systems and processes to have auditable ESG information?

If we take into consideration the qualitative characteristics of decision-useful financial reporting information according to the Financial Accounting Standards Board (FASB), the information needs to be relevant, verifiable, neutral, complete, comparable, and understandable. These characteristics create the foundation for financial information to be auditable. A comparable set of ESG standards are those issued by the Sustainability Accounting Standards Board (SASB). SASB standards focus on issues that are reasonably likely to impact financial performance and were developed in a transparent, evidence-based process, informed by market feedback. Therefore, just as financial reporting is prepared in accordance with FASB standards or other financial reporting standards, ESG reporting that is prepared in accordance with SASB or other similar ESG reporting standards, can create the foundation for ESG information to be auditable.

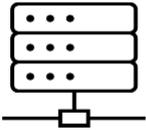
With a solid foundation of ESG metrics, a company needs to make sure the right people, systems and process are in place.



People

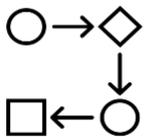
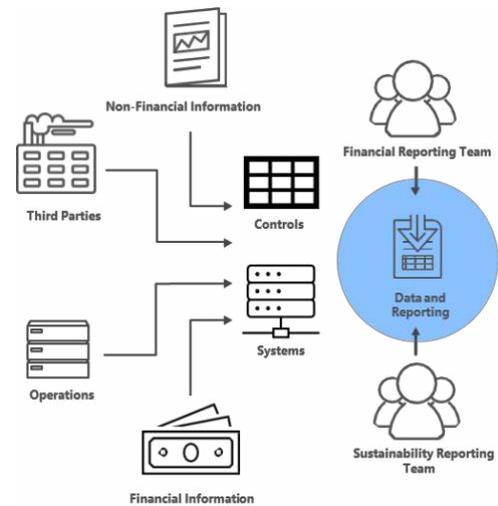
Like financial reporting, ESG reporting requires collaboration across functions. To establish ESG responsibility, there should be a group led by a manager and include members from risk management, legal, human resources, environmental, health & safety, information technology, operations, finance & accounting, marketing, investor relations and compliance. The internal audit and financial reporting teams typically have expertise in the implementation of internal control practices and procedures. If companies outsource the ESG reporting function, make sure that consultants have audit or SEC reporting background. Leveraging their experience in dealing with auditors and with the regular issuance of financial reports can be an opportunity for ESG reporting teams to adopt such practices, including:

- Experience with linking risks to financial statement impact
- Expertise with the consolidation of financial and non-financial data
- Understanding of controls documentation and level of detail that auditors will require in performing their duties
- Establishing different levels of review of information to minimize the risk of material misstatement
- Partnering with the information technology team to leverage existing reporting systems to manage the ESG data collection process securely and efficiently



Systems

Including the information technology (IT) team members in the process of reporting ESG metrics will help with the identification of existing applications that may already contain the information required for disclosures. The CIO and other IT professionals can help with finding solutions to improve the integrity, accuracy, and efficiency of the data gathering process. Financial reporting systems used for SEC reporting often have features with built-in controls that automatically update report information from source data. By incorporating sustainability reporting information into existing financial reporting systems, companies can save money and increase accuracy and reliability, facilitating an audit trail of disclosures.



Processes

In addition to having the right systems and people involved, companies should ensure the processes used for disclosing sustainability information are integrated with those used for financial reporting. Companies can use their existing control framework that is used for operations, compliance and reporting, and if using the COSO² framework, include the following Internal Control components:

- Control environment – A strong internal control environment sets the tone for maintenance of processes and discipline to govern controls over financial, nonfinancial, and sustainability performance data.
- Risk Assessment – A core component of designing, implementing, and maintaining effective controls
- Control Activities – Actions established through policies and procedures to help mitigate sustainability risks
- Information and Communication – Appropriate performance measures and communication channels and processes that communicate ESG related facts effectively and accurately
- Monitoring Activities – Assessment of whether components of internal control and relevant principles are present and functioning in the processes that apply to relevant sustainability information, both for management decision making and for external disclosures

² The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control-Integrated Framework. See “Leveraging the COSO Internal Control-Integrated Framework to Improve Confidence in Sustainability Performance Data” by Robert H. Herz, Brad J. Monterio, and Jeffrey C. Thomson

In Summary

Regardless of which ESG standards a company uses, people, systems and processes are an integral part of reliable and auditable ESG disclosures. By having the proper controls to minimize the risk of material misstatements, companies can be prepared for future audits, but most importantly, ensure that sustainability metrics used to execute on their business strategy are a reliable measure of performance.

About ESG Lynk®

ESG Lynk® is a leading sustainability reporting company dedicated to aligning corporate strategy with relevant ESG factors to enhance investor and capital market attractiveness. With a team of former Big 4 professionals with industry experience and SASB FSA credential holders, ESG Lynk® understands the importance of developing a robust ESG strategy and delivering quality and reliable sustainability information.

For a conversation about defining your ESG strategy and reporting needs, contact us:

Alejandra (Ale) Veltmann

Founder | CEO

aveltmann@esglynk.com

Jennifer Sadenwater

Founding Managing Director

jsadenwater@esglynk.com

Links to our publications:

- [Navigating the ESG Ecosystem](#)
- [Linking ESG Metrics to Financial Performance](#)
- [Integrated Reporting](#)
- [Engaging with Suppliers to Meet Sustainability Goals](#)

Prefer to watch or listen?

- [The ESG Lynk Process](#)
- [Podcast with High Touch Investor Relations](#)



[ESGLYNK.COM](https://www.esglynk.com)