

REPORTING INSIGHTS

GOVERNANCE OVER SUSTAINABILITY REPORTING



INTRODUCTION

The board and management have a fundamental role to play in sustainability reporting, overseeing critical decisions such as determining the material issues to report, the use of qualitative information, the identification of relevant metrics, and the overall approach to data collection.

With a significant increase in focus from regulators on the robustness of information disclosed to investors and other stakeholders, ensuring good governance over sustainability reporting is critical.



At Yara we urge every one of our stakeholders – including investors and regulators – to study our comprehensive Sustainability Report, to learn more about how we have integrated sustainability into our business. We renamed the Board’s Audit Committee to the Board Audit and Sustainability Committee, marking the importance of sustainability integration and defining the line of responsibility for sustainability performance and reporting. Good corporate governance ensures that we achieve our goals in the right way, and hopefully inspire others to adopt our sustainable and ethical business practices.

THOR GIÆVER,
CFO, YARA INTERNATIONAL

51%

of the world’s largest 1400 companies obtain some level of assurance over their sustainability information¹

35%

of companies are very satisfied that the sustainability disclosures they share with stakeholders are trustworthy²

1. The International Federation of Accountants (IFAC), [The State of Play in Sustainability](#)

2. EY, [2022 Long-Term Value and Corporate Governance Survey](#) on 200 directors and executives in Europe

TOP FIVE QUESTIONS TO CONSIDER

1

Is your board level oversight of sustainability reporting clearly established in the organization's governance structure? Do the terms of reference reflect this accountability accordingly? How do the processes in place over your sustainability reporting compare with your financial reporting?

2

Is there clearly established responsibility and accountability for sustainability reporting at all applicable levels of the organization?

3

Are your sustainability report preparers, reviewers and your internal audit function appropriately resourced, knowledgeable and skilled to provide complete and accurate sustainability reporting, including sufficient subject matter expertise to understand internal data limitations?

4

Does the function responsible for sustainability reporting have sufficient knowledge of processes and controls to ensure the completeness and accuracy of the information disclosed?

5

Have you developed clear governance, internal policies and processes to support the application of internal and external assurance over your sustainability reporting?

KEY ELEMENTS OF AN EFFECTIVE GOVERNANCE STRUCTURE OVER SUSTAINABILITY REPORTING

- **Governance over sustainability reporting** is integrated in the existing structure, including effective board or board committee oversight, clear roles and responsibilities, and an established approach for assurance.
- Sufficient **capacity and knowledge** exist within the board and the cross-functional teams involved.
- Effective **internal control framework and systems** are designed and implemented, including for internal management reporting.

CURRENT STATUS OF GOVERNANCE OVER SUSTAINABILITY REPORTING

Organizations are establishing new approaches for governance over sustainability reporting, with different models being successfully adopted. Different approaches can be selected to address the varying needs of individual organizations.

The following pages explore these areas in more detail along with suggested practical actions for finance teams:

1. Governance structure and board oversight
2. Functional responsibility and accountability
3. Capacity and knowledge
4. Control framework and management reporting
5. Role of advisors, internal audit and independent external assurance service providers

1

Governance structure and board oversight

Organizations are continuing to develop and enhance their sustainability reporting governance as they gradually seek to implement structures similar to those for financial reporting.

As reliance on the governance around sustainability measurement and reporting is increasing, especially where executive remuneration is linked to sustainability performance, a key focus for organizations is increasing the level of oversight and scrutiny to align more closely with the processes and controls in place for financial reporting. Key priorities include alignment of sustainability reporting with the organization's strategic direction (integrated reporting), incorporation of sustainability considerations in financial reporting (including assessment of risks and opportunities), and monitoring to ensure completeness and accuracy of the metrics within the reports (control framework and assurance).

Defining an effective governance structure for sustainability reporting for an organization is a complex area to navigate. Board oversight of sustainability reporting is typically approached either through existing committees (such as the audit and risk committee) or through a dedicated sustainability committee. The CFO is increasingly taking operational responsibility for sustainability reporting and engages directly with the board or relevant board committee.

The degree of external assurance sought on sustainability reporting varies across different jurisdictions: this is only currently required by law in a few regions but some organizations voluntarily seek assurance as a corporate governance measure or because it is seen as good practice. If voluntary external assurance is obtained over sustainability disclosures, the scope is generally limited to a selection of sustainability metrics rather than the full population of reported sustainability information. This is set to change rapidly, in particular in jurisdictions where mandatory external assurance is likely to be required over sustainability reporting and where investors place increasing emphasis on assurance. As a result, some organizations have started to develop more robust control frameworks and processes of internal review over sustainability reporting to enhance data quality and prepare for independent assurance.

ACTIONS FOR FINANCE TEAMS

- Run a gap analysis comparing your governance around financial reporting with that on sustainability reporting to identify key areas for improvement.
- Undertake peer review and benchmarking to assess best practice.
- Engage with report users to understand their immediate and longer-term expectations around governance and assurance.
- Track regulations and convergence of standards that might trigger additional governance and assurance requirements or expectations.

2

Functional responsibility and accountability

Organizations are starting to clarify the roles and responsibilities of boards and related committees towards sustainability reporting. Some have established dedicated sustainability board committees, while others are fully integrating this responsibility into existing governance structures. Organizations also recognize the need to upskill board members.

Deciding which area of the organization should be responsible for sustainability reporting requires careful planning. Historically, the sustainability team has collected data to enable the organization's strategic planning and led reporting activities to measure and disclose progress. As sustainability reporting has become subject to significant investor and regulatory interest, the financial reporting team has become increasingly involved. Consequently, roles and responsibilities in regard to sustainability reporting can be ambiguous.

In situations where the sustainability team takes responsibility for preparing sustainability-related reporting, there can often be an increasing level of collaboration with the finance team to leverage their knowledge of reporting processes and controls. This may lead to creating the new positions of sustainability CFO, sustainability controller and sustainability accountant, as the finance business partner to the sustainability function, bringing experience of how to build a strong control framework and efficient reporting processes. Alternatively, some organizations are starting to embed a dedicated sustainability team within the finance function.

ACTIONS FOR FINANCE TEAMS

- Given the cross-functional nature of sustainability reporting, clarify roles and responsibilities with consideration to those that are responsible, accountable, consulted and informed.
- Leverage finance and broader skillsets to create and implement robust control frameworks, while continuing to leverage technical knowledge from sustainability experts within the organization.
- Consider creating roles which explicitly connect finance and sustainability functions and skillsets, such as sustainability CFO, sustainability controller and sustainability accountant.
- Monitor emerging legislative and regulatory requirements for sustainability-related reporting and disclosure.

3

Capacity and knowledge

There is a significant need to upskill and build capacity to enable effective governance for sustainability reporting. Leading organizations are running capacity-building programmes for their boards, audit committees, senior management and finance teams.

Designing and maintaining sustainability performance measurement processes and related reporting can be new territory for many of those involved, whether they are executing the process or overseeing it. Certain key capabilities can be sourced externally, but people across the business will need to be upskilled and educated on sustainability performance measurement processes and reporting matters, including how to assess, interpret and prioritize sustainability data. Different types of sustainability information have very different characteristics and limitations, about which reporting teams and report users need to be aware. Additionally, upskilling may be needed to implement a strong control environment and associated processes.

In many cases, most of the sustainability reporting knowledge remains within the centralized team responsible for the reporting. There are often significant sustainability knowledge gaps at the data owner level (eg operational personnel who collect and provide the data to enable reporting on metrics) and the board and management levels (eg reviewers of sustainability reporting). This puts at risk both the quality of data and the effectiveness of the review process.

Some organizations have begun to prioritize board-level training to assist with board awareness of key sustainability reporting developments, in some cases at first focused on metrics linked to remuneration. Training is also needed at the operational level and requires more structured planning, reflecting the breadth of areas necessary to provide the core operational data to support reporting. Such training can be delivered with a mix of internal and external providers.

ACTIONS FOR FINANCE TEAMS

- Upskill your team with the knowledge to respond as the remit of their work expands.
- Roll out training on the controls and processes across key departments involved in producing information for external sustainability disclosures.
- Support board and audit committee understanding of sustainability-related issues and the relevance to the organization's strategy.

4

Control framework and internal sustainability management reporting

The control environment around sustainability reporting is – in most cases – not to the same standard as for financial reporting. This puts into the question the reliability of the information provided.

Board and management demand for sustainability reporting is increasing as stakeholders – internal and external – seek additional metrics to assess performance alongside or connected to financial information. However, many organizations have limited internal reporting to support management monitoring and decision making. Moreover, the controls for sustainability information are often manual and ad hoc, which increases the risk of error.

Among the underlying root causes for this is a lack of integration of sustainability information data systems with mainstream reporting processes. Sustainability reporting has largely been a voluntary process, and one focused on providing information to stakeholders rather than driving decision making, so the same level of rigour has not typically been seen as critical. In addition, using a single data management and reporting system is complicated by the multitude of standards and metrics that organizations adopt.

Consequently, the management and monitoring of sustainability reporting processes and controls is often relegated to being an annual exercise, with an increased risk of weaker sustainability reporting governance and misstatement of sustainability performance information assembled for external reporting purposes. As the importance of sustainability reporting increases, organizations are beginning to recognize the need for regular internal sustainability reporting to enable an effective internal governance process.

ACTIONS FOR FINANCE TEAMS

- Refine sustainability reporting processes and control environment, including clear documentation with evidence of control operation and consideration of internal validation and assurance over the sustainability reporting process. This could be done by leveraging existing external reporting processes.
- Integrate sustainability information within regular reporting, where feasible, to improve relevance of data, robustness of processes and controls, as well as to support internal decision making.

5

Role of advisors, internal audit and independent external assurance service providers

Investors and regulators are pushing for assured sustainability information and companies are preparing for the forthcoming introduction of mandatory assurance requirements. An organization's internal and external assurance providers are valuable sources of feedback to enhance the report's credibility.

Although investors and regulators push for increased levels of assurance over reported sustainability information, there are significant variations with regards to the assurance type (limited versus reasonable) and its scope. Some organizations only include a very limited number of metrics as part of the review, although there are clear signs of an expansion of scope.

Internal assurance services, such as the internal audit function, play a key role in the governance over and credibility of sustainability reporting. Internal audit can provide feedback on the effectiveness of internal controls and test the organization's readiness for both external reporting and independent external assurance.

Applying independent external assurance to sustainability reporting indicates a maturity in the organization's reporting process. Most organizations engage an independent assurance practitioner for external assurance on the material sustainability metrics. Some organizations elect to use the same sustainability assurance provider as the financial statement audit provider, an approach that may allow synergies in the assurance process. Ensuring access to sufficient subject matter expertise as well as assurance expertise is critical, whether appointing the financial auditor or another assurance provider.

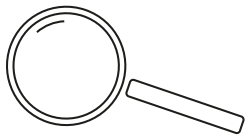
While sustainability reporting personnel with a sound financial reporting background are often familiar with the level of challenge and evidence required as part of the audit process, that may not be true for all involved in the sustainability assurance process. Finance teams may, therefore, find themselves playing an arbiter role between the independent assurance practitioner and the organization's personnel who own sustainability data.

While the external assurance process holds clear benefits, not all assurance professionals yet demonstrate expertise and technical knowledge comparable to those applied in the audit of financial reports. Recently, the established auditing profession has committed significant investment in the upskilling of the profession, and the development of updated global assurance standards relating to sustainability reporting is under consideration by the [International Auditing and Assurance Standards Board \(IAASB\)](#).

ACTIONS FOR FINANCE TEAMS

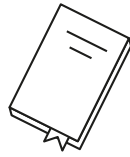
- Implement a robust internal assurance process to ensure sufficient readiness for the application of independent external assurance. You could consider incorporating the process into the scope of the internal financial assurance process.
- Carefully assess the right timing for the involvement of advisors and external assurance providers, considering the need for robust processes and controls before the start of the engagement.
- Take steps to be ready for external assurance, such as reviewing the effectiveness of controls design and implementation, data traceability and documentation.

FURTHER RESOURCES



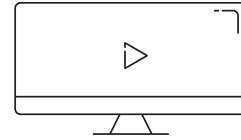
Explore

The A4S [Essential Guide to Navigating the Reporting Landscape](#)



Read

The Governance section of the A4S [Essential Guide to Strategic Planning, Budgeting and Forecasting](#)



Watch

[Developments and trends in sustainability-related reporting and practical actions to respond.](#)

The A4S Newsletter

Sign up to receive the [A4S newsletter](#) to get monthly news and updates on our reporting resources, including guidance, workshops and webinars.

The A4S Academy

The A4S Academy is a learning and implementation programme for finance leaders on embedding sustainability. The programme empowers and equips finance teams with the skills needed for their businesses to succeed in the face of environmental and social risks and opportunities. The Academy is for senior finance professionals, sponsored by their CFOs.

[Find out how you can join the Academy.](#)

Sustainability Reporting Insights

The A4S Sustainability Reporting Insights series is written to equip CFOs, reporters, investors, boards and other stakeholders with a better understanding of current approaches to sustainability reporting, highlighting some of the key actions finance teams can take to respond to future sustainability reporting requirements.

A4S has established a reporting project to discuss the current status of sustainability reporting practice with key stakeholders including members of the A4S [CFO Leadership Network](#) and the A4S [Accounting Bodies Network](#) and other large multinational organizations (both private and publicly owned).

The A4S Sustainability Reporting Insights series consisting of four briefs reflects the findings from these discussions.

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