Heroic statements on climate action and social responsibility have long been marketing gimmicks used by businesses. Yet with corporate sustainability taking an increasingly prominent position in the financial world and beyond, headlines on 'greenwashing' scandals are on the rise. This is a concern that has serious ramifications for companies and needs to be quickly addressed. A key question is, however, how and by whom?

With the emergence of a new global system for sustainability reporting taking shape, for both impact and financial disclosure, the attention is turning to the gatekeepers of information: the auditors. Inaccurate and incomplete data undermines the credibility of sustainability information. At GRI, we believe effective reporting cannot be achieved without effective controls, and vice versa. We need the audit sector to deliver the extra mile.

The four lines of defense

Looking at current developments in sustainability reporting, it is not all that different to the introduction of international accounting standards at the beginning of this century. Disclosure of sustainability related information – be it on enterprise value or impacts – is rapidly moving towards parity with financial information.

This also means the entire governance system for safeguarding the accuracy and completeness of reported data needs created or, in many cases, professionalized.

Borrowing from the established practice in financial reporting, the four lines of defense are:

1. Control frameworks and day-to-day controls
2. Management review
3. Internal audit
4. External audit

Throughout these steps, misstatements, omissions or manipulation within the data gathering and reporting are dealt with. We need to see that same rigor applied to sustainability disclosures. Businesses and other stakeholders making investment decisions, career choices or supply chain analysis based on sustainability information should be able to rely on the data. Beyond making claims to be doing good, companies must be able to back them up.

Already we have seen instances where IPO’s have failed on the basis of inaccurate ESG data. Or even worse, charges on misleading investors after disasters struck. Damage to the brand, especially in times of energy crisis and a shortage of labor, can be severe.
State of play - sustainability assurance

For decades, auditors have played a central role in ensuring accurate financial information. Past scandals have triggered demand for stronger controls and positioned audit as the bridge between markets and business. Mandatory audits on financial data are an undisputed given.

With the transition to a reporting system where financial and sustainability information is on an equal footing, mandatory assurance of sustainability data is only a matter of time. In fact, the European Commission will demand limited assurance on sustainability reports from 2024. That means integrated reporting of financial and sustainability information, and therefore also integrated assurance.

For many years companies reporting with the GRI Standards have provided voluntary audit statements on (parts of) their reports. Apparently, the forces of capital markets are stronger than that of regulation. The question then is, do we need mandatory audit regulation on sustainability reports? The short answer is yes, to create a level playing field for all.

Research from IFAC, AICPA & CIMA shows that the rise in sustainability assurance is a global trend. Yet with increased reliance by investors and other stakeholders on these audit statements, low-quality assurance is an emerging concern.

Tackling ‘ESG laundering’

Greenwashing is a challenge that the auditing community alone cannot solve. For one, because accounting firms already face major issues in terms of capacity and capabilities of staff and technology. On top of that, standards setters in particular have a necessary role. A multitude of sustainability reporting standards and frameworks does not only increase the cost of compliance but also the cost of auditing. As discussed in a previous GRI Perspective, ranking and rating firms would benefit from a single comprehensive system for sustainability reporting - and the same goes for auditors.

Just imagine if audits need to be undertaken not only for financial reports based on international and national accounting standards, but also on sustainability data using the GRI Standards, ISSB Standards, SEC climate regulation, European Sustainability Reporting Standards (ESRS), the TCFD framework, and other locally set requirements. Where would we find the audit capacity?

Of course, jurisdictions will always have their own approaches, based on legislation, market conditions or tradition, but we need the same broad foundation. Companies and their stakeholders all benefit from comparable data, to assess whether risks are mitigated and what the impact is on the environment, the economy and society.

GRI is committed to developing the global system for sustainability-related corporate reporting, as we continue our collaboration with the IFRS Foundation to achieve interoperability between the GRI Standards and new ISSB standards, based on our distinct yet inter-related approaches: impact materiality with GRI and financial materiality through the ISSB. Taken together, this will enable one set of standards for business to report upon and auditors to assure upon.

Consolidating best practice on a global level is an important stage in the professionalization of sustainability reporting auditing. GRI therefore welcomes that the IAASB is developing a sustainability reporting assurance standard.

The shift to a sustainability focused economy affects supply chains, finance flows and education systems - and proper audits are one of the main value drivers. If business, investors and other stakeholders cannot trust published sustainability information, from both the financial and impact perspectives, it will be hard to demonstrate how they are contributing to a better world for everyone.

How we can help

We recognize that effectively applying the GRI Standards for audit purposes requires support. The GRI Academy offers wide-ranging training on how to apply the GRI Standards, including the 2021 update of the Universal Standards that comes in to effect for all reporting from January 2023. You can also keep up to date with GRI events that cover policy engagement, standards developments and more.

Get in touch

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