ESG - sustainability: a risk or an opportunity for Internal Audit?

Introduction

Stating that the world is changing at a rapid pace might be an understatement. Today we are living in a VUCA world (volatile, uncertain, complex and ambiguous).
The environment in which businesses operate are rapidly changing, regardless of the fact whether this business is operating locally or globally. The global COVID-19 pandemic, ongoing since early 2020, has forced governments, companies, and stakeholders around the world to question strategy, priorities and resilience capacity.

While some might consider this as a once in your lifetime event, it would be good to reflect on the natural catastrophes that happened across the globe. Not only were there the recent forest fires in the US caused by draught (California and more recently Denver, Colorado), but also closer to home the floodings affected several river basins across Europe including Austria, Belgium, Croatia, Germany, Italy, Luxembourg, the Netherlands, and Switzerland. At least 243 people died in the floods, including 196 in Germany,43 in Belgium,two in Romania, one in Italy and one in Austria. These floodings were caused by a combination of massive rainfall and lack of human oversight.

In recent years, sustainability has become synonymous with “going green” or “reducing emissions and carbon footprint”. In other words, when most people think about sustainability, they think about things like reducing emissions, energy consumption or tracking water usage. And while there is nothing wrong with these actions – they are indeed essential goals – this is only the tip of the iceberg.

The word sustainability (defined below) is still a popular search trend for businesses according to google trends, and, according to the Risk in Focus 2022 publication of the ECIIA, the following risks related to sustainability are part of the Top 12 risks identified by the survey:

- Social Sustainability
- Environmental Sustainability

Furthermore, while the following risks might not include the terms sustainability explicitly, these risks can be linked with the concept of sustainability – in the broad sense of the term:

- Talent management;
- Organizational Governance;
- Economic and political volatility;
- Diversity on the work floor;
- Supply chain;
- Life cycle management of the products;

There is a momentum for organizations to act on sustainability. Those that act decisively unlock new opportunities, develop resilience and an overall sustainable competitive advantage for their business models on the long term. This is also true for internal audit.

The opportunity for internal audit lies in the fact that Internal Audit can go back to its core mission and vision and protect the organization's capitals, financial as well as social and environmental contributions, over time.

As a reminder, the definition of internal audit reads as follows:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The main objective and challenge today for organizations is to get a grip on the risk and opportunities represented by the sustainability transition. These sustainability risks are complex, volatile, and different depending on the business and/or geographic area the organization operates in.

For some organizations, the opportunity in reviewing certain sustainability risks or challenges might result in lower operating costs resulting from the review of energy consumption in the light of a reduction in Greenhouse gas emissions. For Internal audit, the sustainability risks can be an opportunity to increase its scope from a traditional assurance service provider with an additional consulting engagement scope. The transformation projects induced by the sustainability objectives that organizations are setting themselves also represent major opportunities for internal audit.

By reviewing these risks, one should also consider whether the glass is half empty or half full, as for each risk that will become transparent during this review, there will probably be an opportunity by which the corporation can have a positive impact on the environment in which it operates, the long-term profit of the corporation and/or other potential benefits for the society, employees, or other stakeholders.

Whilst several organizations were probably already on that track, one of the key trends at the beginning of the pandemic was to reduce the resources invested in Internal Audit and/or to re-allocate Internal Audit to other activities. As we are evolving to a "back to normal" working environment, the time is right to think about what the "back to normal" would/could mean for Internal Audit.

The objective of this white paper is to generate ideas for IA functions so that :

- Internal Audit can contribute to the accomplishment of the objectives of the organization;
- Internal Audit can be recognized as a value ad to the organization;
- As an organization, IA can expand its scope and bandwidth;
- And as a result, be a talent provider for the organization.

Sustainability, what's in a name?

According to Cambridge dictionary, the definition of sustainability is:

The idea that goods and services should be produced in ways that do not use resources that cannot be replaced and that do not damage the environment:

In its original semantic meaning "sustainability" and "to sustain" are just an English noun and verb, respectively, referring to something that can continue over a period.
A closely related and overlapping concept is that of "sustainable development". UNESCO formulated a distinction between the two as follows: "Sustainability is often thought of as a long-term goal (i.e. a more sustainable world), while sustainable development refers to the many processes and pathways to achieve it.

Another definition for sustainability according to the Brundtland Commission's report, means "meeting the needs of the present without compromising the ability of future generations to meet their needs." This needs to be seen in the mantra we often hear that we don't own the world but borrow it from the future generations.

While we do not intend to expand too much on this definition, it is important to highlight the fact that sustainability could be translated to a very familiar term in the financial world namely: going concern. Usually in finance, going concern means the ability for a corporation /organization to survive the next fiscal year and/or the foreseeable future. However, in this concept it means the ability to keep its license to operate for the generations to come".

To understand the Sustainability challenge better, it is also important to split the challenge in the 3 major concepts according to the Unesco definition and in the Risk in Focus 2022 report – published by the ECIIA - being:

- The environmental sustainability
- The social sustainability
- And the economical sustainability

The definition of sustainability according to the IIA

Environmental, social, and governance (ESG) refers to criteria that characterize an organization's operations as sustainable, responsible, or ethical.
Although there can be some overlap, ESG-related topics generally fall under one of the three main categories represented in its acronym:

- E: "Environmental" considers how an organization performs as a steward of nature. This can include issues related to carbon emissions, waste management, water management, raw material sourcing, and climate change vulnerability.

- S: “Social” examines how organizations manage relationships with employees, customers, and the greater community. Risks that fall under this category can include corporate social responsibility, labor management, data privacy, general security, and health and safety. With the recent rise of high-profile movements related to addressing racial injustice, social ESG-related subjects such as diversity, equity, and inclusion have taken prominence.

- G: “Governance” refers to variables such as business ethics, leadership, executive pay, audits, internal controls, intellectual property protection, and shareholder rights. Diversity risks, while social in nature, also can fall under the governance umbrella, such as actions to improve board diversity.

What are the major observations on sustainability in the world of Internal Audit ?

The risk in focus 2022 report from the ECIIA highlights the most significant risks impacting European organizations based on a survey and interviews with AC chairs, CEO’s and CAE’s..

The risks are presented in order of relevance, as rated by Risk in focus 2022 respondents.

- Cybersecurity and data security
- Changes in laws and regulations
- Digital disruption, new technology and AI
- Human capital, diversity and talent management
- Business continuity, crisis management and disasters response
- Financial, liquidity and insolvency risks
- Macroeconomic and geopolitical uncertainty
- Climate change and environmental sustainability
- Supply chain, outsourcing and nth party risk
- Organisational culture

A first interesting observation from this ranking is that the 3 elements of ESG are represented in the top 10 risks identified, partly at least.Sustainability risk needs to be seen broader than Human Capital, Diversity and Talent management. The stakeholders of the social risk are not only the employees and future employees but communities in the close neighborhood of a manufacturing plant are to be considered as well. The same applies for the governance part where the future ESG regulations and full compliance with these regulations will be a main challenge for companies in the near future. However, even if partial, the presence of all ESG components in the 2022 top 10 risks is significant.

In today’s literature and focus, a lot of attention and importance is given to the aspect of disclosing correctly the impact an organization has on the environmental, however, it is important to highlight that the social part and the governance part of the ESG equation require their part of the attention. The ESG journey will have an impact not only on the reporting, but also on the strategy, culture, processes of these companies.

Just as an example, while a focus on the reduction of greenhouse gases will be one of the key parts of an ESG strategy, companies will also have to ask the question what they can do or should do for the benefit of the communities in which they operate. Not only the reporting aspect of sustainability is critical, the factual actions that companies are taking to improve their sustainability are evenly important to disclose as these actions are the cornerstones that will lead to an improved and more sustainable environment.

Focusing on non-financial reporting and compliance could lead organisations to forget about the essence of the whole project: their survival over time in there natural and social environment.

Why is ESG important for companies?

The main question that resides and which will probably have an impact on the level of involvement of Internal Audit in the whole ESG process is why the corporation is doing it. According to Catherine Cote – HB- Corporate social responsibility (CSR) is a business model in which for-profit companies seek to create social and environment benefits while pursuing organizational goals. Whereas companies typically focus on the bottom line, or generating profit, socially responsible companies focus on the triple bottom line.

The triple bottom line can be described as the "three Ps": people, the planet, and profit. In other words, in addition to striving to succeed financially, socially responsible companies commit to measuring success through their impact on people—employees, customers, and society at large—and the environment.

It's important to not think of sustainability initiatives as a financial trade-off, but rather, as a wise financial strategy.
In addition, she identifies 8 benefits of sustainability in business:

1. Sustainability will drive internal innovation;
2. Investing in Sustainability improves the environmental and supply risk;
3. Being a sustainable corporation attracts and helps to retain employees;
4. Sustainability will build better brand loyalty;
5. Sustainability will reduce the production costs;
6. Sustainability can garner positive publicity for the corporation;
7. Sustainability helps to stand out in a competitive market;
8. Sustainability allows a corporation to set an industry trend and be the leader in sustainable practice.

Research in the Harvard Business Review shows that sustainable businesses see greater financial gains than their unsustainable counterparts. In addition, consumers' motivation to buy from sustainable brands is on the rise.

Needless to say, that while some companies are still on the fence to decide whether or not action should be taken to have a view on sustainability for the corporation, the research mentioned above states that when done properly, there will not only be a benefit for the climate and society, but also a benefit for all stakeholders including the shareholders.

This is also the conclusion from a study on the correlation between ESG and financial performance done by NYU Stern and Rockefeller Management. The 6 main conclusions of this study can be summarized as follows:

- Improved financial performance becomes more marked over longer time horizons.
- Companies integrating ESG as an investment strategy perform better.
- ESG investing appears to provide downside protection, especially during a crisis.
- Sustainability initiatives at companies appear to drive better financial performance due to factors such as a improved risk management and more innovation
- Managing for low carbon improves financial performance.

ESG disclosure on its own is not driving financial performance.

If needed to be demonstrated, this study confirms that ESG drives performance from companies if the focus on the short term and making profit is the main driver of a corporation shifts to the longer term vision where profit is still important, however the interests of all stakeholders are considered (people, planet).

On top of these benefits, sustainability is soon becoming a matter of law and regulation. As previously discussed, the European Green Deal and the related decisions are coming into force starting 2022. New disclosure requirements (taxonomy, ESG reporting...) are set to change the way organizations do business to reach the net zero objective in 2050. Sustainability is thus also quickly becoming a compliance topic.

Frameworks and maturity levels

While starting its sustainability journey, it might be critical for a corporation to work through the current “alphabet soup” that exists today.”Some organizations talk about CSR (corporate social responsibility) while others always refer to ESG strategy (Environmental Social and governance sustainability). If you throw in the acronyms related to the different reporting frameworks, than it really becomes a challenge to see clear through this ESG Alphabet Soup as we have the UN SDG (United nations sustainable development goals), but also GRI (global reporting initiative) and SASB (Sustainable Accounting supervision Board) in addition to the TCFD (Tasl Force Climate financial disclosures). As a conclusion engaging on the sustainability journey will require dedicated attention.

Based on Prof. Dr. Wayne Visser, companies can be classified in 3 groups when it comes to their approach on ESG :

Sustainability 1.0 (age of marketing) : The organization supports various environmental and social causes through sponsorships and donations. This is typically administered through a foundation. Another possibility is that sustainability is mainly considered a PR opportunity that will enhance brand, image and reputation.

Sustainability 2.0 (age of management) Here, sustainability enters the corporation 's core business, often through codes, management systems, goal setting and reporting. An example includes Walmart's objective to come to zero emissions by 2040.

Sustainability 3.0 (age of responsibility) Organizations in this stage are characterized by a systemic approach to sustainability by innovative business models and revolutionising products, processes and services.

It should be noted here that the Europe Green Deal initiative includes systemic components that could be connected to the Sustainability 3.0 stage. The European taxonomy combined with the emerging EFRAG reporting standards are set to create a business environment that leads organisations to revolutionise products, processes, services towards the net zero objective in 2050.

One should also note that the timetable the European Commission has set is very tight: the taxonomy already came into force and the reporting standards should be applied in 2025 on 2024 accounts.

As a conclusion, as a lead of an Internal audit organization, and before engaging on the ESG journey, it is important to assess for its own organization in which stage the organization is and to see what the current focus of the IA function should be, in the light of swiftly evolving European regulations.

While the first question will be answered by having conversations with the top leaders of the corporation and stakeholders, the focus will be depending on the answer on the first question and on the mandate that the IA function will receive. The mandate will depend on the maturity of the second line and the maturity of the IA function.

In several organizations, the risk management function is taking the lead in this effort, This is probably related to the fact that the sustainability risk is looked at with a conventional risk transformation approach of avoid, reduce, transfer of accept.

Considering its characteristics – scope, including compliance to laws and regulations, financial and non-financial reporting, large transformational projects, access to Board and management and in-depth knowledge on the corporation and industry- Internal Audit is in a good position to reinforce its mission statement to add value to an organizations operation.

What can the value of internal audit be in sustainability matters?

While the definition of the Internal Audit function is widely known and recognized, an additional value of Internal audit is that it can help management to anticipate and navigate around future challenges.Internal audit is in a good position to do this as on top of the requirements cited above such as independence, objectivity and objective assurance, the internal audit function is in a privileged position to have a helicopter view on the whole organization and to have access to all levels in the organization.

The positioning and added value of internal auditing in an organization can be better understood through the concept of the IIA's Three Lines Model (see annex).

Role in assurance

According to the IIA, the internal audit function should at a minimum provide the following assurance over ESG reporting.

- Review reporting metrics for relevancy, accuracy, timeliness and consistency : It is critical that all public ESG reports provide information that accurately depicts an organization's ESG efforts. This is particularly important as regulatory oversight and public scrutiny increases.
- Review reporting for consistency with formal financial disclosure filings: While ESG reporting provides non-financial data, any information that conflicts with formal financial disclosures will raise a red flag with investors and regulators.
- ·Conduct materiality or risk assessments on ESG reporting: Organizations must have a clear understanding on how ongoing ESG efforts or public commitments to reaching ESG goals can rise to the level of materiality.
- A review and assessment on the completeness, accuracy, consistency and comparability of data and reported non-financial information but also an assessment on the effectiveness of the internal controls governing the processes to collect this information.

Whilst IA often played a critical role in the success of Sarbanes Oxley projects at the role out of this legislation when CEO's and CFO's had to certify the proper functioning of internal control environments, Internal audit has a unique opportunity today to demonstrate the same leadership in relation to the ESG reporting and risks. Due to its scope and positioning it has a broad view on the operations and functioning of companies and can therefore add value in this matter.

In these times of greenwashing and/or greenwishing, it will be vital for companies to issue reliable and credible information to the major stakeholders and/or to be prepared to respond to critical matters whenever an emergency would arise.

However, IA functions should also be able to contribute to the review and risk assessment of the ESG strategy of the corporation as well as a review of the goals and target setting of the companies. As reaching the net zero objective brings major transformational projects (manufacturing processes, supply chains…), internal auditors could help ensure they will deliver their strategic goals.

IA can also contribute to the verification of controls set to achieve sustainability objectives. For instance, the adequacy/ effectiveness of integration of ESG considerations into due diligence in sub-contracting.
To ensure proper quality of the work done by IA, it will have to consider compliance with the adequate professional standards. This will, in particular, require IA to acquire the necessary knowledge and skills. IA should be a "reliable partner" for the Board in the ESG journey and deliver insight, advise and later assurance

In summary, Internal Audit should be a "reliable partner" for the Board in the ESG journey and deliver insight, advise and last but not least assurance.

Trusted Advisory

According to the IIA, Internal audit should provide more insight and foresight, not just hindsight. This can be achieved by giving perspective on :

Building an ESG control environment. As ESG reporting standards emerges, organisations will build the corresponding control environment. IA should play the traditional role it has on financial reporting. Competent internal audit functions are familiar with the building blocks of effective control environments. They can recommend the frameworks (e.g.,COSO's Internal Control – Integrated Framework) to manage/mitigate ESG risks. Internal audit also can advise on developing specific internal controls over ESG reporting.

ESG metrics — As ESG metrics are tightly connected to the very nature of their business, organisations will, to a certain extent, define their own framework to accurately reflect their sustainability efforts. Internal audit can provide insights into the kind of data (quantitative and qualitative) and the systems required to produce them.

Where ESG risk should be managed. Internal audit can provide guidance on ESG governance because of its holistic understanding of risk across the organization. It can use its unique perspective to help identify roles and responsibilities, as well as provide training on internal controls.

Transformational projects – Large projects will be launched by organisations to reach the net zero objectives. The objectives of these projects are so strategic that they will need to be continuously monitored. IA can play a decisive role in providing the governance with the level of assurance they need to steer the transformation.

Internal audit can provide this guidance on ESG governance because of its holistic understanding of risk across the organization.

From a practical point of view, here are a couple of contributions where Internal Audit could help to guide the corporation on its way to a sustainability strategy. The topics which everyone will take for granted are the review of the completeness, quality and governance of information provided to external stakeholders as well as the review of compliance with the selected framework for reporting on sustainability. However, below are some examples of elements of the sustainability strategy in which IA can help the corporation to ensure that the sustainability investment becomes more than a green washing or green wishing promotional instrument.

Identification and interview of stakeholders

Companies will have to identify who the internal and external stakeholders are that might have an impact on the sustainability strategy, efforts and priorities. IA could help with the identification of the stakeholders and interview some of these (internal) stakeholders such as Management, employees, Board members, ….

In addition, one of the critical elements is to ensure that the sustainability risks which are critical to stakeholders are addressed properly in the materiality matrix of the corporation.

Alignment of the sustainability strategy/program towards the mission, vision, values of the corporation

Internal audit is the guard of the values and moral compass of the corporation and ensures that the company drives its business in line with the corporation values. As a result, IA could ensure that the sustainability strategy is aligned with the corporation values and that the efforts to improve sustainability are spend in the right areas.

Review of Sustainability KPI’s

IA could help the corporation to assess whether the KPI’s it has selected to work on as part of the sustainability strategy are adequate and appropriately monitored. IA is in a unique position to assess whether the KPI’s and the follow up will contribute to the success of the strategy.

Review of the incentive program related to Sustainability

Some companies include sustainability in their corporate incentive program, however, the main question that will reside is whether the objectives and incentives will contribute effectively to the success of the chosen strategy. IA could play a significant role in the review and assessment of the adequacy and efficacy of the incentive program, objective setting and follow up on the KPI scoring to ensure the incentive program is set up to achieve the goals for which it is created. IA can also review that the incentive program and outcome is aligned with the ESG strategy and objectives.

Critical success factors for a smooth transition into the ESG journey

To be successful on this journey, IA will have to ensure some critical success factors are well aligned.

As a reminder and looking at it from the inside, IA will have to ensure that it complies with the professional standards. Therefore, through standard 2120 Risk management where “The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.”and standard 2130 IIA Standard 2130 – Control states, “The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.” These standards give the IA function the necessary authority to provide assurance on the ESG reporting.

However, considering the competency matrix – IA will have to ensure that it has the necessary proficiency – standard 1210 – to perform the necessary engagements, but it also needs to apply adequate due professional care in these types of engagements.

Needless to say, that this will require a substantial investment in training and likely staffing. Depending on the scope of the engagements, it might be good to consider specialist/outside resources to help with these engagements.

One possible track could be to work together with the external auditor on these assignments if they have the necessary skillset as the knowledge and comfort gained by working together on an ESG engagement will likely benefit the external auditor at the time he needs to certify certain reports.

In addition, it might be a good opportunity to review the internal audit charter and to ensure that the IA function has the necessary authority to add the ESG to its scope of work.

Levers of change

As mentioned before, the benefits that companies can gain by choosing for a sustainability strategy have been highlighted before, such as a boost in innovation, reduced supply chain and environmental risk, … To achieve this objective, it is a prerequisite that the different stakeholders will have to work together and this will require that different levers of change will have to interact with each other and/or drive each other.

A lever of change can be understood as an area of work that has the potential to deliver wide-ranging positive change beyond its immediate focus.

The CAE has direct access to top management (CEO and direct reports). The challenge will be to get on their agenda and to get sustainability on their agendas for a discussion within the Corporation's leadership. The CEO and direct reports are a lever of change that the CAE can affect directly. The members of the Audit Committee are another lever which the CAE can affect directly based his function and interaction with the members of the Audit Committee. Board members and the Chairman of the Board, should also be a lever of change that the CAE can contact directly.
Finally, the pace at which laws and regulation are coming into force should convince all organizations to embrace sustainability matters at once.

Benefits by broadening the IA scope

While there will be additional and unknown challenges by broadening the scope of the IA function into a territory which might not be the typical habitat for Internal Audit, there will be substantial benefits for IA to engage on the ESG journey.

First of all, it will give the IA function an additional possibility to demonstrate it is a value adding partner for the top management of the corporate and the directors in particular the committees to which IA will report (audit committee and/or risk committee). This should allow the IA functions to gain/regain its seat at the table and use the holistic view it has on the corporation.

An additional benefit is the potential impact the reviews by internal audit might have on the efficacy of the Sustainability strategy of the corporation.

For the IA function in itself, it will allow the staff to gain additional knowledge on a topic which will be the key attention point for all major companies for the years to come. In addition, and in comparison with IA functions that don't spend time or significantly less time than others on the sustainability strategy of the corporation, it will be an asset in attracting auditors for the internal audit team. Considering the current war on talent for audit talent, this might be an additional differentiator when going on the job market for talent.

Conclusion

To conclude this paper, it is important to assess that sustainability is more than caring on the environment only. The social environment and governance environment in which a corporation is acting are also critical for a corporation, but more importantly, sustainability needs to be seen as managing a corporation so that it can continue to operate for the generations to come.

As the going concern is a main objective for the Corporation, it is equally important for Internal Audit to ensure to help an organization achieve its objectives and to protect all its assets (whether they being financial, environmental or social) over time– which in this case is to ensure that the corporation can operate for the years to come.

The role that internal audit can play might be depending on the ESG strategy the corporation has taken but will also be depending on the role that IA has to play/can play according to its charter and other means it has available (resources, staffing, budget, ...). In addition to resources, to be successful, the CAE will need to have access to levers of change such as Board members, AC members and top management to gain information, but also share information and give insights to risks to which the corporation is exposed on its path to increase the sustainability of the corporation and as a result, improve the sustainability score of the corporation.

Sustainability could be seen as a risk for a corporation and an internal audit department, however, when give the adequate resources, authority, and access to stakeholders, it will be an opportunity for both.

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AN ABRIDGED EUROPEAN LEGAL CONTEXT – Courtesy of ECIIA

The rising importance of ESG is illustrated by the amount of standard-setting initiatives that have been developed over the years.

The EU is particularly active and wants to play a leading role in that field. In 2020, it announced its strategy for climate neutrality by 2050 as part of the European Green Deal, which is a key pillar of European Commission President Ursula von der Leyen's strategy for her time in office.

The European Green Deal is a response to climate and environmental challenges. Significantly, the Green Deal has for the first time set out a legal commitment for the EU to target climate-neutrality by 2050, with the European Climate Law. This act will also ensure that all EU policies contribute to this overall goal, and that all sectors of the economy and society play their part.

Sustainable Finance Disclosure Regulation

To further support the green transition, the EU also aims to channel more investment into greener activities. This aim has been formalised in the European Commission's Strategy for Sustainable Finance. In this strategy, the Commission identified the financial sector as a key enabler to support economic growth, while reducing pressures on the environment and taking into account social and governance aspects. The Sustainable Finance Disclosure Regulation mainly applies to financial institutions (banks, insurers, asset managers and investment firms) operating within the EU. The disclosure requirements are considered at the level of the entity and of the product. The implementation is progressive (from March 2021 to January 2023).

EBA prepared its own work plan and identified its key priorities on sustainable finance. These include considerations on how ESG can be incorporated into the regulatory and supervisory framework of EU credit institutions. They issued a Discussion Paper on management and supervision of ESG risks for credit institutions and investment firms.

EIOPA aims to ensure that the (re)insurers and occupational pension funds integrate sustainability risks in their risk management to protect consumers and secure financial stability. EIOPA intends to focus on the promotion of sustainability disclosures and a sustainable conduct of business framework by providing guidance on disclosures under the Sustainable Finance Disclosure

Corporate Sustainability Reporting Directive

Large organizations are required to disclose information on how and to what extent their activities are associated with environmentally sustainable economic activities. The EU has issued a proposal for a new Directive on Corporate Sustainability Reporting.

- ·It will establish mechanisms for engaging with and involving internal and external stakeholders in identifying, preventing and mitigating sustainability risks, and impacts;
- ·Integrate sustainability aspects (short, medium and long-term impacts of risks and opportunities) into the business strategy;
- ·Identify and set measurable, specific, time-bound, and science-based sustainability targets, aligned with the overarching goals;
- ·Prevent, mitigate or remediate adverse impacts on organizational resilience throughout the value chain and its business continuity;
- ·Report against mandatory EU sustainability reporting standards

The EU has also issued a proposal for a Directive on Corporate Sustainability Due Diligence. It will require companies, amongst other duties, to integrate due diligence into policies and decision-making and identify, prevent, mitigate, and minimise actual or potential adverse human rights and environmental impacts (quantitative and qualitative information)throughout the global value chain. It includes the verification by an independent third party designated by the national authorities and sanctions, including fines can be defined by each country . The adoption is planed end 2022 and members states will have 2 years to translate in local regulations

European Sustainability Reporting Standards

The European Financial Reporting Advisory Group (EFRAG) has been mandated by the EU and set up a Project Task Force on European Sustainability Reporting Standards (PTF-ESRS) that has published preliminary Working Papers that reflect its initial thinking on the content of standards. The first set of standards required under the CSRD proposal has been issued for consultation in Spring 2022 and cover the full range of sustainability matters (environment, social and governance) and the first set of standards to be adopted in October 2022. The reporting obligation is expected to apply to reports published from 1 January 2025 (Financial Year 2024).

EU Taxonomy

Further, the ambition to ensure transparency on risks related to ESG factors is articulated through the Commission's work on the EU Taxonomy. The delegated act concerning a common classification for the climate change mitigation and adoption have been adopted (2021) and are applicable as from January 2022. For the four other environmental objectives (the sustainable use and protection of water and marine resources, the transition to a circular economy, the pollution prevention and control, the protection and restoration of biodiversity and ecosystems), the taxonomy should be established in 2022 and be applicable from 2023.

The Three lines model

The model illustrates the place of the IA in the control environment of an organization, each level of control being based on the preceding level to avoid duplication of controls while guaranteeing that the most important risks are covered. The figure below illustrates the Model.
As a summary, Management's responsibility to achieve organizational objectives comprises both first- and second-line roles.
First line roles are most directly aligned with the delivery of products and/or services to clients of the organization and include the roles of support functions.
The second line roles aid with managing risk. Second line roles can focus on specific objectives of risk management, such as: compliance with laws, regulations, and acceptable ethical behavior; internal control; information and technology security; sustainability; and quality assurance. Alternatively, second line roles may span a broader responsibility for risk management, such as enterprise risk management (ERM). However, responsibility for managing risk remains a part of first line roles and within the scope of management.
Internal Auditing is the third line, because it is critical that internal auditing is independent from the responsibilities of management to ensure objectivity, credibility, and authority. Internal audit provides independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management. It reports its findings to management and the governing body to promote and facilitate continuous improvement. In doing so, it may consider assurance from other internal and external providers.
All roles working together collectively contribute to the creation and protection of value when they are aligned with each other and with the prioritized interests of stakeholders. Alignment of activities is achieved through communication, cooperation, and collaboration. This ensures the reliability, coherence, and transparency of information needed for risk-based decision making. The basis for successful coherence is regular and effective coordination, collaboration, and communication.