SDG
INTOSAI WORKING GROUP
KSDI

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ESG Audit Guidance – Scoping Paper

Introduction

INTOSAI has contributed to the implementation of the SDGs since the adoption of the 2030 Agenda for Sustainable Development in 2015. Many SAIs are already supporting governments in tracking progress and identifying opportunities for improvement. At the same time, some important aspects of the achievement of the SDGs remain undisclosed.

The practice of non-financial information generation and its disclosure by public sector organizations on their activities and contributions to sustainable development (ESG-reporting)[1] is widespread worldwide and critical.

Full information disclosure in the field of sustainable development and, in particular, publication of ESG-reporting, including public sector organizations and public authorities, will provide countries with another tool to understand and assess country's progress towards achieving sustainable development.

The analysis of how governments promote responsible business conduct, as well as the assessment of the completeness, accuracy, and reliability of ESG-reporting by public sector organizations, is an important task in the framework of the sustainable development audit.

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[1] An ESG report is a report published by a company or organization about environmental, social and governance (ESG) impacts.

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I. Why do we need ESG audit?

Guidance strategic goal

- to contribute to the implementation of the UN Sustainable Development Agenda until 2030 by nudging national governments to take active actions in order to stimulate responsible business conduct and high-quality disclosure of non-financial information about the public sector organizations activities and its contributions to sustainable development or to the implementation of ESG principles.

Guidance goals

- To assist SAIs in conducting an audit of national governments measures aimed at stimulating responsible business conduct, and on the basis of recommendations prepared based on the results of the ESG audit, to support governments in developing new or adjusting existing measures.
- To assist SAIs in conducting an audit of ESG reporting of public sector organizations and developing recommendations for its improvement.

Guidance objectives

- Stress the importance of ESG-reporting in the context of the implementation of SDGs;
- Identify the main issues related to ESG audit;
- Describe the main principles and approaches to ESG audit;

- Identify possible auditee and stakeholders for interaction within the ESG audit.

II. What is ESG audit?

ESG principles and ESG audit

ESG principles are the principles of the company's activities, based on the environmental protection, the creation of favorable social conditions, bona fide relationship with employees and customers and good corporate governance.

The ten Principles of the UN Global Compact in the sphere of Human Rights, Labour, Environment and Anti-Corruption[2] also can be considered as ESG principles.

ESG audit is a systematic process that allows

- to analyze implemented public policy measures aimed at stimulating auditees to implement ESG principles in their activities;
- to obtain and evaluate evidence in order to determine whether the information and data on the activities of auditees comply with the ESG principles.

Scope of ESG audit

ESG audit is applicable within the framework of the audit of public bodies, as well as public sector companies, if the subject of the audit includes an analysis of the implementation of ESG principles.

When conducting an audit of public bodies, the subject covers their activities aimed at promoting the auditees to implement ESG principles in their activities.

For example, Ministries and Departments of Economy, Trade, Industry etc.

[2] https://www.unglobalcompact.org/what-is-gc/mission/principles

When conducting an audit of public sector companies, the subject of the indicated audit involves research of their activities from the perspective of the implementation of ESG principles.

It should be noted that in selecting public sector companies as auditees, the SAI mandate should be considered.

For example, companies founded by a public-law entity, joint-stock companies, in whose authorized capital public-law entity participates, companies of other organizational-legal forms with public ownership may be considered as auditees.

Correlation with INTOSAI Professional Pronouncements and other documents

The process of organization and conduct of ESG audit is based on general concepts and principles related to the public sector audit process, which are identified in INTOSAI professional pronouncements: ISSAI 100 «Fundamental Principles of Public-Sector Auditing» and ISSAI 300 «Fundamental Principles of Performance Auditing», as well as GUID 5290 «Guidance on Audit of the Development and Use of Key National Indicators», GUID 9020 «Evaluation of Public Policies and GUID 5202 «Sustainable development. The role of supreme audit institutions».

The ESG audit process should also take into account the recommendations on the SDG audit as set out in the INTOSAI Development Initiative documents: Guidance on Auditing Preparedness for Implementation of Sustainable Development Goals and the INTOSAI SDG Audit Model.

The publication of ESG reports by commercial companies implies the audit and certification of such reports by independent auditors. As a rule, such an audit is conducted on the basis of non-financial reporting assurance standards as

International Standard on Assurance Engagements (ISAE 3000/3410), the Accountability's Assurance Standard (AA1000AS) and national standards for auditing and assurance of non-financial information, if any.

When it comes to audit and assurance of non-financial statements of organizations with public ownership, the audit of which, in accordance with the authority, is conducted by a SAI, the question arises about the possibility of including ESG aspects of the organization's activities in the audit program of the SAI.

At the same time, audit of ESG reporting, in cases with commercial and government organizations, includes an assessment of the compliance of disclosed information with the standards used for its preparation. These can be both internationally accepted standards (GRI, SASB, TCFD, ICMM, WSA, AA1000 etc.) and national ESG reporting standards, if any.

Auditee and subject of ESG audit

The subject of ESG audit includes issues related to the activities of public authorities in implementing ESG principles, as well as issues related to public sector companies’ activities on the implementation, realization and reporting of ESG principles.

ESG auditees depending on the audit purpose and the supreme audit institutions’ authority may be:

- public authorities responsible for the development of public policy and normative regulation in the field of implementation of ESG principles,
- public authorities responsible for the formation of government statistics,
- public sector companies,
- other public bodies and organizations, that realize ESG principles in their activities.

III. How to carry out ESG audit?

ESG audit objectives and issues

When defining ESG audit objectives and issues, it is recommended to follow the general principles for their preparation as stipulated in the INTOSAI Professional Pronouncements.

Taking into account the subject of the audit, the audit objectives can be formulated by analogy with the following examples:

- analyze the system of public policy measures aimed at promoting the implementation of ESG principles in companies;
- analyze the completeness and reliability of information on the implementation of ESG principles disclosed by an organization with public ownership.

In order to fully address the most relevant and important components of the selected objectives, it is recommended that a set of logically structured and systematized audit issues be included for each of them.

ESG audit issues can be related to analysis of:

- legislative and normative legal acts from the perspective of the envisaged measures aimed at promoting the implementation of ESG principles;
- public strategic documents from the perspective of systematic approach in the field of strategic planning in the context of the implementation of ESG principles;
- strategies of public sector companies;

- actual data and information about the activities of public sector companies from the perspective of the achieved outputs and outcomes, directly or indirectly related to the ESG principles;
- non-financial reporting by public sector companies.

ESG audit criteria

In order to understand what audit evidence is needed, as well as the results, conclusions and recommendations, it is recommended that audit criteria be applied to each of the issues within the audit objective.

If the audit is aimed at analyzing government incentives for the implementation and compliance with ESG principles, the audit criteria should relate to institutional, socio-economic and environment effects.

In the case when the audit is aimed at assessing the ESG reporting of an organization with public ownership, the audit criteria should allow making a judgment on the completeness and reliability of the reporting.

In ESG audit the logic of audit criteria should ensure the correlation in the «objective-result» pattern.

As an ESG audit criterion, for example, can be the following criterion:

the system of interaction at the government level contributes to ensure the involvement of public sector companies in the process of formulating public policy measures in the sphere of promoting the implementation of ESG principles.

ESG audit hypotheses

In order to determine the most valuable information and available data on the audit subject, to understand the possible risks, the required amount of audit procedures, it is recommended to create a list of hypotheses[3].

It is recommended to formulate hypotheses in the form of statements that reflect the relevant risks, the occurrence of which can negatively affect the activities of the auditees in the field of ESG.

Depending on the subject of the audit, hypotheses within the framework of the ESG audit may be focused for example on:

- the risks associated with the insufficiency, redundancy or inefficiency of government regulatory measures aimed at implementing ESG principles;
- the risks associated with the incompleteness and/or unreliability of ESG reporting of an organization with public ownership.

Taking into account the objectives and issues of the ESG audit, hypotheses can be formulated by analogy with the following examples:

- lack of communication between public authorities and stakeholders on ESG issues, resulting in their low awareness and involvement in the formulation of public policy measures;
- an organization with public ownership in the framework of ESG reporting does not disclose information on a number of significant topics, which leads to an unaccounted negative impact of the organization's activities on the implementation of sustainable development goals and objectives at the local or regional level.

Methods in ESG audit

In order to collect and study of actual data and information in ESG audit, both generally accepted methods of system and comparative analysis and specific methods can be applied.

[3] Hypothesis is a possible audit finding, requiring proof of its veracity

As part of the audit of government measures aimed at stimulating the implementation of ESG principles, for example, impact assessment methods used in the policies evaluation and sociological research' methods, such as public surveys and in-depth interviews with representatives of a wide range of stakeholders, can be used.

When auditing ESG reports of organizations with public ownership, standard methods for assessing the completeness, quality and reliability of data and methods for assessing the transparency of indicators can be used[4]. In addition, the in-depth interview method can also be useful for identifying problems and risks of ESG reporting within an organization.

Findings and recommendations in ESG audit

It is advisable to formulate audit findings and recommendations in the report as a final statement, in a concise form expressing proven, reasoned, new and valuable knowledge such as about the risks and consequences that have resulted or may result from the findings, the problems identified, etc.

Examples of findings include:

- public authorities' interaction with stakeholders on ESG issues is insufficient and requires taking measures to raise awareness and stakeholder engagement;
- an organization with public ownership does not disclose information on a number of significant topics and does not justify the absence of this information in ESG reporting.

In formulating recommendations, attention should be paid to the following:

- the recommendations in the report should follow logically from the findings, be specific, concise and simple in form and content, aimed at

[4] GUID 5290 "Guidance on audit of the development and use of key national indicators"

taking concrete measures to address the identified problems and address the causes and consequences of the identified deficiencies in the subject area, be targeted;

- recommended time frames should be set for each proposal (recommendation) to allow monitoring of their timely implementation.

Examples of recommendations can include:

- recommendations to the public authority responsible for development of public policy aimed at promoting the implementation of ESG principles;
- recommendations on the organization of interaction between public authorities and stakeholders on ESG issues;
- recommendations to public sector companies on disclosure of information on the implementation of ESG principles.