Environment, Social, Governance (ESG) is a framework for assessing risks to a company’s operations related to large-scale, long-term environmental, social, and governance issues. ESG audits are dependent on the maturity of the organization putting them into practice, the type of product manufactured or service rendered, and the social context of your organization. An ESG audit will substantiate the accuracy of any ESG-related data your organization discloses to employees, stakeholders, and regulatory entities — as well as help to determine actions your company should take to address risks and capture opportunities relevant to its goals. Below are five best practices to consider as you identify ESG risks and establish ESG controls.

☐ Inventory and Interview Your Stakeholders

Preparation for an ESG audit includes informing stakeholders and getting a grasp of what they care about. For example, say your company is interested in branching into NFTs, but your employees and customers are concerned about the energy expenditure. In collecting and analyzing stakeholder perspectives, your organization will be better informed about ESG risks, as well as the potential benefits and detriments of your company’s investment decisions.

☐ Incorporate ESG Into Your Overarching Risk Management Plan

As you develop or revise your organization’s risk management plan, you’ll want to consider how ESG risks and opportunities intersect with other types of risks. Take stock of your risks and opportunities and use your stakeholders’ answers to help you keep track of ESG risks that may not have shown up in your initial drafting; a report from Deloitte Ireland promotes full integration of ESG into risk management plans, concluding that “future developments in regulation, an increase in ESG expertise in the industry and resulting improvements in available data should lead to the ongoing maturity of firm’s ESG risk management capabilities.”
Determine Which Compliance Requirements Overlap With ESG

Depending on the scope and maturity of your company, you will likely have numerous compliance requirements related to ESG already. For example, if your company is seeking compliance with Sarbanes-Oxley (SOX), you'll already have a plan for financial reporting in place and will already be reporting to the SEC; integrating climate-related disclosures into that report will save you time and energy. The International Organization for Standardization (ISO) also has numerous ESG-related standards, like ISO 14001 for Environmental Management Systems and ISO 45001 for Occupational Health and Safety, which provide strategies for protecting the environment and human capital. ISO recently created a committee (ISO/TC 322) to focus solely on ESG in the coming years.

Choose Your ESG Guidance Frameworks

Whether you’re doing an internal audit or selecting a third-party auditor to evaluate your ESG risks, you will need to choose one or more ESG frameworks that work well for your company and its goals. Two of the most popular frameworks are put out by the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-Related Financial Disclosures (TCFD), with the Global Reporting Initiative (GRI) coming up as a close third. SASB provides broader sector-specific guidelines on a range of ESG risks, while TCFD is more specifically geared towards climate issues. The framework you choose should fit your specific industry and align with your overarching risk management strategy.

Prepare for ESG Reporting

ESG reporting may already be familiar to your organization, since the SEC requires that publicly-traded companies submit annual reports on human capital resources (HCR). The SEC is in the process of implementing stronger regulations regarding climate-related disclosures in financial reporting. Companies should expect ESG reporting to become increasingly complex in the future. Your ESG audit should include a plan for reporting your ESG risks and strategies to your stakeholders and any regulatory entities. Those reports, in turn, will substantiate that the data you are reporting is accurate, complete, and transparent and that your company’s core values and commitments are authentic.
Overcoming Top ESG Program Challenges

Whether you are driven by your company’s core values or you aim to streamline reporting to the SEC, your ESG strategy should be well aligned with your risk management plan and designed to take the best advantage of your sector’s opportunities for growth. Leading organizations have found that their biggest challenges with managing an effective ESG program include:

- Centralizing all ESG initiatives, claims, and metrics in one system of record.
- Evidence collection to substantiate the organization’s progress towards those public claims and metrics.
- Mapping ESG metrics relevant framework(s) such as SASB, TCFD, and GRI.
- Aggregating data from disparate systems such as carbon emission calculators, HR systems, and Finance systems to improve auditability.
- Responding to Rating Agency questionnaires (MSCI, S&P Global, CDP, ISS).
- Consolidating results for ESG reporting purposes, whether into stand-alone ESG reports or as part of broader annual disclosures.

If your organization is looking to start or accelerate your ESG journey, implementing connected risk management software can help your organization get on the right footing going forward to manage and track the ESG life cycle from end to end.

AuditBoard transforms how audit, risk, and compliance professionals manage today’s dynamic risk landscape with a modern, connected platform that engages the front lines, surfaces the risks that matter, and drives better strategic decision-making.