

# How can European boards steer sustainability reporting?

EY Center for Board Matters



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# Introduction

The Corporate Sustainability Reporting Directive (CSRD) constitutes a monumental shift in the European corporate reporting landscape. It has far-reaching implications for thousands of companies that are either based in, or operate in, the EU.

Companies that fall within scope are adapting to a more complex and comprehensive reporting framework than any they have used in the past. The CSRD requires them to publicly disclose material information about the sustainability risks and opportunities facing their business, as well as their own impacts on people and the environment.

The reported data will potentially include sensitive information about business models, strategy and supply chains – information that companies may have never published before. It must also be subject to assurance by an independent assurance provider.

To comply with the CSRD, companies are having to understand and apply new sustainability reporting standards for the first time. Meanwhile, time frames are tight, with the first companies due to report in 2025 on their 2024 sustainability information. The EY organization has around 70 EU-based entities within scope of the directive for the first reporting phase alone, so it has a very good understanding of the challenges faced by other businesses.

In their governance capacity, boards are responsible for ensuring that their companies comply with the requirements of the CSRD. If they just focus on compliance, however, they are missing a major opportunity to firmly embed sustainability into their organization's strategy for long-term value creation. As the [2023 EY Sustainable Value Study](#) shows, those companies taking the most action to address climate change are 1.8 times more likely to report higher-than-expected financial value from their initiatives, compared with those taking the least action.<sup>1</sup>

This report explores the experiences of boards and their audit committees<sup>2</sup> as they support their organizations to comply with the CSRD. It is based on roundtable discussions with board directors across major European markets, including France, Italy, Spain, the Netherlands and the UK. Additionally, it is informed by interviews with audit and sustainability professionals within EY, as well as other research, thought leadership and discussion.

Within this report, there are recommendations for how boards can use sustainability reporting as a catalyst for transforming their business models. There is also practical advice for audit committees that want to help their organizations deliver high-quality sustainability reporting. We hope you find it useful and informative.



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<sup>1</sup> 2023 EY Sustainable Value Study, EY, 2023.

<sup>2</sup> Or another committee charged with overseeing sustainability information



# Executive summary

Compliance with the CSRD is a major undertaking for companies that fall within the scope of the directive. The task is substantial, timelines for compliance are short, and because the directive is new, there is no clear guidance on what best practice looks like. Boards are therefore encountering – and overcoming – numerous challenges as they support their companies to navigate the strategic, operational and financial implications of the directive. So, what are the key takeaways from their experiences to date?

- ▶ **Governance and oversight.** Forward-looking boards recognize that sustainability reporting is critical for aligning corporate strategy with sustainability goals, enabling companies to bring about business model transformation. Used effectively, sustainability reporting is the outcome of a powerful business framework that can, and should, help companies to set targets, take appropriate action, measure their performance, identify and manage risks and opportunities, and build enduring relationships with their stakeholders.
- ▶ **Strategy alignment and risk management.** While the CSRD presents companies with new opportunities to transform their business models, the high levels of transparency required by the directive are also presenting new risks for boards to manage. Particularly significant risks relate to how they set strategic goals and communicate those goals to their stakeholders. There is a growing awareness among boards that they cannot set ambitious targets relating to climate change and other matters without substantiating their plans to achieve those targets.
- ▶ **Reporting.** With the support of their audit committees, boards are helping their companies to address and manage some key reporting-related challenges. These challenges include gap analyses, the double materiality assessment, data collection, metrics, interpretation of European Sustainability Reporting (ESRS) standards, interoperability with the International Sustainability Standards Board's (ISSB's) standards, (external) limited assurance, and change management.

- ▶ **Stakeholder engagement.** Boards are using sustainability reporting as an opportunity to engage with investors and other stakeholders. They are aiming to tell an authentic story about their company's sustainability journey, and they want to understand the information needs of their different stakeholders so they can ensure those needs are met.
- ▶ **Training and competence.** Boards are having to consciously build their knowledge and skills in relation to both sustainability in general and sustainability reporting as a specific subset of the matter. As well as educating and upskilling themselves, boards are reviewing their own composition with a view to bringing in new members should a skills gap exist.

## What are the CSRD and ESRS?

The Corporate Sustainability Reporting Directive (CSRD) is an EU directive that came into force in January 2023. It requires companies in scope to report on their social and environmental impacts using the ESRS guidelines. The directive aims to support Europe's net zero strategy by holding companies accountable for the sustainability of their business models. The sustainability information reported will enable investors, consumers and other stakeholders to assess and compare the sustainability performance of companies.

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*For a more detailed explanation of the CSRD and ESRS, see Appendix A.*



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## Section 1

# Governance and oversight

In their governance capacity, boards are providing critical oversight of their company's sustainability reporting under CSRD. While it is not necessary for all board members to have an in-depth understanding of the reporting requirements, they need the strategic expertise to link the reporting framework with potential transformation of their organization's business model.





## Sustainability reporting is critical for aligning corporate strategy with sustainability goals.

Boards are also exercising appropriate oversight to ensure that sustainability reporting is carried out in a strategic way that supports the company in achieving its long-term business ambitions. This involves asking questions of management about whether the company has adequate data, controls and resources to produce high-quality reporting.

For audit committee members, in particular, the CSRD has been a major learning curve. This is because the CSRD confers enhanced responsibilities on audit committees, which are expected to monitor the company's sustainability reporting process, along with the effectiveness of the associated internal quality control and risk management systems. Additionally, they must submit recommendations to ensure the integrity of the sustainability information provided by the company.

Audit committees are also responsible for monitoring the external assurance of sustainability reporting and informing the company's board of the outcome of that assurance. They need to explain to the board how they contributed to the integrity of the company's sustainability reporting, and review and monitor the independence of the appointed assurance provider. As a result of these responsibilities, many companies have tasked their audit committees with providing oversight of sustainability reporting. Meanwhile, audit committees themselves are beginning to build a sound strategic understanding of the overall process for producing sustainability reports.

Today, some boards and audit committees may regard sustainability reporting simply as a compliance exercise. However, more forward-looking boards recognize that sustainability reporting is critical for aligning corporate strategy with sustainability goals to enable business model transformation. Used effectively, sustainability reporting is the outcome of a powerful business framework that can, and should, help companies to set targets, take appropriate action, measure their performance, identify and manage risks and opportunities, and build enduring relationships with their stakeholders.

The *EY Europe Long-Term Value and Corporate Governance Survey 2024*<sup>3</sup> highlights that it is the role of the board to lead on the sustainability agenda. So, the challenge for boards is ensuring that management sees sustainability as a business imperative and embeds it into the strategy and risk

management practices of the company. At the same time, boards appreciate that the transition to a more sustainable business model demands that difficult strategic choices are made. For example, the company may need to shift capital allocation from traditional business lines to new sustainability ventures if it is to achieve value creation in the long term.

Boards are setting the right tone at the top on the sustainability agenda by actively engaging with management around the company's sustainability strategy, aligning executive compensation with sustainability goals, and ensuring that investment capital flows to projects that make a difference. They are also investigating how new artificial intelligence (AI) and generative AI (GenAI) tools can be used to drive positive sustainability outcomes. As well as providing governance around compliance, the most proactive boards are seizing the opportunity to become wider change agents who help to create value for the organization's stakeholders.

### Recommendations for boards

- ▶ Discuss whether the company has identified the social and/or environmental impacts that are most relevant to its business. Then work with management to develop a strategy that integrates these impacts into long-term value creation without damaging short-term profitability.
- ▶ View CSRD reporting as a journey that is likely to last five to 10 years. Management frameworks and internal controls will need to be developed and enhanced over time. Start by preparing an action plan for the next three years that encompasses policies, strategies, targets, and other key considerations. Identify who within the business is best placed to take overall ownership of the reporting – the CFO or the chief sustainability officer (CSO)?

### Recommendation for audit committees

- ▶ Explore opportunities to develop more transparent reporting and communication that supports the company's business strategy and enables investors and other stakeholders to understand its governance choices.

<sup>3</sup> EY Europe Long-Term Value and Corporate Governance Survey 2024, EY, 2024.

## Section 2

# Strategy alignment and risk management

Sustainability is a strategic imperative because it supports long-term value creation and effective risk management. Sustainable organizations benefit from enhanced operational efficiency, improved resilience to disruption, and the ability to attract and retain talent. They also have opportunities to create new sources of revenue by driving innovation in products and services, entering new markets, and building stakeholder trust.



## By providing a strong foundation for trusted sustainability information, the CSRD can help companies to grow, prosper and better manage threats.

In fact, the *EY Europe Long-Term Value and Corporate Governance Survey 2024* found that companies that lead at generating value from sustainability are most likely to see new products and services as an opportunity to drive growth. In contrast, most companies still view sustainability predominantly as a virtue-signaling issue that enables them to retain the loyalty of customers and employees.

By providing a strong foundation for trusted sustainability information, the CSRD can help companies to grow, prosper and better manage threats. Reporting under the directive should also enable companies to benefit from better and more cost-efficient capital committed to fund the green transition.

The CSRD is intended to help banks and other financial institutions more effectively integrate climate risk and sustainability into their strategy, risk and capital management practices. Through the reporting, financial institutions will be able to access a large volume of high-quality sustainability information on companies. This information will inform their internal decision-making, enable them to comply with their own regulatory obligations, and allow them to evolve their credit models to incorporate more sustainability criteria.

While the CSRD presents opportunities to companies, the high levels of transparency required by the directive also present new risks for their boards to manage. Particularly significant risks relate to how they set strategic goals and communicate those goals to their stakeholders.

The CSRD requires companies to disclose their plans for evolving their business model and strategy to ensure compatibility with the transition to a sustainable economy and with the limiting of global warming to 1.5°C, in line with the 2015 Paris Agreement. This requirement to disclose climate transition plans is also aligned with the requirements of the Corporate Sustainability Due Diligence Directive, which comes into effect in 2026.

As companies produce higher levels of disclosure around their sustainability strategies, they will also come under greater pressure to deliver results – on climate change mitigation as well as on other sustainability-related matters. There is therefore a growing awareness among boards that they cannot set ambitious targets without substantiating their plans to achieve them, whether those are science-based targets relating to carbon, water usage targets, or social targets relating to workforce diversity.

Additionally, there is a challenge for companies around how they manage and track the performance of the material sustainability key performance indicators (KPIs) that link to their integrated business strategies. Boards are monitoring whether management has appropriate KPIs in place and is genuinely effective at managing and tracking these KPIs, to enable the company to produce meaningful reporting. The double materiality assessments have helped companies to identify their material sustainability KPIs.

**Figure 1:** *EY Europe Long-Term Value and Corporate Governance Survey 2024*

To drive value from their sustainability agenda, what are leading companies doing?





By providing critical insights into the operations and performance of a business, reporting helps to ensure that sustainability is treated as a value driver rather than as a cost center and that the business is aligning its commercial and risk goals. Within companies, there is a growing expectation that sustainability investments will be treated in the same way as any other investment – in other words, they will be expected to deliver a healthy return. Through reporting, companies can track this return.

Boards are exploring how their companies can get value out of their external sustainability reporting beyond regulatory compliance and providing greater transparency to stakeholders. One way of doing this is by using sustainability information to inform internal management reporting, which is what happens with financial information. Sustainability reporting is being used to help management measure progress against KPIs, assess the broader performance of the business, and determine future strategy.

Furthermore, boards and management teams are using sustainability reporting to inform their ongoing assessment of the sustainability-related risks facing the company, as well as the impacts of those risks on risk management and internal

control systems (RMICs). Companies can face a broad range of sustainability-related risks from extreme weather events impacting their operations through to obsolete business models and the risk of reputational damage arising from human rights abuses within supply chains. They will also encounter a plethora of new risks as they make more use of AI and GenAI.

As yet, risk management of sustainability-related risks is not a mature discipline. Conscious of this, boards are increasingly demanding accurate, reliable data that allows them to monitor and manage the sustainability-related risks that may impact their company. They also expect the preparation of sustainability information to be underpinned by robust RMICs. At present, RMICs for sustainability are still evolving and it will be some years before they reach the same level of maturity as those that exist for financial information. However it is worth important to mention that ESRS is also placing emphasis on management of (positive and negative) impact and opportunity management. This has a different dimension from the risk management angle to which boards and audit committees are more accustomed.



### Recommendations for boards

- ▶ Use sustainability reporting to gain insights into the sustainability-related risks and opportunities your business faces. These insights will enable you to lead on the sustainability transition by monitoring and managing risks while developing a strategy to seize opportunities through business model transformation.
- ▶ Understand how the company can use AI and GenAI to accelerate its sustainability transformation. At the same time, the board should be aware of the environmental, social and governance risks associated with AI and how these can be mitigated.

### Recommendation for audit committees

- ▶ Establish what strategy the company has in place to record, assess and manage any sustainability-related risks and opportunities identified during the process of gathering the information needed for reporting. How are these risks being integrated into existing risk management and internal control processes?



## Section 3

# Reporting

The process of complying with the CSRD is presenting companies with numerous reporting-related challenges. Boards are discussing these challenges with management, with a particular focus on issues that might prevent their organization from meeting its obligations under the directive. They are also keen to manage the expectations of external stakeholders, including investors, in case the ESRS requirements are not fully met or that the assurance provider is not able to express an unqualified conclusion in their assurance report.





With the support of their audit committees, boards are helping their companies to address and manage the following reporting-related challenges:

### 3.1 Gap analysis

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In the past, many companies reported voluntarily on sustainability information under frameworks such as those provided by the Global Reporting Initiative and the Sustainability Accounting Standards Board. So, they are undertaking a technical gap analysis to identify the disclosure gaps between what they were reporting previously and how they need to report under the CSRD. This gap analysis needs to be sufficiently comprehensive to form the basis of the organization's roadmap toward CSRD compliance.

When they reported voluntarily, companies enjoyed some freedom in terms of how they interpreted the standards. Now they are having to adjust to reporting under stricter rules, knowing that the information they provide will be subject to limited assurance by assurance providers. As a result, they may need to provide additional information on previously reported matters, as well as new information on matters they are disclosing for the first time.

Gap analysis provides boards with a useful overview of their company's current level of preparedness for CSRD. Boards are therefore using this analysis to challenge management around the company's strengths and weaknesses when it comes to accessing sustainability information across the international jurisdictions where it operates.

#### Recommendations for boards

- ▶ Ensure that the company develops a roadmap to fill the gaps that emerge from its gap analysis in relation to sustainability reporting. Ask management to explain which gaps will be the most costly and complicated to plug and the proposed strategies to address these gaps.

### 3.2 Double materiality assessment

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Double materiality is generally regarded as one of the most challenging aspects of CSRD compliance. The concept of double materiality reflects the fact that sustainability matters have a material financial impact on companies by creating new risks and opportunities for them (what is known as the outside-in view). At the same time, companies have an impact on people and the environment by virtue of their activities (what is known as the 'inside-out view').

Most boards of in-scope companies will have already overseen a double materiality assessment that assesses the impact of different sustainability matters on the business, considering both the outside-in and the inside-out views. This assessment will have been used to qualify which of the 1,100 data points the organization is going to report on and establish whether these are qualitative or quantitative. Also, are these data points already available or are they expected to become available in the future?

To help them identify what is material, companies have surveyed their stakeholders to understand their needs. Relevant materiality matters might include the availability of raw material, manufacturing waste, competition for talented employees, diversity, equity and inclusion, greenhouse gas emissions, human rights, water stewardship, and an adverse economic environment.

While many matters could potentially impact on the business, they will not all be material. So, a challenge has been to identify the most material matters – a significant challenge when a company has multiple entities, operating across different geographies. The data points that came out of the double materiality assessment should have been integrated into the company's enterprise risk management system and incorporated into company strategy.

Companies doing the double materiality assessment have also had to navigate several other potential **pitfalls**. These include starting too late, without a clear plan and goal; underestimation of the workload involved in the process; incomplete stakeholder selection and survey; and substandard documentation of the process.





24%

of respondents to the EY Europe Long-Term Value and Corporate Governance Survey 2024 said they have a clear view of how tackling their material sustainability priorities will achieve their value-creating objectives.

There is no established best practice or template for what “good” looks like in terms of the double materiality assessment. Companies themselves have needed to decide which matters might reasonably fall within the scope of double materiality, meaning significant judgement has been applied. Audit committees have been helping to make judgement calls by advising the board on what to disclose and what not to disclose.

Potentially companies can go very far and deep on double materiality. If they do that, however, they risk creating an unmanageable reporting process and swamping stakeholders with large volumes of irrelevant/immaterial information that is not material.

At the same time, companies are conscious of the need to undertake a thorough double materiality assessment since the assessment and its output will be covered by assurance by their external assurance provider. Once the first sustainability reports are published, examples of best practice will be identified, and it will become easier for companies to benchmark themselves against peers within the same industry.

While double materiality assessments have been a challenge to undertake, they are providing boards with valuable insights into the most significant sustainability-related risks and opportunities facing their organization. They also allow boards to gain a comprehensive understanding of their company’s stakeholders and impact on the environment, as well as an awareness of those stakeholders’ information requirements. Boards are engaging with stakeholders to determine the qualitative and quantitative thresholds that should be used to determine materiality.

At present, the absence of high-quality, comprehensive data is hindering companies from building a robust business case

for unlocking value through sustainability. Less than a quarter (24%) of respondents to the *EY Europe Long-Term Value and Corporate Governance Survey 2024* said they have a clear strategic view, backed by credible analysis, of how tackling their material sustainability priorities will achieve their value-creating objectives.

Double materiality assessments are giving boards the data they need to refine strategy and rationalize investment decision-making. This will help them to ensure that capital flows to impactful projects that deliver financial results while enabling the company to hit its sustainability targets.

### Recommendations for boards

- ▶ Consider how the results of the double materiality assessment can be used to inform corporate strategy so that the company drives value from its sustainability agenda. Where are the opportunities for business model innovation and cost optimization? Has the assessment highlighted any advantages that the company may have over its competition?

### Recommendation for audit committees

- ▶ Identify any issues, highlighted by the materiality assessment, which require the drafting of company policies, the definition of objectives, and the collection of quantitative data.



### 3.3 Data collection

Data collection is a major challenge for companies preparing to comply with CSRD since they must collect a large volume of information to report. Yet the quality of data available to them, and the processes in place for gathering and analyzing that data, are currently far less mature than the data and processes that exist for financial information. Data can often be spread across different systems within the organization, making it difficult to trace. Meanwhile, sustainability data and processes are not subject to the same level of controls as financial data – making its integrity hard to prove.

Companies are more confident about collecting and reporting on certain types of data – such as data relating to personnel and scope 1 and scope 2 greenhouse gas (GHG) emissions – than they are on other sustainability matters such as biodiversity and the circular economy. Some matters that companies must now report on were previously considered sensitive and, as a result, entities did not openly disclose them.

Today many companies don't yet have effective tools to gather all the information they need for sustainability reporting. Often, they are relying on inefficient, manual mechanisms such as emails and spreadsheets. To add to the challenge, it is not just data about their own operations that they need to collect and analyze.

Under the CSRD, companies are required to report scope 3 GHG emissions (indirect greenhouse gas emissions that occur in their value chain due to their activities). Unfortunately, companies are finding it difficult and time-consuming to

extract quality data from their value chains, and to the extent necessary given materiality requirements. In some cases, companies may also be reluctant to share value chain data for fear of stakeholder demands that they completely overhaul their business models.

Many companies are simultaneously trying to accommodate different reporting demands within the context of their reporting framework. So, as well as compliance with the CSRD, they may also be reporting additional information under other initiatives such as the Carbon Disclosure Project, FTSE4Good or the Global Reporting Initiative. This is inevitably impacting the volume and type of data they require.

Boards are conscious that the reputation of their companies is linked to their ability to deliver high-quality sustainability reporting, based on robust data. So, they are turning to their audit committees to ensure that appropriate controls are in place to mitigate reputational risks. Audit committees' experience with internal controls over financial reporting makes them well placed to ensure that the company's sustainability reporting is accurate, reliable and consistent, and also compliant with external standards and regulations.

The control environment for producing sustainability information should be as strong as the control environment for producing financial information. Internal audit functions are therefore supporting audit committees to strengthen the controls environment around sustainability information by assessing whether suitable internal controls have been built into policies and procedures and whether there is appropriate risk management and governance in place.

#### Recommendations for boards

- ▶ Monitor whether the company has sufficient human and IT resources to support an effective and efficient reporting process. Are there appropriate resources and processes to enable accurate, high-quality reporting?

#### Recommendation for audit committees

- ▶ Assess the company's current capabilities around collecting and analyzing data for sustainability reporting, including the associated internal controls, and identify areas for improvement. How does the company plan to fill its data gaps and how is it verifying that its value chain information is robust and reliable?





### 3.4 Metrics

Data measurement is a further issue. Whereas the metrics for financial information tend to be consistent, sustainability data can often be measured in many different ways. In addition, companies are taking different approaches to the interpretation of the EU Taxonomy. This means that the data reported by companies will not necessarily be easy for stakeholders to compare.

Not all the sustainability information that companies need to gather can even be subject to metrics. To comply with the CSRD, companies are gathering a large volume of qualitative information that should be supported by a management framework within the business. In practice, this means that companies must manage a range of sustainability matters over the course of the year to be able to disclose information about those matters in their sustainability report. With so much information to report, they are having to think carefully about how they communicate an authentic and meaningful narrative around the data that they publish.

Audit committees are providing their companies with valuable support in relation to metrics. In particular, they are providing oversight around definitions of sustainability metrics and measurement methodology.

#### Recommendation for audit committees

- ▶ Ask management how it is ensuring that the company's sustainability reporting is congruous with financial reporting and, where relevant, informing the financial reporting process.

### 3.5 ESRS interpretation

The ESRS are extensive and detailed, so companies are finding them complicated and hard to interpret. In addition, the standards are generic and aimed at corporates, which makes them challenging for other sectors, such as financial services, to apply. Recognizing this issue, the European Financial Reporting Advisory Group (EFRAG) is developing sector-specific standards, which will describe the disclosure requirements that are specific to each sector.

The level of specificity within the ESRS is creating issues for companies that previously reported sustainability information under voluntary frameworks. In the past, they may have disclosed information using metrics that are not described in the same way under ESRS and must therefore change their approach.

For their sustainability reporting to be comparable with their peers in the same industry, companies need to ensure that they are using a similar interpretation of the ESRS. In their monitoring role, audit committees are ensuring that companies are applying an interpretation of the standards that is consistent with the interpretation applied by their peers.

#### Recommendation for audit committees

- ▶ Exercise your responsibilities around sustainability reporting in the same way you would exercise your responsibilities around financial reporting. Challenge management by asking key questions such as: How do we know the reporting is reliable, especially when much of it is quantitative? Does it cover the right matters? Is it compliant with the ESRS?



### 3.6 Interoperability with the ISSB's standards

ESRS 2 *General Disclosures* and ESRS E1 *Climate Change* map to the two inaugural reporting standards issued by the International Sustainability Standards Board (ISSB). These two standards are: IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*.

The EU and the ISSB have collaborated to facilitate that both sets of standards benefit from a high level of interoperability. Nevertheless, there are differences between the two sets of standards and companies reporting under both frameworks need to identify these differences to ensure they meet all relevant requirements.

Currently, the direct correlation between the ISSB's standards and the ESRS only relates to climate. There is no ISSB equivalent for the EU's governance and social standards or for its non-climate environmental standards. Furthermore, it is

likely to be some time before there is full convergence between the ISSB standards and the ESRS.

Audit committees are working hard to understand both the common elements and the divergences between the ESRS and the ISSB's standards. Where divergences exist, some audit committees are talking to the audit committees of other companies in the same sector to see how consistent disclosures can be achieved.

#### Recommendation for audit committees

- Be aware of the potential risk for error arising from the use of different reporting frameworks. Ask the reporting team to outline any major divergences, as well as where the similarities lie. Challenge the reporting team to explain how they have interpreted both sets of standards.





### 3.7 Limited assurance

Limited assurance is intended to provide the users of information with some confidence that the information reported has not been materially misstated. It is not intended to provide as much confidence as reasonable assurance, which is the level of assurance that applies to an audit opinion on the financial statements.

Under the CSRD, a company's sustainability reporting must be subject to limited assurance by its statutory auditor, another auditor (Member State option), or an independent assurance services provider (Member State option). Limited assurance is not just applied to the disclosures reported by the company, it also applies to the double materiality assessment, to the EU Taxonomy and to, when issued, the digital taxonomy. So, it is key that companies engage early with the provider of their sustainability assurance to understand expectations. The audit committee plays an important role here since it is charged with monitoring the assurance process.

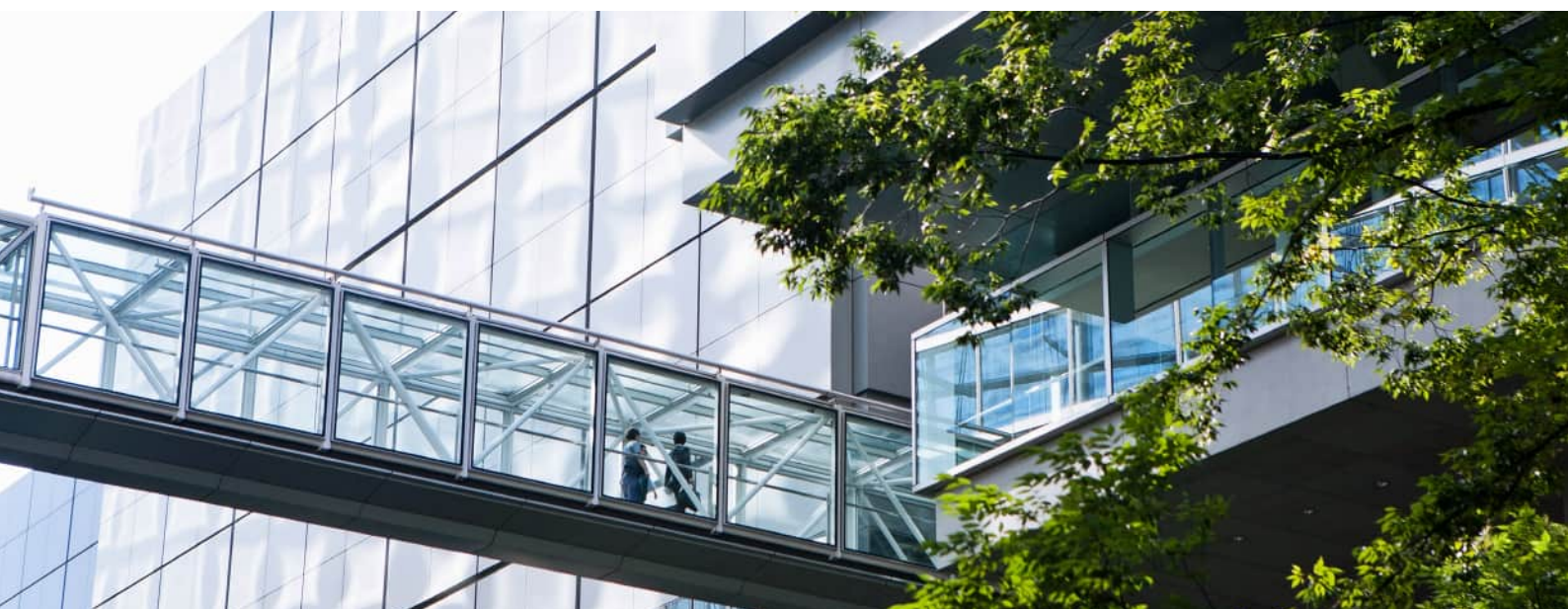
It is early days, but so far we are seeing companies tending to use their statutory auditor to assure their sustainability information for several reasons. Firstly, the sustainability statement is part of the management report, on which the statutory auditor is already performing procedures to conclude on consistency with the financial statements. Secondly, the statutory auditor can help to ensure that there is connectivity and consistency between the financial and sustainability information reported by the company. Thirdly, there are synergy advantages, i.e., only having to discuss information once, utilizing evidence obtained for both

engagements and applying the understanding of the business for both engagements.

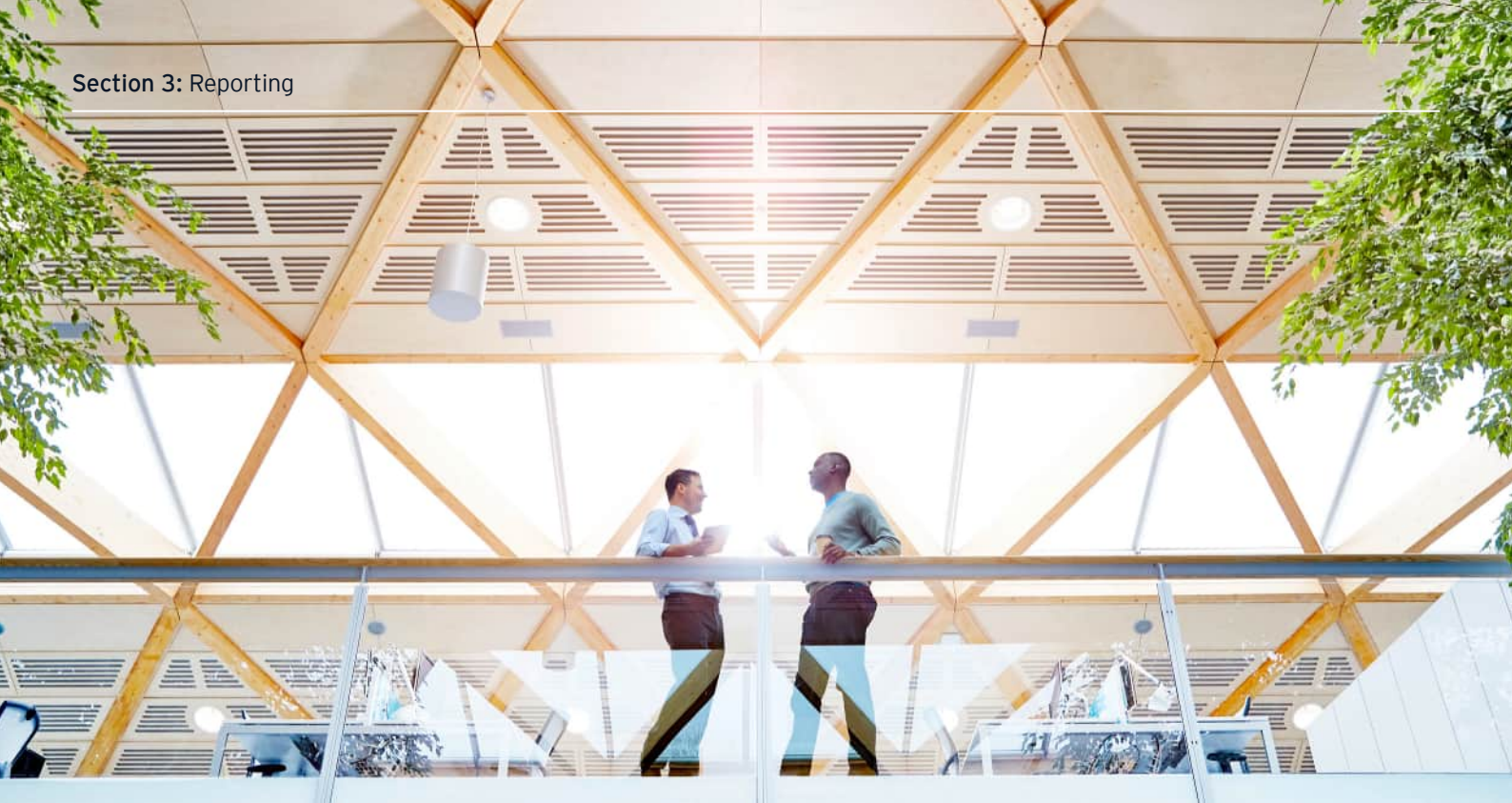
Finally, independence rules apply to CSRD sustainability assurance engagements in the same way they apply to financial audits. Since companies don't want to lose access to services from providers that are not their statutory auditor, they do not ask those providers to tender for performing the sustainability assurance.

#### Recommendations for audit committees

- ▶ Hold an early and thorough conversation with the assurance provider about the likely format of the company's sustainability report, as well as the principal disclosures the company plans to make. Discuss key points of judgement with the assurance provider – these are likely to relate to the double materiality assessment and the gap analysis. The conversations with the assurance provider should include early discussions on the format and wording of the assurance report with details to be inserted at a later stage.
- ▶ Document how your audit committee reached its judgement about the integrity of the company's sustainability information. This will enable your audit committee to explain its rationale to the board, the external auditor, and, if necessary, any key stakeholder groups.







### 3.8 Collaboration and change management

As boards have discovered, compliance with the CSRD is a cross-company project. The preparation of accurate, comprehensive and reliable sustainability information requires extensive collaboration between different functions including finance, HR, legal, PR and communications, procurement and the sustainability team. Some companies have created disclosure committees focused on sustainability, which have broad representation from management across the different functions.

Collaboration between finance and the sustainability team, in particular, is key to ensure high-quality reporting. This is because finance knows how to provide reporting that complies with strict frameworks, in accordance with prescribed timelines, while the sustainability team will have an in-depth understanding of the subject matter. Finance can also translate greenhouse gas emissions, social metrics and other sustainability data into monetary terms. In many cases, the finance function is taking the lead on sustainability reporting.

It's also vital that there is close collaboration between relevant board committees, particularly the audit and sustainability committees. In practice, collaboration is often achieved by the chairs of both committees attending each other's meetings, or by members belonging to both the audit and sustainability committees.

Boards are conscious that CSRD reporting is a major change management exercise for their organization. People who have previously been involved in financial reporting need to learn the different skills and perspectives associated with non-financial reporting and gain an understanding of the relevant rules and regulations. Meanwhile, people who were previously familiar with sustainability reporting under voluntary frameworks must adjust to operating under stricter and more proscriptive rules.

As the *EY Europe Long-Term Value and Corporate Governance Survey 2024* explains, having the right CFO and CSO in place can make a big difference to the success of the overall change management exercise. While the CFO needs to understand the role of sustainability in long-term value creation, the CSO must be able to identify the sustainability issues that have a substantial impact on the organization's financial performance and risk profile.

#### Recommendations for boards

- ▶ Consider whether management needs to set up a cross-functional sustainability disclosure committee that can help to ensure that reporting is high quality and representative of a broad range of perspectives.

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## Section 4

# Stakeholder engagement

By itself, sustainability reporting will not accelerate the transition to a more sustainable economy. Transition requires a large-scale transformation of business models, at every level of the organization from strategy-setting through to internal processes and systems. For that reason, boards are monitoring whether their companies are creating internal data recording and management systems that enable companies to achieve their sustainability objectives, monitor their progress against those objectives, and secure financing in support of their transformation.





# 80%

of investors believed that “too many companies fail to properly articulate the rationale for long-term investments in sustainability.”

Nevertheless, sustainability reporting does play an important role in bringing about transition by telling the authentic story behind the transformation that is happening in practice. Boards are aware that trusted, high-quality sustainability information, which tells an accurate story about their company’s transition journey,” with “that accurately tells their company’s transition story, will help them to build trusted relationships with the key stakeholders that will enable them to execute their strategy.

High-quality reporting is invaluable for engagement with all stakeholder groups, but it can be a particularly powerful tool for engaging with investors. Investors view sustainability as instrumental to the long-term viability of businesses, so they want to compare the sustainability performance of different companies. As a result, they expect boards to deliver non-financial reporting that is of the same standard as financial reporting.

Significantly, 99% of investors who responded to the [2022 EY Global Corporate Reporting and Institutional Investor Survey](#) said they consider companies’ environmental, social and governance reporting as part of their investment decision-making process.<sup>4</sup> Nevertheless, 80% of investors believed that “too many companies fail to properly articulate the rationale for long-term investments in sustainability, which can make it difficult for us to evaluate the investment”.

Boards are using sustainability reporting to engage with investors and other stakeholders, by ensuring that their company’s disclosures meet stakeholders’ expectations. They are monitoring whether the company is reporting on the matters that stakeholders expect, using expected metrics, with the expected granularity. Boards are also trying to understand the different information needs of different stakeholders so that they can ensure the company responds to those needs.

<sup>4</sup> EY Global Corporate Reporting and Institutional Investor Survey, EY, 2022.

## Recommendations for boards

- ▶ Consider how you plan to communicate and explain the company’s sustainability reporting to stakeholders, including investors and potential investors who may provide cost-effective funding. Ensure the company has a comprehensive communication strategy to tell its sustainability story.

## Recommendation for audit committees

- ▶ Interrogate management around how prospective information, such as strategy and target setting, is presented in the company’s sustainability report. Also, clarify which matters are most likely to present fraud risks. It’s vital to avoid making over-ambitious or unintentionally fraudulent statements that could lead to accusations of greenwashing.

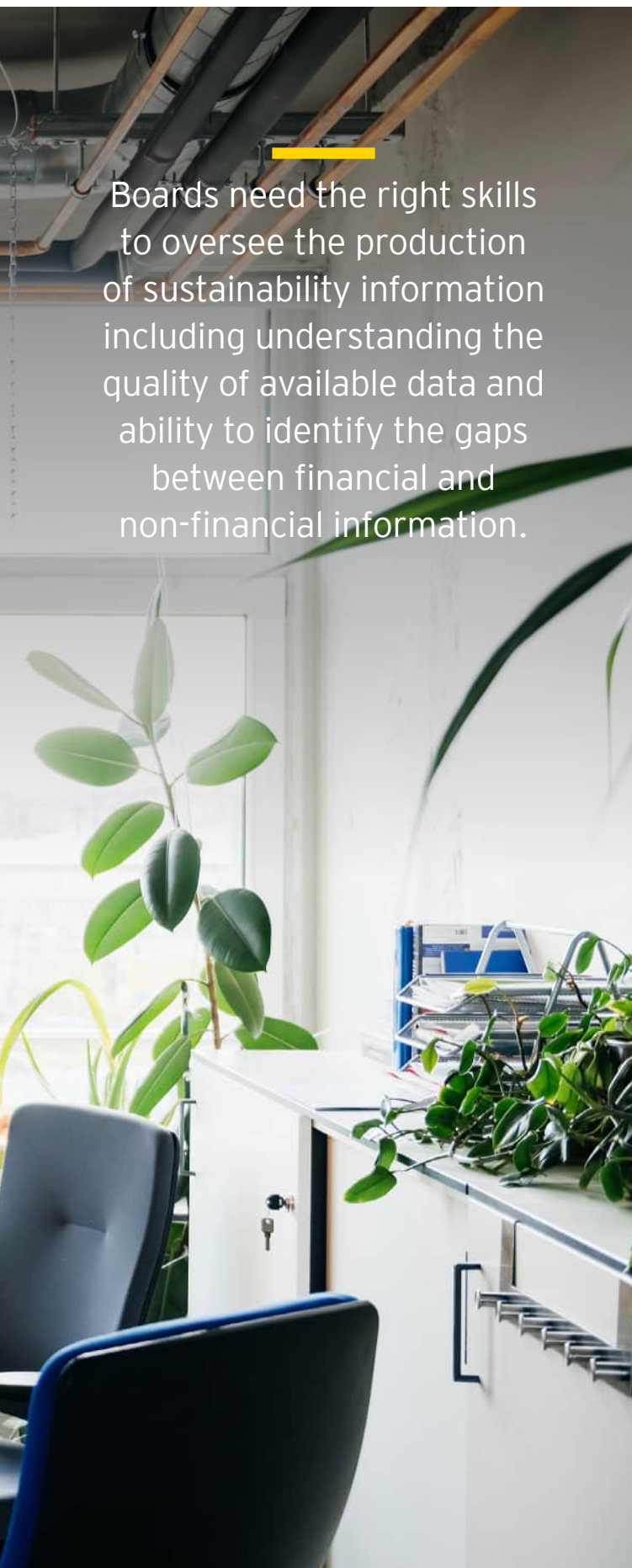
## Section 5

# Training and competence

To competently oversee material risks and strategy in relation to sustainability, boards are having to consciously build their knowledge. A good starting point is understanding the famed “alphabet soup” of sustainability terms. Boards are also developing the capabilities to embed sustainability into the decision-making process for new investment projects.







Boards need the right skills to oversee the production of sustainability information including understanding the quality of available data and ability to identify the gaps between financial and non-financial information.

In the specific context of the CSRD, boards are acutely conscious that they need the right skills to oversee the production of sustainability information. This involves understanding the quality of available data and being able to identify the gaps between financial and non-financial information. It also requires the ability to monitor controls around sustainability data.

As the board appoints the assurance provider that will provide limited assurance over the company's sustainability information, board members must be able to assess and compare the competencies of different audit providers. In the case of audit committees, the requirements of the CSRD mean that the financial experts on the committee are needing to educate themselves to also become non-financial experts.

Board members are educating themselves on sustainability through training and upskilling. Additionally, they are seeking out expert advice, from both inside and outside the organization. Board are increasingly having in-depth conversations with their external auditors, in addition, external consultants can provide in-depth insights about sustainability and support companies to develop their sustainability strategies. Board members are also attending sustainability-focused events where they learn from other board members and exchange ideas and best practice with them.

To ensure they have the appropriate skills to lead on the sustainability agenda and CSRD, boards and audit committees are reviewing their own composition. They are undertaking a skills assessment and, if a skill gap exists, bringing in new members with sustainability expertise.

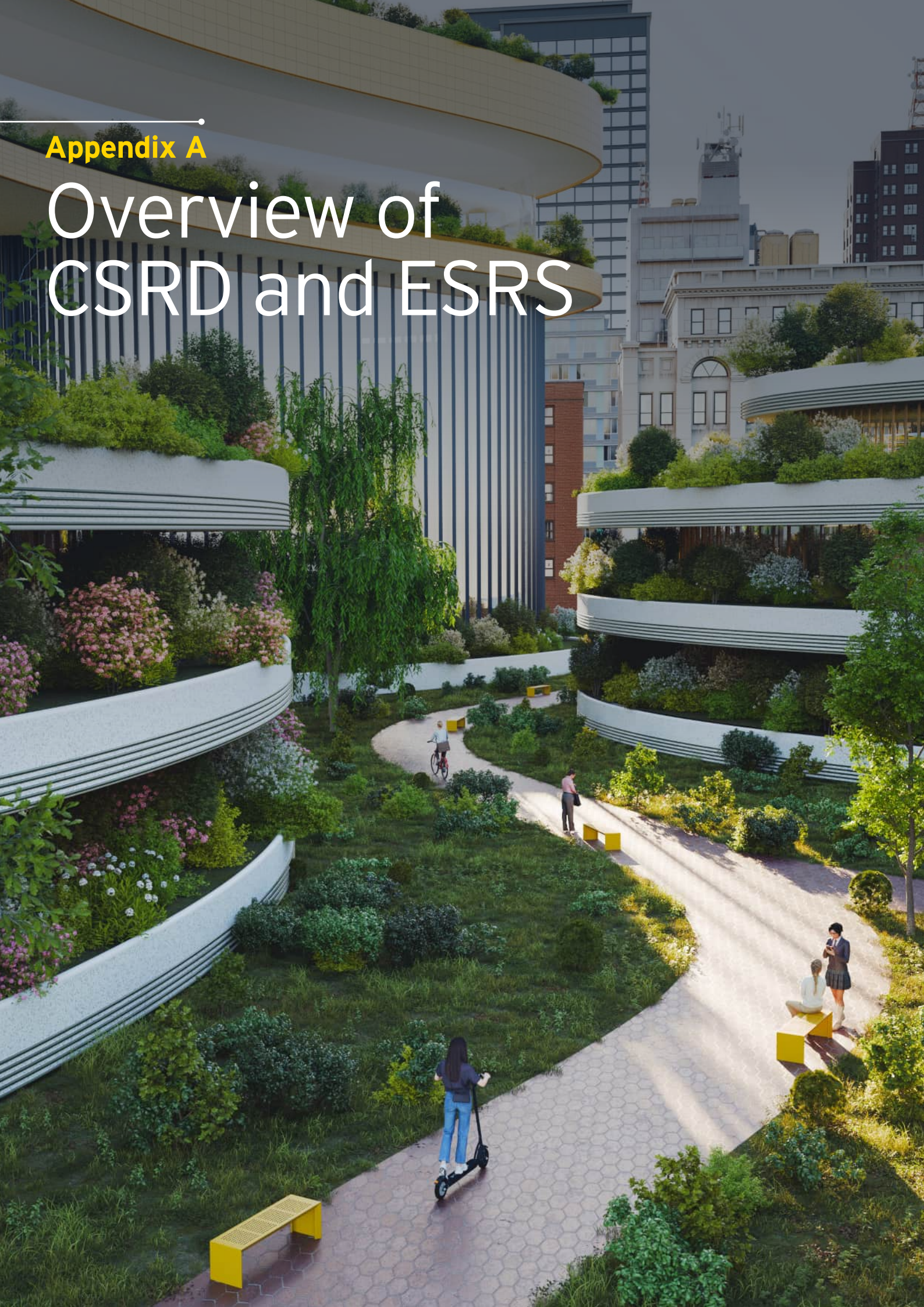
### Recommendations for boards

- ▶ Review whether the board has the right people, with the right skillset and mindset, around the table to understand how sustainability issues affect the business in the short, medium and long term. Do the interests of additional stakeholders need to be represented in the board? What training would help existing board members and is there a need for new board members with specialist skills?
- ▶ Develop a training plan that will equip board members and audit committee members with the skills and knowledge they need to deliver the company's sustainability strategy, as well as high-quality reporting that explains how the company is delivering that strategy.



Appendix A

# Overview of CSRD and ESRS







## About the CSRD

The CSRD supports the European Green Deal, the EU's strategy to transform Europe into the world's first climate-neutral economy by 2050. It aims to reduce investment risk in the financial system and to encourage the flow of investment capital toward companies that have a positive impact on people and the environment.

Notably, the CSRD recognizes the role of corporate reporting in bringing about the transition to a more sustainable economy. Corporate reporting helps to create a level playing field by enabling companies to be compared with their peers according to their sustainability impacts and performance.

The European Commission estimates that around 49,000 companies will report sustainability information under the CSRD, compared with 11,600 companies that fell within the scope of its predecessor, the Non-financial Reporting Directive (NFRD).<sup>5</sup> Reported information under the CSRD should be consistent with the [EU Taxonomy](#), an EU-wide classification system that establishes a list of environmentally sustainable economic activities. It should be included within companies' management reports, meaning that sustainability and financial information will be published simultaneously.

### CSRD timelines

The CSRD is being phased in over a four-year period. Companies that already reported under the NFRD will be required to report in 2025 on 2024 data. They will be followed in 2026 by other large companies not currently subject to the NFRD. These companies will report on 2025 sustainability information.

In 2027, SMEs listed on EU-regulated exchanges (excluding micro companies) will be required to report on their 2026 data, along with small and non-complex credit institutions and captive insurance undertakings. SMEs will, however, have the option to opt out for a further two years provided they disclose why they haven't provided sustainability information.

Then, in 2029, it will be the turn for third-country companies. They will report on 2028 data.

<sup>5</sup> Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting, European Commission, 2021.

## ESRS

Companies subject to the CSRD must report using the ESRS that have been developed by the European Financial Reporting Advisory Group (EFRAG) and after amendments since published by the European Commission. The ESRS, which combine principles- and rules-based standard setting, provide detailed requirements for how companies should report their sustainability information.

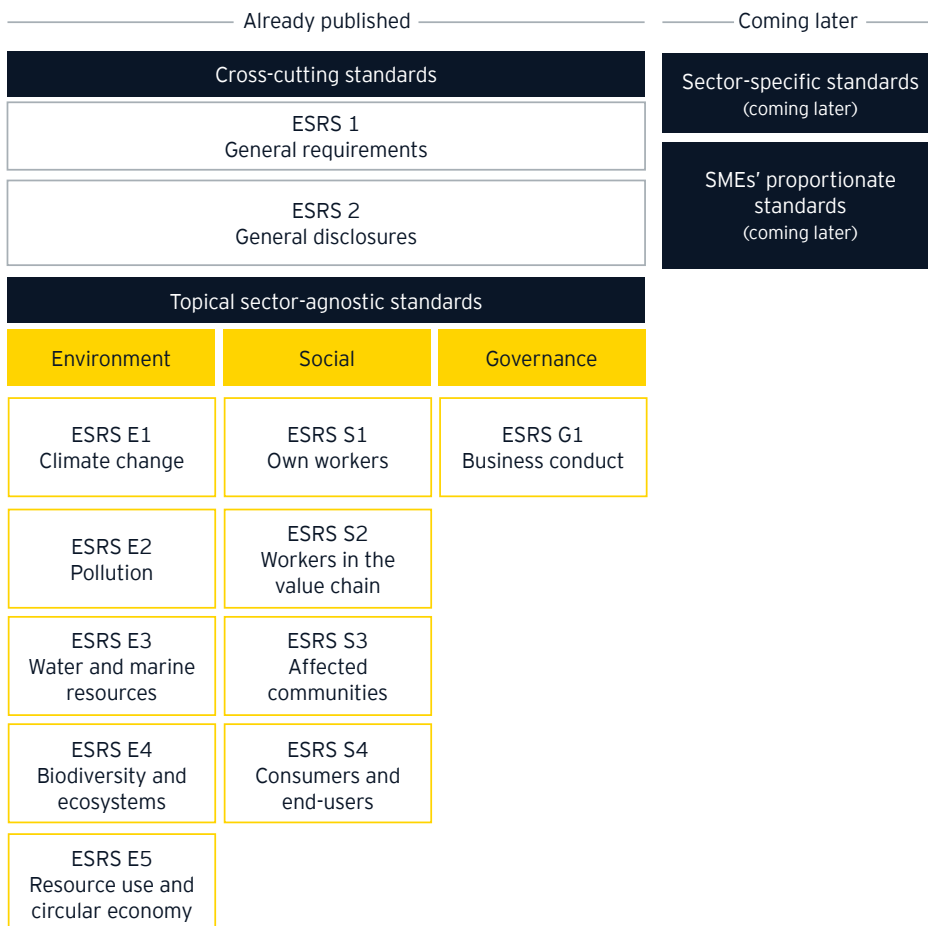
In total, there are 12 standards, which between them have 82 disclosure requirements leading to more than 1,100 data points to report on. ESRS 1 *General Requirements* and ESRS 2, *General Disclosures* are two “cross-cutting” standards that apply to all the sustainability matters being disclosed according to the ESRS.

Additionally, there are 10 other ESRS, covering the full range of environmental, social and governance matters, including climate change, biodiversity and human rights.

Each of these standards has their own individual disclosure requirements and data points and they are subject to a double materiality assessment.

When reporting under the standards, companies must provide both a retrospective view, as well as forward-looking information, considering short-, medium- and long-term horizons as well as their whole value chain. They need to include both quantitative and qualitative information in their disclosures.

Companies should only report information that is material for their business model and activity – and omit information that is not material. The standards require companies to perform a robust double materiality assessment to ensure that all relevant sustainability information is disclosed.



The ESRS aim to ensure that investors understand the sustainability impact of the companies they are investing in. To prevent unnecessary double reporting by companies, the ESRS

are intended to be interoperable with standards set by the International Sustainability Standards Board and the Global Reporting Initiative.



## Digital tagging

Under the CSRD companies are required to prepare their sustainability information in a machine-readable XHTML format. This will allow stakeholders to effectively compare reporting data across different companies and mean the reported information can be accessed via the European Single Access Point. Reported information will need to be tagged in accordance with a digital taxonomy developed by EFRAG from 2026.

## Costs

Compliance with the CSRD requires considerable financial investment. EFRAG estimates that companies that previously reported under the NFRD can expect to pay €320,000 a year in administrative costs for complying with the ESRS, with an additional one-off cost of €287,000 in the first year of compliance. Additionally, EFRAG anticipates that after all requirements have been phased in, the costs of limited assurance will be at least €360,000 annually for companies that previously reported under the NFRD, with that cost being 30% higher in the first year the sustainability statement is assured.<sup>6</sup> This is significantly less than the cost of financial assurance, however.

<sup>3</sup> Draft European Sustainability Reporting Standards, EFRAG, November 2022.



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