

# To the Point

## COSO issues guidance to help companies develop controls over sustainability reporting

“

Sustainable business reporting ... will be a process of continuous improvement, including building internal capacity and relevant assurance.

— Lucia Wind, COSO Chair

### What you need to know

- ▶ COSO issued guidance to help companies achieve effective internal control over reporting on environmental, social and governance topics.
- ▶ The guidance is based on the COSO 2013 Framework that public and private companies use to design, implement and monitor their internal control over financial reporting.
- ▶ The guidance is intended to help companies develop controls or increase the effectiveness of their controls over their voluntary reporting in preparation for mandatory reporting when the SEC and regulators in other countries finalize rules requiring climate-related disclosures.

### Overview

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued **guidance**<sup>1</sup> to help companies achieve effective internal control over sustainability reporting and build trust in their disclosures about environmental, social and governance (ESG) topics.

The guidance builds on the COSO 2013 Framework that public and private companies use to design, implement and monitor their internal control over financial reporting (ICFR).

“This new supplemental guidance is timely given upcoming final rules on climate risk from the SEC, European Union and ISSB, not to mention the journey some organizations are on to build sustainable management principles into their core mission, purpose, governance, and strategies,” COSO Chair Lucia Wind said.

Many companies currently make voluntary disclosures about ESG topics, but regulators want to standardize the disclosures and make them more useful for investors and other users of sustainability information. The Securities and Exchange Commission (SEC), the European Commission and the International Sustainability Standards Board (ISSB) are expected to finalize rules or standards on climate-related disclosures in the coming months.

The COSO guidance addresses sustainability reporting, which is often called ESG reporting. The topics generally relate to how a company affects and is affected by the environment, how a company manages its relationships with its stakeholders (e.g., employees, communities in which it operates) and how a company is governed.

## Key considerations

Many companies today report on ESG matters using different systems from those they use for financial reporting, and they often don't have robust internal controls in place. Financial executives aren't always involved, and some companies report ESG information much later than they report financial information.

To provide the information the SEC and other regulators are expected to require, companies will need to have policies, processes and procedures in place regarding the collection, measurement and reporting of the information. The COSO guidance is aimed at helping companies apply a level of rigor to the processes and internal controls for measuring and reporting ESG information that is similar to what they currently do for financial reporting.

The new COSO guidance addresses the same five components as the 2013 COSO Framework – control environment, risk assessment, control activities, information and communication, monitoring activities – and explains how each of the 17 principles in that framework and each of the points of focus in that framework should be applied to sustainability reporting.

### How we see it

Having a system in place to make sure that the data a company is using is complete and accurate is critical. That's complicated by the fact that the ESG information may be more qualitative than financial reporting data, and it often requires the use of multiple data sources, including sources outside of the organization. Companies should consider starting to apply the COSO guidance now, even though the SEC has proposed phasing in certain requirements. To do so, management should ask the following questions:

- ▶ Does management have a robust understanding of the processes and controls currently used to develop the company's ESG disclosures and the capabilities of the people and technology currently involved?
- ▶ Is the company aware of the gaps in its climate reporting controls and process relative to its existing financial disclosure controls and processes?
- ▶ Are the company's processes and controls over collecting and reporting on ESG information sufficient to meet the company's objectives?
- ▶ Does internal audit review ESG reporting processes and/or controls?
- ▶ Does anyone from the finance department or anyone involved in SEC reporting evaluate ESG disclosures?

## Endnote:

---

- <sup>1</sup> Achieving Effective Internal Control over Sustainability Reporting (ICSR): Building Trust and Confidence through the COSO *Internal Control – Integrated Framework*.

### EY | Building a better working world

© 2023 Ernst & Young LLP.  
All Rights Reserved.

SCORE No. 19411-231US

[ey.com/en\\_us/assurance/accountinglink](https://ey.com/en_us/assurance/accountinglink)

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://ey.com).

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.