The Corporate Sustainability Reporting Directive and its impacts on boards

Summary Report - December 2022

Last December, ecoDa and Mazars organized a workshop bringing together a dozen members of audit committees from different European countries to understand their level of preparation for the implementation of the Corporate Sustainability Reporting Directive.

It was clear from this exchange that the difference in preparation not only between European countries but also between sectors should not be overlooked. While some companies have understood the strategic dimension that this legislative shift will have, others are just beginning a simple compliance exercise. The Covid crisis did not help and slowed down the required change. Much still needs to be done to raise companies' awareness and make them understand the added value of sustainability reporting. The sustainability reporting starts with a strategy reviewed for sustainability, and the due diligence process will highlight what is not working and the business models bound to fail. Short term view is less and less an option, and the entire business ecosystem must find a way to make this approach work, including the shareholders.

Sector bodies should help to streamline the process through specific guidelines. The audit market must adapt itself to the new requirements. Within companies, internal auditors and risk managers have an important role to play by ensuring the data quality and challenging the board.

Setting up a due diligence process is certainly the initial step. Companies must demystify the exercise and start with what is the most material for them, the most salient issues in the value chain while adopting a holistic view of their operations. Stakeholders' inputs will be relevant to consolidate the findings and to determine the most materiality topics. As highlighted by the participants at the workshop, this interaction with stakeholders can be envisaged in different ways through, for example, questionnaires but also peer reporting or benchmarking.

To start small will not mean the same for all companies. What will make the difference is the ability to track the effectiveness of the changes made. Board members must fully commit to this mission, train as needed, and act on a best-efforts basis.

Linking ESG materiality and financial performance seems to be even more complex. If companies invited are already doing a materiality assessment, improvements are still worth considering notably on the granularity of the assessment. Materiality assessments should be seen as a management and decision-making tool that helps identify risks and opportunities and inform strategy. Guidelines are needed to help companies apply double materiality in practice.

Regarding the choice of a sustainability assurance provider, companies tend to opt for their statutory auditor. This approach makes a lot of sense, but the possibility to mandate another, additional, auditor is important too to insure competition (on audit fees notably) in the process. Audit committees will have to reassess the entire relationship with their auditor(s) according to their capacities and the new standards that will emerge. Implementing internal controls for sustainability reporting will become a prerequisite for reasonable assurance on sustainability.

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