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OPINION

Independent auditors provide ESG disclosure assurance

The expertise external auditors bring to financial reporting can help investors and other stakeholders feel confident as companies step up environmental, social and governance reporting.

Published Aug. 10, 2021

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The world is changing when it comes to how companies approach environmental, social and governance (ESG) issues. We know that regulators, investors and other stakeholders are looking for this information, so companies are feeling the pressure to implement more progressive policies and transparent disclosure practices.

Many of the conversations I've had with clients are about ESG. They want to approach it thoughtfully and effectively. After all, it's a huge indicator of trust. And strategic ESG efforts are not only good for a company's stakeholders, community and broader society—but also for its bottom line. As many companies work to be more transparent around ESG, having consistent, accurate and comparable data is key to maintaining trust in our institutions and capital markets. Here are a few reasons why I think it's never been more important for the markets to have assurance over quality ESG data.

Updated disclosure processes

The U.S. doesn't yet use a standardized ESG disclosure framework, but we know that investors are using this information to make decisions. They expect (and are entitled to!) the same confidence in climate (and other nonfinancial) information that they get from financial disclosures. We should remember though, that relying on individual organizations to develop the necessary controls for consistent ESG data is risky, as many companies are new to this type of reporting. We need to remain vigilant.

Kathryn Kaminsky
Courtesy of PwC

We’re already seeing the Biden administration and SEC leadership push for increased regulation and standardization around climate and ESG reporting. Most recently, the SEC issued a request for input on climate change disclosures. This presents a huge opportunity for companies to help shape how their information is shared with the government, regulators, investors and consumers. While federal disclosure requirements may still take some time, companies should not wait for additional requirements to begin reporting on ESG.

After all, we know that 90% of S&P companies published some type of ESG report. If this ESG data is so important that it's out there, that must be an indicator that releasing it in a reliable and credible way is the right thing to do.

ESG disclosures matter

To succeed, our capital markets need quality information, whether it's financial or nonfinancial. Frankly, high-quality data is crucial for building and maintaining trust and confidence in our markets, and this extends to ESG disclosures. And investors need accurate, consistent data to compare and evaluate companies across sectors to make informed decisions.

This data matters. Using independent third-party assurance—like the assurance required for financial disclosures—can help provide confidence in the quality of ESG information and enhance its credibility. And that confidence is so important for our capital markets to function properly.

Critical audit role

Some people may question if auditors have the right expertise to evaluate ESG data, but I disagree. External auditors have the independence, skills, knowledge and experience to provide assurance around ESG disclosures. As we (PwC) note in a recent comment letter to the SEC, "reasonable assurance," like the assurance provided on financial statements, would help give the high-quality information our markets need and that transparent disclosures are designed to support. Anything less risks eroding confidence in our markets.

This is where we, as auditors, come in—to help provide confidence in the quality of financial disclosures and ESG reporting.

Change will drive impact

It may be a challenging adjustment at first, but we believe it's important to hold both stakeholders and shareholders equally in mind. Business decisions should not only be good for a company's bottom line and its people, but good for society at large. Increasing corporate transparency around climate change and other ESG issues—and providing independent assurance on those disclosures—has the potential to positively impact companies, regulators, capital markets, and the communities and stakeholders they serve.

Recommended Reading:

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From green to gold: 5 ways CFOs can gain from climate risk disclosure

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SEC in 'risk alert' warns that some ESG funds may mislead investors

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Low-quality assurance of ESG reports pose stability risk: IFAC

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Corporate 'greenwashing' poses growing threat to ESG goals: report