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The audit committee has specific responsibilities under the EU's CSRD

As a US listed company, is your sustainability reporting oversight adequate? If you have operations in the European Union (EU), it might not be. The EU's Corporate Sustainability Reporting Directive (CSRD) expands the scope and depth of sustainability reporting requirements for companies in the EU, including EU subsidiaries of US companies. And the regulation explicitly puts audit committees of the reporting entities on the spot as it relates to sustainability reporting.

This means that parent company boards, and specifically audit committees, should have a clear sense of how CSRD impacts their companies in terms of entities in scope, which may require asking management and legal counsel for an update.[1] And even if management insists reporting is under control, it's important to follow up and follow through.

Here's why: The CSRD specifically adds sustainability reporting to the reporting entity's audit committee responsibilities, which include, for example, monitoring the sustainability reporting process and informing the board "how the audit committee contributed to the integrity of sustainability reporting and what the role of the audit committee was in that process." Your legal counsel can advise how to document and oversee compliance with the rule.

[1] (Information related to background, scoping and other CSRD matters can be found here.)

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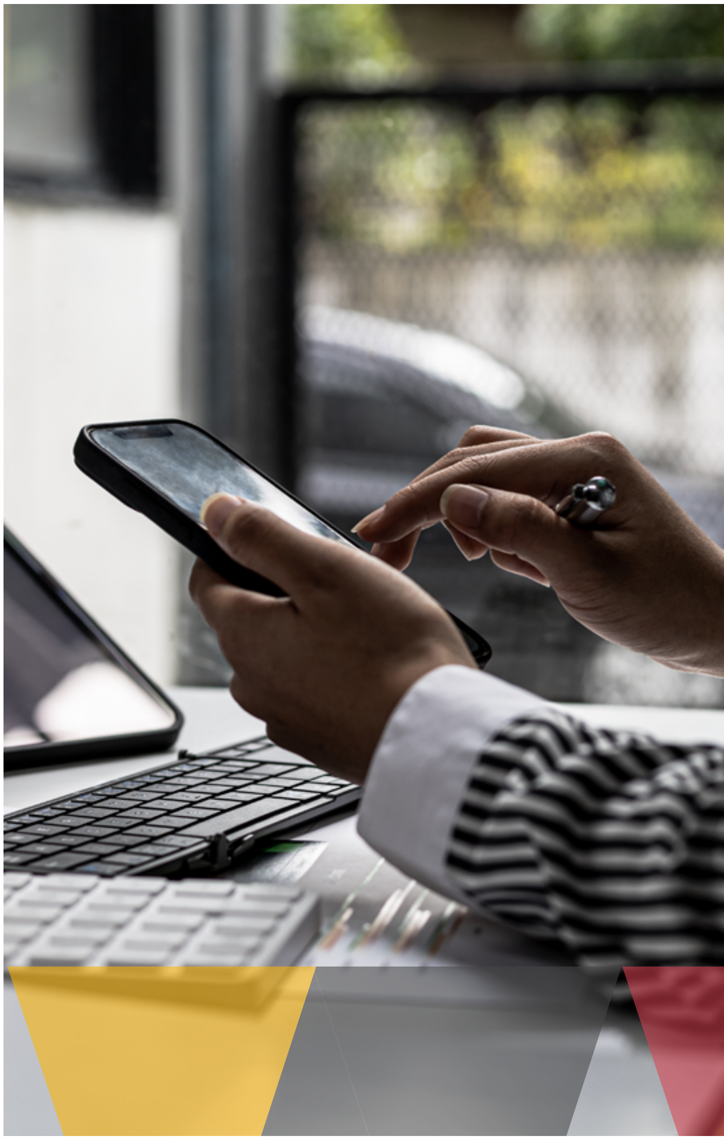
The CSRD text incorporates sustainability into the existing role of the audit committee. The committee needs to:

- Inform the board of the audited entity of the outcome of the statutory audit and, where applicable, of the outcome of the assurance of sustainability reporting and explain how the statutory audit and the assurance of sustainability reporting contributed to the integrity of financial reporting and sustainability reporting respectively, and what the role of the audit committee was in that process;
- Monitor the financial and, where applicable, sustainability reporting process, including the electronic reporting process and the process carried out by the reporting entity(s) to identify the information reported in accordance with the sustainability reporting standards adopted, and submit recommendations or proposals to ensure their integrity;
- Monitor the effectiveness of the reporting entity(s)'s internal quality control and risk management systems and, where applicable, its internal audit, regarding the financial reporting and, where applicable, sustainability reporting of the reporting entity(s), including its electronic reporting process, without breaching its independence;
- Monitor the assurance of the annual and consolidated sustainability reporting, where applicable, in particular its performance, taking into account any findings and conclusions by the competent authority; and
- Review and monitor the independence of the statutory auditors or the audit firms, and in particular the appropriateness of the provision of non-audit services to the audited entity.



What should the audit committee be thinking about?

With reporting as early as 2025 on 2024 information, companies should be gearing up for disclosures, with processes and controls and technology in place to ensure quality reporting. Questions the audit committee should ask include:

- How does the board's governance structure align sustainability and strategy?
- Does management's presentation and reporting of sustainability-related information allow the board and the audit committee to adequately understand the company's risks and opportunities?
- What framework does management have in place for coordinating sustainability reporting across geographies and business units and for maintaining a holistic view across topics?
- To what extent are the company's finance function, internal audit and other reporting units involved in creating and/or strengthening the control environment for the sustainability disclosures?
- What is the disclosure committee's role, and do the members have the necessary expertise for the new disclosures? Should new members be added?
- How far in advance of the required disclosure date will the audit committee receive draft disclosures? This is usually an iterative process and may need revisions. The sooner the audit committee can review draft disclosures, the better.
- Which sustainability reporting requirements is the company subject to globally? Has the company done a gap analysis to identify where investment is needed to meet the requirements? How is the company collecting data in an accurate, cost-efficient manner that recognizes the limited interoperability?
- How has management assessed the material short, medium and long-term risks? What methodologies were used to assess those risks?

Action items for the audit committee

Given the specific responsibilities the CSRD outlines, the audit committee should:

- Consider how the audit committee's financial reporting oversight skills and responsibilities translate to sustainability disclosures. Are there sustainability topics, such as biodiversity, circular economy, emissions or otherwise, for which the committee needs additional education and/or expertise?
- Review the governance structure against regulatory expectations and revise the current oversight structures if necessary — for example, re-allocating sustainability disclosure oversight from the nominating/governance committee to the audit committee or vice versa.
- Assess how often the appropriate board committee agendas include sustainability-related topics, and what level of information directors are seeing.
- Understand the outcome of management's materiality assessment.
- Understand where management is identifying key sustainability data and reporting gaps and putting procedures in place to close them.
- Develop a plan for new audit committee activities related to sustainability reporting, such as reviewing the materiality assessment periodically and overseeing the sustainability assurance provider.
- Update the charter to reflect these new responsibilities.
- Report findings back to the full board.

Conclusion:

Some management teams are no doubt already prepared for CSRD's impact, with its expanded sustainability reporting requirements for subsidiaries in the EU. But many have a way to go, and audit committees have a role in making sure that the company gets it right. Committee members need to understand how the directive will and won't change reporting requirements for 2025 and beyond — and how the CSRD changes their own responsibilities.

Additional insights

PwC: Worldwide impact of CSRD – are you ready?

PwC: The audit committee's role in sustainability/ESG oversight

PwC: 10 pitfalls companies should avoid when conducting a CSRD-aligned double materiality assessment

How PwC can help

To have a deeper discussion about how this topic might impact your business, please contact your engagement partner or a member of PwC's Governance Insights Center.

Maria Castañón Moats
Leader, Governance Insights Center
maria.castanon.moats@pwc.com

Stephen Parker
Partner, Governance Insights Center
stephen.g.parker@pwc.com

Matt DiGuiseppe
Managing Director, Governance Insights Center
matt.diguiseppe@pwc.com

Tracey-Lee Brown
Director, Governance Insights Center
tracey-lee.y.brown@pwc.com

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