Market Newsletter 4/2023

FIN-FSA’s Audit Committee survey of the implementation of sustainability reporting

1 Summary

The Corporate Sustainability Reporting Directive (CSRD)[1] brings with it standardised requirements for the disclosure of information, covering a wide range of sustainability topics. New information quality requirements raise sustainability information alongside financial statement information in significance. This means obligations for companies and their responsible parties to also create processes and controls that support the reliability of sustainability information, ensure sufficient resourcing and enhance expertise about the content of the new requirements. Audit committees have an important role to play in the successful implementation of sustainability reporting.

In order to promote the high-quality implementation of the European Sustainability Reporting Standards (ESRS)[2], the Financial Supervisory Authority (FIN-FSA) conducted a survey to map the readiness of audit committees and the preparedness of companies for upcoming sustainability reporting. The survey

[1] DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting
[2] For more information, see the Commission’s website: https://finance.ec.europa.eu/news/commission-adopts-european-sustainability-reporting-standards-2023-07-31_en.

was sent to most of the listed companies and to some FIN-FSA supervised entities, all of which will prepare the sustainability report required by the CSRD as part of the 2024 management report. The survey provided the FIN-FSA with useful information on how companies are preparing for the implementation of sustainability reporting. In the survey and in this report, the term audit committee refers to an audit committee, another committee carrying out the tasks of an audit committee, or the full board of directors carrying out the tasks of an audit committee.

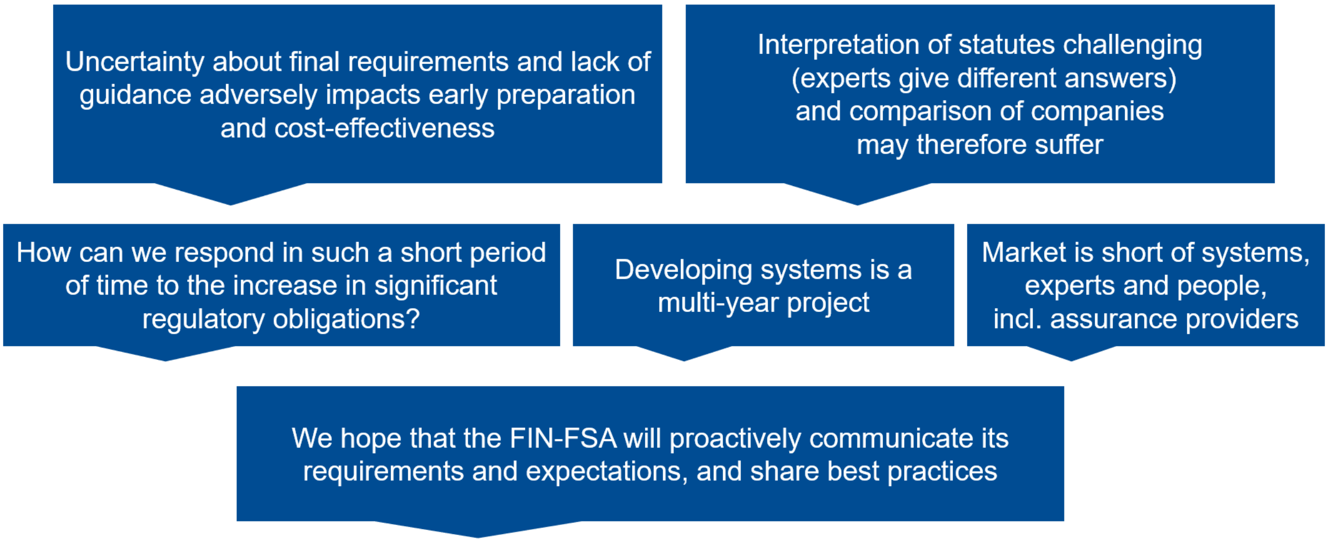
The results of the survey show that audit committees are aware of the new broad regulatory framework for sustainability reporting. Companies are, however, at very different stages in the implementation of sustainability reporting. Some companies are well advanced in their preparations and aim to start the reporting process on 1 January 2024, but for other companies the timetable seems challenging.

In this report, the FIN-FSA draws attention to the following aspects, among others:

- Audit committees should have a sufficiently in-depth understanding of the CSRD and particularly the ESRS (see chapter 6 and chapter 12).
- Audit committees have a key role in preparing for sustainability reporting (see chapter 7 and chapter 14).
- An important task of audit committees is to monitor and assess the determination of materiality and to support the board of directors in this area (see chapter 8).
- Audit committees should closely monitor the progress of the sustainability reporting implementation project (see chapters 9–11).
- Audit committees have an important role in the selection of the sustainability reporting assurance provider, in the monitoring and assessment of assurance, and in dialogue (see chapter 13).

Audit committees have identified a number of challenges in preparing for sustainability reporting (see chapter 15). The FIN-FSA considers the concerns raised to be justified and shares the views of the audit committees.

Figure 1. Examples of challenges identified by audit committees



Preparation of harmonised enforcement of sustainability reporting is under way in Europe. The European Securities and Markets Authority (ESMA) is issuing guidelines to national competent authorities on the enforcement of sustainability information. The guidelines are based on guidelines on enforcement of financial information, so the enforcement of sustainability reporting will generally be similar to the already established IFRS enforcement for listed companies. ESMA will publish a public consultation on its guidelines in early 2024.

Enforcement of sustainability reporting is currently being launched by the FIN-FSA. The launch will involve, among other things, situation mapping, such as this audit committee survey. No decisions have yet been taken on the practical arrangements for enforcement and it will be established over the coming years. The enforcement of listed and unlisted banks' and insurance companies' sustainability reporting is carried out by FIN-FSA's Banking and Insurance Supervision departments.

2 Tasks of the audit committee

According to the CSRD, audit committees should be assigned certain tasks related to sustainability reporting and sustainability reporting assurance. A monitoring and assessment task for sustainability reporting and its assurance is proposed for the boards of directors of public interest entities[3]. In this regard, a government proposal introduces amendments to the Limited Liability Companies Act, the Co-operatives Act, the Act on Credit Institutions and the Insurance Companies Act. The amendment of the Act on Earnings-related Pension Insurance Companies is progressing as a separate process.[4] Proposals for amendments to chapter 6, sections 16 a-d of the Limited Liability Companies Act (624/2006) are set out below.

It would be the task of the board of directors, with regard to the reporting of sustainability matters referred to in the Accounting Act (*sustainability reporting*) and the assurance thereof referred to in the Auditing Act (*sustainability reporting assurance*), to specifically monitor and assess:

- the company's reporting system
- the efficiency of the company's internal control and auditing, and of the risk-management systems
- the provision of sustainability reporting assurance services.

According to the regulation in force, the company may have an audit committee comprised of members of the board of directors, whose task would be to prepare the above-mentioned duties of the board of directors. If there is no audit committee or other committee carrying out the tasks, the preparation of the duties would belong to the entire board of directors.

With regard to sustainability reporting assurance, the audit committee's tasks would include presenting to the board of directors:

- the results of sustainability reporting assurance
- its understanding as to how sustainability reporting assurance has increased the integrity of reporting
- its understanding of the committee's role during the sustainability reporting assurance process.

[3] *Listed company, credit institution and insurance company, as referred to in chapter 1, section 9 of the Accounting Act (1336/1997).*
[4] *The Commerce Committee has in its expert opinions drawn attention to the fact that the government proposal does not propose amendments to regulations on the audit committees of earnings-related pension insurance companies, similar to those proposed in the Insurance Companies Act. The Commerce Committee considers it important that sustainability reporting regulations are consistent for all public interest entities (TaVM 5/2023 vp, in Finnish).*

With regard to sustainability reporting, the audit committee's tasks would include monitoring:
- procedures for sustainability reporting
- procedures for identifying information to be reported in accordance with the sustainability reporting standards
- the effectiveness of internal control and audit as well as risk management in relation to the above
- performance of sustainability reporting assurance.

In addition, the Commerce Committee's report proposes monitoring the independence of the sustainability reporting assurance provider as the task of the audit committee.[5]

3 Tasks of the FIN-FSA

Pursuant to section 50i of the Act on the Financial Supervisory Authority (878/2008), the FIN-FSA is the competent authority in monitoring and assessing the performance of audit committees. The tasks of the FIN-FSA also include monitoring compliance with International Financial Reporting Standards (IFRS), in a manner more precisely defined in law.[6] In addition, pursuant to chapter 8, section 1, subsection 3 of the Accounting Act, the FIN-FSA supervises compliance with the Accounting Act by supervised entities, i.e. financial and insurance sector entities.

In the government proposal, it is proposed that the Act on the Financial Supervisory Authority will be supplemented to include enforcement of sustainability reporting. The tasks of the FIN-FSA would be extended to include the monitoring of compliance with the European Union's sustainability reporting standards, in addition to the monitoring of IFRS. Chapter 3 of the Act would also be supplemented by a new section 37f, providing for more detailed supervisory powers. The supervisory powers for sustainability reporting would be the same as for IFRS enforcement and would also cover unlisted supervised entities of the FIN-FSA.

4 How was the survey conducted?

The FIN-FSA survey was sent to 92 entities ("companies") that will prepare the sustainability report required by the CSRD as part of their 2024 management report. A total of 87 audit committees or boards of directors responded to the survey. Eight responses were received from FIN-FSA supervised entities (credit institutions and insurance companies) (Figure 2). The responses were for the most part commendably thorough.

[5] The Commerce Committee proposes that chapter 6, section 16e of the Limited Liability Companies Act be supplemented in this respect (TaVM 5/2023 vp, in Finnish).
[6] Chapter 1, section 3, subsection 2 paragraph 4 and chapter 3, section 37 of the Act on the Financial Supervisory Authority.

Figure 2. Companies represented by the respondents (N=87)

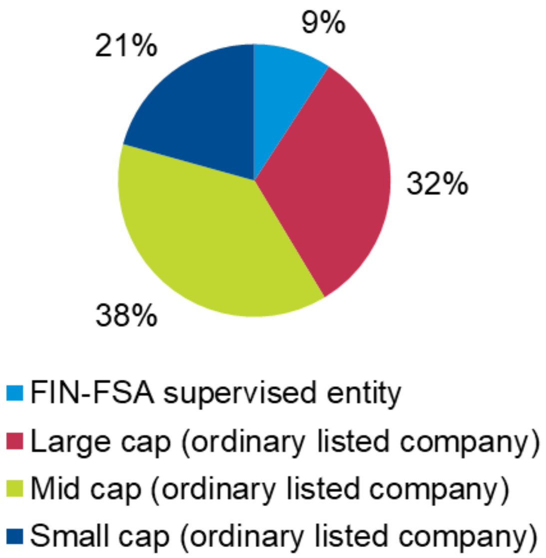
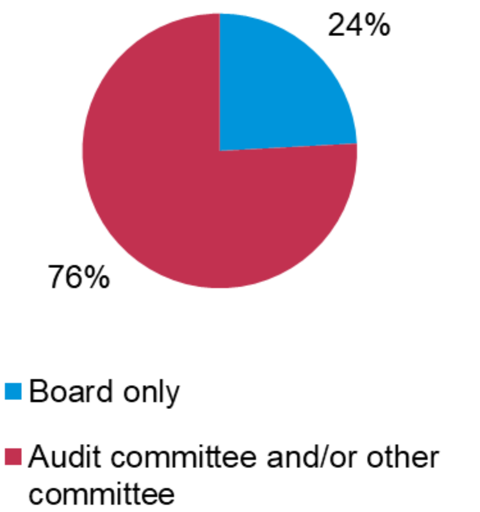


Figure 3. Whose responsibility is it to prepare corporate responsibility or sustainability reporting? (N=87)



Source: Financial Supervisory Authority

In the survey and in this report, the term audit committee refers to an audit committee, another committee carrying out the tasks of an audit committee, or the full board of directors carrying out the tasks of an audit committee.

The preparation of corporate responsibility or sustainability reporting is part of the audit committee's or other committee's tasks in around three quarters of the companies (Figure 3). In seven companies, preparation is the task of another committee in addition to an audit committee. In two companies, the preparation is solely the task of a committee other than an audit committee. In two companies, corporate responsibility or sustainability reporting is solely the task of the board of directors, even though the company has, for example, an audit committee. The responses revealed that in addition to the audit committee or other committee, the board of directors also has a role in preparing corporate responsibility or sustainability reporting. The responses also revealed that not all companies have yet decided on the division of responsibilities. It was stated, for example, that "an official decision on which committee will monitor sustainability in the future has not yet been made at the time of writing this response".

The questions asked by the FIN-FSA were, with the exception of background questions, open questions with no answer options. The objective of the open questions was to obtain company-specific, qualitative information on preparations for the sustainability reporting. The responses are therefore not fully comparable, and no unambiguous conclusions can be drawn from them, but the results should be considered as indicative. The responses are analysed in chapters 6–15.

In the report, the FIN-FSA quotes from the responses it received. The quotations given represent mainly, the response of more than one audit committee. The use of quotations is considered to give the reader a concrete overview of the responses received by the FIN-FSA.

Figure 4. The FIN-FSA's questions[7] to audit committees regarding the implementation of sustainability reporting

FIN-FSA
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12.6.2023 FIVA/2023/1095
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Audit Committee survey of the implementation of sustainability reporting

Pursuant to section 18, subsection 1 of the Act on the Financial Supervisory Authority, the FIN-FSA requests the entity to respond to the following questions posed by the FIN-FSA.

1. We request you to describe how the audit committee has familiarised itself with upcoming regulations on sustainability reporting (e.g. CSRD, ESRS).
2. As a rough approximation, how much of the audit committee's time in the past year was spent on sustainability aspects, relative to other audit committee matters (e.g. 20%), and which topics required the most attention?
3. Please list the topics pertaining to sustainability aspects the audit committee has submitted to board of directors' meetings for discussion and/or decision.
4. Please describe the entity's process or plans to implement sustainability reporting, and the role of the board of directors, the audit committee, and the chief executive officer therein.
5. Has the entity identified and/or reviewed the impacts necessitated by the implementation of sustainability reporting on its processes, controls and systems? Please also describe the identified impacts on reporting, if any.
6. How does the audit committee ensure that the entity has adequate resources and expertise at its disposal for the implementation of sustainability reporting?
7. How is the audit committee going to ensure its independence from the executive management of the entity in assessing sustainability reporting? For example, is it anticipated that external experts will be used?
8. What plans does the audit committee have regarding the assurance of sustainability reporting? For example, how will the audit committee assess the assurance provider's substance and assurance expertise?
9. Please report whether the audit committee has paid attention to the greenwashing risk and possibly planned, reviewed, or taken measures to mitigate the risk.
10. Are there any other matters with relevance to the implementation of sustainability reporting that you wish to communicate to the FIN-FSA? For example, what challenges have been identified by the audit committee in preparation for sustainability reporting?

5 The new sustainability reporting framework

In the survey and in this report, the term sustainability reporting refers to a report prepared in accordance with the ESRS. The survey did not concern information presented on the basis of Article 8 of the Taxonomy Regulation[8], because the Taxonomy Regulation is already in force.

[7] *The letter can be read in full on the FIN-FSA website.*
[8] *Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088*

Figure 5. New European Sustainability Reporting Standards (ESRS) as part of EU legislation

	Cross-cutting standards	Environmental standards	Social standards	Governance standards
Entry into force 1 January 2024	ESRS 1 General requirements	ESRS E1 Climate change	ESRS S1 Own workforce	ESRS G1 Business conduct
	ESRS 2 General disclosures	ESRS E2 Pollution	ESRS S2 Workers in the value chain	
		ESRS E3 Water and marine resources	ESRS S3 Affected communities	
		ESRS E4 Biodiversity and ecosystems	ESRS S4 Consumers and end-users	
		ESRS E5 Resource use and circular economy		
Entry into force later	Sector-specific standards			
	Proportionate standards for listed SMEs			
	Standards for non-EU companies			

Source: Commission Delegated Regulation (EU) C(2023) 5303 final 31 July 2023. Figure: Financial Supervisory Authority

Since 2017, the Accounting Act has obliged certain companies to provide a report on non-financial information (so-called corporate responsibility reporting[9]). Companies have been able to follow international frameworks in their corporate responsibility reporting if they so wish.

The FIN-FSA asked audit committees whether their companies follow frameworks/standards in their corporate responsibility reporting and asked them to identify any frameworks they use (e.g. GRI, TCFD). Around 70% of respondents stated that they follow or partially follow frameworks in their current corporate responsibility reporting. The three most common frameworks/standards currently used or partially used by respondents are:

1. Global Reporting Initiative (GRI)[10]: 77% of those who answered "yes".
2. Task Force on Climate-related Financial Disclosures (TCFD)[11]: 39% of those who answered "yes".
3. Sustainability Accounting Standards Board (SASB)[12]: 15% of those who answered "yes".

In the new European Sustainability Reporting Standards (ESRS), existing corporate responsibility reporting standards and reference frameworks have been considered, as far as possible. The European Commission's Questions and Answers (Q&A) provide more information on the coordination of the ESRS with other standards and frameworks, as well as on the timetable for the implementation of the ESRS.[13]

[9] *Further information is available on the website of the Ministry of Economic Affairs and Employment https://tem.fi/en/csr-reporting.*
[10] *Further information: www.globalreporting.org.*
[11] *Further information: www.fsb-tcfd.org.*
[12] *Further information: https://sasb.org.*
[13] *https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_4043*

6 Audit committees have familiarised themselves with the new regulations

One member of the audit committee shall have expertise in accounting or auditing or both. According to the rationale of the government proposal, audit committee members as a whole shall have expertise relevant to the company's field of business. The members of the audit committee are obliged to identify the legislation related to their task, as well as lower-level statutes, regulations and instructions. According to the proposed amendment to the Accounting Act, the sustainability report must include a description of the expertise and skills of the board of directors and the chief executive officer in relation to sustainability matters.[14]

In the first question of the survey, the FIN-FSA asked how audit committees have familiarised themselves with the upcoming regulations on sustainability reporting (e.g. CSRD, ESRS).

Figure 6. Examples of responses to question 1

The responses revealed that all audit committees are aware of the new regulations. The regulations have been followed by most of the companies' audit committees. At their meetings, around half of the audit committees have received a regulatory overview from executive management and/or the auditor. According to several responses, sustainability matters have regularly been on the agenda of audit committee meetings.

The content of audit committee meetings was described, among other things, as including presentations and discussions covering the content of the CSRD and the ESRS. The audit committees have also been presented with the key differences compared with the current regulations and the company's current corporate responsibility reporting. One respondent stated that a CSRD implementation plan and the most significant practical challenges in the implementation of reporting have also been discussed. The need for changes to the charters of the board of directors and committees, as well as to the annual work plan have also been discussed.

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[14] *Government proposal 20/2023 vp, p. 46 (Provision-specific justifications) and Act on the Amendment the Accounting Act, chapter 7, section 6. (in Finnish)*

Several audit committees reported that they had familiarised themselves with the upcoming regulations through sustainability reporting implementation projects. Plans for implementation projects have been presented to audit committees, and the committees have regularly monitored the progress of the projects. The responses also mentioned that the company “prepared a materiality assessment, which is also available for the audit committee, based on the 2022 corporate responsibility” and “when conducting the materiality assessment, the members of the board of directors also participated in interviews”.

Multiple sustainability reporting training events have already been arranged for some audit committees, and others have planned to arrange training events. One respondent stated that the audit committee and the board of directors have participated in two different training events arranged by an audit firm on the sustainability reporting regulations and the upcoming changes due to the corporate sustainability reporting directive. In addition, separate ESG training has been arranged for the board of directors and the audit committee. In another company, training on the new regulations by an external expert is being arranged for the board of directors, board committees and management. Where necessary, further training will be provided internally and/or externally to deepen expertise.

Members of audit committees have also received information via their other positions of responsibility. The responses stated that “the members of the audit committee work in positions of responsibility for several companies covered by corporate responsibility reporting requirements, which gives them multi-channel visibility into the reporting and its requirements” and “some of the members of the audit committee work in the audit committees of several listed companies, which contributes to the accumulation of knowledge about future changes and what is required to prepare for them”. In addition, audit committee members have also familiarised themselves with sustainability reporting independently.

According to the understanding obtained by the FIN-FSA, audit committees have familiarised themselves with the new regulations. Sustainability reporting standards are new, complex, and wide-ranging. Experience of other frameworks provides a good foundation, but the new regulatory framework is, however, significantly different. To be able to apply the information requirements correctly in the companies, also the audit committees must have a sufficiently in-depth understanding of the CSRD and especially of the ESRS.

7 Sustainability matters on audit committees’ agenda

The FIN-FSA asked audit committees to estimate how much of their time in the past year was spent on sustainability matters relative to other audit committee matters (e.g. 20%), and which topics required the most attention (question 2).

Figure 7. Examples of responses to question 2

- Difficult to give a numerical estimate
- 5–10 %, under 20 %
- At most meetings, e.g. 5/8 meetings
- At all meetings
- CSRD regulations and implementation plan
- Corporate responsibility report
- Strategy impacts and strategic ESG guidelines
- Internal controls and governance issues
- CSRD impacts on reporting and business
- Sustainability targets, e.g. remuneration metrics
- Sustainability risks and risk management
- Double materiality assessment

Almost all of the audit committees have addressed matters related to sustainability. Often, sustainability matters are closely integrated with other topics addressed by audit committees, making it difficult for respondents to precisely estimate the time spent by audit committees on sustainability matters.

Audit committees have dealt with a number of different topics, depending on how far the companies' implementation projects have advanced. Most frequently mentioned in the responses were familiarisation with CSRD requirements and implementation of the regulations, as well as preparing the corporate responsibility report according to current regulations. One respondent stated that “as far as the audit committee is concerned, the focus of sustainability-related tasks has been on the company's mandatory corporate responsibility reporting, processing regulatory changes regarding sustainability reporting, and sustainability matters as far as they are related to the company's risk management, internal control and internal audit activities”.

A number of audit committees have reached a stage in the implementation of the regulations where they are assessing the various concrete impacts on reporting and business activities, as well as on business and ESG strategies. This was highlighted, for example, as follows: “The importance of sustainability matters in the future, changes in the business environment, and reporting obligations are discussed at every board meeting. Sustainability is one of the key areas of the strategy.”

Many respondents highlighted the impacts on the company's internal control systems and/or risk management. One respondent summarises the audit committee's discussion topics as follows: “The key topics discussed included preparations for the relevant scope of the sustainability reporting in the annual report, data sourcing, and data quality and the control environment”.

An example of one response: “The company recognises that the CSRD will fundamentally change the requirements for sustainability reporting and will raise them to the same level as for financial reporting, including a limited assurance audit. For this reason, in early 2023, the company launched a CSRD implementation project, which included an in-depth gap analysis where the company's current approach was compared with the CSRD requirements, to ensure that the company will fulfil the CSRD requirements in 2025. In addition, a double materiality assessment, required by the CSRD, was started in the spring. The Chief Financial Officer and the Sustainability Director are responsible for preparing the implementation of sustainability reporting. The Board, the Audit Committee and the Executive Committee are closely monitoring the progress of the CSRD implementation project, and the status of the project will be discussed at each Audit Committee meeting in late 2023. The company recognises that the national implementation of the directive is still pending and it will continue to monitor this and the implementation of the final requirements, as part of the CSRD implementation project."

According to the understanding obtained by the FIN-FSA, sustainability matters are strongly on the agenda of audit committees. The FIN-FSA considers this important, as the audit committee has a key role in preparing for sustainability reporting.

8 Boards have been kept informed about the new regulations

The FIN-FSA asked companies to list the topics pertaining to sustainability matters that the audit committee has submitted to board of directors' meetings for discussion and/or decision (question 3). Of the companies that responded to the survey, around three-quarters have a separate audit committee or other committee whose tasks include preparation of corporate responsibility or sustainability reporting. An analysis of the responses from these committees is given below.

Figure 8. Examples of responses to question 3

Based on the answers, in addition to the corporate responsibility report in accordance with current regulations, any voluntary sustainability reporting requires discussion and/or decision by the board of directors. In addition, the boards of around one half of the companies have reviewed the reporting requirements under the new regulations and have monitored regulatory developments.

Around one third of respondents stated that the board of directors had discussed the changes brought by the CSRD to the company's reporting as well as the measures required by the implementation of the CSRD. The responses include, for example, the following concrete measures:

- "Discussions have taken place on, among other things, the double materiality assessment to be carried out, listening to stakeholders, and steps towards an ESG strategy."
- "Topics such as green finance framework, science-based target initiative submission, embedding sustainability criteria to capex assessment."

Many respondents stated that the company's board of directors had decided on sustainability targets. The responses outlined, among other things, that the board deals with the company's climate work and monitors the achievement of targets regularly and that "the company's board approved the priorities, targets and metrics of the company's corporate responsibility programme in 2021". One answer stated that "short- and long-term targets and corporate responsibility policies have been decided at the board level".

Based on the responses, a number of companies have either updated old strategies (e.g. sustainability strategy) or prepared completely new ones (e.g. energy strategy) in connection with the implementation of the CSRD. In addition, the following aspects, among others, were highlighted in the responses:

- "The Board has reviewed and approved the results of the double materiality assessment as part of the strategy review."
- "The AC has brought some operational/strategic sustainability risk management issues to the Board of Directors' attention."
- "Sustainability is part of the annual Board of Directors' strategy process. This includes e.g. business strategies, decarbonisation, R&D, sustainability targets, and reporting frameworks."

According to the answers, the materiality assessment has been or will be discussed at the board level. The materiality assessment may be included in the board's other topics, while some of the responses explicitly mention the materiality assessment, for example "the board has discussed the materiality assessment of sustainability" and "the essential sustainability matters and metrics proposed on the basis of the materiality assessment will be brought to the board for decision".

According to the understanding obtained by the FIN-FSA, audit committees have extensively brought topics related to sustainability matters to board meetings. In the view of the FIN-FSA, audit committees have an important role in supporting the effective work of the board of directors in relation to sustainability matters.

The materiality criterion is given significant weight in most of the sustainability reporting standards. Audit committees have an important role to play in monitoring and assessing the determination of materiality and in supporting the board of directors particularly in this area, as the level of materiality affects the quality and reliability of information provided to investors.[15]

9 Audit committees are involved in sustainability reporting implementation projects

The main implications of the government's proposal state that the implementation of procedures in line with the new sustainability reporting requirements will be a challenging effort for each company. According to the proposed amendment to the Accounting Act, the sustainability report must include a description of the tasks of the board of directors and the chief executive officer in relation to sustainability matters.[16]

The FIN-FSA asked audit committees to describe their company's process or plans to implement sustainability reporting, and the role of the board of directors, the audit committee and the chief executive officer therein (question 4).

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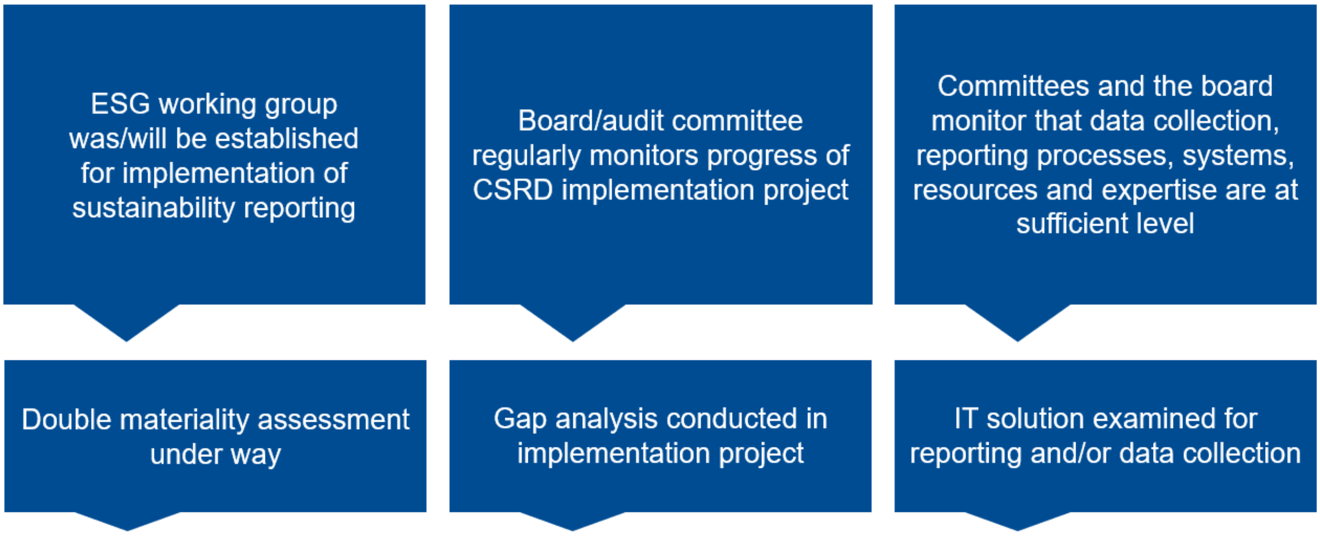
[15] *Further information about the survey of audit committees regarding materiality in financial statement reporting and auditing can be found in the Market Newsletter 2/2021, p. 11–15, and FIN-FSA's event for listed companies 2022 presentation, slides 72–77 (in Finnish).*

[16] *Government proposal 20/2023 vp, p. 17 (Proposals and their implications) and Act on the Amendment the Accounting Act, chapter 7, section 6 (in Finnish).*

Figure 9. Examples of responses to question 4



Based on the responses, the measures required by companies to implement the new sustainability reporting are under way or are planned to be launched in the near future. Companies have organised themselves, defined the necessary roles and allocated responsibilities, taking into account the company’s sector and size. A number of companies have set up a cross-functional project team for the implementation of the new regulations, while others have established a dedicated unit for reporting and measures on sustainability matters. One respondent stated that “the Group Corporate Responsibility Team leads several ESRS-related projects and operations in 2023–2024 and it reports progress to the Group Executive Team and the Board of Directors”.

Around half of the audit committees responded that a double materiality assessment and/or gap analysis has been carried out, is in progress or is planned. An example answer states: “In spring and summer 2023, the company carried out a double materiality assessment based on previous materiality assessments and, in collaboration with a consulting firm, the company launched a gap analysis to clarify the difference between the content of the current corporate responsibility report and the requirements of the ESRS. The gap analysis was completed during the summer and subsequently supplemented once the final ESRS standards were available. During autumn 2023, the exact data sources and reporting systems will be identified and the annual reporting process will be developed.”

The role of the CEO was described, among other things, as follows: “directs the work of the sustainability team”, “is responsible for ensuring that the company’s sustainability reporting is reliably organised and implemented in accordance with the regulations and strategy”, “ensures that sustainability reporting is implemented and is sufficiently prioritised in the company’s management” and “ensures that resources and expertise are adequate to implement CSRD reporting, and that reporting and related processes and metrics support the company’s sustainability work”.

The responses revealed that the audit committee, among other things, “discusses management’s plan for the practical implementation of CSRD reporting”, “monitors the progress of implementation at all of its meetings”, “discusses the determination of double materiality”, “discusses the results of the gap analysis”, “assesses sustainability risks”, “is responsible for the implementation, processes and oversight of reporting”, “reports key findings on the progress of the project to the board of directors” and “supports the board of directors in sustainability reporting and the preparation thereof”.

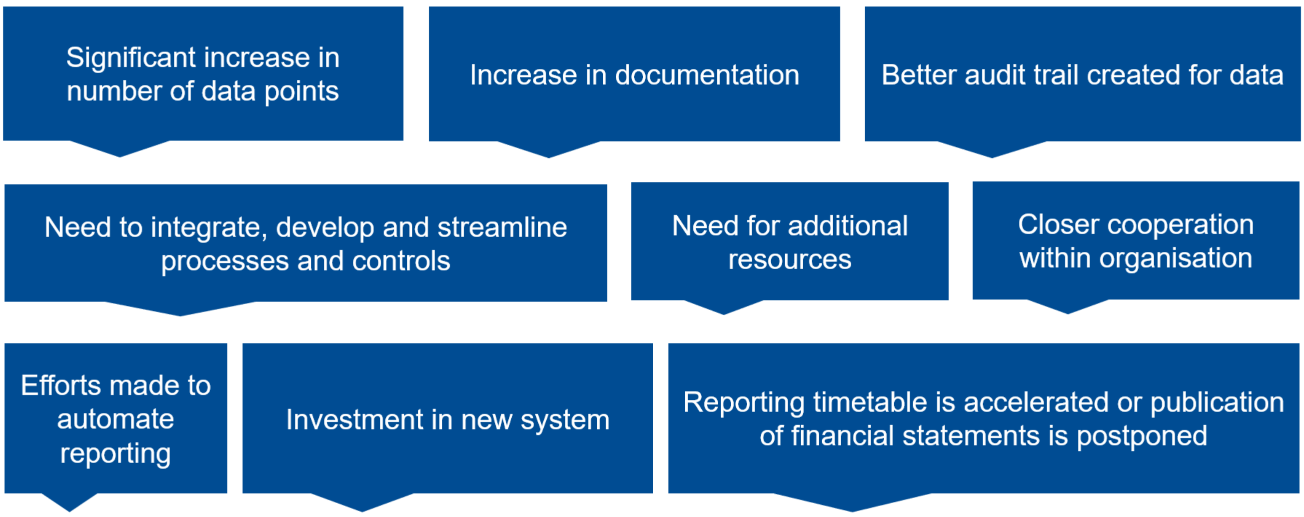
Based on the responses, the board of directors, among other things, “is responsible for the sustainability strategy”, “defines sustainability reporting goals and responsibilities”, “monitors the progress of implementation”, “is responsible for ensuring that reporting is implemented in accordance with the CSRD”, “approves the determination of double materiality” and “monitors and evaluates reporting and assurance with regard to sustainability matters, in particular the reporting system, the effectiveness of internal control and auditing and of risk management systems, and the independence of the auditor”.

According to the understanding obtained by the FIN-FSA, sustainability reporting implementation projects have been launched or implementation plans are well advanced. There are different company-specific options in organising implementation, but the FIN-FSA believes that companies should have a dedicated project for the implementation of sustainability reporting, the progress of which would be closely monitored by the audit committee. On the other hand, the FIN-FSA considers the implementation schedules for companies that only started in autumn 2023 to be challenging. Effective audit committees have clearly defined procedures.

10 Companies’ processes and controls being developed – demand for new systems

The FIN-FSA asked audit committees to describe whether the company has identified and/or reviewed the impacts necessitated by the implementation of sustainability reporting on its processes, controls and systems (question 5). They were also asked to describe these impacts on reporting, if any.

Figure 10. Examples of responses to question 5



According to the responses, in more than half of the companies, the analysis of the final effects on processes, controls or systems is incomplete. In many companies, the impacts of reporting have not yet been assessed, as this is planned to be done, for example, only after the final standards have been confirmed. Despite this, audit committees understand the increase in workload that will follow from reporting. As an example, it was mentioned that “due to the new reporting requirements, there is a need to define new metrics”. Some of the respondents stated that the impacts can only be evaluated after the completion of the materiality assessment and/or gap analysis. As the double materiality assessment plays a very central role in sustainability reporting, one respondent said they were waiting for further guidance from EFRAG.

Many respondents emphasised that sustainability reporting will require significant new data. New data will also be required for companies that already currently report sustainability information using GRI or other frameworks. Collecting new data will require both new processes and more effective controls. The responses stated, for example, that “a significant proportion of the data is located elsewhere than in the current financial management reporting systems” and “for several of the new required data points, deficiencies have been identified in source systems, data availability, manual data collection work, decentralised systems and underdevelopment of controls”.

Around one third of respondents raised the issue of data documentation requirements. One response stated, among other things, that “the new regulations increase documentation requirements for how the results and findings of sustainability reporting have been achieved (operating policies, their controls and measurement)”. Surprisingly few responses drew attention to the integrity and reliability of the audit trail.

Many respondents stated they were either considering investing in new tools or had already decided on investments. One respondent stated that “currently, many sustainability reporting issues are handled manually using separate documents”. According to the responses, a number of potential system suppliers have been evaluated. One respondent “will select a reporting system in late 2023”, while one respondent stated, “systems development will be a multi-year project”.

The timelines for sustainability reporting and financial reporting need to be coordinated. Planning the reporting schedule is seen as the key challenge, and it was stated that “it is not yet possible to assess whether the assurance of sustainability information alongside the financial statements will result in changes to the publication schedule of financial and sustainability reports”. The respondent therefore stated that the company “is considering a test assurance based on 2023 sustainability information”.

According to the understanding obtained by the FIN-FSA, the companies’ processes, controls and systems are being developed, but the work is becoming urgent. Collecting reliable data and making system changes can be very time-consuming and systems may not be available. A verified audit trail is also a key prerequisite for data reliability.

11 Increased need for additional resources and expertise

The main implications of the government proposal state that sustainability reporting will be a significant resource challenge for companies. The diversity and complexity of the data collected and processed require new skills. Many companies will use external expertise to ensure they have the necessary skills. It should be noted that the statutory auditor cannot – in order to remain independent – participate in the preparation of the sustainability report.[17]

The FIN-FSA asked audit committees to describe how they ensure that their company has adequate resources and expertise at its disposal for the implementation of sustainability reporting (question 6).

[17] *Government proposal 20/2023 vp, pp. 17–18 (Proposals and their implications) (in Finnish).*

Figure 11. Examples of responses to question 6

Audit committees have recognised the need for additional internal resources and increased expertise. Respondents stated, among other things:

- “The company has assessed the significant additional need for resources in the coming years due to increasing reporting requirements.”
- “The company has assessed the additional resources required by sustainability reporting, as a result of which it has begun to strengthen the resources of the Group’s financial function and to better coordinate the Group’s internal resources.”
- “Meeting the reporting requirements will require the participation of a wide range of experts in the preparation of the report from the company’s various functions and levels, as high-quality reporting will also require detailed knowledge of the business.”

Around half of the respondents ensure that they have sufficient resources by using external experts. The respondents often seek external expertise “as required”. Many stated that they use an external expert, for example at different stages of the project to ensure sufficient expertise. Examples of the different stages mentioned include ESRS gap analysis, materiality assessment or climate impact analysis. External assistance was also used to increase the expertise and expand the competence of the company’s own personnel.

According to a number of respondents, the adequacy of resources is also ensured by the extensive involvement of the organisation. For example, one respondent stated that “the project team consists of nominated business experts from different disciplines and representatives from support functions (e.g. IT, finance, HR, procurement)”. Some responses emphasised the involvement of business operations. For example, one respondent stated that “the majority of participants are business representatives whose daily work includes sustainability matters”.

Audit committees also assess the level of adequate resources and necessary expertise by monitoring the sustainability reporting implementation projects and receiving situation reports from management. Responses included the following comments.

- “The audit committee receives regular updates on the progress of the CSRD project and it is the responsibility of the project to highlight any resource shortcomings.”
- “The company’s management team will discuss sustainability reporting and its implementation on a monthly basis in the second half of 2023 and report back on this to each audit committee meeting. An essential element of implementation also includes the ongoing review of expert resources, both quantitatively and qualitatively.”

Companies are also aiming to increase expertise through training. According to the responses

- “Training needs are assessed as part of plans.”
- “Training on the new sustainability reporting regulations by an external expert is arranged in September 2023 for the company’s board of directors, board committees and management.”
- “The company’s ESG experts actively participate in industry working groups developing sustainability, receive training and discuss reporting expectations with stakeholders.”

A few respondents highlighted the assisting role of internal audit in the development of sustainability reporting. For example, one respondent stated that “the company is currently conducting an internal audit on the management of sustainability, in accordance with the 2023 audit plan for internal audit approved by the audit committee. The audit will cover, for example, resources and expertise, and the results of the report will be delivered to the audit committee during 2023”.

According to the understanding obtained by the FIN-FSA, the need for additional resources and new expertise has been clearly recognised in audit committees. Sustainability reporting is a significant challenge with regard to expertise, and organising sustainability reporting requires extensive cooperation within the organisation. The FIN-FSA considers scarcity of resources and expertise to be one of the biggest challenges in implementing sustainability reporting. The FIN-FSA also considers it important that the expertise of external experts is sufficiently transferred to companies and that companies participate to the extent necessary in the work carried out by external experts.

12 Independence of audit committee from management ensured

The FIN-FSA asked audit committees to describe how the audit committee intends to ensure its independence from the company’s executive management in assessing sustainability reporting (question 7), for example whether it is anticipated that external experts will be used.

Figure 12. Examples of responses to question 7

A number of responses referred to the board's independence from the company and significant shareholders. The responses emphasised that "the independence of the board of directors is regularly assessed in line with normal good governance practice". Independence from executive management in sustainability reporting is ensured in the same way as independence in financial reporting. The means mentioned included familiarisation with the subject area to ensure sufficient expertise in the topic, reviewing significant decisions based on the judgment of management, and discussions with the assurance provider without the presence of executive management.

A number of respondents stated that they have discussions with the statutory auditor and slightly fewer with the internal auditor. One respondent stated that "the audit committee has a regular dialogue with the auditor" and another respondent that "the internal audit reports directly to the audit committee and is available to the audit committee".

Based on the responses, training of the audit committee increases independence from executive management. It was stated, for example, that "training on the subject is arranged for the board of directors and members of committees" and "board members' acting in positions of responsibility with other companies creates a validating environment for board members to assess the sustainability reporting of the company's executive management".

Around one third of the respondents said that they used external experts in their sustainability reporting implementation project throughout the project or at different stages of the project. Examples of the different stages included development of reporting and processes, determination of double materiality, gap analysis and calculation of carbon dioxide emissions. Around one third of the respondents said they were prepared to use external experts if necessary. It was stated, for example, that "the audit committee recognises the need to use a number of expertise providers to independently assess and assure the quality of sustainability reporting in the future". One respondent stated that an "external consultant is considered to be used to review and challenge the materiality assessment on a regular basis".

The board's sustainability expertise is also evaluated annually in the board's self-evaluation process, and ensuring sufficient expertise is taken into account in the selection of a new board. One audit committee stated: "Regarding the knowledge of the Board, the Board conducts a self-evaluation process annually, through which the performance and the work of the Board are evaluated for the purpose of continuously improving the Board's work and efficiency. The annual suitability assessment of 2022 concluded that the Board members are individually and collectively deemed to possess adequate knowledge, skills, and experience, including knowledge of climate-related and environmental risks, to perform their duties, such as implementing sustainability reporting."

According to the understanding obtained by the FIN-FSA, the audit committee's independence from the company's executive management is ensured through a sufficiently deep familiarisation with sustainability reporting and by using external experts. The expertise of the audit committee is therefore also important from the standpoint of enabling the audit committee to make its own reliable and independent decisions.

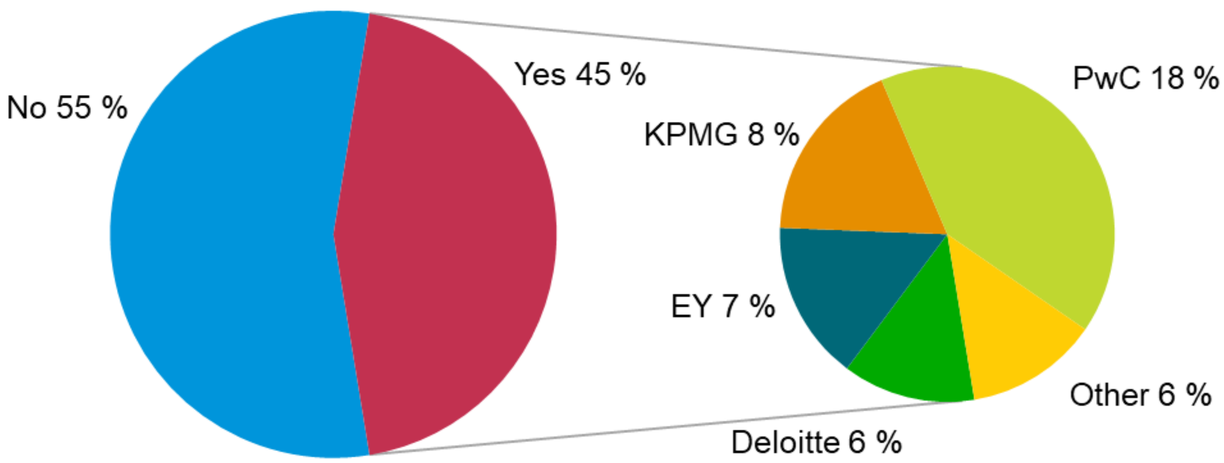
13 Attention paid to assurance of sustainability information

Voluntary assurance

It is currently the task of the statutory auditor to check that a statement of non-financial information in accordance with the Accounting Act has been provided. In addition, the auditor gives an opinion on whether the applicable provisions have been complied with in the preparation of the management report. If the statement of non-financial information is provided as a separate report, the auditor shall state if the information included in the financial statements and the information in the separate report are not consistent. However, assurance of sustainability information or part thereof takes place on a voluntary basis by means of a separate assurance engagement.

The FIN-FSA asked the companies to state whether the company's sustainability information had been assured by an independent assurance provider. Companies were also asked to name the assurance provider. Sustainability information or part thereof has been assured in nearly half of the companies. The four largest audit firms have mainly acted as assurance providers. Around 60% of the companies use the same audit firm for the voluntary assurance of sustainability information as for the statutory audit.

Figure 13. Voluntary assurance of sustainability information or part thereof (N=87)



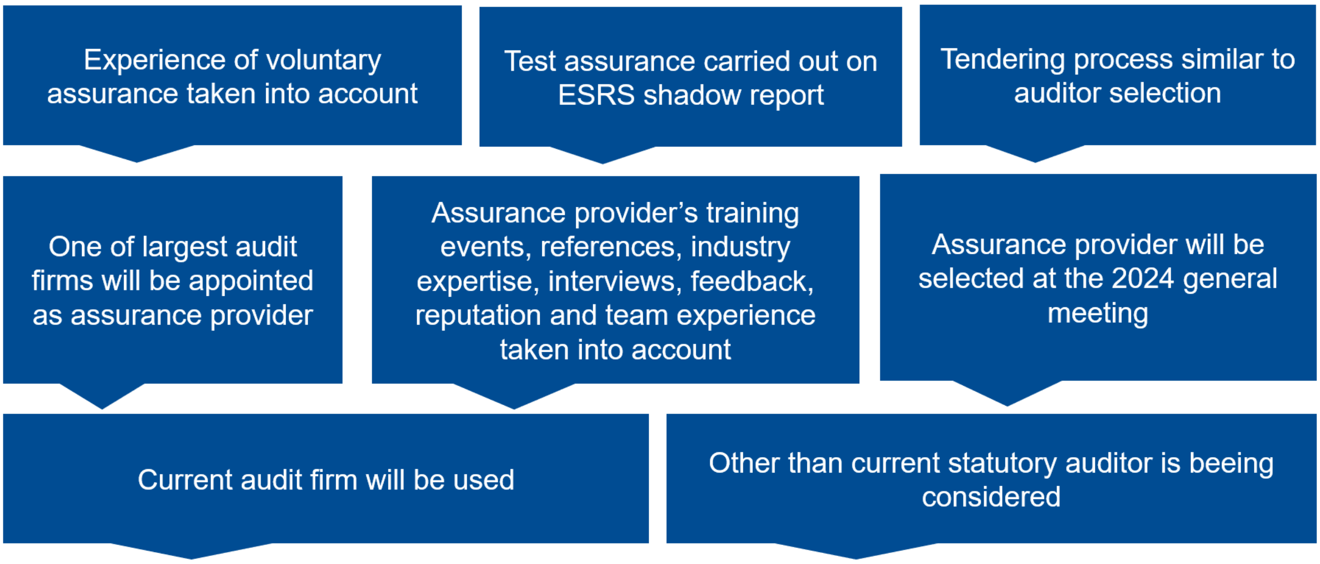
Source: Financial Supervisory Authority

Statutory assurance

The main implications of the government proposal state that the largest audit firms offer assurance of sustainability reporting to their existing audit clients, and thus it is expected that the demand for sustainability experts will increase strongly within these audit firms.[18] According to the CSRD, statutory auditors or audit firms that carry out the assurance of sustainability reporting should have a high level of technical and specialised expertise in the field of sustainability.

The FIN-FSA asked audit committees what plans they have regarding the assurance of sustainability reporting (question 8). In addition, the audit committees were asked how the audit committee will, for example, assess the assurance provider's substance and assurance expertise.

Figure 14. Examples of responses to question 8



A number of the respondents emphasised the company's experience of voluntary assurance gained over the years. Sustainability information has been reported, for example, in accordance with the GRI for many years, and it was stated "the scope of sustainability information subject to assurance has increased over the years".

Not all of the respondents have experience of voluntary assurance, but the process of selecting an assurance provider is considered to be very similar to that of selecting a statutory auditor. One respondent stated, for example, that "the tender for the assurance provider will take place in H2/2023 and the audit committee will be responsible for the tendering process. The assurance provider will be selected at the 2024 annual general meeting on the proposal of the board of directors, based on the recommendation of the audit committee. The eligibility requirements and independence requirements required by law, as well as other competence requirements required by the committee, will be evaluated in the tendering process".

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[18] *Government proposal 20/2023 vp, p. 20 (Proposals and their implications) (in Finnish).*

Around one third of the audit committees stated that their company plans to use the current statutory auditor as the sustainability reporting assurance provider, but other audit firms are also being considered:

- "The audit committee is considering using the audit firm for sustainability reporting assurance, but will make the final selection based on substance and assurance expertise."
- "The assurance provider will be subject to competitive tender, and the decision will be guided not only by commercial aspects, but also by substance expertise and knowledge of the field."

Some of the respondents said that they have taken into account or will take into account sustainability reporting assurance in connection with tendering for a statutory auditor. One respondent stated that "in connection with the audit tender for 2023, offers for sustainability reporting assurance and information on the expertise of the tenderers have also been requested from audit firms".

The audit committees have confidence in the biggest audit firms. For example, one respondent stated that "for the assurance of sustainability reporting, the intention is to use a Big4 firm to ensure the substance and assurance expertise of the assurer". The biggest audit firms are considered to have "very comprehensive services and competent experts in the ESG field" and "we expect them to provide us with adequate internal resources".

Few respondents are concerned that audit firms would not have enough ESG experts. According to one respondent, the FIN-FSA "should also focus attention on the ability of assurance providers and audit firms to perform the upcoming assurance work. This will be important, as the number of companies subject to mandatory sustainability assurance is increasing and the time window for assurance is very short, and particularly as all listed companies are facing the same challenges at the same time".

The responses mentioned the evaluation of the assurance provider's substance and assurance expertise. The evaluation is considered to be very similar to the evaluation of a statutory auditor's substance expertise. The responses mentioned, among other things, "training given by the assurance provider", "knowledge of the field", "references from global listed companies" and "the assurance team's work experience of similar assurance engagements". One respondent stated that the audit committee "also regularly receives feedback from the management on the performance and cooperation with the Big4 audit firm."

According to the FIN-FSA's understanding, audit committees have a key role in selecting the sustainability reporting assurance provider, in monitoring and assessing the assurance, and in dialogue. In addition to the high level of expertise of the sustainability reporting assurance provider, the FIN-FSA considers it important that sufficient time and resources are allocated to the execution of assurance. Close dialogue with the assurance provider initiated at an early stage (for example, regarding the determination of materiality) as well as good documentation by the company, will promote the quality of the assurance. Previous experience of voluntary assurance does not remove all challenges.

14 Companies have acted to reduce greenwashing risk

Increasing attention is being paid to greenwashing. Among other things, the European Commission is preparing the so-called Green Claims Directive and ESMA is focusing on the issue in its enforcement priorities.[19] CSRD-compliant sustainability reporting will increase the availability, reliability, and comparability of sustainability data, thereby reducing the risk of greenwashing.

[19] *For example, common enforcement priorities for European securities market supervisors and Progress Report on Greenwashing.*

The FIN-FSA asked audit committees to state whether they have paid attention to the greenwashing risk[20] and possibly planned, reviewed or taken measures to mitigate the risk (question 9).

Based on the responses received by the FIN-FSA, approximately one third of the audit committees had discussed greenwashing risk in their meetings. Many responses stated that the objective is to reduce greenwashing risk in the company's operations, for example by training personnel or setting science-based sustainability targets.

Around half of the respondents stated that companies reduce greenwashing risk by ensuring that the sustainability information they report, as well as practical measures are reliable, for example as follows:

- "The risk related to green claims used in marketing and sales is mitigated via ensuring all environmental claims are based on 3rd party verified data."
- "The audit committee has ensured that risks to the achievement of ESG targets have been identified in the company and that the measures necessary to combat the risks have been determined. In this way, the company also mitigates a possible "greenwashing" situation where operations do not correspond to the communicated targets."

A number of respondents drew attention to the fact that greenwashing risk is also linked to the setting, communication and marketing of sustainability targets. The respondents mentioned, among other things, that "operations are adjusted immediately if some claim is found to be misleading or incorrect. In its sustainability communications, the company always strives for transparency and comparable communication of data".

According to the understanding obtained by the FIN-FSA, audit committees are aware of greenwashing risk. Audit committees play an important role in contributing to the integrity of sustainability reporting.

15 Audit committees have identified a number of challenges in preparing for sustainability reporting

Finally, the audit committees were asked whether there any other matters with relevance to the implementation of sustainability reporting that they wished to communicate to the FIN-FSA (question 10).

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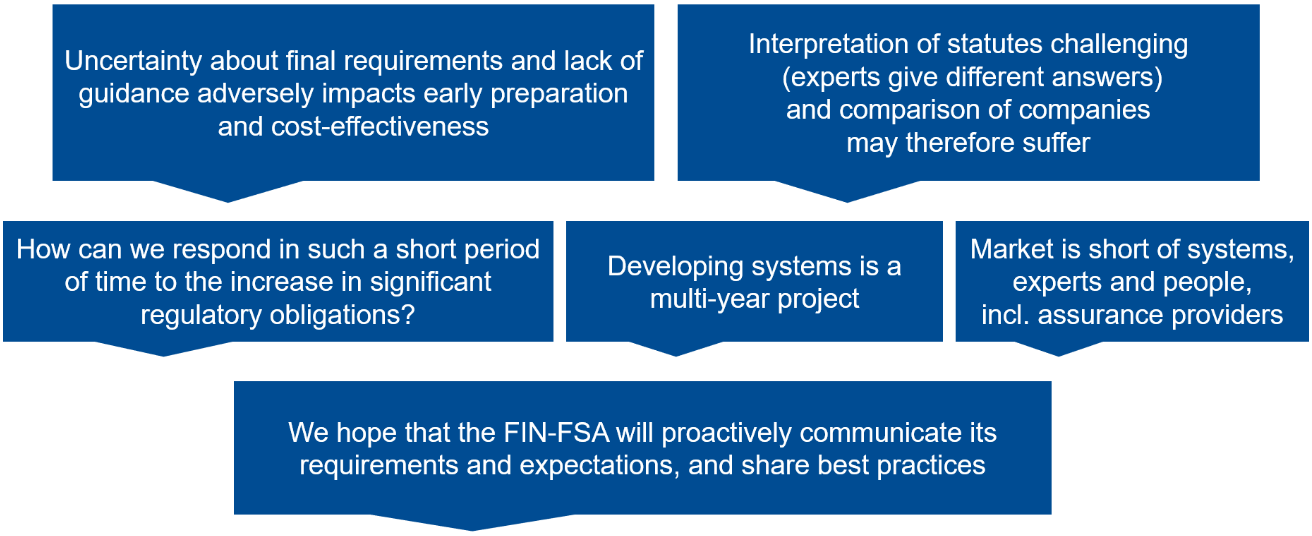
[20] *In this survey, the term greenwashing refers to greenwashing as defined by the European supervisory authorities (European Securities and Markets Authority, ESMA, European Banking Authority, EBA, and European Insurance and Occupational Pensions Authority, EIOPA). Greenwashing occurs, for example, when an entity's reporting or other communication contains unrealistic or misleading information about the entity's sustainable development goals or achievements. Greenwashing may be unintentional or intentional. (www.esma.europa.eu/press-news/esma-news/esas-put-forward-common-understanding-greenwashing-and-warn-risks)*

Figure 15. Examples of responses to question 10



In responses to the final question, most of the respondents highlighted concerns and observations. Around half of respondents saw the timeline as a challenge in preparing for sustainability reporting:

- “The late finalisation of the CSRD and ESRS means that the timeline for implementation is incredibly short.”
- “In general, changing reporting requirements and the tight schedule will present companies with significant challenges.”
- “The timetable is really challenging as the reporting obligation starts on 1 January 2024 and the content of the standards is not yet confirmed. As regards the value chain, incompleteness of data is to be expected, particularly for smaller companies in such a short transition period.”
- “From the company’s standpoint, the timetable for the implementation of more comprehensive sustainability reporting is fast, which means that the company faces challenges in getting all the processes required by reporting to work effectively within the timeframe demanded by the new reporting requirements.”

The number of regulations and their incompleteness and interpretation attracted comment in around one quarter of the responses:

- “The sustainability reporting regulations introduce a large number of new reportable parameters for sustainability.”
- “The main challenge has been the fact that the requirements have gone through a lot of changes in the past years, and this has made the preparations more difficult.”
- “Uncertainty about the final requirements and the amount of discretion involved adversely affects preparation and also significantly increases costs to the organisation.”
- “In the absence of previous examples and guidance, companies will have to do a lot of their own interpretation of the texts of the regulations and standards.”

Workload as well as adequacy of resources and expertise were considered to be a challenge in a number of responses:

- “Challenges include a significantly increased workload related to reporting and the future scope of reporting.”
- “The CSRD brings with it many new resource and expertise requirements. Developing these is an ongoing process and will take time.”

- "The new sustainability reporting requirements demand from companies new expertise, and with the current resources it is challenging to react to the changes with sufficient diligence within the timeframe set by the legislation."

A few respondents drew attention to the assessment of materiality:
- "One challenge is the subjectivity related to the materiality assessment process and the uncertainty about how the audit firm will assess which topics are material in the company's business."
- "The reporting requirements are based more widely than originally planned on companies' (ultimately always subjective) double materiality assessments, and not on the mandatory reporting requirements for all, so this may adversely affect comparability of information."

Wishes were also expressed for the work of the FIN-FSA:
- "We hope that the FIN-FSA will proactively communicate its requirements, expectations and approaches in the future."
- "The company hopes that the FIN-FSA would give companies sufficient time to develop reporting before strict implementation of the requirements."
- "The FIN-FSA could, while collecting feedback like this, help to interpret the still evolving standards to alleviate the additional resource pressures as well as help by actively sharing Finnish enterprises' feedback with EU-level bodies, too."
- "We value all available training for audit committees (such as the FIN-FSA's listed company events, the FIN-FSA's market newsletters, etc.), as well as sharing of best practices with companies."

The FIN-FSA considers the concerns raised to be justified and shares the views of the audit committees. The views of market participants have an impact on the enforcer's work. ESMA also consults market participants twice a year in its Consultative Working Group, in which there is skilled Finnish representation. The FIN-FSA provides information on ESMA's activities and disseminates ESMA reports through its various communication channels. The FIN-FSA supports market participants through ESMA's activities.

Harmonised enforcement is being prepared in Europe. ESMA is issuing guidelines to national competent authorities on the enforcement of sustainability information. The guidelines are based on guidelines on enforcement of financial information[21], so the enforcement of sustainability information will generally be similar to the already established IFRS enforcement for listed companies. ESMA will publish a public consultation on its guidelines in early 2024.

Enforcement of sustainability reporting is currently being launched by the FIN-FSA. The launch will involve, among other things, situation mapping, such as the audit committee survey. No decisions have yet been taken on the practical arrangements for enforcement and it will be established over the coming years. The enforcement of listed and unlisted banks' and insurance companies' sustainability reporting is carried out by FIN-FSA's Banking and Insurance Supervision departments.

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[21] https://www.esma.europa.eu/sites/default/files/library/esma32-50-218_guidelines_on_enforcement_of_financial_information_en.pdf