

# Audit Committee Leadership Summit

August 2023

ACLS

VIEWPOINTS

## The audit committee's role in overseeing ESG reporting and mitigating reputational risks

Public companies are bracing for new mandatory environmental, social, and governance (ESG) reporting requirements in the European Union and United States. When fully implemented, the new reporting standards will significantly change the way many companies report nonfinancial information related to ESG. Those companies that have not begun preparing for the new requirements from the European Commission (the European Sustainability Reporting Standards, or ESRS), International Sustainability Standards Board (ISSB), and the US Securities and Exchange Commission (SEC) (as applicable) urgently need to do so. There are many challenges related to ESG reporting, and communicating ESG performance poses significant reputational risks for companies.

On July 12–13, 2023, members of the European and North American Audit Committee Leadership Networks (EACLN and ACLN) convened to discuss how audit committees oversee ESG reporting and mitigate reputational risks. Guests Olivier Lebleu, head of ESG at Edelman Smithfield, and Guy Turner, founder and CEO of Trove Research, shared their perspectives.

This *ViewPoints* summarizes key themes that emerged during the meeting and in premeeting conversations:<sup>1</sup>

- **Convergence of ESG reporting standards remains a top concern for audit chairs of global companies**
- **Audit committees have a critical oversight role to play**
- **Communicating ESG performance poses new and potentially significant reputational risks**

*For a list of meeting participants, see Appendix 1 (page 9); for a list of reflection questions for audit committees, see Appendix 2 (page 10); for guest biographies, see Appendix 3 (page 11).*

### Convergence of ESG reporting standards remains a top concern for audit chairs of global companies

The complexities that arise from different and potentially divergent ESG reporting frameworks are a major concern for audit chairs—especially EACLN and ACLN members, whose companies are global and diversified.

- **Audit chairs continue to call for interoperability among ESG reporting standards and worry about the lack of convergence around a single global baseline.** Although sustainability reporting standards share many common elements, key differences remain, including the scope, definition, application of materiality, and extent of mandatory third-party assurance. Members noted the potential for errors arising from divergent reporting frameworks. One said, *“We’re very worried about these demands. They’re all different from each other. There’s a difference in the level of detail; it’s a lot of extra work.”* Another asked, *“What will the situation be when you have to close the books in 2023? What reporting requirements will there be?”* An audit chair underscored that *“different answers under different sets of standards is the worst-case scenario, and I am not totally sure this won’t happen. Agreements to address this situation will be difficult.”* EY’s Marie-Laure Delarue, global vice chair for assurance, reminded members that the ISSB has *“started to work to provide interoperability with the European standards, i.e., how to reconcile any differences.”*
- **Consistency in application of the standards will be crucial for comparability.** Members fear different reporting standards could impede comparability between industry peers and over time. Dissimilar outcomes could also arise from different interpretations of the standards or from using alternative options within the standards. *“We will be compared to our peers, and if we choose different methods or different interpretations of the same standard, this could result in information that is not comparable,”* a member said. Members agreed that differences between the reporting standards will need to be reconciled wherever possible.

**Brainstorming  
solutions**

As a potential solution, members discussed the possibility of setting up forums, most likely organized by industry sector, to gain alignment on how consistent disclosures could be achieved. *“Companies and sectors need to get together and say, ‘This is how we’re going to apply this standard.’ Otherwise, it will be chaos,”* one said. Some sectors are already making progress on this with competitive groups benchmarking each other.

- **Audit chairs worry about assurance of ESG disclosures.** Under the new reporting requirements, certain ESG information will likely be subject to independent assurance. Members questioned whether financial statement auditors or other assurance providers will be able to express an opinion, given that companies have very little time in which to establish the internal control systems and document the processes that assurance providers will need in order to accomplish the task. Most members agreed that this is still a work in progress. *“Longer term, the journey is to always get the nonfinancials to the same state as the financials,”* one said, acknowledging that today this is far from the case. Ms. Delarue added, *“We’re working with auditing standard setters to make it much more*

*specific to what we are expressing an opinion on. They're working on the assurance standards, but we will apply the standards before they are officially effective."*

## Audit committees have a critical oversight role to play

Strong board-level oversight of ESG is essential for large, global companies, but approaches vary. Some boards assign broad ESG responsibility to the full board. Others delegate it to a committee. There are substantial differences between European and US boards: according to a recent study, European boards are more likely to assign ESG oversight to a specific ESG or sustainability committee, whereas US boards are more likely to assign it to the nominating and governance committee.<sup>2</sup> Governance of mandatory reporting will also need to be addressed as the reporting frameworks introduce requirements for its oversight.

Members described how their boards approach ESG oversight and noted key takeaways:

- **There is no single solution for structuring board-level ESG governance, but audit committees play an essential role in overseeing ESG reporting.** One member said, *"The responsibility for deciding what we're going to **do** in terms of ESG is held by a different committee. But the responsibility for the accuracy of what we **say** we are doing, have done, and will do—that is with the audit committee."* The member added, *"Our goal within the audit committee is to oversee the effort so that people have the same confidence in our ESG reporting as they do in our financial reporting."* Audit committees' experience overseeing rigorous financial reporting positions them well to navigate the challenging and evolving ESG reporting environment. The current approach to financial reporting, which evolved over centuries, has potential learnings to offer the much newer area of nonfinancial reporting. Determining what to disclose *"is a judgment call,"* one audit chair said, adding, *"My audit committee's role was ultimately to advise the board what to disclose and what not to disclose. We took that responsibility on quite early rather than waiting."* Members whose companies have already set up reporting structures explained that in many cases, the finance function took the lead, with broader aspects of ESG handled by an ESG committee. Members drew on their experiences serving on various boards to highlight the advantages of different approaches to structuring ESG governance.
- **Setting targets is important, but they must be realistic, strategic, and open to evolution.** Flawless reporting on ESG performance will not be achieved instantly. Reporting standards and rules will be refined. Companies' ESG priorities will evolve, and new technologies will change how progress is tracked and measured. While members broadly agreed that it would be best not to commit to targets that are unlikely to be achieved, they advocated setting some targets, even if those targets change as the company progresses in its ESG efforts. *"For nonfinancial information, the more you're committing to doing something by a certain year, the more the concept is flawed. We're not clear about the future—it's easy to commit within your own tenure, but you should be consistent and realistic."* Setting targets can also motivate boards and others to employ good ESG practices. Clear communication

about how progress toward the targets is made and any changes along the journey to their achievement is crucial. Flexibility is vital: *“We need to have flexibility on how to achieve the targets and how to get there,”* a member said. *“It’s not easy to communicate the journey. For example, nongovernmental organizations [NGOs] criticize the targets, and they criticize you on the steps to be taken to achieve the targets, and they want to see results.”* The conversation also cited budget considerations, with members agreeing that targets that are truly integrated with strategy will have appropriate budgets allocated to achieve them.

**Maintaining a  
long-term  
perspective**

It is more essential than ever that directors adopt strategic, long-term, big-picture perspectives. The nature of ESG is forcing boards to think very broadly and consider unintended benefits and consequences. *“It’s just so complicated,”* a member said. *“Just selling things off to less responsible third parties improves your own metrics, but it does not make the world a better place. All companies I’m associated with are very cognizant of that ... but there is sometimes a push to go that direction irrespective of consequence.”*

- **Compared with environmental disclosure standards, disclosures on social performance are relatively undeveloped.** Audit chairs said that they had started thinking about social (the S of ESG) disclosures but agreed that substantial progress was needed. *“We haven’t gotten that far yet,”* one admitted. *“We’re trying to understand what it is. Some social disclosures look straightforward, but you’ll also get the law of unintended consequences eventually.”* The member noted that environmental, social, and governance goals do not always align and may even conflict with each other—for example, a potential clash between alleviating poverty and eliminating child labor. *“It’s not easy,”* another member said, referring to attempting to take human rights into account. Members pointed out the limits to a corporation’s ability to control social aspects across a large, complex supply chain and the difficulties of obtaining reliable information for reporting purposes. They agreed that information could be certified but noted that the quality of third-party certifications can vary. A member observed, *“You can have [your primary suppliers] certified, but at the end of the day, you can’t go down the chain to check if people are providing you with true information. When you encounter incidents, there’s a breakdown, and you take the appropriate steps to correct it.”*

## Communicating ESG performance poses new and potentially significant reputational risks

Members underscored how challenging ESG communications are for their companies. The number of stakeholders interested in corporate ESG performance has increased substantially in recent years. Investors, customers, suppliers, and employees—to name a few—may be using the information to inform their decisions, and these stakeholders often have conflicting views

on which issues matter most. Companies must decide when and how much to report on ESG, and they must navigate the significant reputational risks that could arise.

*“Reputational risk is there, and that’s exactly the reason why you have to be very careful what you measure, produce, and publish,”* one member said. Another observed, *“Validating the credibility of the information is so important for a company’s reputation. The risk of greenwashing claims related to reporting is huge.”* While some companies may wait to report ESG data until it is mandatory, others have been striving to be *“ahead of the class in terms of reporting and transparency and embracing the standards.”* This member added, *“But that could mean you make mistakes due to the lack of practice and experience. Those mistakes could be used against you and the company and become serious issues.”*

- **The risks for companies—and even for individual directors—are increasing substantially.** In addition to reputational damage, public companies can face legal jeopardy. For example, ClientEarth, an environmental NGO, brought a lawsuit against the directors of Shell, alleging that they breached their duty of care to the company by failing to commit to emissions reductions consistent with the climate goals of the Paris Agreement.<sup>3</sup> Although the lawsuit was dismissed in May, the NGO has appealed to the court for reconsideration.<sup>4</sup> Similarly, Delta Air Lines announced plans in 2020 to mitigate all carbon emissions from its businesses by the end of the decade and committed up to \$1 billion to this effort, but plaintiffs in a greenwashing class action lawsuit now allege that Delta is relying heavily on poor-quality offsets to achieve this goal.<sup>5</sup>
- **ESG objectives need to be tightly integrated with business strategy and not merely add-ons.** Edelman Smithfield’s Mr. Lebleu advised members that every company should create a comprehensive ESG communications framework: *“The number one error we see when it comes to putting together a company’s ESG message is that it’s a grab bag of anecdotes. If you want to avoid the grab bag, you need to stop treating sustainability reporting as a marketing exercise.”* Be selective about which elements of ESG are material and choose those tightly linked to strategy, he advised. ESG communications need to flow directly from that strategy. This will *“greatly enhance the credibility of your communications,”* he said. When ESG is connected to strategy and meaningful key performance indicators, it provides a foundation of facts for the communications team to work from when crafting a company’s ESG narrative. Julie Linn Teigland, EY managing partner for Europe, the Middle East, India, and Africa, agreed: *“ESG efforts need to be aligned to business priorities and a fundamental pillar that the CEO is driving from a strategic perspective.”*

The group discussed several additional good practices:

- **Anchor communications frameworks in feedback from stakeholders, even though not all will be satisfied.** Members described the challenge of reporting on ESG in a way that meets regulatory requirements and diverse stakeholder expectations while remaining grounded in achievable outcomes. Companies must consider employee

views as well. *“You cannot satisfy everyone,”* one audit chair said. But stakeholder engagement remains vital. *“It’s up to you as a company to say, ‘We’ve listened to all of our stakeholders and have decided to address the following issues,’”* Mr. Lebleu said. This allows the company to control the narrative. *“Don’t just wave it away and say, ‘We cannot please everyone so why bother?’ That will get you in more trouble than you realize.”*

- **Engage a range of internal leaders to mitigate risk.** While the particulars will vary by company, getting input from diverse sources (legal, finance, sustainability, and other leaders) can provide better protection and risk mitigation. One member described building the ESG communications framework within the general counsel and sustainability functions. *“The communications team did not have a role initially. It was technically knowledgeable people, and they determined the terminology that would be allowed to be used.”*
- **Understand that change will happen as ESG reporting evolves.** While a global baseline for ESG reporting has not yet come to fruition, Mr. Lebleu believes that innovations and refinements will occur over time. Again, members emphasized the need for flexibility. One said, *“The world is always changing. We will be trying to adjust our strategy and communications to a different world in a few years. It is important to recognize that our targets and the ways we measure progress are likely to change.”*

Pushing for a  
“less is more”  
approach

There is a fundamental conflict between external stakeholders’ demands for wider and more specific ESG information and the need to be strategic and selective in setting ESG priorities. As a result, the number of objectives that a company adopts and reports on should be very small. Guests and members referred to this as *“less is more.”* This ensures that disclosed performance will be less vulnerable to challenge. Unfortunately, large companies face pressure from stakeholders who push for a *“more is more”* approach. NGOs are particularly challenging because typically each has its own specific objectives: greenhouse gas reduction, water conservation, biodiversity, social equity, etc. It can be challenging to combine these in a coherent strategy, members said.

- **Third-party risks must be considered.** Members highlighted that a company’s reputational risk is not limited to its own actions but includes those of many others. Ensuring responsible and sustainable practices throughout a large enterprise means taking proactive measures to identify risks such as labor rights violations and pollution created through supply chain activities. Reporting on Scope 3 emissions is a particular concern for audit chairs. *“We can do whatever we want to reduce our own impact, but then there’s the issue of suppliers. How do you influence those further downstream?”* one member asked. Some reported that their companies are weighing whether to continue to partner or do business with companies that do not have—or are unlikely to meet—sustainability goals. One explained, *“Our view is that we’re focused on working with these [fossil fuel] companies to become*

*more sustainable. If we withdraw our support, we wouldn't be comfortable that the companies stepping into a relationship with them would be focused on or have the relative power to push a sustainable agenda. We're a large organization and have quite a lot of sway, so we chose to work on transition plans with these organizations."*

### Should companies buy carbon credits?

Members questioned the value of purchasing carbon offsets as part of a company's carbon neutrality goals. Many felt that the risks of doing so are growing, without much upside. Many expressed doubts about the legitimacy of projects in the carbon market and concerns about greenwashing allegations. *"I'm a skeptic of carbon offsets,"* one said. *"I'm very afraid that we will get into a mess where we bought offsets, and 10 other companies bought the same ones. I also feel like it is a bit of a distraction away from the hard work that needs to be done to reduce emissions."*

Guy Turner, CEO of Trove Research, a data and advisory firm focused on climate policy, carbon markets, and the energy transition, shared his perspective and highlighted considerations for directors:

- **Companies need to think carefully about carbon neutrality claims.** There is a difference between a company claiming that it contributes to decarbonization efforts and a company claiming that it offsets its emissions, Mr. Turner cautioned. The word "offset" can be problematic, especially with increased scrutiny around corporate climate claims. *"If you're funding a good project to protect forests, then say that. But don't extend that to say, 'We are neutralizing our own emissions,' unless you can prove the project removes the same amount of carbon that you claim it offsets."*
- **Companies should assess the integrity of the projects behind the carbon credits.** Mr. Turner noted that Trove Research analysis shows a surplus in the carbon credit market for the next 10 years, before tightening happens in 2035. *"But not all carbon credits that you can buy today are worth buying,"* he warned. Companies should assess projects and invest only in high-quality ones. Demand for these high-quality carbon credits is likely to increase, so Mr. Turner advised that *"companies in this for the long game should start planning now."* Some big companies are starting to invest in assets directly, such as by purchasing protected forested areas.
- **Companies that put a price on carbon reduce it faster.** A recent analysis conducted by Trove Research found that "companies that use material quantities of carbon credits are decarbonising at twice the rate of companies that do not."<sup>6</sup> The report argues that the credits create cash outlays in corporate budgets, which companies then strive to reduce. So, while carbon credits are not *"a substitute for a company reducing its own emissions,"* they can provide momentum toward ESG goals, Mr. Turner noted.

## About this document

The European Audit Committee Leadership Network (EACLN) and Audit Committee Leadership Network (ACLN) are groups of audit committee chairs drawn from leading European and North American companies committed to improving the performance of audit committees and enhancing trust in financial markets. The networks are organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

*ViewPoints* is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

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## Appendix 1: Meeting participants

The following members participated in all or part of the meeting:



**Jeremy Anderson**  
Audit Committee Chair,  
UBS



**Werner Brandt**  
Audit Committee Chair,  
Siemens



**Liz Doherty**  
Audit Committee Chair,  
Novartis and Philips



**Ana de Pro  
Gonzalo**  
Audit Committee Chair,  
STMicroelectronics



**Renato Fassbind**  
Audit Committee Chair,  
Nestlé



**Byron Grote**  
Audit Committee Chair,  
Akzo Nobel and Tesco



**Margarete Haase**  
Audit Committee Chair,  
ING



**Liz Hewitt**  
Audit Committee Chair,  
Glencore



**Suzanne Nora  
Johnson**  
Audit Committee Chair,  
Pfizer



**Dagmar Kollmann**  
Audit Committee Chair,  
Deutsche Telekom



**Pilar López**  
Audit Committee Chair,  
Inditex



**Benoît Maes**  
Audit Committee Chair,  
Bouygues



**Leslie Seidman**  
Audit Committee  
Member, Moody's,  
Audit Committee Chair,  
Janus Henderson



**Maria van der  
Hoeven**  
Audit Committee Chair,  
TotalEnergies

EY was represented in all or part of the meeting by the following:



**Marie-Laure  
Delarue**  
Global Vice Chair,  
Assurance, EY



**John King**  
Americas Vice Chair -  
Assurance, EY



**Jonathan Milligan**  
Chief of Staff to the  
Global Vice Chair,  
Assurance, EY



**Pat Niemann**  
Partner, Americas  
Center for Board  
Matters, EY



**Julie Linn Teigland**  
EMEA Area Managing  
Partner, EY

## Appendix 2: Reflection questions for audit committees

- ? What processes or structures has your audit committee put in place for oversight of the new ESG disclosure requirements?
- ? How are your audit committee and board getting educated on the various reporting frameworks to understand their similarities and differences and what they will require of the company?
- ? What challenges do you see in overseeing disclosures where two or more reporting frameworks will be used?
- ? How is your audit committee engaging with other committees or the full board in overseeing the ESG reporting process?
- ? How has your company aligned its business strategy, ESG strategy, and risk management protocols? To what extent do teams responsible for producing ESG data have the processes and controls they need to include ESG data in the financial report?
- ? How do your board and management assess reputational risks related to ESG strategies and disclosure?
- ? How does your management provide the board with information on external perceptions of the company's ESG initiatives and reporting? What further data would be useful? Do you benchmark against peers?
- ? How does your audit committee review ESG disclosures to ensure that transparency is balanced with accuracy and achievable goals?
- ? Does your company use carbon credits as part of its ESG strategy? If so, how is the integrity of the project behind the credits vetted?

### Appendix 3: Guest biographies

**Olivier Lebleu** is head of ESG at Edelman Smithfield. Mr. Lebleu has over 30 years of professional experience in financial services, including roles in fund management, investor relations, and investment education. He started his career advising European issuers on their US investor relations strategy at Taylor Rafferty in New York. Mr. Lebleu then spent over ten years at MFS Investment Management in a variety of investment and business leadership roles in both Boston and London. He was the portfolio coordinator of the MFS European Equity strategy from 2002 to 2006.

From 2012 to 2019, Mr. Lebleu led the international business of BrightSphere, an NYSE-listed multiaffiliate investment firm. At BrightSphere, he established and led the firmwide ESG steering committee.

Prior to joining Edelman Smithfield, Mr. Lebleu was a senior director at the CFA Institute in London, where he helped launch the CFA Institute Certificate in ESG Investing and worked on development of a curriculum for the CFA UK Climate and Investing Certificate.

Mr. Lebleu is a non-executive board member of City So5 Soccer, Inc., the leading indoor soccer facility business in the United States, and of Sustineri Global GmbH, a global equity fund manager in Vienna, Austria. He also serves as a senior adviser to FCLTGlobal, a nonprofit organization that seeks to focus capital on the long term to support a sustainable and prosperous economy.

Mr. Lebleu graduated from Columbia University and is a CFA charterholder.

**Guy Turner** is the founder and CEO of Trove Research. He has 30 years of experience in research and strategy in sustainability and the energy transition. He spent his first 15 years consulting, advising companies and governments on a wide range of sustainability issues.

In 2006, Mr. Turner joined New Energy Finance (NEF) to create its carbon market research business (New Carbon Finance). After the sale of NEF to Bloomberg, he continued as BNEF's chief economist and head of commodities, building out power and gas market analysis and renewables economics.

In 2017, Mr. Turner joined BP Economics, where he was responsible for global oil supply analysis and worked on BP's energy outlook. From 2018 to 2020, he was the strategy and analysis manager at EDF Renewables, overseeing market and financial analysis to support investments in offshore and onshore wind, solar, battery storage, and hydrogen.

Mr. Turner has undergraduate degrees in mechanical engineering and economics, a master's degree in environmental technology, and is a graduate of London Business School Corporate Finance Evening Program.

## Endnotes

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<sup>1</sup> *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Italicized quotations reflect comments made in connection with the meeting by network members and other meeting participants.

<sup>2</sup> Julie Daum and Kira Ciccarelli, "Sustainability in the Spotlight: Has ESG Lost Momentum in the Boardroom?" *Harvard Law School Forum on Corporate Governance* (blog), July, 27, 2023.

<sup>3</sup> ClientEarth Communications, "Our Groundbreaking Case Against Shell's Board of Directors," News Release, May 19, 2023.

<sup>4</sup> Sam Tobin, "ClientEarth Tries to Revive UK Shell Lawsuit over Climate Plan," Reuters, July 12, 2023.

<sup>5</sup> Patrick Greenfield, "Delta Air Lines Faces Lawsuit Over \$1bn Carbon Neutrality Claim," *Guardian*, May 30, 2023.

<sup>6</sup> "Corporate Emission Performance and the Use of Carbon Credits," Trove Research, June 1, 2023.