



GLOBAL KNOWLEDGE BRIEF

Sustainability

Part 2: How the Focus on Sustainability Is Driving Data Governance

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The Institute of
Internal Auditors

Contents

Introduction	4
New Types of Data	5
Transparent Sustainability Efforts	5
Internal Control Considerations	8
The Importance of Quality Data	8
A New World	9
Integrated Reporting	9
Leveraging Technology	10
Addressing Reporting Needs	10
Conclusion	12



About the Experts

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Grant Ostler, CIA, CPA

Grant Ostler is an industry principal at Workiva and has more than 35 years of experience, primarily in the disciplines of auditing, enterprise risk management, and process improvement. He served as CAE for almost two decades for entities ranging from Fortune 500 companies to pre-IPO companies, building internal audit functions from scratch and leading the implementation of U.S. Sarbanes-Oxley of 2002 Section 404 compliance programs for three companies.



Introduction

Increasingly, organizations are embracing concepts associated with sustainability, at least in part in response to demands for greater transparency and accountability about actions that impact shareholders, employees, the communities in which companies operate, and the overall environment. While sustainability actions have long been voluntary and organizations could often adapt suggested guidelines to their own needs, new mandates, such as those from the [European Union \(EU\)](#) and the [U.S. Securities and Exchange Commission \(SEC\)](#), mean that sustainability reporting controls and compliance are now critical concerns for organizations.

As a result, companies will need to assess their approaches to sustainability reporting and data governance, whether they do so to comply with new or expected rules and stakeholder expectations, or to understand and track the value of sustainability efforts. This brief will discuss the use of nonfinancial data in sustainability reporting, as well as internal control, the value of leveraging technology, and other key considerations.



New Types of Data

Transparent Sustainability Efforts

Collecting nonfinancial data

While organizations may be well-equipped to collect information from traditional data sources — such as financial records or operational metrics — for many types of sustainability data, these sources will not satisfy emerging reporting needs. To provide transparency on sustainability efforts, organizations will need to collect and report on information, such as nonfinancial data, that they have not consistently monitored or gathered in the past. Nonfinancial data falls into a variety of areas that affect or contribute to an organization's sustainability, and this data can vary significantly depending on an organization's industry and other factors. A few common examples include:

Greenhouse gas (GHG) emissions. Organizations are being asked by regulators and other stakeholders to quantify direct GHG emissions based on their own energy consumption, transportation, or other uses and, potentially, indirect emissions related to their supply chain and suppliers. Reporting these emissions is a key requirement in the EU and SEC rules, as well as other guidelines. Understanding and mitigating GHG emissions is essential for addressing climate change and aligning with global targets, such as those outlined in the Paris Agreement, notes Hassan NK Khayal, senior internal audit specialist at the Mohamed bin Zayed University of Artificial Intelligence in Abu Dhabi. Organizations will no longer be asked to report only on their own sustainability efforts but also may be expected to make choices about vendors and suppliers and their sustainability efforts. He adds there is a growing movement seeking reporting on an organization's customers' emissions. This can be challenging, because companies don't always have control over who uses their products or services. It still may need to be considered, as organizations would not want to be associated with a customer that is notorious for bad environmental practices.

Responsible usage of natural resources, such as water, land, and raw materials. This reporting can provide benefits beyond simple compliance. "By tracking and reporting on resource consumption, organizations can identify areas where efficiency improvements are needed and minimize the environmental impact," Khayal says.

Assessing the social impact of the organization's activities. This includes adding reporting on areas such as diversity, equity, and inclusion efforts, community engagement, and philanthropy.

Internal auditors should be aware that, with nonfinancial information, "data wrangling is a big challenge," says Grant Ostler, industry principal at Workiva. While financial data is relatively easily retrievable from a traditional enterprise resource planning system and comes in tabular, structured form, sustainability data typically comes from disparate sources across the organization and is often unstructured with a variety of taxonomies involved.

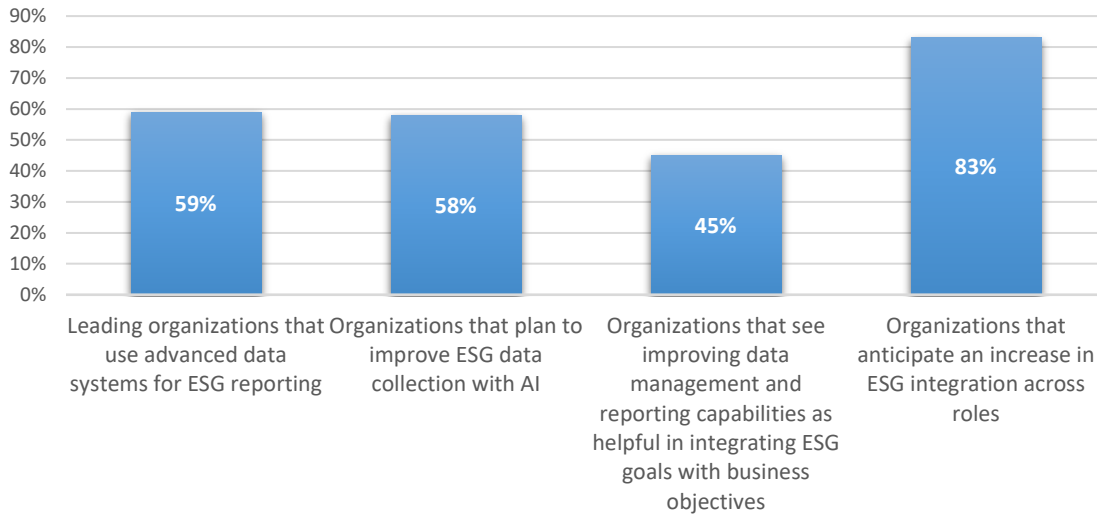
In Sarbanes-Oxley-related work, for example, internal auditors usually are not tapping into the human resources or expense reporting systems. "There's a system there, but because it's not material to the financials, it's never been in scope for Sarbanes-Oxley work," he says. "Now with new integrated reporting requirements, it's going to become significant if the organization uses the expense reporting system to determine employees' overall travel mileage so they can determine the impact on greenhouse gas reporting." Ostler says it's likely some of those systems have never been subjected to internal audits. "If our experience with Sarbanes-Oxley is a good indicator, the quality of the IT general controls for those systems are probably lacking in some ways and will require remediation to be ready for the scrutiny of the assurance process." If data has been kept in a spreadsheet or other nontraditional system, it may be hard to determine the completeness and accuracy of that data.



There's good reason to make this effort, however, because companies that effectively manage and accurately report on nonfinancial sustainability considerations over time can build trust with stakeholders and across the company's culture, according to Khayal, as well as affect the wellbeing of society at large. Gathering and reporting nonfinancial data enables organizations to reveal nuances that offer a more accurate picture of sustainability achievements. By reporting nonfinancial data, such as resource use and emissions, stakeholders and the company, itself, will get meaningful data that presents a realistic picture of its activities.

Exhibit 1

Integrating ESG Goals with Overall Business Objectives



Source: ["Addressing the Strategy Execution Gap in Sustainability Reporting: 2024 ESG Organization Survey,"](#) KPMG, 2024.



Internal Control Considerations

The Importance of Quality Data

Assessing control effectiveness

Internal audit already plays a crucial role in advising on all control requirements and the control environment. As organizations increasingly recognize the significant role nonfinancial disclosures play in value creation, internal auditors can be strategic partners in ensuring reliability and accuracy. Internal audit can evaluate control effectiveness to mitigate risks related to nonfinancial reporting in areas such as data accuracy, integrity, and completeness. Internal auditors also can assess the reliability of procedures to ensure data is accurately captured, verified, and communicated to stakeholders.

In addition, “internal auditors are well-positioned to help process owners understand what good data quality looks like for them,” Ostler says. That’s especially important with attestation on the horizon. “When you have a third party looking at your data, that’s not the time when you want to find out you have a problem,” he explains.

Sustainability practices are already reasonably mature at some organizations. In this case, internal auditors may initially have a more traditional role in auditing those practices and may spend most of their time on ensuring compliance with new and emerging regulations. But for organizations who are in the early stages of sustainability practices and reporting, internal audit will likely take on a more advisory and collaborative role, gearing audit plans to, and advising on how sustainability initiatives align with, organizational objectives. “Internal audit can be the bridge between the sustainability department, which wants to focus on its objectives, and the finance area, which wants to drive profits,” Khayal says. “We have a bird’s-eye view of the organization as a whole, so we can bring together departments that otherwise may not be in communication.”

One key aspect of internal audit’s role can be to assess the adequacy of the existing control framework from a sustainability reporting perspective. This includes identifying whether further controls may be needed to comply with new or expected requirements for nonfinancial data. This should be handled in collaboration with stakeholders across the organization, according to Khayal, including sustainability teams, compliance, and senior management, to understand their specific reporting needs and risk objectives related to sustainability and social responsibility. “Effective sustainability reporting will require a holistic approach,” Khayal says. “The aim is to collect the correct data and metrics and leverage them in a meaningful way. When you have five or six perspectives, you can see the true story that the data tells and can recognize actions required for further improvement.”



Integrated Reporting

Facilitating Consistency and Completeness

Internal audit as a catalyst

When they first take on sustainability reporting, organizations may handle financial and nonfinancial reporting separately. Going forward, internal audit can validate the integration of sustainability reporting processes with financial processes to ensure consistency and completeness. That means aligning data validation, collection, and reporting timeliness and coordinating reporting and disclosure across reporting domains.

“Internal audit can be the catalyst,” Khayal says. He points to several key areas where internal audit can help organizations address important considerations:

- **Regulations.** Organizations will have to navigate a complex landscape of rules governing the collection and use of nonfinancial data. While many may be used to addressing local laws, as wider-ranging and more comprehensive mandates emerge they will have to consider state, federal, and regional rules, as well as sector-specific rules for some industries.
- **Legal.** Internal audit can offer assurance and advice to address a variety of considerations, including:
 - **Compliance with existing laws.**
 - **Verification of the integrity and accuracy of data.** This also includes possible independent assurance.
 - **Privacy and confidentiality.** Nonfinancial data can include sensitive personal and corporate details. Organizations will have to comply with data protection laws such as the EU’s General Data Protection Regulation and the California Consumer Privacy Act.
 - **Risk management.** Threats to sustainability information include security breaches and related reputation risk, as well as noncompliance.
 - **Stakeholder communication.** Internal audit has a role in ensuring the organization communicates accurately, transparently, and in accordance with regulatory requirements.
- **Ethics.** Sustainable data governance practices should uphold principles of fairness, transparency, and respect for stakeholders. That effort will include obtaining informed consent for data collection and ensuring that the data is accurate and protected from outside access and misuse.
- **Practical.** Internal audit can advise companies on establishing clear policies, procedures, and controls over data collection and storage and how it is accessed and shared. It also can consult on roles and responsibilities for data owners and on data security to prevent breaches and unauthorized access and advise on standards for quality assurance and validation.

“By addressing these considerations and proactively managing compliance concerns, organizations can establish robust data governance frameworks for sustainability information that promote accountability, transparency, and responsible data management practices,” Khayal says.



Leveraging Technology

Addressing Reporting Needs

A new approach to data and data collection

Internal auditors can encourage their organizations to harness the power of technology to address sustainability reporting needs. The technologies Khayal considers most important in addressing sustainability reporting include:

1. Data analytics and visualization, which allow organizations to analyze and visualize large volumes of sustainability data from diverse sources and accomplish more comprehensive reporting. Data analytics tools identify trends, patterns, and outliers, providing valuable insights for decision making and risk management. Data visualization is so useful that Khayal challenges his team to use it in all presentations.
2. Automated reporting platforms, which make it possible to streamline the task of collecting, aggregating, and reporting sustainability data, thereby reducing manual efforts and enhancing accuracy and timeliness. "Automation can allow internal auditors to spend time on something unique and strategic that a computer can't do," Ostler says.

Khayal's team is using tools that can generate audit reports once the internal auditors have performed the audit testing. Other departments can automate their own systems and more easily share sustainability data with the audit function. Internal audit can help to evaluate the effectiveness of these automated systems by ensuring they comply with regulations.

3. Blockchain and distributed ledger technologies, which can enhance transparency. Blockchain is a more advanced form of audit logs or trails that makes it possible to trace data to its origin and enable internal audit to ensure it has not been altered along the way. "It can add greater accountability in sustainability reporting by providing irrefutable records of transactions and data exchanges," Khayal says. Internal audit can advise on the implementation of blockchain solutions.
4. Environmental monitoring technology can be integrated into the sustainability reporting process to create an audit trail. Remote sensing technologies, for example, allow organizations to monitor and gather data on environmental factors that can be used in reporting. Khayal's organization, which has 8,000 vehicles, used remote technologies to sample 50 of them, tracking their fuel consumption, emissions, and time spent in traffic. The data can be used for reporting and in determining how best to maximize the vehicles' efficiency.
5. Artificial intelligence (AI) and machine learning, which can analyze large data sets, identifying patterns, correlations, opportunities, and risk, quickly making connections that otherwise might have been missed. Internal audit can leverage AI-driven analytics to assess the effectiveness of risk management strategies, identify emerging sustainability risks, and recommend proactive measures for mitigation. Ostler's team uses generative AI to help identify risks and controls to address them. "It can help us understand a broader perspective and use our judgment to assess those risks," he explains.
6. Digital collaboration platforms and continuous monitoring and assurance. Digital collaboration can facilitate communication with different stakeholders, making it easier to address sustainability reporting issues and data privacy and security requirements. Continuous monitoring and assurance enable organizations to track sustainability performance in real time and assess the effectiveness of risk control and mitigation efforts.

Organizations are undergoing a significant change in how they approach data and data collection. With so much of it available due to automation, data analytics, and AI, it can be challenging to identify meaningful information, analyze it correctly, and manage and use it effectively, Khayal notes. Organizations that leverage their technology effectively can



enhance their capabilities to assess and address new sustainability reporting needs. Technology solutions should be aligned with organizational goals to enhance their effectiveness and better illustrate the value they can offer, according to Khayal.

It's wise to consider technology first, Ostler adds. "It's difficult to make the best use of technology when you're thinking about it at the last minute," which can happen when an organization waits until a process is designed before building controls. Because the controls are being introduced at the last minute, they will likely be manual and not as efficient or practical as controls built into processes upfront. "There's a lot of functionality in the technology that's not being leveraged today," he says. Internal auditors should not take on a first- or second-line role, but they should get involved early and partner with other professionals to identify risks and appropriate controls as processes are being developed for capturing, processing, and reporting nonfinancial data. Being involved throughout that effort will reduce rework, Ostler explains, and provide better backend results.



Conclusion

Internal audit can play a critical role in sustainability data governance by ensuring it is reliable, accurate, and complete, that it maintains data integrity, and complies with appropriate laws and regulations. The function can identify needed improvements in data management and offer valuable strategic insights on aligning data collection and governance with the organization's objectives, risk management priorities, risk appetite, and regulatory requirements. Its independent assessments and audits of nonfinancial data can identify risks, opportunities, and areas for improvement, ultimately enhancing organizational resilience and sustainability.

"We are the idealists who look at how things should be five or 10 years from now," Khayal says. "But unless we speak up today, these things won't get done in five or 10 years." It's becoming more obvious that achieving organizational goals depends on meeting the needs and expectations of stakeholders and the world in which companies operate, he says. "To do that, we need to satisfy their requirements, which more and more include ethical considerations on sustainability." Organizations should recognize the value of meeting new reporting requirements. That value may lie simply in avoiding penalties and reputational risk due to noncompliance, or it may be found in taking advantage of tax benefits, improved reputation, or new business opportunities that valid sustainability efforts and reporting can offer.



About The IIA

The Institute of Internal Auditors (IIA) is a nonprofit international professional association that serves more than 245,000 global members and has awarded more than 195,000 Certified Internal Auditor (CIA) certifications worldwide. Established in 1941, The IIA is recognized throughout the world as the internal audit profession's leader in standards, certifications, education, research, and technical guidance. For more information, visit theiia.org.

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Workiva Inc. (NYSE:WK) is on a mission to power transparent reporting for a better world. We build and deliver the world's leading cloud platform for assured integrated reporting to meet stakeholder demands for action, transparency, and disclosure of financial and non-financial data. Workiva offers the only holistic, unified SaaS platform that brings customers' financial reporting, Environmental, Social, and Governance (ESG), and Governance, Risk, and Compliance (GRC) together in a controlled, secure, audit-ready platform. Our platform simplifies the most complex reporting and disclosure challenges by streamlining processes, connecting data and teams, and ensuring consistency. Learn more at workiva.com.

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May 2024



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