



THE
WORLD
BANK



Internal Audit
Community of
Practice

Audit in Practice (AiP) and Central Harmonization Unit Challenges (CHU) Working Groups Meeting

Budva, Montenegro, June 3-5, 2025

Explore Sustainability Audit (SA):
Sustainability Standards and Concepts,
Survey Results and draft SA Guide Outline

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AUDITING
SUSTAINABLE
DEVELOPMENT GOALS

Standardization

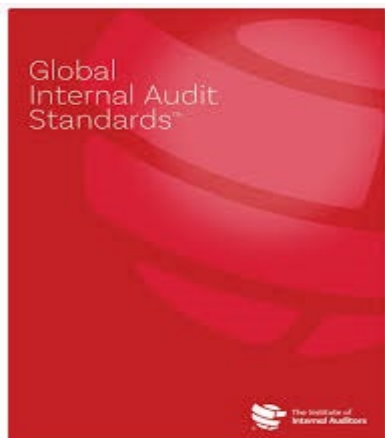


This **International Standard on Sustainability Assurance (ISSA)** deals with assurance engagements on sustainability information → Goal of enhancing the trust and confidence **investors, regulators and other stakeholders** have in sustainability information

Serves as a comprehensive, stand-alone standard suitable for any **sustainability assurance engagements** → applies to sustainability information reported across any sustainability topic and prepared under multiple frameworks

Guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function → 15 guiding principles enable effective internal auditing

Each principle is supported by standards that contain requirements, considerations for implementation, and examples of evidence of conformance. Together, these elements help internal auditors achieve the principles and fulfill the Purpose of Internal Auditing



PROJECT AIM

Design a theoretical and practical sustainability and ESG internal auditing framework that aligns with global standards, leverages good practices, and addresses the needs and capacities of PEMPAL IACOP member countries, ensuring an effective contribution of internal ESG auditing

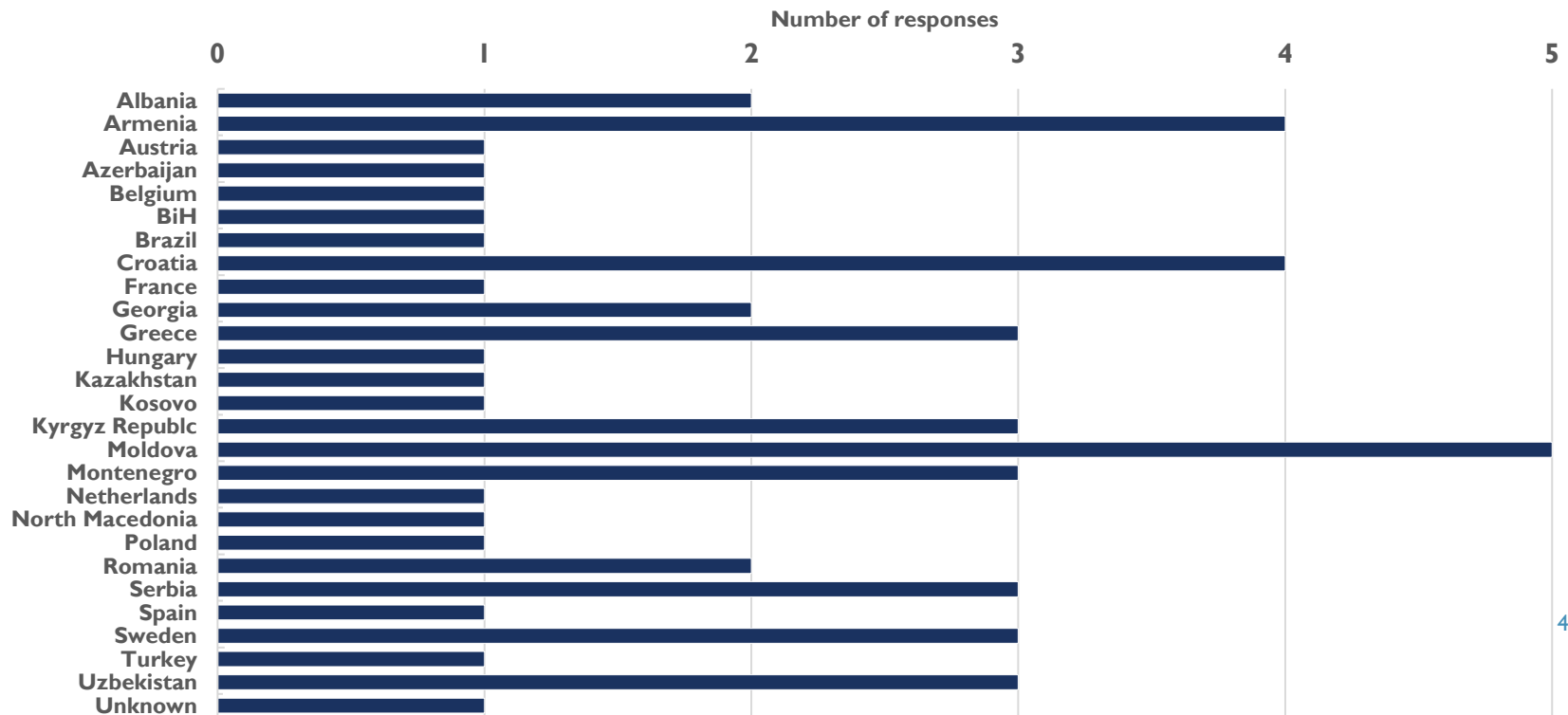
PHASES

- Step 1:** ESG Conceptual Clarification and International Standards (Jan-Feb 2025)
- Step 2:** Survey Development and Data Collection with a survey (March-April 2025)
- Step 3:** Finalizing the survey results and new data collection with interviews in selected countries (May-June 2025)
- Step 4:** Co-construction of Sustainability Audit Guide (May-June 2025)
- Step 5:** Drafting and Presenting the preliminary results (May-June 2025)
- Step 6:** Sharing final results in scientific outlets for scholars and practitioners (July-December 2025)

Why? The objective was to map the state of awareness, practices, and capacity around ESG auditing

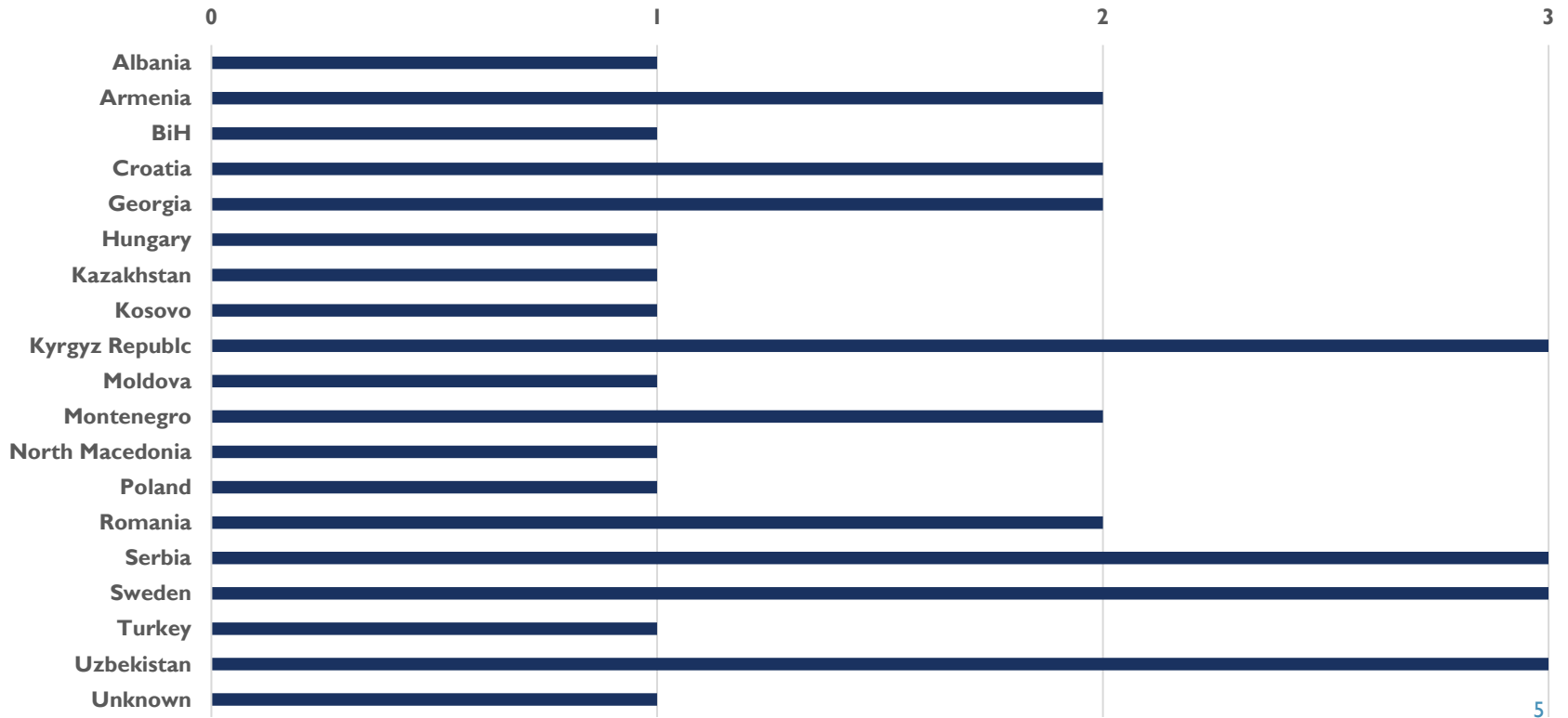
Where? The total number of respondents is 52 from *PEMPAL countries*, plus the “other” countries

Response representation



Who? 32 responses from the Central Harmonization Unit (CHU) of 10 countries

The regional split of the Central Harmonization Unit



Who? 18 responses represent the Internal Audit Function (IAF) of 12 countries

The regional split of the Internal Audit Function

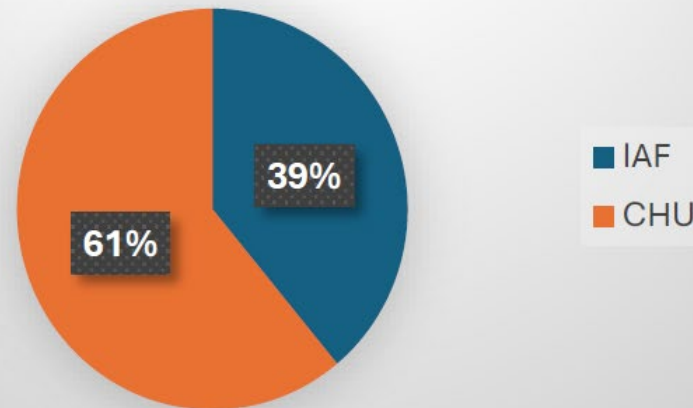


Engagement, role, competence/education and standards on ESG Audit?

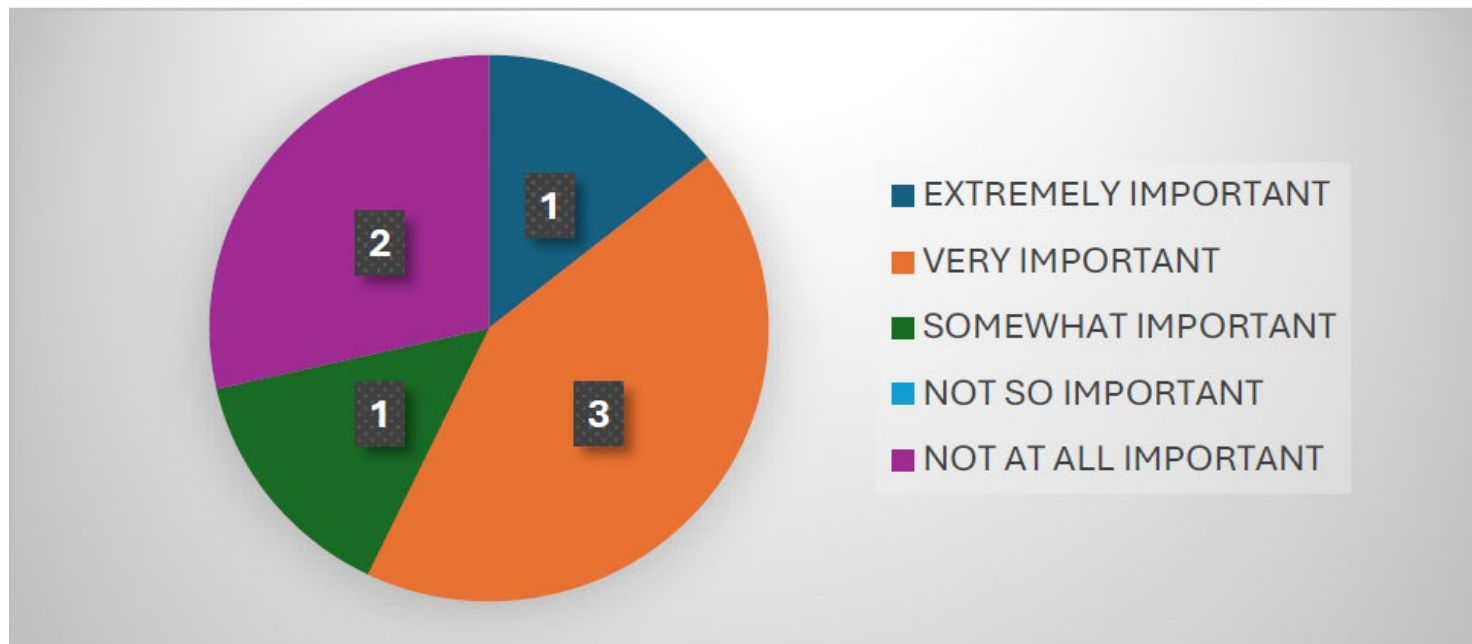
- Are you aware of any **sustainability auditing initiatives** (such as those focused on ESG matters) in your country?
- How important are **the risks of ESG sustainability matters** to your country?
- What is the **role of the Internal Audit Function** in ESG sustainability matters?
- How **relevant is the involvement of the Internal Audit Function** in ESG sustainability matters?
- To what extent does the Internal Audit Function in your country have the **competence** to assess and provide advice on ESG sustainability matters?
- Has the Central Harmonization Unit **evaluated the competence** of the Internal Audit Function to assess and advise management on ESG sustainability matters?
- Has the Central Harmonization Unit organized **education or training** specifically related to ESG sustainability matters? Have you received any **education or training** specifically related to ESG sustainability matters? How important are the needs for Sustainability Auditing training?
- Which **sustainability audit standards** do you follow? Do you have a sustainability audit **methodology or manual**?

Reported non-awareness of sustainability auditing initiatives

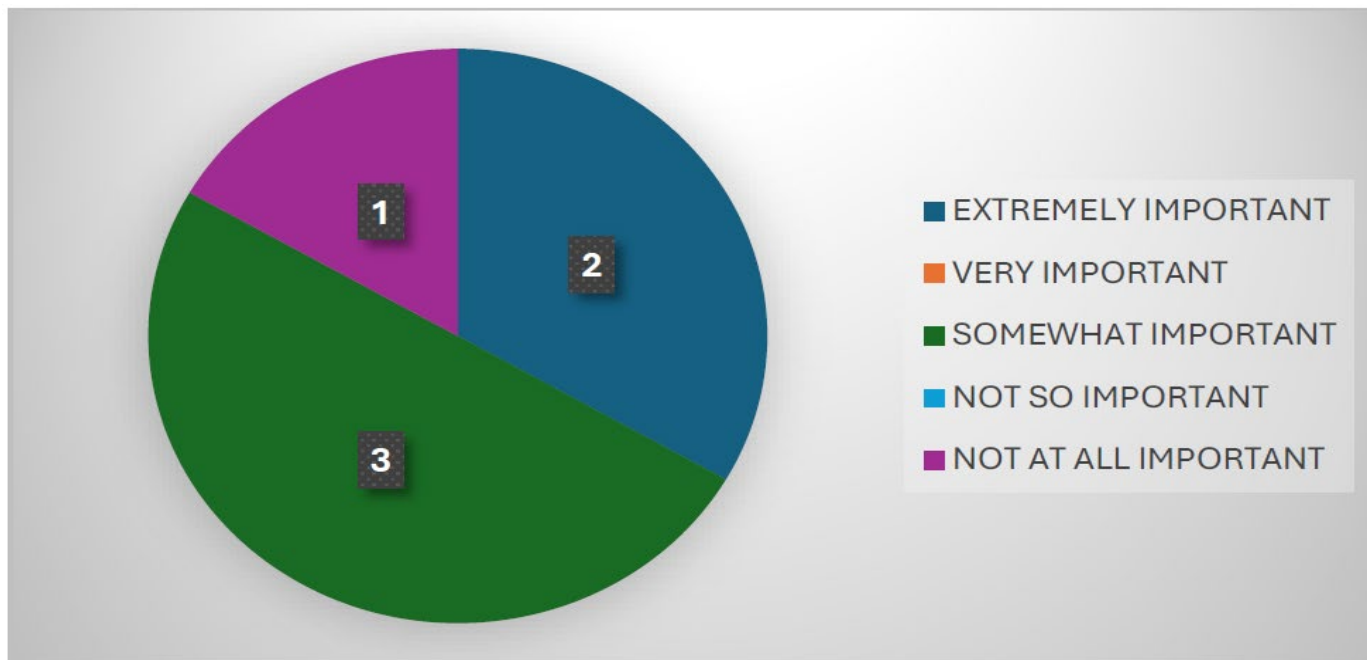
Non-awareness of sustainability auditing initiatives reported by CHU and IAF groups



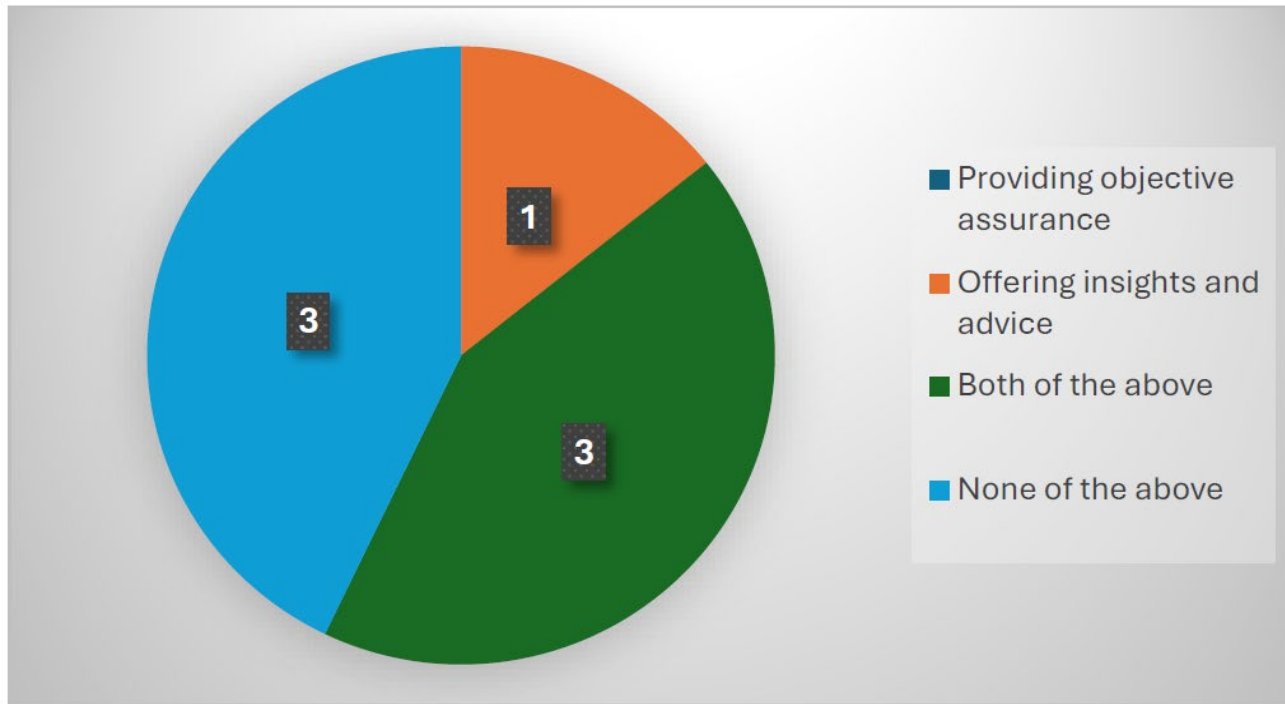
Importance of the risks of ESG sustainability matters for the CHU group



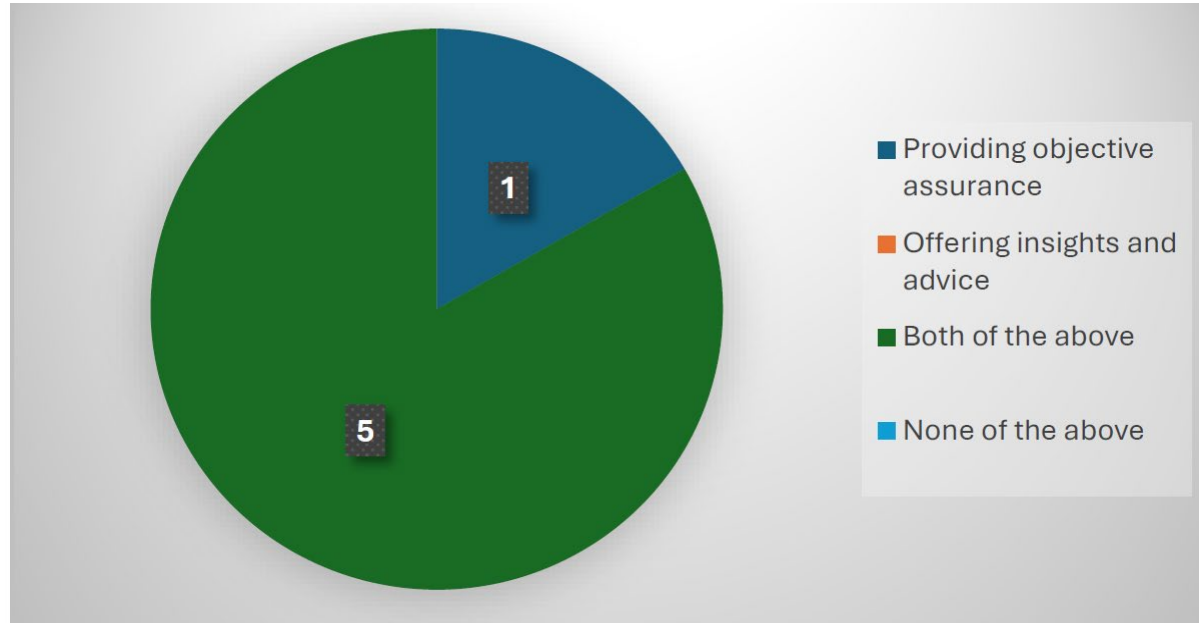
Importance of the risks of ESG sustainability matters for the IAF group



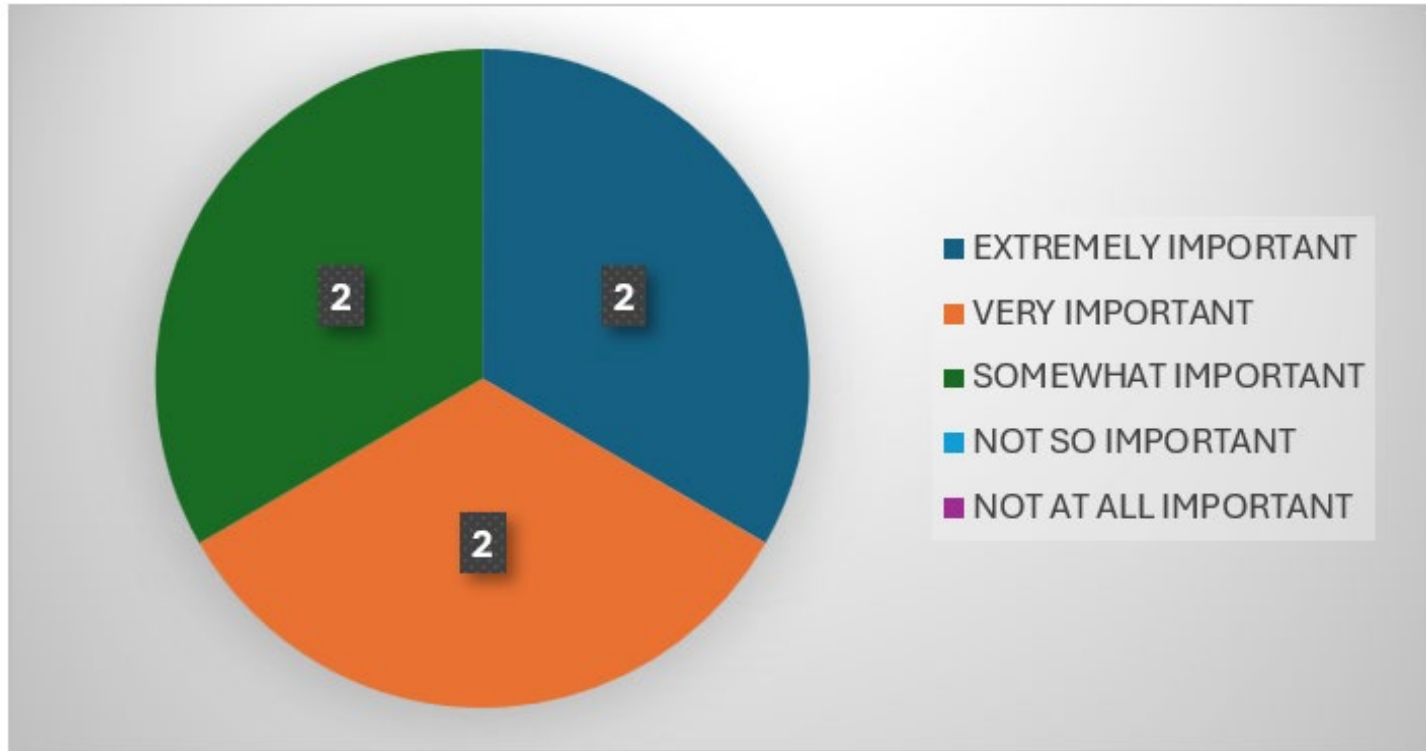
“What is the role of the Internal Audit Function in ESG sustainability matters?” CHU Group



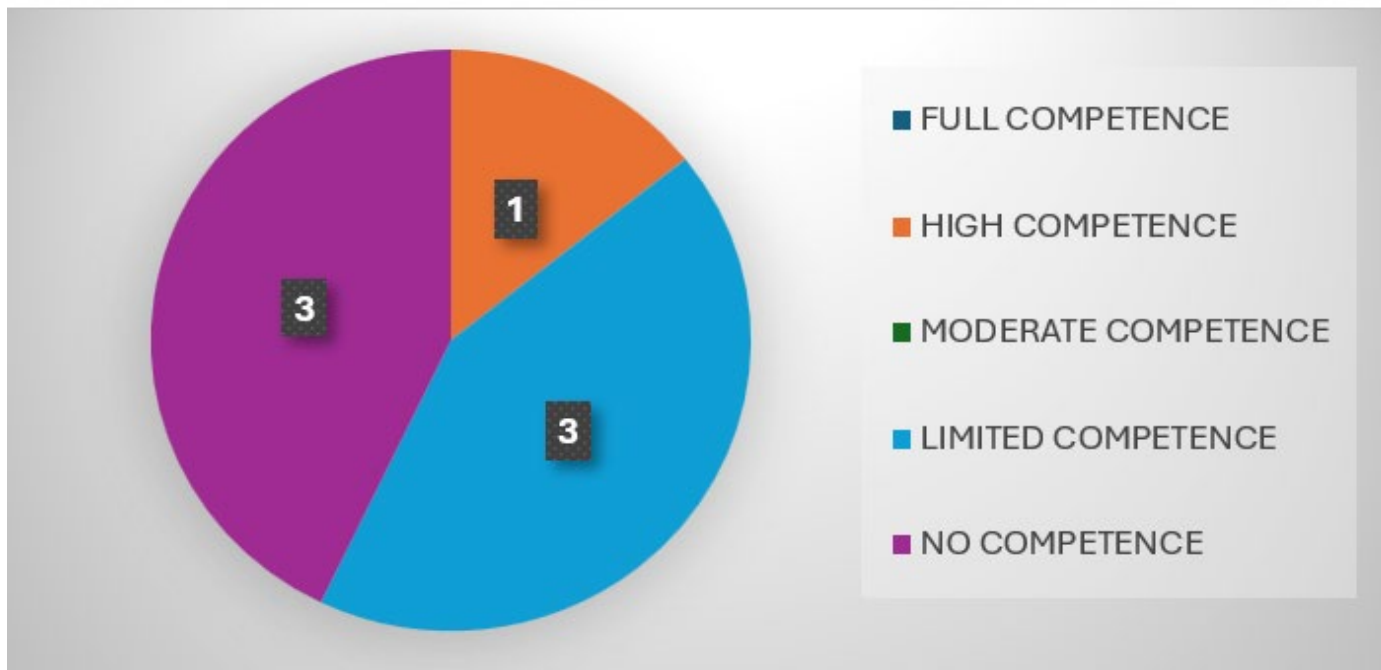
“What is the role of the Internal Audit Function in ESG sustainability matters?” IAF group



“How important is the involvement of the Internal Audit Function in ESG sustainability matters?” (IAF group)

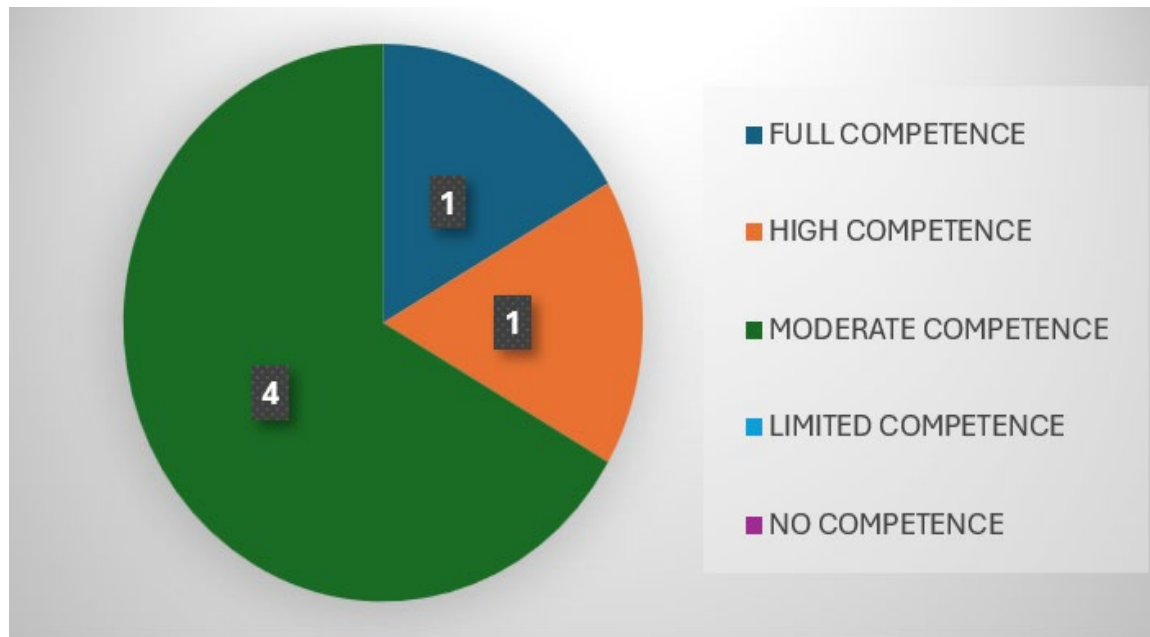


To what extent does the Internal Audit Function in your country have the competence to assess and provide advice on ESG sustainability matters?



Limited Competence in ESG Auditing and Advise (CHU)

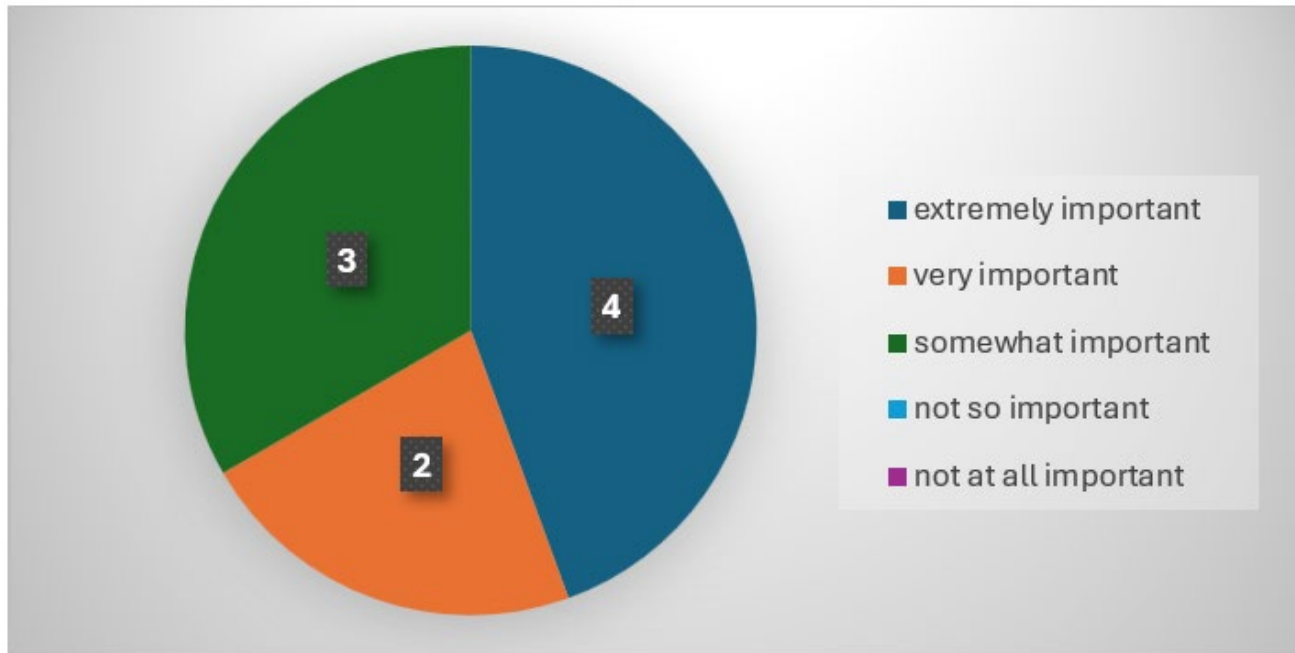
To what extent do you have the competence to assess and advise management on ESG sustainability matters?



Limited Competence in ESG Auditing and Advise (IAF)

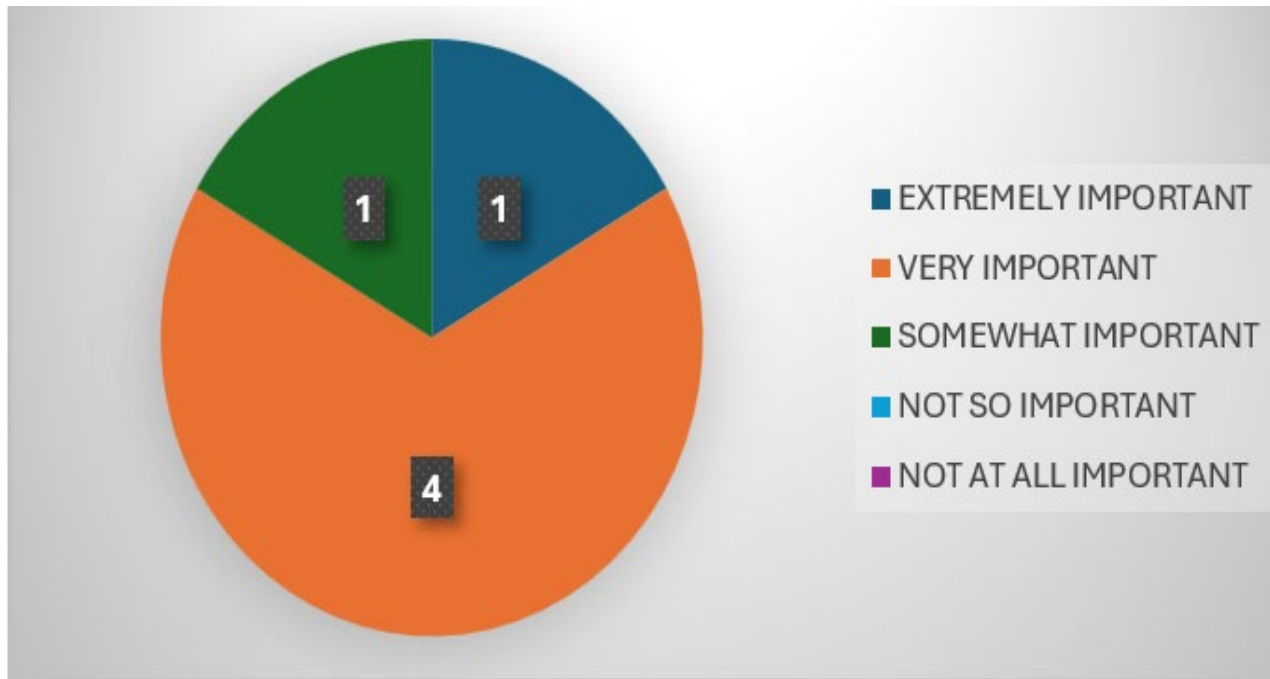
How important are the needs for Sustainability Auditing training?

CHU Group



How important are the needs for Sustainability Auditing training?

IAF Group



“Do you follow any sustainability audit standards?”

CHU Group

- EFRAG (France)
- IIA Standards (non-assurance engagements). NVCOS 3000A, NVCOS3410, NVCOS3810N (Netherlands)
- GRI, CSRD (Spain)

IAF Group

- Manual by Instituto of Internal Audits and COSO (Spain)

Interesting Case Study: The Netherlands

- They included ESG audit in their **strategic audit agenda**
- They have the national sustainability auditing initiative: Audit & Assurance on sustainability reporting in a **governmental setting**
- They have conducted **assurance on sustainability reporting**, including audits on CO₂ management plans, pre-assurance for governmental sustainability reports, and alignment with international standards such as GRI and CSRD
- **ESG-related training** is available to all auditors, with specific reference to an 8-hour sustainability reporting course and recommendations to follow the GRI course offered by Vrije Universiteit

Summary

Training needs: Many respondents from both groups have highlighted the need for tailored ESG training, yet few countries have structured programs

Standards & Methodologies: Few countries reported having ESG audit methodologies or manuals, indicating a gap in standardized practices

Recommendations

Raise awareness: Organize regional workshops or awareness sessions to introduce ESG relevance and audit implications

Build competence: Develop and disseminate core training modules across PEMPAL countries, starting with foundational ESG concepts

Leverage pioneers: Apply the Netherlands as a reference country to share case studies and training content across the network

Encourage framework adoption: Promote international standards and frameworks (e.g., CSRD, GRI, ISSA 5000) and national standards and frameworks

SUSTAINABILITY AUDIT GUIDE

for the Internal Audit in the Public Sector

Purpose: Provide internal auditors with a structured, and standards-based approach to plan, execute, and report on sustainability audits

Scope: Applies to internal audit functions within public sector entities involved in evaluating and advising on sustainability initiatives, disclosures, compliance with prevailing legal frameworks, controls, and performance

Standards to be used as a Basis: ISSA 5000 and GIAS – especially Domains II (Ethics and Professionalism), IV (Managing the IA Function), and V (Performing IA Services)

2. Framework for Sustainability Auditing

- **Sustainability in the Public Sector:** Contextualize ESG, climate action, social equity, and economic development goals within public mandates.
- **Types of Sustainability Audits:**
 - Assurance engagements on sustainability information (using as a reference ISSA 5000: Paras 13–15)
 - Advisory/internal audits of sustainability-related risks and processes (GIAS: Standard 15.1)
- **Assurance Levels:** Clarify reasonable vs. limited assurance per ISSA 5000
- **Key Concepts:**
 - Materiality, Criteria, Subject Matter, and Reporting Boundaries (use as a reference ISSA 5000: 20–22)
 - Risk-based, independent, and value-adding approach (GIAS: Principle 10)

3. Planning the Sustainability Audit

- **Understand the Entity and Context:** Review sustainability goals, prevailing legal and regulatory framework, operations, and risk (ISSA 5000: 23–25; GIAS: 15.2; and PEMPAL Guide <https://www.pempal.org/knowledge-product/guidance-planning-internal-audit-engagement>).
- **Determine Scope and Criteria:**
 - Define subject matter, time-period, organizational boundaries, and criteria (ISSA 5000: 20–21), including Scope 2 or 3
 - Acceptable criteria: SDGs, national policies, GRI, ISO 26000, or internal targets
- **Develop Audit vs Advisory Engagement Objectives and Procedures:**
 - Clearly define objectives, assurance level, and audit methods (ISSA 5000: 30–31) (PEMPAL Advisory Services Guide)
 - Include sustainability indicators and KPIs

3. Planning the Sustainability Audit

- **The Materiality process:**
 - Identify what matters to stakeholders/management/Audit Committee and what could affect decisions (ISSA 5000: 21–22; GIAS: Standard 15.3)
- **Auditor Competence Assessment:**
 - Evaluate if the engagement team has the necessary sustainability competence and capabilities in assurance skills and techniques (ISSA 5000: 42, A98, A99)
- **Capacity building initiatives:**
 - Propose (in necessary) specific training initiative on internal auditors' sustainability competence (GIAS: Standard 11.1, 11.2)

4. Conducting the Audit

- **Evaluate Controls and Governance:**
 - Review sustainability governance, strategy execution, and performance tracking (GIAS: Standard 10.1)
- **Collecting Sufficient and Appropriate Evidence:**
 - Use document reviews, interviews, observations, and data analysis (ISSA 5000: 32–42)
 - Ensure triangulation and traceability of evidence (GIAS: 15.3.2)
- **Evaluating the Management Report on Sustainability**
- **Assessment of Misstatements or Inaccuracies:**
 - Apply ISSA 5000 guidance on evaluating errors or limitations (Paras 43–45)
- **Documentation, Quality Control, and Engagement Review:**
 - Working papers and documentation to support conclusions (ISSA 5000: 49–50)
 - Internal review and supervision in line with GIAS: Principle 13
 - Post-engagement review and self-assessment (GIAS: Principle 8 and 12)

5. Reporting

- **Report Content and Structure:**
 - Tailor format to internal needs, referencing ISSA 5000: 54–62 for assurance reports
 - Include significant findings, root causes, impacts, and recommendations
 - Include a basis for conclusion, describe the engagement scope, procedures, criteria and any limitations or restrictions (i.e. data availability)
- **Clarity for users and Usefulness:**
 - Ensure that the reports are understandable, actionable, and aligned with management/Audit Committee and stakeholder expectations (GIAS: 16.1, 16.2)
- **Limited vs. Reasonable Assurance Communication:**
- **Communicate the level of confidence and basis for conclusions (ISSA 5000: 56–58)**
- **Dissemination of the Assurance Report (ISSA 5000, Para. A537; IIA Standard 2440)**

6. Follow-up and Continuous Improvement

- **Recommendation Tracking:**
 - Follow-up process aligned with GIAS
- **Impact Measurement:**
 - Evaluate changes and improvements resulting from sustainability audit recommendations
- **Update Audit Plans:**
 - Adjust plans based on emerging sustainability issues and risk reassessments
- **Sustainability maturity assessment:**
 - Evaluate to use of digital technologies to assess and benchmark the maturity of the ESG control environment and processes in their organisation
 - Identify opportunities for improvement by benchmarking against good practice
 - Provides insights to prepare or update your ESG strategy and plan

Sustainability Maturity Assessment Matrix

Dimension	Level 1 Initial	Level 2 Developing	Level 3 Integrated	Level 4 Strategic
Governance	No formal ESG oversight	ESG roles are assigned informally	ESG responsibilities defined and resourced	ESG fully embedded in organisational governance
Strategy and Policy	No ESG policies or strategies	Sustainability referenced in plans	Dedicated ESG strategies and action plans	ESG strategy drives public value creation
Risk Management	ESG risks are not considered	Limited inclusion in risk registers	ESG risks integrated into ERM	ESG risks are prioritised and mitigated
Data and Performance	ESG data unavailable or inconsistent	Basic data are manually collected	KPIs are tracked and reported periodically	Real-time ESG metrics used in decisions
Stakeholder Engagement	Minimal engagement	Periodic or reactive consultations	Stakeholders engaged in planning and review	Ongoing two-way stakeholder dialogue
Technology and Tools	No digital support for ESG management	Manual systems and spreadsheets	ESG tools in use for tracking and reporting	Advanced systems for ESG performance analytics

7. Case Studies and Examples

- Internal audit of a government energy efficiency initiative
- Limited assurance review of GHG emissions data in public infrastructure
- Social equity audit using materiality and stakeholder expectations

- *Comments on the SA Guide Outline* at PEMPAL Internal Audit Community of Practice (IACOP), **Audit in Practice (AiP) and Central Harmonization Unit Challenges (CHU) Working Groups Meeting**, Budva, June 3-5, 2025
- Consideration of the **comments** by the research and PEMPAL Teams, June 2025
- Focus groups and in-depth interviews in **selected countries** with SA experience (NL and Brasil?), June 2025
- **Final Sustainability Audit Guide** for internal Auditors in the public sector, September 2025
- Presentation of the scientific results (one paper on the *Co-construction of SA Guide for Public Internal Auditors*) at Meditari Accountancy Research Workshop **Sustainability Auditing and Assurance - Standardisation and Practice Diversity**, Naples, Italy, October 9-10, 2025

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