

Brussels, February 1, 2024

Subject: ECIIA views on the EFRAG IG1 Materiality Assessment Implementation Guidance Consultation

Dear EFRAG Sustainability Reporting Board,

We welcome the draft on the IG1-Materiality Assessment Implementation Guidance and thank you for the opportunity to react on the consultation.

The European Confederation of Institutes of Internal Auditing (ECIIA) agrees that the materiality assessment is key for the preparation of the ESG journey, to know what is relevant and expected in the strategy setting, roadmap, change of culture and behavior as well as the ultimate reporting, in the context of the CSRD.

We strongly believe that ESG reporting must be seen in the broader context of an ESG journey, and that the focus should not just be on the reporting and compliance.

We also recommend that the guidance would be more practical and accessible with clear language and clear recommendations.

Internal auditors will be asked by the Board, Audit Committee and Management to review the materiality assessment performed by the organization. It should not just include the compliance with the norms but also the effectiveness and efficiency of the materiality process.

The materiality assessment process also involves the value chain (including the right stakeholders) and implies that the ESG journey has been performed, including the business transformation, the set up of an ESG proof strategy, the review of the governance, the embedding of ESG in the enterprise-wide risk management framework, and the implementation of ESG aspects in the operations and culture of the organizations.

This new process is complex and will involve many people internally and externally. Therefore, the right governance model should be implemented, in our view the 3 Lines Model fits perfectly, assuring that each Line in the organization is involved and that the Governing Body gets accurate information.

The current guidance remains principle based and does not prescribe specific processes, specific levels of granularity, nor specific standards for thresholds or standard steps to assess materiality, and to engage with stakeholders¹. It leaves flexibility to the organizations to define the appropriate methodology and the governance for setting up this new process.

Internal Audit's work must be performed in accordance with the International Professional Practices Framework of Internal Auditing (IPPF), with mandatory requirements that not only call for objectivity and independence but also that internal auditors have or obtain the skills they need to properly conduct audits. They use experts when necessary, for the skills needed when not available in the team. The IPPF also requires that internal auditors share information, coordinate the activities (assurance map concept as an example) and consider relying on the work of other assurance providers to ensure full coverage and avoid duplications.

Internal Auditors are expected to be involved in the assessment of this new materiality process and will need to give advice (about the implementation and first-time execution) and afterwards, independent assurance to the Audit Committee/Governing Body.

¹ We already observed in the financial sector that the engagement with stakeholders is difficult, especially for big groups that manage outsourcing activities, in the context of the EBA guidance on outsourcing key activities.



Based on the guidance, Internal Audit will primarily assess the materiality process against the organization's strategy (including internal rules, policies and procedures), and assess the consistency with other internal and external reporting (including earlier materiality assessments based on GRI) and the specificities of its sector.

The definition of materiality of the various datapoints is independent from the materiality assessment of the topic (chapter 2.4 of the guidance). We would welcome more clarity and concrete examples on this topic.

The legislation and guidance leave a lot of room for professional judgement from Internal Audit (and other assurance providers), to assess the application of the law in the context of its company's characteristics, sector and against the qualitative characteristics of information set out in ESRS 1. Consequently, this means that either Internal Audit professionals need to have sufficient knowledge and insight on CSRD, the ESRS and the technical aspects of the business, to be able to challenge the business on the materiality assessment approach taken; or the assessment by the assurance provider will be limited to a ticking the box exercise, assessing a minimum level of compliance with the regulation, guidance and not ensuring that the whole ESG journey has been performed.

This limited review might also lead to situations where the materiality assessment has been set up based on the data that the organization is only able to or wants to report, and not to those to be reporting (quick exercise and artificial materiality assessment).

We welcome the need to document the Double Materiality process, as described in the Q&A section (chapter 5- (points 176,177,205 & 206)). The documentation should be reasonable but it is not prescribed, neither explicitly required. This documentation will help Internal Audit and assurance providers to review, assess and challenge the approach taken. We suggest to make it compulsory.

In the guidance, we also miss concrete examples, as well as recommendations in terms of criteria to consider to assess financial and impact materiality, and to define the thresholds process (chapter 3.7).

The guideline (FAQ 23) is not very clear regarding the gross approach when assessing IROs vs the net approach (after mitigations actions).

We believe that these lacks of clarity will lead to more discussions with the various stakeholders and the independent assurance providers about the materiality process and results.

We would like to conclude that there is a risk that the review of the materiality assessment could be limited and not prevent from any greenwashing and absence of reporting of key elements (not identified in the materiality assessment), if the assurance providers do not have the right skills. Moreover, discrepancies will occur cross organizations as a lot is based on professional judgment and we will not reach the goal of a uniform interpretation of the ESRS within the EU.

We remain at disposal for any further discussion and thank you in advance for considering our comments.

Sincerely

John Bendermacher

ECIIA President

About ECIIA

The European Confederation of Institutes of Internal Auditing (ECIIA) is the professional representative body of 35 national institutes of internal audit in the wider geographic area of Europe and the Mediterranean basin. We represent 55.000 internal auditors.

The mission of ECIIA is to be the consolidated voice for the profession of internal auditing in Europe by dealing with the European Union, its Parliament and Commission and any other appropriate institutions of influence. The primary objective is to further the development of corporate governance and internal audit through knowledge sharing, key relationships and regulatory environment oversight.

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