Is ICFR and sustainability reporting keeping up with trends and new requirements?

PwC's ICFR Benchmarking Survey 2022

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Introduction

Welcome to PwC Norway's report on the Internal Control over Financial Reporting (ICFR) benchmarking survey for 2022, where we seek to provide some insights on elements of a good practice ICFR framework.

We have previously conducted ICFR benchmark surveys in 2016 and 2019 to assess the status of ICFR among large Norwegian companies and provide ICFR leaders with good practice guidance and insights into what their peers are doing in the field of ICFR. In this year's survey we have also invited Swedish and Danish companies to participate to see if there are any differences or similarities between Scandinavian companies.

In addition to comparing responses regarding levels of ICFR maturity with the previous benchmarks, we included additional questions in this survey to explore what systems and controls companies have established in terms of internal control over ESG/sustainability reporting (ICSR). In this report we present the findings and discuss how the ICFR maturity has developed since 2016, and our findings on the maturity level of companies' ICSR.

This report is the result of data collected and analysed in 2022 from 41 large Scandinavian companies across a wide variety of industries. 27 respondents are listed on various stock exchanges[1].

Our analysis on the surveys we conducted in 2016 and 2019 indicated a potential for improvement on the overall ICFR maturity among the participating companies. In 2019, we expected to see a positive development in ICFR maturity, however, our results at the time revealed that there had been no major changes in companies' focal point and willingness to invest in ICFR since 2016.

Since our last survey in 2019, our general market observation is that companies appear to have an increased focus on governance and internal control. Companies have also become more receptive to implementing technological tools supporting their governance, including ICFR.

Our hypotheses

We expect to see a positive development in ICFR maturity in 2022. However, we have not received responses from the same companies throughout the years, and thus the population is not directly comparable for trend analysis.

ICSR is still an area that is evolving and changing. Our hypothesis is therefore that the companies are generally immature in this area.

We do not expect to see major differences between the Scandinavian countries as listed companies are subject to similar regulations in all three countries.

Did our findings support our hypotheses and provide new insights? Read the report and find out.

1 All companies reporting to Oslo Stock Exchange should comply with NUES.

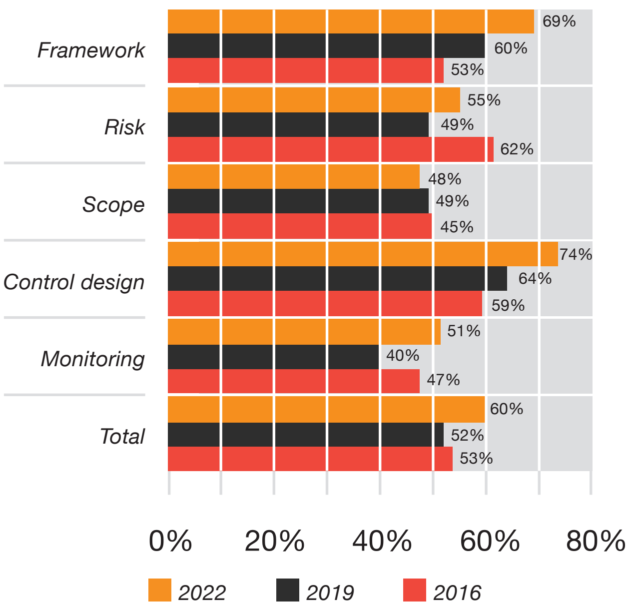
All companies reporting to NASDAQ/Stockholm should comply to Swedish Code of Corporate Governance

All companies reporting NASDAQ/Copenhagen should comply to Danish Recommendations on Corporate Governance

Has the overall ICFR maturity increased?

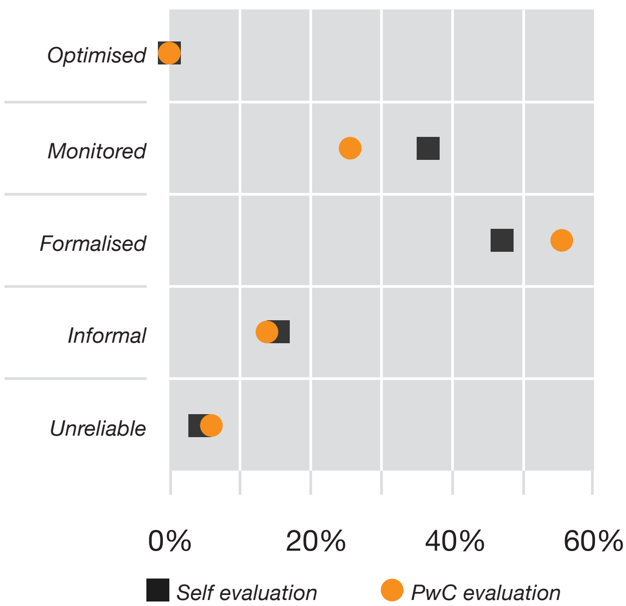
The results from the survey shows an increase in overall ICFR maturity by 7 percent since 2019. We see an increase in all areas within ICFR, except scoping, which surprisingly is unchanged.

Total average score per internal control area



Average scores for each internal control area indicate a general increase in all areas compared to 2019, except for scope which remains unchanged.

Self evaluation of ICFR maturity



Respondents rate their respective ICFR frameworks as more mature than in 2019.

Regardless of the increase in total ICFR maturity in almost every area, companies are still lagging behind in scoping. Mature companies use scoping to determine which business units, processes and financial statement item lines to prioritise for ICFR purposes, and to what extent.

> Risk-based scoping is essential to an effective and efficient ICFR system, as it ensures that ICFR controls are designed to mitigate the most significant risks.

How mature are Norwegian companies compared to Danish and Swedish companies?

Our received survey responses show that Norwegian companies' average overall ICFR score is higher than the average score for all Scandinavian countries combined. This indicates that Norwegian companies, in isolation, have had a noticeable increase in maturity since 2019.

In the table below we compare maturity levels per ICFR and ICSR areas based on responses from Norwegian and Swedish companies. As we received few responses from Danish companies we have excluded them from this comparison.

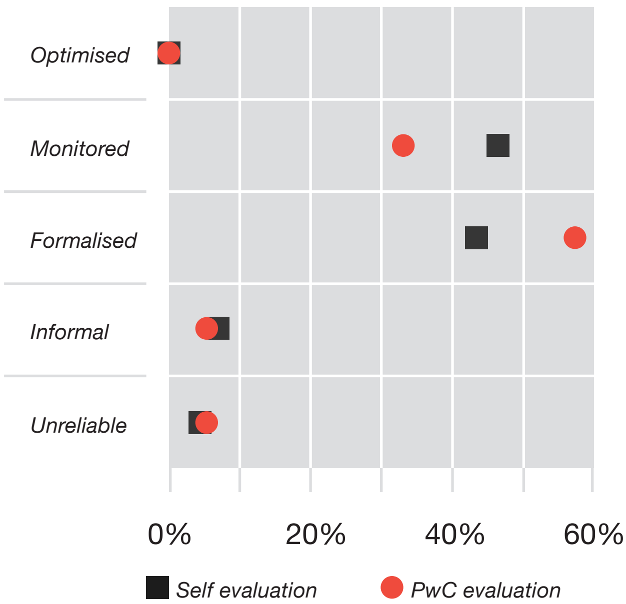
The results indicate that Norwegian and Swedish companies are similar in terms of both overall ICFR and ICSR maturity.

ICFR area	Norway	Sweden
ICFR framework	78%	76%
Risk	57%	59%
Scope	54%	41%
Control design	78%	75%
Monitoring	51%	49%
Total	**64%**	**60%**
Calculated level of overall ICFR maturity	**Formalised**	**Formalised**

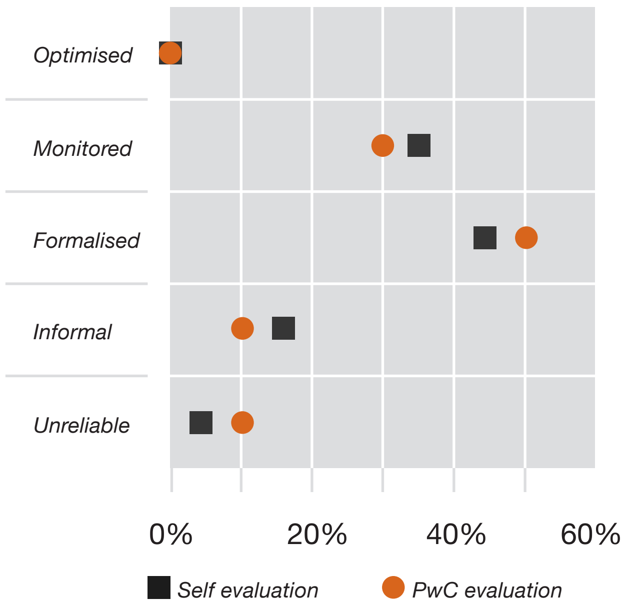
ICSR area	Norway	Sweden
ICSR framework	39%	36%
Calculated ICSR maturity	**Informal**	**Informal**

In previous years, we have experienced that respondents, in general, score themselves higher on their ICFR maturity self assessment than the benchmark analysis indicates. This holds true also in the 2022 survey.

Norway:



Sweden:



Maturity model

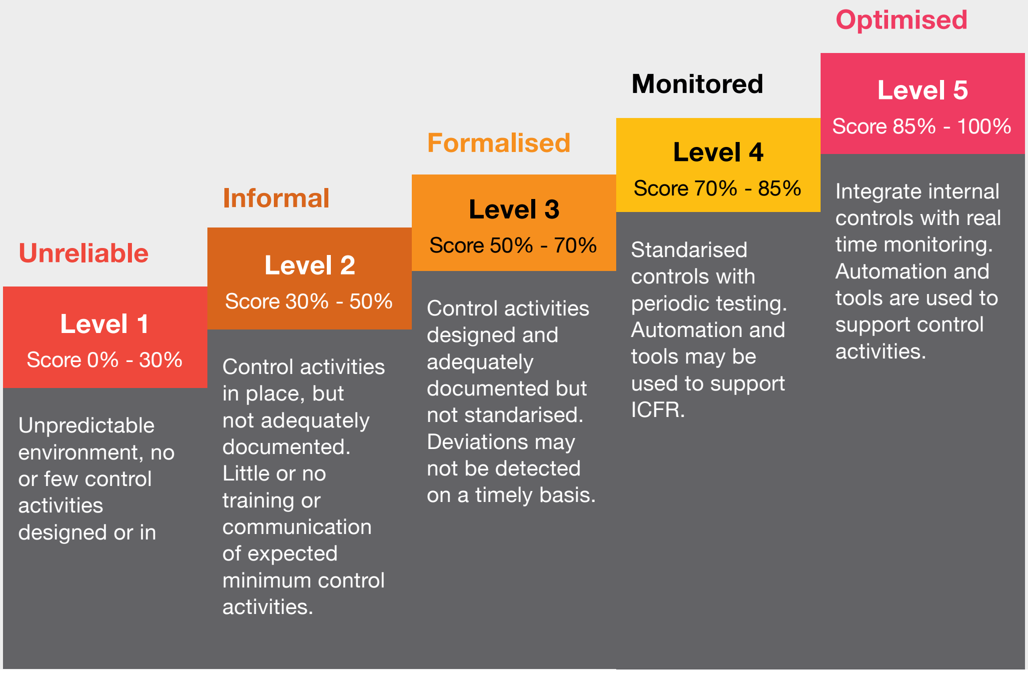
The ICFR maturity model is widely used among audit firms and other companies to assess the maturity of internal control frameworks. Although there may be nuances between the various maturity models, overall levels and categorisations are built on a similar logic. A maturity framework normally ranges from level 1 to 5, where level 1 represents an unpredictable environment where activities are performed ad-hoc and where there are no or few controls, and level 5 represents integrated controls with real time monitoring and automatisation.

This benchmark survey asks detailed questions regarding key elements we would expect to find in a best-in-class internal control system (Optimised level 5). We have benchmarked the responses against our understanding of an optimised level of ICFR to gain an overview of the gap between the responses and a best-in-class level of maturity.

> Our analysis shows that 11 percent of listed respondents have an ICFR maturity that does not satisfy the minimum requirements for listed companies.

The lowest acceptable and most common level of ICFR in Norway and Denmark is assumed to be between level 3 and 4. Swedish listed companies are expected to be at level 4.

Levels of internal control maturity

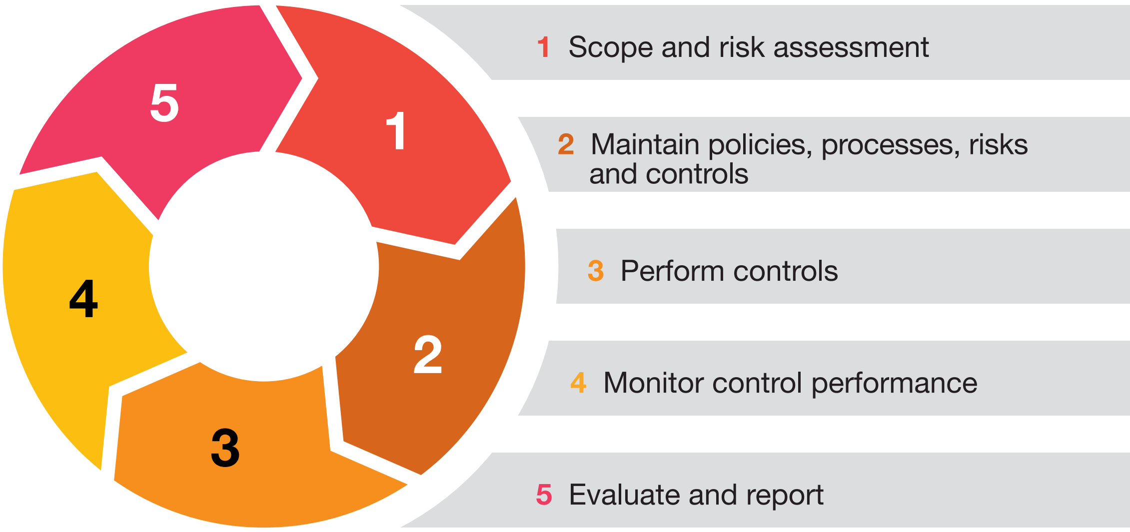


Overall summary

Survey results at a glance	2022	2019	2016
Calculated internal control maturity based on responses	60%	52%	53%
Self-assessment of maturity	Level 3	Level 3	Level 3
Use an acknowledged internal control framework	66%	55%	69%
Have defined an annual process for governing ICFR	59%	81%	85%
Have a process for identifying and assessing inherent risks of significant financial statement misstatements	88%	86%	85%
Have a process for scoping (e.g. of business units and processes) to identify to which extent and level the ICFR framework is applied	83%	59%	62%
Have defined and formally documented their ICFR control design	75%	66%	88%
Have designed specific controls to mitigate one or more of the identified risks	80%	89%	96%
Distinguish between key controls and non-key controls for monitoring and/or testing purposes	47%	56%	58%

We see a general increase in maturity in almost all areas. However, the area with the highest drop and potential for improvement is defining an annual process for governing ICFR. **An annual process for governing ICFR is crucial to ensure that the framework is managed and maintained.**

The ICFR annual process should be *focused* and risk-based covering the annual ICFR activities (evaluate, update, implement and monitor) and activities related to improving and remediating deviations in control design and/or performance of ICFR:

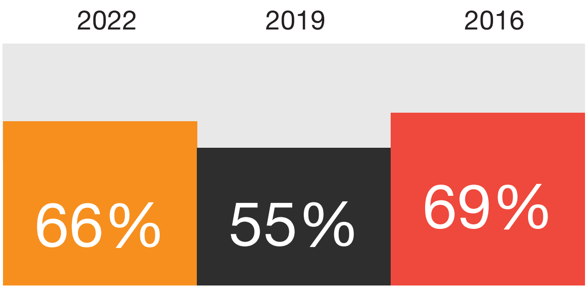


ICFR framework

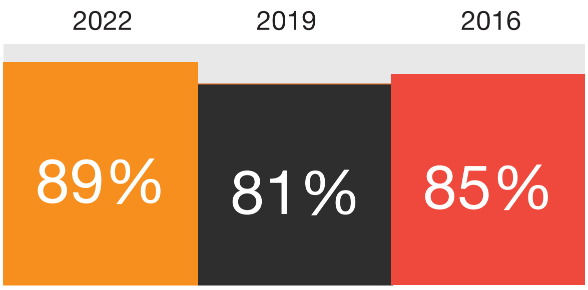
66 percent of the companies use an acknowledged ICFR framework. This is an increase since the 2019 survey and around the same level as the 2016 survey.

A commonly used framework provides structure and guidance for management on how to design, implement and maintain internal controls that effectively and efficiently address financial reporting risks.

Companies using an acknowledged framework



Companies with a defined annual process to implement ICFR



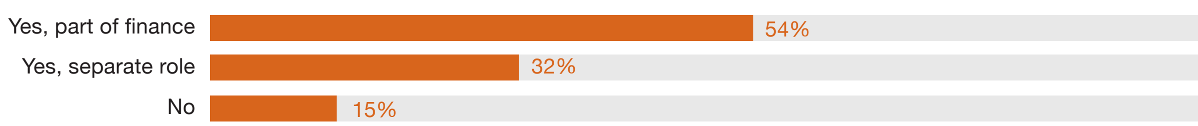
89 percent of the companies using an acknowledged ICFR framework have a defined annual process to implement ICFR.

This report focuses on presenting the result of the survey. If you would like to know more about the ICFR Framework and its components, please refer to the **ICFR Benchmarking survey 2016.**

85 percent of the participants in the survey have established a centralised role or function in charge of ICFR. In more than half of the companies surveyed, the ICFR role lies within the finance department. One third of the respondents have a dedicated role for managing and maintaining the ICFR framework (e.g., ICFR manager), preferably at Group level.

An annual overall process for governing the ICFR processes contribute to them being risk-based, efficient, well-planned and -managed, implemented, operating effectively and continuously updated and improved.

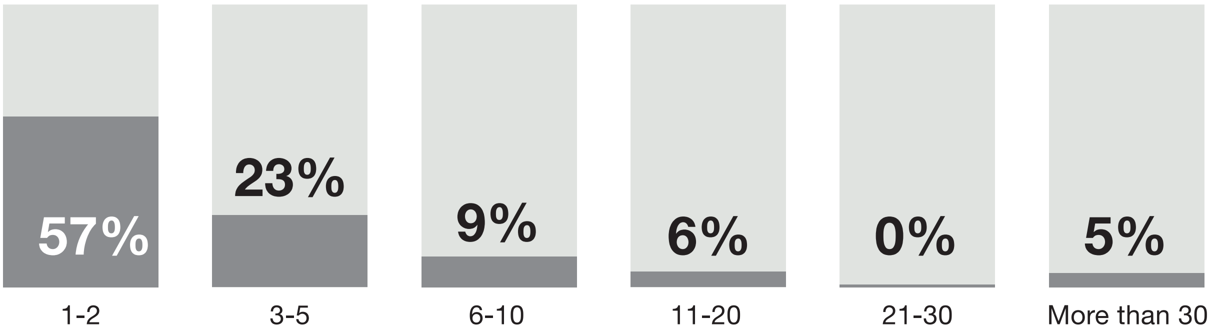
The company has established a centralised ICFR function/role in charge of the ICFR framework?



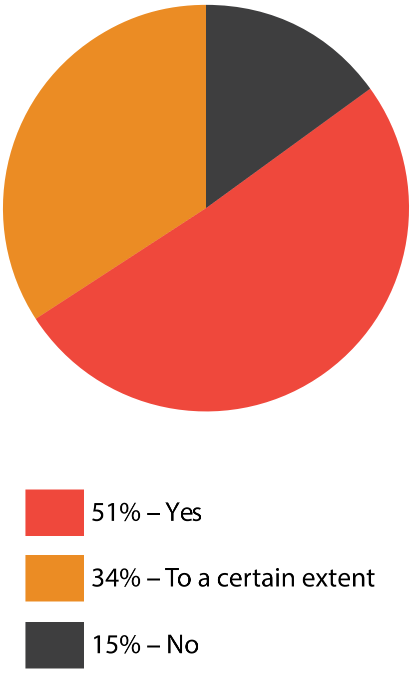
ICFR personnel

The number of personnel involved in managing the ICFR framework varies; however, most companies have between 1 and 5 people.

Number of employees involved in managing the ICFR framework in total:



Are the roles and responsibilities defined based on the three lines model?



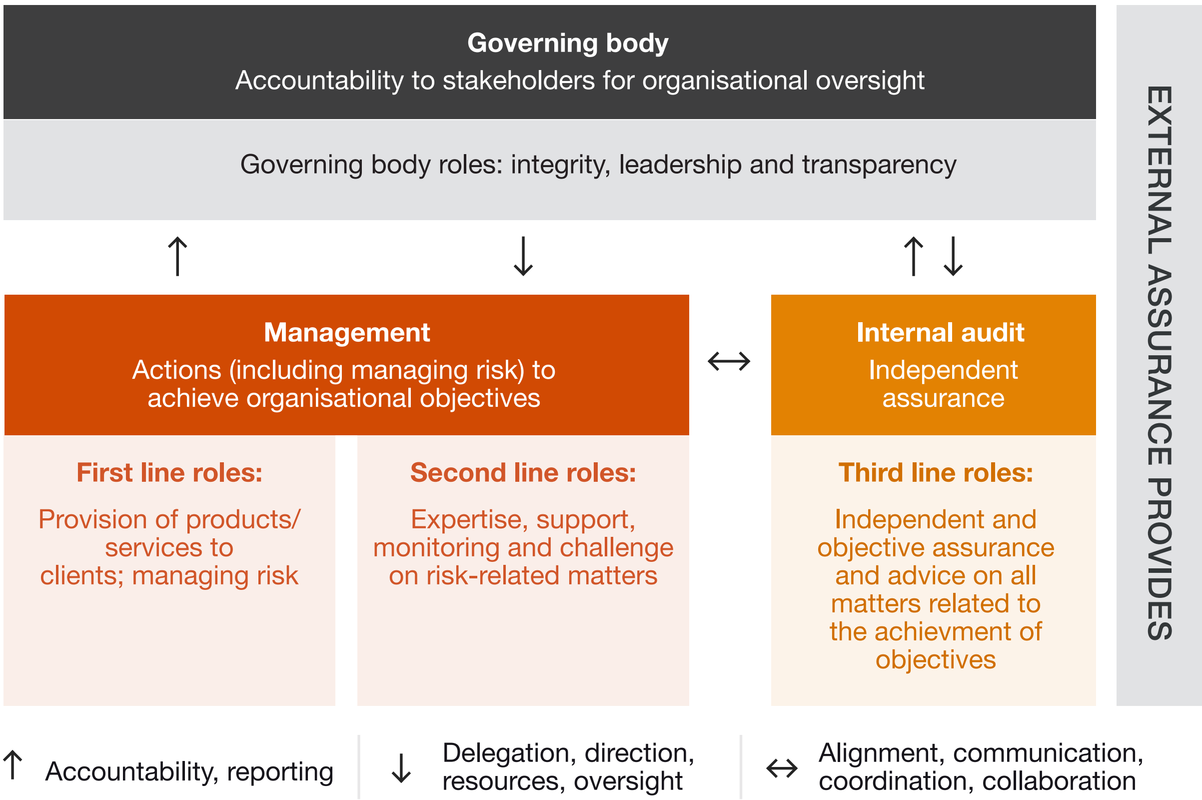
85 percent of respondents have, either fully or to a certain extent, roles and responsibilities defined based on the tree lines model.

The IIA's Three Lines model emphasises that the "Governance of an organisation requires appropriate structures and processes that enable:

- Accountability by a governing body to stakeholders for organisational oversight through integrity, leadership, and transparency.
- Actions (including managing risk) by management to achieve the objectives of the organisation through risk-based decision-making and application of resources.
- Assurance and advice by an independent internal audit function to provide clarity and confidence and to promote and facilitate continuous improvement through rigorous inquiry and insightful communication"[2]

2 Source: The Institute of Internal Auditors

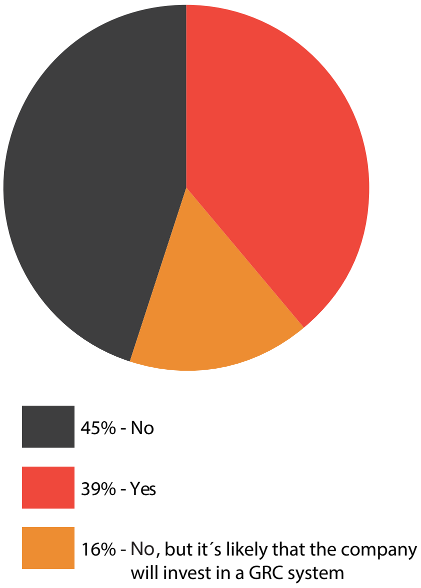
The IIA´s Three Lines Model



GRC systems

There has been an increase in the number of companies who have implemented a GRC system for managing their ICFR since 2019.

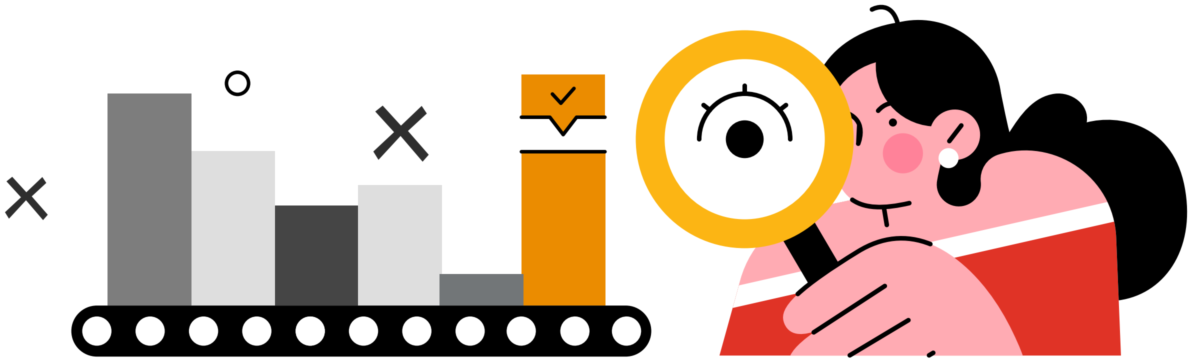
Has the company implemented a Governance, risk and compliance (GRC) system for managing ICFR?



GRC systems include both large systems integrating all aspects of GRC with common risk universes, and smaller niche systems geared towards specific risk areas, such as Financial Reporting or elements of ICFR (such as balance sheet reconciliations, monitoring or testing).

While large integrated GRC systems enable a holistic and integrated approach towards risk management, they tend to be both costly and complicated to implement.

Niche systems on the other hand are less costly and easier to implement making them more desirable. In addition, they usually provide the benefits of offering more tailored solutions to specific needs.



39 percent of the respondents say that they have implemented a GRC system for managing ICFR, and 16 percent answer that they most likely will invest in a GRC system in the future. This is an increase since our 2019 survey, and in line with our general observations that companies are becoming more digitised and technologically advanced.

The main reason for implementing a GRC system among the respondents to the survey, both those who have already invested and those who answer that they will most likely invest, is centralised documentation and audit trail.

Among the 45 percent who answer that they have not invested in a GRC system for ICFR, 65 percent provide that they are not mature enough or big enough as the reason for not having implemented a GRC system. Others answer that they are unsure whether these systems provide value or that they have too many systems already.

Respondents who are utilising a GRC system for managing their ICFR are using the following modules/functionalities:

Modules/functionalities	2022	2019
Internal control	100%	100%
Compliance	27%	25%
Operational risk management	27%	13%
Internal audit	27%	13%
Enterprise risk management	7%	13%
Governing documents	7%	13%
Information security/GDPR	7%	0%

As in 2019, all of the participants are using their GRC system for internal control purposes. Using the GRC system for operational risk management, internal audit and information security/GDPR is becoming more common among the responders, whereas the use of enterprise risk management and governing documents functionalities have decreased since 2019.

For which ICFR processes do you use the GRC system?

Monitoring of control performance, development and maintenance of control design, control testing and following up on issues continues to be the most common processes where the GRC system is utilised.

GRC systems in ICFR processes	2022	2019
Monitoring of control performance	93%	88%
Development and maintenance of control design	80%	75%
Control testing	73%	88%
Follow-up on issues	73%	88%
Reporting	60%	88%
Automated control performance	27%	13%
Scoping and risk assessment	20%	25%
Process mapping	13%	38%

Risk

There has been a positive development in the overall risk maturity score since the 2019 survey. However, the risk assessments still appear to be performed at a high level (e.g., group, unit and process level).

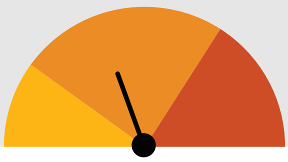
The company has a defined approach for identifying and assessing inherent risks of significant financial statement misstatements:

No	Yes - performed	Yes - performed and documented	Yes - performed, documented, followed up
12%	32%	22%	34%

88 percent of the companies have a defined approach for identifying and assessing inherent risks of significant financial statement misstatements.

However, only one third of the participating companies say that they perform a risk assessment, followed by documentation and a follow-up. By follow-up we mean regularly reviewing the risk assessment and updating it if necessary. Companies are constantly required to adapt to more rapidly changing environments and expectations. Any change within the organisation itself and/or its environment brings with it risks that should be assessed and addressed.

Efficient and effective internal control should be top-down, risk based and systematic, meaning that the ICFR framework should be designed to address the most significant risks related to financial reporting from top to bottom in the entire organisation.



How is the risk assessment performed and documented and which factors were considered during the risk assessment?

The results of the 2022 survey indicate that risk assessments are still performed at a very high level (e.g., per significant process and at group level), which is not in line with good practice.

Only one third of the respondents perform the risk assessment per financial statement line item (FSLI), connecting it to the financial statements. One quarter of the companies are connecting the risks to financial statement assertions[3].

By solely performing high level risk assessments, companies tend to fail in defining the potential

[3] Objectives for ensuring correct financial reporting, such as completeness, accuracy, existence, presentation and disclosure.

impact the identified risks have on the financial statements. There are relatively few respondents who report that they perform risk assessments at FSLI or assertion level, which increases the possibility that controls are not designed to focus on activities that effectively target the most relevant risks of material misstatements.

Is the risk assessment performed and documented?

86%	Per significant process
61%	At group level
44%	Per unit (business unit, legal entity etc.)
33%	Per financial statement line item
25%	Per financial statement assertion
6%	Other

The following factors were considered during the risk assessment

86%	Likelihood and impact of the individual risks
64%	Historical events
64%	Reports from the internal and/or external auditor
8%	Other

Scoping

The survey results show that the respondents still have a way to go in regards to performing risk-based scoping, to ensure effective utilisation of the ICFR framework.

Risk-based scoping is essential for an effective and efficient ICFR framework. By scoping, we refer to deciding which processes, business units and financial statement line items to include in the ICFR framework and to which extent. This is done by assessing materiality to the financial statement and the overall risk of material misstatements occurring.

The company has a process for scoping (e.g., of business units and processes) to identify to which extent and level the ICFR framework is applied:

Yes	In certain areas	Either do not scope or apply full scope
37%	46%	17%

How is scoping employed in your company?

66 percent perform scoping annually, 14 percent scope every 2-3 years, 6 percent perform scoping upon major events while only 14 percent answer that scoping is not performed regularly.

55 percent scope out low risk business units, 59 percent scope out low risk business processes, while 66 percent have defined a minimum level of internal controls for which all business units must comply with.

Control design

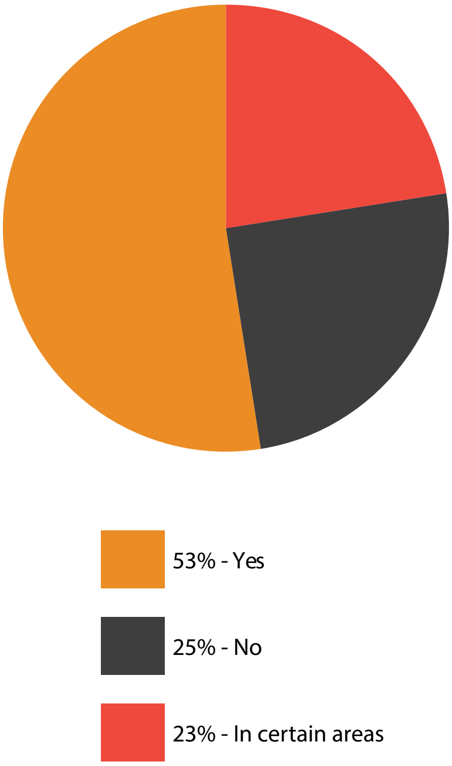
Control design shows the greatest increase in maturity since previous surveys. However, the survey responses indicate that controls are not risk-based.

More than half of the respondents answer that they have a complete control design, which is an improvement since 2019.

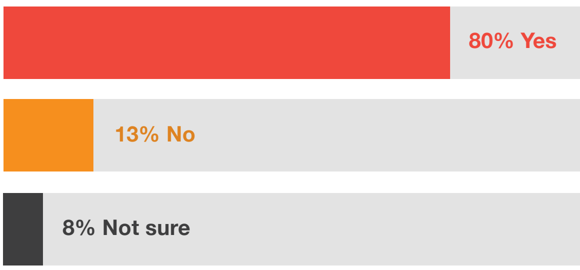
Only one quarter of the respondents have not defined and documented a control design or do not know if a control design is in place.

It is considered good practice that internal control is an integrated part of the business as common and everyday routines. In leading companies internal control is designed to mitigate defined risks in an efficient manner and in alignment with the underlying business processes.

The company has defined and formally documented an ICFR control design



The company has built a complete set of controls which in total address the most critical risks of financial statement misstatements



80 percent of the respondents say they have a complete control design that addresses the most critical risks of financial misstatements. We find this a bit contradicting as our analysis shows that respondents have relatively low scores in the areas of both risk assessments and scoping.

Nevertheless, the responses indicate that companies have a greater focus on control reliance compared to previous years.

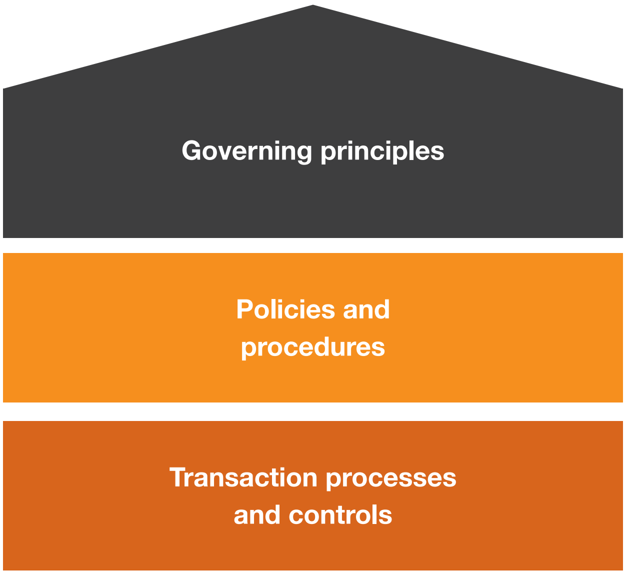
Types of controls used by the companies:

94%	Process Levels Controls
83%	IT General Controls
75%	Entity Level Controls
67%	Application Controls
11%	Other

Events that trigger update of the ICFR control design:

78%	Reported weaknesses from the external auditor
73%	Identified errors in the financial statement
73%	Improvement opportunities, such as automation of controls
73%	Process and/or control failures or inefficiencies identified during monitoring and/or testing
73%	Regulatory changes
68%	Major changes in the company
63%	Changes in expectations from the Board of Directors/audit committee and/or executive management
2%	None of the triggers above

Governing documents



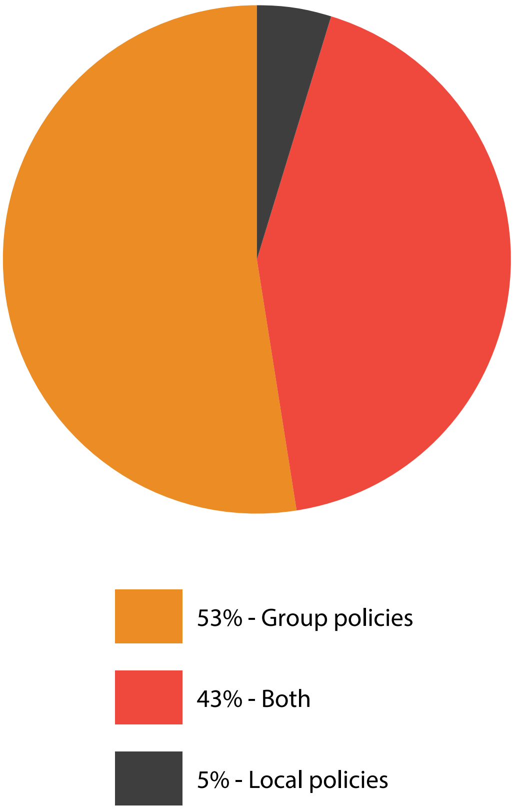
- Corporate values, tone from the top
- Ethical guidelines, Code of Conduct
- Roles and responsibilities, delegation of authority
- Instructions for governing bodies
- Plans, strategies, budgets
- Principles, rules and boundaries for the business operations
- Management control activities at entity level
- Documentation of processes, routines and controls

All respondents in the survey say that they have governing documents like policies. Procurement policy and financial close and reporting policy are the most common.

95%	Procurement	78%	Sales/Revenue
93%	Financial close and reporting	68%	Legal
90%	Information security	63%	Tax
88%	Anti-fraud & anti-corruption	63%	ESG
85%	Data privacy	45%	Inventory
83%	Delegation of authority (authorisation matrix)	0%	IT
83%	Treasury	0%	Fixed assets and investments
80%	Risk management	0%	Cyber security/Security
80%	HR/Payroll		

The number of companies having a centralised design for governing documents and controls are declining compared to the 2019 survey. It is often considered good practice to centralise policy management and to standardise control design and process descriptions across the group. However, a combination of both centralised and local policies and processes will be more relevant for some companies.

Do the policies encompass the whole group or do local policies exist?



Are the controls standardised across the group or are there local controls at entity level?

28%	Standardised controls for the whole group
13%	Tailored controls
51%	Both
8%	Not sure

Are flowcharts and/or process descriptions standardised for the whole group, or do business units use local flowcharts and/or process descriptions?

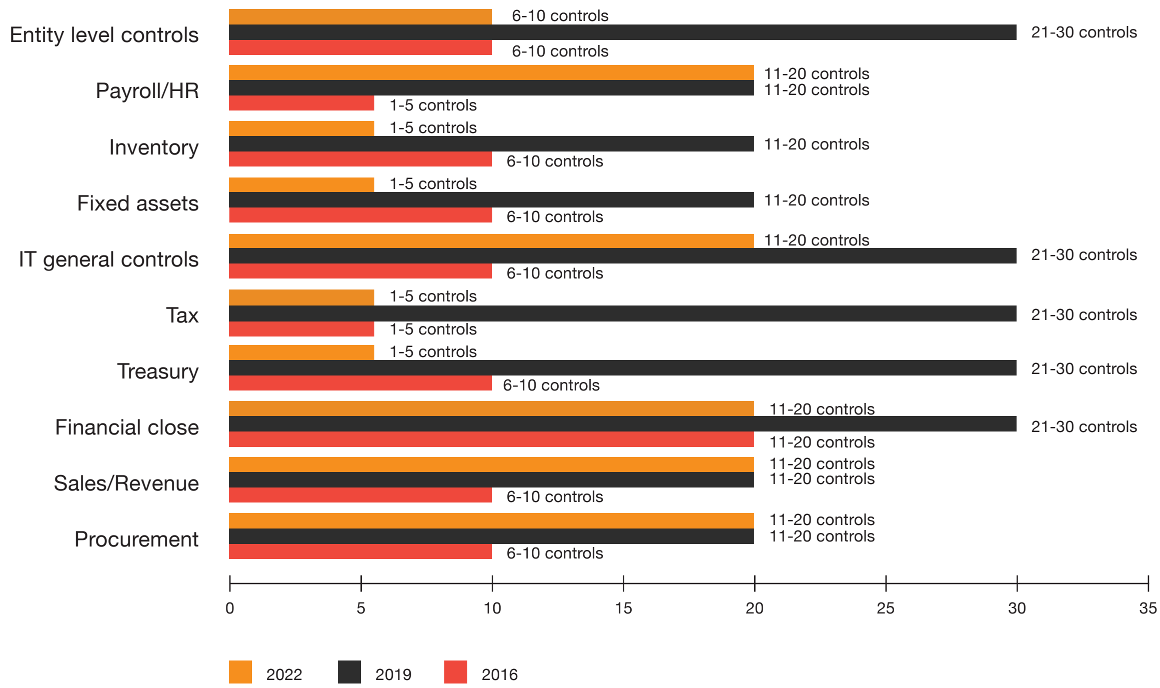
33%	Standardised flowcharts and/or process descriptions for the whole Group
13%	Locally at entity level
38%	Both
15%	No flowcharts and/or process descriptions

Controls

How many controls is it necessary to have? This depends entirely on the complexity of the companies and their processes, internal and external (e.g., regulatory) requirements, and must therefore be adapted to each individual process. In 2019, we saw a significant increase in the number of controls within some of the processes compared to 2016. In 2022, we see a reduction in the median number of controls in most areas.

There are also several companies reporting that they distinguish between key controls and non-key controls in their ICFR system (an increase of 10 percent for all the Nordic companies and an increase of around 30 percent if we look exclusively at the Norwegian companies). A greater focus on defining the most important controls can explain some of the decrease in the number of controls within the processes.

Development in median number of controls per process

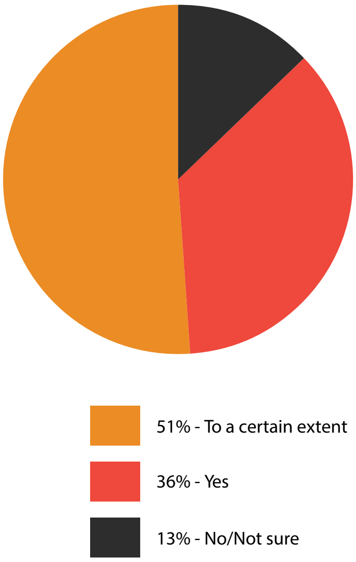


ITGC controls

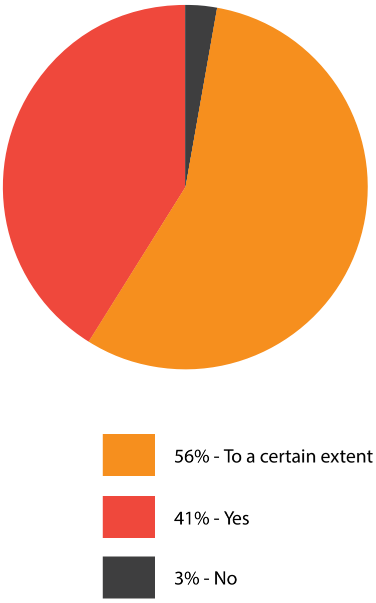
ITGCs include controls over transaction processes relying on IT systems or other digital tools. As it is less common and not recommended to only have manual controls, ITGCs are of increasing importance to ICFR. Well-functioning ITGCs are critical for ensuring effectiveness of controls relying on systems and system generated reports.

Access management controls and system-implemented segregation of duties are critical ITGCs. These controls are fundamental to any internal control framework and in mitigating risk. This is widely recognised among the respondents, as almost all respondents have implemented system access controls.

Is the dependence on IT general controls taken into consideration in the design of process level controls?



Are security and segregation of duty risks mitigated by system access controls?



Monitoring

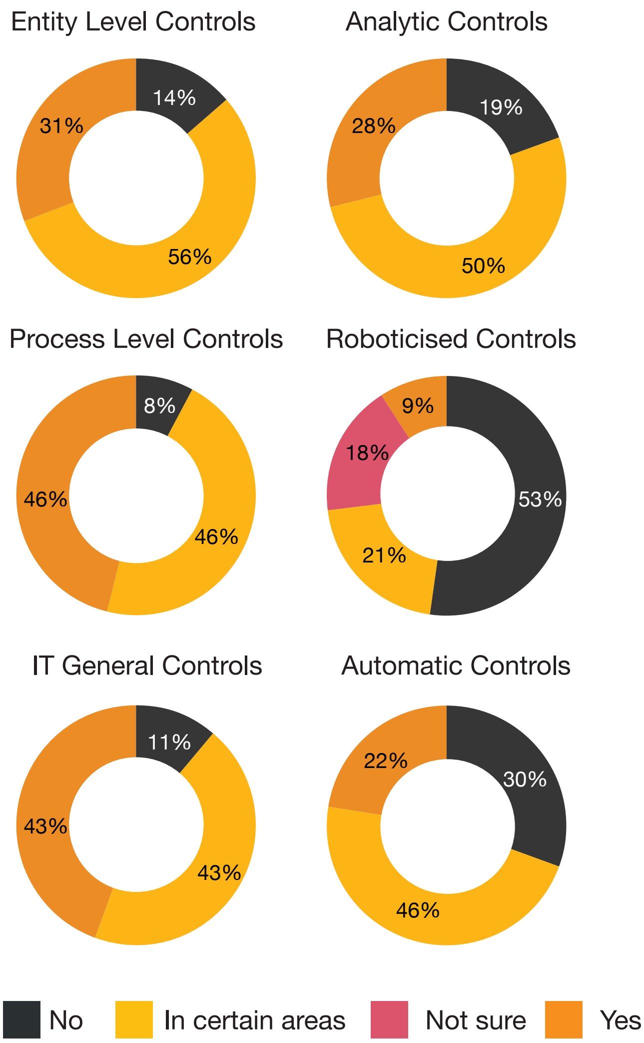
The survey shows that much has changed compared to previous surveys with regards to monitoring. There are more companies who now monitor certain areas and less who do no monitoring at all. As in 2019, respondents are most mature in monitoring entity level controls (policies), process level, analytical and IT general controls (ITGC). Roboticised controls are still unchanged. Over half of the respondents report that they do no monitoring of their roboticised controls.

There has been a significant change since 2019 in our survey results related to monitoring. We see a large increase in maturity as more companies are monitoring specific areas in their ICFR system. In addition, there is a lower proportion of companies that say that they do not monitor at all. To secure efficient use of resources, the most critical controls upon which the ICFR system relies should be identified, i.e., the key controls. The concept of key controls is often used to establish which controls would provide sufficient assurance that the ICFR system is functioning as intended when monitored and/or tested.

61 percent of the total respondents distinguish between key and non-key controls. However, only 47 percent of the respondents actually monitor their defined key controls. This indicates that a number of companies may benefit from a stricter approach to defining and monitoring key controls.

There are different ways to monitor. The figure below illustrates how the survey respondents perform their monitoring. We see that the respondents have matured drastically in their monitoring compared to 2019 in almost all elements in the monitoring system. Self assessments and testing performed by external parties are the most common ways to perform monitoring.

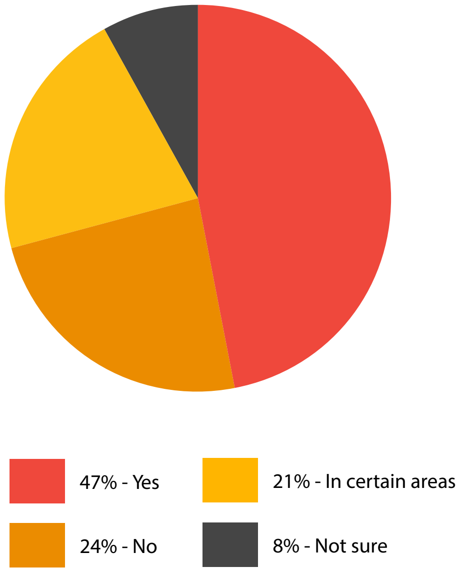
Are there processes/activities in place to monitor the effectiveness of the following controls?



These two methods provide the lowest and highest level of assurance. Less than a third of the respondents perform continuous monitoring.

Monitoring is a key element of ICFR, ensuring that the control framework is implemented and that it is functioning as intended. Furthermore, monitoring is an efficient method to identify needs for improvements and learning opportunities.

Do you distinguish between key controls and non-key controls for monitoring and/or testing purposes?



Results	2022	2019
Follow-up of identified deficiencies and action plans	73%	56%
Periodic certifications and/or self assessments by management	73%	48%
Reporting of results to executive management and/ or to oversight bodies	73%	52%
Periodic reviews/testing performed by external party	52%	44%
Continuous monitoring and reporting by management	47%	28%
Periodic reviews/testing performed by ICFR Manager/ Officer	42%	20%
Periodic testing performed by internal audit	26%	24%

Internal control over sustainability reporting

What is sustainability reporting and why is it so important?

When talking about sustainability and especially sustainability reporting, ESG is often used to categorise information that is reported. ESG or environment, social and governance refers to a wide range of sustainability factors that companies are increasingly integrating into their decisions and operations.

Rapidly growing awareness and focus on the environment, social justice and responsible governance among..

...authorities, laws and regulations

...investors and capital markets

...employees, population and consumers

...Forces a clearer prioritisation of sustainability in all companies

Sustainability information is essential for building trust in society by responding to the expectations and needs of society, and for communicating with external stakeholders, including investors.

For the companies themselves, sustainability reporting is a way to improve and broaden their risk management and long term social, environmental and financial performance and competitiveness. For communities and citizens affected by the activities of the corporation, sustainability information disclosures enable them to assert their rights and restore trust in businesses.

Reliable information is a prerequisite for trust and good management - and to deliver on future requirements

Board of Directors' security

- Control over systems and processes
- Assurance that reporting is based on accurate and reliable information
- Reliable data for the board's decision-making processes

Investors' confidence

- Increased trust in significant information that can influence investors' decisions
- Increased transparency, accountability and credibility

Stronger relationships

- Building trust with important stakeholders
- Breaking down silos and ensuring coordination between financial and non-financial reporting

New reporting requirements (CSRD)

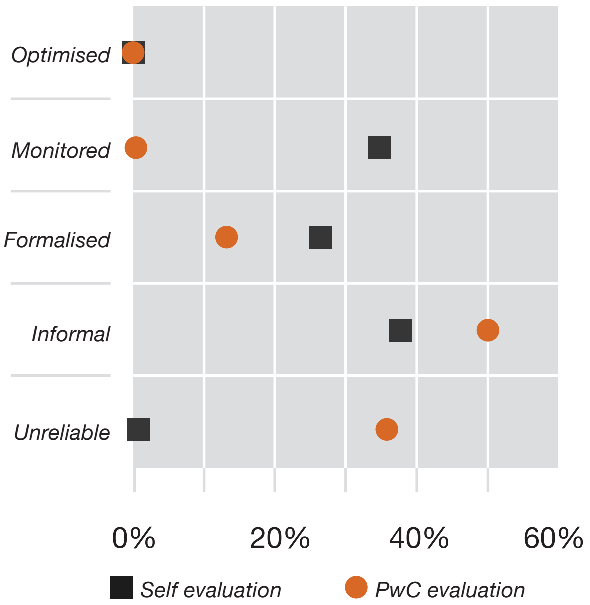
- All large companies must report objectives, strategy, roles and responsibilities etc.
- Requirements for due diligence assessments and risk management
- Mandatory reporting of direct and indirect greenhouse gas emissions

Companies are increasingly challenged by stakeholders to be more transparent about their management of sustainability issues. The demand for increased reporting is also driven by new and existing governmental regulations. The awareness from different stakeholders is helping to increase the need and demand for sustainability information reported by the companies. This is further driven by new laws and regulations from the EU, complemented by national regulations.

In light of the increasing importance and focus on sustainability reporting, we asked the survey participants to rate their companies' maturity level on Internal control over sustainability reporting.

In general, we observe that companies tend to rate themselves higher with regards to their maturity level than our analysis shows.

At what maturity level would you rate your company when it comes to internal control over sustainability reporting (ICSR)?



Have the companies implemented a defined framework for ICSR?

37 percent of respondents report that they have implemented a defined framework for Internal control over sustainability reporting. The most common among respondents are COSO and ISO.

Have the companies established a centralised role in charge of ICSR?

Almost two thirds of the responding companies say that they do not have a centralised role in charge of managing and overseeing ICSR in their organisation. Lack of such a role may lead to missing or reduced accountability, misunderstandings, reduced learning and improvement, inefficient and/or insufficient performance of key tasks and controls.

In companies where a dedicated ICSR role is established they are employed in various positions such as ICFR manager, Compliance manager, CFO, Head of ESG, communication director, Finance and legal, sustainability controller etc.

53 percent of respondents report that the company has defined and formally documented an ICSR control design for:

42%	Entity level controls
32%	Process level controls
37%	IT General controls
58%	Certain areas

When defining and documenting an ICSR design, we recommend applying the same approach that you would use for internal control over financial reporting (e.g., COSO):

- Establish an understanding of the business - both how you influence the outside world, and how you are influenced
- Perform materiality assessment and scoping of the identified significant areas
- Based on the materiality and scoping, identify relevant KPIs, define goals and determine measures

When you know which KPIs the company must report on, and how these are measured, you can systematically establish internal control over sustainability reporting.

What are the expected new sustainability reporting requirements?

The Corporate sustainability reporting directive (CSRD) is proposed to replace the current regulation, the non-financial reporting directive (NFRD), from 2024. Under the CSRD, companies will have to report on a whole range of sustainability issues relevant to the company's business. Sustainability information will cover environmental factors, as well as social and governance factors.

Companies must report information related to **environmental issues**, including measures to prevent climate change, adaptation to climate change, water and marine resources, use of resources and circular economy, pollution, biological diversity and ecosystems. This requires climate accounting. The environmental conditions required to be reported under the CSRD correspond to the six environmental objectives in the EU Taxonomy.

Reporting requirements related to **social conditions** include gender neutral equal opportunities, equal pay for equal work, equal opportunities for training and development, and employment and inclusion of people with disabilities. It also includes information on working conditions and human rights.

The companies must provide information related to **business management**, including the role of the company's administration, management and supervisory functions related to sustainability, business ethics and corporate culture, including anti-corruption and bribery, internal control and risk management systems to name a few.

Compared to the current requirements for sustainability reporting (NFRD), the main changes following the implementation of CSRD are (see next page):

Required reporting

1. **Business model and strategy,** including
   - Exposure to ESG risk
   - Possibilities
   - Climate plan that corresponds to the 1.5 degree scenario
   - Stakeholder management and influence
   - Strategy implementation
2. **Objectives for sustainability** and progress towards stated goals
3. **Roles and responsibilities for management** and the BoD regarding sustainability
4. **The company's policies** for sustainability
5. **Due diligence assessments**
6. **Risk management**

Other changes from 2024

1. **Large companies meeting the following criterias need to report (same as NFRD).**
   Listed companies and financial institutions that have:
   - More than 500 employees
   - And revenue > MEUR 40 or balance > MEUR 20
2. **Formalisation of principles for double materiality**
   - ESG-related financial risks, and
   - The company's significant impact on ESG
3. **Mandatory attestation** of sustainability reporting
4. Sustainability reporting must be **integrated into the management report**
5. Designing **EU standards (ESRS) for sustainability reporting**
   - Based on GRI standards
   - Includes mandatory reporting of direct and indirect greenhouse gas emissions

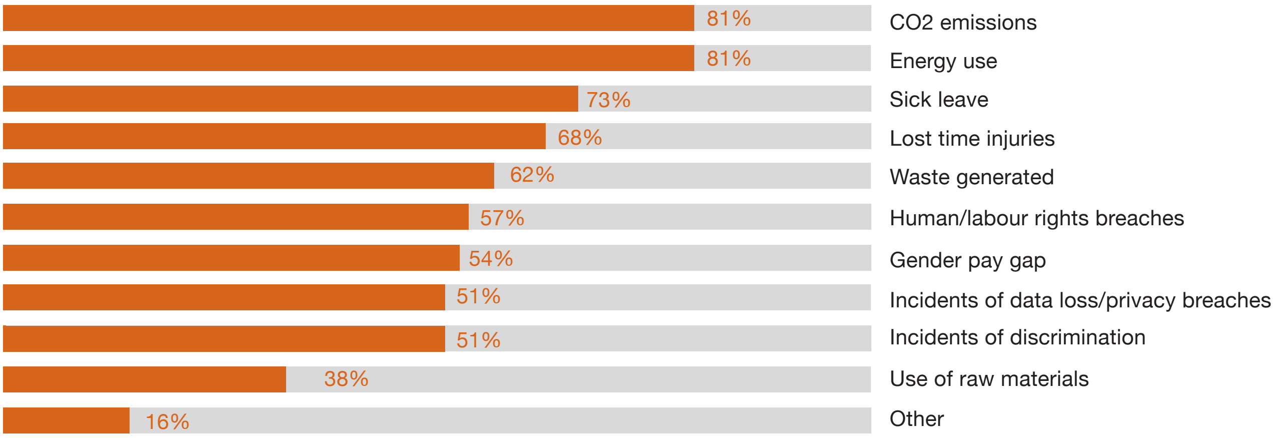
Des 2022
Expected to be approved by the EU

AR 25, financial year 24
Large public interest companies need to report

AR 26, financial year 25
All large companies need to report

AR 27, financial year 26
Listed small and medium enterprises (SMEs) need to report

Which ESG indicators does the company measure and report on?



Other indicators include, but are not limited to, other emissions, water consumption and discharge, supply chain responsibility, whistleblower cases, corruption risk, environmental emissions, employee diversity, skills development, ethical breaches etc.

Examples of ESG indicators to report on:

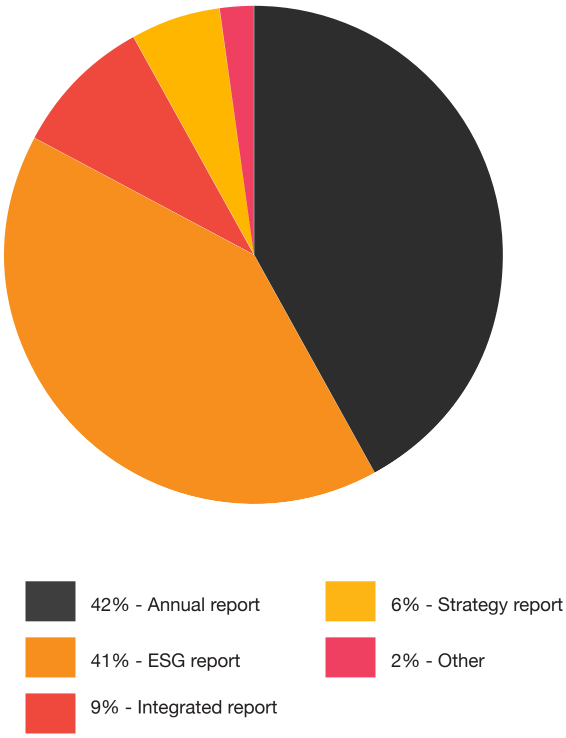
Environmental	Climate Change	Carbon Emissions and carbon tax	Product Carbon Footprint	Financing Environmental Impact	Climate Change Vulnerability
	Natural Capital	Water Stress	Biodiversity & Land Use	Raw Material Sourcing	
	Pollution & Waste	Toxic Emissions & Waste	Packaging Material & Waste	Electronic Waste	Waste Taxes, Plastic Taxes
	Environmental Opportunities	Clean Tech	Green Building	Renewable Energy	Tax & Cash Incentives and Subsidies
Social	Human Capital	Labor Management	Health & Safety	Human Capital Development	Supply Chain Labor Standards
	Product Liability	Product Safety & Quality	Chemical Safety	Consumer Financial Protection	Privacy & Data Security
	Stakeholder Opposition	Controversial Sourcing	Community Relations		
	Social Opportunities	Access to Communication	Acces to Finance	Access to Health Care	Opportunities in Nutrition & Health
Governance	Corporate Governance	Board	Pay	Ownership	Accounting
	Corporate Behaviour	Business Ethics	Tax Transparency Reporting		

How many controls have the companies established per sustainability indicator?

We observe that many of the companies either do not have or have few established controls, indicating that companies need to mature fast as this will be of high importance when their sustainability indicators are to be verified by a third party. While indicators like "use of raw materials" and "waste generated" will not be applicable to all companies, we are surprised to see that most responders say that they have no controls in place for indicators such as "gender gap pay" and "human rights and/or labour rights breaches".

	Median number of controls per indicator among survey responders
CO_2 emissions	1-5
Energy use	1-5
Use of raw materials	None
Waste generated	1-5
Gender gap pay	None
Sick leave	1-5
Incidents of discrimination	1-5
Human rights/labour rights breaches	None
Lost time injuries	1-5
Incidents of data loss/data privacy breaches	None

Where does the company report on ESG?



42 percent of the responders report on ESG in their annual report while 41 percent report in a separate ESG report. In accordance with the CSRD, ESG reporting must be integrated into the management report from 2024 and onwards. Consequently, there will no longer be an option to report in a separate ESG report.

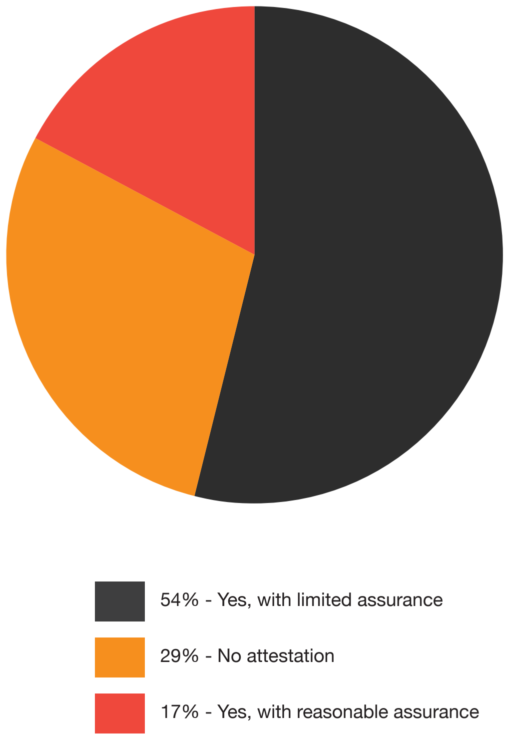
With its new requirements, the EU addresses the problem of quality reporting by establishing a common reporting framework. Global reporting standards on ESG are yet to come. However, the Corporate Sustainability Reporting Directive (CSRD) is a step in that direction and paves the way towards mandatory European sustainability reporting standards. As a consequence, companies will be facing stricter reporting requirements in the years to come.

Does the company obtain third party attestation on ESG?

With the implementation of CSRD, limited assurance of sustainability reporting will become an important part of companies' yearly reporting schedule. Trust in the sustainability information must be ensured through a requirement for an attestation from the company's auditor. In an initial phase, the attestation must be given with limited assurance. It is the EU's intention that in the long term, the attestation should be given with reasonable assurance.

54 percent of the respondents are already obtaining third party attestation with limited assurance on ESG. 17 percent report that they are obtaining attestations with reasonable assurance, while almost one third are not obtaining a third party attestation at all.

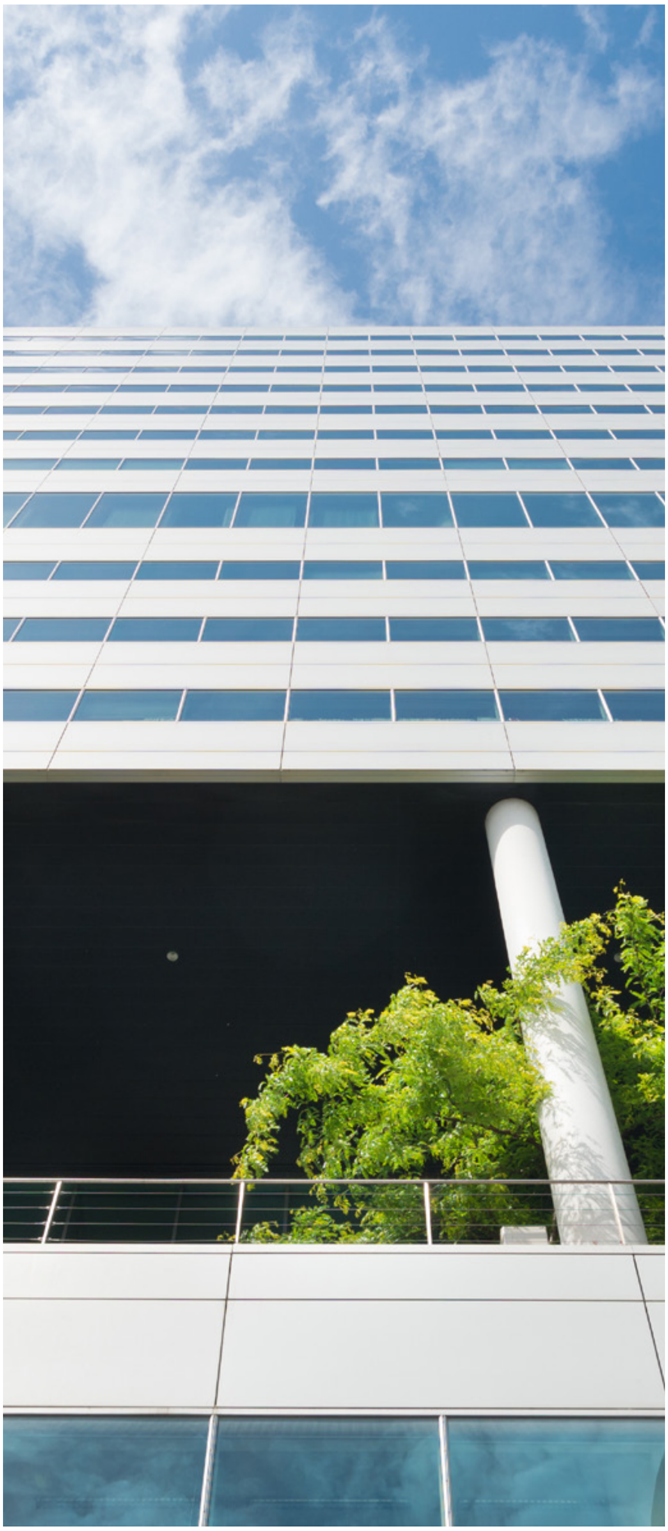
Does the company obtain third party attestation on ESG?



Which standards does the company apply on the ESG reporting?

Global reporting Initiative (GRI), EU Taxonomy and UN Global compact are the most common standards being used for ESG reporting among the survey responders. Reporting on taxonomy-eligibility has been a requirement in Sweden and Denmark since the financial year 2021, which partly explains the high share of respondents saying they report in accordance with the EU taxonomy.

59%	Global Reporting Initiative (GRI)
53%	EU Taxonomy
47%	UN Global Compact
28%	Task Force on Climate-related Financial Disclosures
22%	CDP
16%	Sustainability accounting standards board
13%	Guidelines on non financial reporting
22%	Other



There are many international sustainability frameworks:

UN's sustainability goals
17 goals for sustainable development to be achieved by 2030, ratified in 196 countries.

UN Global Compact
Companies' voluntary commitment to implement 10 sustainability principles on human rights, working conditions, the environment and anti-corruption.

Greenhouse Gas Protocol
A framework for measuring and managing direct and indirect GHG-emissions from private and public operations. The companies account for and report emissions from scope 1-3.

Task Force on Climate-related Financial Disclosures
A set of recommendations for climate-related risk disclosures related to Governance, Strategy, Risk Management, Metrics and Targets.

Global Reporting Initiative
A widely used reporting standard for sustainability all over the world. The framework focuses on materiality in the areas of economics, environment and society.

SASB
Sustainability reporting with a focus on how sustainability affects financial data. It is built as an accounting standard in line with financial accounting.

ISO 26000
Process-oriented guidelines on social responsibility. Deals with management and leadership, human rights, working conditions, environment, fair business, customer relations and development in society.

Integrated Reporting Framework
A framework for integrated reporting that will benefit all stakeholders of a company. KPIs, measurement methods and individual conditions are not required, but the framework contain a few requirements for reporting (including a statement from the board).

Science Based Targets
If a company's targets are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement, it can be defined as Science Based Targets.

Euronext - ESG Reporting
Guidelines for listed companies at the Oslo Stock exchange and issuers for ESG Reporting. The guideline in itself is not a reporting framework but it is based on the GRI standards.

Does your company use an ESG reporting software to collect and/or aggregate data?

Our survey results indicate that few companies are using a reporting software to collect and/or aggregate ESG data. Only 23 percent answer that they are using an ESG software, while the other 77 percent have currently not invested in or implemented an ESG software.

63% - No/not sure

23% - Yes

14% - No, but it is likely that the company will invest in an ESG reporting software

What challenges does your company face in controlling and monitoring ICSR?

As a consequence of new regulations, more and more companies are implementing a proper method/process to ensure that the information they report actually meets the required quality. Nevertheless, all respondents are experiencing challenges in controlling and monitoring ICSR. 84 percent of the respondents say that one of the challenges the companies face in controlling and monitoring ICSR is the use of spreadsheets and 78 percent manual registration. Furthermore, the lack of interfaces between systems, several systems and manual calculations were also reported as challenges. All the while, only 37 percent of the respondents have either implemented or are likely to implement an ESG reporting software. Although the world of ESG reporting has undergone a major evolution in terms of system support in recent years, with a growing number of different providers, it will be a challenge for most companies to find a provider that enables reporting on all ESG aspects.

84%	Use of spreadsheets
78%	Manual registration
59%	Lack of interfaces between systems
56%	Several systems
56%	Manual calculation
50%	Roles and responsibilities
47%	Lack of system support
38%	Local systems

34%	Inconsistent reporting
25%	Unclear definition of indicators
22%	Unclear framework
22%	Accountability
19%	Unclear reporting requirements
13%	Access management
13%	Other

Conclusion

The purpose of this survey is to provide useful insights into current ICFR and ICSR practices. This survey has shown an overall increase in maturity compared to previous years, however, the conclusions from the 2016 and 2019 reports remain relevant as there are still weaknesses and potential for improvement in several ICFR areas. Our main observation is that companies **would benefit from investing in a more risk-based, effective and efficient internal control system for both financial and sustainability reporting.**

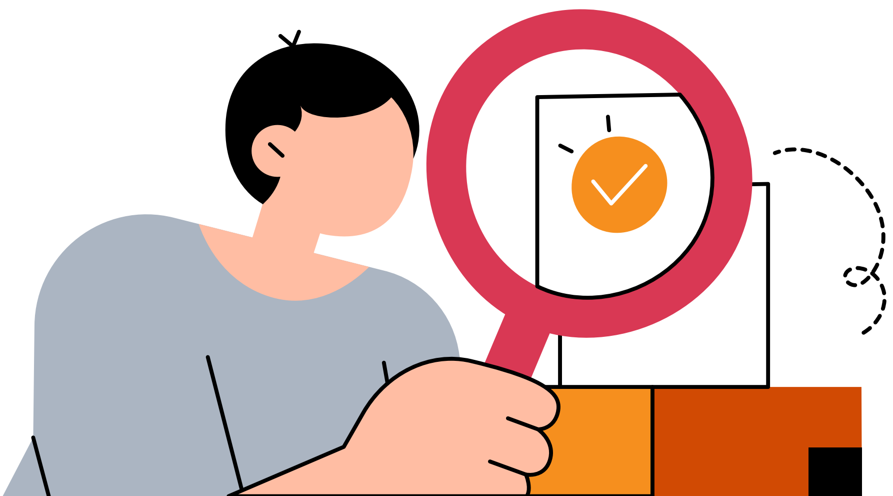
In addition, this report has taken a closer look at current practices on internal control over sustainability reporting and ESG. With new legislation and requirements in this area, we expect to see an increasing focus on sustainability reporting going forward. We hope that by sharing good practices, and our findings and recommendations, we have provided you with some inspiration on how you can prepare for the future.

Whether you are establishing an ICFR or ICSR Framework, or improving your company's framework, our recommendation is that you:

1. Focus on **material risks** - plan and scope your efforts accordingly.
2. Use a **structured approach** for planning, updating, improving, monitoring and reporting on ICFR.
3. **Monitor** – what gets monitored gets managed.

   Aim to **integrate ICFR** into the overall governance and operations of the business - for instance by aligning it with your enterprise risk management, business performance processes and operational procedures.

5. **Communicate** - when roles, responsibilities and how to perform tasks are understood and agreed upon, ICFR is more likely to survive and thrive in the business.
6. **Use technology** to reduce manual tasks, increase productivity and precision and facilitate your ICFR work.
7. To **continuously improve** and maintain the ICFR framework, establish an annual process that should be managed by a designated role or function. Monitoring, evaluation and reporting can be used to ensure continuous learning and improvement of the ICFR process and framework.



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