

# ESG Checklist for Boards.

CPA Australia  
ESG Centre of Excellence.

# Factors for boards to consider

## Background

Environmental, Social and Governance (ESG) refers to the three key factors used to measure the sustainability and ethical impact of an organisation, as well as the processes by which an organisation is directed and controlled. ESG is an area of rapid and significant change, shaping how business is conducted, regulated, measured, and reported on.

Organisations are operating in a period of exponential change that requires agile decision making. This goes beyond a focus on short-term profitability and extends to a range of ESG issues. Larger ASX listed companies face regulatory pressures to address these issues.

Increasingly, SMEs also face stakeholder and wider societal pressures to do the same. Indeed, a recent CPA Australia briefing highlights that SMEs have an opportunity to enhance their reputational capital and to add economic value by being early movers in the ESG space while acting in accordance with their social licence to operate<sup>1</sup>.

In a recent development, the International Sustainability Standards Board (ISSB) issued the first two sustainability standards in June 2023 that makes it imperative for boards to engage in ESG matters. Jurisdictional moves towards ISSB-aligned reporting are also progressing in many countries, including Australia, Singapore, Malaysia, Hong Kong, New Zealand and the UK.

The objective of the standards is to provide a global framework for consistent, comparable sustainability reporting. The ISSB Sustainability Standards capture the environmental as well as social dimensions of business practices. Corporate and other boards will play a key oversight role and will typically need to significantly elevate contemporary practice.

## The pivotal role of the Board

**Corporate boards play a critical role in ensuring that ESG related thinking and issues are embedded in corporate strategy and therefore operations. Regulatory and other societal pressures will now require boards to significantly elevate contemporary practice**

Corporate and other boards play a critical role in ensuring that ESG related thinking and issues are embedded in corporate strategy and therefore operations. This checklist of factors for boards to consider (checklist) is aimed at CPA Australia members who are directors or advisers to boards and seeks to provide explicit reminders of minimum necessary steps to support a discipline toward improved ESG performance.

Whilst the ISSB Sustainability Standards as well as the ASX Corporate Governance Principles and Recommendations are referenced in this checklist, it is recognized that the appropriate standards and frameworks to be used may vary by jurisdiction. Hence, the checklist that follows is necessarily high level and generic, but it is envisaged that users will customize it to fit their organizations' specific jurisdictional and other institutional requirements.



<sup>1</sup> See "SME Governance: How ESG leads to better outcomes and why SME's should act now" CPA Australia, July 2022.

# Checklist

## Environmental, Social and Governance (ESG) Overview

Key questions	Not started	Working towards target	On target	Comments
Does the organisation have documented policies to help instil and continually reinforce a culture of acting lawfully, ethically and responsibly?				
Has the organisation established a board-led governance structure to oversee ESG related risks and opportunities?				

## Environmental

Key questions	Not started	Working towards target	On target	Comments
Does the organisation's strategy development process address environmental and climate-related risks and opportunities that could affect the entity's business model and strategy over the short, medium and long term?				
Does the organisation's risk management process identify, assess and manage sustainability-related and climate-related risks?				
Does the organisation's risk management process include scenario analysis around sustainability-related and climate-related risks?				
Has the organisation identified metrics and targets to assess, manage and monitor its performance in relation to environmental and climate-related risks and opportunities?				
Does your organisation have reliable information on environmental risks and opportunities to inform board decisions?				

## Environmental (Cont.)

Key questions	Not started	Working towards target	On target	Comments
Does the organisation identify and measure its impact on climate change and the production of greenhouse gas emissions including those of its supply chain?				
Does the organisation identify and measure its impact on natural resources and biodiversity, including its use of water, land and materials?				
Does the organisation monitor the ongoing accuracy of targets and identify gaps in data, processes and capabilities?				
Has sufficient training and education been provided to ensure environmental capability gaps are addressed?				

## Social

Key questions	Not started	Working towards target	On target	Comments
Does the organisation's strategy development process address the risks and opportunities associated with social impact that could affect the entity's business model and strategy over the short, medium and long term?				
Does the organisation's risk management process identify, assess and manage risks associated with social impact?				
Does the organisation identify and measure its impact on workers, including relating to working conditions, workplace discrimination, industrial relations, modern slavery, OHS and training?				
Does the organisation have a due diligence system to identify, investigate and mitigate risks of modern slavery practices in its supply chains?				
Does the organisation have processes to assure the quality of its goods or services, and to provide relevant information and protections to its customers?				

## Social (Cont.)

Key questions	Not started	Working towards target	On target	Comments
Does the organisation monitor its impact on local communities, including in relation to community engagement, indigenous rights and its approach to doing business in conflict-affected jurisdictions?				
Does the organisation have a due diligence system to identify and prevent corruption and anti-competitive practices in its operations and supply chains?				
Does the organisation monitor the ongoing accuracy of targets and identify gaps in data, processes and capabilities?				
Has sufficient training and education been provided to ensure environmental capability gaps are addressed?				

## Corporate Governance

Key questions	Not started	Working towards target	On target	Comments
Does the organisation articulate and disclose its values?				
Does the organisation have a process for ensuring it has the appropriate skills, experience, and diversity on the board consistent with principle 2 of the ASX Corporate Governance Principles and Recommendations or international equivalent? <sup>1</sup>				
Does the organisation have a process in place for evaluating board performance and effectiveness?				
Are there clear succession plans for the board members and key executives?				
Has the organisation developed and disclosed a whistle-blower policy with material occurrences reported to the board or a board committee?				
Does the organisation monitor its impact on local communities, including in relation to community engagement, indigenous rights and its approach to doing business in conflict-affected jurisdictions?				

<sup>1</sup> Whilst the ASX Corporate Governance Principles and Recommendations only apply to ASX listed companies, they nevertheless are a guide to best practice.

## Corporate Governance (Cont.)

Key questions	Not started	Working towards target	On target	Comments
Does the organisation have and disclose an anti-bribery and corruption policy and ensure that any material breaches of that policy are reported to the board or a board committee?				
Has the organisation established a sound risk management framework and periodically review the effectiveness of that framework?				
Does the organisation adopt or adapt and emulate all other ASX Corporate Governance Principles and Recommendations, or international equivalent, to achieve good governance outcomes and meet the reasonable expectations of investors and other stakeholders?				
Has the board's climate competence been assessed and requirements for upskilling identified?				
Has the nature and frequency of reporting to the board in view of the forthcoming mandatory climate reporting requirements been established?				
Has the organisation developed a cyber strategy, overseen by the board, to enhance cyber resilience including, but not limited to, data security and privacy? <sup>1</sup>				
Does the organisation have a strategy to evaluate and manage the risks and opportunities presented by generative AI?				

<sup>1</sup> For further guidance, see AICD Cyber Security Governance Principles (October 2022) and ISO/IEC 27007 Information Security Management System (2020).



## Reporting

Key questions	Not started	Working towards target	On target	Comments
Has the organisation established a board-led governance structure to oversee implementation and the quality of sustainability reporting and impact of these reporting requirements.				
Has the organisation determined how it will report on all relevant sustainability issues (not just climate) under a consistent global framework and focus on how these issues impact enterprise value?				
Have the board, management and all other internal stakeholders involved in sustainability reporting been educated about the new requirements to disclose material information about significant sustainability-related risks and opportunities across the entity's value chain?				
Are there clear succession plans for the board members and key executives?				
Has the organisation reviewed their governance structures, systems and reporting against the ISSB Standards' disclosure requirements or other framework and addressed any resulting gaps?				
Has the organisation considered preparing a sustainability reporting plan?				
Has the organisation considered having its sustainability reports and reporting processes assured?				

# References

- ASX Corporate Governance Council Communique Corporate Governance Principles and Recommendations, 4<sup>th</sup>Edition (2019)
- AICD Cyber Security Governance Principles (October 2022)
- CPA Australia “SME Governance: How ESG leads to better outcomes and why SME’s should act now” CPA Australia, July 2022.
- ISO/IEC 27007 Information Security Management System (2020)