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How Can Internal Auditors Drive Sustainability Excellence? Unveiling the Crucial Role of Internal Auditors in Elevating Sustainable Auditing Reports

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Abstract: This thesis aims to investigate the significant role of internal auditors in Portuguese companies, namely in promoting best practices in sustainable audit reporting. By incorporating sustainability considerations into their audit processes, internal auditors have the potential to promote sustainable practices, identify areas for improvement and strengthen risk management frameworks. To effectively promote sustainability audit excellence, internal auditors must possess a sound knowledge of sustainability principles and keep abreast of evolving regulations and standards applicable within organizations.

The present thesis is grounded on a qualitative research approach, namely by conducting eleven interviews with external auditors responsible for validating the reports produced by internal auditors.

Keywords: Sustainable Auditing, Internal Audit Function, External Audit, Portugal

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Chapter 1 Introduction

Soh D. & Martinov-Bennie (2015), highlight the increasing practice of companies reporting their environmental, social, and governance (ESG) performance and integrating it into financial reporting. However, there are still areas for improvement, particularly concerning the role of internal auditors.

This thesis aims to shed light on the crucial role of internal auditors in promoting sustainability excellence in Portuguese companies, particularly in the context of sustainable audit reports. The research focuses on the perspective of external auditors, who play a vital role in validating the reports prepared by internal auditors. The research question, "How can internal auditors drive sustainability excellence?" derived from an extensive literature review, focuses on the extent to which external auditors can trust the work of internal auditors, as discussed by Soh D. & Martinov-Bennie (2015).

Based on interviews with eleven participants, the findings highlight the growing need for companies to establish a dedicated department for addressing ESG issues., as the internal audit department is more involved and capable of responding to financial and accounting matters rather than sustainability issues. The respondents also emphasize the increasing demand for professionals with expertise in environmental issues and the importance of skill development in this area. Furthermore, the results demonstrate that an internal audit department with knowledge and preparation in sustainable issues can substitute for or collaborate with external auditors to validate results.

The research is structured as follows. The subsequent section presents relevant literature. Next, the methodology is presented, followed by the findings. The fifth and final section discusses the findings, followed by the conclusion, which aims to answer the research question.

Chapter 2 Literature Review

This chapter examines the literature on the research question " How Can Internal Auditors Drive Sustainability Excellence? Unveiling the Crucial Role of Internal Auditors in Elevating Sustainable Auditing Reports" and establishes its academic relevance.

2.1 What is Sustainable Audit?

Based on the findings presented by Hodge et al., (2019), the auditing of sustainability reports or corporate social responsibility (CSR) reports fulfils the vital function of documenting a company's economic, social, and environmental performance. In recent years, organizations have increasingly embraced the practice of disclosing their sustainability initiatives, leading to a spectrum of disclosure levels, encompassing concise paragraphs to comprehensive sections integrated within the company's extensive report (Hodge et al.,2019). In this instance, the sustainability audit reports concentrate on assessing various aspects such as the influence of the company's operations on the well-being of individuals, the degree of confidence held by consumers, employees, and shareholders towards the company, and other pertinent factors (PwC,2017).

These reports have a primary objective of examining the influence of environmental factors on the financial statements. Through this assessment, the auditor can provide their expert opinion on the company's social, economic, and governance performance (IIA,2021). Additionally, auditors verify the adherence of the governance model to the G4 guidelines endorsed by the Global Reporting Initiative or other frameworks deemed suitable based on the organization's specific requirements (IIA,2021).

2.2 Frameworks of analysis

According to PwC, 75% of companies that issue sustainability reports choose the GRI as their reporting approach. Indeed, the framework is confirmed as the benchmark standard. The GRI is designed to disclose various indicators related to ESG issues that may be relevant to

stakeholders. Companies select these indicators based on materiality and considering the stakeholders' perspective (IAA,2021).

Although GRI is the most used framework, companies can choose which one they want to adopt; there is also the Sustainable Accounting Standards Board (SASB). In this case, the framework discloses some more relevant indicators for the sector where the industry is inserted and is more directed to a specific target - investors. As in GRI, the SASB framework suggests possible vital indicators for the seventy-seven industries (IAA,2021).

Another possible framework is related to integrated reporting, a practice rare in Portugal, at least according to PwC (2017). In this case, the framework encompasses financial and non-financial performance and how both impact the company's performance in the short, medium, and long term (IAA,2021). In addition, companies should also provide the type of approach to external processing to ensure reliability. One of the criteria is the International Standard on Assurance Engagements 3000 - it ensures that the basic principles and critical assurance procedures are followed. It also provides the approach and ensures that the project is developed in line with auditing standards (Zorio et al., 2013). There is also the Accountability Assurance Standard (AA1000AS). These principles are used to develop a strategy for sustainability in line with stakeholders, including analysing the social, economic, governance, and financial performance that impacts the company in the long term (Zorio et al., 2013).

2.3 Audit Committee, Corporate Governance and Internal Audit

According to the Office of the Director of Corporate Enforcement, corporate governance (CG) is aimed at establishing a trustworthy, transparent, and accountable environment that ensures long-term financial stability and business integrity, thereby fostering substantial growth and inclusivity in society. This objective is in line with the principles outlined in the G20/OECD Principles of Corporate Governance (OCDE,2016).

To enhance CG, it is important to consider four key principles: transparency, accountability, responsibility, and fairness (Solikhah & Maulina, 2021). These principles are closely related to Corporate Social Responsibility (CSR), as described by Kolk & Pinkse (2010) in their governance paper. CSR emphasizes the balance between economic and social objectives, focusing on efficient resource utilization, accountable exercise of power, and the corporation's conduct within its social context (Hodge et al., 2019). Audit committees significantly impact CG as they oversee the internal control system in association with internal auditors, maintain relationships with external auditors, and ensure compliance, which is reviewed by external auditors (Al-Ajmi & Buallay, 2020).

The audit committee plays a critical role within the organizational structure, connecting internal auditors, external auditors, and the board of directors. It serves as a mechanism to minimize agency problems, rooted in individuals' self-interests and potential conflicts. Through committees and an internal audit department, the board of directors monitors its activities closely, while sustainability reporting holds managers accountable (Tumwebaze et al., 2022).

Tumwebaze et al., (2022), research explores the relationship between audit committees, CG, internal audit, and sustainability practices through the lens of agency theory. Companies with audit committees and internal audit departments are more likely to produce comprehensive sustainability reports accountable. These mechanisms enable effective monitoring, ensure accountability, and meet the societal demands for transparency (Bananuka et al., 2018).

In summary, the interdependence and influence between corporate governance, sustainability reporting, audit committees, and internal audit departments are evident. Corporate governance establishes sustainable practices, while sustainability reporting enables transparent communication. The presence of internal audit departments and audit committees supports the credibility and reliability of the sustainability reports.

2.4 The role of internal audit

An internal audit function (IAF) is a critical part of the corporate governance system, and this department is responsible for being the gatekeeper of the company (Yuvaraj Ganesan 2017). This area has undergone many changes over the years to meet the needs of the corporate world and now serves as risk analysis, assurance, and compliance (Mohamed et al., 2012).

However, the internal audit department is sometimes perceived as functioning like an internal consultancy, which raises concerns about its independence (Ganesan et al., 2017). Maintaining independence is crucial for internal auditors to fulfill their responsibilities objectively and without bias. The primary objective of the internal audit department, according to Ganesan et al. (2017), is to provide support for decision-making and governance processes at a strategic level. It focuses on evaluating the effectiveness of the systems and processes in place, which helps identify potential issues or areas of concern for the organization.

As mentioned before, the interest in sustainable audit reports has increased, leading to increased demand for assurance on the veracity of sustainable audit reports. Trotman & Trotman (2015), believe that assurance services can leverage the quality of sustainable audit reports. The same author argues that the board of directors and the audit committee have requested the services of this department in the development of the reports.

Furthermore, the IAF is a crucial player when it comes to complementing the work of the external auditor and when it comes to internal stakeholders (board and audit committee). Considering the last point, the IAF tries to counteract the risk that some managers manipulate the results of their reports to create an image of the company that is more positive than it is (García-Sánchez et al., 2021).

Based on other studies, creating sustainable audit reports with an internal audit department at its base allows the organization to improve its internal management capabilities. Though IAFs have increased, according to some researchers, the audit culture relies heavily on external auditors for measuring the organization's performance based on previously selected corporate

social performance indicators (Hermanson & Rittenber, 2003). The authors argue that internal auditors can understand both the framework for attaining external benchmarks and the capacity to engage at the operational level in a manner that can involve the organizational structure to improve sustainable endeavors (IAA,2021). Thus, internal auditors can be seen as a replacement for external auditor validation if the validation of external auditors is optional or desired.

2.5 Sustainability Assurance

Since 1990, there has been a rise in sustainability-related activities, driven by both companies and stakeholders' increasing interest in sustainability assurance (DeSimone et al., 2021). Stakeholders now place greater emphasis on organizations' environmental, social, and governance (ESG) performance, prompting companies to integrate sustainability practices and provide assurance to gain stakeholder trust.

Based on Allegrini & Greco (2013), companies publish sustainability information to address agency conflicts. The reasoning behind an audit is that companies need to be externally verified. According to O'Dwyer et al., (2011) research on assurance sustainability focuses on the assurance features developed by an entity external to the company to increase the credibility of the reports. There is no universal regulation for issuing sustainability reports, so sustainability assurance is optional. Thus, Simnett et al., (2009) defines that this exercise is still voluntary and reports that companies' motivations to seek these services are related to belonging to sensitive industries, legal issues, or stakeholder environmental issues.

In the words of DeSimone et al., (2021) it is expected that, over time, the internal audit activity will increase in what concerns assurance. This fact is relevant because internal auditors usually have the expertise in regulation and benchmarking; some points may be included O'Dwyer et al., (2011).

Finally, O'Dwyer's study focuses on the involvement of internal auditors in sustainability audits. Risk management and internal control systems are becoming increasingly prominent for external assessors as they assess them to gauge the reliability of sustainability reporting processes. Thus, the author proposes that companies use internal auditors as providers of sustainability assurance or use them to increase stakeholder confidence.

2.6 Limitations of sustainable audit and the role of internal auditor

Currently, the issuance of non-financial reports is a growing need for companies. However, it presents some gaps because it is a new area with limited legislation, too many frameworks, and due to its subjective and optional criteria (Khan & Ali, 2023).

According to the questionnaire developed by McKinsey & Company, investors mentioned that they could not base their decisions on sustainable audit reports. Associated with this problem is the question of the frameworks used, as there are several, and companies use the most convenient to their reality, making comparison difficult (McKinsey & Company, 2019). In the same study developed by McKinsey, investors and executives mentioned that an alternative to facilitate comparison between companies would be reducing the number of standards used. Based on the McKinsey & Company (2021), investors are looking for more credible reports that are audited as regularly as financial audits.

Another limitation of reporting today is the need for more consideration given to public opinion. PwC emphasizes the importance of integrating consumer opinion into corporate reports. It highlights the need for alignment between the priorities sought by citizens and the objectives considered relevant by companies. This alignment ensures that companies address the concerns and expectations of their consumers in a transparent and meaningful way.

Regarding the reporting field, another limitation to be considered is the need for more maturity of companies, especially at the national level, to produce an integrated report (PwC,2017). This report aims to demonstrate how ESG practices materially impact financial

performance (McKinsey & Company, 2019). Also, consider the concept of accountability. Non-financial reporting encompasses multifaceted concepts, and therefore, the need for findings to be validated increases to transmit more transparency, trust, and clarity (McKinsey, 2021). In Portugal, only 57% of the companies that issue this report are verified by an external and independent entity (PwC,2017).

Finally, considering the results of the study developed by PwC, the question of quality arises. At the global level, the average quality of the reports is 2.03 to 5, while in Portugal, the average quality is 1.35 to 5. These values show how qualitative the reports still are (PwC,2017).

Considering the text mentioned above, the role of internal audit is closely linked to the challenges and limitations of sustainable audit reporting. Internal auditors can address these limitations by validating, ensuring comparability, aligning with stakeholder expectations, promoting information maturity, and improving the quality and assurance of non-financial reporting. Internal auditors' expertise and independent perspective can improve the effectiveness and credibility of non-financial reporting processes (Tumwebaze et al., 2022).

Chapter 3 Methodology

This chapter outlines the research methodology, data collection and analysis methods, and the identified interview population. Limitations encountered during the research are also addressed.

3.1 Research Design

This thesis explores the views of 11 interviewees on how internal auditors facilitate the issuance of sustainable audit reports by external auditors. Using interviews and literature, the thesis aim to bridge the gap between these two areas and answer the research question. The study uses an inductive research approach and qualitative method to analyse the flow of information from internal to external auditors.

As stated by Patton (2005), qualitative research is based on the analysis of field observations, in-depth and open-ended interviews and written documents. The inductive method involves moving from the particular to the general, as when empirical observations are made about some phenomenon of interest and concepts and theories are formed based on them (Locke, 2007).

In this research endeavour, the grounded theory approach was adopted, specifically employing an inductive methodology. Grounded theory involves systematically gathering, synthesizing, analysing, and conceptualizing qualitative data with the objective of constructing new theories (Jørgensen,2001).

3.2 Data Collection

In this part the aim is to make known the types of data collection done throughout the research and explain the structure of the questionnaire made the companies under analysis.

3.2.1 Secondary Data

Secondary data refers to data that has been collected and analysed by someone else and is not the direct responsibility of the analyst. This type of data collection can be done through various sources, in this case, reports, books, sustainable auditing articles, academic journals, and framework websites. By utilizing secondary data, researchers can gain a deeper understanding of the topic at hand, identify existing research, and potentially identify areas where further research is needed (Irwin, 2013).

3.2.2 Primary Research

The method of data collection used in this study involves obtaining information directly from the source - the people who worked in the companies being analysed (Bell,2022).

In this study, semi-structured interviews were employed to allow interviewees to seek clarification on the questions being asked, giving the interviewer the opportunity to refine them if necessary (Hox & Boije, 2005). The primary data was collected through interviews conducted

via Zoom, calls, and in-person using open-ended questions, to ensure a thorough analysis of the answers provided. All interviews were recorded and transcribed for further analysis.

3.2.3 Population

The population in this thesis is a group of professionals who have experience and expertise in preparing and analysing sustainable audit reports, being able to answer the research question (Packer-Muti, 2009). In this case, the population comprises 11 people operating in different companies. Professionals in auditing and assurance are the groups under which the study is centred. This population is considered adequate because it contains professionals with experience in the topic under analysis (Etikan et al., 2016).

For the present study, the procedure used will be non-probability sampling based on the population's characteristics and the research's purpose (Naderifar et al., 2017). This sampling method allows the researcher to choose people who can answer the research question (Naderifar et al., 2017). According to DiCicco-Bloom & Crabtree (2006), this type of procedure is appropriate for a qualitative thesis because the interviewees are chosen considering deliberate criteria, knowledge, understanding, and experience regarding, in this case, the preparation and analysis of non-financial audit reports.

3.2.3.1 Portuguese Context

Considering the national landscape, the studies developed that focus more on this topic were: "The challenges faced by Portuguese companies in prioritizing the ESGs and in non-financial reporting 2017- Is your company prepared?" (PwC, 2017) and as a complementary study "International Survey of Corporate Responsibility Reporting 2020" (KPMG, 2020), so it is possible to understand Portugal's framework at national and international level.

The study developed by PwC is based on the non-financial reporting of 35 companies at the national level operating in 6 different activity sectors and 470 at a global level. The main takeaways from this study show that 69% of the national companies analysed publish non-

financial reports. Of those that do, 18 companies use GRIs as their primary tool for documenting findings. In addition, 57% of Portuguese companies have their non-financial reports externally verified (PwC,2017).

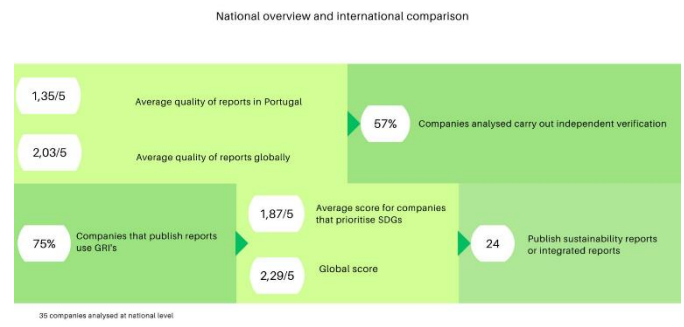


Figure 1- National Overview and International Comparison
Source: PwC(2017)

Comparing Portugal to the international level, it is possible to verify that 174 surveyed companies selected specific ESGs in their non-financial report globally. In Portugal, only 9 out of 35 surveyed companies selected specific ESGs as a reporting priority. Also, regarding prioritization of the ESGs, 38% of companies globally and 57% nationally did not mention any ESG in their report. One of the explanations for this fact is related to the lack of prioritization of goals to achieve ESG. Based on the 52 countries where the research developed by KPMG for 2020 is based, 27 percent have a sustainability reporting rate above 90 percent. (KPMG,2020). The same study also lists the regions and jurisdictions with an emission rate between 77 and 90 percent, and the last group focuses on the rate below 77 percent. In 2020 Portugal had an emission rate of 72 percent, while in 2017, the figure was 80 percent (KPMG,2020).

Portugal's non-financial reporting is at an early stage, facing challenges due to companies' need for guidance in prioritizing relevant ESG factors. This lack of understanding contributes to lower emissions and quality in the reports. The *Figure 1* sum up the main figures of the Portuguese landscape.

3.2.4 Interview Structure

The first part of the interview focuses on the limitations of the reports issued by the persons interviewed, the method of selecting the frameworks, explaining the role of the internal audit department. Besides the difficulties experienced by these and the interviewees' perception of how the interviewees see the future of both the frameworks and how the results are reported.

The last part of the interview focuses more on the interviewees' opinion on the number of reports issued in Portugal and the differences it found between auditing an individual company or an intra-group company.

3.3 Data Analysis

The method chosen for data analysis is related to the Gioia methodology. According to the authors Mess-Buss et al., (2022), if a theory of induction is applied through observational data and an analytical process, the Gioia methodology is rendered compatible with the standards of a qualitative discipline. With this methodology, the interpretative method can be reconciled with the mainstream, namely qualitative analysis.

The first phase of the Gioia methodology relates to the information provided by the interviewees. In this way, the first codes must be as close as possible to the information provided. The focus is identifying differences or similarities in the interviewees' discourse to create concepts (Gioia, 2021). This first task is known as Grounded Theory. Next comes the theorizing part. Considering the first phase, the goal is to categorize the concepts further. In this second phase, the concepts are more abstract. The dynamic model emerges lastly. In this case, aggregate dimensions are created that can be generalized or further defined.

Thus, it is a model that recalls a linear input-output model where boxes and arrows are used (Gioia et al., 2013). Based on Cornelissen (2017), this model aligns with "propositional forms of explanation." The Gioia methodology for this thesis is presented in Figure 2.

3.4 Reflections on the methods

Qualitative research has come under some criticism over the years for several reasons: the lack of justification for the claims made leading to sceptical thinking and researchers building theories based on scant evidence (Gioia et al., 2013).

Considering the criticisms to which this method is subject, this chapter aims to reflect on how it was possible to mitigate them within the available resources. The first limitation relates

to data collection, the qualitative study is related to the knowledge of the interviewees, so the results are dependent on the number of people who are available to grant an interview. Through the social network LinkedIn, I contacted 40 people who were working in audit and assurance. From these 40 people, I could contact 20 on LinkedIn and manage to send the message, but only 11 were available to grant an interview.

A limitation arises when considering how to convey rigor and credibility in a study that relies on subjectivity (Kapoulas & Mitic, 2012). The interviews in this research were analyzed using the Gioia methodology, a grounded theory approach consisting of four steps. Firstly, the research question is framed with a focus on "how." Secondly, data collection through flexible interviews allows adaptation to interviewees' responses. Thirdly, data analysis involves establishing relationships between the identified themes. Finally, the results are articulated within the grounded theory framework, resulting in a developed model based on the obtained data. Annex 1 provides the developed model, which is aligned with the information gathered in the interviews (Gioia, 2013).

Chapter 4 Findings

The findings from interviews with 11 professionals in the field are presented in *Figure 2*, highlighting four main dimensions: the influence of the internal auditor, the relevance of the audit committee, limitations in reporting, and the national landscape. This chapter delves into these themes and dimensions, providing a comprehensive analysis of the results.

4.1 Influence of the Internal Auditor

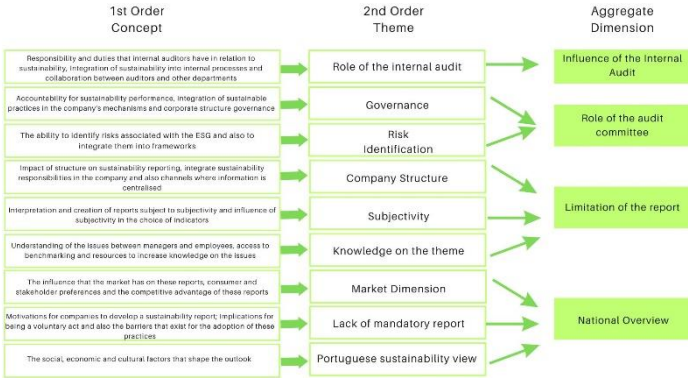


Figure 2- Gioia Methodology

During the interviews, it was noted that there is a clear handicap in what concerns the role of internal audit in speeding up processes related to sustainable Auditing. For this dimension, one theme was considered

4.1.1 Role of the internal Auditor

Considering the various responses that it was possible to obtain about this theme, the role of an internal auditor is almost non-existent in Portugal, and the issue is that if this existed, perhaps the risks associated with sustainability would be lower. "This is a clear handicap in the area of sustainability in Portugal. Most internal audits do not do or do very little work in these areas, which are the capture processes of SDG data. An evolution is needed in this matter. The role of the internal auditor in Portugal in these sustainability matters needs to evolve, and it is currently limited and scarce. Internal Auditing is historically prepared to deal with areas of finance and IT when faced with new, disruptive areas which are often competing for resources in the market with large companies in which typically the people in this area are people who are being triggered in the market with large salaries, have the power of choice and end up not choosing internal auditing" and it was also mentioned: "When we talk about internal Auditing with knowledge of sustainability, it is almost non-existent."

4.2 Role of the audit committee

The second dimension explores the interviewees' perspectives on the role of an audit committee in addressing sustainability issues.

It involves two themes related to the committee's potential in overcoming internal limitations in sustainability reporting.

4.2.1 Governance

The interviews revealed a connection between governance and the audit committee, highlighting their interdependence in promoting sustainable practices. While governance was not explicitly mentioned in relation to the audit committee, it was evident that the committee's

effectiveness relied on the presence of strong governance practices. The committee played a crucial role in assessing internal controls, identifying risks, and ensuring sound financial reporting. "Audit committees are mainly presented in listed companies, although they exist in non-listed large companies, their main role is to supervise the company's financial reports, risk management, and internal control, however with the introduction of sustainable objectives, these committees had to broaden their scope of review the company's sustainability policies, as well as review the sustainability..." said by an Analyst (See Annexes 1).

4.2.2 Risk identification

The interviewees identified the audit committee to make known the risk to which the organization is subject at the sustainable level and what the impact may be at the financial level if these same risks are not mitigated. For example, according to a Consultant Level 1 present in the Annexes 2 "It helps the sustainability part because it is these committees that identify the risks the organizations are subject to," also the Analyst in the Annexes 1 said that "... the introduction of sustainability policies, as well as review the sustainability report according to the obligations and requirements". One of the interviewees related the importance of this committee in how the information is transmitted to the stakeholders according to the Senior Manager (See Annexes 3), "The audit committee aims to ensure the veracity of the information, as it contributes to the credibility of the entire management process ...". "The impact they can have on consumers and the existence of a committee on top of the risks can convey credibility. It was also mentioned how relevant the committee is to overcome the risk of lack of standardization and its subjectivity, since there were guidelines to facilitate these analyses "... due to the vast difference in interpretation, controls not yet defined most precisely, and difficulty in implementing various sustainable actions, these documents may lose their value for the audited companies", say by Analyst in Annexes 4. Existing a committee,

standardization, and stabilization could be the key factors that could be created. Thus, even the assurance auditor's work would become easier.

4.3 Reporting Limitations

The interviews highlighted the limitations of non-financial reports as a significant factor impacting their quality. These limitations were recognized by all participants and were found to have a substantial impact on the work of external auditors. Three themes emerged within this context.

4.3.1 Organizational Structure of the Companies

One of the most frequently mentioned points throughout the interviews was the lack of capacity that companies must adapt to this new reality - sustainability. The lack of structure then conditions the information collected, which in turn conditions the quality of the reports. "On environmental issues, it will depend. Is there one department where everything is concentrated, or does each department deal with its area? For example, the social issue could be the human resources department, while the pollution could be the factory manager...everything is spread out" (See Annexes 2). According to an Ex-Analyst present in the Annexes 8, "Failure is internal. Companies do not perceive the importance of this kind of report. The company has several departments; even if there is a sustainability department, it focuses on social responsibility and the environment. Everything else is dispersed. (...) One of the problems that arose was the accounting department said one number, and the department responsible for giving these figures for the sustainable audit said another number. The departments are not articulated with each other. In the sustainable audits, you find that the information comes in the wrong or not at all." For the Consultant Level 1, Annexes 9, "The biggest problem companies face is the new need and the adaptation itself. When you analyse a company at the financial level, you have everything centralized, but not here. This brings even more challenges to companies". Finally, a manager present in the annexes 11 said

"Organisations put sustainability anchored in marketing because they associate this with a need to communicate that they are doing something. Others say that it is close to this in that certification area because they have the ISAS, but the information is mishandled."

4.3.2 Subjectivity

The Subjectivity associated with the reporting practice causes quality to be questioned, "Now there are no defined criteria, so companies report the factors and indicators that are most convenient for them, omitting those that could be more penalizing.", said by a Partner (See Annexes 10). Another factor, mentioned by an Ex-Internal Auditor and a current Analyst at a Big Four "Each company reports what it thinks is best and most advantageous so as not to damage its brand or prestige. This also raises questions about the quality of the reports." Furthermore, there are several frameworks, and each company reports in its way, making comparison difficult. Once again because it is a subjective matter, companies can calculate the same indicator in several ways, according to the Partner "multiple frameworks which make comparison difficult. In this sense, the European taxonomy emerges because there is a need to create rules and indicators that allow this comparison. Despite everything, the GRIs have a set of indicators that facilitates some comparability. What is the biggest problem? GRIs have a set of main, so they do not describe how the indicator should be calculated; some indicators are subjective... Applicability makes one company consider one criterion and the other choose another". (See Annexes 10).

4.3.3 Knowledge of the theme

Another point mentioned several times throughout the interviews was the lack of knowledge that the companies themselves have concerning the theme. The external auditor goes to the company to validate what has already been done if the entity itself has difficulty in defining metrics or a lack of knowledge on the subject; all these conditions affect the quality of the report. Some key messages on this theme were, following the reasoning of an Analyst in

the annexes 6 "Lack of training and information on sustainable reporting ..." also other Analyst herein in annexes 7 mentioned that "...the lack of knowledge and preparation of companies about these themes. They want to issue reports but are not sensitive enough to understand what is materially relevant"; "When I was doing the benchmark, the previous reports were super simple, no concrete information, super vague. They could not be audited. I felt the lack of quantitiveness...". Last the Partner referred that "The big challenge is the dependence on teams that have nothing to do with sustainability, i.e., the financial data comes from accounting. Most of these people have adequate training to deal with this data, and the information on sustainability is dispersed across several areas." (See Annexes 10).

4.4 National Overview

In the interviews, the participants were repeatedly asked about the national context and its significance, considering the KPMG study and the emerging field of non-financial audit reporting. Understanding Portugal's position in this evolving market is crucial, and three themes were explored within this dimension.

4.4.1 Market dimension

The Portuguese market, primarily consisting of small and medium-sized enterprises (SMEs), holds significant importance in terms of sustainability reporting. While the PSI20 index, comprising a limited number of companies, has made sustainability reporting essential, it remains optional for most SMEs. However, listed companies face pressure to align with industry standards and compare their performance with peers through sustainability reporting. Non-compliance with these expectations carries negative consequences.

4.4.2 Lack of mandatory reporting

The issue of mandatory reporting is closely linked to the issue of market size, and the two complement each other. As mentioned above, although it is not mandatory, listed companies

are expected to present a report. Considering that 99% of the Portuguese business fabric comprises SMEs, compulsoriness affects the number of reports issued.

For example, “if we take only the companies listed in the stock markets, Portugal does not have 20. (...) I believe Auditing is a cost and obligation for most companies” (See Annexes 2). The Partner reported that "In many cases, it does not mean that they (companies) do not think it is relevant, but because of the opportunity cost due to the cost".

4.4.3 The Way the Portuguese view sustainability

A point made during the interviews was how the Portuguese see sustainability and that perhaps this explains why they see it as a cost, not an asset. The analyst noted that “I would say that education plays an important role. Maybe, in comparison with other countries, we are very behind on this issue. In my opinion, it all lies in the way sustainability is communicated. If you think about it, most companies focus on how their company does or does not affect the planet in environmental terms, and they forget that it's not only the environmental part that counts. The social part and governance greatly affect the sustainability of a company. I look at the reality in Portugal, and the social part raises big questions. Apart from that, I cannot say this happens in Portugal, but many companies do these reports because it looks good, not because it is a problem for them". (See Annexes 5).

Chapter 5 Discussion

This chapter presents a comprehensive analysis of the findings, drawing on insights from the literature review and interviews with eleven practitioners. It incorporates existing research to deepen our understanding of key dimensions, including the role of the internal auditor, the importance of the audit committee, reporting limitations, and the national landscape.

5.1 Influence of the Internal Auditor

When we contrast the literature review and the findings, we find a significant handicap of the national panorama. Trotman (2015), the author argues that the board of directors and the

audit committee have requested the services of the internal audit department in developing the reports. In comparison, the interviews revealed a disadvantage: the absence of an internal audit department focusing on environmental issues.

According to Yuvaraj Ganesan (2017), one of the critical points of corporate governance is the existence of an internal audit department. It is this department that has the responsibility of safeguarding the company from risks. Today, with the need to give stakeholders and consumers a report that discloses what companies do beyond the financial side, there is a need for internal auditors to start taking on roles in these areas. Internal auditors have the role of checking the materiality of items and checking that controls to mitigate those risks are being applied well. In a company that does not need to be externally audited, it is enough to have good professionals in sustainable auditing to have a quality report. Considering the results obtained in the interviews and the literature review, companies need to adapt to the new needs. In other words, the internal audit department adapts and has IT and finance knowledge but needs to know such a disruptive theme.

Furthermore, in Portugal, what is possible to conclude is that only the most robust companies can afford to have an internal audit department focused on these issues, and even then, exceptions are rare. In the national reality, an internal auditor's understanding of sustainability is almost non-existent, “qualified people in the companies to perform this role and mainly because instead of an internal audit department, companies place this responsibility in the marketing department. This subject of internal auditing in Portugal is not so generalised; the companies that do have it are large companies. When we talk about internal auditing with knowledge of sustainability, it is almost non-existent.” (See Annexes 10).

5.2 Role of the audit committee

Audit reports provide insights into areas where organizations can enhance their performance. When sustainability is integrated into corporate governance, companies can

effectively manage their risks, and this integration necessitates the presence of a dedicated committee. Thus, companies that successfully incorporate sustainability frameworks into their corporate governance enable their committees to achieve sustainable long-term growth.

The interviews conducted in this study underscored this need, particularly in listed companies where the integration of sustainability practices is more prevalent. Even in smaller or less robust companies, there is recognition of the importance of having a committee, albeit in an informal capacity.

Tumwebaze et al., (2022), research explores the relationship between audit committees, corporate governance (CG), internal audits, and sustainability practices through agency theory. Companies' audit committees and internal audit departments are associated with producing comprehensive and accountable sustainability reports. Analyzing the interview findings, the most consistent point raised by all interviewees was the significance of audit committees. They emphasized the importance of audit committees in addressing mistakes earlier and contributing to the credibility and accountability of sustainable audit reports in organizations “. The audit committee aims to ensure the veracity of the information, as it contributes to the credibility of the entire management process, ensures that resources are being used effectively and contributes to the continuous improvement of the disclosure process. Auditing informs stakeholders and potential investors that management risks are being effectively analysed and demonstrates the entity's commitment to improving its economic, environmental and social performance” (See Annexes 3).

5.3 Limitation on the report

The interviews revealed various limitations in sustainability reporting, including issues related to the organizational structure of companies, subjectivity of themes, and lack of knowledge regarding sustainability issues. These findings align with the literature review presented in Chapter 2. McKinsey (2019) highlighted the challenge investors face in decision-

making due to companies using their preferred reporting frameworks, which can hinder comparability and adherence to standardized practices. Credibility emerged as a recurring theme, with interviewees expressing concerns about the quality and credibility of reporting.

The interviews underscored companies' lack of knowledge and tendency to report selectively, focusing on factors and indicators that align with their interests while omitting potentially unfavourable aspects. This practice raises questions about the quality and credibility of sustainability reports. The absence of defined criteria further exacerbates this issue, allowing companies to tailor their reporting to their advantage. Another challenge highlighted in the interviews is the difficulty of producing integrated reports that comprehensively explain how environmental, social, and governance (ESG) issues impact financial performance over different time horizons. The lack of awareness and understanding of sustainability issues within organizations hampers the development of such reports. The absence of internal audit departments with the necessary expertise further exacerbates this challenge.

Tumwebaze et al., (2022) suggests that internal auditors can help address these limitations by validating, benchmarking, aligning stakeholder expectations, and validating non-financial information. However, the interviews revealed that it is uncommon for internal audit departments in Portugal to perform these functions or possess the requisite knowledge.

In conclusion, the findings indicate that many organizations in Portugal grapple with the limitations identified in this study.

5.4 National Overview

Figure 3 reveals a gap between the Portuguese reality and the literature review. While some interviewees believe Portugal is not far behind and is well positioned in Europe, important considerations from the literature should be considered. Specifically, having a dedicated internal audit department specialized in sustainability, which is lacking in some Portuguese companies, can impede progress in sustainability reporting.

According to KPMG (2020), there were noticeable differences in sustainability reporting during the period studied. Interviews highlighted an increasing trend in sustainable reporting, with COVID-19 and past reporting quality issues mentioned as reasons for the variation. Companies are now working to enhance their reporting with the support of reputable firms. It is important to note that some Portuguese companies report every two years, which may have influenced the KPMG survey results. Additionally, the ongoing COVID-19 situation has led to reduced sustainability reporting as companies prioritize core matters due to associated costs.

Analysis of the PwC document, interviews, and the time lag between the report and interviews suggests minimal changes. The Global Reporting Initiative (GRI) framework remains the most widely used. However, companies continue to face challenges in obtaining quantitative data and often seek assistance from Big Four firms under pressure. The persistent lack of understanding and sensitivity in selecting appropriate indicators for sustainability reporting highlights the need for education. This applies to internal audit team members specializing in sustainability and the overall reporting process.

Comparing reports with a time gap of three to five years from the interviews, it becomes evident that Portugal still has a significant distance to cover in the field of sustainability reporting.

Criteria	Interviewees										
	1 Analyst	2 Cl	3 Senior Manager	4 Analyst	5 Analyst and Ex Internal Audit	6 Analyst	7 Analyst	8 Ex Analyst	9 Cl	10 Partner	11 Manager
Existence of an internal audit department	Yes	Yes	Yes	Yes	Yes	Yes	Depends on the size	Yes	Depends on the size	Yes	Yes
Internal audit department with capacity to respond to environmental issues	No	No	No	No	No	No	Depends on the size	No	Depends on the size	No	No
Internal auditor with capacity or sensitivity regarding the assessment of materiality and application of controls to mitigate sustainability risks	No	No	No	No	No	No	Depends on the size	No	Depends on the size	No	No
Internal auditors understands the application of sustainability frameworks	No	No	No	No	No	No	Depends on the size	No	Depends on the size	No	No
Presence of an audit committee dedicated to sustainability practices	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Organizational structure hindering comprehensive sustainability reporting	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Subjectivity and lack of knowledge regarding sustainability issues	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Selective reporting and focus on favourable indicator	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Challenges in producing integrated reports that explain the impact of ESG issues on financial performance	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Collaboration with other departments to ensure sustainable practices are implemented	Lower	Lower	Lower	Lower	Lower	Lower	Lower	Lower	Lower	Lower	Lower
Challenges in obtaining quantitative data for reporting	Higher	Higher	Higher	Higher	Higher	Higher	Medium	Higher	Medium	Higher	Higher

Figure 3- Criteria vs Interviews

Chapter 6

Conclusion

This thesis addresses the research question, "How can internal auditors drive sustainability excellence?" It focuses on the Portuguese context to explore the role of internal auditors in promoting sustainability practices and identifying associated risks. The findings demonstrate the significant impact of internal auditors in integrating sustainability into financial reporting and driving sustainability excellence.

To enhance sustainability reporting in Portugal, companies should recognize and value sustainability as a competitive advantage rather than a cost. By centralizing sustainability information within organizations and ensuring competent individuals analyze and report on sustainability issues, companies can improve the credibility and reliability of their reporting. Additionally, having knowledgeable and sensitive individuals who understand relevant indicators and benchmark performance contributes to sustainability excellence. The role of internal auditors in driving sustainability excellence is closely linked to other stakeholders, including management, the board of directors, and external auditors. Collaboration and coordination among these parties are crucial for comprehensive sustainability management and reporting.

In conclusion, this research highlights the critical role of internal auditors in driving sustainability excellence in Portugal. They actively contribute to integrating ESG performance, strengthening internal controls, ensuring reliable reporting, and promoting continuous improvement. However, achieving sustainability excellence requires the commitment of all stakeholders. Further research and ongoing efforts are needed to advance sustainable practices in the Portuguese business landscape.

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Annexes

Annexes 1- Big Four Analyst

Part 1- Overall Overview

1- How would you describe the environmental problems that companies face?

Willingness and predisposition of investors to invest, in many cases in non-refundable funds, decreasing what are the profits of the entities for the social good.

2- What tools do companies have to deal with these issues?

Mainly because of the importance that sustainability bonds have had over the years, more companies have to adopt this type of measures in order to attract this new type of investors.

3- Are the results determined as an external auditor in agreement with the internal auditors?

They may or may not, it will depend on the factors and assumptions used by both for the analysis.

Considering that in a sustainable audit analysis, we are called to validate what has already been done by the entity, we use the framework already defined by the entity and verify that the calculations are well done.

Basically, we are called to validate what the entity has done and see if the reports present correct information for investors.

4- How do these reports affect the performance of the company?

According to studies done on sustainability, mainly to the main US listed companies, the fact that companies report that they are sustainable makes a difference for investors. Currently, investors are looking for reports that have both information, i.e. an integrated report.

Currently this is not a visible practice in Portugal, however it is starting to be something growing.

5- Does the role of these reports vary from industry to industry and organisation to organisation?

If yes, how?

In fact, it should have more impact mainly on the industrial and manufacturing sector companies, namely the oil companies, however we can see companies like Saudi Aramco and Exxon Mobil Corp., which have not presented a sustainability report in the last years and in fact the market had no negative effect on these corporations. These companies are the ones that necessarily cause more greenhouse gas emissions due to the industries they mobilise, however there should be some obligations and regulatory points towards scandalization for companies from the most diverse branches.

6- How do you make the selection of criteria for the selection of reporting standards?

Now there is no defined criteria, so companies report the factors and indicators that are most convenient for them, omitting those that could be more penalising.

However, the most universal are the GRIs.

7- What is the role of an audit committee when it comes to sustainability? Does it exist?

Audit committees are mainly present in listed companies, although they exist in non-listed large companies, and their main role is to supervise the company's financial reports, risk management and internal control processes, however with the introduction of sustainable objectives these committees had to broaden their scope to review the company's sustainability policies, as well as review the sustainability report according to the obligations and requirements.

These committees are quite relevant even in what concerns the governance part.

8- What are the limitations of the audit reports?

The limitations are related effectively with the objective of verifying the veracity of the non-financial report, not taking into consideration, or being a less objective, the conference regarding sustainable development and the decarbonisation objective as presented in the EU for 2050.

In addition, the limitations relate to those that are felt in the financial audit, the entity not giving the information.

If we think that a financial audit is totally legislated and that the information always ends up appearing because a reservation appears in the report, when it comes to sustainable auditing reports, the same does not happen.

Most of the time, the entity does not have a department dedicated to sustainability. This means that when we go to audit the report itself to obtain the information it is dispersed, which is not the case with financial audits.

In this case, what happens is that most of the times the department also doesn't have much knowledge, they don't know which are the best indicators.

The question is related to the fact that companies are modernising regarding environmental, social and governance issues. Although it is not a recent theme, it is recent for most companies and many of them see auditing as an expense.

9- In a sustainable audit report, is there any way to standardise the analysis made? Can they be universal to all companies?

As I have already mentioned, I believe that all companies should have common points, however, depending on the industry, they should also have lines to separate according to the industry.

But in this sense a more general framework would be necessary, depending on the industry, but it would be possible to compare, which is not the case today.

Part 2- Portuguese Case

10- When compared to international companies, where are we the weakest?

Undoubtedly, the fact that we have a much smaller and limited internal market, shows that national companies have less power and capacity to invest in products with a sustainable label. Besides, nowadays only the listed company has the need to elaborate a non-financial audit report. Considering that more than half of the business sector in Portugal is characterised by small and medium enterprises, it makes sustainability reporting very difficult.

Another issue that shows that we have a long way to go is related to the difficulty that companies have in understanding that being sustainable is not only to collaborate for a smaller ecological footprint or to involve the company in voluntary actions.

Being sustainable is a whole, hence the ESG.

This is my vision of Portugal compared to other countries, but I believe we are at a turning point.

11- For example, sometimes we audit intra-group companies. In this case, are the differences in terms of sustainability significant? In an intra-group policy, are the differences smaller?

Possibly yes, considering that within companies of the same group we have managers with different business visions for each one of the companies, for this reason I believe that there may be differences, also because they are related to the business area in which each one of the entities operates.

12- According to KPMG, the number of sustainable auditing reports in Portugal is lower than in other countries. Why is this?

In Portugal there is a very reduced number of listed companies, so only those companies are obliged to report a sustainability report according to the European legislation.

Annexes 2- Big Four C1

Part 1- Overall Overview

1- How would you describe the environmental problems that companies face?

Taking into consideration the discussion topic I would say that the biggest problem of companies is the lack of processes in the environmental issue, I would say that these are the biggest issues that companies in Portugal and in the world face.

I say this because sustainability is a new theme and demands a great adaptation on the part of companies in inserting these issues in their day-to-day and from my experience most of them see sustainability as an associated cost of money.

Furthermore, companies have difficulty in understanding their own impact on the planet and within the organization itself.

2- What tools do companies have to deal with these issues?

These problems can be mitigated through internal control measures such as: promote operational effectiveness and efficiency; risk assessment; include parameters and indicators that measure the performance of the defined plans; evaluate performance according to parameters and indicators and periodically review the assumptions of the established objectives.

This could even be an objective of a climate change department or reporting department.

3- Are the results determined as an external auditor in agreement with the internal auditors?

No, the internal audit is concerned with the organisation as a whole, whereas the external audit takes into consideration the economic and financial indicators.

In the case of the audit, we were referring to, non-financial reports, we auditors will validate what the department responsible within a company for issuing these reports does. In other words, we are going to verify that what appears in the report corresponds to reality or not.

It depends on a lot from company to company, what I can say is that from my experience there are differences, but they are very small. Considering the materiality of the projects, the differences found are immaterial.

4- How do these reports affect the performance of the company?

These reports serve to easily identify opportunities and threats to the achievement of future results for the company. If the audit is clear and supported with good internal control practices, the impact it will have on the company is positive and brings future benefits.

Apart from this, non-financial audit reports may affect future investors and/or clients.

Nowadays, there is a growing need for these reports. For several reasons: clients want to know what they consume and the footprint they have on the planet and understand what kind of companies they support. Investors seek to understand two things: how social, environmental and governance issues affect the company's financial performance, and the other reason is related to necessity. With the times we live in nowadays, the report does not say "much" about the entity, that is, it is not enough to take decisions.

5- Does the role of these reports vary from industry to industry and organisation to organisation?

If yes, how?

All companies must take into consideration the industry in which they operate, however, when it comes to internal audit, the reports must follow the same basis, the same points have to be analysed and the conclusion has to be somewhat similar.

Having said this, and in answer to the question, I would say that in this case we tend to do benchmarking. In other words, we check what type of indicators competitors use and see if they are addressed by the entity.

I do not know if my answer was clear or not, but I would say that the reports will always decrease from industry to industry and from organisation to organisation. Of course, it still adds to the type of framework you want to use.

6- How do you make the selection of criteria for the selection of reporting standards?

The team responsible for setting these standards must consider the industry it is in, what objectives it wants to achieve, knowledge of its employees, the critical processes and risks.

What ends up happening is that companies hire auditors to validate the report made internally.

This means that the organisation itself chooses them and we assume what has been chosen.

From that moment on, we as auditors must verify if they are well calculated.

I would say that what I mentioned before happens, sometimes the company doesn't have qualified people for the development of these reports, which means that the selection of the reports is not the best.

It usually happens with some companies, sometimes they hire consultants, and they are the ones who verify which are the best indicators in the case of the industry and the company in question.

7- What is the role of an audit committee when it comes to sustainability? Does it exist?

In general terms, auditing is more focused on economic and financial factors and usually what companies are interested in is whether they are financially healthy. However, there are companies where the operational and sustainability factors are more important in the sense that they allow companies to identify and correct potential internal risks.

Basically, I don't know if in any company where I have audited this type of committees existed, but I would say that it is something quite important in a company. Mainly in the way companies perceive their governance.

Now I think if we look at an audit committee as the internal auditors, the financial department and even the external auditor himself. This one always ends up giving an opinion.

It helps in the sustainability part because it is these committees that identify the risks that the organisations are subject to.

8- What are the limitations of the audit reports?

As I have already mentioned, the main limitations are related to the quantity of existing frameworks, which makes the role of an auditor more difficult.

Then there is the lack of qualified professionals who know how to effectively identify the key indicators to report.

Another limitation is the information made available by the company and how the company stores this information.

In other words, while in a financial audit everything is in the financial department. On environmental issues, it will depend. Is there one department where everything is concentrated or does each department deal with its own area? For example, the social issue could be the human resources department, while the pollution issue, for example, could be the factory manager. I just want to point out that sometimes everything is spread out.

9- In a sustainable audit report, is there any way to standardise the analysis made? Can they be universal to all companies?

In a way, policies can be standardised, i.e., reports should be impartial, timely, complete and constructive, but on the other hand, it depends on which country the company is located in. Not all countries give priority to this kind of reporting.

Universal to each company, I believe they can never be. But I think they are ways to help the companies themselves and to help their customers.

Part 2- Portuguese Case

10- When compared to international companies, where are we the weakest?

Portugal is a country with less economic power and, as such, the companies' objective is to understand if they have liquidity and financial resources to continue or potentiate their activity. Companies focusing more on financial resources end up failing to understand that operational resources are equally important, and this also ends up being a weakness,

11- For example, sometimes we audit intra-group companies. In this case, are the differences in terms of sustainability significant? In an intra-group policy, are the differences smaller?

Unfortunately, I have never audited at a sustainable level company that are part of a group. But I would say that it will depend on, and it may even be like the financial level. It will always depend on the industry the company is in. It can be intra-group and operate in another industry. I would say that there can be differences or not.

It depends on the way the group handles the reporting and is it a report per company or per group?

If it is a group report, they all report in the same way and then the report is issued.

12- According to KPMG, the number of sustainable auditing reports in Portugal is lower than in other countries. Why is this?

The study developed by KPMG, as you told me, compares 2017 and 2020. In relation to 2020 I think COVID has a great role, I don't know to what extent in a pandemic moment companies want to incur a cost like the issuance of a nonfinancial report. So, I would say that could be one of the problems. Besides, nowadays there are few companies that are obliged to issue sustainability reports. For example, if we take only the companies that are listed in stock markets, Portugal doesn't even have 20. Then there is also the educational issue. Do companies see the environmental issue in the best way? I would say that in Portugal this is the biggest issue - the way companies face this. I believe that auditing is a cost and an obligation for most companies. So, I believe there are many of these reasons together.

Annexes 3- Big Four Senior Manager

Part 1- Overview

1- How would you describe the environmental sustainability problems that companies are facing?

The main problems that companies face today is the way they perceive environmental problems; I would even say sustainable.

A myth has developed when it comes to this sustainability issue, because most companies focus a lot on the environmental issue, putting aside social and governance issues.

When we talk about sustainability, especially in a business context, we are talking about issues such as the man-woman ratio, training issues.

2- What tools do companies have to deal with these issues?

When companies decide to invest in sustainability, their aim is to increase their reputation and competitiveness, gain more clients and grow in a positive way, while taking care of the environment. Some of the best corporate sustainability practices to implement in your company are as follows: Promote operational and environmental efficiency (Save paper, water and energy, recycle materials, Use renewable energy sources, Evaluate suppliers, Implement internal control measures that enable a regular review of the defined objectives, Have some metrics to measure the impact.

3- Are the results determined by an external auditor in agreement with the internal auditors?

The reports and the drafting process must be verified by auditors who meet essential requirements such as: independence, ability to discern the interests of the parties involved, non-involvement in the internal systems and the drafting of the sustainability report, competence and professional experience to carry out the necessary checks. However, all work performed must be in accordance with the needs identified by the internal auditors.

4- How do these reports affect the company's performance?

Sustainability reporting is a tool that sustainable companies use to present their social, economic and environmental indicators with greater transparency. The information contained in financial reports and the information related to aspects that characterize sustainability are complementary, allowing aspects that go beyond the traditional scope of financial analysis to be considered in business evaluation. The perception by external users of financial and sustainability reports issued by companies can result in better or worse financial performance.

5- Does the role of these reports vary from sector to sector and organization to organization? If so, how?

Non-financial audit reports differ from industry to industry and from organization to organization as each industry has a different benchmark and beyond that within the organizations themselves and considering the type of stakeholders or clients each company has, they can vary.

6- How are the criteria for the selection of the reporting standards selected?

The selection of the criteria used in the preparation and elaboration of the reporting standards is made based on the risks identified by the internal auditors and the Administration.

This selection of criteria has to do with materiality. Of course, when we play external auditors to validate the report, we also calculate our materiality and benchmark to verify that the indicators presented by the company are in line with the industry.

7- What is the role of an audit committee regarding sustainability? Does it exist?

In response to stakeholders' expectations, organizations have adopted several strategies to increase the credibility and quality of sustainability reports, one of them is auditing. The audit committee aims to ensure the veracity of the information, as it contributes to the credibility of the entire management process, ensures that resources are being used effectively and contributes to the continuous improvement of the disclosure process. Auditing informs stakeholders and potential investors that management risks are being effectively analysed and

demonstrates the entity's commitment to improving its economic, environmental and social performance.

8- What are the limitations of audit reports?

The non-inclusion of financial data, which makes it difficult for managers or directors to take decisions. I am referring to integrated audit reports, a growing practice in Portugal.

Furthermore, I would say that it is common to financial auditing, the access to information.

Also, the fact that it is a recent phenomenon, and that there is little legislation, both the companies that issue the report and those that will perform the verification are trying to adapt.

The lack of knowledge about the topics can also be a limitation. The quality of the reports is clearly a limitation.

9- In a sustainable audit report, is there any way to standardise the analyses made? Can they be universal for all companies?

Although there are international guides or guidelines that aim at sustainability and internal control in companies, the analysis made by an audit committee will always depend a lot on the sector, social and economic environment in which companies operate.

The maximum standardisation that can happen will be at industry level because it is expected nowadays that a company within a certain industry reports the same indicators.

The question that arises is at the social and governance level because each company will have different concerns.

At the environmental level, I would say that standardization by industry is easier.

Within the question I asked earlier regarding audit committees, they can help a lot in this sense.

Helping companies to understand what the indicators are to take into consideration and to understand how they should report it. I would say that it helps a lot for a company to have governance linked to sustainability.

Part 2- Portuguese case

10- When compared to international companies, where are we weaker?

Verification of sustainability reports by independent third parties is a growing trend among companies worldwide. The use of this practice aims to ensure the confidence that shareholders have in the organizations with which they interact. Portugal is in a phase of awareness of the importance of sustainability, giving, however, even more importance to the financial side of companies.

11- For example, sometimes we audit intra-group companies. In this case, are the differences in terms of sustainability significant? In an intra-group policy, are the differences smaller?

In general terms, when we talk about multinational companies, the procedures adopted either in the financial, production or sustainability areas are the same from country to country, due to the existing structure. The same does not happen in local or family businesses, given the difficulty and costs associated to the implementation of these practices.

12- According to KPMG, the number of sustainable audit reports in Portugal is lower than in other countries. Why is this?

As mentioned in the previous question, in Portugal it is still considered very expensive to implement a large-scale process to ensure sustainability. Additionally, the fact that 95% of the companies are small or medium-sized does not make it easy to obtain the necessary resources to implement an internal control system to ensure the existence of sustainable practices.

Annexes 4- Big Four Analyst

Part 1- Overview

1- How would you describe the environmental problems that companies face?

Nowadays, there is a constant concern regarding sustainability issues in society in general. Companies suffer pressure from governments, regulatory institutions, but also from consumers and investors. It is believed that a company needs to be active in the defence of sustainability, promoting several actions, internal and external, that is, in favour of the community. However, and even depending on the branch of activity of each company, these actions may be very costly for companies. Companies linked to the oil industry, casinos, alcohol, tobacco, among others, need to promote positive activities with greater impact, given the negative externality they produce. Moreover, due to the globalisation of information that we currently hold, any negative externality will bring an atrocious effect to the company's public brand.

Companies need this activity in their community in order to keep up with the market. More powerful companies, with a higher market value, manage to make up for the initial costs with the great financial returns they present (for example, Google, which will be carbon negative very soon, due to technological advances applied in the company), but medium and small companies, which form about 99% of the Portuguese business fabric, and about 95% of the European business fabric, will find it very difficult to keep up with this rapid change of mentalities that is emerging.

2- What tools do companies have to deal with these issues?

With the technological advances we are witnessing, the transition to a more sustainable economy will be easier and easier. Of course, sustainability is not only about decreasing the carbon footprint, but also about promoting a fairer and more correct social and administrative environment. The latter are more easily applicable, in theory, by applying a more egalitarian organisation; opting for more dignified production processes are examples. Ecological

sustainability is more difficult to tackle, given what I mentioned before. However, the world is evolving at a dizzying speed, and there are more and more recurrent technological advances. These advances will allow, for example, to reduce the installation cost of solar panels, and will allow to extend the useful life of these, examples.

Companies are being "forced", by the market, to adopt more sustainable measures, but they will have future returns by adopting these same measures.

3- Are the results determined as an external auditor in agreement with the internal auditors?

Not necessarily. Sustainability is a relatively recent issue, and its definition is diluted, depending on the perspective. An internal auditor may consider that the non-use of child labour and the representation of several ethnicities within the company is enough to be considered sustainable, but an external auditor may consider that, taking into account the financial position of the company, more efforts at environmental level could be done.

4- How do these reports affect the performance of the company?

These types of reports are very important for the future performance of the company, as they are used as a benchmark for future decisions. By performing a sustainable audit, not only the profitability and financial position of the company is assured, but also its social and environmental position. Thus, acting even as a "quality seal", investors and consumers may become more interested in these companies, due to their demand in this field, as I have already mentioned.

5- Does the role of these reports vary from industry to industry and organisation to organisation?

If yes, how?

Yes, clearly, the objective and nature of sustainable audit reports will be different depending on your industry. Companies in industries more associated with unsustainable actions, such as the oil or tobacco industry, will need more robust reporting and more in-depth advice on how best to tackle the negative externalities that their own production generates. More sustainable

companies, for example in the technology industry, where their activities do not generate much waste or a large carbon footprint, will see their reports as an assessment document.

6- How do you make the selection of criteria for the selection of reporting standards?

The selection will depend on the industry (by analysing the nature of the business, i.e. whether or not it creates inherent negative externalities), the financial position of the company (and checking the company's ability to implement any processes that are required, and maintain them), the sustainable position of the competitors (so that you can compare your activities with those of your most direct competitors in the market) of the existing technologies that could affect the companies' activities (in order to evaluate the possibility of the existence of any technology that could be used to increase the effectiveness of the existing processes), and of course, of the projects promoted by the company, analysing their effectiveness and efficiency, evaluating the historical results of these implementations.

7- What is the role of an audit committee when it comes to sustainability? Does it exist?

Audit reports are increasingly important as proof of company value, but they can also add value in the planning, structure and general organisation of companies. However, due to the vast difference in interpretation, controls not yet defined in the most correct way, and difficulty in implementing various sustainable actions, these documents may lose their value for the audited companies. Existing a committee, standardisation and stabilisation could be the key factors that could be created. Thus, even the Assurance auditors' work would become easier, in the perspective that there would be guides for their analysis.

8- What are the limitations of the audit reports?

Given that sustainability and assurance are relatively recent topics in our society, the limitations of assurance reports are related to the difference between conclusions and analysis in different industries and even companies, as previously mentioned. The fact that there are still no clear definitions of regulations and actions that companies should take, the conclusions of the reports

may present significant differences, which may generate contradictory actions and confusion among companies. Consequently, assurance reports may lose some credibility, which is a risk for the area.

9- In a sustainable audit report, is there any way to standardise the analysis made? Can they be universal to all companies?

Universality is difficult, perhaps impossible to achieve. Companies have too different activities for there to be universal standards for sustainable action, as already mentioned. If a sustainable audit committee exists, standardisation could and should be achieved, but there will always have to be an adaptation, considering the various factors that make up a company's position, at all levels.

Part 2- Portuguese Case

10- What are the most common sustainability practices in Portuguese companies?

Portugal is a country concerned with the social and environmental issues in which it is generally located. Being a country that is in the front line in the implementation of sustainable projects, it is natural that there is a certain demand in the same sense for private entities.

And, in fact, we have seen several news items that indicate the recognition of international communities for the good practices of Portuguese companies, such as Jeronimo Martins or EDP. These companies apply several actions, which include the energy transition (greater use of renewable energy, or even total use of renewable energy in their facilities), good management of their resources, especially water resources, promotion of inclusion programs in the labour market, implementation of a Circular Economy (mainly introduced by Corticeira Amorim), among other practices with positive externalities, which are well received by the whole Portuguese society and by investors, not only national but also international.

11- When compared to international companies, where are we the weakest?

Portuguese companies may feel more difficulty in following successful foreign companies in this aspect, mainly smaller companies, due to the factor referred in the first question, the costs inherent to an investment in more sustainable practices, namely, at environmental level. With the current state of the Portuguese economy, SMEs may not be able to keep up with the sustainable transitions already in place, which may further increase the inequality between the different levels in the Portuguese business fabric. Larger companies can create the above-mentioned initiatives, but a more robust follow-up to the remaining companies is needed.

12- For example, sometimes we audit intra-group companies. In this case, are the differences in terms of sustainability significant? In an intra-group policy, are the differences smaller?

Intra-group policies will have to be different in some way. Even if there are intra-group companies with very different lines of business (which is not very common), the management and the organisation of the company are more standardised than two companies in different lines of business with no degree of "kinship". The differences between intra-group companies will be less significant, and once again the auditors will have to adapt.

13- According to KPMG, the number of sustainable auditing reports in Portugal is lower than in other countries. Why is this?

We can attribute the causality of this statement to the lack of training and information regarding sustainable reports. In Portugal, Assurance is a very recent definition, so there is not yet the necessary information, among all the constituents of this process, for the evolution of sustainable auditing (not even mentioning the limits already addressed). We may also point to the constitution of the companies in Portugal. Being the overwhelming majority small and medium-sized enterprises, they are not even measured at sustainable level.

Even though Portugal is on a good path at sustainable level, it is necessary to create the bridge for its private entities to follow the trend of the global economy

Annexes 5- Big Four Analyst and Ex Internal Audit Analyst

Part 1- Overall Overview

1- How would you describe the environmental sustainability problems that companies are facing?

The main difficulty that companies are facing is adaptation.

It is not the challenges of being sustainable in all fields - environmental, social and governance, but how and which entities modernise themselves to give the market what it asks for.

As it is something optional, companies see a sustainable department or an internal audit that deals with these issues as optional and perhaps in some cases dispensable.

2- What tools do companies have to deal with these issues?

To deal with the problem described above it is still necessary for companies to change their mentality towards sustainability.

The best way to deal with these problems is to have a sustainability department, for example, with the knowledge to develop a book on how to proceed with certain indicators and how to account for them. Furthermore, I would also say that having a department capable of identifying KPIs/metrics to apply in order to achieve objectives already makes the future work of an external auditor much easier.

If we ignore the issue of the external auditor, I will say that this is relevant to make the report itself, if the company wants to issue it, more robust and less qualitative.

3- Are the results determined as an external auditor in agreement with the internal auditors?

This question is similar to the financial audit, i.e. in the financial audit, you verify that things are well registered. You define materiality and the items that are materially relevant.

In non-financial auditing, what we are going to validate is how they arrive at the values and whether the calculation makes sense.

Very similar to financial auditing.

Everything will depend on the approach of the company to be audited and the principles chosen by the external auditor. If the internal audit agrees with the external auditor, no differences will be identified. However, from my experience, I would say that this is impossible. Something may happen which happens a lot in financial auditing; we have differences, but they are immaterial.

4- How do these reports affect the performance of the company?

These reports affect the performance of the companies, depending a lot on what is issued and transmitted to the public and stakeholders.

Since it is not something totally obligatory and maybe even easy to manipulate, since it is totally optional what the companies give to the auditors, it makes the performance question a bit dubious. Of course, if you have an external auditor validating the report, this manipulation does not occur.

5- Does the role of these reports vary from industry to industry and organisation to organisation? If yes, how?

Yes, it does. So, each industry has a type of indicator benchmark. I would say that also within the organisations themselves it varies.

Basically, we have to look at it in the following way, there are key words that are expected from the company within a certain industry. Then considering the type of clients and stakeholders that companies want to attract or retain will vary.

6- How do you make the selection of criteria for the selection of reporting standards?

In the case of sustainable auditing, we auditors go to verify the report made by the internal audit or department that oversees this issue.

The selection of criteria is the entity that defines them. However, the external auditors do a benchmark to see if the indicators agree with the other companies in the market.

7- What is the role of an audit committee when it comes to sustainability? Does it exist?

I suppose that this committee exists in almost all companies, maybe in most of them in a more informal way.

Currently, reporting is not yet something totally mandatory, but it will become. I believe I read that by 2026 almost all SMEs will have to issue a non-financial report. This brings a lot of concerns to the Portuguese business community mainly.

Having this kind of committee allows companies to have an overview of the risks and the way various issues affect the financial side of the company. Because this is a current issue. The way your clients and your stakeholders perceive you can greatly influence the financial side. And this change in perception can come from this lack or not of sustainability.

8- What are the limitations of the audit reports?

The first limitation was the fact that it was the first time that the company was being audited at a sustainable level, so there was no guidance or controls from last year. There was no allocation of risks or what could be good or bad.

One of the limitations we found was related to the creation of metrics. For example, in the company we are talking about they had an indicator that was measuring the impact of electric cars and they contrasted that result with the following metric - coal-powered car. This was because coal gave a higher increment.

Next example, the metric is how much you save in emissions from electric cars. This comparison should be against the most plausible alternative.

Another issue that was possible to verify, the company says there are electric cars. People must verify that the cars are effectively electric.

In this case non-financial audit is like sustainable audit, you have to confirm as you do in a financial audit. It is difficult for you to identify controls.

Let's think an internal audit is based on a procedure's manual and you as internal auditor will verify if these procedures are well done.

If there is no manual, in the case of this company, it was the first time, there is no manual.

In this case, it is also very similar to financial auditing. First time clients is very difficult.

Another limitation is related to your knowledge on sustainability issues.

The auditor can't know what's going on at a sustainable level. Sometimes, due to lack of knowledge, you are not able to understand if the calculations made by the internal auditors are correct.

9- In a sustainable audit report, is there any way to standardise the analysis made? Can they be universal to all companies?

If we look at the ESGs and what the letters mean, I think it is easier to standardise the environmental part.

The rest, social and governance, I would say are the most subjective and differ from company to company.

However, I believe that we should move towards the standardisation of this type of reports, because currently it is very difficult. Each company reports what it thinks is best and most advantageous so as not to damage its brand or prestige. This also raises questions about the quality of the report.

When it comes to being universal, it will always depend on industry to industry. But within industries, benchmarking already allows for standardisation. It will always depend on whether the company in that industry wants to report on the most common indicators in the industry.

Part 2- Portuguese Case

10- When compared to international companies, where are we the weakest?

The question is about sustainability reporting. I would say that education plays a big role. Maybe compared to other countries we are very behind, in this issue.

In my opinion, it all lies in the way sustainability is communicated. If we think well, most companies focus on the way their company environmentally affects or not the planet. Forgetting that it is not only the environmental part that counts. The social and governance part affects a lot the sustainability of a company. I look at the reality in Portugal and the social part raises big questions.

Other than that, I can't say that this happens in Portugal, but many companies issue these reports because it looks good, not because it is an issue for them.

11- For example, sometimes we audit intra-group companies. In this case, are the differences in terms of sustainability significant? In an intra-group policy, are the differences smaller?

Good question. I would say that it depends on whether we are talking about a multinational group or a national group and in which industries the group operates.

I would say that in this case there were differences. But other questions arise: does an intra-group company report to the parent company and is it the parent company that issues the reports? Furthermore, if we are talking about a multinational group, how is the reporting done? I say this because if we want to measure light consumption, how is this report done? Are the measures in Portugal the same as in Brazil? Because of this need for conversion, can there be differences?

I ask you these questions because I don't really know how to answer them.

12- According to KPMG, the number of sustainable auditing reports in Portugal is lower than in other countries. Why is this?

It is curious because I thought it was a phenomenon that would be increasing.

First in 2020 we had the covid, I don't know if it impacts or not the number of reports, but I would say yes. Then there is the issue of mandatory reports. Not being mandatory a company doesn't feel the need to issue them, it will incur a cost. Then, as I mentioned before, there is the

issue of education. Of course, this is valid even for the members of the internal audit team, of sustainability. Is the person qualified? Doesn't this also affect the way the report is issued?

I believe that it is a set of actions that causes the number of reports to decrease, but I believe that today the numbers would be different.

Annexes 6- Big Four Analyst

Part 1- Overall Overview

1-How would you describe the environmental problems that companies face?

Sustainability is a top concern for society, and companies face pressure from regulators, governments, consumers, and investors to promote sustainable practices. However, implementing such actions can be costly, especially for industries with negative externalities. Any negative impact can have a severe effect on a company's brand. Larger companies like Google can cover the costs, but it's challenging for small and medium-sized businesses to keep up with sustainability trends.

2-What tools do companies have to deal with these issues?

Technological advancements are making it easier to transition to a more sustainable economy. Promoting fairness and justice in the social and administrative environment is as important as reducing carbon footprint. Technological progress is accelerating, making it easier to achieve ecological sustainability. Companies are being pressured to adopt sustainable measures, but these measures will yield future returns.

3-Are the results determined as an external auditor in agreement with the internal auditors?

Not always. Sustainability's definition can vary depending on the perspective. An internal auditor may view the diversity in the company's workforce as part of sustainability efforts. However, an external auditor may focus more on the company's financial position and suggest additional efforts to be made in terms of environmental sustainability.

4-How do these reports affect the performance of the company?

Reports like these are crucial for a company's future performance because they serve as benchmarks for future decision-making. Conducting a sustainability audit not only safeguards a company's profitability and financial position, but also its social and environmental impact.

This audit acts as a "seal of quality," potentially making investors and consumers more interested in the company due to the increasing demand for sustainable practices.

5-Does the role of these reports vary from industry to industry and organization to organization?

If yes, how?

Yes. The nature and purpose of sustainable audit reporting will vary depending on the industry. Companies in industries associated with unsustainable actions, such as oil or tobacco, will require more robust reports and comprehensive advice to address the negative externalities of their production. On the other hand, companies in sustainable sectors like technology, with low waste and carbon footprint, may view their reports as an evaluation document.

5-How do you make the selection of criteria for the selection of reporting standards?

The selection will depend on the industry of the company, the sustainable position of its competitors, the existing technologies that could affect the companies' activities, and lastly, and analysis of the effectiveness and efficiency of the companies' projects.

6-What is the role of an audit committee when it comes to sustainability? Does it exist?

Audit reports play a crucial role in demonstrating a company's value and can also benefit the company by improving its planning, structure, and organization. However, due to varying interpretations, undefined controls, and difficulty in implementing sustainable actions, these reports may lose their value. A committee could help to create standardization and stability, making it easier for Assurance auditors to analyze the reports.

7-What are the limitations of the audit reports?

As sustainability and assurance are still emerging topics, the limitations of assurance reports are associated with varying conclusions and analyses across industries and companies, as mentioned earlier. Without clear regulations and guidelines, the conclusions of the reports can differ significantly, causing confusion and potentially contradictory actions among companies. This can lead to a loss of credibility for assurance reports, posing a risk for the industry.

8-In a sustainable audit report, is there any way to standardize the analysis made? Can they be universal to all companies?

Achieving universality in sustainable actions across companies is a challenging task. As previously mentioned, the diverse activities of companies make it difficult, if not impossible, to establish universal norms for sustainability. However, if a sustainable audit committee is established, standardization is possible and should be pursued. Nevertheless, companies will always need to adapt their actions, considering various factors that determine their sustainability position at all levels.

Part 2- Portuguese Case

10-What are the most common sustainability practices in Portuguese companies? Portugal is known for its focus on social and environmental issues, with many sustainable projects being implemented by both public and private entities. Several Portuguese companies have gained international recognition for their good practices, including energy transition, resource management, inclusion programs, and circular economy initiatives. These practices are well received by both Portuguese society and investors, both nationally and internationally.

11-When compared to international companies, where are we the weakest?

Smaller Portuguese companies may struggle to keep up with the costs of sustainable practices, creating further inequality within the business sector. Larger companies can implement such initiatives, but smaller companies may require more support.

For example, sometimes we audit intra-group companies. In this case, are the differences in terms of sustainability significant?

12-In an intra-group policy, are the differences smaller?

Intra-group policies require some variation. Although intra-group companies may have diverse activities, their administration and organization are more standardized. Therefore, differences

between intra-group companies are less significant, which requires auditors to adapt accordingly.

13-According to KPMG, the number of sustainable auditing reports in Portugal is lower than in other countries. Why is this?

The lack of training and information on sustainable reporting can be attributed to the causality of this statement. Portugal's assurance sector is still in its infancy, so there is a lack of information on sustainable auditing, compounded by the limitations already mentioned. Additionally, most Portuguese companies are small or medium-sized, which often lack sustainable practices. Despite Portugal's progress in sustainability, there is a need to bridge the gap for its private entities to keep up with the global trend.

Annexes 7- Big Four Analyst

Part 1- Overall Overview

1- How would you describe the environmental sustainability problems that companies are facing?

It is not the problems in themselves, but the lack of knowledge and preparation of companies in relation to these themes.

They want to issue reports, but they are not sensitive enough to understand what is materially relevant.

When I started in assurance, I didn't really know what I was going for, so we started by doing analytical reviews of analytical and non-financial information, always varying from company to company.

I only audited two, the normal thing is to use the GRI standards framework, and divide everything with the ESG into several ways of reporting.

In the beginning, each company reported in the way it understood, but nowadays there are already frameworks so that you can compare.

When the auditors arrive to audit what they report, which they will put into the reports, you start testing.

You start with analytical reviews, from one year to the next. What we took the most was the carbon footprint (the main one) and the one that takes the longest to calculate, amounts of energy consumed (water, for example), greenhouse gas emissions, hours of training that they give to employees, accidents per hour worked, green certificates increased or not.

2- What tools do companies have to deal with these issues?

If we take as an example, the two companies I was in before explaining this problem.

One of them had a department that collected the information and had an intermediary where we could reach and understand things. Basically, a company due to its structure and size can afford to have this development that helps to deal with the risks associated with the ESGs.

It also helps with the creation of metrics.

Now the second company, maybe there wasn't that care. They hired a department just to collect the information.

3- Are the results determined as an external auditor in agreement with the internal auditors?

In relation to the real estate company I mentioned, both the internal and external audits had similar results. It is important to note that it is a large company in Portugal with the structure to have an audit department, and that it is a group listed on a stock exchange, so there is this concern and this almost "obligation".

As far as the second agricultural company is concerned, in this case it was "stranger". They didn't have an internal audit department, they hired people to gather the information.

4- How do these reports affect the performance of the company?

It depends a lot on the area, for example, I audited that real estate company. They are very dependent on stakeholders. In this case the reports are an added value to attract investors.

While in the agriculture company the purpose of the emission is already different, they issued it because of the perception that the clients have of the company itself.

It is a market that tends to be more polluting. You go to the website, and you only see sustainability reports, there is no financial report. They have that need.

In other words, it affects the performance of the company if we consider the purpose of issuing the report.

We also must consider that these reports are issued as a whole, meaning that social and governance reports are also included. I believe that all companies that are more public, and by

this I mean a shopping mall, a consumer needs to know if the mall he is going to is sustainable. Customers need to feel that they are in a "good" place.

5- Does the role of these reports vary from industry to industry and organisation to organisation?

If yes, how?

As I mentioned before, it will depend a lot on whether the company is listed or not, the industry and the purpose of issuing these reports.

So, answering yes varies.

6- How do you make the selection of criteria for the selection of reporting standards?

You will audit the indicators that the company itself has defined, so basically what you can do is check if the indicators are well calculated and make recommendations.

In one of the clients, I had that's what we did, we changed the way things were calculated because it didn't make sense the way it was being presented.

7- What is the role of an audit committee when it comes to sustainability? Does it exist?

A committee as you are referring to I believe existed more formally in the listed company I audited, notice that in those companies the ESG context is better implemented. The managers are aware of the impact that these realtors have on the brand and on the client's perception of the brand.

These committees are important to make known the risks to which the company is subject and many of them are within the ESGs themselves.

Having a committee, I think brings more awareness on the issue of sustainability. I mean, it's not just about the ecological footprint.

8- What are the limitations of the audit reports?

You see everything the company wants to report, as it is optional for companies to report what they want.

You only check what they leave, obviously there is an information gap.

For example, if there is an indicator that disappeared from one year to the next, you tend to ask why.

If there is something new, you ask why it didn't exist last year, but there are many points in the framework that may not even be used in the framework. That is a general framework and then each industry adapts it.

There is always carbon footprint, water consumption, electricity and renewable energy. We analyse a lot of how energy arrives, for example, from renewable sources. You also have situations where the companies themselves don't know what type of energy they consume.

The two companies I audited operated in the real estate industry, and another was related to sustainable agriculture - everything that was used in agriculture.

If there is something new you ask why there wasn't last year, but there are many points in the framework that may not even be used in the framework. That is a general framework and then each industry adapts it.

There are many indicators that you can calculate like a financial audit, like a predictive or detail test. However, there are other indicators that are difficult to calculate.

Example - the number of training hours increased. In this case you have to take into account the number of employees hired, among others.

Sustainable auditing is very much about critical spirit, understanding if the company justifies well and if you have proof.

One of the analyses I did most was the training of employees, like training.

They said there was this training. We had 500 hours of this training, and they sent you the list of the people who had done the training. Then we would do the MUS (Monetary Unit Sampling) and then you would check if the people they said had been in the training and that came out in the MUS tool had been there or not.

We would also ask for the PPT of the training or check an attendance list or contact the person.

Basically, the way you validate certain things in financial audit happens in non-financial audit. Assurance in 2022 was a bit of a thankless year because of 2021 which was still very much affected because of COVID. This year assurance was very much 'I believe' what the client is saying.

The first client was blaming everything on COVID, and it gets to a point where it's not and justification. You had to squeeze the clients to get the real reasons.

Going back to the example I was giving you of real estate, and a Portuguese group as I told you, and they have several properties and you would notice in the reports that they considered some indicators and others not, it depended on property to property.

In this case the group makes a cluster, it is not per property the report.

Then there are indicators that depend on other indicators, and this makes the analysis even more difficult.

The waste produced is related to the number of visits and if you have no way of calculating the number of visits, one of the indicators will no longer be as credible.

For example, first year customers. You will check how the tests are done; understand how we can improve the tests done.

9- In a sustainable audit report, is there any way to standardise the analysis made? Can they be universal to all companies?

You have 3 indicators that are almost general to all companies - carbon footprint, gas emissions and electricity.

In some companies you have waste produced or water consumed.

But it's going to be very difficult to have something universal. You already have the GRIs, but the same

Part 2- Portuguese Case

10- When compared to international companies, where are we the weakest?

Every listed company must issue supposedly for new investors. There is an option for companies to send a standalone or integrated report.

Although it's mandatory you don't see much.

Sonae, JM issues it. You don't hear about it; it seems there's a stigma. It seems that you don't hear about it because the reports don't have quality.

11- For example, sometimes we audit intra-group companies. In this case, are the differences in terms of sustainability significant? In an intra-group policy, are the differences smaller?

For example, we identify some differences that are later justified by the company itself. And what ends up happening is that you leave a note about the difference found, but of course the company doesn't put it in the report. In this case it doesn't do so because it reports in clusters and not by property.

I don't know if I answered the question.

12- According to KPMG, the number of sustainable auditing reports in Portugal is lower than in other countries. Why is this?

Although I think this is an issue that is changing, assurance services are increasing. I think companies have a stigma associated to this issue of reports. Like Jeronimo Martins said, but we don't hear about it. I would say that there is a stigma associated to the quality of the reports.

Annexes 8- Ex Big Four Analyst

Part 1- Overall Overview

1- How would you describe the environmental sustainability problems that companies are facing?

The difficulty starts before the audit, I have been in two audits and two reports.

On both sides, where there is failure is internal. Companies do not perceive the importance of this kind of report.

The company has several departments and even if there is a sustainability department, it focuses on social responsibility and the environment. Everything else is dispersed.

Then the other departments don't know what they should document and report. One of the problems that arose was, for example, the accounting department says one number and the department responsible for giving these figures for the sustainable audit says another number.

The departments are not articulated with each other.

As far as the financial department is concerned, there is already a cooperative culture in that sense.

In the sustainable audits, you find that the information comes in wrong or not at all.

2- What tools do companies have to deal with these issues?

As I said before, there is such a lack of articulation between departments that I don't know what mechanisms you must deal with this kind of problems.

3- Are the results determined as an external auditor in agreement with the internal auditors?

In the large group that I audited, there were big differences.

There was the question of companies reporting one thing to the group and another to the auditor.

It was confusing.

At the level of a single company, you found differences, but to a lesser extent. I remember one case where the GRI indicator was actions with the community, and they indicated that they had done 8. However, it appeared in the report.

4- How do these reports affect the performance of the company?

I would say that it depends a lot on the purpose for which the reports are issued, however as it is something optional and considering that it is the company itself that chooses what it reports and there is a way to manoeuvre certain indicators. It will always depend on who reads the reports and on the judgement of the client/stakeholder/investor.

5- Does the role of these reports vary from industry to industry and organisation to organisation?

If yes, how?

So, to choose the indicators, you benchmark them to see what the material issues are, and then you look at other companies in that industry to see if they agree. So, I would say that of course the purpose of the report varies from company to company, but it is expected that within an industry the main indicators are common.

6- How do you make the selection of criteria for the selection of reporting standards?

It is the company that selects the indicators/frameworks and then spreads them in the report.

It is a bit free, as it is not mandatory, at this moment it is free. The companies choose the framework that best responds to their needs.

On top of that you choose the overall industry themes. In other words, you choose the indicators that are most reported on in that industry.

You tend to document based on the most documented indicators in that industry.

7- What is the role of an audit committee when it comes to sustainability? Does it exist?

An audit committee allows the risks that I mentioned to be controlled or even mitigated, for example, the lack of coordination between departments can be a risk that the committee mentions and shows that it can affect the performance of the company in the long term.

Of the companies that I have audited I cannot say if there was a formal committee, but informally of course.

8- What are the limitations of the audit reports?

Lack of information, wrong information that they make available and the issue of everything being dispersed. This affects the quality of the report.

Companies have difficulties in addressing certain indicators such as human rights, corruption and taxes. These are mandatory in the GRI, I mean it's not mandatory. However, when you do the GRIs there are mandatory indicators, one of them is related to human rights and anti-corruption.

Companies are not able to respond, and consultants may have to invent a way to respond.

In a sustainable audit report when there is omission of information, since 2021 (I think), the GRI has changed the indicators.

If you don't answer an indicator, you have to explain why. You can say "we are collecting for a next report". This does not excuse the lack of information, but it depends on who is reading.

9- In a sustainable audit report, is there any way to standardise the analysis made? Can they be universal to all companies?

It is true that there is currently this limitation, however, in the consulting company where I worked, both the consulting and the auditing departments recommended the use of GRIs.

In this case it was possible to facilitate this case, all you had to do was look at the indicators reported. I did some benchmark analysis and looking at it you can see the key information for the shareholders.

Part 2- Portuguese Case

10- What are the most common sustainability practices in Portuguese companies?

Social responsibility actions.

11- When compared to international companies, where are we the weakest?

I think that in some things the cooperative culture in Portugal seems conservative.

When I lived in England, despite not having worked in sustainability, you understood the culture of the company.

The co-operative culture of being in the office, of interacting with employees, health and well-being are all seen differently.

Portugal seems to need to change that culture a little bit.

12- For example, sometimes we audit intra-group companies. In this case, are the differences in terms of sustainability significant? In an intra-group policy, are the differences smaller?

In the case of the group I audited, it was the mother company that reported. I did not find any differences.

13- According to KPMG, the number of sustainable auditing reports in Portugal is lower than in other countries. Why is this?

Currently I think it is going up, but from my experience we approached new companies that wanted to start and until now had not started because they thought there was no need - they were not quoted and were not big enough (more organised structure).

When I was benchmarking, the previous reports were super simple no concrete information, super vague. They couldn't even be audited.

I felt the lack of quantitiveness of the previous reports.

In the case I was talking about, of the group I felt that in the previous one. Although it was audited, it had far fewer indicators.

It was only this year that they were going to start making it more complete.

This is a challenge, because inside the companies you have people who think it is very important, not only for investors, employees and clients, to have this information available and audited, because it gives credibility.

However, there are few people who think this way.

Annexes 9- Big Four C1

Part 1- Overall Overview

1- How would you describe the environmental sustainability problems that companies are facing?

Besides the adaptation to this new need of report emission, a very strange phenomenon happens which is that nobody has a base for this new assurance market.

My experience demonstrates that both the client and the external auditor face many challenges, it is an area which is still not very regulated. This issue is still optional in most companies, companies can choose what to issue. How do companies choose when sometimes not even they have the sensitivity to understand what the key indicators are?

The biggest problem companies face is this new need and the adaptation itself.

When you analyse a company at financial level, you have everything centralised, but not here.

This brings even more challenges to companies.

2- What tools do companies have to deal with these issues?

The way companies deal with these issues differs from organization to organization.

Sometimes you have a sustainability department that can help in the centralization or have internal controls that help in this process.

3- Are the results determined as an external auditor in agreement with the internal auditors?

At this moment, you can't call this department internal audit. Normally, internal auditing is associated with controls, systems, practices.

In sustainability you always have a person responsible, but it's not an internal auditor.

Now, the people in the companies I worked with acted as intermediaries because the information is spread out.

Who has the main indicators are the factories, the places where they work. Usually, you talk to the intermediary.

4- How do these reports affect the performance of the company?

I have audited a listed group; in this case the report was relevant because they are dependent on investors.

Nowadays for listed companies the financial report is not enough.

I have also audited an agriculture company; in this case it was to show to the consumers what the company was doing about ESGs.

It depends on a lot from industry to industry and if you are listed or not.

5- Does the role of these reports vary from industry to industry and organisation to organisation?

If yes, how?

It is very similar to what I explained above, it all depends on the purpose of the report, the industry and the organisation. By industry, a certain standardisation of the indicators to be reported is expected. 6- How do you make the selection of criteria for the selection of reporting standards?

It depends on how long you have been reporting if you are going to disclose all of them or not.

At this moment it is not legislated what should be valid. It starts from the point of view of understanding with the client which indicators they want to report on. Within the team, with the team in the field, understand if the indicators chosen make sense.

The type of sector in which it operates.

In the conversation with the client, you will understand whether it is a 100% validation or not.

In the consulting firm where I work we have a tool that calculates materiality. In assurance you have materiality for each type of indicator.

The emission indicators for water, emissions, electricity, energy.

It's very much based on management.

7- What is the role of an audit committee when it comes to sustainability? Does it exist?

This committee ends up existing from the moment someone is responsible to report to the board of directors the auditing processes and the risks to which the organisation is subjected.

As soon as you are audited, there is this control. Companies listed on the stock exchange or that issue any type of audit report, there is an internal control in this sense.

In the sustainability issue, it will depend a lot on whether the company is aware of its importance for the risks associated to it.

8- What are the limitations of the audit reports?

The auditor's role is very much related to the topic, you have no bases, no training and there is still little legislation on how to validate the indicators.

Difficulties after that, I would say are the same as in financial auditing - obtaining information, dealing with the client and managing the team.

9- In a sustainable audit report, is there any way to standardise the analysis made? Can they be universal to all companies?

Yes, if you use GRI's. In this case the indicators are all defined, and the unit of each indicator is the same.

Of course, there are more qualitative indicators and then you have to spend more time reading and understanding what is more important to disclose.

I know that until 2025 there will be developments on this theme in terms of disclosure to standardize the reports and be easier to compare and see.

Part 2- Portuguese Case

10- What are the most common sustainability practices in Portuguese companies?

I would say that social sustainability actions are the easiest to implement. Also, companies that give training to their employees is also a sustainable practice.

There are several. In the consultancy where I am for example, we have actions to go and remove rubbish from the beach. At Christmas we can collaborate and buy presents from a list that young people from an institution make.

11- When compared to international companies, where are we the weakest?

I don't know if we are so weak in this field of sustainability. You have Portuguese companies that are doing very well in this field, EDP, SONAE, for example.

We also must analyse the Portuguese market; you have many small and medium companies that are not willing to spend money on a sustainable audit. Imagine a company that doesn't have a sustainability department or qualified people to define the indicators to be reported on. This will add the risk of hiring a team for this work and then to certify the report.

As it is still optional, companies see this as a cost. In this case auditing is very ungrateful, companies are obliged to be audited financially and this is a cost that they cannot escape.

12- For example, sometimes we audit intra-group companies. In this case, are the differences in terms of sustainability significant? In an intra-group policy, are the differences smaller?

I will give you an example, I have audited a Portuguese listed group that owns several properties. What the group does is not to issue the report per property, but, as you do in financial auditing. You report the consolidated accounts.

In this case there were no differences.

13- According to KPMG, the number of sustainable auditing reports in Portugal is lower than in other countries. Why is this?

The data is relative between 2017 and 2020, I am amazed by this statistic. What happened in 2020? COVID.

I believe that was the main reason for this difference, but I think if there was a report with data for 2022 we would see an increase. From my experience assurance has grown a lot, that's why these figures surprise me.

Annexes 10- Big Four Partner

Part 1- Overall Overview

1- How would you describe the environmental sustainability problems that companies are facing?

The big challenge is the dependence on teams that have nothing to do with sustainability, i.e. financial data comes from accounting. Most of these people have adequate training to deal with these data, the information on sustainability is dispersed over several areas.

The more social indicators are given by the human resources area, the environmental indicators are given by the environment - production, logistics (they will evaluate the emissions of the trucks they transport), then it is necessary to arrive at the number of emissions per product, we have to understand how many pallets go on each truck, the number of products per pallet.

Most of the times the teams are not able to answer that because it is not their focus, their role is to sell.

2- What tools do companies have to deal with these issues?

The ESG theme, encompasses three letters that have nothing to do with each other, when we talk about sustainable it is the same people inside a company that focus on social or governance. But even when we think about e we may be talking about CO2 emissions or electricity or water consumption. People who are dedicated to this are very different people.

Companies have been very difficult to adapt to this. Imagine a company that needs to have 30 people to deal with these issues.

The normal thing is to hire companies like ours, which are able to have scale that only deal with the issue of water. Maybe in Portugal there is no company that can afford to have a team or a person dedicated only to this issue.

3- Are the results determined as an external auditor in agreement with the internal auditors?

This is a clear handicap in the sustainability area in Portugal. Most internal audits do not do or do very little work in these areas, which are the capture processes, of SDG data.

An evolution is needed in this matter.

The role of the internal auditor in Portugal in these sustainability matters needs to evolve. It is currently limited and scarce.

Internal auditing is historically prepared to deal with areas such as finance, IT when faced with new, disruptive areas, which are often competing for resources in the market with large companies in which typically people from this area are people who are being unleashed in the market with large salaries, have power of choice and end up not choosing internal auditing.

4- How do these reports affect the performance of the company?

The companies listed on the stock exchange today, to do a sustainability report is no longer a choice, although it is not mandatory, I would say that the pressure is so great and of the benchmark. I would say that it is more in the sense that today companies in the same sector already do this type of reports, so there is pressure because not reporting has a very negative connotation.

In listed companies, even those that do not believe much do so under pressure, but what I am going to say now is valid for listed companies and for the generality of companies. I think that the marketing, investment relation and brand management areas have already understood that this is a necessity at several levels. Investors today are already concerned with this issue, when we think about sustainability and SDG, this will have an impact on the business. A company that does not worry about this, about having green products, for example, will lose market share and consumers (new generations) are already starting to take this into consideration.

The green products, products ecologically connoted as green, their growth rate in the last 5 years is 5% higher than conventional products.

So companies, need to show the market what they are doing.

It is also important to capture and retain talent. Younger people are also starting to put into the balance when choosing a company SDG factors, male and female equity, integration, how they look at communities.

Companies are starting to need to have a quick and systematised way to show stakeholders what they are doing.

For example, banks are starting to integrate by EU regulation that it is mandatory in their risk assessment to grant risk or pricing analysis to take into account SDG factors.

Furthermore, the new EU directive will require SMEs to report non-financial information from 2026 onwards.

5- Does the role of these reports vary from industry to industry and organisation to organisation? If yes, how?

Yes they vary, each company has its specificity. What is expected is that there is a comparison of indicators - we consider benchmarking because nobody wants to compare badly with peers. The role of the reports varies from company to company and from industry to industry.

6- How do you make the selection of criteria for the selection of reporting standards?

We start by doing a materiality analysis, i.e. the company has to see which themes are relevant for it from the materiality point of view.

This is done in two ways: internally (listening to management, main directors, etc.). For example, maybe the CO2 emission is not a relevant issue, maybe if we are talking about a transportation company it will be relevant.

The second source is external stakeholders, we ask them what issues they consider relevant.

7- What is the role of an audit committee when it comes to sustainability? Does it exist?

The role of an audit committee when it comes to sustainability is to alert the board of directors about the risks that the organisation is subject to.

Considering that the people inside the companies are still getting familiar with the themes, sometimes, not having the most experienced people working on these themes makes it difficult to correctly transmit potential risks.

There is a great difficulty for companies to be autonomous in this identification of the most critical indicators for the company.

8- What are the limitations of the audit reports?

One of the limitations is related to the multiple frameworks which make comparison difficult. It is in this sense that the European taxonomy appears because there is a need to create rules and indicators that allow this comparison. Despite everything, the GRIs have a set of indicators, which facilitates some comparability. What is the biggest problem? GRIs have a set of main so they do not say in a detailed way how the indicator should be calculated; some indicators are subjective.

One of the things that the new standard in the EU has precisely addressed is that risk, CRSS.

The idea is to be more objective and to say better how you calculate each indicator.

Take the following example, when today I calculate the CO2 footprint even if the two companies apply GRIs, it doesn't say how to calculate scope 1,2 emissions, for example.

The applicability makes one company consider one criterion and the other choose another.

Therefore, the result is not comparable.

The risk of comparability is very high.

It is currently very difficult to compare two companies from the point of view of sustainability practices.

The main difficulty is data, i.e. unlike financial reporting. Sustainability reporting still relies on unstructured data. What is this?

When we talk about preparing a DR or a balance sheet, those numbers result from data that is in a sustainability program.

Sustainability will depend on unstructured data then it has to be collected manually.

Example, I get to the end of the year, and I want to report electricity consumption. Do you know how many companies today calculate that indicator?

The companies go to the invoices and are adding up all the invoices for the year. Imagine that you are a company with x points in the country with x meters and that there are 200 invoices per month.

Imagine a worst-case scenario where that company, in addition to being in Portugal, Brazil and Spain, has to quantify the invoices of these companies.

Perhaps the invoices in Spain are not as detailed as in Portugal due to legislation.

The data is not organised into a system and the more dispersed the company and the more international it is, the more difficult it is going to be.

And how is this data captured? Excel shared by email. The more sophisticated companies already have some data aggregation systems here, but currently it is still a very manual process, very little integrated with very few automatic controls.

9- In a sustainable audit report, is there any way to standardise the analysis made? Can they be universal to all companies?

GRI is currently the most widely accepted standard in Portugal and Europe, but it is not mandatory to use GRI.

Companies in the UK use the TCFD (Task force on climate-related financial disclosures), which has its own normative.

In the US, they use internal regulations.

There are many companies that use a mix of different frameworks.

If you ask me which is the most used framework, even by listed companies, it will be the GRI, without a doubt.

Part 2- Portuguese Case

10- When compared to international companies, where are we the weakest?

I would say that the problems I mentioned are transversal issues when I talk to my international colleagues. So, the problems that we feel in Portugal they feel in Spain.

Of course, there may be one or another country that is more advanced and the companies are not all at the same level.

But here the listed companies in Portugal don't compare badly with companies abroad.

11- For example, sometimes we audit intra-group companies. In this case, are the differences in terms of sustainability significant? In an intra-group policy, are the differences smaller?

The big challenge in sustainability reporting is the dispersion of data and often its comparability and consistency across locations or group companies.

One company has four factories in the country and when we go to check it out the companies have done different calculations.

How does this then add up to be a coherent calculation?

It is a big challenge.

12- According to KPMG, the number of sustainable auditing reports in Portugal is lower than in other countries. Why is this?

This study depends on the market and the information companies give us.

This decrease has to do with: companies were preparing reports and these reports had no quality, at this moment companies are taking a step back and hiring bigfours to improve these reports.

There are ranking companies that have been analysing the reports and have penalised some companies that had incomplete reports or that it was just a greenwashing tool.

Short term trend moreover this year we never had so many requests for proposal.

Another phenomenon that we must take into consideration is that there are companies in Portugal that report every two years, it may affect this KPMG survey.

Covid may have affected it because companies focus on the essential at these times and as sustainability brings costs many of them ended up not doing it. In many cases it does not mean that they do not think it is relevant, but because of the opportunity cost because of the cost.

Annexes 11- Big Four Manager

Part 1- Overall Overview

1- How would you describe the environmental problems that companies face?

The companies that report at a level that could have this assurance, must put the information in accordance with the framework, be it the GRIs or the SABS. If we go down to a lower level most of them still don't report in a complete way.

Big problem

Many companies go to the website and see the sustainability tier, but many times they are loose phrases and not minimally structured reports. The messages are not very quantitative, they are generalists.

The level of maturity of the information is not prepared to have a revision.

The cost driver may not be relevant, obviously not being mandatory many entities soon say no. But the problems start before, the problem is that the entities do not prepare or report this information.

The problem is in the maturity of the companies in relation to the theme, where do you see much of this reflection? Typically, the area of sustainability is still orphaned in many institutions. What begins to be important - entities talk to us and say our clients are starting to ask us to report, our clients already impose some kind of commitment. Organisations and put sustainability anchored and put this in marketing because they associate this with a need to communicate that they are doing something. Others say who is close to this is that area of certification because they have the ISAS, but the information is badly handled.

Are there well-prepared resources for these issues? Resources and people with information are not exactly abundant. There are several causes.

Auditing will have to take place after the preparation of the report.

In terms of sensitivity to contact, there are more who don't have it than those who do.

The main reason for not having an audit is that the reporting part is not dealt with.

2- What tools do companies have to deal with these issues?

At least the Portuguese companies, only the listed ones, and even so not all of them are prepared for these issues.

The remaining companies are still getting acquainted with this new need.

3- Are the results determined as an external auditor in agreement with the internal auditors?

Currently, it is normal that the results differ because there are no qualified people in the companies to perform this role and mainly because instead of an internal audit department, companies place this responsibility in the marketing department.

This subject of internal auditing in Portugal is not so generalised; the companies that do have it are large companies.

When we talk about internal auditing with knowledge of sustainability, it is almost non-existent.

4- How do these reports affect the performance of the company?

Auditing comes when companies believe that it adds value.

For example, there are groups that need to have financing, in which case the report is necessary.

These reports give companies credibility.

Basically, they do it when it adds value, for a matter of raking the agencies give some "extra points".

5- Does the role of these reports vary from industry to industry and organisation to organisation?

If yes, how?

In line with what I answered before, the role of these reports varies from industry to industry, the indicators reported on depend on organisation to organisation.

6- How do you make the selection of criteria for the selection of reporting standards?

There are two roles in auditing - to follow the role from the beginning or to audit the report made by the company.

Then if the company has never done a materiality analysis in order to help the company understand the potential risks and then you do the external reflection with the stakeholders to understand which indicators they consider relevant. A benchmark is also carried out.

If we are auditing the non-financial report, the company itself defined the indicators.

7- What is the role of an audit committee when it comes to sustainability? Does it exist?

The risk decreases if we have a second line of defence. This committee allows us to address risks earlier.

8- What are the limitations of the audit reports?

Materiality analysis must be done both internally and externally. The number of companies that have already done this is not very big. It is a good starting point, but we haven't done it yet, so let's do it.

Once again, let's divide up. Some cases are subsidiaries of international companies, and we are already imposing more on those that are nationally based than the level of maturity coming from the layer of listed companies, the general public has difficulty in understanding how to define the indicators to be defined.

9- In a sustainable audit report, is there any way to standardise the analysis made? Can they be universal to all companies?

If companies comply with the SFR (strategic foresight report) the problem of lack of standardisation will be mitigated.

Three points: the way of organising the information, the SFRS already preconise that it must be for each normative theme - environmental, social and governance.

The directive presents several points, such as the fact that the reports are issued separately: some months the financial report would be available and then the sustainable report. This does not allow it to be seen together. Most companies say GRIs but don't comply with the whole

report on some things, based on some indicators. And then the way the indicator itself is constructed, some put in one ratio and others use another.

If the SFRs are complied with, these problems will be solved, but it is a lengthy process.

Even the forms are divided into three ways, they say - to disclose strategies, to disclose the resources we are using, to monitor and so on.

The latter has the KPIs well defined.

The new directive also says that this should be in electronic format, similar to financial reporting.

Currently if you try to compare companies it is not possible and then the question still arises how much does the report cover of the company, 60%? Many cases are not presented due to the limitation of the report itself, but this is also asking for a technical level that you don't have.

Almost all reports should have a theoretical section, what is the framework for, was it full compliance?

Currently we have a lack of quality and comparability, of standardization that can only be solved with a clear normative.

Nowadays companies send things, the marketing department puts zero in 5 years and then you ask what the plan and they is don't know what they are saying.

Part 2- Portuguese Case

10- When compared to international companies, where are we the weakest?

It is like this in some countries where these practices depend also on legislation. Spain for example applied the European taxonomy.

Then France, overactive and anticipating these issues.

They are not in the reporting themes, often it is obliged by legislation.

Then Holland, Germany, UK I would say that in reporting they are more advanced than us.

11- For example, sometimes we audit intra-group companies. In this case, are the differences in terms of sustainability significant? In an intra-group policy, are the differences smaller?

Normally companies report in a group, they report in a group logic.

In the light of the new directive, if it is done according to EU rules on a group level, there is no need to report on an individual level.

To appear consolidated, it is necessary to capture and collect information at the level of each company.

The logic of those who do is at the consolidated level.

12- According to KPMG, the number of sustainable auditing reports in Portugal is lower than in other countries. Why is this?

If we had data from now, these numbers would not be true.

Currently, this audit is voluntary, the number of entities in Portugal, being voluntary, the number of companies that already request this assurance service is reduced. When we are talking about listed companies, certainly. We work with several listed companies that are not.

If we analyse the PSI20, there are entities that do not have assurance on sustainability information.

Even at this level there are companies that still don't have this good practice.

When we go down from one tier to the next of companies much less.

The truth is that it is currently a very small percentage, with assurance being voluntary.

Therefore, in terms of business volume, for the Big Four it is not justifiable to have departments focused on it, there are still no requests that feed it.

With the new CSRD directive, the entities, SMEs, must implement the normative and have audits on that.

In 2024, listed companies will have to prepare information in this sense for the reports to be issued in 2025. There will be an exponential growth.

In terms of level of assurance, it won't change in 2025. What is required by the directive is to reach the level of scrutiny we have of the information, but that is difficult. In other words, from the auditing point of view, there is still not enough guidance or standards that define the type of procedures. The auditing standards that exist and are being applied are generic.

When we talk about ISAE 3000, it was not designed for sustainability matters. There is a project for ISA 5000, which is issued by the same body, but is already geared towards sustainability.

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How Can Internal Auditors Drive Sustainability Excellence? Unveiling the Crucial Role of Internal Auditors in Elevating Sustainable Auditing Reports

Appendices

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