

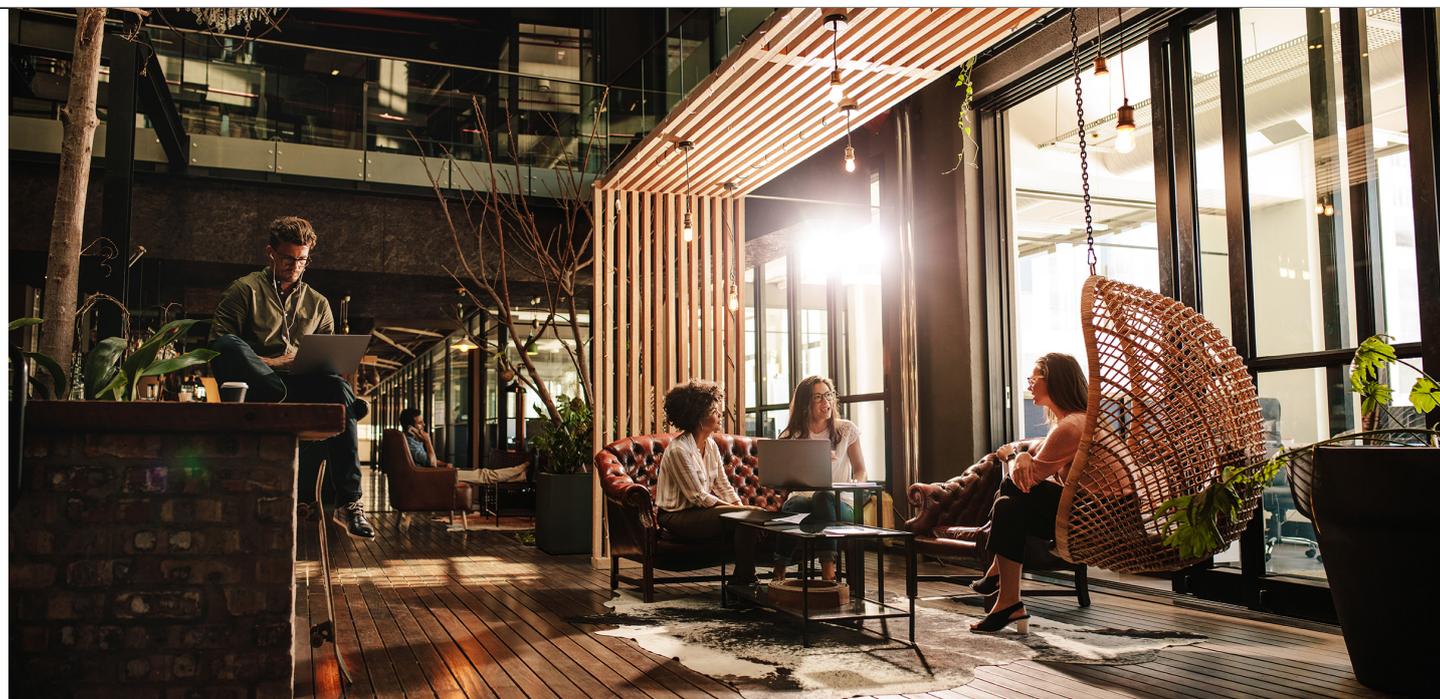


The Importance of an Internal Control Framework for ESG Regulations

Compliance and Ethics

Environmental

Corporate, Securities, and Governance



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Current and emerging environmental, social, and governance (ESG) legislation — such as the Corporate Sustainability Reporting Directive (CSRD), the EU Deforestation Regulation (EUDR), and the Corporate Sustainability Due Diligence Directive (CSDDD) — emphasize the importance of internal checks and risk management systems to ensure accuracy, consistency, and compliance.

Just as financial reporting relies heavily on internal controls to ensure data integrity and regulatory alignment, ESG regulatory compliance must follow suit. Without a proper internal control environment, compliance becomes fragile, prone to errors, and at risk of non-conformance.

Now, as many organizations are undertaking [the journey of compliance with ESG requirements](#), they are presented with a significant opportunity: to embed internal controls into ESG processes from the start. Laying this groundwork early will avoid costly rework, prevent regulatory fines, and reduce the risk of misstatements that could damage corporate reputation. A structured governance model, clear policies, and well-defined internal checks will send a powerful message to stakeholders — regulators, investors, and most importantly, customers — that ESG data is reliable and compliance efforts are solid.

Although the ESG regulatory landscape does not yet provide detailed guidance on how to build internal controls, organizations can draw from decades of financial reporting practices. Frameworks such as COSO (Committee of Sponsoring Organizations of the Treadway Commission), and methodologies derived from SOX (Sarbanes-Oxley) and JSOX (Japanese SOX), provide a proven foundation for structuring ESG internal controls. These frameworks promote a risk-based approach, emphasizing control activities, monitoring, and continuous improvement — principles that are directly applicable to ESG reporting.

In the context of CSRD, reporting encompasses both narrative (i.e., descriptive) disclosures and quantitative metrics. For narrative disclosures, a staged checklist-based review process can be effectively applied — not only for topical standards but also for ESRS 2, which includes the general disclosures. This enables organizations to cover critical areas such as the basis of preparation of the sustainability report, governance over sustainability matters, the organization’s strategy and business model, and material impacts, risks, and opportunities.

The staged control approach typically involves three levels:

1. Verifying that relevant governance structures, policies, and procedures are in place;
2. Evaluating how these are communicated and implemented across the organization; and
3. Assessing their ongoing monitoring and effectiveness.

One practical method to support this is translating the relevant parts of the directive into structured control questions for each of the three stages. These questions help ensure that all regulatory requirements are systematically addressed. When linked to specific disclosure requirement numbers, they can directly support the reporting process by guiding the annual collection and validation of narrative disclosures.

To be effective, this checklist process should be aligned with the ESG reporting cycle, ensuring timely and consistent preparation and delivery of descriptive data.

[ACC Members: Download the comprehensive resource, Building a Framework for an ESG Approach in Europe](#)

For quantitative metrics, internal controls must be applied at the process level. This begins with mapping current data collection workflows, identifying risks and gaps, and designing controls to standardize and safeguard data accuracy. These controls should not be static. To remain effective in a changing regulatory landscape, they must be routinely tested, assessed, and improved.

Moreover, internal control methodologies such as SOX and JSOX can be extended beyond CSRD to support compliance with other ESG-related regulations, including the EUDR and the CSDDD. These financial internal control approaches are particularly valuable when mapping ESG-related processes and preparing the documentation required by these regulations. Applying an audit-based methodology enables organizations to systematically identify risks within their processes and supports the design of effective mitigating controls. This structured approach not only enhances operational accountability but also ensures that compliance obligations are addressed proactively and comprehensively.

Ultimately, internal control is not just about executing checks — it is a holistic system encompassing risk assessments, policy development, audit collaboration, and oversight. As ESG compliance becomes a non-negotiable strategic priority, internal control should be fully integrated into ESG governance structures. It is the critical link that ensures alignment between ESG operations, reporting, and regulatory expectations.

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