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ESG REPORTING IN POLAND – ANALYSIS OF THE INFORMATION FLOW PROCESS FROM THE AUDITOR AND THE INSPECTION PERSPECTIVE

Abstract

With the increase in the sense of responsibility for the activities of companies, ESG (Environmental, Social, Government) concepts in value management appeared. The reporting of environmental, social and ethical activities is an extremely complex issue, as evidenced by the variety of terms used to describe it. In Poland, the obligation to report on ESG results from the Corporate Sustainability Reporting Directive (CSRD), which entered into force on January 2023. The aim of the study is to identify information flow process and its stakeholders in implementation of ESG reporting in Poland. The primary research method to achieve our objective was a literature review. As a result there was information flow process, main stakeholders and key stages of the ESG reporting process identified.

Keywords: audit, sustainability reporting; ESG reporting; Environmental, Social, Governance; stakeholders.

RAPORTOWANIE ESG W POLSCE – ANALIZA PROCESU PRZEPŁYWU INFORMACJI Z PERSPEKTYWY AUDYTORA I PROCESU KONTROLI

Streszczenie

Wraz ze wzrostem poczucia odpowiedzialności za działania spółek, rozwijała się koncepcja ESG (Environmental, Social, Government) w zarządzaniu wartością. Raportowanie działań środowiskowych, społecznych i etycznych jest zagadnieniem niezwykle złożonym, o czym świadczy różnorodność wykorzystywanych w literaturze terminów używanych do jego opisu. W Polsce obowiązek raportowania ESG wynika z Corporate Sustainability Reporting Directive (CSRD), która wprowadzona została w styczniu 2023 roku. Celem badania jest identyfikacja przebiegu procesu przepływu informacji oraz jego interesariuszy we wdrażaniu raportowania ESG w Polsce, zgodnie z istniejącymi wytycznymi. Podstawową metodą badawczą zastosowaną do osiągnięcia celu był przegląd literatury dotyczącej raportowania ESG.



W rezultacie zidentyfikowano proces przepływu informacji, głównych interesariuszy i kluczowe etapy procesu raportowania ESG.

Słowa kluczowe: raportowanie zrównoważonego rozwoju; raportowanie ESG; środowisko, społeczeństwo, ład korporacyjny; interesariusze; audyt.

Introduction

Business activities are subject to constant change. This also applies to the information they report on the market. Financial information is the basis for making investment decisions, however, in recent years, investors and public institutions have been paying more and more attention to reporting non-financial information. With the increase in the sense of responsibility for the activities of companies, concepts in value management appeared, which concerned the recognition of responsibility in the context of the enterprise and society. We can include, among others concepts like: "Sustainable Development" – is a concept that assumes the simultaneous consideration of economic, social and environmental aspects in decision-making, striving to ensure a sustainable quality of life for the present generations without compromising the ability of future generations to meet their needs. This concept is widely promoted by the United Nations¹; "Fair Trade" – a social and business movement that promotes fair trade and fair pay for producers, especially in developing countries²; "CSR (Corporate Social Responsibility)" – the concept according to which enterprises and organizations should take responsibility for their social, environmental and ethical actions, striving to achieve sustainable development by taking actions that have a positive impact on society and the environment, in addition to generating financial profits³; "ISO 26000" – a guidance developed by the International Organization for Standardization (ISO) that deals with corporate social responsibility leading to encourages organizations to consider stakeholder

¹ Baker S., *Sustainable development*, Routledge, London 2015; Parris T.M., Kates R.W., *Characterizing and measuring sustainable development*, "Annual Review of environment and resources" 2003, 28(1), pp. 559–586.

<https://doi.org/10.1146/annurev.energy.28.050302.105551>.

² Dragusanu R., Giovannucci D., Nunn N., *The economics of fair trade*, "Journal of Economic Perspectives" 2014, 28(3), pp. 217–236. <https://doi.org/10.1257/jep.28.3.217>; Renard M.C., *Fair trade: quality, market and conventions*, "Journal of rural studies" 2003, 19(1), pp.87-96. [https://doi.org/10.1016/S0743-0167\(02\)00051-7](https://doi.org/10.1016/S0743-0167(02)00051-7).

³ Lindgreen A., Swaen V., *Corporate social responsibility*, "International Journal of Management Reviews" 2010, 12(1), pp. 1–7. <https://doi.org/10.1111/j.1468-2370.2009.00277.x>; Windsor D., *The future of corporate social responsibility*, "The International Journal of Organizational Analysis" 2001, 9(3), pp. 225–256.

<https://doi.org/10.1108/eb028934>.

interests and expectations⁴; “Triple Bottom Line (TBL)” – concept based on extending the traditional business model, which focuses only on financial results, adding two additional benefits: social and environmental, as a result of which companies strive to balance these three dimensions, i.e. financial profits, social benefits and minimizing the negative impact on the environment⁵; “Impact Investing” – an investment approach that aims to achieve positive social and environmental outcomes while generating a financial return⁶; “CDP (Carbon Disclosure Project)”⁷ – is an initiative that focuses mainly on the environmental aspect, especially on greenhouse gas emissions, where companies are encouraged to voluntarily report their emissions and actions taken to reduce environmental impact⁸. Finally one of the last concepts related to responsibility concept is ESG (Environmental, Social, and Governance). ESG is a framework used by investors and companies to evaluate and measure the sustainability and societal impact of businesses. It has gained significant traction in the financial world as an approach to integrate non-financial factors into investment decisions⁹.

The history of ESG can be traced back to several key developments. First of all we may consider the concept of socially responsible investing (SRI) as the early precursor to ESG. The roots of SRI can be traced back to religious groups in the 18th and 19th centuries who avoided investing in “sin” industries like tobacco, alcohol, and gambling. Over time, SRI evolved to encompass broader social and environmental concerns¹⁰. Then in the modern era ESG movement

⁴ Hahn R., *ISO 26000 and the standardization of strategic management processes for sustainability and corporate social responsibility*, “Business Strategy and the Environment” 2013, 22(7), pp. 442–455. <https://doi.org/10.1002/bse.1751>.

⁵ Slaper T.F., Hall T.J., *The triple bottom line: What is it and how does it work*, “Indiana Business Review” 2011, 86(1), pp. 4–8; Tate W.L., Bals L., *Achieving shared triple bottom line (TBL) value creation: toward a social resource-based view (SRBV) of the firm*, “Journal of Business Ethics” 2018, 152(3), pp. 803–826. <https://doi.org/10.1007/s10551-016-3344-y>.

⁶ Barber B.M., Morse A., Yasuda A., *Impact investing*, “Journal of Financial Economics” 2021, 139(1), pp. 162–185. <https://doi.org/10.1016/j.jfineco.2020.07.008>.

⁷ CDP, Carbon Disclosure Project, 2023.

www.cdp.net/en/guidance/guidance-for-companies. [Accessed: 31.08.2023].

⁸ Li D., Huang M., Ren S., Chen X., Ning L., *Environmental legitimacy, green innovation, and corporate carbon disclosure: Evidence from CDP China 100*, “Journal of Business Ethics” 2018, 150, pp. 1089–1104, <https://doi.org/10.1007/s10551-016-3187-6>.

⁹ Gillan S.L., Koch A., Starks L.T., *Firms and social responsibility: A review of ESG and CSR research in corporate finance*, “Journal of Corporate Finance” 2021, 66, 101889, <https://doi.org/10.1016/j.jcorpfin.2021.101889>; Friede G., Busch T., Bassen A., *ESG and financial performance: aggregated evidence from more than 2000 empirical studies*, “Journal of Sustainable Finance & Investment” 2015, 5(4), pp. 210–233, <https://doi.org/10.1080/20430795.2015.1118917>.

¹⁰ Revelli C., Viviani J.L., *Financial performance of socially responsible investing (SRI): what have we learned? A meta-analysis*, “Business Ethics: A European Review” 2015, 24(2), pp. 158–185, <https://doi.org/10.1111/beer.12076>.

began to take shape in the late 20th century, particularly in the 1960s and 1970s, with the rise of various social and environmental movements. The anti-apartheid movement, the civil rights movement, and the environmental movement all contributed to raising awareness about the social and environmental impacts of businesses. The key milestone in the history of ESG was launched in 2000 United Nations Global Compact (UNGC) which was a voluntary initiative encouraging companies to adopt sustainable and socially responsible policies and to report on their progress¹¹. The UNGC consists of ten principles covering human rights, labor, environment, and anti-corruption. Crucial from the point of view of this study was the rise of ESG reporting standards initiated by the Global Reporting Initiative (GRI) founded in 1997, and the Carbon Disclosure Project (CDP) established in 2000, which focuses on carbon-related disclosures. These frameworks aimed to provide consistent metrics for measuring and reporting sustainability performance¹². During the 2000s, various companies and institutions began to offer ESG ratings and indexes, which allowed investors to compare the sustainability performance of different companies. Examples include the Dow Jones Sustainability Index and the FTSE4Good Index Series.

On December 16, 2022, Directive (EU) 2022/2464 (CSRD) was published in the Official Journal of the European Union (EU), which is part of the Green Pact of the European Union, which establishes a new growth strategy for the Union¹³. This Directive is part of the implementation of the Sustainable Finance Action Plan, which aims to steer investment towards a stable, sustainable and inclusive economic system by managing risks related to climate change, resource depletion, environmental degradation and social issues. In this context, the CSRD requires interested companies to disclose, in a specific section of their performance report, information that provides an understanding of how they integrate sustainability into their business model and strategy. The entry into force of the new reporting obligations also became applicable in Poland. Unfortunately, as of third quarter 2023, there is no recognized ESG report standard for Poland, which would become the basis for Auditors, internal auditors or inspection institutions. Considering the above, it justifies undertaking this research topic¹⁴.

¹¹ UNGC, The Ten Principles of the UN Global Compact, 2023,

www.unglobalcompact.org/what-is-gc/mission/principles. [Accessed: 20.08.2023].

¹² Siew R.Y.J., *A review of corporate sustainability reporting tools (SRTs)*, "Journal of Environmental Management" 2015, 164(1), pp. 180–195, <http://dx.doi.org/10.1016/j.jenvman.2015.09.010>.

¹³ Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (Text with EEA relevance), "Official Journal of the European Union" L 322/15.

¹⁴ Aluchna M., Roszkowska-Menkes M., Kamiński B., *From talk to action: the effects of the non-financial reporting directive on ESG performance*, "Meditari Accountancy Research"

The aim of the study is to identify information flow process and its stakeholders in implementation of ESG reporting in Poland. The primary research method employed to achieve our objective was a literature review, following the combined approaches of Denyer and Tranfield (2009), Rowley and Slack (2004), Snyder (2019), and Haddaway et al. (2022)¹⁵. Sustainability and responsibility reporting issue will be presented first in the article. Further in the paper ESG information flow process was presented and ESG reporting was described. In the last section, the authors focused on independent information assessment and audit and inspection of ESG reports.

Sustainability/responsibility reporting

The reporting of environmental, social and ethical activities is a complex issue, as evidenced by the variety of terms used to describe it. Thus, terms referring to the concept of corporate social responsibility appear in the literature, such as: 'corporate social reporting'¹⁶, 'corporate responsibility reporting'¹⁷, 'corporate social responsibility reporting'¹⁸ and 'CSR reporting'¹⁹. 'Integrated repor-

2022, 31(7), pp. 1–25, <https://doi.org/10.1108/MEDAR-12-2021-1530>; Baran M., Kuźniarska A., Makieła Z.J., Sławik A., Stuss M.M., *Does ESG reporting relate to corporate financial performance in the context of the energy sector transformation? Evidence from Poland*, "Energies" 2022, 15(2), p. 477, <https://doi.org/10.3390/en15020477>.

¹⁵ Denyer D., Tranfield D., *Producing a systematic review*, [In:] D.A. Buchanan A. Bryman (Eds), *The Sage handbook of organizational research methods*, Sage Publication Ltd, 2009, pp. 671–689; Rowley J., Slack F., *Conducting a literature review*, "Management Research News" 2004, 27(6), pp. 31–39, <https://doi.org/10.1108/01409170410784185>; Snyder H., *Literature review as a research methodology: An overview and guidelines*, "Journal of Business Research" 2019, 104, pp. 333–339, <https://doi.org/10.1016/j.jbusres.2019.07.039>; Haddaway N. R., Page M. J., Pritchard C. C., McGuinness L. S., *PRISMA2020: An R package and Shiny app for producing PRISMA 2020-compliant flow diagrams, with interactivity for optimised digital transparency and Open Synthesis*, "Campbell Systematic Reviews" 2022, 18(2), e1230, <https://doi.org/10.1002/cl2.1230>.

¹⁶ Talha M., Christopher S.B., Jaganathan K., *Corporate social reporting – Shareholder perception and its determinants*, "Corporate Social Responsibility and Environmental Management" 2020, 27(6), pp. 3034–3046, <https://doi.org/10.1002/csr.2021>.

¹⁷ Fifka M.S., *Corporate Responsibility Reporting and its Determinants in Comparative Perspective – a Review of the Empirical Literature and a Meta-analysis*, "Business Strategy and the Environment" 2013, 22(1), <https://doi.org/10.1002/bse.729>.

¹⁸ Andrew J., Baker M., *Corporate Social Responsibility Reporting: The Last 40 Years and a Path to Sharing Future Insights*, "ABACUS, "Journal of Accounting, Finance and Business Studies" 2020, 56 (1), <https://doi.org/10.1111/abac.12181>; Parsa S., Dai N., Belal A., Li T., Tang G., *Corporate social responsibility reporting in China: political, social and corporate influences*, "Accounting and Business Research" 2021, 51(1), pp. 36–64, <https://doi.org/10.1080/00014788.2020.1780110>.

¹⁹ Odriozola M.D., Baraibar-Diez E., *Is Corporate Reputation Associated with Quality of CSR Reporting? Evidence from Spain*, "Corporate Social Responsibility and Environmental Management" 2017, 24(2), pp. 121–132, <https://doi.org/10.1002/csr.1399>;

ting' is emerging as a form of reporting that allows for a holistic view of value creation by companies and also refers to its dimensions, such as the environmental or social dimension²⁰. Recently, including in the context of EU legislative changes, terms such as 'non-financial reporting'²¹ and 'sustainability reporting'²² have become relatively frequent. The term 'ESG reporting' also belongs to this catalogue²³. It is also sometimes the case that the acronym ESG is treated as a synonym for the word 'sustainability'²⁴.

It is not only the nomenclature used that indicates the complexity of the issue. A review of existing guidelines on how to report in this area leads to similar conclusions. Among the most popular is the standard developed by the Global Reporting Initiative (GRI)²⁵, but a variety of tools to report and assess companies' progress on responsible and sustainable performance exist – a large number of them are mentioned in their articles by Siew (2015) and Kraw-

Tschopp D., Huefner R.J., *Comparing the Evolution of CSR Reporting to that of Financial Reporting*, "Journal of Business Ethics" 2015, 127(3), pp. 565–577, <https://doi.org/10.1007/s10551-014-2054-6>.

²⁰ Manes-Rossi F., Nicolò G., Tiron Tudor A., Zanellato G., *Drivers of integrated reporting by state-owned enterprises in Europe: a longitudinal analysis*, "Meditari Accountancy Research" 2021, 29(3), pp. 586–616, <https://doi.org/10.1108/MEDAR-07-2019-0532>.

²¹ Di Vaio A., Varriale L., Di Gregorio A., Adomako S., *Corporate social performance and non-financial reporting in the cruise industry: Paving the way towards UN Agenda 2030*, "Corporate Social Responsibility and Environmental Management" 2022, 29(6), pp. 1931–1953, <https://doi.org/10.1002/csr.2292>; Vitale G., Cupertino S., Riccaboni A., *The effects of mandatory non-financial reporting on financial performance. A multidimensional investigation on global agri-food companies*, "British Food Journal" 2023, 125(13), pp. 99–124, <https://doi.org/10.1108/BFJ-06-2022-0545>.

²² Balogh I., Srivastava M., Tyll L., *Towards comprehensive corporate sustainability reporting: an empirical study of factors influencing ESG disclosures of large Czech companies*, "Society and Business Review" 2022, 17(4), pp. 541–573, <https://doi.org/10.1108/SBR-07-2021-0114>; Gokten S., Ozerhan Y., Gokten P.O., *The historical development of sustainability reporting: a periodic approach*, "Zeszyty Teoretyczne Rachunkowości" 2020, 107(163), pp. 99–117, <http://dx.doi.org/10.5604/01.3001.0014.2466>.

²³ Barangă L.P., Țanea E.-I., *Introducing the ESG reporting – benefits and challenges*, "Journal of Financial Studies" 2022, 7(13), pp. 174–181, <https://doi.org/10.55654/JFS.2022.7.13.14>; Diwan H., Amarayil Sreeraman B., *From financial reporting to ESG reporting: a bibliometric analysis of the evolution in corporate sustainability disclosures*, "Environment, Development, and Sustainability", Published online: 15 May 2023, <https://doi.org/10.1007/s10668-023-03249-2>.

²⁴ Buallay A., *Is sustainability reporting (ESG) associated with performance? Evidence from the European banking sector*, "Management of Environmental Quality: An International Journal" 2019, 30(1), pp. 98–115, <https://doi.org/10.1108/MEQ-12-2017-0149>.

²⁵ GRI (2021). GRI 1: Foundations 2021. Global Reporting Initiative. Retrieved from: <https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/> Accessed: 08.08.2023, and <https://www.globalreporting.org/> [Accessed: 02.08.2023].

czyk (2019)²⁶. The need to standardize sustainability and responsible business reporting has also been highlighted by the EU, which commissioned the European Financial Reporting Advisory Group to develop a European Sustainability Reporting Standard (ESRS)²⁷.

The researchers analyze various aspects of sustainability and responsible business reporting. It is relatively common for entities whose reporting practices are examined to be multinational corporations and listed companies, including those listed on sustainable indices²⁸. Publications include those that explore the relationship between responsible and sustainable performance reporting and financial performance²⁹, corporate image³⁰ or performance in ESG areas³¹. There are articles showing what sustainability or responsibility reporting looks like in different sectors³², including controversial sectors³³. One can also find analyses of this type of reporting in the geographic context – taking into account the experience of different national and regional markets³⁴. In the context of the

²⁶ Krawczyk P., *Globalne trendy w raportowaniu niefinansowym – opcje standaryzacji*, „Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu” 2019, 63(3), pp. 40–49, <https://doi.org/10.15611/pn.2019.3.04>; Siew R.Y.J., op.cit. pp. 180–195.

²⁷ EFRAG (2023), ESRS 1: General requirements. November 2022. European Financial Reporting Advisory Group. Retrieved from: <https://www.efrag.org/Assets>. [Accessed: 08.08.2023] and <https://www.efrag.org>. [Accessed: 07.08.2023.]; ESRS 1: General requirements. November 2022. European Financial Reporting Advisory Group. Retrieved from: <https://www.efrag.org/Assets>. [Accessed: 08.08.2023] and <https://www.efrag.org>. [Accessed: 07.08.2023.].

²⁸ Kolk A., *Trajectories of sustainability reporting by MNCs*, “Journal of World Business” 2010, 45(4), pp. 367–374, <https://doi.org/10.1016/j.jwb.2009.08.001>; Romito S., Vurro C., *Non-financial disclosure and information asymmetry: A stakeholder view on US listed firms*, “Corporate Social Responsibility and Environmental Management” 2021, 28(2), pp. 121–132, <https://doi.org/10.1002/csr.2071>.

²⁹ Ibidem; Buallay A., *Sustainability reporting in food industry: an innovative tool for enhancing financial performance*, “British Food Journal” 2022, 124(6), pp. 1939–1958, <https://doi.org/10.1108/BFJ-01-2021-0053>.

³⁰ Odriozola M.D., Baraibar-Diez E., op. cit., pp. 121–132.

³¹ Aluchna M., Roszkowska-Menkes M., Kamiński B., op. cit., pp. 1–25.

³² Buallay A., *Sustainability reporting in food industry...*, pp. 1939–1958; Di Leo A., Sfodera F., Cucari N., Mattia G., Dezi L., *Sustainability reporting practices: an explorative analysis of luxury fashion brands*, “Management Decision” 2023, 61(5), pp. 1274–1297, <https://doi.org/10.1108/MD-02-2022-0142>.

³³ Kilian T., Hennigs N., *Corporate social responsibility and environmental reporting in controversial industries*, “European Business Review” 2014, 26(1), pp. 79–101, <https://doi.org/10.1108/EBR-04-2013-0080>; Grougiou V., Dedoulis E., Leventis S., *Corporate Social Responsibility Reporting and Organizational Stigma: The Case of “Sin” Industries*, “Journal of Business Research” 2016, 69(2), pp. 905–914, <https://doi.org/10.1016/j.jbusres.2015.06.041>.

³⁴ Chung R., Bayne L., Birt J.L., *Determinants of ESG disclosure among listed firms under voluntary and mandatory ESG disclosure regimes in Hong Kong*, “Journal of Applied

European market, studies that address the evolution of the approach to reporting issues embedded in the concept of sustainable and responsible business – from voluntary to mandatory reporting – and the accompanying legislative and institutional changes in different countries are worthy of attention³⁵.

A key role of responsible business reporting is to provide knowledge about these areas of corporate performance to different stakeholder groups. Whether and to what extent this information is actually useful to stakeholders largely depends on the quality of the reports, which consists of elements such as a holistic approach, consideration of stakeholders' information expectations, clarity and comprehensibility of the message, timeliness and comparability of the data and information credibility³⁶. The issue of reporting quality has long been of interest not only to academics, but also to bodies developing guidelines dedicated to sustainability reporting³⁷.

The literature points to the importance of auditing and attestation of ESG information, whether based on internal company structures³⁸ or external³⁹, or

Accounting Research” 2023, ahead-of-print, <https://doi.org/10.1108/JAAR-07-2022-0179>; Romito S., Vurro C., op. cit., pp. 121–132, <https://doi.org/10.1002/csr.2071>.

³⁵ Aureli S., Del Baldo M., Lombardi R., Nappo F., *Nonfinancial reporting regulation and challenges in sustainability disclosure and corporate governance practices*, “Business Strategy and the Environment” 2020, 29(6), pp. 2392–2403, <https://doi.org/10.1002/bse.2509>; Ottenstein P., Erben S., Jost S., Weuster C.W., Zulch H., *From voluntarism to regulation: effects of Directive 2014/95/EU on sustainability reporting in the EU*, “Journal of Applied Accounting Research” 2022, 23(1), pp. 55–98, <https://doi.org/10.1108/JAAR-03-2021-0075>.

³⁶ Ates S., *The credibility of corporate social responsibility reports: evidence from the energy sector in emerging markets*, “Social Responsibility Journal” 2023, 19(4), <https://doi.org/10.1108/SRJ-04-2021-0149>; Diouf D., Boiral O., *The quality of sustainability reports and impression management A stakeholder perspective*, “Accounting, Auditing & Accountability Journal” 2017, 30(3), pp. 643–667, <https://doi.org/10.1108/AAAJ04-2015-2044>.

³⁷GRI (2021). GRI 1: Foundations 2021. Global Reporting Initiative. Retrieved from: <https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/> Accessed: 08.08.2023, and <https://www.globalreporting.org/> [Accessed: 02.08.2023].

³⁸ Arif M., Sajjad A., Farooq S., Abrar M., Joyo A.S., *The impact of audit committee attributes on the quality and quantity of environmental, social and governance (ESG) disclosures*, “Corporate Governance” 2021, 21(3), pp. 497–514, <https://doi.org/10.1108/CG-06-2020-0243>; Soh D.S.B., Martinov-Bennie N., *Internal auditors' perceptions of their role in environmental, social and governance assurance and consulting*, “Managerial Auditing Journal” 2015, 30(1), pp. 80–111, <https://doi.org/10.1108/MAJ-08-2014-1075>.

³⁹ Krasodomska J., Zieniuk P., *Atestacja informacji niefinansowych: podstawy teoretyczne, standardy i praktyki spółek działających w Europie Zachodniej i Wschodniej*, „Zeszyty Teoretyczne Rachunkowości” 2021, 45(1), pp. 53–74, <http://dx.doi.org/10.5604/01.3001.0014.8350>; Kutera M., Zyznarska-Dworczak B., *Narracja w sprawozdawczości –*

a combination thereof⁴⁰. The important role of external auditors is also evidenced by the fact that Directive 2022/2464 introduced the requirement to audit the reports prepared⁴¹.

ESG information flow and ESG reporting

The ESG report is a document that, after its preparation, is subject to both mandatory and optional verification, and only after this stage can the report be used by various types of entities to assess the activity of the analyzed entity. The use of an ESG report is possible thanks to a specific information exchange process consisting of four chronologically closely related stages: developing various standards, creating a report, verifying the report and using the report. Implementing the concept of stakeholders, it can be indicated that within all the indicated stages there are key people, organizations or groups of people who have an impact on the course of the entire process and are subject to it, as well as there are people or groups who have an interest in the results or success of this analyzed process⁴². When applying the concept of stakeholders, two aspects of the analyzed phenomenon should be taken into account within the use of the ESG report. First of all, it is a schedule related to the analyzed process. The second aspect is the flow of information associated with the use of the report. Figure 1 shows the different stages of the process of using the ESG report, along with a proposal of the main identified stakeholders of these different stages.

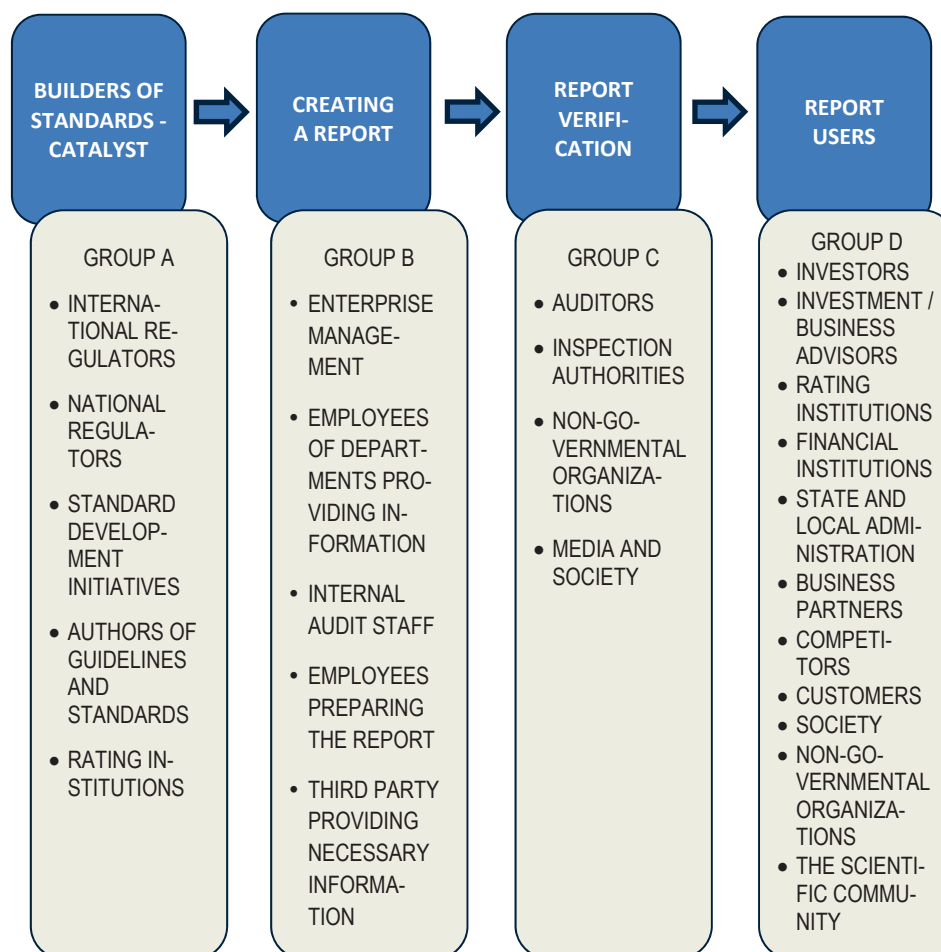
jak ją weryfikować?, „Studia I Prace Kolegium Zarządzania I Finansów” 2018, (160), pp. 99–111, <https://doi.org/10.33119/SIP.2018.160.6>.

⁴⁰ Prinsloo A., Maroun W., *An exploratory study on the components and quality of combined assurance in an integrated or a sustainability reporting setting*, “Sustainability Accounting, Management and Policy Journal” 2021, 12(1), pp. 1–29, <https://doi.org/10.1108/SAMPJ-05-2019-0205>.

⁴¹ Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (Text with EEA relevance), “Official Journal of the European Union” L 322/15.

⁴² Mitchell R. K., Agle B. R., Wood D. J., *Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts*, “Academy of Management Review” 1997, 22(4), pp. 853–886, <https://doi.org/10.2307/259247>.

Figure 1. Key stages of the ESG reporting process and their main stakeholders.



Source: own preparation.

The first stage in the process of using the ESG report is the development of standards and requirements that should be met by ESG reports that will be prepared in the future after the standards are created. At this stage, there are a number of stakeholders who, on the basis of consultations with stakeholders, created standards related to the creation of ESG reports. The main standards for preparing ESG reports currently include the following studies:

- Global Reporting Initiative (GRI, 2021)⁴³;

⁴³ GRI (2021). GRI 1: Foundations 2021. Global Reporting Initiative. Retrieved from: <https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/> Accessed: 08.08.2023, and <https://www.globalreporting.org/> [Accessed: 02.08.2023].

- UN Global Compact (UNGC, 2023)⁴⁴;
- ISO 26000: Guidance on Social Responsibility (ISO, 2010);
- UN Sustainable Development Goals (UN SDGs, 2023)⁴⁵;
- International Integrated Reporting Council (IIRC, 2023);
- Sustainability Accounting Standards Board (SABS, 2023);
- Task Force on Climate-related Financial Disclosures (TCFD, 2017)⁴⁶;
- Carbon Disclosure Project (CDP, 2023);
- and currently being introduced by European Commission European Sustainability Reporting Standard (EFRAG, 2023)⁴⁷.

The creation of these individual standards was the result of the work of both theoreticians and practitioners in the field of sustainable development, therefore the stakeholders related to this stage of the process of using the report include: scientific (academic) communities, regulators both at the national and international level and various types of institutions evaluating business entities e.g. rating agencies – the group of stakeholders related to this stage of the process is marked in Figure 1 and 2 as A. The next stage of in the process includes all entities that are directly related to the creation of the report in specific economic entities preparing the report. Undoubtedly, at this stage of the process, previously developed standards are used. The creation of the report is associated with the work of employees responsible for creating the report⁴⁸. However, the creation of the report forces the involvement of the company's employees who provide the data necessary to create the report, e.g. the finance department⁴⁹, human resources department⁵⁰, risk management

⁴⁴ UNGC, The Ten Principles of the UN Global Compact, 2023, www.unglobalcompact.org/what-is-gc/mission/principles. [Accessed: 20.08.2023].

⁴⁵ UN SDGs, United Nations Sustainability Development Goals, 2023, <https://sdgs.un.org/goals>. [Accessed: 20.08.2023].

⁴⁶ TCFD, Recommendations Task Force on Climate-related Financial Disclosures, 2017. <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>. [Accessed: 31.08.2023].

⁴⁷ EFRAG (2023), ESRS 1: General requirements. November 2022. European Financial Reporting Advisory Group. Retrieved from: <https://www.efrag.org/Assets>. [Accessed: 08.08.2023] and <https://www.efrag.org>. [Accessed: 07.08.2023].

⁴⁸ Epstein M.J., Buhovac A.R., *Making Sustainability Work: Best Practices in Managing and Measuring Corporate Social, Environmental, and Economic Impacts*, Berrett-Koehler Publishers, Oakland 2014.

⁴⁹ Eccles R.G., Ioannou I., Serafeim G., *The Impact of Corporate Sustainability on Organizational Processes and Performance*, "Management Science" 2014, 60(11), pp. 2835–2857, <http://dx.doi.org/10.2139/ssrn.1964011>.

⁵⁰ Figge F., Hahn T., Schaltegger S., Wagner M., *The Sustainability Balanced Scorecard – Linking Sustainability Management to Business Strategy*, "Business Strategy and the Environment" 2002, 11(5), pp. 269–284., <https://doi.org/10.1002/bse.339>.

department⁵¹ and other internal departments operating within the structures of the entity where the ESG report is prepared. Internal audit, which operates within the entity, has a direct interest in the quality of the ESG report⁵² – it is usually within this department that the company ensures the reliability of any data appearing in the report. Within the entity preparing the ESG report, individual groups managing the entity, in particular the company's management board and the supervisory board, constitute a significant group of stakeholders⁵³. It should be noted that some of the data used in the preparation of the ESG report is obtained from entities that cooperate with the economic entity – this is also a significant group of stakeholders⁵⁴, and suppliers are of particular importance here. The group of stakeholders related to the stage of creating the report in Figure 1 and 2 is marked as B. In the next stage of the report use process, the report is reviewed by stakeholders external to the ESG report preparer. At this stage of the process there is a large group of stakeholders, although in the literature a special role is assigned to auditors – they are the ones who, through their authority, are responsible for the correctness of the prepared report⁵⁵. It is this stakeholder group in Figure 1 and 2 that has been identified as C. Therefore, the assurance statement is intended to assure stakeholders, its authority guarantees that the data disclosed in the ESG report can be considered reliable, relevant and complete after a detailed verification procedure⁵⁶. Proper verification is possible only if this group of stakeholders has appropriate qualifications and knowledge as to the requirements related to the ESG report. The final stage of the ESG report utilization process is its use by various stakeholder groups. It seems that in the case of this stage of the ESG use process, the group of stakeholders is the largest – all stakeholders related in any way to the company that prepared the ESG report are here. These can be both suppliers and recipients of the company's products, entities providing capital, entities controlling the entity's activities. The last group of stakeholders was defined as D. Figure 1 and 2 show the flow of information between the

⁵¹ Krzakiewicz K., Jachacz P., *Environmental, Social and Governance Risk Assessment as a Part of the Enterprise Risk Management Process: Evidence from Poland*, "Sustainability" 2019, 11(21).

⁵² Orsato R.J., Wells P.E., *Sustainability priorities, practices, and performance and corporate reputation*, "Corporate Reputation Review" 2014, 17(3).

⁵³ Guthrie J., Manes-Rossi F., Orelli R.L., *Integrated reporting and integrated thinking in Italian public sector organisations*, "Meditari Accountancy Research" 2017, 25(4), pp. 553–573.

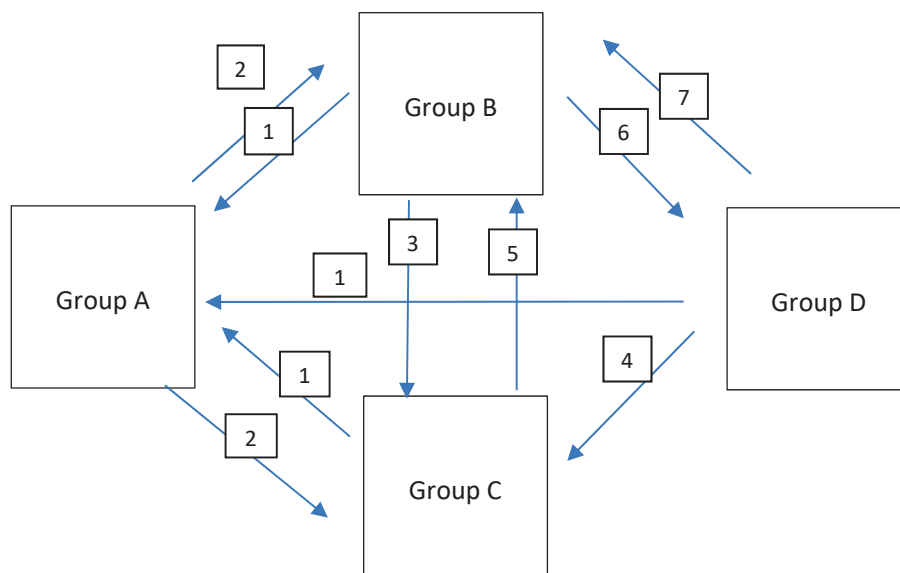
⁵⁴ Reimann F., Hartmann E., *Exploring the influence of supplier sustainability performance on retailer performance*, "Journal of Business Ethics" 2017, 140(1).

⁵⁵ Simnett R., Vanstraelen A., Chua W.F., *Assurance on sustainability reports: An international comparison*, "The accounting review" 2009, 84(3), pp. 937–967.

⁵⁶ Auliani A., Pramesti D., Yunita L., *The Role of Auditor in Sustainability Reporting*, "International Journal of Social Science Education Communication and Economics" 2023, 1(6), <https://doi.org/10.54443/sj.v1i6.94>.

various stakeholder groups identified during the use process, with an indication of the order of the information flow (designations 1 through 7).

Figure 2. Information flow process in the ESG reporting.



Source: own preparation.

From the point of view of the quality of the prepared ESG report, the key group of stakeholders is Group C – this is the group that collects information from all other groups. Taking into account the trust in the ESG report, it seems that the decisive role belongs to the stakeholders in this group, i.e. the statutory auditors – they guarantee the reliability of the prepared report with their authority based on their qualifications, for which they bear individual responsibility in the event of any misconduct and inspection authorities (designation 3 and 5 in Figure 2).

Independent information assessment – audit and inspection of ESG reports

An ESG audit, also known as a sustainability audit or environmental, social, and governance audit, is a process through which a company or organization assesses and evaluates its performance and practices related to environmental, social, and governance factors. The purpose of an ESG audit is to identify areas of strength, weaknesses, and opportunities for improvement in these key areas of sustainability. The general outline of the typical steps involved in conducting information an ESG audit is as follows⁵⁷.

⁵⁷ GRI (2021). GRI 1: Foundations 2021. Global Reporting Initiative. Retrieved from: <https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/> [Accessed: 08.08.2023], and,

1. Preparation and Scoping: Defining the scope of the audit, including the specific information about ESG factors to be assessed, relevant regulations and standards, and the audit's objectives and timeline.
2. Data Collection: Gathering data on the company's ESG performance, which may include financial records, operational data, policies, reports, and stakeholder engagement feedback.
3. Performance Assessment: Analyzing the collected data to evaluate the company's ESG performance against predetermined criteria, industry benchmarks, and best practices.
4. Gap Analysis: Comparing the company's ESG performance with relevant standards and identify gaps or areas for improvement.
5. Stakeholder Engagement: Engaging with internal and external stakeholders to understand their perspectives on the company's ESG performance and gather additional insights.
6. Materiality Assessment: Identifying and prioritize the most significant ESG issues for the company and its stakeholders based on their potential impact on the business and society.
7. Risk Assessment: Evaluating ESG-related risks and opportunities that could affect the company's long-term sustainability.
8. Reporting and Communication: Preparing a comprehensive ESG audit report that presents the findings, observations, and recommendations. Communicate the results to relevant stakeholders.
9. Action Plan: Developing an action plan based on the audit findings to address identified shortcomings and improve the company's ESG performance.
10. Monitoring and Follow-up: Continuously monitoring the implementation of the action plan and track progress over time. Conduct regular follow-up audits to assess improvements.

Preparation of an ESG report after an audit in this area does not end the process of non-financial information circulation on the market. The last stage is the inspection of the auditors by the relevant institution. This inspection institution as an independent body that focuses its activities on building confidence towards non-financial information. The ESG auditor is expected to do work to ensure that he has not identified any misstatements (errors, omissions or inaccuracies) in the company's sustainability information that are material enough to call into question the compliance of that information with the CSRD, including ESRS, and/or compliance with the company's process to determine the in-

<https://www.globalreporting.org/> [Accessed: 02.08.2023]; SASB (2023). SASB Standards, <https://sasb.org/standards/download/> [Accessed: 22.08.2023].

formation to be disclosed in accordance with these standards, and/or compliance with labeling requirements and/or compliance with taxonomy disclosure requirements. During the engagement, the ESG auditor is guided by professional judgment and a critical mind. In particular, exercising professional judgment requires the auditor to maintain the necessary distance to the published information on sustainable development and to the information provided to the auditor that forms the basis of this information. Critical thinking supports professional judgment. In particular, this means that the statutory auditor:

- considers the source of the information collected and evaluates its relevance to the nature and characteristics of the engagement;
- keeps an open mind and is open to other information, opinions and arguments that may conflict with the information gathered and cause the auditor to carry out further work, if necessary, and to revise its conclusions; and
- evaluates the sufficiency and appropriateness of the information collected, ensuring its consistency in order to draw conclusions.

The inspection of ESG audit reports is a crucial step in ensuring transparency, accuracy, and credibility in a company's ESG reporting. It involves a systematic review and evaluation of the ESG audit report by stakeholders from Group A to Group D. At the last step of the ESG information flow process Inspection institution is building on professional knowledge, experience and proven methodology that exercises independent supervision over statutory ESG auditors, ESG audit firms. The inspection of audited ESG reports is essential to verify the accuracy and completeness of ESG disclosures, assess a company's commitment to sustainability and ethical practices, and make informed investment or business decisions. It plays a crucial role in promoting transparency and accountability in corporate ESG reporting.

Conclusions

Implementing ESG standards to economy is quite challenging and should take into account the specific issues related to the country's economic characteristics, environmental challenges, social and ethical considerations, as well as the unique cultural context. ESG reports are intended to be carriers of information useful in the decision-making process by various groups of stakeholders. The nature and variety of this information make it crucial to ensure its appropriate quality and reliability. In the absence of proper verification of reports, there is a real risk of "ESG washing" and, as a consequence, a decrease in the recipients' trust in the information made public by enterprises. As a result of this study there was main stakeholders and key stages of the ESG reporting process identified. Moreover information flow process that can create knowledge in the ESG reporting was described.

Further research focused on ESG reports should intended to convey information useful in the decision-making process for various stakeholder groups, what is extremely important to indicate appropriate directions for improving ESG reporting. Developing an appropriate reporting standard for Poland is crucial in the context of the necessity to build accurate knowledge about sustainable and responsible economic development, which is the essence of the CSRD directive.

According to the Directive (2022), auditors and controlling institutions are to play a key role in this area. The importance of entities verifying and evaluating ESG reports is also indicated by the flow of information between stakeholder groups presented in Figure 2. The special role of auditors and inspection institutions results not only from their legal authorization, but also from possible legal and financial consequences that they may suffer in the event of improper performance of their audit duties. However, in order to perform their tasks properly, auditors must be equipped with appropriate information, knowledge and tools, including specific guidelines prepared by legislators. It is especially important that such tools and knowledge are provided at the time of implementation of the whole process. A step in this direction are the decisions of the European Commission regarding the European Reporting Standard (ESRS). However, since the adoption of the standard, the main challenge is that there is still a long way to go to develop appropriate guidelines for auditors and inspection institutions regarding the verification of information included in reports. Possible shortcomings/deficiencies arising at this stage will consequently determine the role and trust that will be associated with these reports in the future.

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