

# **Audit Committee Chairs' views on, and approach to Environmental, Social and Corporate Governance (ESG)**

Qualitative report

June 2023



**Copyright**

© YouGov PLC 2023

YouGov PLC, 50 Featherstone Street London EC1Y 8RT. Registration no. 3607311.

All rights reserved.

**Liability**

No party accepts any liability for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this publication or arising from any omission from it.

## Research Report on ACCs’ views on, and approach to Environmental, Social and Corporate Governance (ESG)

### Contents

<b>Executive summary</b> .....	5
<b>Views and reflections on ESG</b> .....	5
<b>Environment</b> .....	5
<b>Social</b> .....	5
<b>Governance</b> .....	6
<b>Measuring and reporting on ESG</b> .....	6
<b>Guidance related to ESG and the role of the FRC</b> .....	6
<b>Research background and context</b> .....	7
<b>Research aims</b> .....	7
<b>Recruitment summary</b> .....	7
<b>Research findings</b> .....	9
<b>Overview of ACCs</b> .....	9
<b>Views and reflections on ESG</b> .....	10
<b>Awareness of ESG</b> .....	10
<b>Attitudes towards ESG</b> .....	11
<b>Guidance around ESG</b> .....	13
<b>Variation according to sector</b> .....	14
<b>Examples of common ESG activities</b> .....	15
<b>Views on ‘Environment’</b> .....	16
<b>Activities, issues, and risks around ‘Environment’</b> .....	16
<b>Awareness of and attitudes towards TCFD</b> .....	18
<b>Measuring performance</b> .....	19
<b>Views on ‘Social’</b> .....	21
<b>Activities, issues, and risks around ‘Social’</b> .....	21
<b>Measuring performance</b> .....	23
<b>Views on ‘Governance’</b> .....	25
<b>Activities, issues, and risks around ‘Governance’</b> .....	25
<b>Measuring performance</b> .....	26
<b>Conclusions and reflections on the future of ESG</b> .....	28
<b>Narratives around ESG</b> .....	28
<b>Meaningful reporting on ESG</b> .....	29
<b>The role of the FRC</b> .....	30

<b>Technical appendix</b> .....	31
<b>Method</b> .....	31
<b>Sampling and recruitment</b> .....	31
<b>Discussion guide design</b> .....	31
<b>Analysis and reporting</b> .....	31
<b>Summary profile</b> .....	32
<b>Discussion guide</b> .....	32

## Executive summary

### Views and reflections on ESG

The majority of ACCs in this study viewed ESG as an important part of good business practice. Many ACCs stated that ESG has increased in importance in the last few years, both within their organisations and across industries. The Covid-19 pandemic was a trigger for both awareness and engagement in ESG, as environmental and social issues came to the forefront, for example around working from home practices and staff well-being levels.

The ACCs interviewed all showed an interest in ESG and a good understanding of the ESG activities undertaken in their organisations, such as initiatives aiming to reduce plastic use, carbon emissions and increase charity engagement and board diversity. However, many are not directly involved in the decision-making processes, especially in relation to environment and social elements; and when organisations have in-house environment and social experts or sub-committees. It was noted that ACCs' main role is related to risk and compliance, as well as ensuring ESG is effectively reported on, rather than deciding on what to implement and how.

For some ACCs, the components of ESG were seen to be connected and work harmoniously with one another. However, a small number of ACCs felt tensions can arise when trying to prioritise ESG activities with profit-making responsibilities, especially in relation to environmental activities.

Some ACCs reflected on how the success of ESG can be dependent on executive management's interest levels and the company's access to ESG resources. Similarly, it was noted by a few ACCs that if current and potential shareholders have an interest in ESG it tends to influence the business' attitude towards the framework and give greater importance to the company's efforts. A few ACCs reflected that any cynicism tends to be focused on environment and social elements, as governance is well established and part of the Corporate Governance Code.

### Environment

Some ACCs said that the environment has been prioritised over the other ESG areas in the last couple of years. Environment activities undertaken are wide ranging, depending on the sector, operating markets, and size of the company. Many organisations are trying to reduce their carbon emissions, workplace plastic use and encourage staff to cycle or walk to work.

The Task Force on Climate Related Disclosures (TCFD) was well known amongst the ACCs in the study, with TCFD recommendations being implemented by most. Those in larger companies tended to be most familiar with TCFD's targets and better able to fulfil its requirements due to the resources they have at their disposal. There were mixed attitudes towards TCFD, including a small number of negative reactions around continual changes to reporting standards. Alongside this, there were concerns from a few ACCs around the extended time and costs required for smaller businesses to comply with the recommendations.

### Social

The importance of the social component was reported by some ACCs to be increasing, especially regarding board and senior management diversity, staff wellbeing and equal pay. Some ACCs reflected that the expansion of social activities is driven in part by societal

shifts, in turn making investors more interested in companies' social policies and activities and motivating companies to place a greater focus on their social activities and reporting. Furthermore, many ACCs recognised the important role the social component plays in employee retention and attracting high quality and diverse employees.

## Governance

All ACCs felt they had a firm understanding of governance activities, issues, and risks, as these activities and measures are well established. Compared with the environment and social components, it is felt to be easier to define what activities, risks and issues have to, or should, be reported on due to the Corporate Governance Code (CGC). Pay transparency, succession planning, remuneration and bonuses of c-suite and board members were noted by some ACCs to have grown in importance for both investors and employees in the last few years.

## Measuring and reporting on ESG

Some ACCs reflected that ESG was 'too broad' and that it continues to evolve and grow rapidly, which can make the measurement of ESG activities difficult and inconsistent across sectors and markets. Some ACCs said that it can be especially challenging to measure and report on environmental activities, particularly indirect emissions (scope 3) and the impacts on markets outside the UK and Europe.

Many ACCs felt that the increased focus on ESG in reporting was making annual reports longer and longer, thereby making it harder to identify key information. A small number were concerned that the detailed reporting requirements could lead to performative policies, rather than authentic ones which are embedded into business practice. Finally, some ACCs had time and cost concerns around reporting on ESG, especially those from organisations who do not have sufficient resources or dedicated environment and social audit specialists.

## Guidance related to ESG and the role of the FRC

Many ACCs commented that the guidance on ESG related activities, and how to measure them, is complex to navigate - particularly for businesses with limited resources, those who operate across markets and those who have only recently begun to invest time into environment and social activities.

When asked what role the FRC could play, some, mainly from smaller organisations, said that they would welcome more practical guidance that is sector specific, especially related to measuring environment and social activities. Some ACCs would also welcome best practice examples to ensure ESG reporting is salient and meaningful, rather than adding more reporting requirements.

## Research background and context

### Research aims

Audit Committees play a vital role in ensuring audits are conducted to high standards. The Financial Reporting Council (FRC) engages with Audit Committee Chairs (ACCs), often through third parties, to inform their work and improve the quality of audits.

Both qualitative and quantitative research has been conducted with ACCs previously on the topic of audit quality by YouGov for the FRC, with studies completed in 2015, 2020 and 2021/22.

The FRC wanted to build upon this work, with the aim of furthering its understanding of ACCs' views on, and approach to, Environmental, Social and Governance (ESG) activity and reporting. YouGov, an independent research agency, was subsequently commissioned to conduct 40 qualitative interviews (lasting 45 – 60 minutes) with ACCs of Public Interest Entities (PIEs).

As in previous years, the research was conducted with a wide range of ACCs from different organisations (e.g., FTSE 100, FTSE 250, other listed equity, building societies, unlisted banks) and from a range of sectors. Some ACCs sat on the boards of multiple companies and referred to their experiences across these companies during interviews.

### Recruitment summary

The table below outlines a recruitment summary according to organisation type. Interviews were conducted between November 2022 and March 2023. All quotations within this report include the organisation type and sector of the ACC.

*Table 1: Summary by market*

Organisation type	Number of interviews
FTSE 100	11
FTSE 250	18
Other listed	9
Unlisted entities	2
<b>TOTAL</b>	<b>40</b>

Table 2: Summary of sectors

Sector	Number of interviews
Financial Services	8
Insurance	5
Healthcare	4
Industrial Goods and Services	4
Banks	4
Tech and Telecoms	4
Consumer Products and Services	3
Basic Resources	3
Real Estate	1
Chemicals	1
Construction and Materials	1
Travel and Leisure	1
Food, Beverage, and Tobacco	1
<b>TOTAL</b>	<b>40</b>



## Research findings

This section sets out the main findings from the interviews with ACCs in line with the key sections of the interview discussion guide (see appendix for details of the discussion guide). Each finding is summarised and then followed by quotations from the interviews that exemplify the finding. All findings are rooted in discussions with ACCs rather than the opinions of YouGov.

### Overview of ACCs

Many of the interviewees were Audit Committee Chairs (ACCs) for more than one business within similar sectors; this meant that ACCs' relevant experience could be maximised in their roles. ACCs had often worked as auditors earlier in their careers, and possibly as Chief Financial Officers, and felt that these experiences complemented their role as an ACC.

*"I was a CFO for many years and then gave up the executive life and took on a few audit committees." (ACC, Food, Beverage, and Tobacco)*

The majority of ACCs reported that the time commitment to fulfil ACC responsibilities varies month to month, with more time required around year end due to reporting requirements. For most ACCs, committee meetings required extensive reading and meetings with the executive and finance teams, alongside keeping abreast of new trends and potential risks in their business and wider sector.

*"Towards reporting periods at the half year and year end, so January, February, July, August, I will spend a lot more time on the audit matters." (ACC, Chemicals)*

*"In terms of time, my contract specified 25 days a year, but it takes much more than that, it can be double that." (ACC, Insurance)*

Some ACCs reported that the organisations they were the audit chairs of have separated the audit committee and the committee which focuses on ESG activities. These ACCs commented that this meant that ESG can be focused on in a more concentrated manner as some felt that a significant amount of time is needed to discuss environmental impacts or social programmes within their businesses. Although many businesses also separate ESG from their risk committee, ESG-related conversations are still factored into audit or risk committee meetings.

*"We have a separate Sustainability Committee, which is focused on the 'E' aspect of ESG... because there's so much to do." (ACC, Consumer Products and Services)*

*"We separated the audit committee from the non-financial stuff (like ESG), because the amount of work required increased enormously and we had limited time to deal with it appropriately." (ACC, Basic resources)*

*"We don't have a separate ESG committee, we don't necessarily focus on it as a specific topic as it permeates into everything we do." (ACC, Banks)*

## Views and reflections on ESG

### Awareness of ESG

Most ACCs in the study became aware of ESG between 5 and 10 years ago. Some ACCs said that the Covid-19 pandemic triggered an increase in awareness and engagement, especially in relation to environment and social components, with many employees working from home and experiencing negative impacts on their well-being and health.

*“It [ESG] has always been there – since section 172 of Companies Act... climate related disclosures came together combined to a more formalised ESG”. (ACC, Financial Services)*

*“I first heard of ESG around 2019 but didn’t have much knowledge until the pandemic, then everything went online, and I used the first Covid lockdown to ramp up my knowledge of ESG and particularly sustainability and carbon.” (ACC, Chemicals)*

*“After the pandemic and with this inflationary period alongside global warming and issues around racial and social justice there’s a snowball effect when it comes to ESG and I think it will be with us for a while.” (ACC, Financial Services)*

Some ACCs described ESG as a natural progression from previous policies in their businesses. This is particularly true of governance, which has been a critical part of running a successful business for a very long time. Comparatively, a focus on the environment is a more recent development.

*“Earlier ESG meant just G and slowly it incorporated the S. The E came to the forefront in the recent years especially after the TCFD.” (ACC, Healthcare)*

*“The G is not new. It’s been around for 30 years and what is new today and probably for the last five years, the environmental agenda has risen up the scale and is now very active and the social agenda is rising up the scale simply because younger people don’t want to work for a company that doesn’t have a social purpose.” (ACC, Travel and Leisure)*

Awareness of ESG was often dependent on the sector of an ACC’s business. For example, those in industrial goods and services (where businesses tend to have more emissions than in sectors such as financial services) were more aware of and engaged in ESG related activities, such as reporting on scope 1, 2 and 3 emissions.

*“ESG was on the agenda for many years as an executive director. ESG is commonly used term now to basically encapsulate the area of recognition, recognition of impact on stakeholders, impact on environment and on stakeholders.” (ACC, Industrial Goods and Services)*

Conversations around ESG have evolved since it was first introduced, with some businesses still building their evidence base for reporting, alongside understanding what ‘getting ESG right’ looks like and how it should be managed at board level.

*“We are still formulating what ESG looks like, we haven’t set targets yet as we don’t have the full data we need.” (ACC, Insurance)*

*"I think over the last couple of years, there has been serious discussion on the board as to what specific role the audit committee should take on it [ESG]." (ACC, Food, Beverage, and Tobacco)*

*"Now there's much more investor pressure to understand what we're doing [on ESG] and where we are in our journey etc. and what the opportunities are and what the risks are. It's coming up the agenda." (ACC, Real Estate)*

## Attitudes towards ESG

For some ACCs, the three components of ESG are connected to, and work harmoniously with, one another; they can complement each other as they often focus on ideas of responsibility and sustainability. However, others felt that each individual component can dilute the saliency of ESG as a whole, leading to some ACCs calling for the components of ESG to be broken up into their constituent parts.

*"ESG can feel quite nebulous, you can end up with a combination of issues which don't always connect" (ACC, Media)*

*"Some say that E, S and G are interconnected but I am of the view that the E, S and G are separate entities that are mashed together." (ACC, Media)*

*"I think ESG is a bit of a catch-all, and they're not the same." (ACC, Consumer Products and Services)*

Some ACCs felt that ESG is 'too broad' and that it continues to evolve and grow rapidly. This led some ACCs to comment that perceptions and the likelihood of success around ESG vary. This was particularly true for companies which have tangible outputs (who have higher demands when it comes to reporting emissions) or smaller businesses (who have limited resources for reporting on ESG).

*"ESG is a horrible acronym in many ways, it's slightly artificially thrown together, and you've got some bits that are more or less important to your business." (ACC, Food, Beverage and Tobacco)*

The broad nature of ESG led to some concerns that companies will be able to hide potential risks or 'greenwash' elements of their ESG reporting. Some were also concerned that the detailed reporting requirements on ESG can lead to performative policies, rather than authentic ones which are embedded into business practice.

*"I think there's a proliferation of certification schemes, and consultants, and people greenwashing themselves... picking a way through that and finding the substance is the challenge." (ACC, Healthcare)*

*"It is about being honest about what you can and can't do, that you do try and avoid the greenwashing." (ACC, Insurance)*

Some ACCs saw ESG as a 'tick box exercise' which focuses on fulfilling reporting requirements. However, accurate reporting can also be harder in certain sectors due to lack of benchmarks e.g., those who do not have tangible outputs.

*"In terms of pleasing our shareholders, they like quantitative measures because then they can tick their box and say yes, they've done it. So, a lot of the pressure at the moment is to move towards quantitative, not qualitative." (ACC, FTSE 100)*

*"I suppose my concern with ESG is there's been a huge amount of additional regulation, reporting requirements, etc, and you just wonder what the value is of reporting some of this stuff for companies that are actually doing their bit". (ACC, Basic resources)*

However, these more sceptical attitudes around ESG were not consistent across interviews. Many ACCs felt that conducting ESG activities is a moral imperative and a critical part of their business practice. This difference in attitude was often driven by the sector they work within, their size (and availability of resources) and where they are on the ESG lifecycle. For example, those in the healthcare, energy and transport sectors who often have specific targets set around ESG; or a consumer centric business.

*"The S is most prioritised because we are a patient centric business." (ACC, Healthcare)*

*"The S has been more important for the company. The reason for that is that we are after very bright talent, which is pretty scarce, and so it's pretty important for us to attract talent, and therefore, the S element in our HR process is important." (ACC, Healthcare)*

*"At [redacted] there is more of a focus on the E as it's an agriculture company." (ACC, Various)*

Alongside this mix in attitudes, some ACCs indicated success with ESG can be dependent on executive management teams, specifically the extent to which the teams take a personal interest in ESG and want to invest time and energy into ESG activities. Similarly, ACCs indicated that if shareholders have an interest in ESG, it tends to influence the attitude of the executive management/board, who will consequently place greater focus on it. ACCs suggested Executive management teams who had cynical views on the relevance of ESG to their business were less likely to invest time and resources into it. This cynicism tended to be focused more on environment and social elements, as governance was well established and part of the Corporate Governance Code.

*"A lot depends on it [success], the other priorities of the business but probably most importantly is whether the CEO 'gets it'. And I'm fortunate in that both of my listed companies, they do. And it's something that they think about daily. It's not something that they pick up and put down because they've got a board meeting coming up. It really is integral to the strategy and what they're trying to do." (ACC, Real Estate)*

*"The cynic in me sometimes questions the real commitment of investors to ESG in the long run. As long as ESG is a contributor to profitability and attracting further investment and not just ticking boxes it will continue to be engaged with." (ACC, Healthcare)*

*"ESG has become more important because of investor focus." (ACC, Media)*

## Guidance around ESG

Many ACCs commented that the amount of guidance on ESG-related activities is 'excessive' and can be complex to navigate, particularly for businesses with limited resources or those who have only recently begun to invest time into ESG activities. This perception led some ACCs to be concerned about their business' ability to meet expectations and targets, and therefore report in a meaningful way.

*"There is a proliferation of standards to be met, TCFD, science-based targets, UN SDGs, etc. which is quite tedious as the expectations are so high." (ACC, Basic Resources)*

*"There is guidance around reporting on ESG, but I think it's still quite early in terms of how people tackle it because discussions are ongoing... Plus E is a lot tougher to report on than S and G." (ACC, Financial Services)*

*"There's a lot of guidance when it comes to ESG reporting, particularly for new organisations, plus new advisors and consultants which makes for a proliferation of certification schemes." (ACC, Construction and Materials)*

There were mixed views about the best place to report on ESG within a business' reporting cycle. Many ACCs said businesses reported on ESG separately to their audit and risk obligations. The expanding requirements around ESG reporting lead many businesses to submit their reports yearly or half-yearly ensuring that ESG 'has its own space' and 'can be done justice', due to the amount of reporting work which needs to be completed. Other ACCs felt that ESG permeates through all aspects of their business so should be reported on within an audit or risk report.

*"ESG is too big and it's too intertwined." (ACC, Insurance)*

*"There's a tonne of guidance on ESG responsibilities and the hard work is to get consistency among them and deciding which are relevant to your organisation." (ACC, Media)*

*"I think there needs to be more guidance going forward in terms of proportionality because, the scope is just getting wider and wider." (ACC, Banks)*

Some ACCs commented on the need for consistency with reporting, rather than expanding guidance. They called for a 'simpler' and more 'standardised' structure or framework which considers different businesses' risks.

*"Reporting on environmental impact and carbon emissions needs to be standardised." (ACC, Banks)*

*"We need less guidance, instead we need a standardised structure with examples of best practice, showing what other organisations are doing." (ACC, Media)*

*"There's not much consistency on ESG reporting from different bodies, which creates confusion, particularly as different countries have their own rules on ESG reporting." (ACC, Banks)*

Other ACCs felt that a more standardised structure would not necessarily resolve the issue of inconsistent data collection and reporting across sectors and markets, which makes cross-sector and cross-market benchmarking difficult.

*“There is increasing guidance and rules around ESG, however these can be difficult to manage as they can be too broad and there are inconsistencies with rules for different organisations.” (ACC, Telecommunications)*

*“There are a wide range of conflicting standards that people are asking for and that can also vary from institutional investor to institutional investor. The large companies can afford to devote significant resources to it.” (ACC, Healthcare)*

*“There are no set measurements on CO2 emissions and there’s no way to measure it across different sectors because the unit of measurement used by companies could be different.” (ACC, Healthcare)*

Finally, there was a cost concern around reporting on ESG, especially amongst those ACCs who have only recently been introduced to ESG and do not have sufficient resources or specialists to dedicate to it. The cost of external assurances was noted to have significantly increased; this places a cost burden on some companies and can influence how they feel about ESG. With that in mind, some ACCs felt that regulators should consider how feasible extensive reporting is for some businesses, particularly those who are still building benchmarks and collecting data.

*“It’s made it very, very difficult to find lower-tier audit firms that can handle the areas that the big auditors handle without any issue whatsoever, and what you see is a massive rise in the cost of an external audit because primarily the scope is increasing.” (ACC, Banks)*

*“In as much as possible we will report on carbon footprint but that depends on having reliable data for us and underlying companies... The data can be pretty iffy or out of date, so it has limited utility.” (ACC, Various)*

## Variation according to sector

From the interviews, it appeared that ACCs’ attitudes to ESG varied significantly depending on their companies’ sector. Differences were particularly apparent amongst ACCs of companies in construction, banking, and extractive industries.

In the construction industry, for example, attention is paid to manufacturing processes - including the materials used and the impact of production and installation - along with sustainable business practices. From a social perspective, construction and industrial works can have a significant impact on local communities as well as their own workforce, so this also receives special attention.

*“Social is largely around employees and society generally and local communities and that’s largely work that’s done by individual sites because it’s a very big employer in the UK and is spread around into local communities. So, they do put a lot of time into engaging with local communities.” (ACC, Industrial Goods and Services)*

*“We’re all trying to get our heads round what our personal and corporate responsibility is for helping to save the planet, but at the same time, there is a big difference between a natural resources company, for example, which have a different impact on the environment than perhaps a media company whose impact is partly direct but in a lot of ways indirect.” (ACC, Media)*

In the banking and investment sectors, some ACCs found reporting on ESG difficult as they have to collect data on the companies they are investing in; this is made more complex if companies are in emerging markets. These ACCs described their companies as being in a transitional period when it comes to ESG, they outlined the need for ‘time and space’ to change practices, rather than increasing reporting demands.

Several also mentioned a concern about ESG reporting potentially hindering profit-making activities, meaning that businesses can face conflict in fulfilling their responsibility towards shareholders.

*“I think the holy grail is to find something that’s ESG-friendly and equally profitable and that’s what businesses are all trying to do.” (ACC, Insurance)*

ACCs in the extractive industry reported their companies take all elements of ESG very seriously. The ‘social’ component is particularly prominent as activities in the communities in which companies operate helps to ensure they have a “licence to operate”.

*“Lot of times, towns are built next to the mines, so the companies often have to provide the town with schooling and healthcare... S definitely means being good to the communities the companies operate in” (ACC, Basic Resources)*

### Examples of common ESG activities

Activities		
Environment	Social	Governance
<ul style="list-style-type: none"> <li>▪ Reducing plastic use</li> <li>▪ Reducing carbon emissions</li> <li>▪ Waste reduction</li> <li>▪ Preventing deforestation</li> <li>▪ Reducing water usage</li> <li>▪ Supply chain logistics optimisation</li> <li>▪ Workplace eco-initiatives</li> <li>▪ Reducing environmental impacts on local communities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Charity engagement</li> <li>▪ Supporting local communities</li> <li>▪ Employee wellbeing and engagement</li> <li>▪ Ensuring diversity and inclusion</li> <li>▪ Paying a living wage</li> <li>▪ Employee retention</li> <li>▪ Improving working conditions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Board diversity</li> <li>▪ Board succession</li> <li>▪ Pay transparency</li> <li>▪ Remuneration and bonuses</li> <li>▪ Company strategy and policy</li> <li>▪ Corporate Governance Code (CGC)</li> </ul>

## Views on 'Environment'

### Activities, issues, and risks around 'Environment'

Across interviews, the environment was seen as having increased in importance to become the most prioritised area of ESG. ACCs suggested this rise in prominence and overall prioritisation of the environment component aligned with its increased focus in both corporate and political agendas.

*"It's different from a few years ago when it comes to resources and how that is focused on... Now the E and sustainability get a lot more attention, it's getting the lion's share of focus, resources, and time at board meetings." (ACC, Industrial Goods and Services)*

*"Sustainability and the environment fit very nicely with what the company does for its customers." (ACC, Industrial Goods and Services)*

*"The company see it [environmental] as critical to the strategy in terms of the long-term success... they are all extremely keen to ensure that they are maximising or minimising their environmental impact, and that has commercial benefits as well." (ACC, Industrial Goods and Services)*

ACCs mentioned various activities undertaken by their businesses in relation to the environment, including reducing carbon footprints, reviewing how staff travel to the workplace, optimising packaging, reaching net zero, preventing deforestation and reducing water usage. These environmental activities varied from short term actions to longer term structural changes in their business.

*"[Defining ESG] What's our ESG footprint, what's the carbon footprint of our investments, what are the assets that we're investing in, what are they then investing in, what's the carbon footprint of those assets." (ACC, Insurance)*

*"We're thinking about supply chain, carbon mapping and looking at emissions. Almost all of our emissions are scope 3 but we still need to think about waste." (ACC, Technology)*

*"There's the stuff that we do internally - the lights, the energy, plastic cups to waste, and going paperless." (ACC, Financial services)*

Although many companies prioritised and invested in environmentally friendly initiatives, some ACCs felt that these can limit their profits and should not distract them from fulfilling what they consider to be their primary purpose - their fiduciary duty towards shareholders. Furthermore, some businesses did not feel they had control over specific environmental risks and therefore had no responsibility or appetite to act on the issues.

*"You don't want to make your business less competitive because you've chosen particular investments with a green agenda. And again, I think in the investment world, there is a bit of a backlash against green investment because is it making the same returns as fossil fuel type investment and you know, people look at the stock exchange."(ACC, Media)*

*"We're conscious but environmental issues are not the top priority because we can influence our channel, but we can't tell others [partners] what to do." (ACC, Healthcare)*



*“Individual companies are not there, fortunately, or unfortunately, to look after the environment. Yes, they have to, but their prime purpose is not that, per se.” (ACC, Insurance)*

Many ACCs commented that the time and investment required to report on environmental activities often depends on the sector and the business’ relationship with, and impact on, the environment. For example, ACCs indicated that businesses working with industrial resources and manufacturing, including chemicals, tended to be more focused and invested in environmental initiatives. Environmental concerns often went to the very core of these businesses, often permeating every commercial function and business decision. These companies’ impact on local communities was often closely monitored as their industries are heavily regulated.

*“[We have] ...responsibility to limit our impact on the environment, ensuring that our maintenance routines are such that the oil, gas leaks into the ocean are mitigated” (ACC, Basic resources)*

*“Environment has always been key to what the company does and has always been closely monitored by regulators in terms of emissions” (ACC, Basic resources)*

*“Being a chemicals company, it is hard to reach net zero because of the raw material we use in products, like water” (ACC, Chemicals)*

ACCs also mentioned some differences in attitude towards the environment based on the markets they operate in or impact. Some businesses focus on reducing environmentally damaging activities in order to meet either consumer demand or other social or political pressures in their markets.

*“Some countries in which we operate, like Sweden and Netherlands, people are much more environmentally conscious than in the others.” (ACC, Insurance)*

*“In Egypt, a number have called out to the employees to say, 'you guys need to be putting pressure on the board, you're the guys who need to be saying the amount of CO2 we're belching into the air needs to change'. And I think, that's where the shift has come. So, there's been far more pressure” (ACC, Basic Resources)*

Some ACCs suggested attitudes and action around environmental activities also depended on company structure and values; some businesses had long held targets and values around acting sustainably.

*“We decide what is appropriate for our culture, appropriate for our overall ethics and our feeling of responsibility to society. We construct a strategy on that basis.” (ACC, Industrial Goods and Services)*

*“There is a sustainability committee focused on our sustainability story and responsibility. They aim to reduce emissions and reach carbon neutrality. They also make an environmental assessment on the companies they invest in.” (ACC, Financial Services)*

## Awareness of and attitudes towards TCFD

The majority of ACCs reported that they knew of the Task Force on Climate-related Financial Disclosures (TCFD), and many had already implemented its recommendations. Larger companies tended to be more familiar with TCFD targets and were better able to fulfil the requirements, drawing on resources where necessary, including dedicated environmental experts.

*“TCFD has a logical thinking process, which is good, because it forces the right discussion, strategy, risk, governance, targets. And then metrics, and targets, and then the feedback loop of assurance, and how can you be sure you're doing what you said you would do, this is why I think it's been a good development.” (ACC, Basic Resources)*

ACCs' attitudes towards TCFD were mixed. Negative reactions focused on how reporting standards are still evolving. There were some concerns around the time it takes for smaller businesses to comply with the recommendations, which did not always feel relevant to them.

*“My worry about TCFD is it's too much the quant and not enough the qual, if you like... It's the sheer scale of disclosures that leave you with just numbers, leaving you with areas that are quantified and measured that aren't significant to you along with improvement areas which cannot be measured at all.” (ACC, Media)*

*“I have looked at TCFD at a high level and not in detail. So, I think my sense is that for a small company, implementing TCFD in all its glory would be pretty hard work.” (ACC, Healthcare)*

*“I think the difficulty is just putting together the processes to ensure that one has got the data and traditionally companies are used to providing internal control systems, but on financial data and less so on non-financial data and therefore there's quite a bit of work required to ensure you've got the levels of integrity and consistency across the data requirements.” (ACC, Industrial Goods and Services)*

Some ACCs commented that the TCFD's recommendations were not as relevant for their industry and that actions needed to be tailored to better suit their industry and company.

*“One challenge from TCFD is that they are generic recommendations. You'll have to adapt them to your own business because not every business is the same, so the transport business will be different to a retailer.” (ACC, Various)*

*“I haven't been involved [with TCFD] at all. I genuinely think they've got to break that down into industries. If you're a pharmaceutical company for example it's just such a different place.” (ACC, Insurance)*

Overall, many ACCs felt that the TCFD's recommendations could offer a long-term solution for the current complex landscape without standardised reporting. However, they also called

for an understanding of the time and resources necessary to comply with TCFD as it continues to evolve.

*“It [TCFD] seems to be a constantly evolving requirement and it's not one of those things which you can demand that the business gets right first time.” (ACC, Real Estate)*

*“I think it's going to be quite a lot of work to get all that data. I think it's like most of these things isn't it? Once it's set up, it probably runs, but I think the set-up is going to be quite time consuming.” (ACC, Financial Services)*

## Measuring performance

ACCs from some industries, such as those who invested internationally or had international operations, struggled to report on environmental activities, particularly indirect emissions (scope 3). ACCs indicated many companies were still in the process of collecting external assurances and confirming the measures they would use. This was partly due to the significant amount of time needed to accurately collect and analyse the data.

*“We are in that process with external people to identify and model the issues, as well as what measures we're going to use.” (ACC, Construction and Materials)*

*“The areas of the environment and sustainability are mushrooming in terms of requirements and reporting, it is all perhaps getting a little bit out of hand.” (ACC, Industrial Goods and Services)*

*“We do analysis, and we are developing and increasing the amount of reporting to the board, about the products that we're selling and the impact of them on the environment.” (ACC, Unlisted banks)*

Some ACCs reported companies which had a long-term interest in environmental reporting had already invested time and resources into refining performance measures. ACCs suggested these companies tended to be proficient when adapting to the evolving reporting requirements on environmental activities.

*“A lot of metrics most of the companies have started many years ago and have been conscious of their carbon dioxide emissions. Measures are going into place or have been in place for some time, but they get refined over time for, safety, health, measures. Most industrial companies have been doing this for many years in terms of measuring and reporting and setting targets for improvements.” (ACC, Industrial goods and services)*

Many ACCs indicated that trust was an important factor when measuring performance, therefore companies often sought independent verification from an outside source. Many ACCs said their companies were reliant on external firms or specialists to measure their environmental performance in an independent and meaningful way, alongside refining their own metrics and benchmarks.

*"We're collecting the data. And then we'll get the metrics for comparable businesses. And the whole point about using an external is because they'll be able to make the benchmark."  
(ACC, Financial Services)*

*"I think the assurers can help you with techniques and possible errors that others make and common mistakes and things like that, but the responsibility has to lie with the business to get the numbers right in the first place and we're finding all sorts of things as we do that."  
(ACC, Real estate)*

*"I think some guidance would be helpful on what does good look like, and what's the minimum expected that you really have to go to. To some extent, we rely on our auditors effectively telling us, you know, if we've met the standard for them."  
(ACC, Insurance)*

Many ACCs said reporting on environmental matters in a 'meaningful' way could be complex, based on the size of the business and the sector, with some measures and metrics for performance being hard to meet. ACCs also mentioned differences in perceptions of performance based on international standards.

*"It can be harder for smaller banks to measure [environmental] because of the resources and capital needed for doing so."  
(ACC, Banks)*

*"There's a whole smorgasbord of standards, whether it's TCFD, International Sustainability Standards Board that is now beginning to bring some of the standards together. Individual investor groups like Climate Action 100, the carbon tracker initiative. So, climate change is forcing a more coherent and consistent standard and hopefully within a year or two ... all of those are beginning to report the same thing."  
(ACC, Financial Services)*

## Views on 'Social'

### Activities, issues, and risks around 'Social'

Social activities were viewed as important by all ACCs, from across all sectors. Social activities often include supporting and running charitable initiatives, donating to company-nominated charities and supporting local communities. Over recent years, it was observed by some that the social element has broadened to encompass workforce elements of diversity and inclusion, staff engagement, the living wage, working conditions and mental health.

*"Social is usually based on giving to charity." (ACC, Insurance)*

*"It would also include charity and supporting local charities. And it would also include developing the workforce to reach their potential." (ACC, Financial Services)*

*"We do a lot of work in the community with bringing apprentices in, outreach into schools, trying to get kids interested at school, and if they are interested, provide an outlet or a roadmap for how they can end up working for us... That's probably our longest run into where we are now in terms of looking at ESG as it is now." (ACC, Healthcare)*

The expansion of social activities was noted by some ACCs to have been driven in part by societal shifts, in turn making investors and employees more interested in companies' social policies and activities, and motivating companies to place a greater focus on their social activities and reporting. Many ACCs noted that their companies recognise their importance in successful talent acquisition programmes and employee retention strategies.

*"Social is at the heart of what we're trying to do – that means addressing the gender pay gap and offering people fulfilling and well-paid work." (ACC, Insurance)*

*"It's important for us to attract talent, and therefore, the social element in our HR processes is important to us." (ACC, Construction and Materials)*

The pandemic was seen by most ACCs as a key catalyst in the growth of social activities as part of the ESG agenda, partly due to the increased concerns around staff wellbeing and shifts in working arrangements. Many ACCs were concerned about retention in their workforce and therefore felt that 'getting social right' is needed in order to engage a fast changing and more demanding workforce.

*"They prioritize the wellbeing of their staff, especially after the pandemic, with working arrangements, finding the best solution for everyone, making them happy, etc." (ACC, Banks)*

*"In the pandemic, every employee was given £500 to choose a charity, picking what matters to you or what will make a difference in your community." (ACC, Financial services)*

The majority of ACCs explained that the wellbeing of staff is a large focus for companies. Wellbeing generally covered the mental health of staff, work/life balance, retention, and general workplace satisfaction. Labour practices - such as offering the living wage, ensuring

diversity and inclusion, and putting in place gender pay gap initiatives - were seen to improve staff wellbeing.

*“There's a lot of time and effort and money and intent that goes into it [the living wage] well, in the case of colleagues, it's deeply in the psyche of the company.” (ACC, Food, Beverage and Tobacco)*

*“There was a big focus on the group's diversity network and also the focus on wellness related to COVID-19. They [the business] also like to engage with the communities in which they operate.” (ACC, Financial services)*

The interviews indicated the level and type of community activities implemented varied by industry. The ACCs of the companies which were product or raw materials based noted that these companies tended to undertake extensive initiatives in the communities in which they operated, whether that is where they manufactured, sourced materials or places where their supply chains moved through. The ACCs reported these businesses tended to view the communities as key stakeholders in their business operations and wanted to ensure their health and wellbeing through outreach programmes and charitable activities.

*“We've had to assist in things like schooling... setting up the transport for the kids to get to school.” (ACC, Basic Resources)*

*“The issues can be water management, it can be employment prospects, it can be the way we use our local supply chain commitments to generate local economic activity, it can be health, and education facilities, particularly in remote locations.” (ACC, Basic Resources)*

Many ACCs reported that community activities often focused on improving local living standards, for example providing clean water, education, healthcare and improving housing conditions. The interviews suggested the level of social activity often correlated to the scale of a company's operation in a given area. For example, a mining company with a large local footprint and potential environmental impact, might invest heavily in a community, compared with one that only has a warehouse or office. Some ACCs felt the community component within ESG often overlaps with labour and human resource regulation and compliance. For example, a company may perform spot-checks to ensure health and safety rules are followed and that there is no evidence of corruption or modern slavery.

*“A lot of times, towns are built next to the mines, the companies especially have to provide the town with schooling, healthcare... Social definitely means being good to the communities the companies operate in.” (ACC, Basic Resources)*

*“A project that has been going for years is going into villages in XXX (country), and helping schools, create toilets with clean water and drainage, building toilet block type facilities for places that have nothing.” (ACC, Construction and Materials)*

*“The code of practice [we implement as an investor] is no child labour, living wage and proper accommodation. It does get a lot wider than just giving to charity.” (ACC, Insurance)*

## Measuring performance

Many ACCs indicated that both qualitative and quantitative data is used by audit committees to measure the performance of social activities. Diversity and Inclusion (D&I) data was viewed by most ACCs as a straightforward metric to report on. However, some ACCs reported complications in gathering such data, in part due to employees opting out of sharing demographic details.

ACCs of multinational companies felt issues with gathering D&I data were greater in certain places as some markets restrict and prohibit the recording of certain pieces of information, such as the workforce's ethnicity. ACCs in other companies and industries (such as manufacturing, construction) mentioned problems measuring performance in relation to certain demographic metrics (e.g., gender and ethnicity) due to having a lack of these people in their labour pool or structural issues around promoting in their industries e.g., promoting women to Senior Leadership Teams when there weren't enough female juniors with relevant experience.

*"I think for diversity - our metrics are very simple. They tend to be just around women and men and the levels of the seniority in the company, so, you know, how many women and men are on the board and are senior executives and so on." (ACC, Banks)*

*"The reporting... of this is very difficult because it's challenging to get all that data. It's fairly easy with men and women...it's relatively visible. The rest of it is not, and it's quite difficult to do it. If you're just a UK company, it's relatively easy. If you're crossing across multiple countries and multiple jurisdictions, it's actually quite difficult to do." (ACC, Travel and Leisure)*

Some ACCs felt a contributing factor that has affected performance and reporting of D&I post-Covid is instability in the labour force; with one fall-out from the pandemic being a higher churn of labour and ongoing issues with the retention of employees.

*"We've seen 20% turnover in staff, so for an organisation that's only 250 people, that's just unbelievable." (ACC, Other listed entity)*

The majority of ACCs said that well-being and engagement levels amongst the workforce were typically measured by internal staff surveys, including annual and pulse surveys. Qualitative findings are often gathered from staff workshops and from line managers. A minority of ACCs said their companies use resources like Glassdoor to help gather data from those who have left the company.

*"Internally performance is measured by doing a blind study on employees and clients producing an employee net promoter score." (ACC, Banks)*

*"They get feedback from employees through various means (work groups, forums, questionnaires, surveys, Glassdoor, etc.). They compare results with previous periods." (ACC, Consumer Products and Services)*

ACCs indicated determining what 'good' performance looks like in terms of staff engagement and well-being could be difficult. Several ACCs felt that there was a lack of guidance in this area. A few ACCs (usually from smaller companies) mentioned use of the Sunday Times 100 Best Places to Work ranking to benchmark their company's performance and set aspirational targets. Many ACCs said their companies looked for publicly available market and sector specific benchmark data to help assess their performance.

*"We're (internally) collecting the data. And then we'll get the metrics for comparable businesses. And the whole point about using an external is because they'll be able to make the benchmark." (ACC, Financial Services)*

The majority of ACCs reported that measuring the performance of community activities typically used the greatest mix of quantitative data and narrative approaches. ACCs said donations to community organisations and charities were recorded alongside reporting on the progress of aspects of specific projects e.g., the number of internships offered, houses built etc. Company mission statements and policies relating to issues like modern day slavery were also reviewed and reported on. Unlike the workforce engagement activities, several ACCs mentioned obtaining external assurances around their company's performance on community activities to prove they are compliant and that donations are being used for their stated purpose.

*"You describe the policies you've got in place and then you can describe the enforcement mechanisms you have with your suppliers, and the review mechanisms, and I think that's what you can do." (ACC, Food, Beverage, and Tobacco)*

*"We have specialist experts who define the standards.... they then provide a combination of support, and advice to the assets, but also provide assurance. So, they audit; they do assurance activities." (ACC, Basic Resources)*

The majority of ACCs were keen to 'get social right', but they had concerns around building external assurance of this in an authentic way, as the impact can be difficult to measure, especially in relation to local and international community initiatives. It was noted by some ACCs that it can be hard to find experts to go to initiative locations, especially if remote or overseas, to monitor and measure the impact of activities and the cost can be a challenge for smaller companies.

*"Very difficult to measure it, and actually social stuff, it's very difficult to measure. I mean you can put back into communities, you know; there's a mixture of volunteering, company matching that sort of stuff as well, but at the end of the day, the impact of it is really hard to measure." (ACC, Banks)*



## Views on 'Governance'

### Activities, issues, and risks around 'Governance'

All ACCs felt they had a firm understanding of governance activities, issues, and risks. Governance was the area of ESG which they have the most experience and knowledge of. Compared with environment and social elements, governance is considered far easier to define in terms of what activities, risks and issues have to be, or should be, reported on, due to the Corporate Governance Code (CGC). ACCs of listed companies and those in the financial sector felt that governance was simpler to understand and evaluate because of both the CGC and the rules and regulations they are subject to.

*"Governance is clearly very important, but it was always important, and it has always had a focus... it is easier to deal with than the other two issues where you really are, sort of, starting not quite from scratch, but there is a long way to go to get where you need to be. Whereas, in governance terms, most businesses, PLCs particularly, of a certain size, are pretty well run and know what they need to be doing." (ACC, Real Estate)*

*"G is making sure that the board's activities are in line with stock market and government rules." (ACC, Basic Resources)*

The definition of governance was regarded by most of the ACCs as the way the company is directed and their compliance with regulations and the CGC. For some ACCs, governance is taken for granted in the sense that if the company is performing well financially and complying with the rules and regulations, then the activities undertaken are going well. Many ACCs argued that governance is the foundation of good business practice, encompassing company performance, risk, social and environment activities.

*"Good governance should be there strongly, it should be part of a business' DNA... Good governance means it is a well-run, well managed business." (ACC, Financial Services)*

*"Governance is both a state of mind and a state of compliance, and I think if you start with the right state of mind, show that you're purpose-driven, you have a strategy that backs up that purpose. Those are the two, I think, key governance roles of any board, and then to provide the resources that allow the company to prosecute that strategy, execute that strategy." (ACC, Healthcare)*

*"I think it's the bedrock of the company's operations. So, we've got governance in the finance sector and the governance which underpins the annual reporting accounts and we've got governance around absolutely everything in the business." (ACC, Banks)*

Good governance was seen by many ACCs to direct the strength of the company's environmental and social performance. ACCs felt that without good governance the E and S components fall apart. Many ACCs reflected that the least amount of time is spent on governance in company reporting, however they felt good governance was nonetheless reflected in environmental and societal activities.

*"Because it [governance] is quite prescriptive in terms of how you report and how you run the business. So, you know, to be brutally honest, when we talk about ESG, we don't really*

*talk about G because that is taken for granted in the way the business is run.” (ACC, Real Estate)*

*“What we also understand is that without the proper governance, either of the company governance or of its client governance, it’s very difficult to achieve either the E standard or the S standard.” (ACC, Banks)*

Many ACCs mentioned company strategy and policies (fraud, cybersecurity and bribery policies in particular) were two of the main activities reported on historically. Pay transparency, remunerations and bonuses of the c-suite and board were noted by some ACCs to have grown in importance for both investors and employees. Additionally, many ACC’s reflected that companies’ activities focused on the diversity of the board and executive management team, and succession planning, had also increased in the last few years.

*“We do a lot of reporting on succession planning, on diversity at the board, both gender and ethnicity, our plans for in succession planning we include term length and retirement. Directors must stand for re-election each year. I think that’s best practice.” (ACC, Various)*

*“For us [governance] encompasses things like the anti-bribery and corruption. You know, the legal and regulatory, the remuneration. Obviously, everything that’s in the Corporate Governance Code, and listing rules. I would say risk management falls into that, in terms of both understanding and what we do about it...And then, probably board diversity and board development.” (ACC, Industrial Goods and Services)*

## Measuring performance

Many ACCs commented that the measurement of governance performance was undertaken by the board. Data on salaries, remuneration, bonuses, and diversity was considered easy to gather, with the majority of ACCs relying on disclosures to show transparency. Some ACCs said third parties were occasionally brought in to determine if the level of disclosure was adequate.

*“We disclose absolutely everything we possibly can... We provide remuneration reports over time. So, again the task is very simple, it’s very easy to be 100% transparent. Where we see proxy agencies pushing for this that and the other and disclosures and things then we’re happy to chuck in whatever disclosures they want.” (ACC, Industrial Goods and Services)*

*“How we engage with advisors and colleagues and communities, and customers and investors and regulators, so each of these stakeholder groups, you know, we make a full disclosure in terms of Section 172 of the Companies Act, which enables our stakeholders to assess how the directors have performed their duties.” (ACC, Financial Services)*

The majority of ACCs said they used self-assessment qualitative data in their reporting from relevant sub-committees, the board and the executive team. Typically, the ACCs use

external auditors for feedback on the quality of the self-assessments. A minority also use feedback from major investors and stakeholders.

*“Board evaluations they've gone from being something that you fill in and everybody says everything's fine to, you know, a real good conversation about what do we need to do differently as a board. But most of their measurement in this area comes from self-performance or self-assessment, with help from external firms.” (ACC, Chemicals)*

*“It's measured by external agencies (proxy agencies or ESG rating agencies) and the investment trust is measured by shareholders.” (ACC, Banks)*

Many ACCs felt that governance was hard to report on in terms of the ethical and philosophical performance of a company. Providing evidence of being compliant and disclosing the attendance in c-suite and committee meetings was felt to be more tangible. Trying to explain a company's ethical and philosophical stance was considered much harder to achieve due to its intangible nature.

*“It is difficult to measure governance. We have to report whether or not people turned up to board meetings, committee meetings, that's the tangible thing.” (ACC, Basic Resources)*

*“Well, we just comply with the Code, I think is a good start. And also, all our listing requirements, and any other regulatory requirements.” (ACC, Financial Services)*

*“Where it gets more difficult [is the] ethics. It is difficult to define.... I think governance broadly gets reported in terms of ...are we on track, are we complying with the rules?” (ACC, Industrial Goods and Services)*

## Conclusions and reflections on the future of ESG

### Narratives around ESG

From the interviews, it appears that ACCs' attitudes to ESG varied significantly depending on their companies' sector and level of resources. Differences in approach to ESG activities and monitoring of performance were particularly apparent amongst ACCs of companies in construction, banking, and extractive industries where additional regulations are present, compared to less regulated sectors.

Across sectors, many ACCs reported that conversations around ESG have grown in the last couple of years amongst the audit committee and executive teams, and that ESG was being taken seriously. Only a minority reflected that ESG was a tick-box exercise in their organisation to ensure they comply with regulations.

*"ESG is important, really important to some people. Some components of ESG are really important to some companies. But are any of them more important than the company actually making a profit and not going broke, because if you go broke there's no shareholders and there's no customers and there's no employees? So, which is more important?" (ACC, Healthcare)*

*"ESG is dealt with and should be dealt with as part and parcel of, one's management and governance of responsibilities." (ACC, Media)*

*"I think due to the overall complexity of this [ESG]... people are going, 'Why are we doing this? Our business is about making money, looking after clients and looking after our communities' but this is just a bit of a tick-boxing." (ACC, Real Estate)*

A challenge that many ACCs said they faced was the growing number of ESG activities that need to be implemented and reported on, which can lead them to spend a lot of time figuring out how to report - and what activities to report on - outside of the required elements. Some ACCs reflected that the growing scope of ESG has meant that some companies have felt the need to create sub-committees and bring in experts to help them, which can be costly.

It was argued by many ACCs that the environment component has become the main topic of conversation for many audit committees and executive teams, often due to the challenge of implementing and measuring the activities, which in some cases results in concern over the neglect of the social and governance components.

*"There is conflict between E, S and G. E dilutes the others "If you've got fifteen minutes, say, on the subject, you know, twelve of them are going to be on E. And then you've got three minutes to speak about S and G, so there is that conflict that, potentially, in terms of just resource and time, the other conflict, it's not so much a conflict, is the confusion is that where do we put, like, D&I? Is it social or is it governance? " (ACC, Financial Services)*

Many ACCs commented that companies had been on a learning curve, and conversations had changed over the last two years as they became more experienced in producing reports that don't just state ESG activity, but also focus on the impact of such activities. Many ACCs

hoped that in the future, conversations around ESG would become more straightforward and that less time would be spent trying to establish measurable performance indicators, with more time to dedicate to making the reports meaningful and digestible.

*"I'm really hoping that ESG is just part and parcel of the DNA of any discussion." (ACC, Financial Services)*

*"I think we're moving to the curve of it not being a new thing, it being a reality and needing to do something about it and genuinely disclosing what you do. I think it's already up the agenda on all the boards...I think there's an awful lot of legislation out there, an awful lot being done on it. I think the fact that we have training courses as a board on it means that some of the reporting standards regulations are probably quite complex that we need to understand them." (ACC, Financial Services)*

*"[In the near future] you will probably find that companies will be better informed, better able to assess risks within businesses, they'll be more equipped to deal with situations than they have been previously where they haven't thought about these things. So, I think moving forward, in three to five years, I think corporates will be better businesses." (ACC, Consumer Products and Services)*

## Meaningful reporting on ESG

It was reported by some ACCs that many businesses were still building their evidence base for ESG reporting, alongside understanding what 'getting ESG right' looks like and how it should be managed at board level. Some ACCs commented on the need for consistency with reporting; rather than expanding guidance, they called for a 'simpler' and more 'standardised' structure or framework, which considers different risks for different businesses.

There was an appetite from some ACCs to receive best practice examples from similar organisations, including historical comparatives and benchmark data.

*"It is always helpful to be involved in reporting which is a good practice. And it is always helpful to know what other organisations are doing." (ACC, Media)*

*"Guidance and/or a framework for assessing and reporting ESG might not be helpful if it's too broad, it would be good to tailor it to specific industries, otherwise people find ways around it and it's not very meaningful" (ACC, Banks)*

Some ACCs argued that there needs to be an understanding when sharing any reporting guidance or best practice examples of the different challenges faced by diverse organisations and sectors. They felt that any information or guidance on ESG should take into account factors such as, the size of the company, operating markets and its current ability to undertake and measure ESG activities.

*"I think ESG is an acronym that is putting together some very different stuff and it's maybe reaching the time where it's not helpful to have a single acronym. [ESG are].. very different things, done in very different ways and I think different companies are at different stages of their development." (ACC, Food, Beverage and Tobacco)*

*“As a relatively smaller company, without the big finance departments of some of the bigger companies, it's really helpful to see something where somebody independent has looked at it and said, 'That's pretty good, let's put that out there as an example,' and you can see how they've done it.” (ACC, Banks)*

Along with concerns around relevancy when reporting, there were also significant concerns from a small number of ACCs around the time and cost of implementing ESG activities and producing meaningful reports. This was especially voiced from those ACCs of smaller companies.

*“The problem is there's just so much of it [guidance]. I've no idea what people regard as their priority anymore... To my mind, the most important thing is the company remains profitable. So, I don't think there's a future, if you weigh people down with so much compliance, it just takes margin out.” (ACC, Financial Services)*

*“What you see is a massive rise in the cost of an external audit because primarily the scope is increasing.” (ACC, Banks)*

Some ACCs believed that reporting on ESG needed to become more focused to aid the increasing resource strains it can create. More so, they felt there is a risk that companies may be able to hide areas that they had poorly performed on in reports due to the amount of information being included.

## The role of the FRC

Many ACCs commented that the amount of guidance on ESG-related activities was 'excessive' or too broad, and can be complex to navigate, particularly for businesses with limited resources or those who have only recently begun to invest time into ESG activities.

However, some ACCs said they would welcome more guidance on ESG activities and measurements from the FRC, if it was tailored and actionable. The FRC was felt by many ACCs to be an appropriate organisation to share best practice with companies and support them to produce meaningful, appropriate, and relevant reports. Further FRC support could come in the form of example reports, webinars about ESG, sector specific case studies and informal round tables to share best practices.

*“FRC should provide real life examples of companies of what they have done on the E or S front. There's a concrete recommendation for them, is they could start to publish examples, real life examples, of all sorts of companies where they are taking a concrete step on an environmental or a social area.” (ACC, Healthcare)*

*“I think [the FRC's role should be] helping to ensure clarity around what the reporting standards are going to be and the extent to which they are going to be adopted in the UK...helping business to have that clarity, to help them have consistency.” (ACC, Insurance)*

## *Technical appendix*

### Method

ACCs were offered the choice of either a telephone or video Zoom interview, with the majority opting to take part via Zoom. The interviews lasted between 45 and 60 minutes.

### Sampling and recruitment

YouGov compiled a database of ACCs to contact following research in 2020 and 2021 on quality of audit for the FRC. ACCs were contacted in waves to ensure a broad mix of respondents in terms of business sectors and company size, including FTSE 100, FTSE 250, and smaller listed entities. In the first wave of invites YouGov contacted participants via email and in the second wave ACCs were approached via LinkedIn.

In wave 1, YouGov reached out to ACCs over email (having collected details in the 2020 and 2021 research). The GDPR compliant invite email introduced the research and invited them to participate and share their organisation's views on and approach to ESG. YouGov sent two reminder emails.

In wave 2, YouGov continued to invite ACCs through the existing database however, due to low response rates, desk research was also conducted to identify additional ACCs. If email addresses were not publicly available, desk research allowed YouGov to identify ACCs on LinkedIn. This group of ACCs were sent details on the project aims and invited to participate via LinkedIn Messenger. They were asked to reply to YouGov if interested and available to take part in an interview.

In line with MRS guidelines, all participants were given the option to direct a donation to a charity of their choice in recognition of their time.

Verbatim quotations have been used throughout this report to illustrate key themes and findings; however, these are not attributed to individual participants.

### Discussion guide design

A semi-structured discussion guide was developed in partnership between YouGov and the FRC, covering overall reflections on ESG before delving deeper into each ESG element. Discussions were semi-structured and focussed on the experiences and views of ACCs.

Following an internal pilot and sign-off of the discussion guide by the FRC, ten pilot interviews were carried out in order to test the language and flow of the guide. YouGov then produced an interim report which outlined emerging findings. Thirty further interviews were then conducted.

The full discussion guide is included at the end of the technical appendix.

### Analysis and reporting

Interviews were recorded, transcribed and compiled into an anonymous analysis grid. Initial thematic analysis was undertaken by the research team after ten interviews, including regular meetings between moderators to share emerging findings. More granular thematic analysis was subsequently carried out by YouGov's researchers after fieldwork was fully completed.

## Note on the nature of qualitative research

It is important to note that the discussions with ACCs were qualitative in nature. The aim of the research was to explore, in detail, ACCs’ views on, and approach to ESG, identifying the common themes as well as the specific nuances.

While the number of interviews completed is large in the context of qualitative research, and a saturation of common views was reached, the findings cannot be taken as statistically significant (i.e., the findings cannot be extrapolated to all ACCs). However, the research provides a rich understanding of a diverse sample of ACCs’ views on ESG, which can help inform the future work of the FRC.

## Summary profile

A summary profile of the Audit Committee Chairs (ACCs) that were interviewed is presented below.

	Interviews Completed – 40 in total
<u>By sector</u>	<ul style="list-style-type: none"> <li>• 8 x Financial Services</li> <li>• 5 x Insurance</li> <li>• 4 x Healthcare</li> <li>• 4 x Industrial Goods and Services</li> <li>• 4 x Tech and Telecoms</li> <li>• 4 x Banks</li> <li>• 3 x Basic Resources</li> <li>• 3 x Consumer Products and Services</li> <li>• 1 x Chemicals</li> <li>• 1 x Construction and Materials</li> <li>• 1 x Food, Beverage and Tobacco</li> <li>• 1 x Real Estate</li> <li>• 1 x Travel and Leisure</li> </ul>
<u>By Market</u>	<ul style="list-style-type: none"> <li>• 18 x FTSE 250</li> <li>• 11 x FTSE 100</li> <li>• 9 x Other listed</li> <li>• 2 x Unlisted entities</li> </ul>

## Discussion guide

### Introduction (15 mins)

*Moderator introduces themselves and YouGov and the wider aims of the project that are to provide the FRC with a rich understanding of ACCs’ views on, and approach to, Environmental, Social and Governance (ESG) issues.*



The conversation today is an informal discussion of these issues, please be as open and honest as you can – your contributions will be made anonymous. Please note this is not an exercise to test you or your company's knowledge and actions around ESG.

On conclusion of the research, we will produce a published report for the FRC outlining key themes and findings, however your comments will not at any stage be attributed to you or your organisation. We will be talking to 50 ACCs of Public Interest Entities (PIEs) during this project, and you will not be personally identifiable in any outputs we produce. It is intended that the report will be published by the FRC at a later stage.

The interview will be recorded for the purpose of note taking only. The recording will not be shared with the FRC or any third party. The recording will be stored securely. YouGov operates within the relevant Market Research Society guidelines on best practice, including GDPR.

- **Do you have any questions before we start?**
  
- To start with please could you tell us a bit about yourself and your journey to becoming an ACC.
  - Have you ever worked for an audit firm? If so, did you work for any of the Big Four (Deloitte, PwC, KPMG, EY) and/or for any others?
  - Which company boards do you sit on as an ACC? How long have you been in the role(s)? (*Note: please ask ACC to focus on the company which they have been recruited for*)
  - How did this role come about? How were you appointed? (**Probe:** recommended? By whom? (*Note: Interested in anything about personal contacts*))
  - What is your time commitment as ACC? (n.b. throughout the year e.g., number of days)
  - How would you break down how much time is invested into different areas e.g., audit, ESG and risk? (e.g., %)

*Let's start off with a few broad questions before we go into more detail about the E, the S and the G separately...*

- When did you first hear of ESG?
- What does ESG mean to you? And what does it mean to your company?
  - What sorts of activities are undertaken around ESG? (*Moderators pull out a few and probe – most interested in the extent of the AC's involvement and understanding*) You mentioned X. What does this look like?
  - Is there adequate guidance currently on ESG and the AC's responsibilities in this area? If no, what is lacking?
  - Where do you obtain guidance and advice about ESG? (*Note: Interested in views on FRC material as well as help provided by the company and anything about external advisors the AC may use. As well as if this guidance is internal or external*)
  - What do you think getting ESG right looks like?
  - To what extent is ESG prioritized in your business? *Moderator to probe on importance of ESG in their company.*

- Out of E, S and G which tends to be prioritized / invested more in? Why so?  
*Moderator to probe on whether they dilute each other when combined in this way.*

## Environment (10 mins)

- What does the “E” mean to you and the company in this context? *Moderator to probe on what else is included other than the climate.*
- What kinds of activities does your company undertake around ‘Environmental’ issues?
- What are the main environmental issues / risks affecting your company?
  - How do you assess how the company has addressed these?  
*Moderator to probe on – environment, waste, CO2, sustainability, supply chain (if appropriate)*
- How familiar are you with the **Task Force on Climate-Related Disclosures (TCFD)** and its recommendations?
  - What is your company doing in relation to the TCFD recommendations?
  - What is your role in relation to this?
  - Are there any TCFD recommendations which you feel are difficult for your company to implement? Why is this?
- Through **TCFD and the new International Sustainability Standards Board** proposals, a framework around climate reporting is developing. How does your company address non-climate related environmental matters? (*Prompt: ask the ACC about pollution, local environmental concerns*)
- What role is played by external assurance when it comes to ‘Environmental’? Who provides this assurance?
- How does the company measure its performance in this area, if at all?
  - Are there specific metrics? If so, what are they?
  - If the measurements are primarily qualitative, can you tell us a little more about them?

## Social (10 mins)

- What does the “S” mean to you and the company in this context? (*Note: the ACC may mention such topics as workforce engagement, culture, diversity or corporate initiatives in the community*)
- What kinds of activities does your company undertake around ‘Social’ issues?  
How does the company measure its performance in this area?
  - Are there specific metrics? If so, what are they?
  - If the measurements are primarily qualitative, can you tell us a little more about them?

- How is assurance obtained on performance around ‘Social’?

## Governance (10 mins)

- What does the “G” mean to you and the company in this context? (*Note: the ACC is likely to mention the Corporate Governance Code and its associated guidance here. Explore whether the company has any additional policies or procedures in this area*)
- What kinds of activities does your company undertake around ‘Governance’ issues?
- How does the company measure its performance in this area?
  - Are there specific metrics? If so, what are they?
  - If the measurements are primarily qualitative, can you tell us a little more about them?
  - Are there any areas that you have struggled to measure?
- How is assurance obtained on this performance?

## Reflections and the future of ESG (10 mins)

- Have conversations around ESG changed / evolved over time? If so, how?
- What do you think ESG might look like in the future? How do you think it might evolve?
- Is the increased focus on ESG reflected in Audit Committee discussions? Can you give us some examples?
- How is ESG spoken about in your company (in the context of audit) e.g., honestly, passionately?
  - How important is ESG compared to some of the issues facing your company?
- How do you pull together all of this material to make for meaningful reporting? (*Explore whether or not the company makes use of extended historical comparatives, the inclusion of benchmarks or targets, the inclusion of greater narrative explanation – has there been a shift from financial to non-financial reporting?*)
- Have you noticed any occasions where the aspects of the E, S and G are in conflict? (*e.g., rising energy costs relating to concerns about fossil fuel use increase poverty in the UK and globally; investors argue that the company should focus on shareholder return rather than ESG matters*)
- Have you come across any such conflicts? Can you tell us a little about them? How were they resolved?
- Would you welcome more guidance or a framework for assessing and reporting on your company’s ESG role? Why or why not?
  - Is there any guidance currently that could be improved? (*e.g., any themes that are missing?*)
- Is there anything else that the FRC could be doing to help with ESG?
- Is there anything else you’d like to add that we haven’t covered already?