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The audit committee and sustainability oversight



Introduction

Our **Sustainability oversight: the corporate director's guide** addresses the broad sustainability landscape, the role of the board in overseeing sustainability, and how boards are organizing themselves. This installment of our sustainability oversight series outlines the responsibilities the audit committee should consider as it oversees sustainability.



Understanding the current landscape

The sustainability reporting environment is evolving rapidly, shaped by regulatory developments, investor expectations, and growing stakeholder demands. Audit committees are increasingly expected to navigate this complexity, even as the political and regulatory context remains unsettled.

On one end of the spectrum, the US has seen the SEC pull back its climate disclosure rules, with similar debates unfolding in Canada about the extent of required disclosures. These actions reflect skepticism from some stakeholders who question the costs of sustainability reporting or its relevance to corporate responsibilities.

At the same time, other governments are pressing forward. The state of California, as an example, enacted climate disclosure laws for companies 'doing business' in the state, and the EU's Corporate Sustainability Reporting Directive (CSRD), even if delayed for some companies, will still require sustainability disclosures.

Investors remain influential drivers of transparency. Some of them still integrate sustainability metrics into investment and stewardship decisions, citing long-term impacts of climate change, workforce management, and social issues. Intangible assets such as reputation, human capital, and customer loyalty are tied to corporate value and are closely tied to sustainability practices.

Companies should be prepared to deliver consistent, comparable, and decision-useful sustainability information across 10-K filings, proxy statements, sustainability reports, and websites. Stakeholders may scrutinize gaps and inconsistencies. Meeting the bar requires a deliberate approach by management and close audit committee oversight.

42%

of CEOs say their company is at least moderately exposed to the risk of significant financial loss arising from climate change in the year ahead.

Source: PwC's 29th Global CEO Survey

Beyond reporting, many companies keep investing in sustainability because it delivers real results. They tie initiatives to lower energy costs, more resilient supply chains, and new products that meet changing customer demand. More than **four in ten CEOs (42%)** say their company is at least moderately exposed to the risk of significant financial loss arising from climate change in the year ahead. Leaders are treating sustainability investments as strategic moves, not check-the-box compliance. Boards can do the same. By tuning out the noise and focusing on the sustainability issues that materially affect performance, directors can keep sustainability oversight business-driven and long-term. So, let's break down the audit committee's oversight role across reporting and risk, given that the audit committee is skilled at overseeing one and typically oversees the other.



31% ↑

of S&P 500 companies disclose that the audit committee is responsible for ESG oversight, up from 18% in 2022.

Source: Center for Audit Quality, *Audit Committee Transparency Barometer 2025*, December 2025.

Understanding the audit committee's role

Oversight of sustainability reporting is increasingly being allocated to the audit committee. The **CAQ's Audit Committee Transparency Barometer** indicates that 31% of S&P 500 companies disclose that the audit committee is responsible for ESG oversight, up from 18% in 2022. This makes sense given that the audit committee has muscle memory and expertise in disclosure and assurance processes. This highlights how the audit committee is emerging as the natural locus for monitoring sustainability disclosures, controls, and assurance.

Audit committee responsibilities are evolving, with charters reflecting the evolution. Some charters now explicitly reference sustainability oversight. This also reflects the audit committee duties outlined by the CSRD related to monitoring sustainability reporting, as discussed in the Appendix.

What is becoming clear is that the audit committee has a dual role: safeguarding the reliability of financial reporting and overseeing the continued maturation of sustainability reporting toward comparable standards of accuracy and credibility.

It is not enough, however, to treat sustainability oversight as a parallel exercise. The audit committee should connect sustainability oversight into the broader governance structure. That means integrating reporting, processes and controls, and assurance into enterprise-wide frameworks. And if the audit committee also oversees risks, it should embed sustainability into its risk oversight as well. The next sections outline how audit committees can approach these responsibilities.

Overseeing reporting

Sustainability information should be reliable, as a wide range of stakeholders may rely on it. For example, investors may rely on sustainability information (including ESG metrics) in their buy, sell, and proxy voting decisions, and regulators are calling for consistency across public filings, sustainability reports, and corporate websites. The committee's role is to confirm that management has processes in place to identify issues, apply sound methodologies, and maintain consistency across disclosures, so the information is consistent, comparable, and decision-useful for stakeholders and the board.

For example, under California's climate rules and the EU's CSRD, management will need to disclose climate-related risks, metrics, and strategies. Inconsistency in how risks are characterized in a sustainability report and other filings could invite scrutiny. Audit committee oversight should check that management has established clear disclosure controls and review mechanisms.



Let's talk about materiality

Determining and communicating the impact of sustainability risks and opportunities could help companies compete for capital. Board and committee oversight is key. So, what are some sustainability disclosure considerations?



In financial statements

For some companies, sustainability risks and/or opportunities may have a material impact on financial statements prepared under US GAAP or IFRS[®] Accounting Standards. For instance, a company executing a plan to reduce emissions may make a significant change in how certain physical manufacturing assets are operated. That could lead to a material impairment, which would need to be disclosed in the financial statements.



In documents filed or furnished to the SEC

The impact of sustainability-related risks and opportunities on a company may differ depending on the company, industry, and timeframe over which they occur. Some risks may not yet affect the financial statements materially but have the potential to do so. Management may choose to disclose these risks in an SEC filing because it views them to be important to the company's strategy and/or operations, even if they are not required to list them as risk factors. Determining what constitutes a material disclosure that should be included in a document filed or furnished to the SEC requires significant judgment. Federal securities laws provide the regulatory framework for management to make those decisions.



In other company communications

Reporting on material sustainability risks and opportunities in financial statements and SEC documents is targeted at investors and other stakeholders; it is done within the construct of securities laws and US GAAP. There is, of course, other sustainability-related information that could be of interest to a broader set of stakeholders that the company may decide to actively monitor, manage, and report on in a sustainability report.

The factors that influence the impact of different sustainability risks and opportunities are evolving, and as such, something mentioned in a sustainability report today may be appropriate for an SEC filing tomorrow. Likewise, what is disclosed in the risk factors section of the Form 10-K today may impact the financial statements tomorrow. Further, what is required to be disclosed and where will continue to evolve as the European Sustainability Reporting Standards (ESRS) and California's reporting requirements become effective. Other jurisdictions, including countries in which many multinationals operate and even some other US states, are considering their own requirements. Companies will have to stay abreast of their reporting obligations and related timelines and think holistically about mandatory and voluntary disclosures as well as the underlying processes supporting the quality of all disclosed information.

Materiality considerations globally

The ESRS require companies to report sustainability information based on double materiality. The view here is that companies should balance financial materiality against the interest of an even wider population of stakeholders. When materiality is considered in that context, it has a broader lens than the more investor-focused definition used in today's financial reporting and considers the environmental and social impacts of a company's activities. This requires viewing materiality from two perspectives:

Financial materiality: This 'outside in' view focuses on how sustainability matters may pose either a prospective material risk or opportunity that could affect a company's financial performance and position over the short, medium, and long term. Sustainability matters are considered material for primary users of a company's financial reports if omitting or misstating the information could influence an investor's decisions.

Impact materiality: This 'inside out' view focuses on the actual or potential short-, medium-, and long-term impacts on people or the environment that are directly linked to a company's operations and its value chain. These impacts can be both positive and negative.

Questions audit committees could ask about reporting

- How does management determine material sustainability topics, and are materiality assessments refreshed regularly?
- What governance and controls exist to compare reporting for consistency across the Form 10-K, the proxy, sustainability reports, and the company's website?
- How do the company's disclosures benchmark against peers and recognized frameworks (e.g. Task Force on Climate-related Financial Disclosures)?
- How is management comfortable with the accuracy and consistency of sustainability disclosures when data is generated across multiple functions and geographies, and what procedures are in place to coordinate reporting and maintain an integrated, enterprise-wide view?
- How are developments across the global sustainability landscape (e.g. CSRD, California climate disclosure laws) factored into the company's disclosure planning and timelines?
- How do management's internal presentations and communications of sustainability-related information enable the board and audit committee to understand the company's risks and opportunities?

Processes and controls

Strong sustainability reporting depends on robust systems, processes, and internal controls. The audit committee should oversee how management collects, validates, and consolidates ESG data across the organization and its value chain so that it has confidence that data collection is reliable, repeatable, subject to audit-like scrutiny, and usable in management decision-making.

Companies may rely on manual processes or outsource ESG data collection without building adequate internal controls. The audit committee should confirm that sustainability disclosures are supported by formal policies and procedures, tested by internal audit, and integrated into the broader financial reporting control environment, so the same control discipline supports both credible disclosure and confident action on strategic priorities.

Questions audit committees could ask about processes and controls

- How are ESG data processes documented, tested, and aligned with financial reporting controls?
- How does the company oversee and validate third-party data providers to get comfortable with data integrity?
- How does the disclosure committee incorporate sustainability reporting expertise?
- What technology or systems investments are needed to automate and scale ESG data collection?
- To what extent are the company's finance function, internal audit, and other reporting units involved in creating and/or strengthening the control environment for the sustainability disclosures?

Assurance

Stakeholders increasingly demand independent assurance over sustainability reporting. According to a **recent survey**, most investors agree that sustainability reporting should be assured at the same level as financial reporting. This underscores why the audit committee should play a central role in overseeing assurance planning.

In some jurisdictions, including the EU, certain companies will be required to obtain assurance on their sustainability disclosures. Audit committees should engage in early discussions about the scope, provider, and methodology of assurance. Assurance is not just a compliance exercise; it enhances the credibility of disclosures with investors, regulators, and the public.

The audit committee should treat sustainability assurance as part of its core responsibility for reporting integrity. This includes reviewing management's readiness, assessing whether systems can support assurance, and monitoring the independence of assurance providers.

Questions audit committees could ask about assurance

- What level of assurance, limited or reasonable, is required over the company's various sustainability disclosures?
- How is management preparing for mandatory assurance requirements under CSRD and the California rules?
- What criteria are being used to evaluate and select assurance providers, and how is independence safeguarded?
- Are internal systems and data mature enough to support reasonable assurance, or do gaps remain?
- How will sustainability assurance be aligned with the financial statement audit to provide a holistic view of reporting integrity?



Risk oversight

Sustainability is not only about disclosure; it is a strategic and financial consideration, creating both risks to manage and opportunities to capture. Many companies are investing in technology, operations, and innovation to achieve climate and social commitments, all of which may affect cash flow, asset valuations, and long-term competitiveness. For instance, achieving GHG reduction goals may require retrofitting plants, redesigning products, or purchasing carbon offsets, often with financial statement consequences.

A company that embeds sustainability into its core strategy can better position itself for long-term success. That does not require the board to treat every environmental or social topic equally. It does require the board to determine which issues warrant attention and how to oversee them. Directors can start with a simple question: does our strategy capture the critical factors that matter to our long-term success?

Put differently, directors can test whether the strategy reflects the full set of risks and opportunities that could shape the future and audit committees should confirm that sustainability risks and opportunities are embedded into the enterprise risk management (ERM) framework. This helps the board have a consolidated view of risks and opportunities that may affect strategy, reputation, and financial performance.

Questions audit committees could ask about risk oversight

- How does the committee coordinate with other committees to avoid gaps or duplication in ESG oversight?
- How are sustainability risks incorporated into the ERM framework and reported to the board?
- How does the board's governance structure align sustainability and strategy?
- What are the projected financial impacts of sustainability commitments, such as net zero targets, on cash flows and capital allocation?
- How has management evaluated the impact of sustainability strategies on the useful lives and valuations of assets?
- How is the company leveraging any available tax credits and incentives to offset sustainability investments?
- How is the company identifying new accounting considerations, such as those related to purchasing or selling carbon credits and exposures related to environmental obligations?



Conclusion

The direction of travel is clear: certain elements of sustainability oversight are clearly aligned with audit committee responsibilities. The regulatory landscape is evolving, and investors and other stakeholders are looking for transparency. An audit committee that approaches sustainability with similar rigor applied to financial reporting can help protect their organizations from regulatory and reputational risks, strengthen trust with stakeholders, and support long-term resilience and returns.

By embedding sustainability into its oversight of reporting, processes and controls, assurance, and risk management, the audit committee can help companies be better positioned for long-term resilience. The task is complex and evolving, but it also offers the audit committee a significant opportunity to demonstrate leadership at the intersection of governance, strategy, and accountability.



Appendix

CSRD and board oversight

The EU's CSRD expands the scope and depth of sustainability reporting requirements for companies in the EU, including EU subsidiaries of US companies. And for a company listed on EU regulated markets, the regulation explicitly puts the audit committee (or if the relevant EU Member State permits, another board committee) of the reporting entity on the spot as it relates to sustainability reporting. This means that parent company boards, and specifically audit committees, should have a clear sense of how CSRD impacts their companies in terms of entities in scope, which may require asking management and legal counsel for an update.



The **CSRD text incorporates sustainability** into the existing role of the audit committee. The committee needs to:

- Inform the board of the audited entity of the outcome of the statutory audit and, where applicable, of the outcome of the assurance of sustainability reporting and explain how the statutory audit and the assurance of sustainability reporting contributed to the integrity of financial reporting and sustainability reporting respectively, and what the role of the audit committee was in that process
- Monitor the financial reporting process and, where applicable, sustainability reporting process, including the electronic reporting process and the process carried out by the reporting entity(s) to identify the information reported in accordance with the sustainability reporting standards adopted, and submit recommendations or proposals to ensure their integrity
- Monitor the effectiveness of the reporting entity(s)'s internal quality control and risk management systems and, where applicable, its internal audit, regarding the financial reporting and, where applicable, sustainability reporting of the reporting entity(s), including its electronic reporting process, without breaching its independence
- Monitor the assurance of the annual and consolidated sustainability reporting, where applicable, in particular its performance, taking into account any findings and conclusions by the competent authority
- Review and monitor the independence of the statutory auditors or the audit firms, and in particular the appropriateness of the provision of non-audit services to the audited entity

Action items for the audit committee

Given the oversight responsibilities outlined in CSRD, the audit committee may want to:

- Consider how the audit committee's financial reporting oversight skills and responsibilities translate to sustainability disclosures. Are there sustainability topics, such as biodiversity, circular economy, emissions, or otherwise, for which the committee needs additional education and/or expertise?
- Assess how often the appropriate board committee agendas include sustainability-related topics, and what level of information directors are seeing
- Understand the outcome of management's double materiality assessment
- Understand where management identified key sustainability data and reporting gaps and what procedures were put in place to close them
- Develop a plan for new audit committee activities related to sustainability reporting, such as reviewing the materiality assessment periodically and overseeing the sustainability assurance provider
- Update the charter to reflect these new responsibilities
- Report findings back to the full board



How PwC can help

To discuss how these sustainability oversight concepts may affect your business, contact your engagement partner or one of the following PwC Governance Insights Center professionals.

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