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Global Business Consulting



Internal Audit role in ESG

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Contents

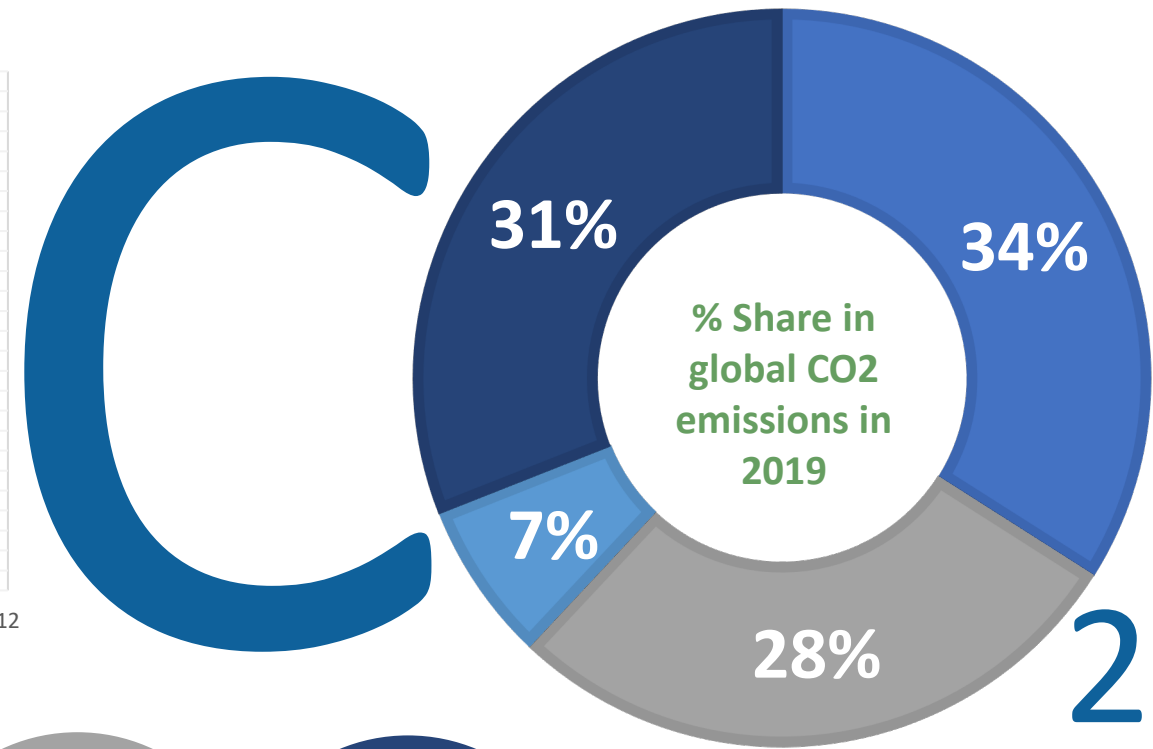
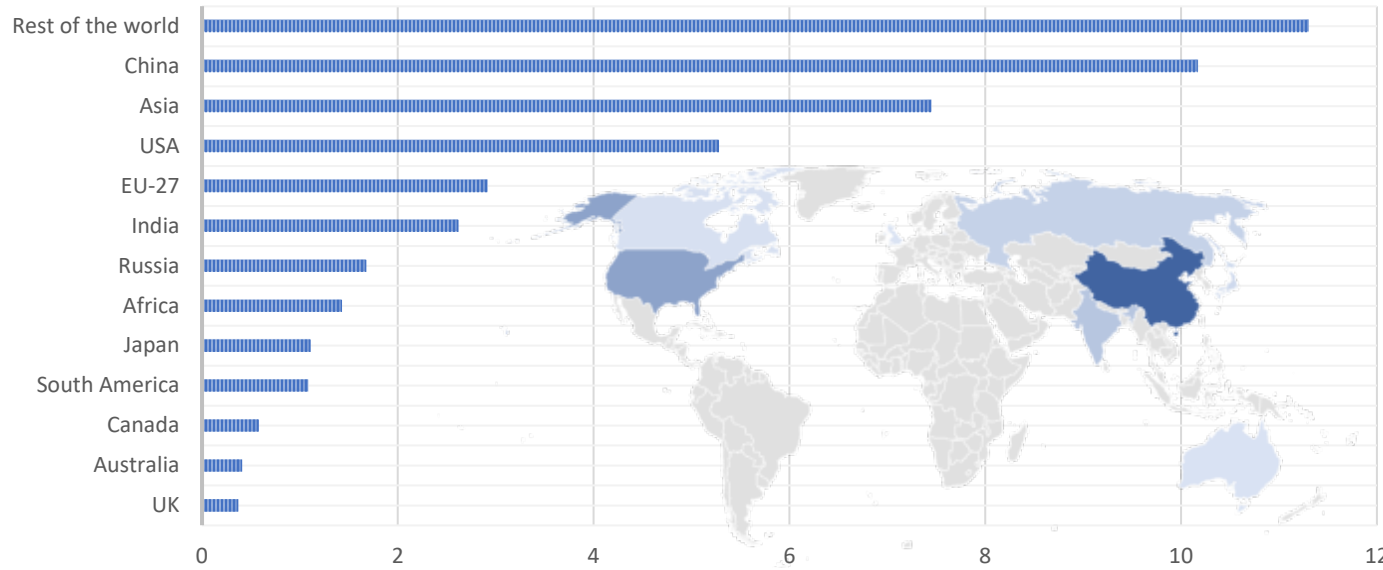
- State of the Planet
- ESG key Themes and issues
- Global ESG frameworks
- Materiality Assessments
- Sustainability / ESG Reporting
- Internal Audit Role in ESG



State of the Planet

Green House Gas emissions a snapshot

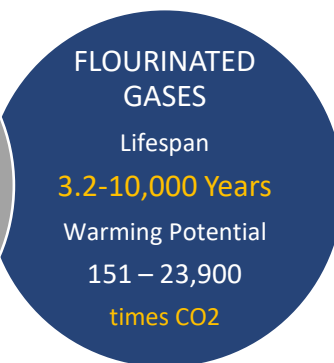
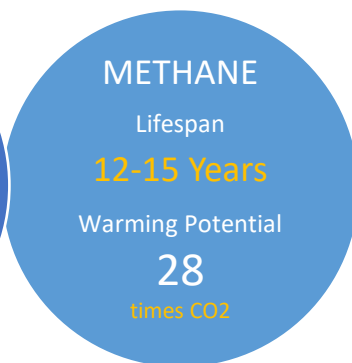
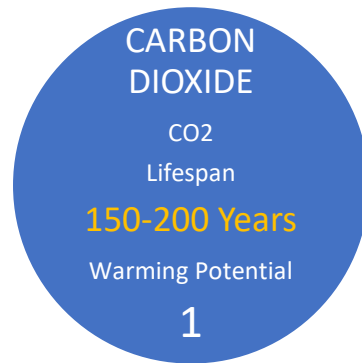
CO₂ emissions in 2019



China was the world's prime emitter in 2019 releasing as much CO₂ as the US, EU_27, Russia and Japan

All figures in giga tonnes

- Figures for Asia exclude India and China
- Source: CSE India

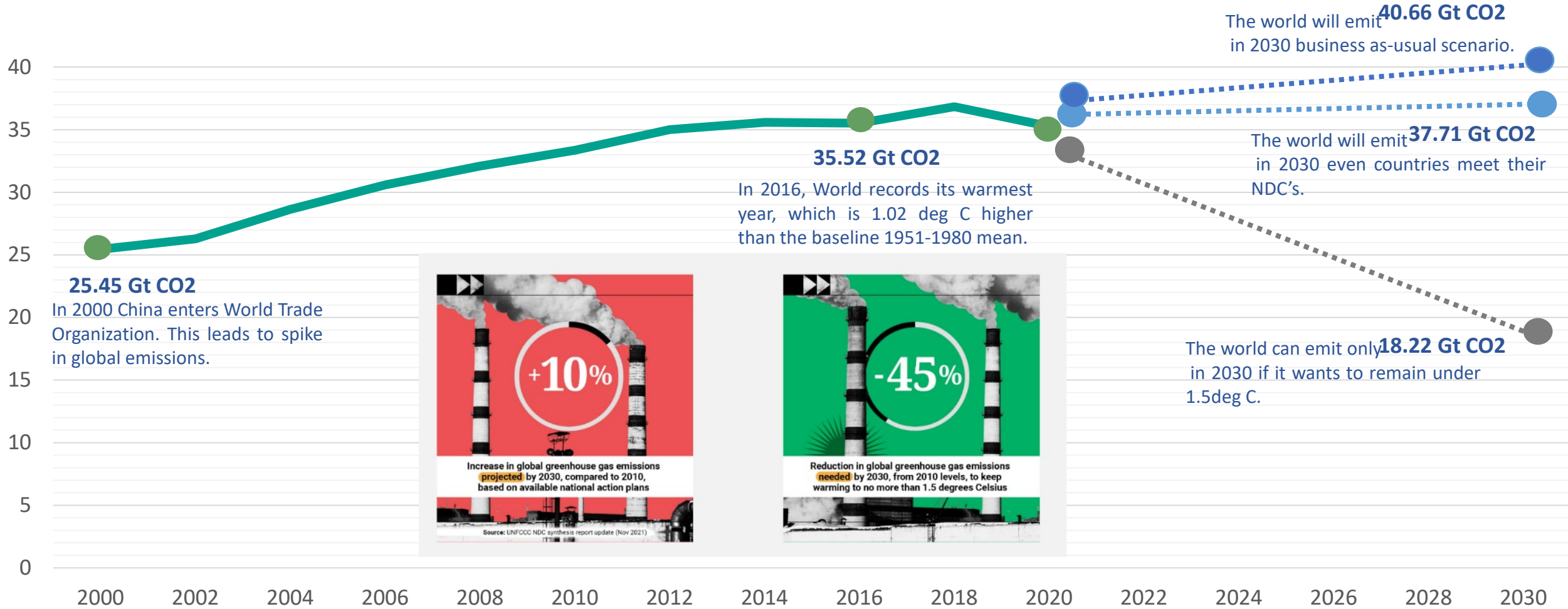


- The 7 Historical Polluters (US, UK, Russia, Australia, Japan, Canada and EU-27)
- China
- India

Source: Our World in Data

Paris Agreement – Present scenario

The world will cross the 1.5 deg C threshold by 2030 even if countries meet their enhanced nationally determined targets.






Source: Down to earth, CSE India & our world data.



ESG Themes and Issues

ESG Themes & Issues

Pillars	Themes	ESG Key Issues	
Environment 	Natural resources	<ul style="list-style-type: none"> Water stress Biodiversity and land use 	<ul style="list-style-type: none"> Material sourcing Circularity
	Pollution and waste	<ul style="list-style-type: none"> Toxic emissions and waste Packaging material and waste 	<ul style="list-style-type: none"> Electronic waste
	Climate change	<ul style="list-style-type: none"> Carbon emissions Product carbon footprint 	<ul style="list-style-type: none"> Financing environmental impact Climate change vulnerability
	Environmental opportunities	<ul style="list-style-type: none"> Opportunities in clean tech Opportunities in green building 	<ul style="list-style-type: none"> Opportunities in renewable energy Energy Efficiency
Social 	Human capital	<ul style="list-style-type: none"> Labor management Health and safety 	<ul style="list-style-type: none"> Human capital development Supply chain labor standards
	Stakeholder Expectation	<ul style="list-style-type: none"> Transparency Controversial sourcing 	<ul style="list-style-type: none"> Privacy and data security Social value creation
	Products & Services	<ul style="list-style-type: none"> Product safety and quality Chemical safety Financial security 	<ul style="list-style-type: none"> Product traceability Responsible investment Health and demographic risk
	Social opportunities	<ul style="list-style-type: none"> Access to communications Access to finance 	<ul style="list-style-type: none"> Access to health care Opportunities in nutrition and health
Governance 	Corporate governance	<ul style="list-style-type: none"> Board, purpose, Fiduciary duty Compensation 	<ul style="list-style-type: none"> Ownership, Influence & stewardship Accounting, Reporting & Disclosure
	Corporate behavior	<ul style="list-style-type: none"> Business ethics Anti-competitive practices Tax transparency 	<ul style="list-style-type: none"> Corruption and instability Financial system instability Capital allocation

Global ESG Frameworks & Rating Providers

GLOBAL

Publish Guidance for voluntary disclosure, often within company feedback loops



Request Data from companies via questionnaires



Create Assessments of companies based on public and/or private information to sell to investors

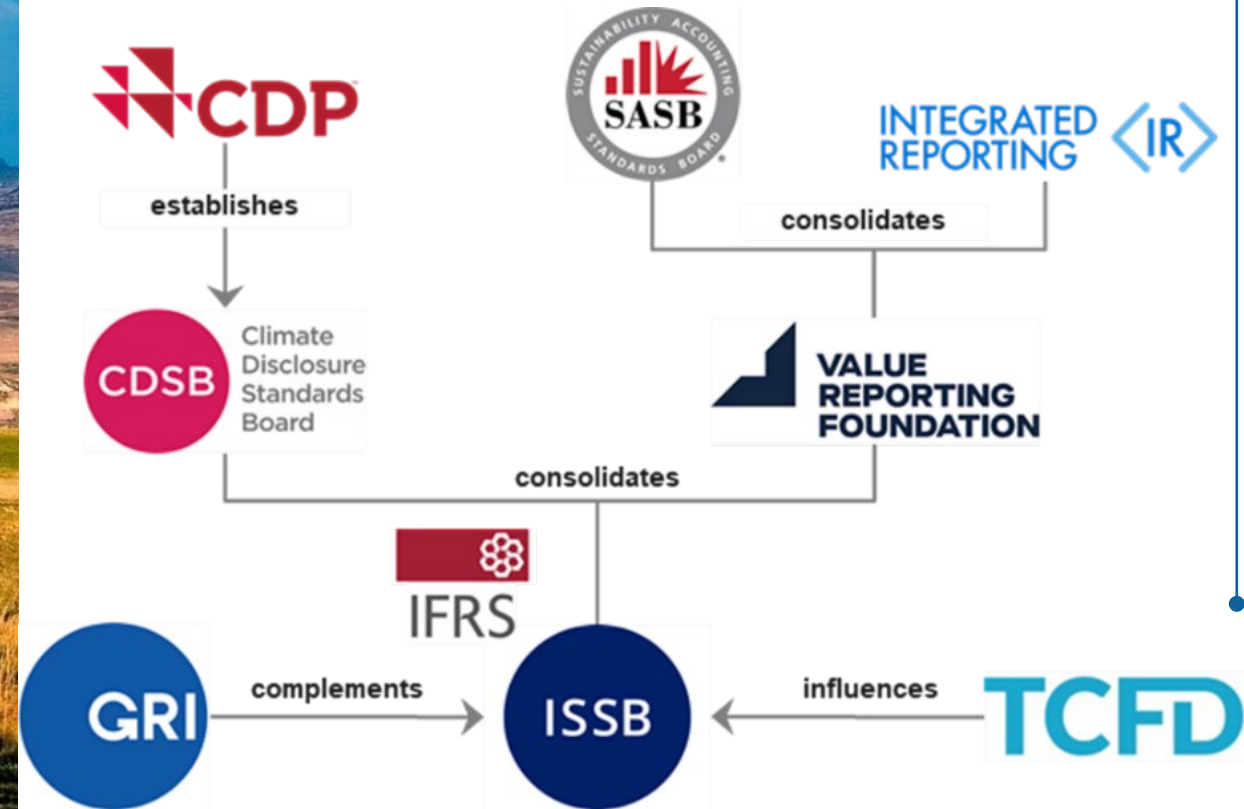


Middle East

- Regulatory compliances are in progress from different groups, the stock exchanges, regulatory authorities, for the listed companies to prepare sustainability report and align with the national visionaries, Qatar vision 2030, Dubai Vision 2040 etc. and UAE net-zero commitment to 2050.
- Some countries have introduced guidelines and frameworks to encourage companies to disclose ESG-related information, such as the UAE's Sustainability Reporting Guidelines and Saudi Arabia's Environmental, Social, and Governance Framework.
- Dubai to host the global climate summit COP 28.

Road to Convergence to a universal standard

ISSB



Source: SASB, ISSB

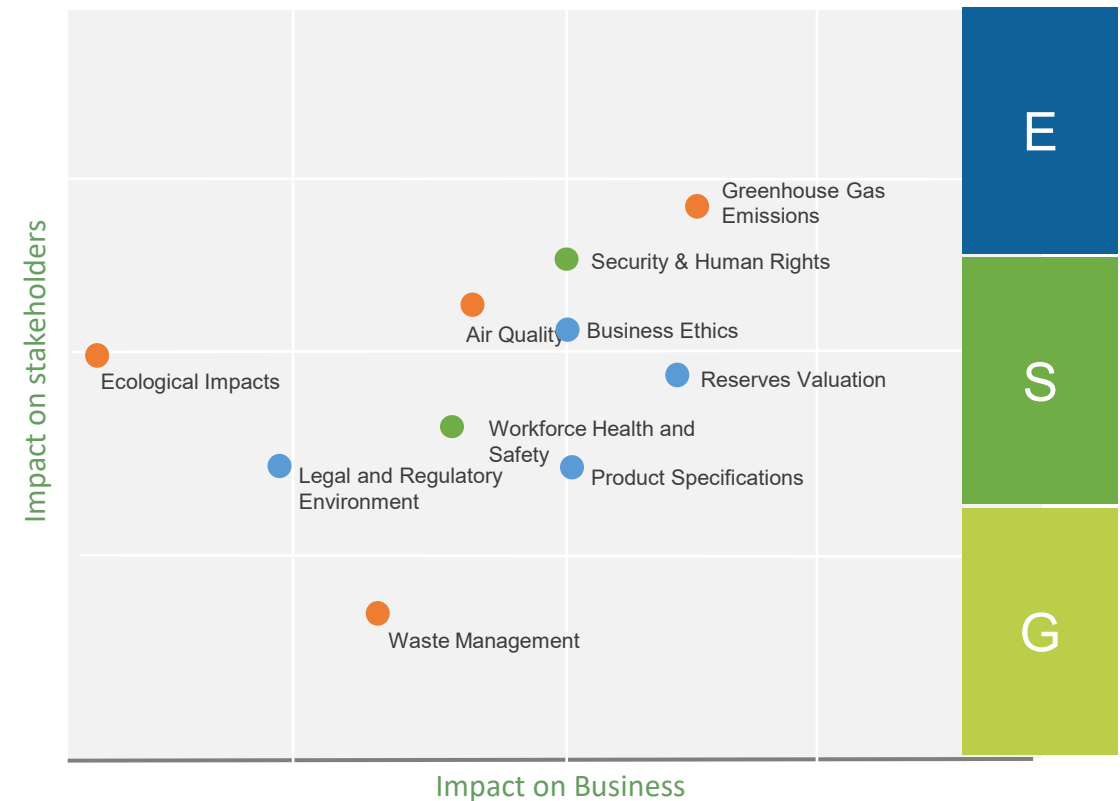
Materiality Assessment

A Materiality Map shows key themes and topics for the organization through the aggregation & prioritization of sustainability issues based on research, stakeholder weighting, impact, and other relevant source information.

Sustainability issues are typically reflected across matrix axes indicating the significance to stakeholders and the significance to the organization.

Factor	Key Industry Risk	Analysis & Metrics
Environmental Includes environmental policies, mitigation of environmental risks, and how the organization performs as a steward to natural resources.	GHG Emissions	<ul style="list-style-type: none"> Long-term and short-term strategy/ plan: Manage Scope 1 emissions, emissions reduction targets, etc.
	Air Quality	<ul style="list-style-type: none"> Pollutants: NOX (excluding N2O), SOX, Volatile organic compounds (VOCs) and Hazardous air pollutants (HAPs).
	Energy Management	<ul style="list-style-type: none"> Total energy consumed, % grid electricity, renewable %, total self generated energy, etc.
	Water & Wastewater Management	<ul style="list-style-type: none"> Water Management Risks. Water withdrawn and consumed. Incidents/ Noncompliance: Water quality permits, standards and regulations.
	Waste & Hazardous Materials Management	<ul style="list-style-type: none"> Amount of hazardous waste generated, % recycled.
Social Includes social aspects like product safety & quality, labor management, privacy & data security	Labor Management	<ul style="list-style-type: none"> Engagement processes: Manage risks & opportunities with respect to .
	Product Quality & Safety	<ul style="list-style-type: none"> Process: Identify & manage materials and chemicals. Recalls issued & total units recalled.
	Employee Health & Safety	<ul style="list-style-type: none"> Total recordable incident rate (TRIR), fatality rate for employees. Monitoring and reducing exposure to chronic health risks.
Governance Includes principles that define rights, responsibilities and expectations between various internal and external stakeholder relationships	Management of Legal & Regulatory Environment	<ul style="list-style-type: none"> Corporate positions: Government regulations and/or policy proposals.
	Critical Incident Risk Management	<ul style="list-style-type: none"> Process Safety Incidents Count (PSIC), Process Safety Total Incident Rate (PSTIR), and Process Safety Incident Severity Rate (PSISR). Number of transport Incidents.

Example Outcome: Materiality Matrix





Sustainability / ESG Reporting

Stakeholders Profile & Reporting Channels

Current Stakeholders

- Exchanges
- Regulators
- Rating Agency
- Asset owners & managers

New External Stakeholders

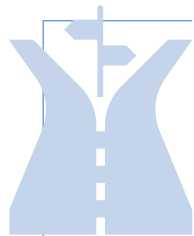
- Customers
 - Talent
- Resource providers
- Govt. Agencies
- Value chain partners

Emerging Category

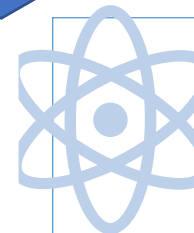
- NGO's
- Civil society
- Data aggregators
- Policy makers
- Proxy advisors

Internal Stakeholders

- Cross-disciplinary teams
- Decision support tool
 - Organization-wide
- Providers & consumers



More diversified, more demanding, higher and wider expectations, varied interests



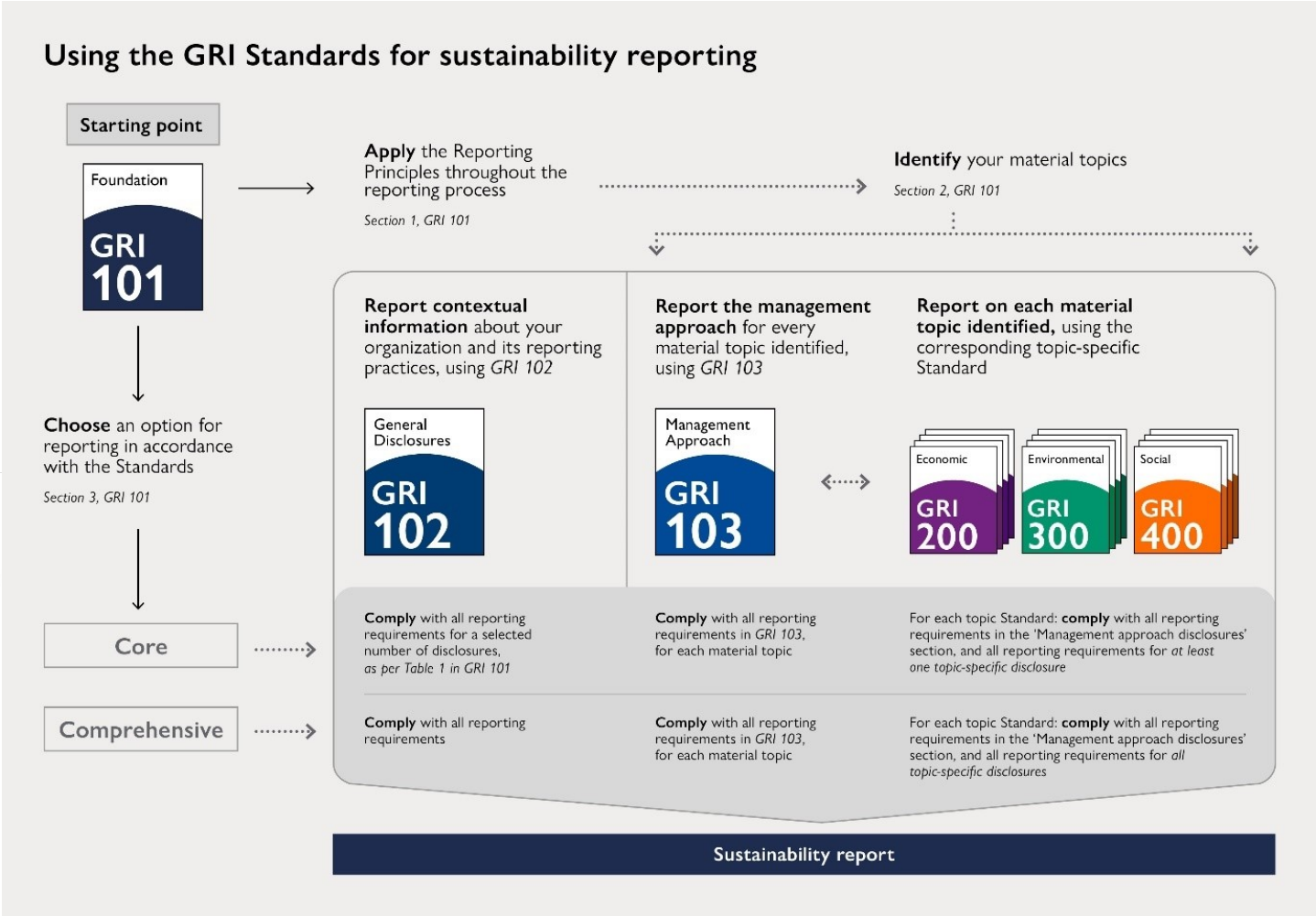
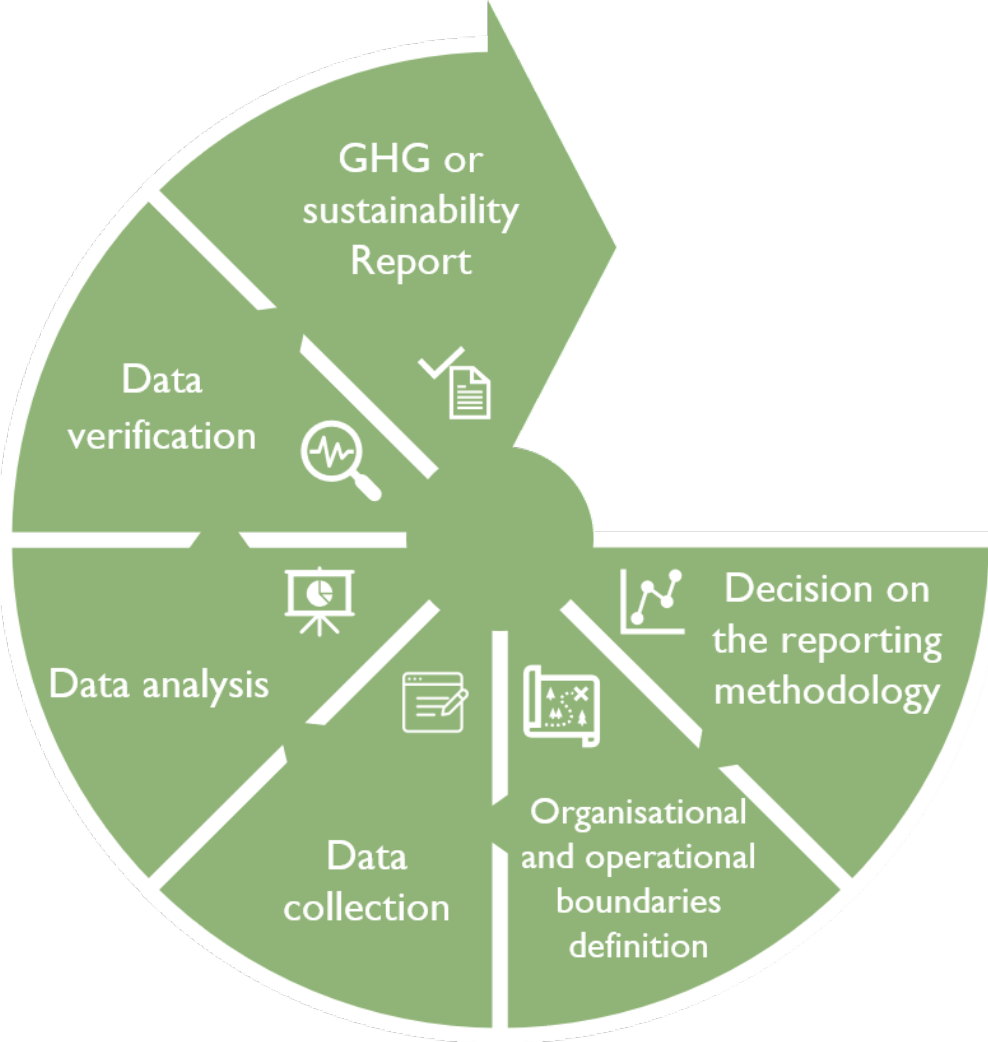
Information released to Multiple parties, Multiple Formats, Multiple Channels

Trends, Attributes & Complexities



Sustainability Reporting framework - illustrative

Sustainability reporting follows an index that specifies each of the standards and disclosures to be included in the report. As required by the identified international standard GRI / UNSDG / SASB / TCFD.

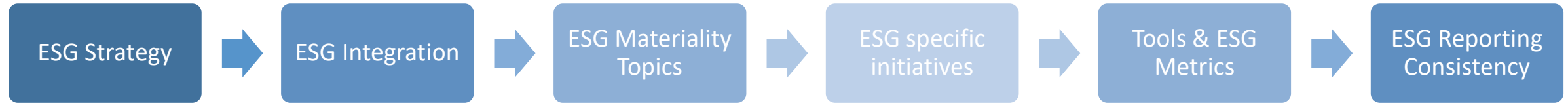


Source: GRI Standards



Internal Audit role in ESG reporting

Internal audit coverage of ESG



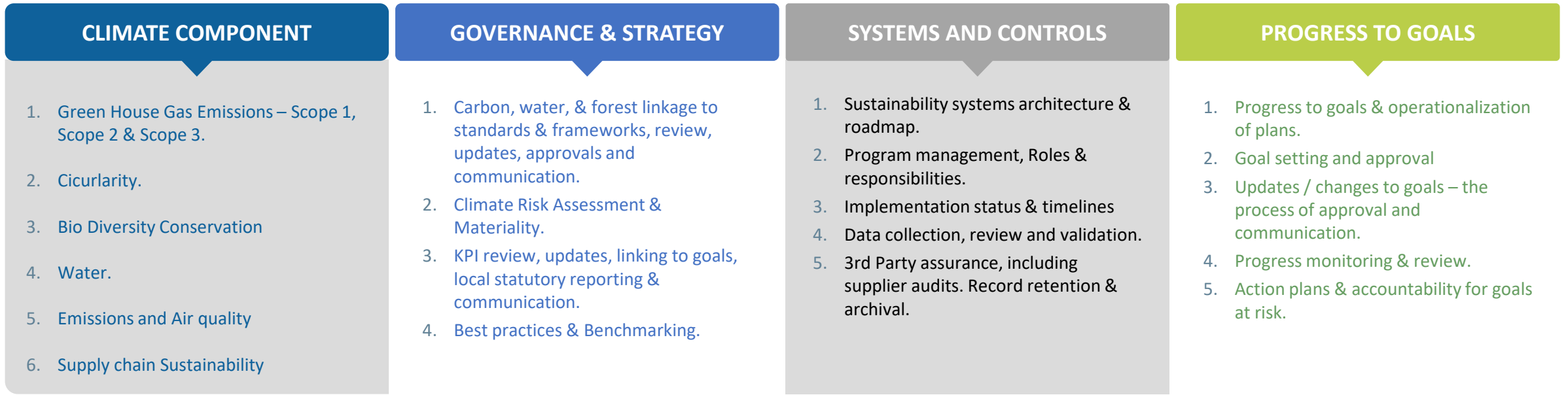
Environment		Social	Governance
Environmental Footprint		Diversity & Inclusion	ESG Governance
Water Footprint		Learning & Development	Ethics and Compliance
Circular Economy		Suppliers ESG Assessment	Whistle- Blower Mechanism
Green Building Certification		Health and well-being	Anti-corruption and Anti-bribery
Emissions and Air quality.		Workers Safety (ISO 45001)	Grievance Redressal
ISO 14001		Human Rights (SA 8000)	
		Customer Relationship	

Materiality Topics – Audit method & Sampling methodology

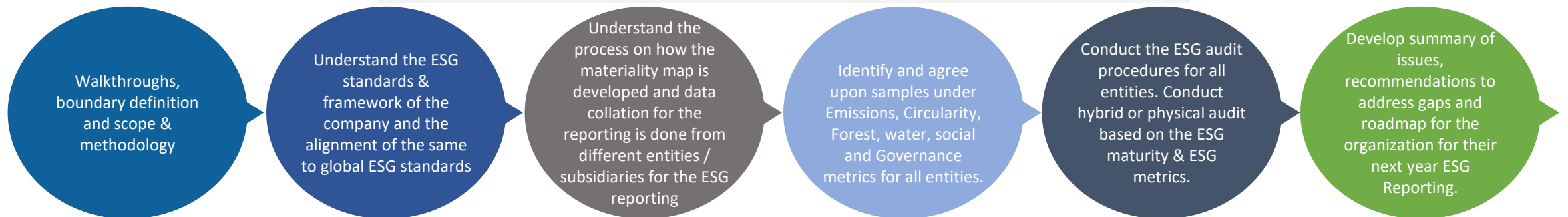
- The above ESG metrics/KPI's are chosen considering the organization's ESG report, under E, S & G Pillar. These are indicative and some more KPI's may be added or excluded.
- The above ESG KPI's which are quantitatively reported in the ESG report, samples are selected specific to the organization and tested for design which will include, Data collation and understanding of data flow architecture, accuracy & completeness check.
- ESG KPI's that are qualitative reported in the ESG report, walkthroughs/interviews are conducted to understand the policy and procedures followed, Initiatives/ implementation strategy, the level of compliance to any specific standards / certification in that category. This applies to all Governance ESG KPI's as well.

ESG Audit – Detailed Approach

ESG Audit to be aligned with respect to sustainability maturity of the organization



ESG Audit Procedures – step by step approach



Some Unique Challenges for Assurance Function

Assurance

Future Focus, Forward looking

Impact Accounting approach

Multi-stakeholder views, decisions, collaboration at work

Data – Unstructured, Qualitative, Narrative, Soft

Disparate data sources both internal & external, de-centralized.

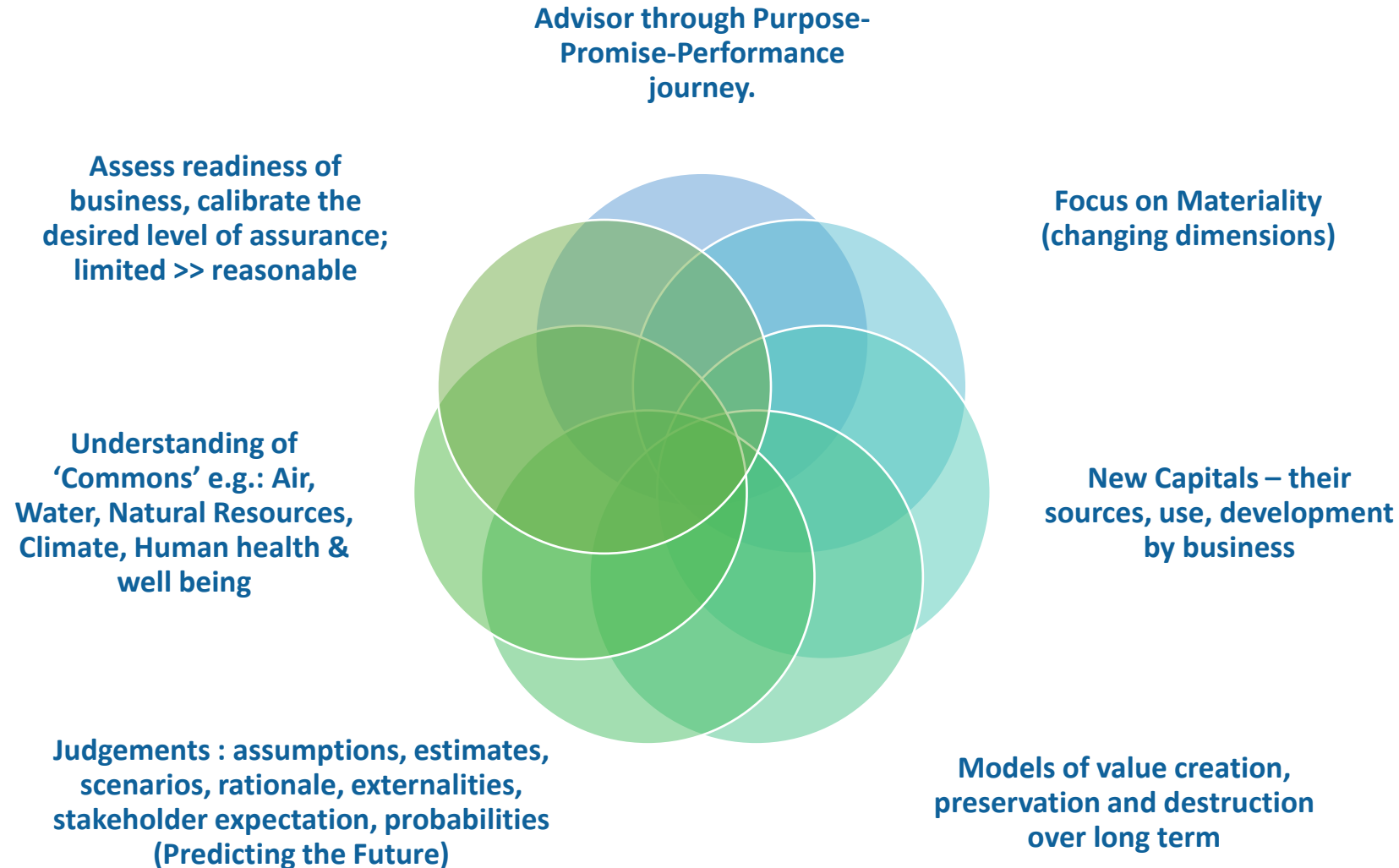
Requirements evolving, systems under development

Issues, Metrics, Targets, Indicators : non monetized, Non-standard

Audit focus on activities, processes, decisions & impact (vs transaction values)

Critical Success Factors for Internal Audit

Levers to adapt, innovate, value add:



Evolving Leading Practices

For the organization and assurance functions:

ICSR – oversight of reporting & disclosure, structures, reporting lines

Review disclosures prior to release, reports prior to issuance

Cross-train talent between functions

Combined Assurance Model

Keep ahead of new regulations

Forward looking statements

Track public filings, NGO activities, Academics, Social Media, Competition, Internal drivers – for LT issues

Second Line audit of High Risk areas with Operational teams

Thank you

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