



Unravelling the ESG Alphabet Soup for Internal Auditors

Ms Jenitha John

Independent Consultant, Member of GRI DPOC Former CAE, 2020/21 Chairman of Global IIA $16^{th}-18^{th}\ May\ 2023$





History

ESG evolution

New Realities

ESG Regulatory Landscape? Where did it start, where are we now?

ESG Value Proposition

What's the value of ESG reporting amidst rebalancing priorities?

New Realities

The Alphabet Soup

Stakeholders, Standards, Frameworks, Ratings & Indices

Demystify

Advisory vs Assurance Role

How, when & why?

Internal Audit's Role

3LM

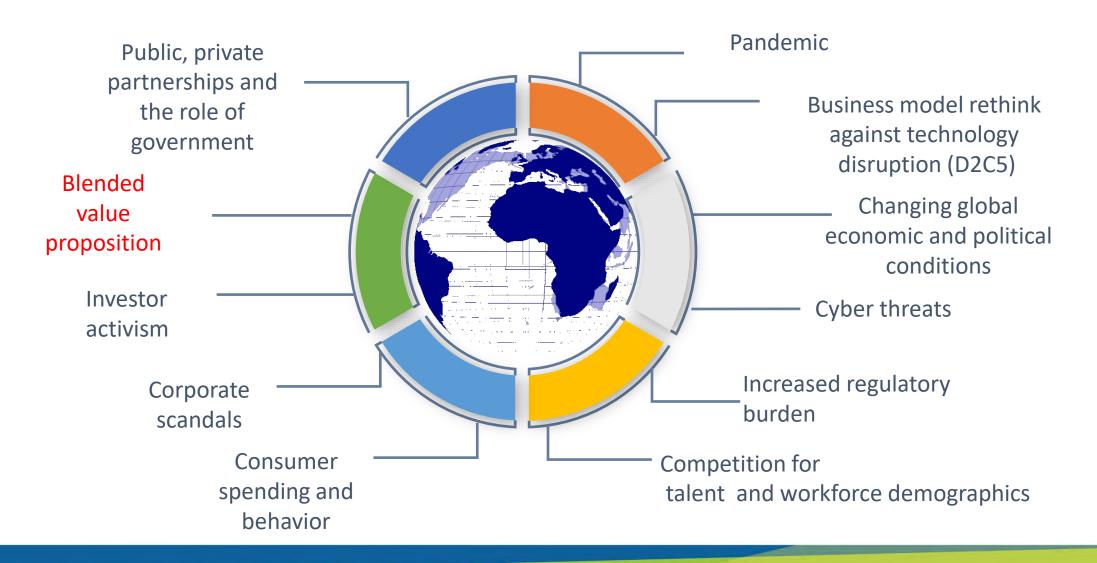
Collaboration

Leveraging the 3LM for ESG



New Realities







What is ESG?



Includes respect for Human Rights, diversity, equality, contribution to society, human capital management, safety, health and wellbeing of



employees and training.



GOVERNANCE

Role of governing bodies, expectations of stakeholders, strategies, risk management, remuneration philosophy, regulatory framework, technology & information governance, transparency, supervision and reporting, ethics and integrity, ethics and tax affairs.



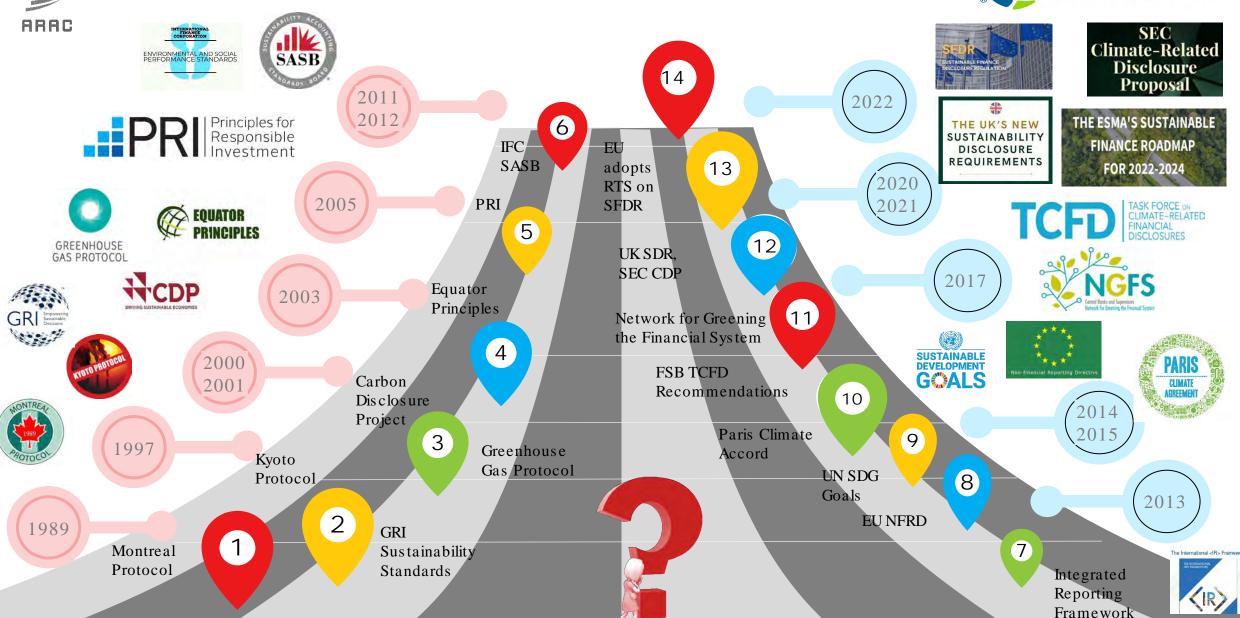
Considers aspects such as emissions, contamination, energy & water efficiency, biodiversity, carbon emissions, circular economy and waste management, and climate change.





Evolution of ESG Regulations/Guidance







ESG Value Proposition



Better Risk Management

Increase in Revenue Growth

Tangible Operational Efficiencies

Improved Regulatory Adherence

Uplift in Productivity

Capital & Asset Optimization

Efficient use of resources in risk identification and mitigation

Attract customers with more sustainable products.

Achieve better access to resources through stronger community and relations

Lower energy consumption Reduce water intake Human Resource efficiencies

Achieve greater strategic freedom by easing of regulatory pressure Earn subsidies and government support

Human Capital attraction and retention of quality individuals. Sense of purpose results in increased staff morale. Job Satisfaction.

Enhances investment returns by targeted capital allocation to more promising and sustainable opportunities.

Attractiveness to funders.



Alphabet Soup Categories

1. STANDARDS

ESG Standards dictate what organisations must report. Examples include Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB). Introduced in 1997, GRI is the most widely used standard to determine how an organisation impacts the world.

3. RATINGS

These refer to agencies that collate information through various methodologies to gather ESG data. Sustainalytics, is one, that aims to "provide the insights required for investors and companies to make more informed decisions that lead to a more just and sustainable global economy".





2. FRAMEWORKS

Serves as guidelines that provide principles and guidance for how information should be disclosed. Carbon Disclosure Standards Board (CDSB), International Integrated Reporting Council (IIRC), Carbon Disclosure Project (CDP) and Task Force on Climate-related Financial Disclosures (TCFD) comprise some of the most popular frameworks.

4. INDICES

Indices allow investors to track the performance of a company through their ESG reports. Dow Jones Sustainability Indices (DJSJ), FTSE4GOOD and Bloomberg all provide opportunities to be listed for organisations that demonstrate continuous improvements in a variety of economic, environmental and social criteria.



ESG Frameworks versus Standards



Before deciding what ESG framework and standards to use, it's important you understand the difference between these two terms:

1. ESG framework:

- 1. Broad in its scope, giving a set of principles to guide and shape understanding of ESG.
- 2. Will guide the direction of ESG reporting
- 3. Will not provide a methodology for the collection of information, data, or the reporting itself.
- 4. Frameworks are useful to use alongside ESG standards, or when a well-defined standard does not exist.

2. ESG standard:

- 1. Standards are specific in their focus.
- 2. They contain detailed criteria explaining what needs to be reported
- 3. Dictate how information and data are collected, and how a report needs to be produced (what topics and business areas to include).
- 4. Standards make frameworks more actionable by ensuring comparable, consistent, and reliable disclosure.



Alphabet Soup - Examples





www.globalreporting.org

PURPOSE: Help organizations report on economic, environmental & social impacts considering

a wide range of interests

WHERE TO Corporate REPORT: sustainability

FOCUS AREAS: FNVIRONMENTAL .

SOCIAL . GOVERNANCE •

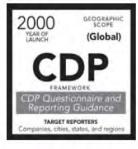
TO REPORT:



- INFORMATION General disclosures: Organization's profile, strategy, ethics and integrity. governance, stakeholder engagement practices, and reporting process.
 - · Economic: Performance, market presence, indirect economic impacts. procurement practices, anti-corruption and anti-competitive behavior.
 - Environment: Materials, energy. water and effluents, biodiversity, emissions, effluents and waste. environmental compliance, and supplier environmental assessment.
 - · Social: Employment labor/management relations, occupational health and safety, training and education, diversity and equal opportunity, non-discrimination, freedom of association and collective bargaining, child labor, etc.

PRESCRIPTIVE OR FLEXIBLE: Prescriptive

SECTOR FOCUS: Agnostic (* some sector-specific guidance)



www.cdp.net

Capture environmental performance data related to GHG emissions, water, forests, and supply chain

Investors, buyers, other stakeholders

CDF's online reporting platform

Prescriptive

Specific



- Climate change: Risks and low-carbon opportunities.
- Forest: How organizations produce, source, and use major soft commodities associated with detrimental impacts on natural resources.
- Water security: Company's management, governance, use, and stewardship of water resources.
- Supply chain: Management of climate change, forest and water security.



www.integratedreporting.org

Establish Guiding Principles and Content Elements allowing companies to produce "integrated reports"

Investors Stand-alone integrated report



- Organizational overview and external environment
- Governance structure: How it supports ability to create value in the short, medium & long term.
- Business model of the organization.
- Risks and opportunities that affect the ability to create value over the short. medium & long term, how those issues are dealt with.
- · Strategy and resource allocation.
- Performance: Extent to which objectives were achieved for the period; outcomes and their effect on capital.
- Outlook: Challenges and uncertainties likely to be encountered; implications for the business model and future performance.
- · Basis of presentation: How the organization determines what to include in its integrated report.

Flexible Agnostic



www.sasb.org

Facilitate disclosure of material sustainability information in SEC filings.

Investors SEC Form 10-K, 20-F filings



- Environment: Corporate impacts on the environment
- Social capital: Human rights, protection of vulnerable groups, local economic development, access to and quality of products. and services, affordability, responsible marketing, and customer privacy.
- . Human capital: issues affecting employee productivity (e.g., employee engagement, diversity, and incentives and compensation).
- Business model and innovation: impact of sustainability issues on innovation and business models, and the integration of these issues in a company's valuecreation process.
- · Leadership and governance: Management of issues inherent to the business model or common practice in the industry that are in potential conflict with the interests of broader stakeholder groups.

Prescriptive • Specific



www.fsb-tcfd.org

Encourage firms to align climaterelated risk disclosures with investors' needs.

Investors, lenders, insurers Annual financial filings (e.g.,

annual report)



- Governance: Governance around climate-related risks and opportunities.
- Strategy: The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material
- Risk management: How the organization identifies, assesses, and manages climate-related risks.
- Metrics and targets: The metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Agnostic (* some sector-specific guidance

Source: Archer Paper on ESG



Shift in the Sustainability Reporting Ecosystem



JULY 2020

Sustainability
Accounting
Standards Board
(SASB) and the
Global Reporting
Initiative (GRI)
announced a
collaborative

workplan.

Five global organisations, CDP, CDSB, GRI, IIRC and SASB – announced a shared vision and intent to collaborate on comprehensive corporate reporting.

SEPTEMBER 2020 JUNE 2021

officially
announces their
merger to form
the Value
Reporting
Foundation (VRF)

IFRS announces the International Sustainability Standards Board (ISSB) which is expected to develop a global standard of sustainability disclosures for Consolidate VRF and CDSB by June 2022.

NOVEMBER 2021 MARCH 2022 The ISSB published an exposure draft 'Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates'. Deadline for comments - 9 August 2023.

ISSB publishes two exposure drafts for consultation:

IFRS S1: General Requirements
IFRS S2: Climate-related

Disclosures

IFRS and GRI announced a collaboration agreement to build a comprehensive global baseline for sustainability-related disclosures.

MAY 2023



Catalyst for Internal Auditors Assurance requirements over ESG reporting





Internal Audit Assurance solution



Assurance vs Advisory



ARAC Advisory

Offer advice on Collation of Materiality Attributes - framework used to define material topics to create a comprehensive universe of material ESG indicators and processes involved in prioritising metrics for disclosure

Assurance

Testing the integration and alignment of SDGs into the organisation's reporting processes to help fulfil organisational goals and the UN global goals of sustainability

Advisory

Proposes mediums to be used for aggregation of sustainability performance data and activities from activities dispersed by department and geographically

Advisory & Assurance

Design of Performance Management frameworks to cater for ESG – testing the accuracy, transparency, and performance monitoring system to generate reliable data for sustainability

Assurance Veracity of Stakeholder engagement & needs - Assessing the completeness & balanced reporting

Assurance

Compliance with standards and the impact on enhancing the credibility of sustainability reports diversity in standards and methodology of assurance providers.

Advisory

Assurance

Competency and knowledge base of assurance stakeholders in the ESG value chain



Key ESG Assurance Components





Adequacy of materiality assessment for ESG information reported, considering intended users

Adequacy of process, risk assessments and controls on ESG matters

Control Environment

- Tone at the top on ESG matters
- Control activities in place for developing, preparing key information for reporting
- Consistency in measuring methodology and data comparability

ESG Metrics

- Adequacy of process to select core indicators (relevancy) and data gathering & monitoring mechanisms (completeness, accuracy, reliability of data)
- Creation and adoption of common taxonomy on **ESG** indicators

Governance

- Management oversight mechanism, adequacy of role and responsibility assignment with regards to ESG information
- Performance metrics on scorecards of accountable employees

Reporting

- Consistency in non-financial & financial data reporting (No conflicting information)
- Adherence to ESG reporting standards (GRI, SASB, TCFD, SDGs, IIRC)
- Assess integrity of source systems used to collate ESG data and data aggregation



Generic Assurance Framework Considerations UAE Internal Auditors Association JOIN, LEARN & SHARE



AF	RAC							
		Effluents and waste	Emissions	Water	Land use	Biodiversity	Energy	Materials
	Environment		<u></u>			_	- (a)	
		Safe disposal and focus on recycling, reuse or recovery as energy	Emissions reduction and carbon offsetting	Water efficiency and sustainable use in farming and production	Sustainable land management and protection of ecosystem	Protection of biodiversity and ecosystems within operational range	Energy efficiency, use of renewables and coproduction (biogas)	Responsibly sourced materials
	Social	Labor practices	Occupational health and safety	Human rights	Diversity and equal opportunity	Health and wellness	Product safety	Corruption
	000	Zero tolerance for child-labor or slave-labor equivalents	Safe working environments	Respect for rights like freedom of speech and assembly	Equal rights and opportunities for all employees	Promoting and enabling healthy lifestyles	Ensuring all products and services are safe for consumers	Strong code of ethics supported by employee training
		Competitive behavior	Responsible employment	Indirect economic impacts	Procurement practices	Fair trade	Governance and transparency	Тах
	Governance		_	_ Ø			─ �	
	⊚ ⊚⊗	Nonpredatory pricing	Local hiring at reasonable wages	Supplier financing; infrastructure	Local suppliers and sourcing	Fair pricing for local suppliers	Responsible engagement in public policy	Compliance with all legal tax obligations

Source: GRI, G4 Sustainability Reporting Guidelines

investment



Collaboration - 3LM



governance and operations?

Charles and a party			
GOVERNING BODY	MANAGEMENT	INTERNAL AUDIT	
Consider a multi-capital approach to capital flows Undertake stakeholder engagement to understand sustainability impacts and the link with the business model Consider stakeholder diversity in any stakeholder engagement activities Ensure the governing body oversees risk management Ensure the internal audit function is well-resourced (ultimately may reduce costs of external assurance)	Undertake a materiality assessment that informs enterprise risk management processes Bring sustainability and finance functions together to define integrated risk management strategy Establish ESG data quality and reporting alignment with financial reporting cycles	 Monitor reliability of ESG data collection and internal control processes Build knowledge of sustainability and ESG impact of the company Ensure regular interactions between internal auditors and 1st, 2nd line roles 	
To what extent is the governing body overseeing ESG integration? How is the governing body currently engaging with the other functions on material ESG issues? And what could be improved? How is information on risks provided to the governing body? What are the current obstacles to integrating ESG risks? What role is corporate culture playing in the organization? Does it include ESG issues to achieve long-term sustainability?	How can management capture and measure the impact of the operations of a company on ESG issues? How can management ensure that the ESG data is complete and accurate? How is operational vs strategic management assessing and prioritizing ESG risks? What practices and policies ensure that first- and secondline management roles have a holistic approach to ESG risk management?	How can internal audit work with external auditors to provide assurance on the reliability and consistency of information? What role can internal audit play in helping the organization prepare for non-financial disclosures by advising and providing assurance on structures, systems and processes for decision-making and reporting? What controls ensure that sustainability data is collected, analyzed and reported in a way that is useful to decision-makers? What processes and policies are adopted to measure, monitor and report on progress towards company commitments? How can internal audit advocate for an organizational shift in mindset	
	 approach to capital flows Undertake stakeholder engagement to understand sustainability impacts and the link with the business model Consider stakeholder diversity in any stakeholder engagement activities Ensure the governing body oversees risk management Ensure the internal audit function is well-resourced (ultimately may reduce costs of external assurance) To what extent is the governing body overseeing ESG integration? How is the governing body currently engaging with the other functions on material ESG issues? And what could be improved? How is information on risks provided to the governing body? What are the current obstacles to integrating ESG risks? What role is corporate culture playing in the organization? Does it include ESG issues to achieve long- 	 approach to capital flows Undertake stakeholder engagement to understand sustainability impacts and the link with the business model Consider stakeholder diversity in any stakeholder engagement activities Ensure the governing body oversees risk management Ensure the internal audit function is well-resourced (ultimately may reduce costs of external assurance) To what extent is the governing body overseeing ESG integration? How is the governing body currently engaging with the other functions on material ESG issues? And what could be improved? How is information on risks provided to the governing body? What are the current obstacles to integrating ESG issues to achieve longterm sustainability? assessment that informs enterprise risk management processes Bring sustainability and finance functions together to define integrated risk management strategy Establish ESG data quality and reporting alignment with financial reporting cycles How can management capture and measure the impact of the operations of a company on ESG issues? How can management ensure that the ESG data is complete and accurate? How can management ensure that the ESG data is complete and accurate? How is operational vs strategic management assessing and prioritizing ESG risks? What practices and policies ensure that first- and second-line management roles have a holistic approach to ESG risk 	

ILLUSTRATIVE EXAMPLE: ASSURANCE PROVIDERS BUILDING TO COMBINED ASSURANCE

VALUE FOR COMPANY

Increased investor interest

Oualified human resource

Employee satisfaction and loyalty

Competitive strength

Grand TSKB family

VALUE FOR SOCIETY

KEY PERFORMANCE INDICATORS (2016)

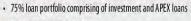


- Diversity of funds
- Accessing and disbursing medium to long term finance
- · Access to funds with sovereign guarantee
- · Strong capital

- Increase in funds secured
 Increasing loan volume
 Financial sustainability
 - EXTERNAL & INTERNAL

AUDIT

- · Contribution to sustainable development
- Reliable solution provider in the mind-sets of stakeholders
- Providing clients with structured products that meet the needs
- · Strong share performance



- Cost to income ratio of 15%
- 17.6 % return on equity



57%
RATE OF SUSTAINABILITY
THEMED LOANS IN LOAN
PORTFOLIO



- · Investment in employees
- · Equal opportunity
- Social benefits
- · Employee clubs

- INTERNAL AUDIT
- · Realizing projects that create value for the society
- · Contribution to social equality
- · Highly competent human resource
- · Contribution to employment

- Management: 56% female, 44% male
- . 55.9 average hours of training per employee
- 95% participation in employee satisfaction survey



55% FEMALE EMPLOYEE



- Integration of environmental and social due diligence to lending process
- · Zero-carbon banking
- · Concentration in sustainability theme loans

- Responsible banking understanding that meets the expectations of fund providers and stakeholders
- · Increased reputation among stakeholders
- Management and mitigation of environmental and social risks

- Supporting low-carbon and environment friendly economic growth
- · Raising awareness in the business world
- Supporting renewable energy, energy efficiency and resource efficiency practices in Turkey
- 57% of loan portfolio consists of sustainability themed-funds
- Contribution to the reduction of 13 million tons CO2e emissions
- Offsetting 15.000 tons carbon footprints of stakeholders in the past 3 years
- . 100% green energy use and carbon neutral bank
- Quoted on BIST Sustainability Index since 2015





- 3 discipline appraisal and analysis strength
 (Engineering, Financial Analysis, Economic Research)
- Sectoral Expertise
- Ability to develop themes and products based on need
- · Strength of subsidiaries with diversified expertise

- Innovative products and services
- Low level of non-performing loans
- · Income differentiation

INTERNAL AUDIT

EXTERNAL

EXPERTS

- Solution oriented banking services
- Supplying clients with integrated solutions through subsidiaries
- Sector studies with wide perspective

- · First green bond issue in Turkey and CEEMEA region
- Published 192 sectoral studies/analysis in 2016
- First bank to integrate and model environmental and social due diligence to lending process





- Compact compound in harmony with the corporate culture
- · Information technology infrastructure

- Improving productivity in work processes
- Institutionalization of knowledge

INTERNAL AUDIT

- Answering client needs in a timely and speedy manner
- · Increasing customer satisfaction

- · Efficiency in the processes
- Service building integrated with the subsidiaries
- Healthy, efficient and ergonomic working environment





- Long lasting and effective dialogue with stakeholders
- Social Responsibility projects
- Sharing of experience
- · Membership to and cooperation with initiatives

- · Increased reputation among stakeholders
- · Increasing domestic and international recognition
- Ability to attract qualified human resources
- Increasing internal capacity

INTERNAL AUDIT with 1st & 2nd Line

- · Contribution to highly competent human resources
- Increasing awareness on climate change and sustainability among stakeholders
- Supporting equal opportunity and gender equality in the society.
- Sharing opinion and views with the public authorities on preparation of regulations
- Increasing awareness on sustainability through cevreciyiz.com
- . Supporting art through IKSV Zero Carbon concerts
- · Supporting culture through excavations at antique Patara city





Alphabet Soup Cheat Sheet



CDSB – Climate Disclosure Standards Board: The World Economic Forum's reporting standards-setting body, since absorbed by the ISSB.

CSR – Corporate Social Responsibility: Self regulation adopted by businesses that seeks to align their actions with societal good

CSRD – Corporate Sustainability Reporting Directive: The European Union's principal set of rules governing non-financial companies' ESG disclosures.

CDP – formerly the Carbon Disclosure Project: Charity created to provide carbon reporting framework. Now works in partnership with ISSB.

CRD – The Corporate Reporting Dialogue: A set of eight providers of standards for corporate reporting, including traditional financial reporting bodies and those that address non-financial disclosure, such as those listed above.

GFANZ – Glasgow Finance Alliance for Net Zero: Coalition of major FIs committed to accelerating a carbon-free economy. Created in the run-up to the 2021 COP26 climate summit in Glasgow, Scotland.

GHG – Greenhouse Gases: Carbon dioxide, methane and other nasties whose accumulation in the atmosphere from human activities makes all of this necessary.

GRI – Global Reporting Initiative: United Nations-supported reporting standards body created by Ceres (formerly the Coalition for Environmentally Responsible Economies) and Tellus Institute.

ICGN – International Corporate Governance Network (ICGN): A platform to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide.

IIRC – International Integrated Reporting Committee: A coalition of regulators, investors, companies, accountants, academia, and NGOs aiming to evolve corporate reporting, aligned with the goals of financial stability and sustainable development.

IPCC – International Panel on Climate Change: United Nations body that provides research and suggestions on tackling climate change.

IRSG – International Regulatory Strategy Group: UK-based advisory organisation that examines and recommends financial- and professional-sector regulations.

ISSB – International Sustainability Standards Board: The IFRS Foundation standards-setting body, which is seeking to bring global harmony to the patchwork of reporting standards.



Alphabet Soup Cheat Sheet



NDCs – Nationally Determined Contributions: National plans to reduce carbon emissions, lodged in according to the Paris Agreement.

NFRD – Non-Financial Reporting Directive: The European Union's law that enshrines the principles of sustainability reporting by large companies. The CSRD is an extension of this.

PAIs – Principal Adverse Impact indicators: Set of indicators against which FIs can gauge the sustainability of their investments as set out by the EU Taxonomy.

PACTA – Paris Agreement Capital Transition Assessment: An online tool that enables companies to assess their alignment with the goals of the Paris Agreement.

PRI/ UNPRI – Principles for Responsible Investment: United Nationssupported guidelines for sustainable capital allocation.

RTS – Regulatory Technical Standards: The nuts-and-bolts framework on what is required to comply with European Union laws and regulations.

SASB – Sustainability Accounting Standards Board: A reporting framework and standards-setting organisation.

SBTi – Science-Based Targets initiative: Body created by the CDP, World Resources Institute, the World Wide Fund for Nature and the United Nations Global Compact to chart decarbonisation pathways for companies.

SDG – Sustainable Development Goals: The United Nations' 17 bedrock targets that are a 'blueprint to achieve a better and more sustainable future for all'.

SFDR – Sustainable Finance Disclosure Regulation: The European Union's principal set of rules governing financial institutions' ESG disclosures.

SRI – Socially responsible investing: The act of allocating capital to companies, assets and projects that contribute to sustainability targets.

TCFD – Taskforce on Climate-Related Financial Disclosures: The Financial Stability Board's initiative created to improve and increase reporting of climate-related financial information.

TNFD – Taskforce on Nature-related Financial Disclosures: Risk management and disclosure framework for reporting on nature-related risks.

UNFCCC – United Nations Framework Convention on Climate Change: The UN treaty on tacking climate change. The underpinning of the world's sustainability actions and targets.

VRF – Value Reporting Foundation: Non-profit organisation that created suite of financial value determination resources, including SASB. Now incorporated into ISSB.

ESG – Really!! Do you really want to know?



Mapping of UN SDG Goals to ESG





- Climate change opportunities and risk
- Green House Gas Emissions
- Environmental Policy
- Energy consumption
- Natural Capital use (Land & Water)
- Environmental Management Systems















- Financial Viability and Inclusion
- Stakeholder Engagement
- Health and Safety
- Workforce Training & Development
- Diversity, Equity & Inclusion
- Enterprise Development
- Supply Chain Practices
- Wealth Creation



6 CLEAN WATER AND SANITATION

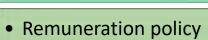












- Gender Equality
- ESG Reporting Standards
- Board Level Oversight ESG
- Governance Policy
- Governance Risk Assessment

































