

Unravelling the ESG Alphabet Soup for Internal Auditors

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1

History

ESG evolution

New Realities

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

2

New
Realities

ESG Value Proposition

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

3

Demystify

The Alphabet Soup

Stakeholders, Standards, Frameworks, Ratings & Indices

4

Internal
Audit's Role

Advisory vs Assurance Role

How, when & why?

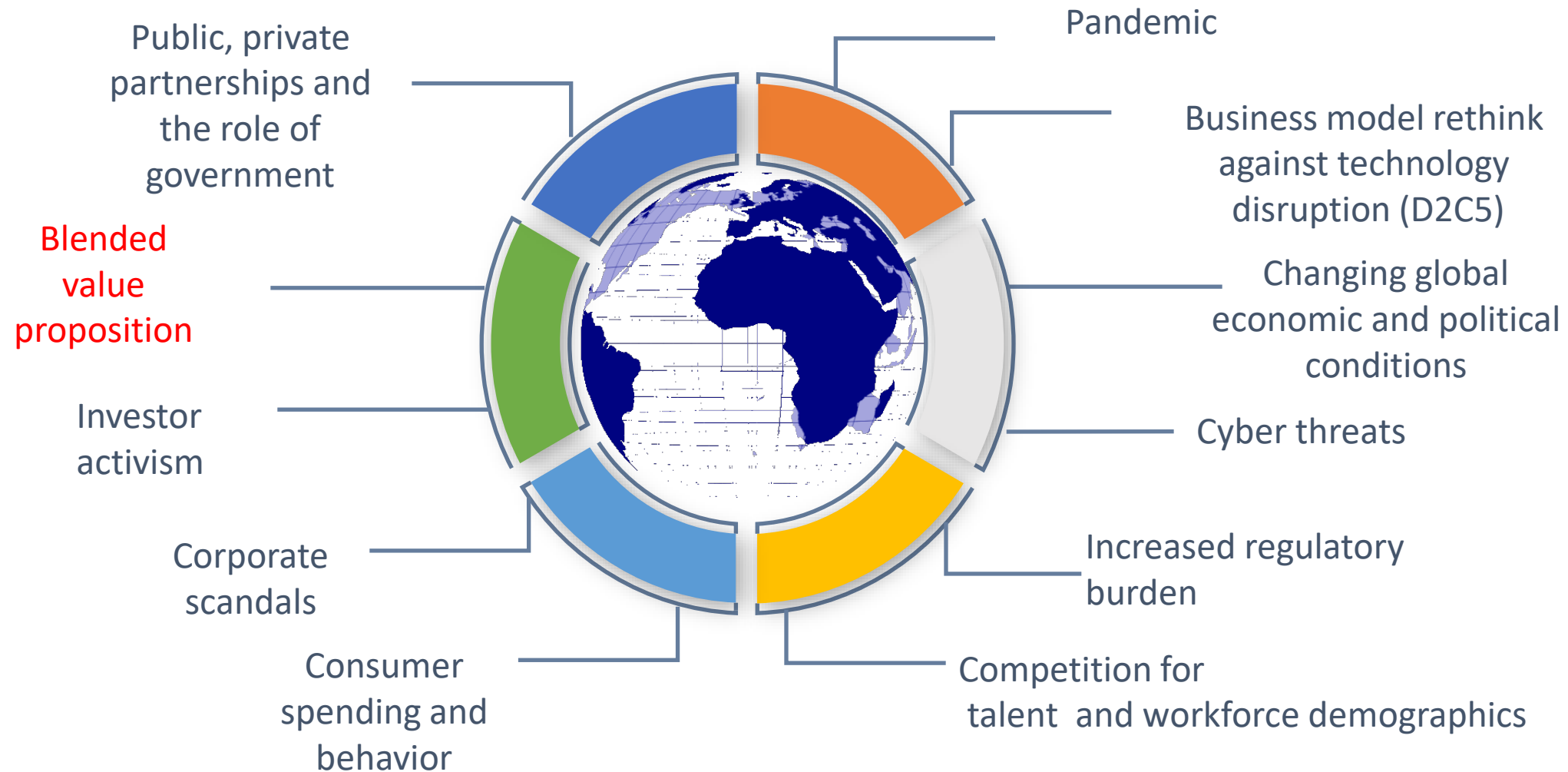
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3LM

Collaboration

Leveraging the 3LM for ESG

New Realities



What is ESG?



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



SOCIAL
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.





2011
2012

2005

2003

2000
2001

1997

1989

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2022

2020
2021

2017

2014
2015

2013

IFC
SASB

EU
adopts
RTS on
SFDR

PRI

UK SDR,
SEC CDP

Equator
Principles

Network for Greening
the Financial System

Carbon
Disclosure
Project

FSB TCFD
Recommendations

Kyoto
Protocol

Greenhouse
Gas Protocol

Paris Climate
Accord

UN SDG
Goals

EU NFRD

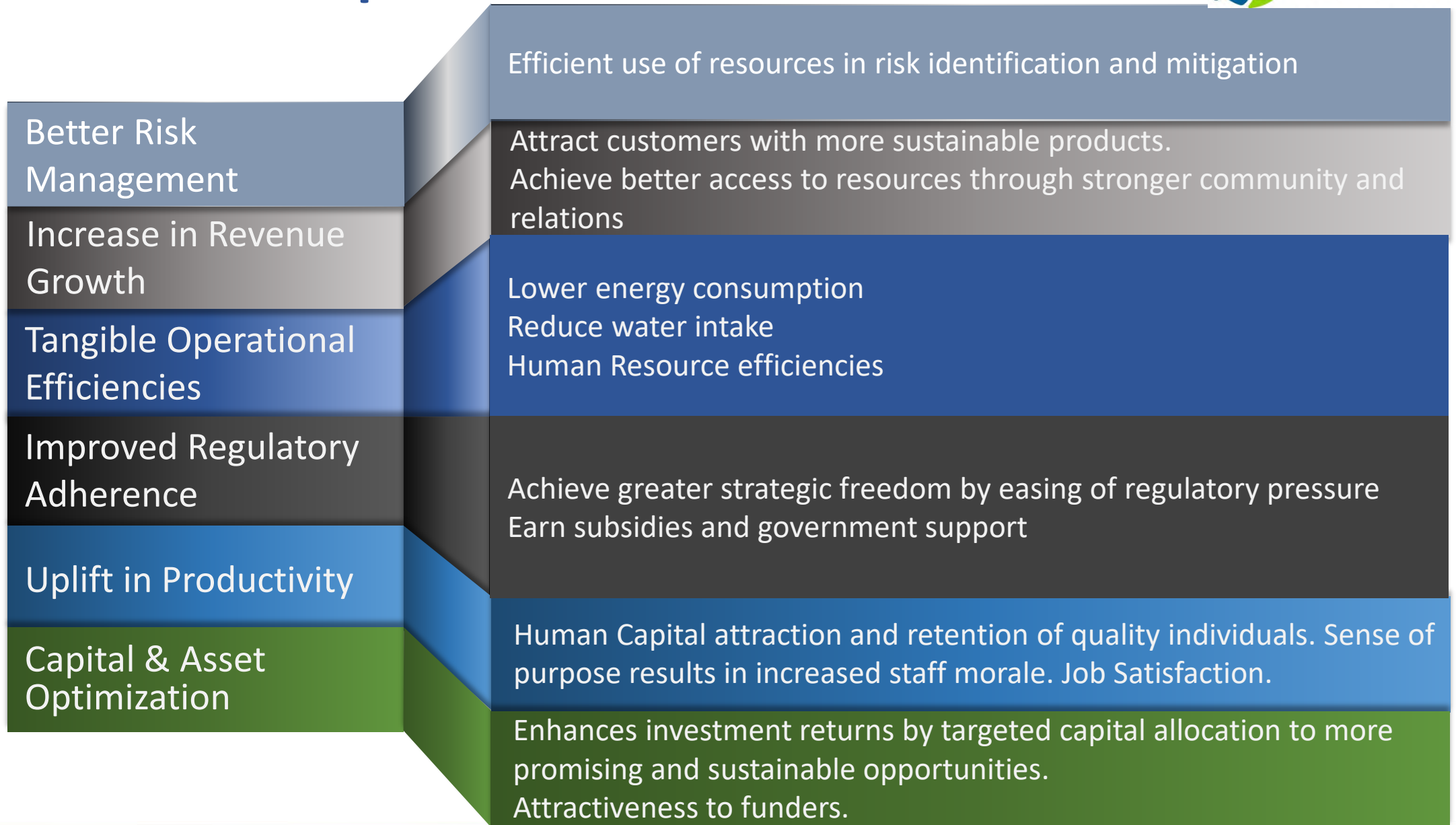
Montreal
Protocol

GRI
Sustainability
Standards

Integrated
Reporting
Framework



ESG Value Proposition



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 (DJSI), 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.



ARAC

Alphabet Soup - Examples



UAE Internal Auditors Association
JOIN, LEARN & SHARE



www.globalreporting.org

PURPOSE: Help organizations report on economic, environmental & social impacts considering a wide range of interests

AUDIENCE: Broad set of stakeholders

WHERE TO REPORT: Corporate sustainability report

FOCUS AREAS:
ENVIRONMENTAL ●
SOCIAL ●
GOVERNANCE ●



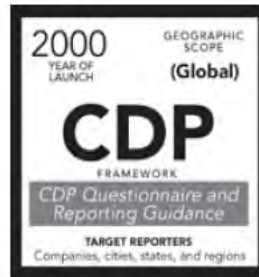
INFORMATION TO REPORT:

- **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

CDP's online reporting platform



- **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.

Prescriptive

Specific



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 value-creation 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 climate-related 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.

Flexible

Agnostic (* some sector-specific guidance)

**JULY
2020**

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

**JUNE
2021**

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.

**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.

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

**SEPTEMBER
2020**

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

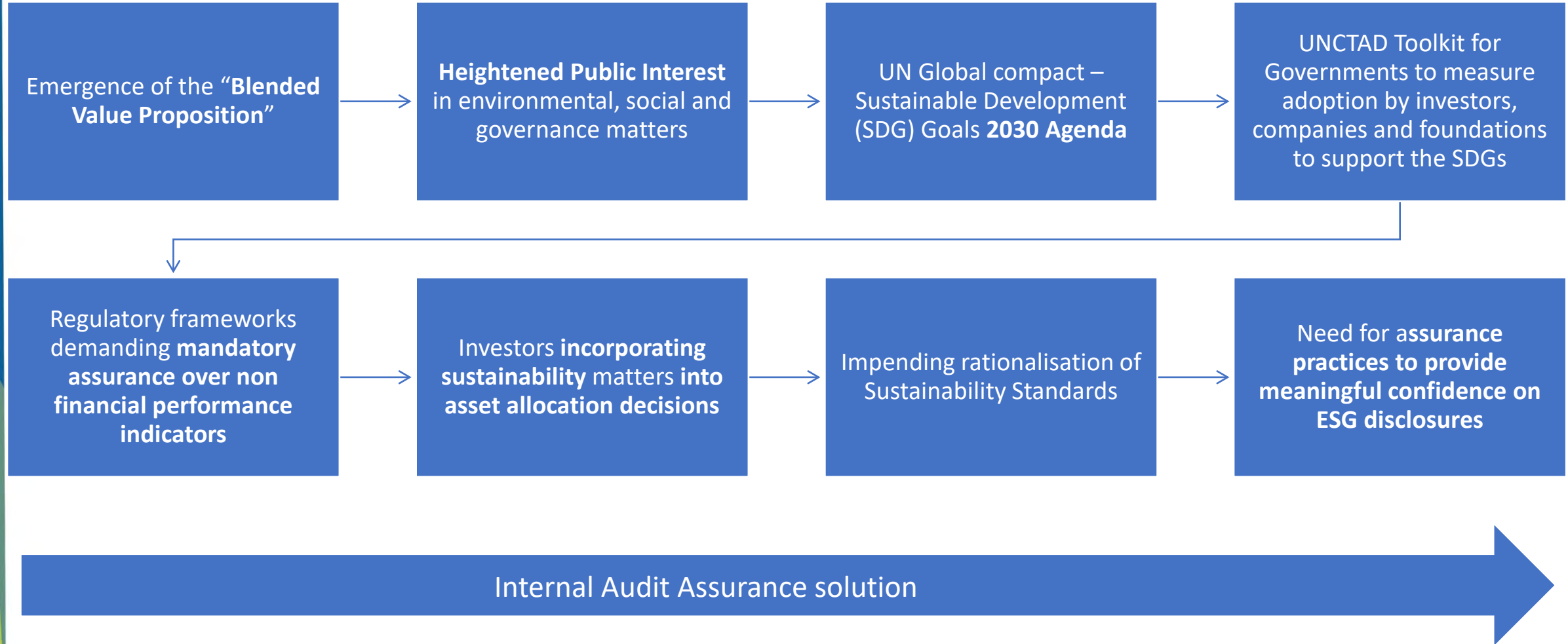
**NOVEMBER
2021**

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.

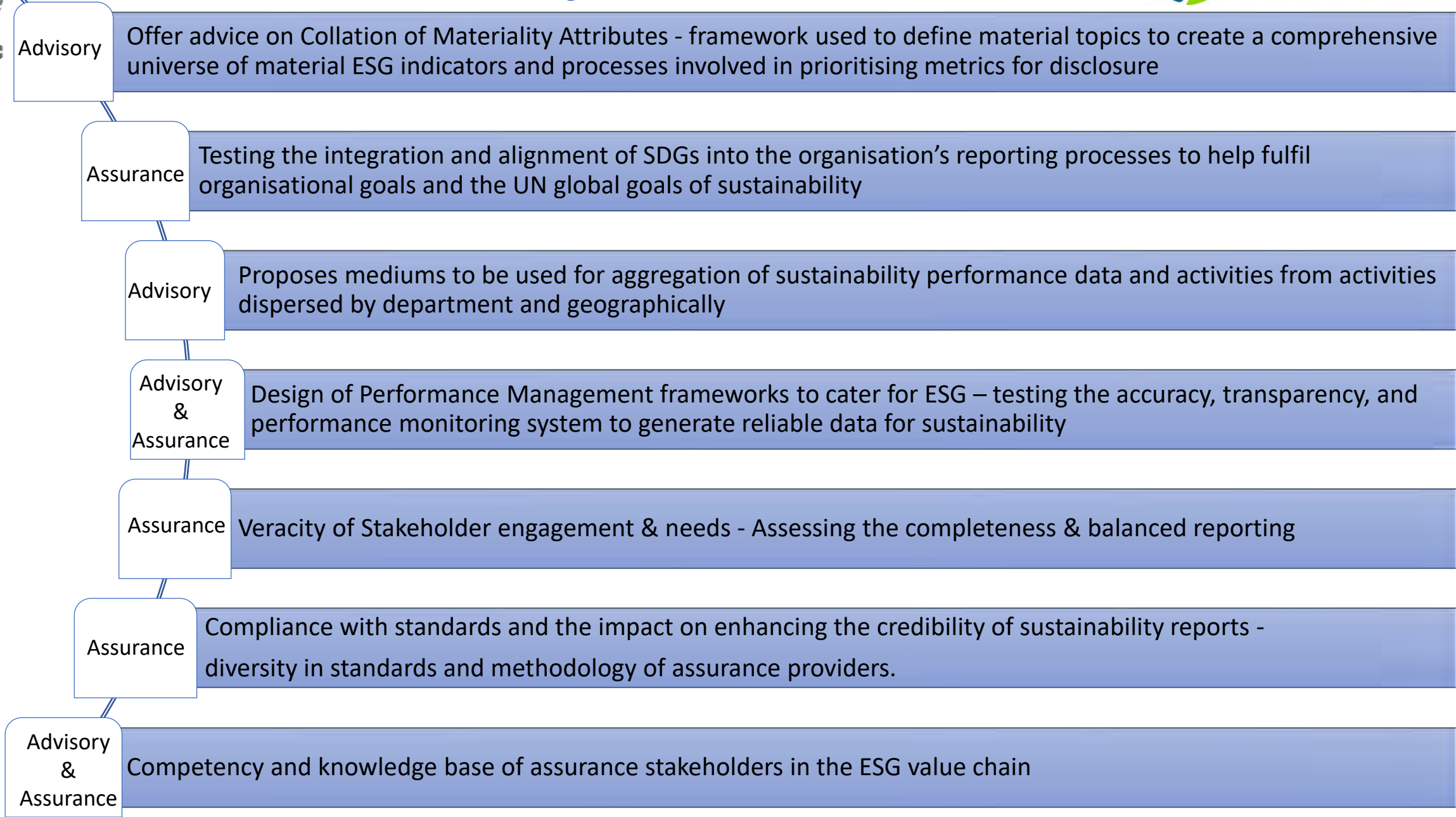
**MAY
2023**

Catalyst for Internal Auditors

Assurance requirements over ESG reporting



Assurance vs Advisory



Key ESG Assurance Components



Risk Assessment

- 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

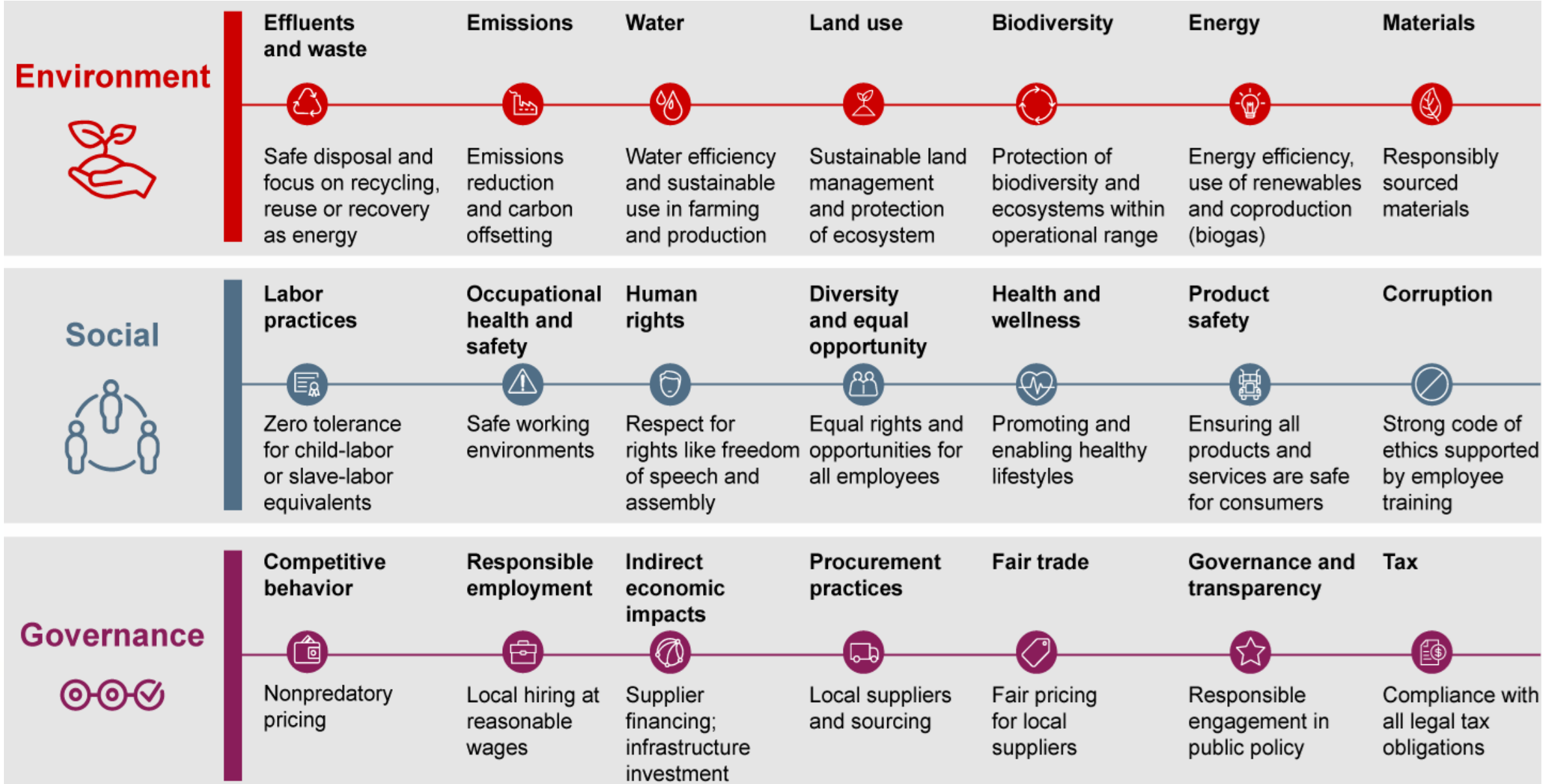
- Management oversight mechanism, adequacy of role and responsibility assignment with regards to ESG information
- Performance metrics on scorecards of accountable employees



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

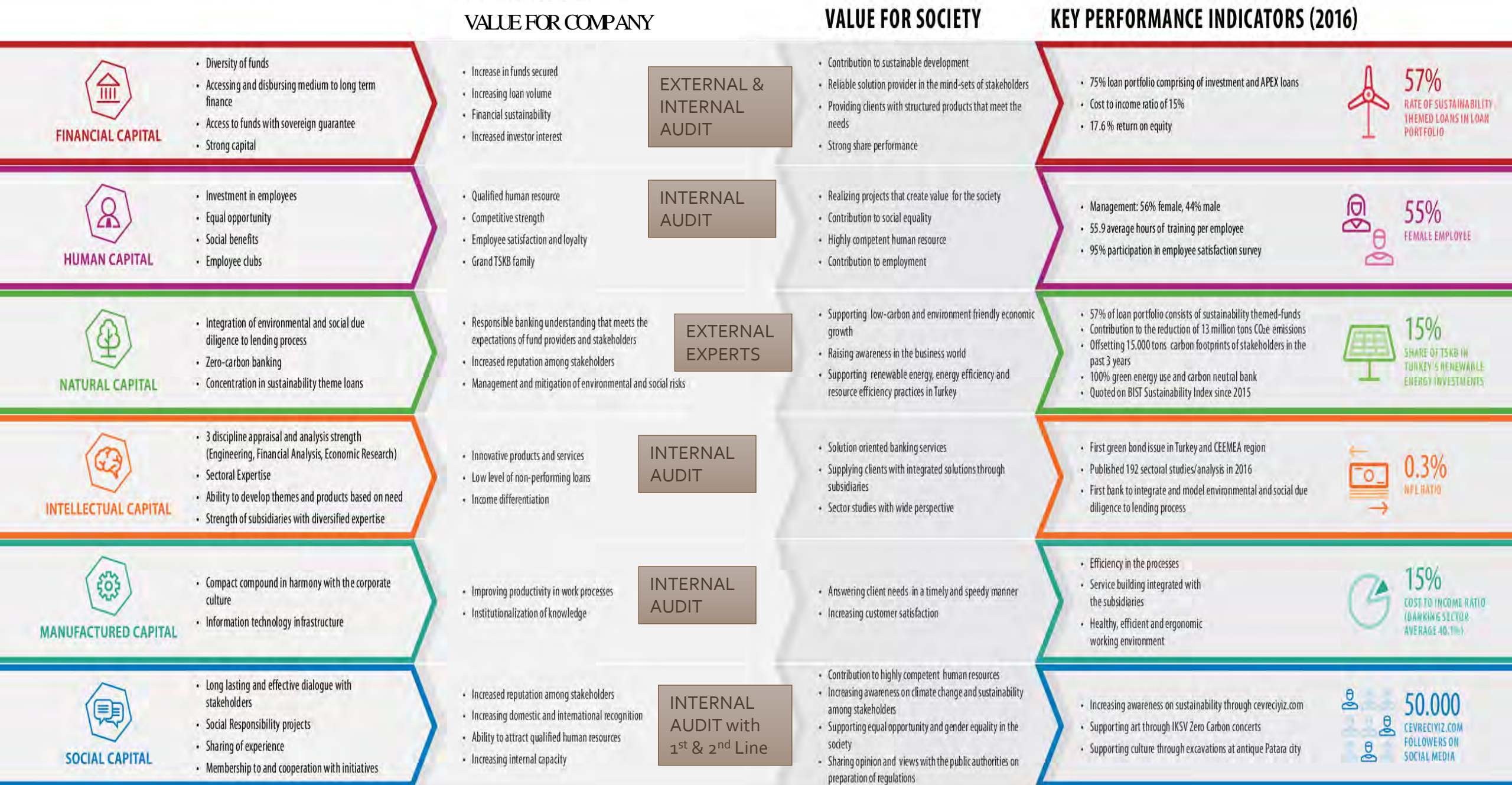
Generic Assurance Framework Considerations



Collaboration – 3LM

	GOVERNING BODY	MANAGEMENT	INTERNAL AUDIT
RECOMMENDATIONS	<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Monitor reliability of ESG data collection and internal control processes Build knowledge of sustainability and ESG impacts of the company Ensure regular interactions between internal auditors and 1st, 2nd line roles
KEY QUESTIONS TO ASSESS LEVEL OF ESG/SUSTAINABILITY INTEGRATION	<p>To what extent is the governing body overseeing ESG integration?</p> <p>How is the governing body currently engaging with the other functions on material ESG issues? And what could be improved?</p> <p>How is information on risks provided to the governing body? What are the current obstacles to integrating ESG risks?</p> <p>What role is corporate culture playing in the organization? Does it include ESG issues to achieve long-term sustainability?</p>	<p>How can management capture and measure the impact of the operations of a company on ESG issues?</p> <p>How can management ensure that the ESG data is complete and accurate?</p> <p>How is operational vs strategic management assessing and prioritizing ESG risks?</p> <p>What practices and policies ensure that first- and second-line management roles have a holistic approach to ESG risk management?</p>	<p>How can internal audit work with external auditors to provide assurance on the reliability and consistency of information?</p> <p>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?</p> <p>What controls ensure that sustainability data is collected, analyzed and reported in a way that is useful to decision-makers?</p> <p>What processes and policies are adopted to measure, monitor and report on progress towards company commitments?</p> <p>How can internal audit advocate for an organizational shift in mindset to integrate sustainability into governance and operations?</p>

ILLUSTRATIVE EXAMPLE: ASSURANCE PROVIDERS BUILDING TO COMBINED ASSURANCE



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.

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 Nations-supported 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 tackling 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





THANK YOU

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