Rising Role of Audit in ESG Reporting

November 2021





Our focus for today

1 ESG overview

2 Role of Internal Audit

3 Maturity Assessment

4 Conclusion



What is ESG?



Prominent ESG Reporting Standards/Frameworks









ESG refers to **Environment, Social and Corporate Governance**, the aspects or parameters that are often used to gauge the extent to which a company's business performance is guided by sustainability objectives.

Why is ESG becoming a mainstream agenda?



The world is changing

Climate risks, regulatory restrictions, changing demographics etc. are presenting new challenges.



Investors demand transparency

Millennial investors are focusing on disclosures related to complex and extended supply chains.



Data and technology

Advanced technologies, Al and social media are changing the course of disclosures and amplifying the ESG messaging.



Growth opportunity

Transition to clean technologies, renewables and reducing consumption is fueling growth & long term value creation.

Why now?

\$1T



expected sustainable bond sales globally in 2021 - S&P

89%



of investors say their firm has changed its voting and/or engagement policy to be more attentive to ESG risks

67



S&P 100 companies who issued supportive statements on racial equality asked to disclose D&I information by NYC comptroller in 2020.

\$2.2T



of global sustainable funds under management as at Q2 2021 according to Morningstar

50%



of investors say lack of comparability of ESG data across companies is an inhibitor to ESG investing

40bp



Benefit in the average cost of capital between the highest and lowest ratings quartile in the MSCI World Index.

53



of companies in 2020 that BlackRock took voting action against for lagging in action and disclosure on ESG issues

ESG integration 🔲



is the most popular investment strategy according to the Global Sustainable Investment Review 2020

A\$57bn

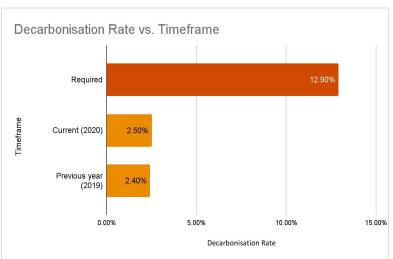


Value of pension fund sued by individual for failing to provide adequate information about climate change risk

Why now?

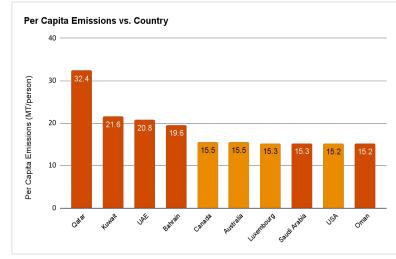
Slow progress on decarbonisation

The annual global rate of decarbonisation should be 12.9% to limit warming to 1.5°C as against 2.5% actual rate achieved for 2020, which is concerning given the record slow down of economic activity due to COVID 19 pandemic



The Middle East challenge

The region has some of the highest per capita CO2 emissions and six out of the top 10 countries with highest per capita emissions are from the Middle East region, primarily attributed to their economic dependence on fossil fuels.



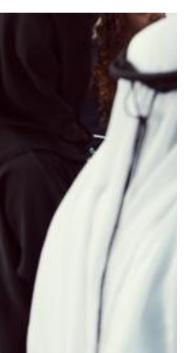
Evolving regulations

UAE's SCA has issued a directive for mandatory sustainability reporting for listed companies. Similar regulations were introduced in Egypt by the FRA for listed companies.

Qatar's SDIR initiative was launched in 2012 for mandatory reporting by oil & gas companies. It is expected to expand across more sectors.

Global regulation accelerating, such as EU focus with EU Directive and EU Taxonomy and SEC also considering ESG disclosure requirements.







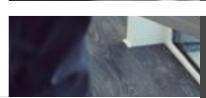




Role of Internal Audit



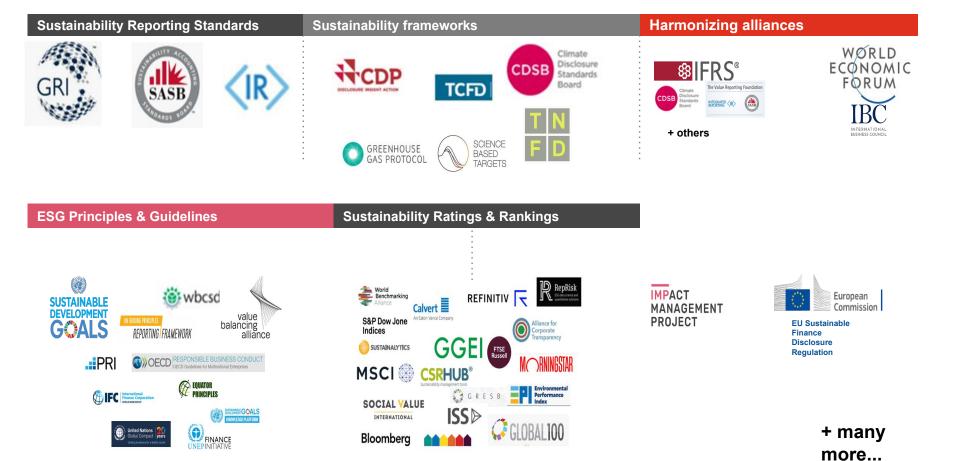




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To do

As demand for investor grade ESG data continues to grow, it's important for IA to be involved



As ESG reporting continues to evolve, IA involvement will be key as the auditors bring specialised knowledge and skill sets that will continue to enhance the overall quality and management's comfort over key non-financial data.

Determining internal audit's role in ESG

Internal Audit (IA) can provide comfort over ESG in various ways, and where IA should focus their activities as it relates to ESG is often driven from where the company is with their ESG maturity.

Company's Current ESG State

Company is early in their ESG journey (no ESG reporting)

First time reporting and

assurance

Company issues annual Sustainability Report and the Sustainability Report is audited



Potential IA Focus Areas Limited role for Internal Audit team.

ESG Maturity Assessment

An Internal Audit review focused on the metrics that will be included for the upcoming Assurance engagement.

ESG Maturity Assessment

Consider performing an Internal Audit review focused on any new metrics that the company would like to include in future reports

Data quality reviews, controls assessments & report tie out

DwC

Key focus areas of Internal Audit in ESG reporting

Internal audit can support in assessing the design and effectiveness of internal controls over the ESG program, linking ESG risks to enterprise risks, and verifying the completeness and accuracy of data used in ESG reporting and disclosures.

Adoption of generally accepted ESG standards drives alignment across the organization

Ratings from 3rd parties (i.e., MSCI) use reported ESG data

Investors rely on metrics as indicators of long-term risk-adjusted returns

Formal processes and controls ensure reliable ESG data

Misstatements pose financial and reputational risks











Policies & procedures

Assess reporting criteria, metric definitions, metric processes and procedural guidelines. Assess 3rd party contractual requirements with ESG and internal policies.

Data management

Assess processes and tools related to data collection, quality, access and organization - focusing on completeness and accuracy.

Calculations & estimations

Assess processes, inputs and assumptions used to calculate a metric, including estimation methodologies.

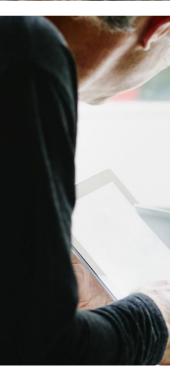
Control design & review

Assess internal controls around the data collection, calculation, and reporting of the ESG metric, including management review and IT systems.

Consolidation & disclosure

Assess the tools and processes used to consolidate all metrics in preparation for external disclosure.







Assessing the ESG Maturity







ESG reporting maturity levels

Depending on where the organisations are in their ESG journey, the maturity of their ESG reporting may differ. Organisations that are more mature in their ESG reporting have found alignment between ESG strategy, purpose and value creation by embedding sustainability throughout their reporting function and by understanding the tradeoffs across their commercial business. Various levels of overall maturity for ESG reporting programs are depicted below:

Level of ambition

Complying*

- · Regulatory compliance.
- Mitigating reputational risk.

Emerging

 ESG reporting is used internally in the business to monitor, measure and manage risks to protect value.

Leveraging

 ESG reporting is integrated into tools and reports used for decision making when managing risks and opportunities.

Leading

- Technology-enabled ESG reporting provides frequent, robust data for real-time decision making.
- Alignment between ESG reporting and corporate value creation.
- Building trust with stakeholders through relevant, transparent and trustworthy reporting.

Baseline reporting strategy

Leading reporting strategy

Increasing maturity of sustainability reporting

*Internal Audit functions are typically involved in the Risk management stage

PwC 1.

Sustainability reporting current state maturity assessment illustrative example

Sustainability Reporting Dimensions

Strategic framework

Narrative, metrics & content

Optimised processes

Data collection, consolidation, disclosure

Risk & controls

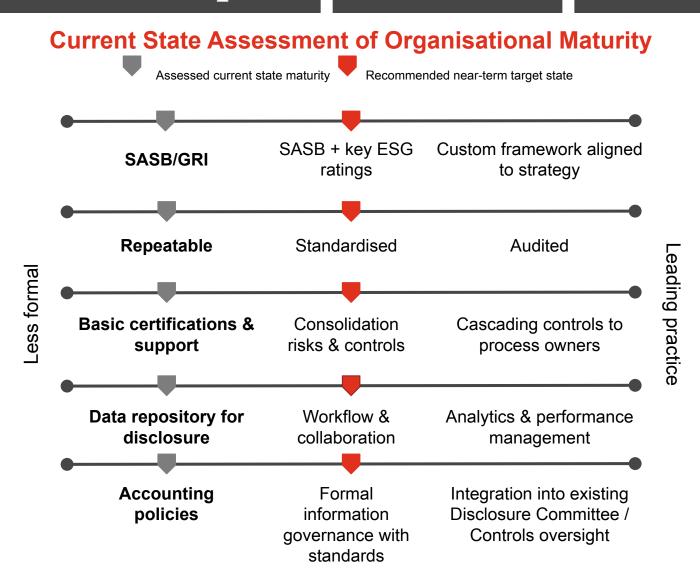
Risk assessment and control design

Digital platform

Content, collaboration & insight

Robust governance

Operating model, standards and policies



Third-party Assurance of ESG Metrics

Overview of ESG Assurance

Assurance over ESG reporting is typically provided in accordance with internationally recognised assurance standards such as ISAE 3000 and AICPA standards.

Reporting standards, frameworks and quidelines (non-exhaustive)

Examples of

metrics typically

assured (non-

exhaustive)













Environmental



- GHG emissions: scope 1, 2 and 3 GHG
- **Energy management:** total energy consumed / % grid electricity
- Water management: total water withdrawn / consumed
- Waste management: amount of (hazardous) waste generated
- **Environmental violations**

emissions



Governance



- **Diversity & inclusion:** representation by gender/ ethnicity
- 2. **Health & safety:** lost-time injury and illness rate / safety incidents
- Community involvement: employee volunteer hours / money donated/number of jobs created
- Product quality & safety: number of recalls issued, social responsibility audits of direct suppliers



- Existence of whistleblower policy
- Number of employees trained in the Code of Conduct
- Number of misconduct cases
- Total tax contributions

Level of assurance

Limited assurance

Reasonable assurance

Opportunity

Assurance priorities

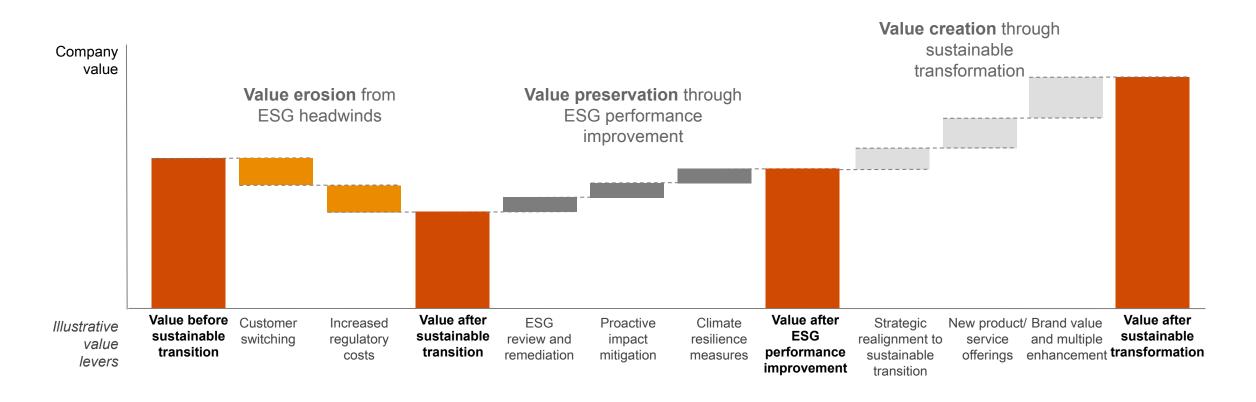
The priority areas are assurance over climate reporting such as TCFD (Task force on Climate-related Financial Disclosures) and sustainable financing.

Assurance increases trust in reporting, which is valuable to clients and their stakeholders



ESG agenda is about more than mitigating risks - it is about **Value Creation**

It is critical to reduce ESG-linked value erosion, by taking actions to protect value, and developing strategies to create value through the sustainable transition



ESG Reporting and Assurance must strive for excellence to make a significant impact...

Companies
need to reshape
their corporate
reporting to
meet investor
and stakeholder
needs

Standards and expectations for non-financial reporting should be as high as they are for financial

We need globally aligned standards to drive consistency and trust

ESG information needs to be audited to be trusted



For stakeholders to get the **valued**, **trusted** and **timely** information they need on how a company is delivering and planning to **deliver on its purpose and sustainable strategy**; supported by common disclosures that can be **independently assured**.

Thank you

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