

# 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



# 1

## ESG overview

# What is ESG?

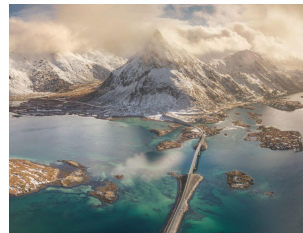


## Prominent ESG Reporting Standards/Frameworks



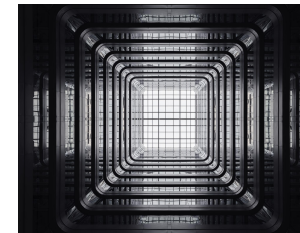
ESG refers to **Environment, Social and Corporate Governance**, the aspects or parameters that are often used to gauge the extent to which a company's business performance is guided by sustainability objectives.

## 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, AI 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**

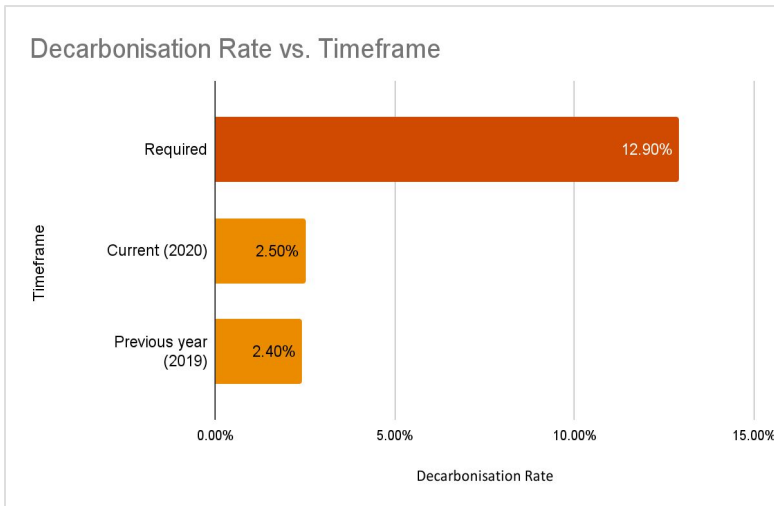


Value of pension fund sued by individual for failing to provide adequate information about climate change risk

# Why now?

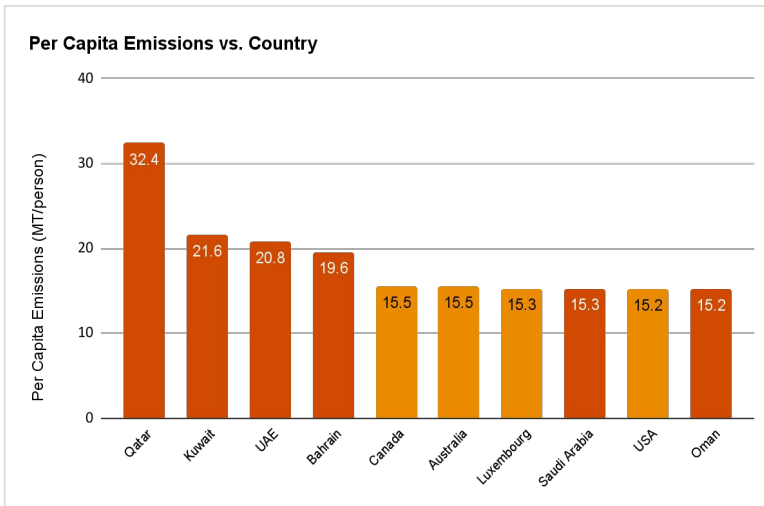
## Slow progress on decarbonisation

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.



# 2

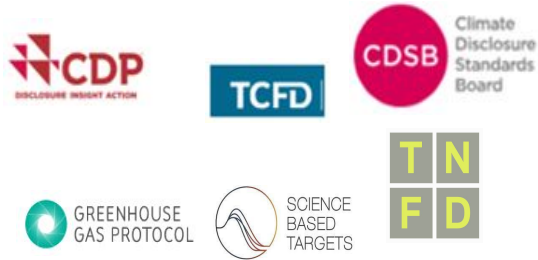
## Role of Internal Audit

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

## Sustainability Reporting Standards



## Sustainability frameworks



## Harmonizing alliances



## ESG Principles & Guidelines

## Sustainability Ratings & Rankings



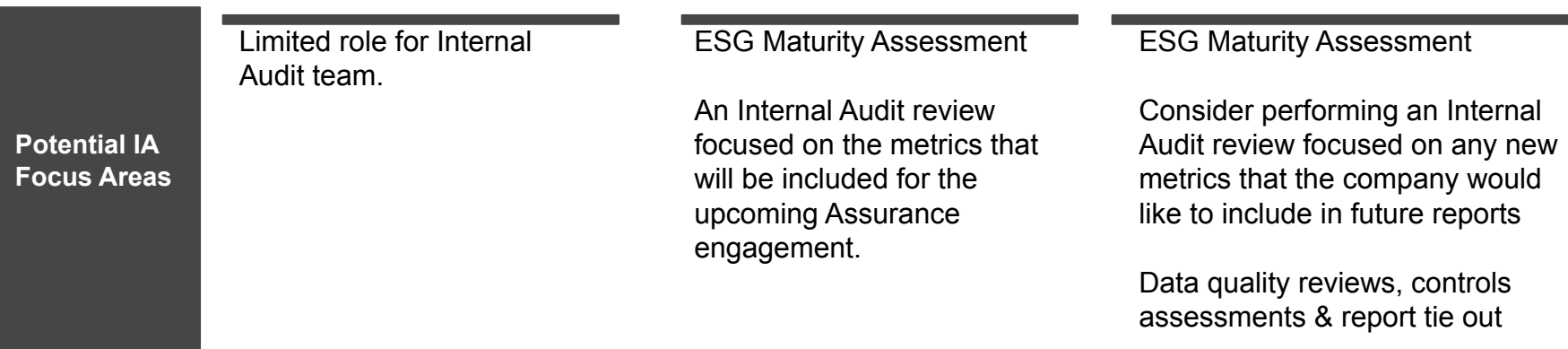
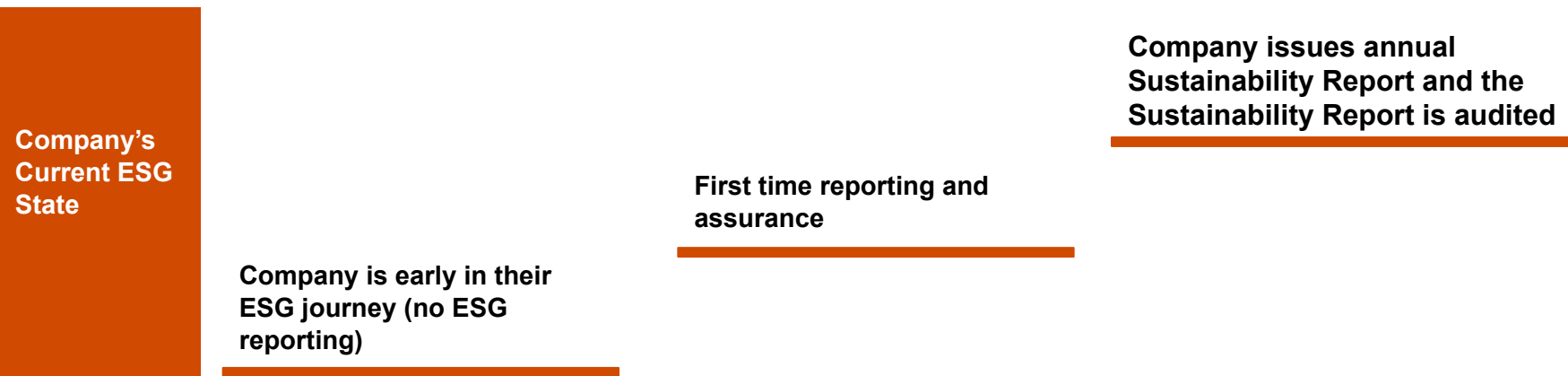
+ many more...

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.



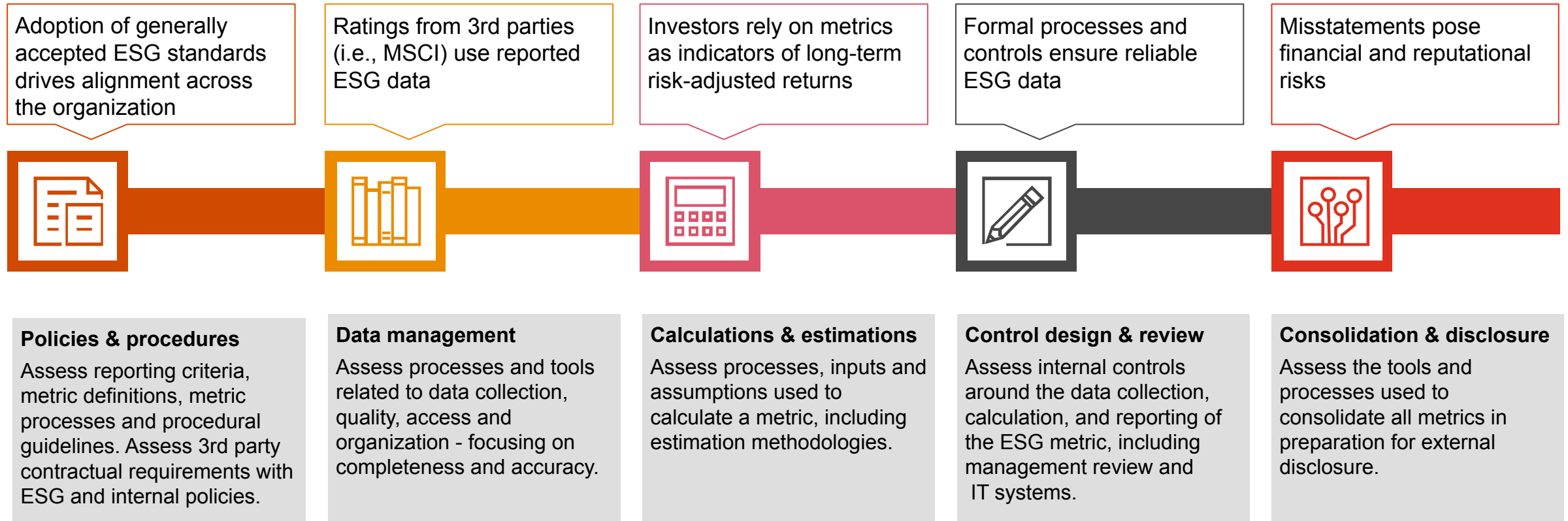
# Determining internal audit's role in ESG

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.



# 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.





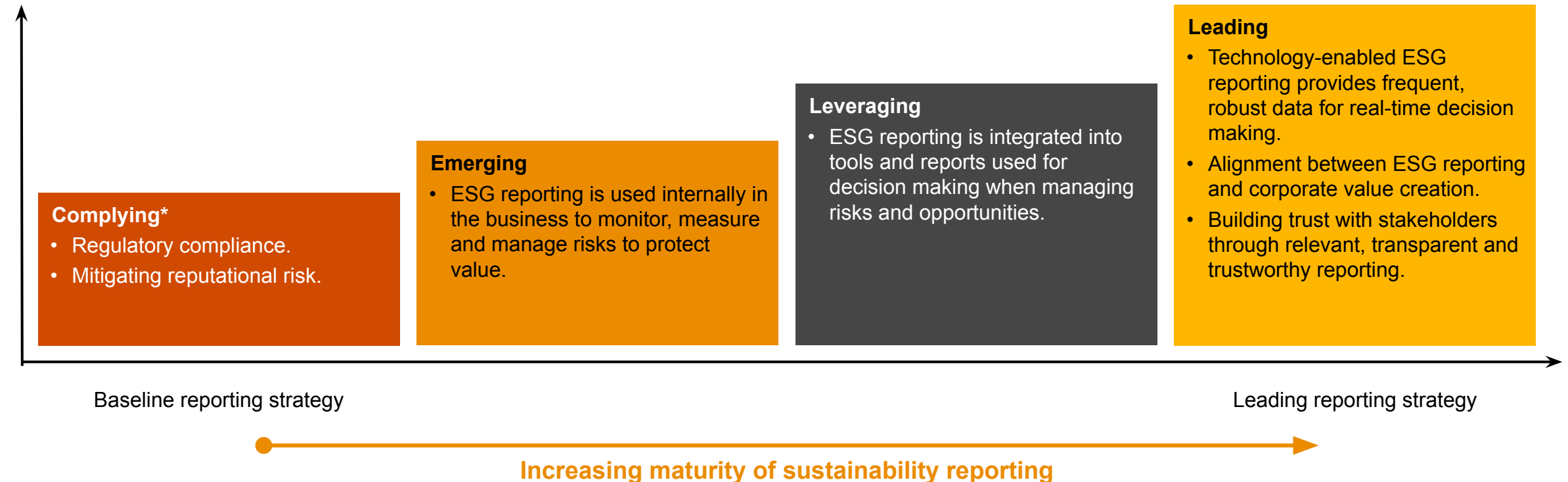
# 3

## 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:

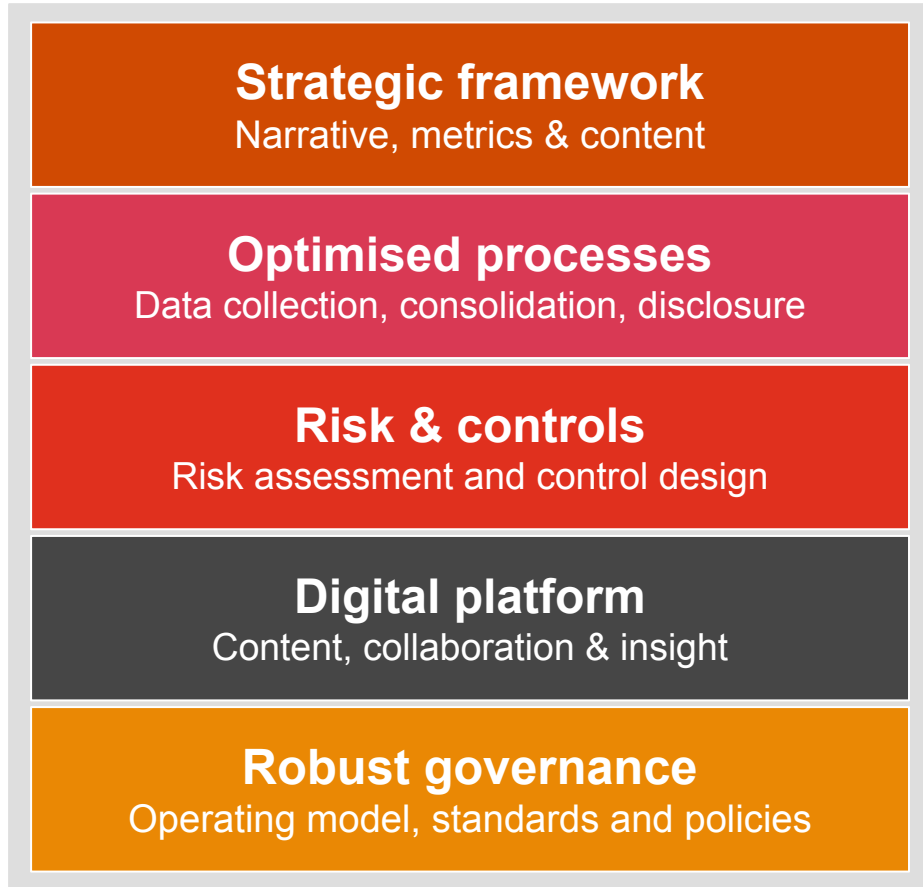
## Level of ambition



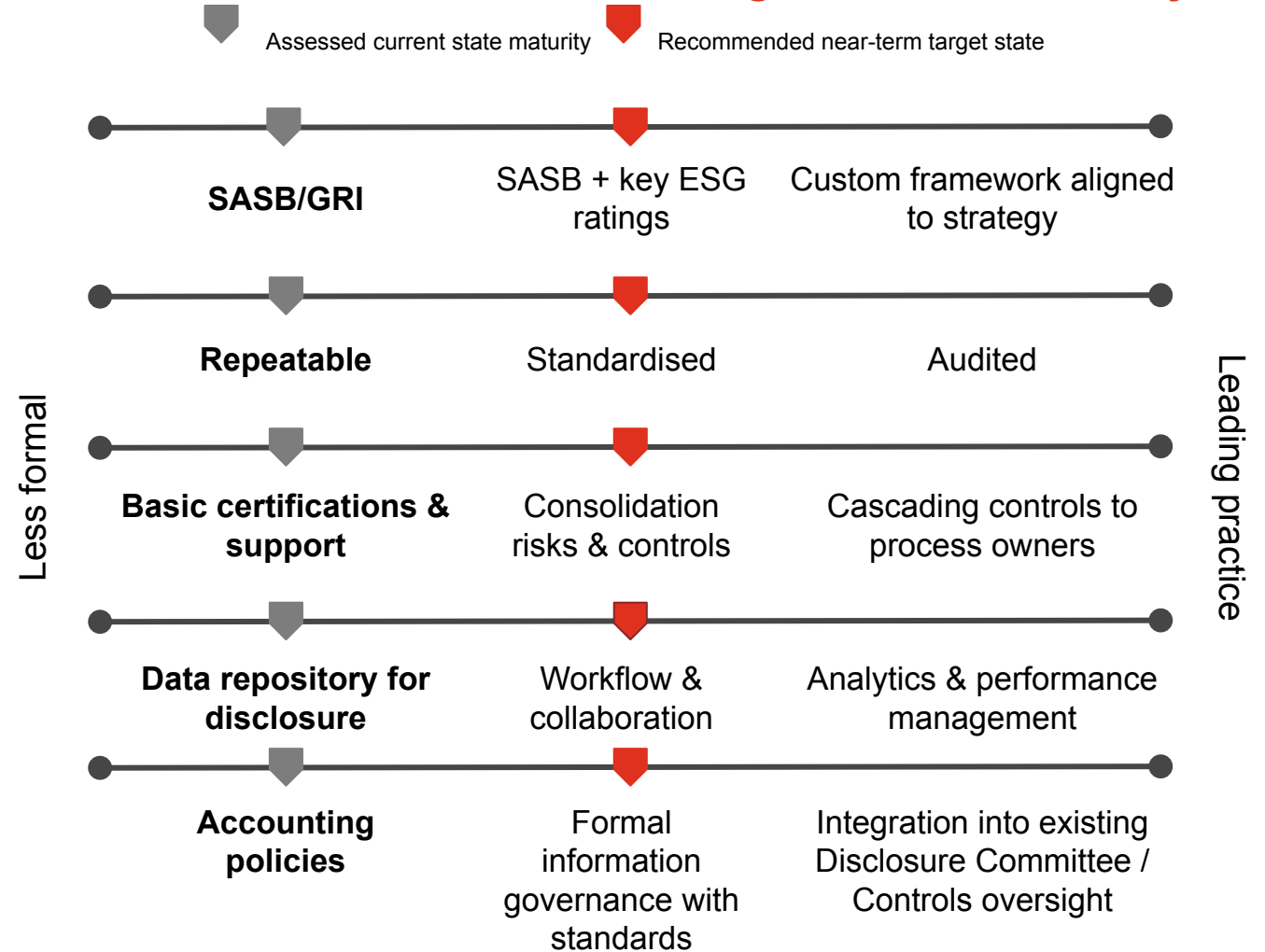
\*Internal Audit functions are typically involved in the Risk management stage

# Sustainability reporting current state maturity assessment illustrative example

## Sustainability Reporting Dimensions



## Current State Assessment of Organisational Maturity



# Third-party Assurance of ESG Metrics

① 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.

② Reporting standards, frameworks and guidelines (non-exhaustive)



③ Examples of metrics typically assured (non-exhaustive)

## Environmental

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

## Social

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

## Governance

1. Existence of **whistleblower policy**
2. Number of employees trained in the **Code of Conduct**
3. Number of misconduct cases
4. Total tax contributions

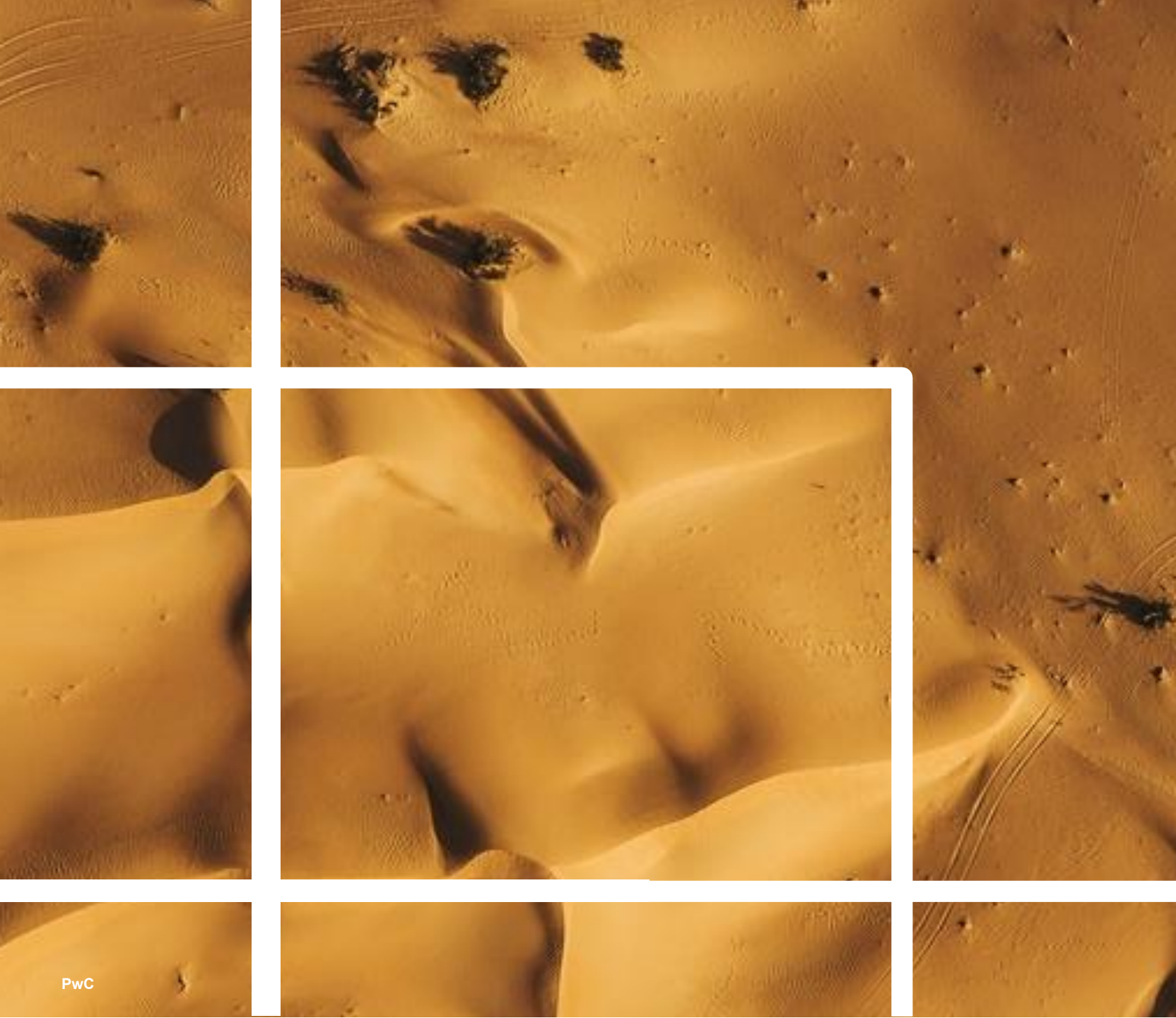
④ Level of assurance



⑤ 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

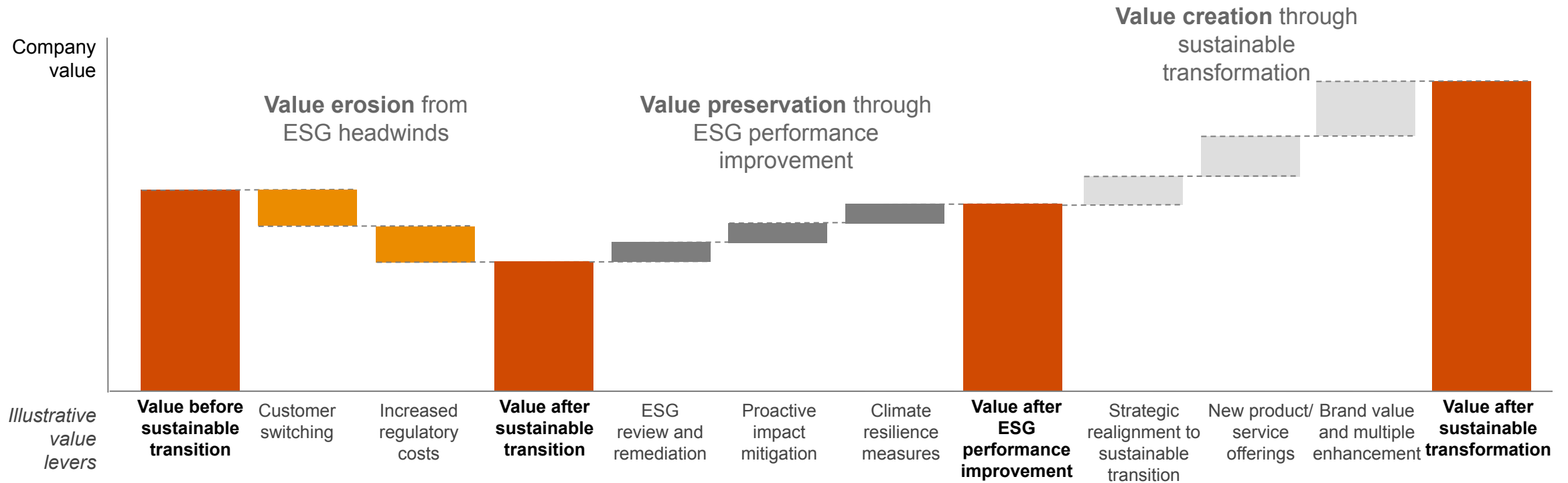


# 4

## Conclusion

# 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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