





## Internal Audit role in ESG

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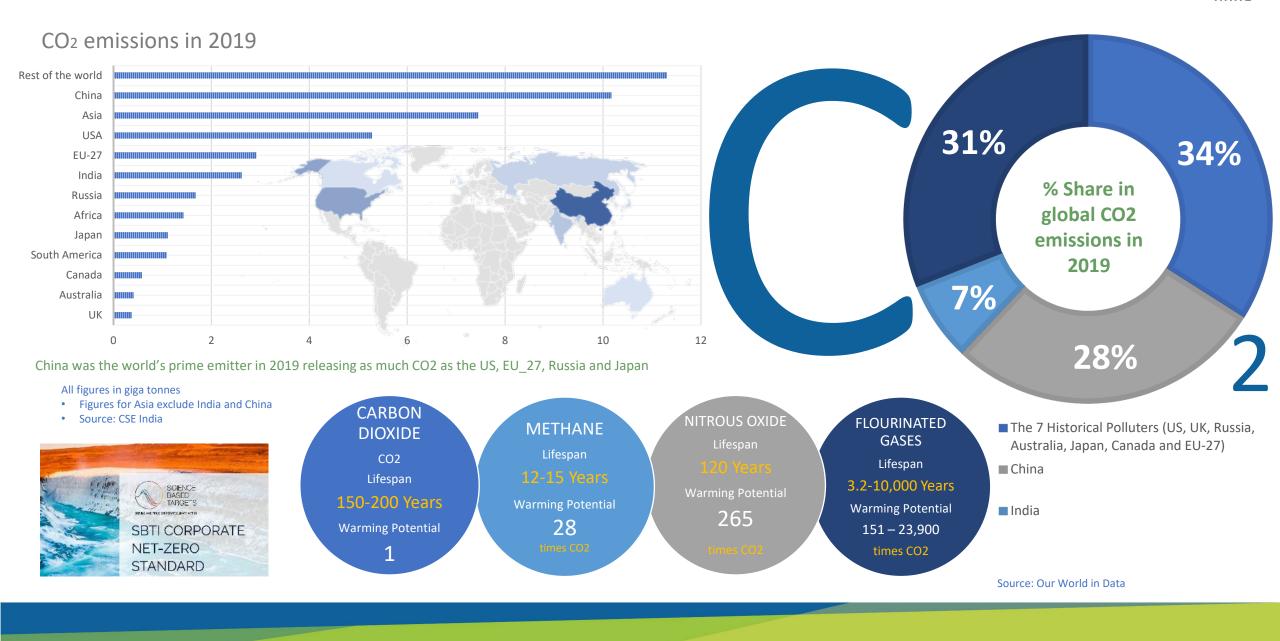




## State of the Planet

## Green House Gas emissions a snapshot

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## 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. The world will emit 40.66 Gt CO2 in 2030 business as-usual scenario 40 35 The world will emit 37.71 Gt CO2 35.52 Gt CO2 in 2030 even countries meet their In 2016, World records its warmest 30 year, which is 1.02 deg C higher than the baseline 1951-1980 mean. 25 25.45 Gt CO2 In 2000 China enters World Trade 20 Organization. This leads to spike The world can emit only18.22 Gt CO2 in global emissions. in 2030 if it wants to remain under 15 1.5deg C. 10 Increase in global greenhouse gas emissions projected by 2030, compared to 2010, Reduction in global greenhouse gas emissions ded by 2030, from 2010 levels, to keep based on available national action plans warming to no more than 1.5 degrees Celsius 5 ource: UNFCCC NDC synthesis report update (Nov 2021 0 2000 2002 2004 2006 2008 2010 2012 2014 2016 2018 2020 2022 2024 2026 2028 2030

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



## ESG Themes & Issues

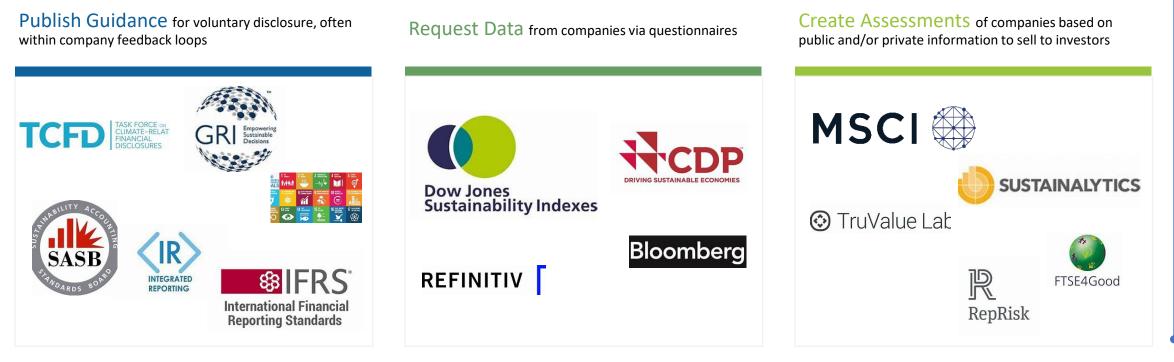


Pillars	Themes		ESG Key Issues
	Natural resources	<ul><li>Water stress</li><li>Biodiversity and land use</li></ul>	<ul><li>Material sourcing</li><li>Circularity</li></ul>
Environment	Pollution and waste	<ul><li>Toxic emissions and waste</li><li>Packaging material and waste</li></ul>	Electronic waste
Sh.	Climate change	<ul><li>Carbon emissions</li><li>Product carbon footprint</li></ul>	<ul><li>Financing environmental impact</li><li>Climate change vulnerability</li></ul>
××.	Environmental opportunities	<ul><li> Opportunities in clean tech</li><li> Opportunities in green building</li></ul>	<ul><li> Opportunities in renewable energy</li><li> Energy Efficiency</li></ul>
	Human capital	<ul><li>Labor management</li><li>Health and safety</li></ul>	<ul><li>Human capital development</li><li>Supply chain labor standards</li></ul>
Social	Stakeholder Expectation	<ul><li>Transparency</li><li>Controversial sourcing</li></ul>	<ul><li>Privacy and data security</li><li>Social value creation</li></ul>
Â	Products & Services	<ul><li>Product safety and quality</li><li>Chemical safety</li><li>Financial security</li></ul>	<ul><li>Product traceability</li><li>Responsible investment</li><li>Health and demographic risk</li></ul>
<u>ک</u> ــکـ	Social opportunities	<ul><li>Access to communications</li><li>Access to finance</li></ul>	<ul><li>Access to health care</li><li>Opportunities in nutrition and health</li></ul>
Governance	Corporate governance	<ul><li>Board, purpose, Fiduciary duty</li><li>Compensation</li></ul>	<ul><li>Ownership, Influence &amp; stewardship</li><li>Accounting, Reporting &amp; Disclosure</li></ul>
	Corporate behavior	<ul><li>Business ethics</li><li>Anti-competitive practices</li><li>Tax transparency</li></ul>	<ul><li>Corruption and instability</li><li>Financial system instability</li><li>Capital allocation</li></ul>

## **Global ESG Frameworks & Rating Providers**



GLOBAL



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.

Impact on stakeholders

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	GHG Emissions	<ul> <li>Long-term and short-term strategy/ plan: Manage Scope 1 emissions, emissions reduction targets, etc.</li> </ul>	
Includes environmental policies, mitigation of environmental	Air Quality	<ul> <li>Pollutants: NOX (excluding N2O), SOX, Volatile organic compounds (VOCs) and Hazardous air pollutants (HAPs).</li> </ul>	
risks, and how the organization performs as a steward to natural	Energy Management	<ul> <li>Total energy consumed, % grid electricity, renewable %, total self generated energy, etc.</li> </ul>	
resources.	Water & Wastewater Management	<ul> <li>Water Management Risks.</li> <li>Water withdrawn and consumed.</li> <li>Incidents/ Noncompliance: Water quality permits, standards and regulations.</li> </ul>	
	Waste & Hazardous Materials Management	Amount of hazardous waste generated, % recycled.	
Social	Labor Management	<ul> <li>Engagement processes: Manage risks &amp; opportunities with respect to .</li> </ul>	
Includes social aspects like product safety & quality, labor	Product Quality & Safety	<ul><li>Process: Identify &amp; manage materials and chemicals.</li><li>Recalls issued &amp; total units recalled.</li></ul>	
management, privacy & data security	Employee Health & Safety	<ul><li>Total recordable incident rate (TRIR), fatality rate for employees.</li><li>Monitoring and reducing exposure to chronic health risks.</li></ul>	
<b>Governance</b> Includes principles that define	Management of Legal & Regulatory Environment	<ul> <li>Corporate positions: Government regulations and/or policy proposals.</li> </ul>	
rights, responsibilities and expectations between various internal and external stakeholder relationships	Critical Incident Risk Management	<ul> <li>Process Safety Incidents Count (PSIC), Process Safety Total Incident Rate (PSTIR), and Process Safety Incident Severity Rate (PSISR).</li> <li>Number of transport Incidents.</li> </ul>	

# Emissions

**Example Outcome: Materiality Matrix** 



Impact on Business

## 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

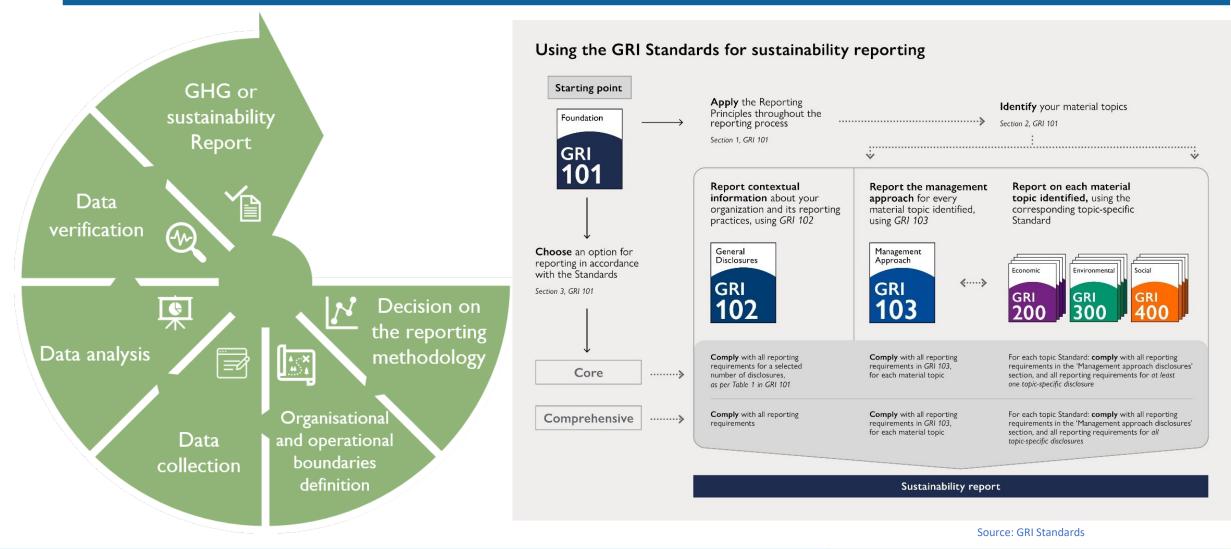


Longer Time Horizon				
	Wider Landscape			
	Evolving Global Standards, Frameworks, Guidelines, Taxonomy & Interpretations; Voluntary to Mandatory			
	Majority of Value in Intangibles			
	Double Materiality to Dynamic Materiality			
$\bigcirc$	Expanding Boundaries			
Орро	ortunities a big focus alongside Risks – mandatory or permissive disclosure			

## 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.



## Internal Audit role in ESG reporting

## Internal audit coverage of ESG



ESG Strategy	ESG Materiality Topics ESG specific initiatives	Tools & ESG Metrics	
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

	CLIMATE COMPONENT	GOVERNANCE & STRATEGY	SYSTEMS AND CONTROLS	PROGRESS TO GOALS
1.	Green House Gas Emissions – Scope 1, Scope 2 & Scope 3.	<ol> <li>Carbon, water, &amp; forest linkage to standards &amp; frameworks, review,</li> </ol>	<ol> <li>Sustainability systems architecture &amp; roadmap.</li> </ol>	<ol> <li>Progress to goals &amp; operationalization of plans.</li> </ol>
		updates, approvals and	2. Program management, Roles &	2. Goal setting and approval
2.	Cicurlarity.	communication.	responsibilities.	3. Updates / changes to goals – the
		2. Climate Risk Assessment &	3. Implementation status & timelines	process of approval and
3.	Bio Diversity Conservation	Materiality.	4. Data collection, review and validation.	communication.
4.	Water.	<ol> <li>KPI review, updates, linking to goals, local statutory reporting &amp; communication.</li> </ol>	<ol> <li>3rd Party assurance, including supplier audits. Record retention &amp; archival.</li> </ol>	<ol> <li>Progress monitoring &amp; review.</li> <li>Action plans &amp; accountability for goals</li> </ol>
5.	Emissions and Air quality	4. Best practices & Benchmarking.		at risk.
6.	Supply chain Sustainability			

#### ESG Audit Procedures – step by step approach

Walkthroughs, boundary definition and scope & methodology Understand the ESG standards & framework of the company and the alignment of the same to global ESG standards Understand the process on how the materiality map is developed and data collation for the reporting is done from different entities / subsidiaries for the ESG reporting

Identify and agree upon samples under Emissions, Circularity, Forest, water, social and Governance metrics for all entities. Conduct the ESG audit procedures for all entities. Conduct hybrid or physical audit based on the ESG maturity & ESG metrics.

#### Develop summary of issues, recommendations to address gaps and roadmap for the organization for their next year ESG Reporting.



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:

Advisor through Purpose-**Promise-Performance** journey. **Assess readiness of** business, calibrate the **Focus on Materiality** desired level of assurance; (changing dimensions) limited >> reasonable **Understanding of** 'Commons' e.g.: Air, **New Capitals – their** Water, Natural Resources, sources, use, development Climate, Human health & by business well being Judgements : assumptions, estimates, Models of value creation, scenarios, rationale, externalities, preservation and destruction stakeholder expectation, probabilities over long term (Predicting the Future)

ARAC

## **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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