ESG: Board Competency, Reporting, Oversight and the role of Internal Audit

October 19 2023
What we’ll cover and questions to consider

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<th>Topic</th>
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<td>ESG Update</td>
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<td>ESG Competency</td>
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<td>ESG Reporting</td>
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<td>ESG Oversight</td>
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<tr>
<td>Internal Audit</td>
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<td>Q&amp;A</td>
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**Considerations**

- What are your company’s **material ESG topics**?
- Who manages and is **accountable for ESG** at your company?
- How is ESG **integrated within ERM and IA** at your company?
- When is ESG **info shared** with the Board and how?
ESG: Where are we now?
ESG TOPICS

**ENVIRONMENT**

How nature is impacted

- Climate Change / Carbon Emissions
- Air / Water Pollution
- Biodiversity and land management
- Water Use and Protection
- Waste Management
- Energy Use and Efficiency

**SOCIAL**

How people and communities are affected

- Indigenous Rights & Community Relations
- Labour & Employment Standards, Health and Safety, Diversity & Inclusion, Employee Engagement
- Customer Satisfaction, Data Protection and Privacy
- Ethical Supply Chain, Human Rights

**GOVERNANCE**

How well your company is managed

- Board Composition, Executive Compensation,
- Anti-Bribery / Anti-Corruption / Whistleblower Policies
- Risk Management, audit, and assurance
- Lobbying / Political Contributions
Shift from Voluntary to Mandatory ESG Reporting

**VOLUNTARY ESG REPORTING (PROMOTIONAL)**

- “Cherry picking” of voluntary frameworks and metrics
- No link to financial or securities reporting controls
- Focus mainly on the “good news” stories
- Limited or no assurance (audit/legal)
- Internal filters
- Lack of credible & reliable data
- Internal filters

**MANDATORY ESG REPORTING (LIABILITY & ENFORCEMENT)**

- Mandatory reporting requirements (e.g., CSA, OSFI)
- Mirror rigor of financial or securities reporting
- Specific targets and milestones
- Comprehensive assurance (audit/legal)
- 1.5 degree aligned transition plans
- Scenario analysis and risk quantification
- Exec and Board Accountability
## REGULATORY INVESTIGATIONS & ENFORCEMENT

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<tr>
<th>US SEC</th>
<th>UK ASA and CMA</th>
<th>Canadian Competition Bureau</th>
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<tr>
<td>• DWS Investment Management Americas</td>
<td>• HSBC</td>
<td>• Keurig</td>
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<td>• BNY Mellon</td>
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<td>• Vale</td>
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<td>• Goldman Sachs Asset Management</td>
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<td>• The Boeing Company</td>
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<td>• Fiat/Chrysler</td>
<td>• Walmart</td>
<td>• Sustainable Forestry Initiative</td>
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<td>• Unilever</td>
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SHAREHOLDER ACTIVISM – ESG DEMANDS SINCE 2013 BY SECTOR

Financial Services
- Amend Company Policy
- Political Activities
- Climate Change & GHG Emissions
- Diversity & Equality

Energy & Utilities
- Amend Company Policy
- Climate Change & GHG Emissions
- Political Activities
- Amend Company Policy

Agriculture
- Amend Company Policy
- Human Rights
- Political Activities
- GMO

Mining
- Amend Company Policy
- Change Board Composition
- Disclose Information
- Waste & Pollution

Top 4 Demands

- Amend Company Policy
- Political Activities
- Climate Change & GHG Emissions
- Diversity & Equality

- Amend Company Policy
- Political Activities
- Climate Change & GHG Emissions

- Amend Company Policy
- Human Rights
- Political Activities

- Amend Company Policy
- Change Board Composition
- Disclose Information
- Waste & Pollution
5 TYPES OF GREENWASHING

1. Exaggerated or empty claims
   Overstating ambition and misleading readers on the ability to execute on a strategic objective related to ESG.

2. Selective disclosure or hidden trade-offs
   Claims of ESG or sustainability leadership based on narrow factors and intentional exclusion of lacking performance.

3. Data omissions, outdated info, or lack of limitations
   Publication of data and performance without clearly stated scope limitations, analysis type, or methodologies.

4. Irrelevant or misleading graphics or visuals
   Use of visuals and imagery to convey misleading or suggestive message or evoke emotion.

5. Vague wording or unspecific goals or targets
   Simplified messages and commitments that undermine tracking of - and accountability for - performance.
ESG: Board Competency, Reporting, and Oversight
ESG COMPETENCY

Evaluate director skills and update skills matrix, and detail how evaluation is completed annually.

Customize ESG training for board committees and directors.

Key questions:

1) To what extent are the most material topics reflected in the skills matrix?
2) Which directors have experience in ESG and specific material factors?
3) How does the board determine what areas require educational updates?
4) What training sessions or educational information has already been shared?
5) What formats are most effective for sharing information with the board?
**ESG COMPETENCY: To-do List**

1) Review the materiality matrix and skills matrix to identify key gaps
2) Update the skills matrix to identify specialists in ESG and material topics
3) Identify 2-3 key topics where more knowledge is needed
4) Provide educational information specific to your company and sector
ESG REPORTING

Align ERM and ESG Reporting to enable timely consistently structured information for decision-making

Establish processes for Board review and approval of ESG disclosures

Key questions:
1) To what extent are your most material topics reflected in the risk universe and risk register?
2) Does the Internal Audit Plan reflect ESG topics and risks?
3) What ESG disclosure content is shared with the board?
4) Is the board equipped to challenge management on climate risk?
5) What is the process for board review and approval of ESG content and reports?
ESG REPORTING: To-do List

1) Review risk reporting and internal audit plan to identify coverage of ESG
2) Review risk universe and update to incorporate material topics, as needed
3) Understand Board approach for review and approval of ESG disclosure
4) Formalize schedule and format for board review and approval of ESG disclosure to meet reporting timelines (e.g., Bill S-211 in May 2024)
ESG OVERSIGHT

Understand investor and stakeholder expectations of the Board and specific committees

Set clear responsibilities for Board Committee(s) regarding ESG

Key questions:
1) How are specific board committees kept up-to-date on ESG strategy, performance, and disclosure?
2) To what extent is ESG integrated into enterprise risk management and internal audit functions?
3) What do investors expect for ESG oversight, especially climate risk?
4) How is oversight shared across Committees, and is it effective?
5) How do Directors & Officers insurance policies address ESG?
1) Establish process to continuously improve board oversight for ESG and climate-risk to meet investor expectations
2) Develop a clear narrative and visual of ESG oversight and accountabilities
3) Update Board Committee mandates to reflect specific responsibilities and interactions when it comes to ESG
ESG: What about IA?
ESG AND INTERNAL AUDIT

Planning and Improvement Activities

- **ERM + ESG**: Ensure risk universe reflects ESG amongst Enterprise risks
- **Emerging risk**: Identify emerging ESG risks
- **Assurance**: Engage external assurance providers and address feedback
- **Education**: Share knowledge across the company about ESG risks and performance
- **ESG Expertise**: Develop relationships and knowledge with internal subject matter experts

Audit Areas and Outputs

- **Control effectiveness**: Evaluate effectiveness of controls for material ESG topics
- **ESG Compliance**: Assess compliance with applicable reporting standards
- **Reporting quality**: Examine alignment with ESG reporting quality principles
- **Greenwashing**: Review ESG disclosure for greenwashing risk
- **Insights**: Provide insights to management, executive and the board

IA Function and Audit Plan

- Is insightful, proactive, and future-focused
- Aligns with the strategies, objectives, and risks of the organization
- Provides risk-based assurance (and consulting)

ERM + ESG

Is insightful, proactive, and future-focused

Aligns with the strategies, objectives, and risks of the organization

Provides risk-based assurance (and consulting)
Questions
THANK YOU

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