

From Auditor to ESG Champion: Driving Internal Audit's Collaboration



The Institute of
Internal Auditors

Chicago

Arnaud Bergero, Michele Rossi, Audrey Katcher

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IIA 63rd Annual Seminar

Speaker Bios



Arnaud Bergero

- Goodwill management's Managing Director
- Extensive experience in ESG consulting and impact measurement
- 2023 Arnaud became ESG Global Lead of Baker Tilly International
- 5 years' experience in construction
- 10 years' experience in sustainable development consulting



Michele Rossi

- A Manager in RubinBrown's Business Advisory Services Group
- Brings over a decade of global experience in Digitalization, Sustainability & Decarbonization
- Background in engineering, consulting, internal auditing, program management, and business development



Audrey Katcher

- Partner in RubinBrown's Business Advisory Services Group
- More than 25 years of experience
- Oversees Internal Audit projects and Information Technology Risk Services (ITRS)
- Leads third party assurance, cyber-attest, System and Organization Controls (SOC) services

Session Overview

- **Enhanced Control**
- **ESG Data Reliability**
- **Sustainability Risk Review**
- **Effective Reporting**
- **Governance Insights**



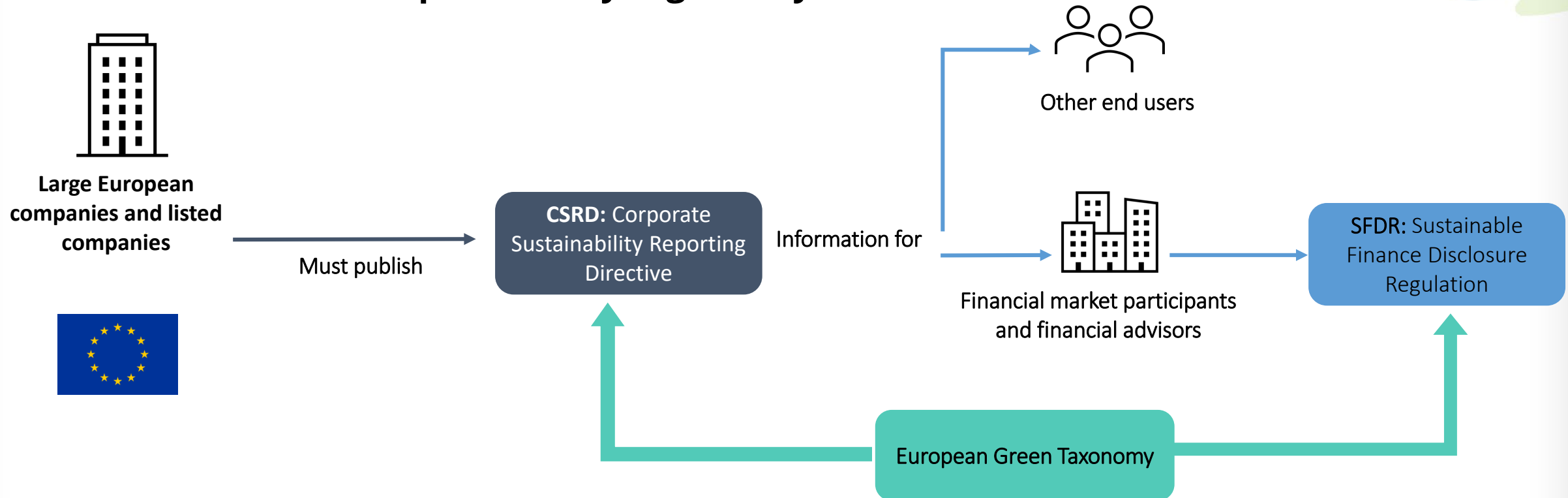
Enhanced Control



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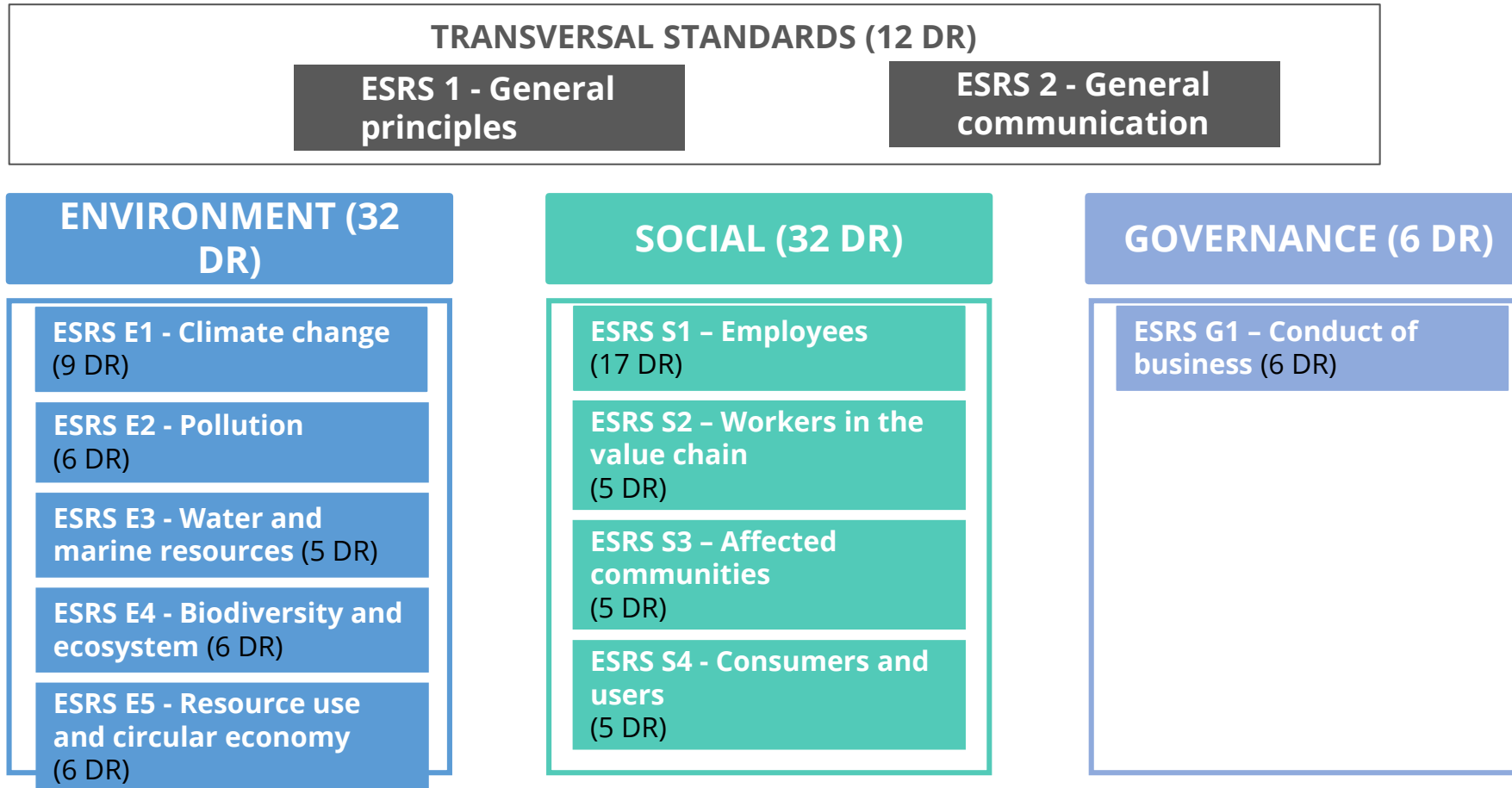
Context in Which the CSRD Takes Place

An ambitious and complementary regulatory framework



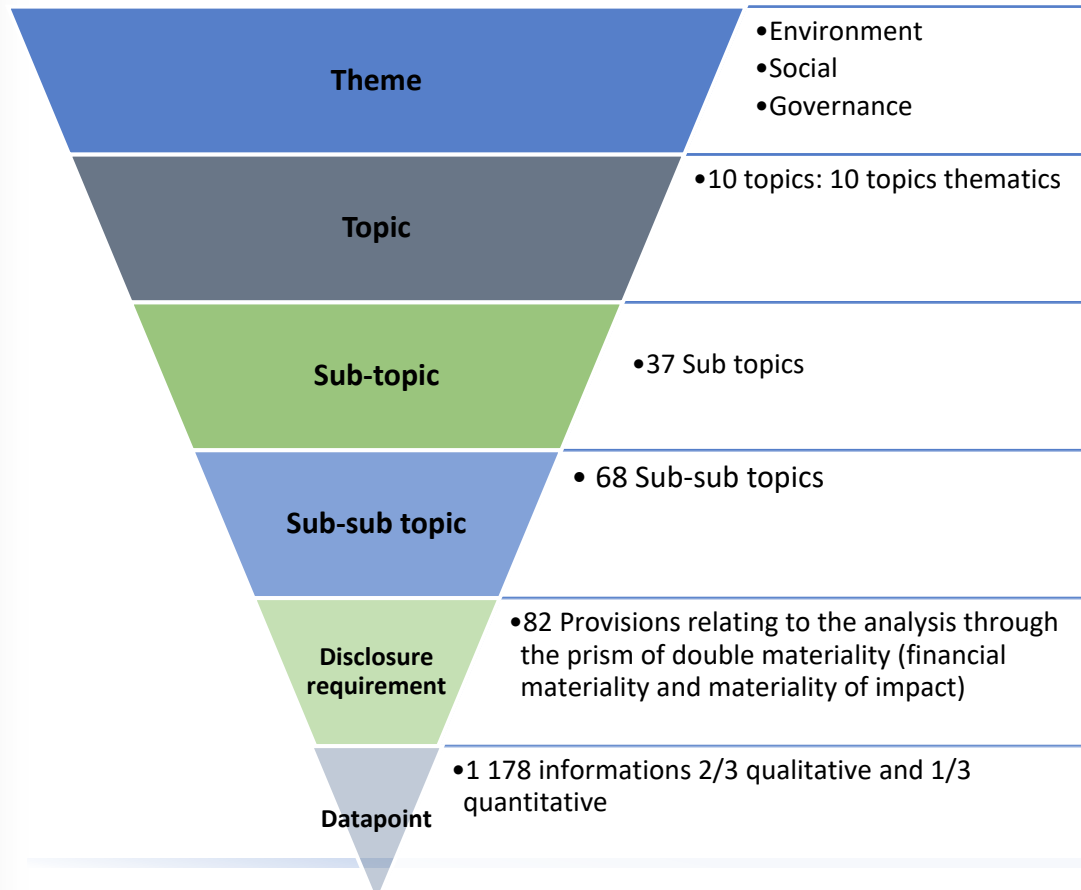
ESRS : European Sustainability Reporting Standards

12 ESRS to cover all the relevant ESG topics



Structure of an ESRS Standard

In the ESRS structure, the information is classified into 5 different levels:



Example of classification for an indicator:

Theme: *Social*

Topic: *Workforce of the company (ESRS S1)*

Sub-topic: *Working conditions*

Sub-sub-topic: *Health & Safety*

DR: *Health & Safety Metrics*

Datapoint: *88.c) Occupational injury rate*



ESG Data Reliability

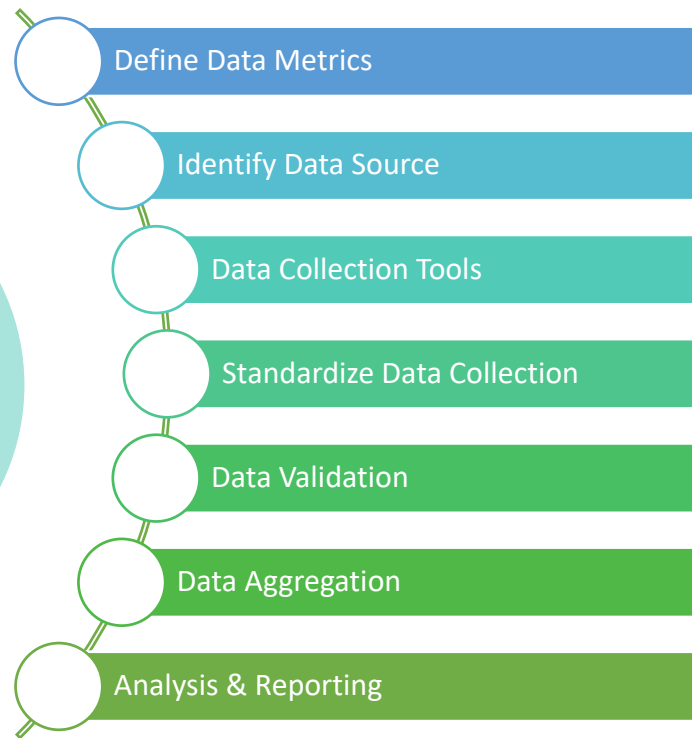
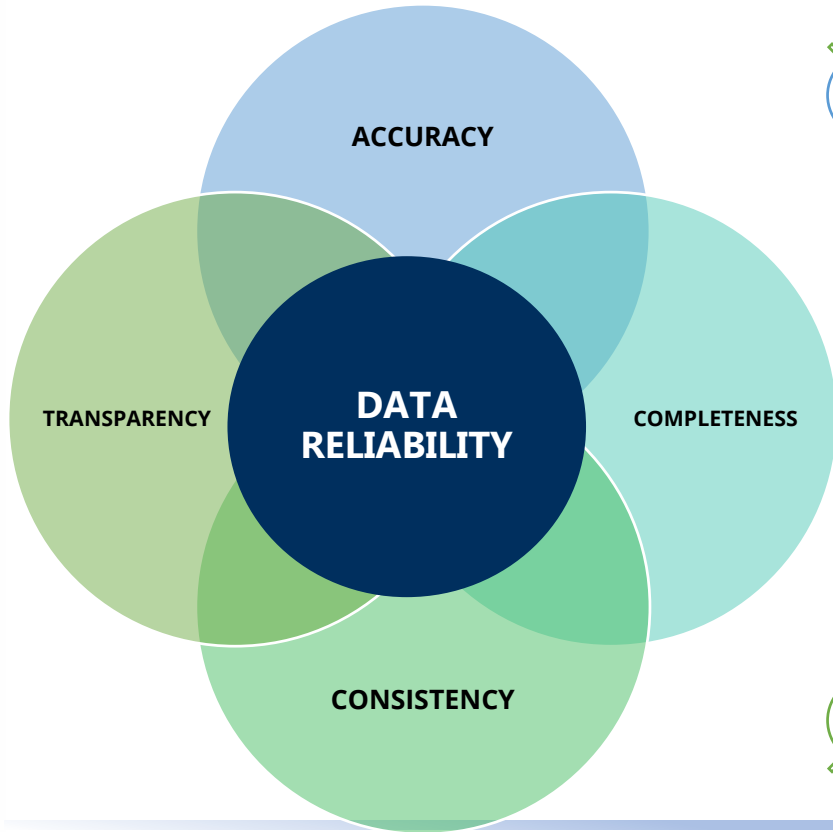


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Understanding ESG Data Reliability

Data reliability refers to the trustworthiness and accuracy of the information collected and reported on ESG metrics to ensure data is consistent, free from errors or bias

Key Components of Reliable ESG Data → Robust Data Collection Process → Organizational Challenges



Improving ESG Data Reliability

Defining a comprehensive data collection method, establishing clear data governance policies, and conducting regular audits and validations will ensure transparency in data reporting

Internal audit is important throughout the ESG data collection process, but especially in the following areas

Risk Assessment	Identify and assess risks related to ESG data collection, ensuring that appropriate controls are in place
Data Validation	Perform independent validation of ESG data to ensure quality, accuracy and completeness
Compliance Monitoring	Monitor compliance with ESG reporting standards and regulations, identifying and addressing any non-compliance issues
Continuous Improvement	Recommend improvement opportunities for ESG data collection process based on their findings and best practices



Real Life Example: Internal Audit ESG Challenges

Ensuring the relevance of your calculations:

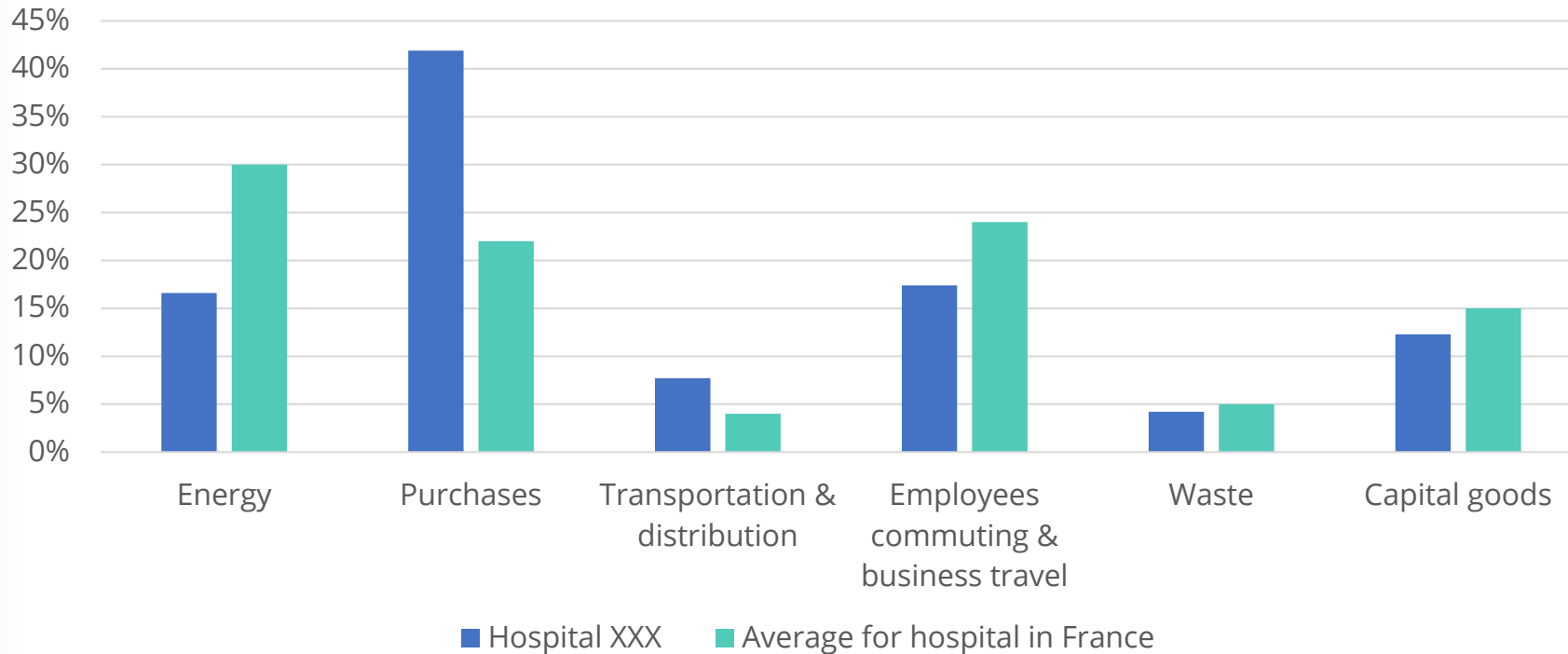
A concrete example with the carbon footprint



Compare the Company's Carbon Footprint with the Pattern of its Sector

- Example of the hospital sector :

Carbon emissions per type (%)



Where to find information:

- CDP
- GHG protocol
- Companies' reporting
- Sector guides



Check the Scope of Reporting: What Shall We Measure?

Verify that the carbon emission sources that you measure are adequate for your business

Table [II] Criteria for identifying relevant scope 3 activities

Criteria	Description of activities
Size	They contribute significantly to the company's total anticipated scope 3 emissions
Influence	There are potential emissions reductions that could be undertaken or influenced by the company
Risk	They contribute to the company's risk exposure (e.g., climate change related risks such as financial, regulatory, supply chain, product and technology, compliance/litigation, and reputational risks)
Stakeholders	They are deemed critical by key stakeholders (e.g., customers, suppliers, investors or civil society)
Outsourcing	They are outsourced activities previously performed in-house or activities outsourced by the reporting company that are typically performed in-house by other companies in the reporting company's sector
Sector guidance	They have been identified as significant by sector-specific guidance
Spending or revenue analysis	They are areas that require a high level of spending or generate a high level of revenue (and are sometimes correlated with high GHG emissions)
Other	They meet any additional criteria developed by the company or industry sector

Source: Adapted from table 6.1 from the *Scope 3 Standard*

Upstream/Downstream	Category number	Scope 3 category	In/Out of Scope
Upstream	#1	Purchased goods and services	In scope
Upstream	#2	Capital goods	In scope
Upstream	#3	Fuel and energy related activities	Out of scope
Upstream	#4	Transportation and distribution	In scope
Upstream	#5	Waste generated in operations	In scope
Upstream	#6	Business travel	In scope
Upstream	#7	Employee commuting	Out of scope
Upstream	#8	Leased assets	Out of scope
Downstream	#9	Transportation and distribution	In scope
Downstream	#10	Processing of sold products	Out of scope
Downstream	#11	Use of sold products	In scope
Downstream	#12	End of life of sold products	In scope
Downstream	#13	Leased Assets	Out of scope
Downstream	#14	Franchises	Out of scope
Downstream	#15	Investments	Out of scope

Multiple data inputs increase the chance for mistakes

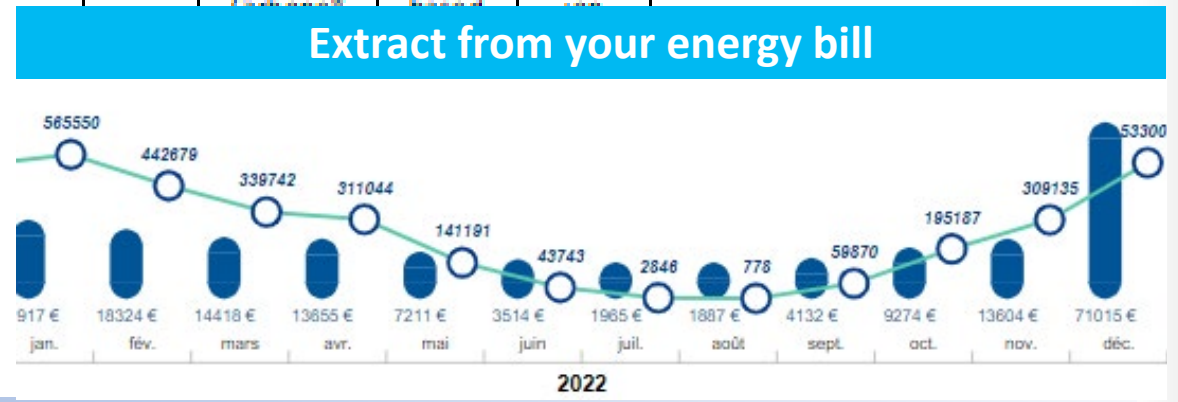
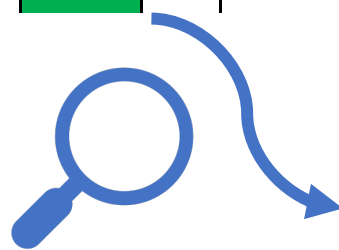


Check the accuracy of input data

Cross check the quality of your data along the audit trail

Example: Is my natural gas consumption accurate in my carbon footprint? Is it the same as what I can find in my energy bill from my energy supplier?
Is it on the same scope of time? January to December 2022?

Country	Activity	BU	Site	Source of emissions	Amount consumed	Unit	Emission factor (gCO ₂ e/KWh)	BAU factor (gCO ₂ e/KWh)	Grid evolution (%)	Source	Market/Location	Upstream/Downstream
France	R&D			Natural gas	2944,77	MWh	169,00	169,00	1	Base	Location-	Consumpt



Verification of the emission factors used



Check if the emission factor used is relevant.

Example: Check that the emission factors used for vehicles correspond to the fuels used

Initial emission factor	kgCO ₂ e/liter	Recommended emission factor	kgCO ₂ e/liter
E85 gasoline	1.11	Unleaded super gasoline (95, 95-E10, 98)	2.7 (x2.4)
B30 diesel	2.64	B7 diesel	3.1 (x1.2)



Verification of the emission factors used



Verify if the emission factor value utilized corresponds to the baseline value from the original database

Emission factors in gCO ₂ /kWh (The impact of non-CO ₂ GHGs is negligible. For calculation purposes, the factors below can be considered as CO ₂ e.)					
Country/territory/island	Combined margin intermittent electricity generation	Combined margin firm electricity generation/ electricity consumption	Electricity consumption/ network losses HV Grid +2%	Electricity consumption/ network losses MV grid +4%	Electricity consumption/ network losses LV grid +7%
Bermuda (U.K.)	598	342	348	355	365
Bhutan	0	0	0	0	0
Bolivia, Plurinational State of	525	393	401	409	421
Bonaire (Netherland)	620	400	408	416	428
Bosnia and Herzegovina	1025	739	754	769	791
Botswana	1330	1070	1092	1113	1145
Brazil	234	150	153	156	161































N	AB	AC
Combined Margin Firm Electricity Generation	Vérification EIB so	
0,150	0,15	-
0,359	0,359	-
0,246	0,246	-
0,359	0,359	-
0,258	0,258	-
0,258	0,258	-
0,224	0,224	-
0,313	0,313	-
0,426	0,426	-
0,150	0,15	-
0,532	0,532	-
0,068	0,068	-
0,224	0,224	-
0,359	0,359	-
0,209	0,209	-
0,068	0,068	-
0,224	0,224	-
0,228	0,228	-
0,235	0,235	-
0,313	0,313	-
0,461	0,461	-
0,068	0,068	-
0,209	0,209	-
0,191	0,191	-
0,068	0,068	-
0,224	0,224	-
0,288	0,288	-
0,219	0,219	-
0,068	0,068	-
0,313	0,313	-



Reliable audit trail







The features to ensure the reliability of the audit trail can be embedded in the ESG reporting tool

The screenshot shows a web application interface for an ESG reporting tool. The breadcrumb navigation is: Gathering Module > CSR Reporting - 2022 > Edit Indicator. The current page is titled "Environmental Indicators" and "Prevention of disturbance and waste". The specific indicator is "E.DEC.004 Share of composted waste" for the year 2022. The user is identified as "2-ADMINISTRATEUR".

Actions	S...	Code	Value	Unit	Comment	Availability	Entity	Coverage rate
   	 	E.DEC.004_BU-LATAM	10.3	%	Mise à jour sur à ré-évaluation du périm			
   	 	E.DEC.004_BU-PMO	8.5	%				
   	 	E.DEC.004_BU-EUAF	6.45	%				
   	 	E.DEC.004_BU2	15.6	%				
   	 	E.DEC.004_BUS	18.56	%				

Legend: [State] is any of('Validated', 'Validation in progress')

The "Evaluation details" modal window displays the "Evaluation history" for the selected indicator. It shows a list of operations performed on the evaluation, including changes to workflow, value, and comment, along with the user who performed the operation and the date and time.

Date	Operation	User	Type	Description
3/6/2024, 1:43 PM		BU-EUAF Contributeur	Workflow	The Workflow field has changed to Value validated .
3/6/2024, 1:41 PM		BU2 Contributeur	Workflow	The Workflow field has changed to Modification .
3/6/2024, 1:41 PM		BU2 Contributeur	Evaluation	The Value field has changed. The value has changed from 8.3 to 10.3.
3/6/2024, 1:41 PM		BU2 Contributeur	Evaluation	The Comment field has changed. The value has changed from No value to Mise à jour sur à ré-évaluation du périmètre.
2/20/2023, 7:34 PM		BU2 Contributeur	Evaluation	Evaluation creation.
2/20/2023, 7:34 PM		BU2 Contributeur	Workflow	The Workflow field has changed to Creation .

ESG and Sustainability Risk Review



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ESG and Sustainability Risk Review

- **Role of Internal Audit in Sustainability**
- **Key Components of Sustainability Risk Review**
- **Reporting on Sustainability Risks**
- **Preparing for External Scrutiny**



Role of Internal Audit in Sustainability



ESG VS. Sustainability

ESG



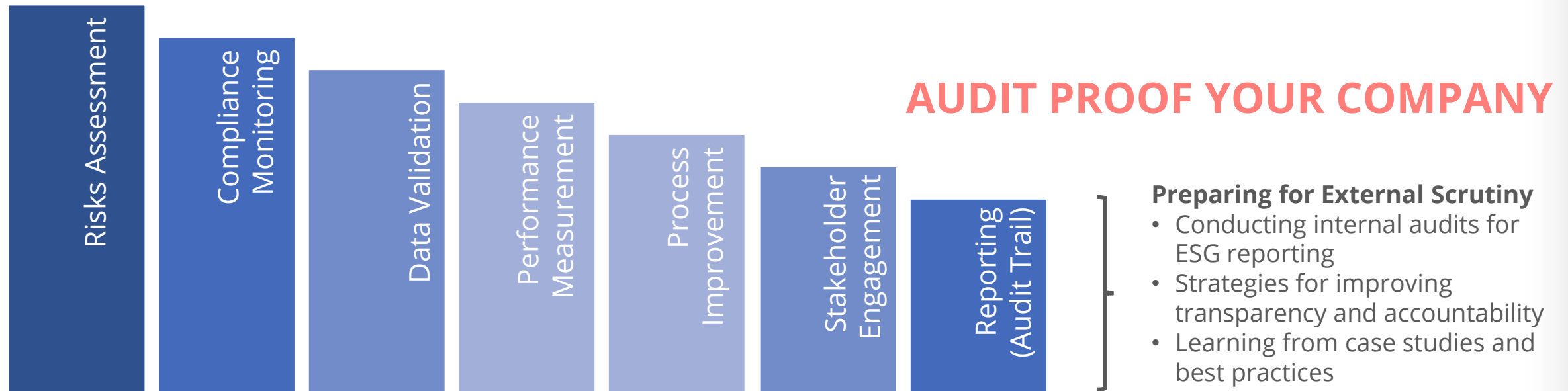
SUSTAINABILITY

- Quantitative
- External Regulation
- Focuses on ISSUES and how they affect organizational performance
- Measure OUTPUTS
- Directly related to business valuation
- Outside-in focus on financial materiality (environmental and social impact issues impact on the organization)
- Implemented through measurable goals and audits

- Qualitative and Quantitative
- External and Internal Regulation
- Focuses on RESULTS to reduce organizational impact to the environment
- Measure OUTCOMES and IMPACT
- Outside-in focus on financial materiality (environmental and social impact issues impact on the organization)
- Implemented through corporate strategy, corporate culture, measurable goals and audits

Internal Audit in Sustainability

Internal audit plays a critical role in providing **program assurance to organizations** by helping them manage sustainability and ESG risks, improve performance, and meet stakeholder expectations

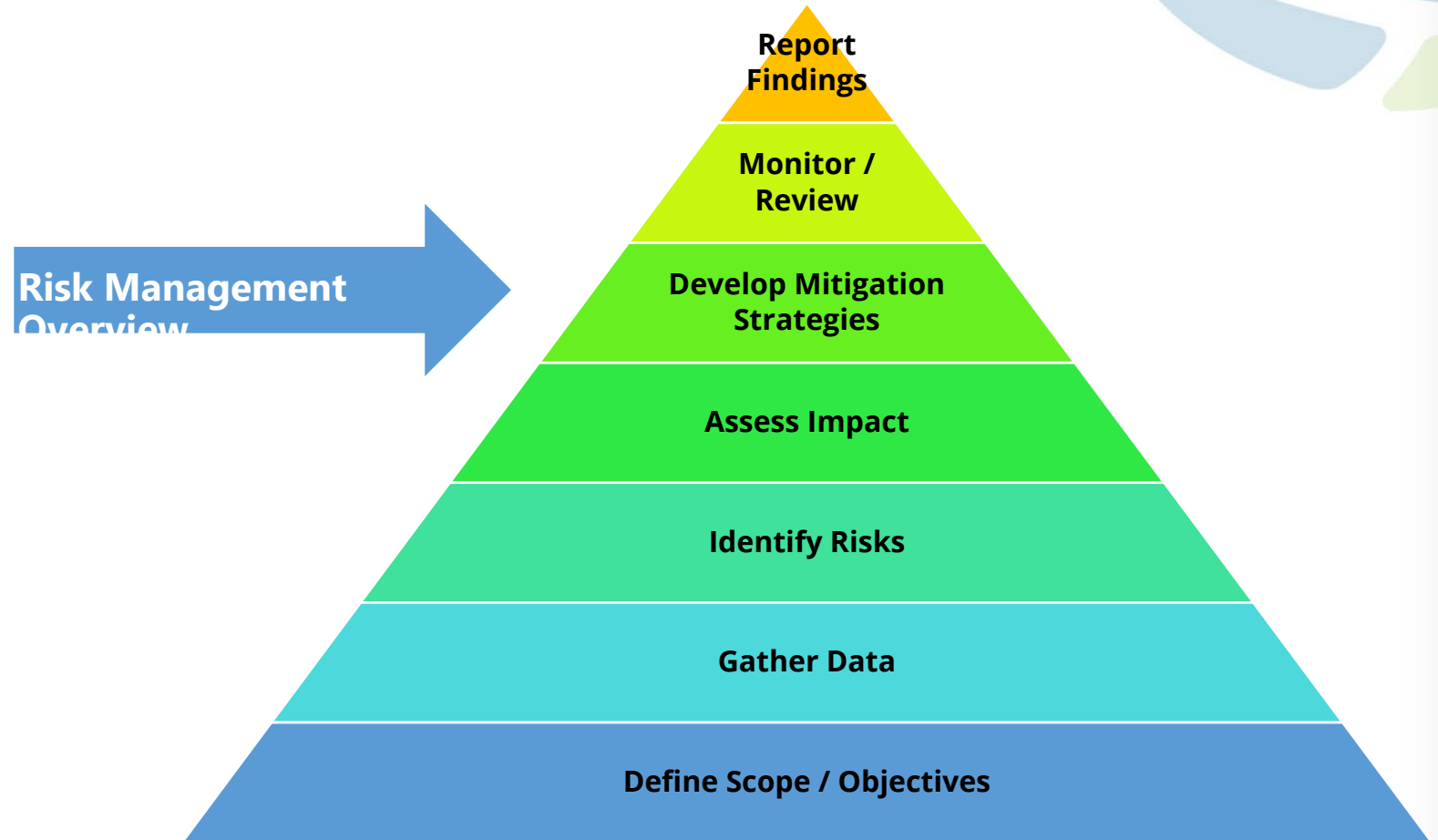


Internal Audit Responsibility: Provide Assurance

Key Components of ESG / Sustainability Risk Review

Key components

- Identification of Sustainability Risks
- Impact Assessment
- Materiality Assessment
- Risk Mitigation Strategies
- Integration with Enterprise Risk Management (ERM)
- Stakeholder Engagement
- Reporting and Disclosure



Effective Reporting



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Key components of ESG reporting

GOVERNANCE

- Information about the governance structure and practices related to ESG issues, such as board oversight and executive compensation

ENVIRONMENTAL PERFORMANCE

- Data on environmental impact, including energy use, greenhouse gas emissions, water use, and waste management

SOCIAL PERFORMANCE

- Information on social impact, such as labor practices, human rights, diversity and inclusion, and community engagement

STAKEHOLDER ENGAGEMENT

- Description of how the company engages with stakeholders on ESG issues and incorporates their feedback into decision-making

RISK MANAGEMENT

- Disclosure of ESG-related risks and how they are identified, assessed, and managed

METRICS / TARGETS

- Reporting of key performance indicators (KPIs) and targets related to ESG issues, allowing stakeholders to track progress over time

REPORTING FRAMEWORK

- Disclosure of the reporting framework used (e.g., GRI, SASB, TCFD) and how the company's reporting aligns with industry standards and best practices

ASSURANCE

- Independent assurance of ESG data to enhance credibility and trust with stakeholders

FINANCIAL REPORTING INTEGRATION

- Integration of ESG information into financial reporting, demonstrating how ESG issues can impact financial performance

TRANSPARENCY

- Overall transparency in reporting, providing stakeholders with clear, accurate, and relevant information about the company's ESG performance

Common ESG reporting frameworks

ESG reporting frameworks help companies report their ESG performance in a standardized and transparent manner, allowing stakeholders to compare performance across companies and make informed decisions.

Some of the most common ESG reporting frameworks are:



Global Reporting Initiative (GRI): GRI is one of the most widely used ESG reporting frameworks. It provides a comprehensive set of standards for reporting on economic, environmental, and social performance. GRI standards are designed to be flexible and can be adapted to different organizational sizes, sectors, and geographic locations.



Sustainability Accounting Standards Board (SASB): SASB standards focus on the disclosure of material ESG information to investors. They are industry-specific and aim to provide investors with decision-useful information related to sustainability risks and opportunities.



Task Force on Climate-related Financial Disclosures (TCFD): TCFD provides recommendations for disclosing climate-related financial information. It encourages companies to disclose information related to governance, strategy, risk management, and metrics and targets related to climate change.



Effective Reporting – Materiality Matters

ESG materiality assessments help prioritize ESG issues that can impact a company's **financial performance** and **reputation**, enabling better risk management and meeting stakeholder expectations.



Internal auditors play a crucial role in ESG materiality assessments by:

- **Risk Assessment:** Identifying and assessing ESG risks that could impact the organization's financial performance or reputation.
- **Data Validation:** Validating the accuracy and completeness of ESG data used in materiality assessments.
- **Compliance Monitoring:** Monitoring compliance with ESG reporting standards and regulations to ensure accurate and transparent reporting.
- **Audit Trail:** Creating an audit trail to document the process used to determine ESG materiality, including the criteria and factors considered.
- **Reporting:** Reporting findings to management and stakeholders to enhance transparency and accountability in ESG reporting.
- **Continuous Improvement:** Providing recommendations for improving the ESG materiality assessment process based on audit findings and best practices.



Government Insights



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Government Insights

Governance Requirements

- Definition and scope of governance in ESG.
- Overview of relevant regulations and standards (e.g., SASB, GRI, TCFD).

Aligning with ESG Strategies

- Understanding your company's ESG and sustainability strategies.
- Identifying gaps in governance and strategy alignment.
- Tools and frameworks for integrating governance into ESG strategies.

Preparing for the Evolving Landscape

- Trends and future developments in ESG governance.
- Building a proactive approach to governance in a changing environment.
- **SEC's Enhancement and Standardization of Climate-Related Disclosures for Investors requirements.**
- **California Climate Accountability Package**
 - **SB 253: Climate Corporate Data Accountability Act**
 - **SB 261: Greenhouse Gases: Climate-Related Financial Risk**
- Wolters Kluwer: ESG to impact 10,000 non-EU businesses, including 3,000 in U.S





Q & A



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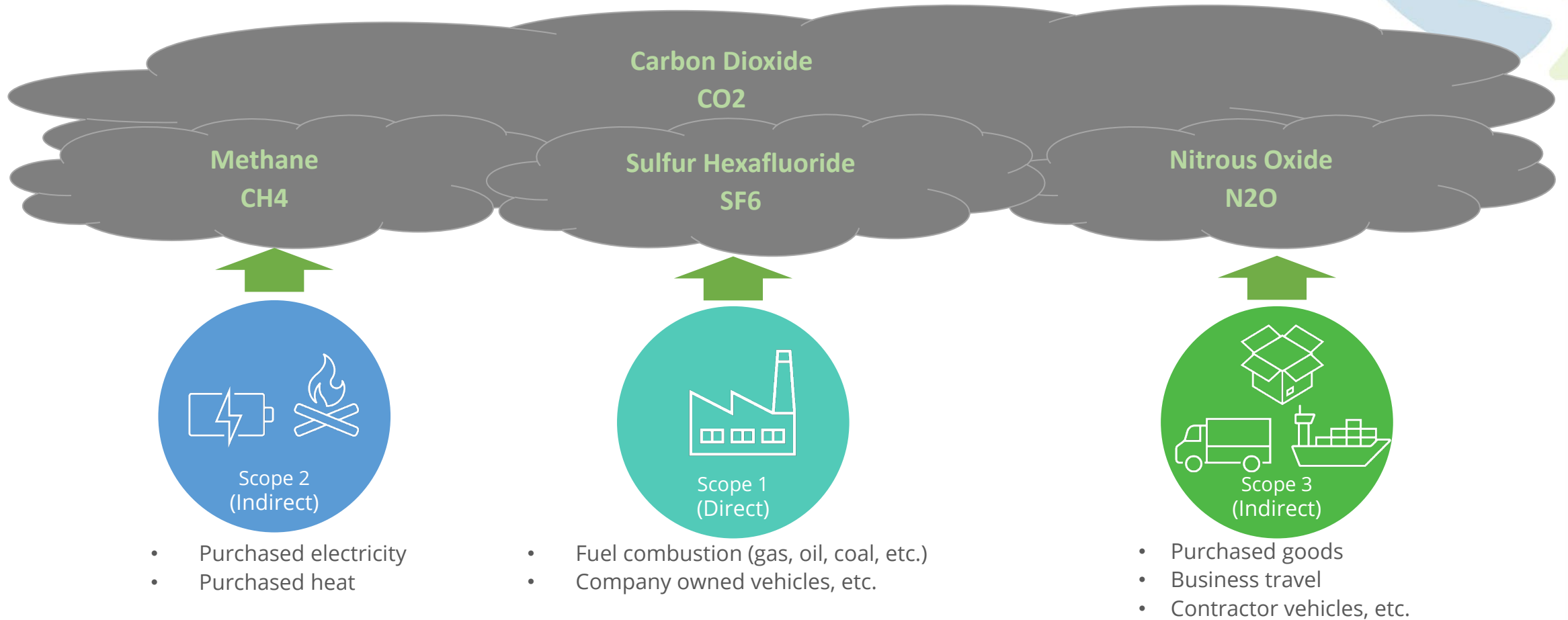


Appendix



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Greenhouse Gases and the GHG Protocol - Scope 1, 2 and 3 Emissions



ESG VS. Sustainability

ESG focuses on company **stakeholders**, identity, and decision-making (e.g., the board, CEO, employees, shareholders) while sustainability concerns the relationship between a company and the environment.

ESG serves as an **investment** framework for external investors to assess company performance and risk, whereas sustainability involves internal capital investments (e.g., installing LED light bulbs, electrifying a transportation fleet).

ESG adheres to **standards** set by lawmakers, investors, and ESG reporting organizations (e.g., GRI, TCFD, MSCI), while sustainability standards, though also set by groups like GHG Protocol, are more science-based and standardized. There are numerous frameworks for measuring ESG, whereas carbon emissions are more universally defined.

ESG includes **sustainability** as one of its three pillars but also encompasses broader social and corporate governance considerations.

ESG is typically more relevant for large, publicly listed companies or those seeking financing from institutional investors. However, as more financial firms adopt ESG principles, startups and smaller organizations are increasingly impacted by ESG considerations.

ESG's **risk and materiality** profile extend beyond sustainability. For instance, a company with a carbon-neutral, zero-waste, renewable-powered facility may still fail ESG standards if it has significant workplace health and safety issues. Conversely, a company with strong governance and detailed ESG reporting may have an environmentally harmful core business model.

California enacts climate-related disclosure laws

	S.B. 253	S.B. 261
Who has to disclose?	<p>“Reporting entity”</p> <p>Annual revenues in excess of \$1 billion</p> <p>Does business in California</p> <p>Formed in the U.S.</p>	<p>“Covered entity”</p> <p>Annual revenues in excess of \$500 million</p> <p>Does business in California</p> <p>Formed in the U.S.</p>
What has to be disclosed?	Scopes 1, 2 and 3 GHG emissions for the prior fiscal year	Climate-related financial risks in accordance with TCFD & measures taken to mitigate/adapt to these risks
How are disclosures made?	Report to an “emissions reporting organization” [1]	Prepare and publish a publicly available report on company’s internet website
Compliance alternatives?	N/A	Provide required disclosures to the best of the entity’s ability and explanations for gaps and steps to be taken to fully comply
When and how often?	<p>2026 (scopes 1 & 2)</p> <p>2027 (scope 3)</p> <p>Annually thereafter</p>	2026 and every two years thereafter

California enacts climate-related disclosure laws

	S.B. 253	S.B. 261
Assurance	<p>Scopes 1 & 2 Beginning in 2026: limited assurance Beginning in 2030: reasonable assurance</p> <p>Scope 3 Beginning in 2030: limited assurance^[2]</p>	N/A
Implementation	California Air Resources Board (CARB) to issue regulations	Disclosure standards are self-implementing
Interoperability with other reporting standards	Compliance can be achieved via reports under national/international legal regimes that meet the bill's disclosure standards	Compliance can be achieved via reports under regulatory or voluntary frameworks that meet the bill's disclosure standards including the IFRS Sustainability Disclosure Standards
Penalties	<p>CARB authorized to seek penalties for nonfiling, late filing or other failure to meet requirements. Penalties not to exceed \$500,000 per year</p> <p>Scope 3 disclosures: (1) no penalties for disclosure made with reasonable basis/good faith (2) before 2030, penalties limited to failure to file</p>	<p>CARB authorized to seek penalties for failure to publish report or inadequate or insufficient reports. Penalties not to exceed \$50,000 per year</p>
Fees	To be determined by CARB	To be determined by CARB