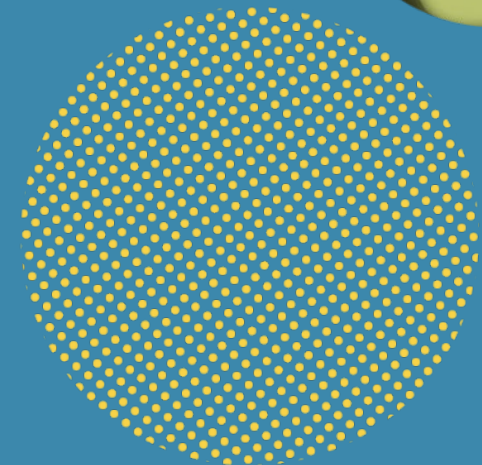


Internal Audit Can Plan An Essential Role in ESG - Are You Ready?

November 2, 2022 @ 10:00 am ET

Chris Boyd-Witherspoon
Senior Manager - Risk Advisory Services



Our Presenter

- Chris is a Senior Manager at UHY Consulting, providing risk advisory solutions to strengthen and transform organizations. As a leader in risk advisory, she helps organizations implement, transform, or enhance programs to address risk.
- She has a proven ability to implement and manage strategic risk assessments and operational processes that build a strong corporate reputation in the marketplace.
- Chris brings more than twenty years of audit and risk leadership and business process improvement for national and international professional services firms.
- She is a dedicated consulting professional with a commitment to client satisfaction. Chris has received professional training in Six Sigma, internal audit, project management and risk assessment methods and is fluent in German.



*Chris Boyd-
Witherspoon*

UHY Consulting is a management consulting firm that inspires clients to imagine and realize a company with unlimited potential, leaving lasting results that strengthen an organization and its people.

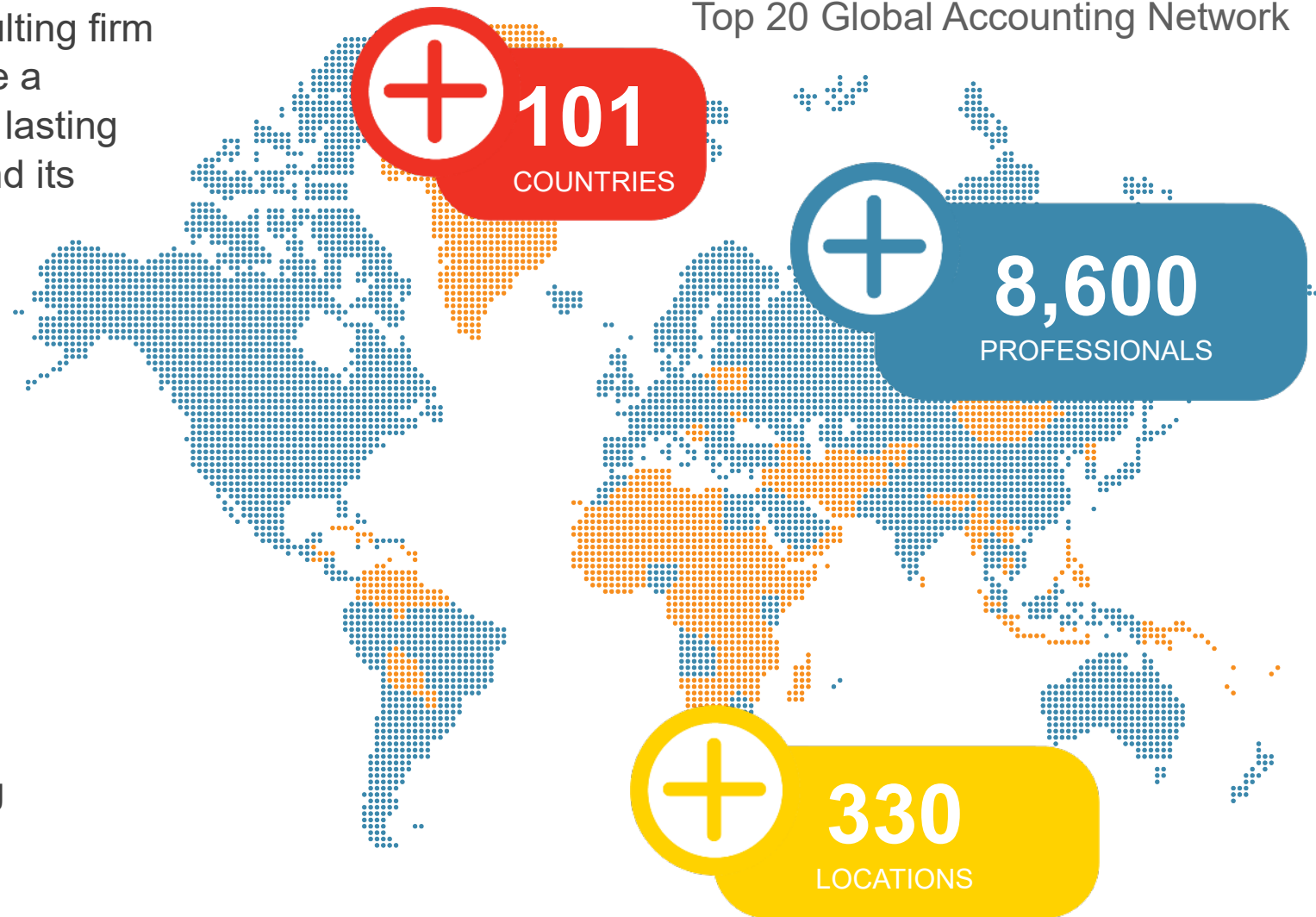
Our Key Capabilities:

- Business and Strategy
- Technology Innovation
- Operational Excellence
- Finance Transformation
- Cybersecurity and Risk
- Resource Solutions

Affiliate of UHY LLP

A leading national certified public accounting firm with over 20 locations across the US.

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Our Agenda

1

What is ESG and why is it Important?

2

What does ESG mean for Internal Auditors

3

**Starting your
ESG Journey**

- Review of ESG frameworks
- Develop Your Roadmap, Set Goals, and Prioritize Your Actions
- Implementing, Monitoring and Reporting

4

Small to Medium Business - ESG Sustainability Rating Case Review

Environmental

Conservation of the Natural World



Climate Change



Natural Capital



Pollution & Waste



Environment Opportunities

Social

Consideration of People & Relationships



Human Capital



Product Liability



Stakeholder Opposition



Social Opportunities

Governance

Standards for running a company



Corporate Governance



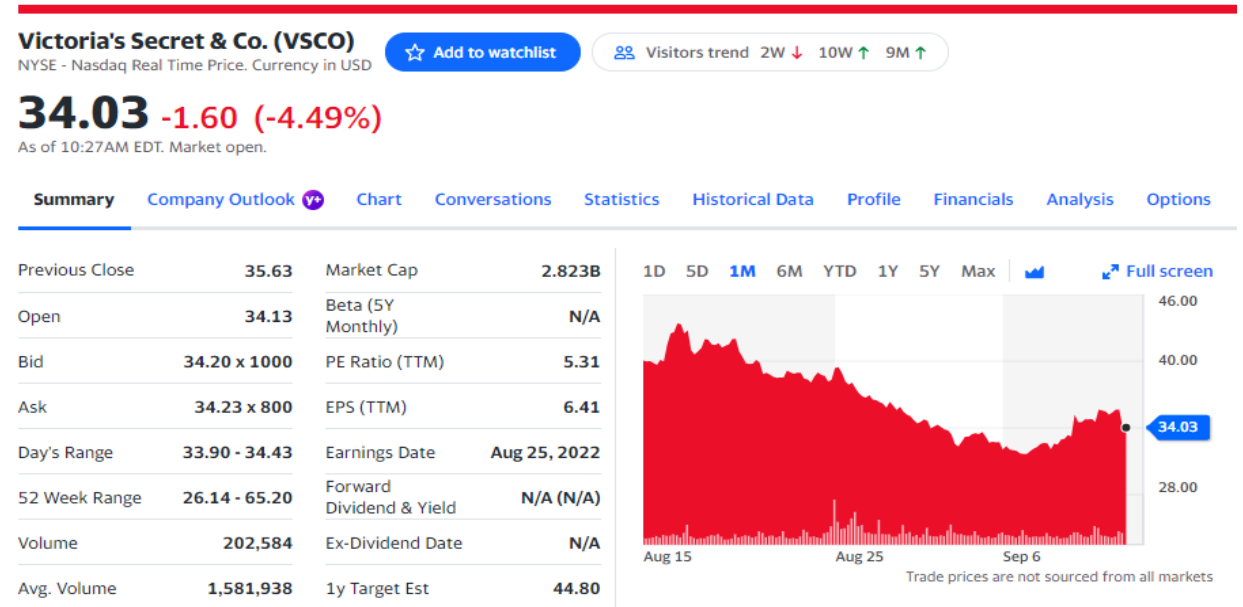
Corporate Behavior

Why is ESG important?

Non-financial business issues accounts for **80%** of a businesses risk



Why is ESG important?



Hulu's docuseries "Victoria's Secret: Angels and Demons," which offers a glimpse into the scandalous connection between Jefferey Epstein and disgraced Victoria's Secret founder Les Wexner.

ESG is here . . .

Increased investor interest in nonfinancial issues

80% of business risk is non-financial

90% of S&P companies published an ESG report

Regulation based ESG frameworks is coming



ESG analysis plays an important role in investing, other stakeholders such as consumers are paying attention to these measures of organizations' performance.

ESG Reporting for Public Information

Amazon.com, Inc. (AMZN)
 NasdaqGS - NasdaqGS Real Time Price. Currency in USD

129.23 -0.25 (-0.19%)
 As of 11:59AM EDT. Market open.

Summary Company Outlook Chart Conversations Statistics Historical Data Profile Financials Analysis Options Holders **Sustainability**

Environment, Social and Governance (ESG) Risk Ratings

Total ESG Risk score	Environment Risk Score	Social Risk Score	Governance Risk Score
30 64th percentile	5.6	14.8	9.9

Controversy Level 3 Significant Controversy level

ESG data provided by Sustainalytics, Inc. Last updated on 8/2022

ESG Risk Score for Peers

Name	Total ESG Risk score	E	S	G
OREL.IL	56	56	46	73
AMZN (this company) Amazon.com, Inc.	30	6	15	10
JDCMF JD.COM INC	28	9	11	9
SATLF ZOSO INC	27	8	10	9
VIPS Vipshop Holdings Limited	25	8	8	8



Exploring Internal Audit's Role as a Critical Collaborator

Source:

https://www.theiia.org/globalassets/site/foundation/latest-research-and-products/2021-3910-fnd-prioritizingesg-report_final_v6.pdf



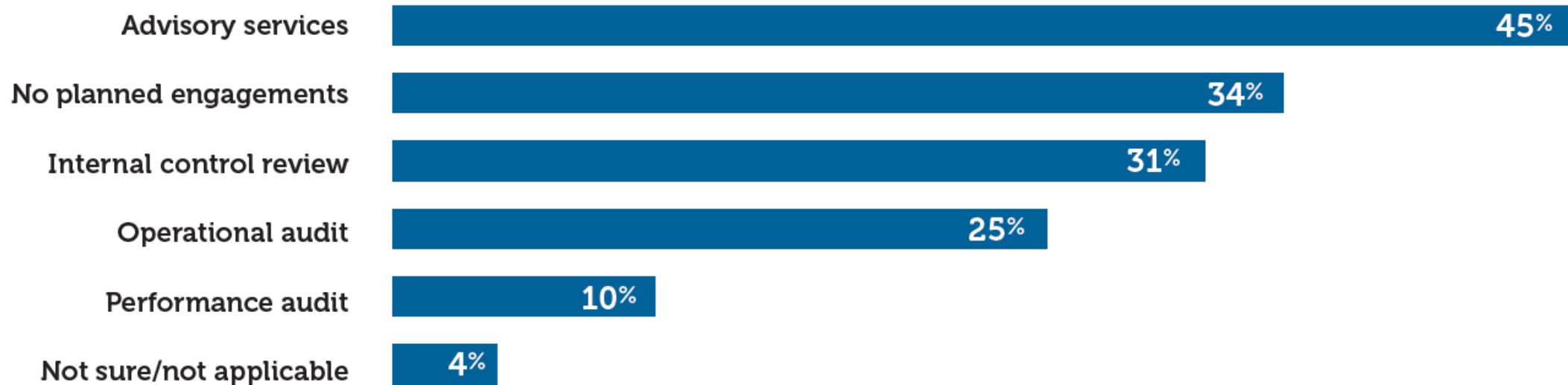
POLLING QUESTION 1

Is ESG a priority in your organization?

1. **No.** We never talk about it.
2. **Somewhat.** We've discussed it but have not taken any action.
3. **Yes.** It is on our radar, and we are making plans.
4. **Absolutely.** We have a plan in place.

ESG-related engagements over the next 12 months

Figure 5: Planned ESG Engagements



Note: Internal Audit Foundation/The IIA/EY Internal Audit Involvement in ESG Programs survey. Question: Please indicate which types of ESG-related engagements your internal audit function has planned over the next 12 months. Choose all that apply. *n*=102.

POLLING QUESTION 2

Does your company have any ESG-related engagements planned over the next 12 months?

1. Yes
2. No

Internal Auditors will be critical in ESG programs

“The demand for independent and objective assurance on ESG-related risk management activities from an internal audit function should be an essential component of any ESG program.”

The Journal of Accountancy



Internal audit can provide assurance on whether data (quantitative and qualitative) being reported is accurate, relevant, complete, and timely.

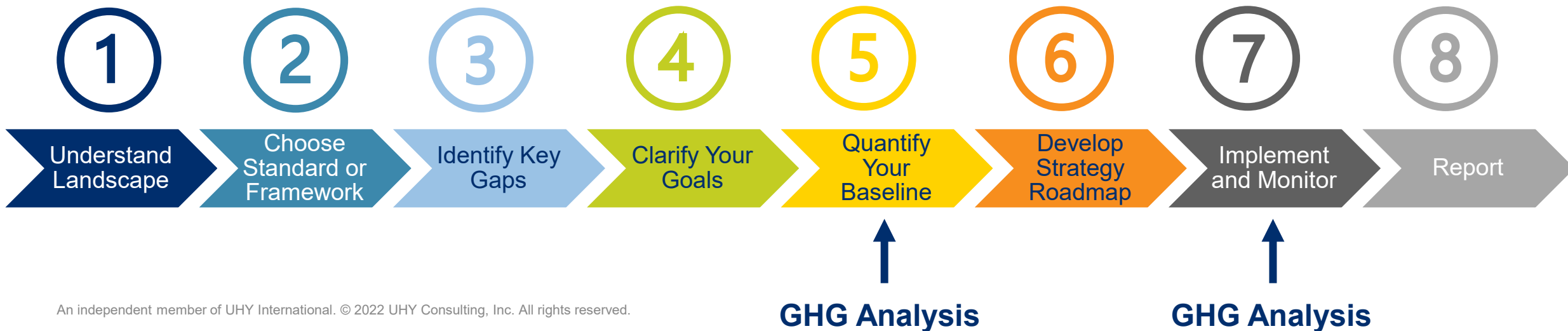
How Internal Audit add value to the ESG program?

- Evaluate the organization's current ESG maturity
- Performing technical risk assessments
- Evaluating the ESG risk management framework
- Collaborating with enterprise risk management (ERM)
- Ensuring ESG policies and procedures are documented
- Evaluating Design and operating effectiveness of control activities
- Evaluating accounting / reporting procedures for material ESG matters



Your ESG Reporting Journey – Are you ready?

- Successful implementation and reporting is contingent upon understanding:
 - The ESG landscape
 - How your industry fits within the context of this landscape
 - Reporting standards by geography – reporting requirements can vary by country and region
 - What your key customers are utilizing for their ESG reporting
 - Your ability to successfully develop, implement, and maintain the program



Starting your ESG Journey

1

Understand the Landscape

- ESG's are turning into 'nice haves' to 'must haves'
- The ESG industry ratings market has soared; ESG ratings systems work like a credit-score rating
- As your business grows, it is wise to be ready to submit your disclosures and tell a story to the ratings agency⁽¹⁾

ESG Risk Ratings⁽²⁾



(1) <https://corpgov.law.harvard.edu/2017/07/27/esg-reports-and-ratings-what-they-are-why-they-matter/>

(2) <https://www.msci.com/our-solutions/esg-investing/esg-ratings>

POLLING QUESTION 3

**Think about your company's ESG program today.
How do you view yourself?**

1. Lagging
2. Average
3. Performing activities to manage the most significant risks?

Starting your ESG Journey

2 Choose Your Standard or Framework

- **Global Reporting Initiative (GRI)**
- **Sustainability Accounting Standards Board (SASB)**
- **International Integrated Reporting Council (IIRC)**
- Workforce Disclosure Initiative (WDI)
- Task Force on Climate-Related Financial Disclosures (TCFD)
- **Climate Disclosure Standards Board (CDSB)**
- Science Based Targets Initiative (SBTI)
- **Carbon Disclosure Project (CDP)**
- UN Principles for Responsible Investment (PRI)
- UN Sustainable Development Goals (SDGs)
- Greenhouse Gas Protocol from World Resource Institute (WRI)
- EPA Greenhouse Gas Reporting Program (GHGRP)

ESG Frameworks

- Environmental, Social, and Governance (ESG) Frameworks are systems for standardizing and reporting disclosures of a company’s ESG metrics.
- ESG frameworks establish metrics that a company will disclose, typically related in some fashion to the UN’s Sustainable Development Goals.
- **Dozens of ESG Frameworks exist;** it’s important to understand your customers and industry to select the right framework.



<https://www.un.org/development/desa/disabilities/about-us/sustainable-development-goals-sdgs-and-disability.html>

Starting your ESG Journey

2 Choose Your Standard or Framework

- **Understand your stakeholders' requirements when choosing your framework**
- Stakeholders can include:
 - Investors
 - Customers
 - Suppliers
 - Media
 - Regulators
 - Partners
 - Employees
 - Auditors



Commonly Used Frameworks



Framework	What is covered?	Industry	Standard, framework, or guideline	Audience
Global Reporting Initiative (GRI)	Multiple standards across Economic, Environment and Social	Industry-agnostic	Standard: looks at a company's impacts on the world	Employees, shareholders, suppliers, communities, and NGOs
Sustainability Standards Board (SASB)	Multiple disclosures across Economic, Environment and Social	Specific industries (77 selected industries)	Standard: looks at the world's impacts on a company	Regulators, Investors, Insurance and other financial stakeholders
Integrated Reporting (IIRC)	Framework which covers all financial and non-financial issues	Industry-agnostic	Framework	Investors and multiple stakeholder groups
CDP	Specific coverage of climate change, supply chain, water and forests	Selected industries	Framework	Investors and customers

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GRI and SASB announces collaboration

GRI looks at the impact of the company on the world.



SASB looks at the world's impacts on a company.

Using the GRI and SASB Standards together **can offer a holistic picture of corporate performance, bringing sustainability and financial information more closely together.**

Sustainability Accounting Standards Board (SASB)

SASB Standards enable organizations to provide **industry-based** sustainability disclosures about risks and opportunities that affect enterprise value.



Source: <https://www.sasb.org/standards/>

SASB 77 Industries

- Consumer Goods
- Food & Beverage
- Resource Transformation
- Extractives & Minerals
- Health Care
- Services
- Financials
- Infrastructure
- Technology & Communications
- Renewal Resources & Alternative Energy
- Transportation

SASB Standards Are Organized by Industry

SASB Standards identify the issues most likely to be financially material for each of the 77 industries

CONSUMER GOODS

- Apparel, Accessories & Footwear
- Appliance Manufacturing
- Building Products and Furnishings
- E-Commerce
- Household & Personal Products
- Multiline and Specialty Retailers & Distributors
- Toys & Sporting Goods

EXTRACTIVES & MINERALS PROCESSING

- Coal Operations
- Construction Materials
- Iron & Steel Producers
- Metals & Mining
- Oil & Gas – Exploration & Production
- Oil & Gas – Midstream
- Oil & Gas – Refining & Marketing
- Oil & Gas – Services

FINANCIALS

- Asset Management & Custody Activities
- Commercial Banks
- Consumer Finance
- Insurance
- Investment Banking & Brokerage
- Mortgage Finance
- Security & Commodity Exchanges



Now part of IFRS Foundation

FOOD & BEVERAGE

- Agricultural Products
- Alcoholic Beverages
- Food Retailers & Distributors
- Meat, Poultry & Dairy
- Non-Alcoholic Beverages
- Processed Foods
- Restaurants
- Tobacco

HEALTH CARE

- Biotechnology & Pharmaceuticals
- Drug Retailers
- Health Care Delivery
- Health Care Distributors
- Managed Care
- Medical Equipment & Supplies

INFRASTRUCTURE

- Electric Utilities & Power Generators
- Engineering & Construction Services
- Gas Utilities & Distributors
- Home Builders
- Real Estate
- Real Estate Services
- Waste Management
- Water Utilities & Services

RENEWABLE RESOURCES & ALTERNATIVE ENERGY

- Biofuels
- Forestry Management
- Fuel Cells & Industrial Batteries
- Pulp & Paper Products
- Solar Technology & Project Developers
- Wind Technology & Project Developers

RESOURCE TRANSFORMATION

- Aerospace & Defense
- Chemicals
- Containers & Packaging
- Electrical & Electronic Equipment
- Industrial Machinery & Goods

SERVICES

- Advertising & Marketing
- Casinos & Gaming
- Education
- Hotels & Lodging
- Leisure Facilities
- Media & Entertainment
- Professional & Commercial Services

TECHNOLOGY & COMMUNICATIONS

- Electronic Manufacturing Services & Original Design Manufacturing
- Hardware
- Internet Media & Services
- Semiconductors
- Software & IT Services
- Telecommunication Services

TRANSPORTATION

- Air Freight & Logistics
- Airlines
- Auto Parts
- Automobiles
- Car Rental & Leasing
- Cruise Lines
- Marine Transportation
- Rail Transportation
- Road Transportation

SASB's Materiality Map

SASB's Materiality Map outlines the universe of sustainability for disclosure to consider

Environment

- GHG Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

Leadership & Governance

- Business Ethics
- Competitive Behavior
- Management of the Legal & Regulatory Environment
- Critical Incident Risk Management
- Systemic Risk Management



Business Model & Innovation

- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change

Social Capital

- Human Rights & Community Relations
- Customer Privacy
- Data Security
- Access & Affordability
- Product Quality & Safety
- Customer Welfare
- Selling Practices & Product Labeling

Human Capital

- Labor Practices
- Employee Health & Safety
- Employee Engagement, Diversity & Inclusion

The Global Reporting Initiative Framework (GRI)

- The GRI is an independent, international organization that provides a global common language to help businesses take responsibility for and communicate their ESG impacts.
- **GRI created the first set of sustainability standards and as of December 2020, is the most used ESG framework, used by 73% of the G250⁽¹⁾**
 - The GRI Standards are industry agnostic and applicable to all businesses
 - GRI Reporting is governed by the Global Sustainability Standards Board (GSSB)



<https://www.globalreporting.org/>

(1) <https://www.globalreporting.org/about-gri/news-center/2020-12-01-sustainability-reporting-is-growing-with-gri-the-global-common-language/>

GRI Framework Organization

- 1 Universal Standards:** GRI Universal Reporting will show your business how to properly file a GRI report, do disclosures about reporting within your organization, and will start your process of identifying material topics
- 2 Sector Standards:** **New and still under development** by GRI, your organization will choose which of 40 sectors it falls beneath choose the material topics and what to report that are most likely for your company
- 3 Topic Standards:** Topic Standards contain disclosures that the organization uses to report the organization's most significant impacts in relation to topics as determined using GRI 3

Quantifying Your Baseline

5

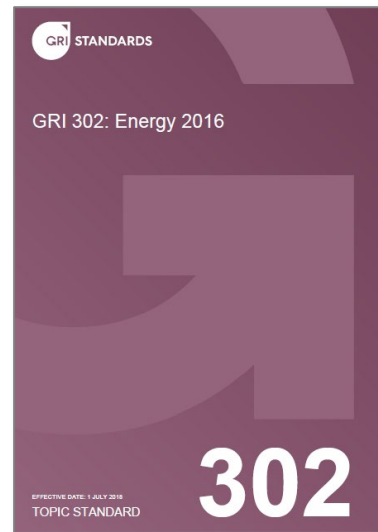
Quantify Your Baseline

- Identify your organization's material topics and relevant processes and data needs
- Identify subject matter experts (SME's) for material topics and related processes in your organization
- Identify a GRI Reporting point person for data collection; need not be an expert but empowered to collect data
- GRI Reporting point person to meet with SME's

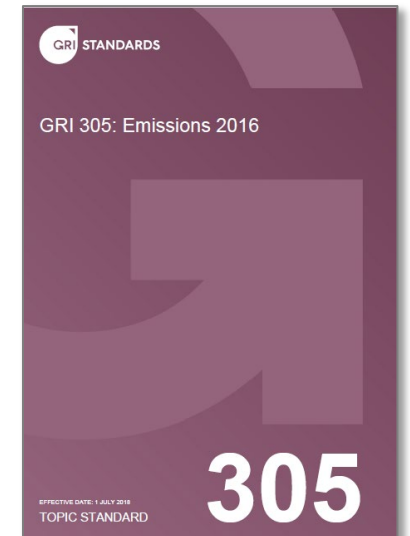
Reporting on Energy & Emissions Impacts

- A full ESG program may not be necessary; it may only be necessary to provide your customers with reporting around the material topics of Energy and Emissions using GRI guidelines
- General disclosure format:
 - a) Report on the disclosure item (listed below)
 - b) Provide the basis and baseline *and* rationale for choosing it
 - c) List any assumptions, methodologies or conversion factors used

- Energy consumption within org
- Energy consumption outside org
- Energy intensity
- Reductions of energy use



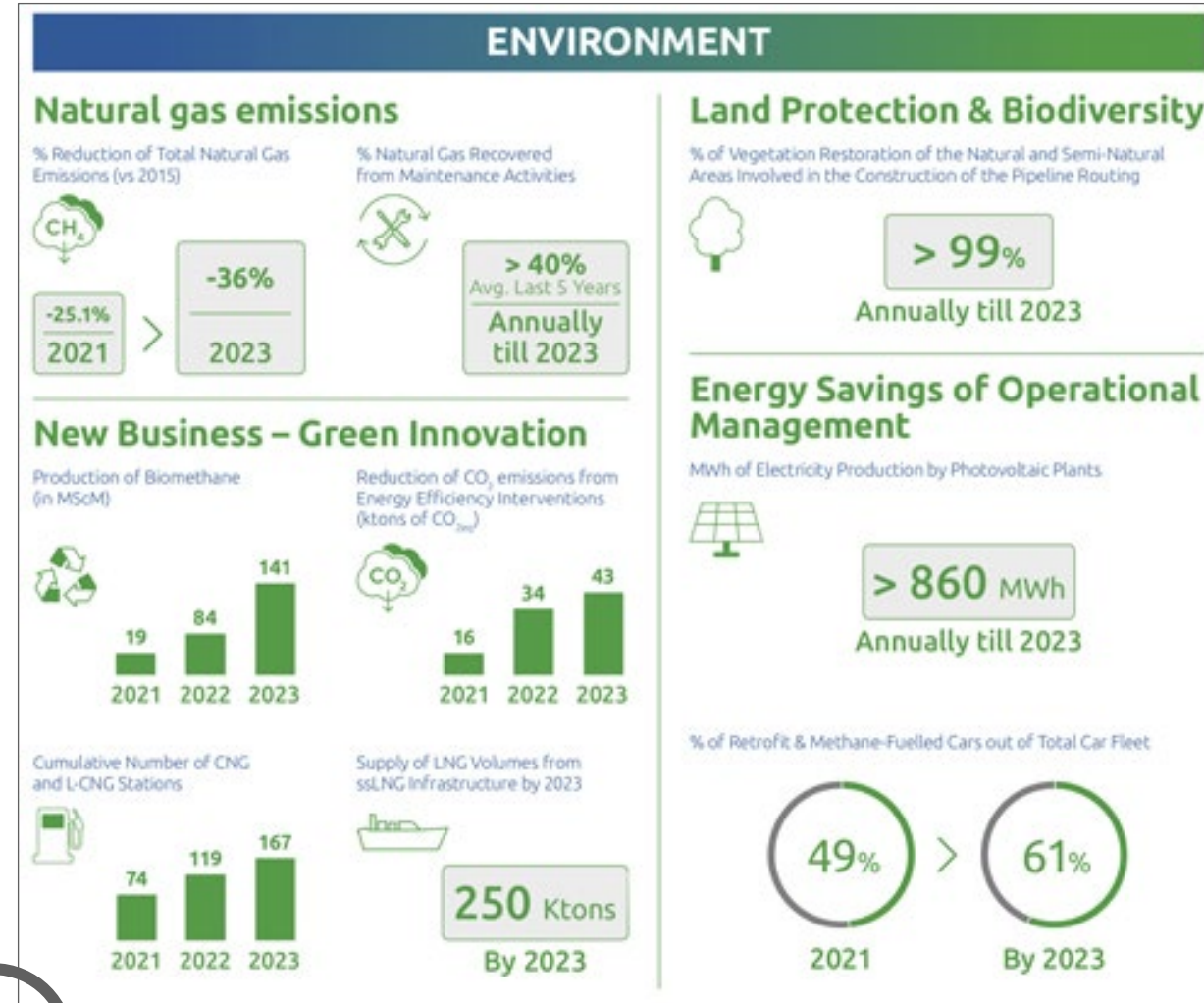
- Direct GHG emissions
- Energy indirect GHG emissions
- GHG emissions intensity
- Reduction of GHG emissions



Develop Your Roadmap – Set Your Goals

6 Develop a Strategy Roadmap

- Identify reasonable energy and emissions reductions for each material initiative
- The Key Performance Indicators (KPI's) are self-enforced; ensure realistic and attainable goals are set for your company
- Align your KPI's with those of your key customers and stakeholders
- Ensure all assumptions and rationale for calculations are well documented as part of your reporting structure



7

Implementing and Monitoring

7

Implement and Monitor



- Depends on scale of your business; can range from manual to automated with software and technology implementations
- Data should be evaluated regularly (e.g., weekly or monthly) to ensure quality, consistency, and accuracy
- Appointment key responsible people in the organization to collect the data and report to the Sustainability Officer
- Depending on your scale, consider the implementation of an Environmental, Health and Safety software that includes ESG reporting
- Consider individual equipment or process-level metering of your gas and electrical usage
- **Utilize root-cause analysis and corrective actions to assess improvements when targets are not being met**

ESG Reporting



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- A great deal of flexibility is provided in how ESG reports are assembled
- At their core, ESG reports break down the material topics and report on progress made against the baseline
- Highlight cost reduction and top line results
- Use simple dashboards to showcase your successes!
- Ensure reporting framework and disclosures are clear



Reporting - GRI Disclosure Omissions



- Not all items require disclosure
- Acceptable reasons for disclosure omissions include:
 - Information that is confidential
 - Information that is subject to legal prohibitions
 - Information that does not exist
- Omitted disclosure items:
 - Must still be noted – no items are allowed to be left blank
 - Must include a reason for omission (e.g., do not have the right equipment to measure)
 - Should describe any plans to develop the item (e.g., implementing a new policy by EOY)

ESG is a Continuous Process

- ESG Reporting is intended to drive sustainability continuous improvement not unlike Lean Manufacturing processes for operations improvements
- Setbacks and issues meeting KPI's can be expected; have a group of experts ready to perform ESG Kaizen sessions to discover root causes and make process improvement recommendations
- Not meeting your goals and lacking an improvement plan or mitigative strategy can negatively impact supplier relations with your customers
- Establish realistic goals, provide executive support, commit the resources necessary to follow through



A young woman with long brown hair and black-rimmed glasses is sitting at a yellow desk. She is wearing a white sleeveless top and is focused on writing in a spiral notebook with a black pen. The background is a bright yellow wall. To her right, there is a black printer on a desk with a laptop on top of it. The overall scene is brightly lit and modern.

**Small and privately
held companies –
What's in it for me?**

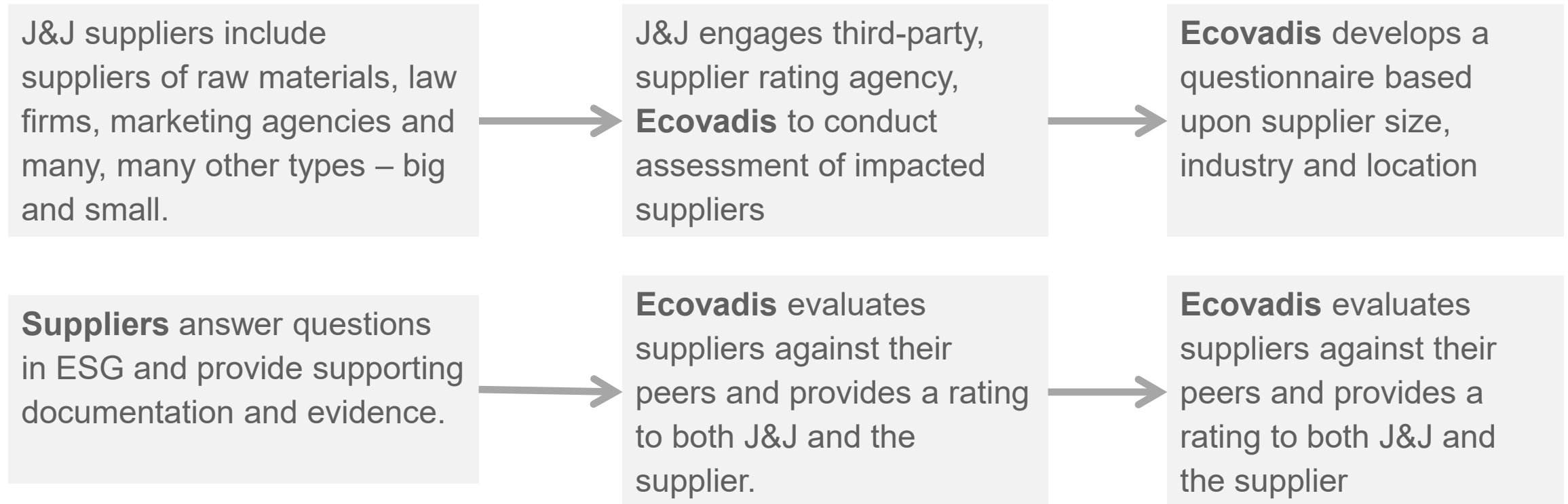
Reasons why private companies need an ESG strategy

- **To strengthen and secure relationships with business partners**
- **To capture new business opportunities and spur innovation**
- **Access to capital could depend on a solid, thoughtful ESG strategy.**
- **Even as a private company, you could be subject to regulations.**
- **To retain and attract employees.**
- **Your customers want / need – to know your ESG policies & metrics.**

Small or Privately-held companies & ESG ratings

Case Study:

As part of its own ESG commitments, Johnson & Johnson's requires its 50,000 suppliers to comply with its *Responsibility Standards for Suppliers*.



Sustainability Ranking companies



Sustainalytics

Sustainalytics is an independent ESG and corporate governance research, ratings, and analysis firm supporting investors around the world with the development and imple...

[See All Sustainalytics's competitors](#)

EcoVadis vs. Sustainalytics

Why does EcoVadis win vs. Sustainalytics

Feature Set

EcoVadis Provides...

We rate SMEs and unlisted companies



ESG Book

ESG Book provides a cloud-based platform that makes ESG data accessible, enabling financial markets to allocate capital towards more sustainable and higher impact asset...

EcoVadis vs. ESG Book

View EcoVadis's entire Analyst Briefing

EcoVadis's Analyst Briefing includes information on:

- Pricing
- Customer references
- Products
- Integrations

[See more](#)



Sedex

Sedex is an ethical trade service company. The company provides CSR, supply chain, ethical trade, risk, human rights, and assessment. It is based in London, England.

EcoVadis vs. Sedex

View EcoVadis's entire Analyst Briefing

EcoVadis's Analyst Briefing includes information on:

- Pricing
- Customer references
- Products
- Integrations

[See more](#)



CDP

CDP operates a global environmental disclosure system where, at the request of investors, purchasers and city stakeholders, it supports thousands of companies, cities, ...

[See All CDP's competitors](#)

EcoVadis vs. CDP

Why does EcoVadis win vs. CDP

Integrations

EcoVadis Provides...

CDP mostly cover large listed companies; our CAM offering is designed to address SMEs and unlisted companies (70%+ of most supply chains)



Sphera

Sphera provides enterprise software and services that enable companies to manage and optimize environmental, health, and safety ("EH&S") compliance, sustainability, and...

EcoVadis vs. Sphera

View EcoVadis's entire Analyst Briefing

EcoVadis's Analyst Briefing includes information on:

- Pricing
- Customer references
- Products
- Integrations

[See more](#)



Seneca ESG

Analyst Briefing Submitted

Seneca ESG is a data management company that offers solutions for ESG data management, corporate sustainability assessment, reporting, and integration with financial se...

EcoVadis vs. Seneca ESG

View EcoVadis's entire Analyst Briefing

EcoVadis's Analyst Briefing includes information on:

- Pricing
- Customer references
- Products
- Integrations

[See more](#)

The Deficiency of ESG scores

- The lack of regulatory oversight in the United States has allowed thousands of rating platforms to use corporate statements to generate their ESG ratings.
- Not all ESG factors are easily quantifiable, and such factors may not directly translate into earnings growth or enhanced performance for the firm.
- Current corporate sustainability disclosures are heavily skewed towards process and procedures and not towards actual performance.
- The booming business of rating companies based on their environmental, social and governance (ESG) performance is flawed by inadequate standardization and incomplete and inconsistent data.

ESG Deficiency – Case review: BooHoo Clothing

boohoo

MSCI had given Boohoo a double-A ESG score — distinguishing the British fast fashion e-tailer as **above industry average in terms of supply chain labour practices and placing it in the top 15 per cent of its peer group**

This was just before allegations about its promotion of poverty wages and unsafe working conditions in the garment hub of Leicester, England, hit international headlines.

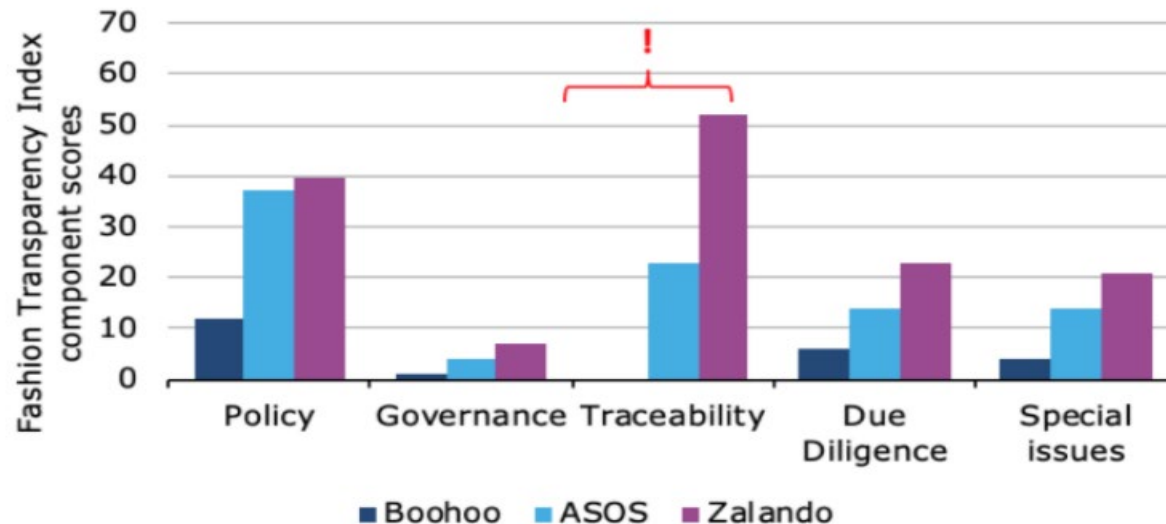


(MSCI declined to comment about Boohoo, though it says its ratings are not a recommendation or endorsement of a specific company.)

ESG teaches Investors a Lesson

ESG scoring is riddled with loopholes that allow companies to “game the system”, since they can choose to divulge only favorable information that can mislead less judicious or experienced investors. Another problem with ESG ratings is they lack oversight — “everybody does it a little bit differently” ...

Transparency of online fashion retailers by area



Boohoo a traceability score of zero in April because it shared no information about where it bought its clothes or sourced its materials.

What's happening with U.S. ESG Regulation

ESG disclosure key dates at a glance



ESG Regulations – More to Come



The new responsibilities of sustainability officers likely will include more **data delivery and strategic responsibilities**, rather than them being seen as solely an agent for change and a communicator. “Sustainability is becoming a delivery role,” says Olivia Whitman, Head of Sustainability at Siemens.

“We’ve spent a decade trying to be changemakers, and now suddenly, we’re having to implement processes and think about strategy.”

<https://www.thomsonreuters.com/en-us/posts/investigation-fraud-and-risk/esg-regulations-compliance/>

Resources and Links

[Internal Audit's Role in ESG Reporting](#)

[ESG assurance an elusive but promising opportunity for auditors](#)

[Which Corporate Sustainability Rankings Should Your Organization Look Out for?](#)

[How regulations are moving ESG into the risk and compliance field](#)

[Does Audit Improve the Quality of ESG Scores?](#)

[13 Ways Internal Can Play an Essential Role in ESG Reporting for Insurance Companies](#)

[BOOHOO Teaches Investors a lesson](#)

[4 reasons why private companies need an ESG strategy](#)

Questions?

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