



Chartered Institute of
Internal Auditors

Environmental, Social and Governance

Dave Gandee - Partner, PwC
and

Nicola Summers - Director, PwC

9 December 2021

What is Sustainability?

Meeting the needs of the present without compromising the ability of future generations to meet their own needs.

UN General Assembly (UNGA) .

What is ESG and what does it mean?

Environmental, social and governance (ESG) criteria are a set of standards that companies can use to identify, manage and disclose Sustainability risks and opportunities for their business. ESG topics evolve over time, this list is dynamic and hence not exhaustive.

- **Environmental** criteria consider how a company performs as a steward of nature.
- **Social** criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates.
- **Governance** deals with a company's leadership, management of ESG issues, risk management and business ethics.

Environment

Impact on natural resources and the broader natural environment. Examples:

- Energy consumption/GHG emissions
- Pollution (e.g. to air and water)
- Resource use, such as water, energy and materials
- Waste management
- Noise, land use and landscape
- Green subsidies and incentives
- Land protection
- Deforestation
- Environmental taxes
- Task Force on Climate-related Financial Disclosure (TCFD)
- Climate Change
- Net Zero

Social

Relationships with employees, suppliers, customers and communities. Examples:

- Equality, diversity and inclusion
- Health and safety
- Human rights
- Safeguarding employees and customers
- Supply chain management
- Responsible procurement
- Customer satisfaction
- Engagement with local communities
- Social acceptance
- Social insurance, health care and pension premiums
- Land rights
- Equal pay, living wages and remuneration policies
- Gig economy, flexible workforce and global mobility
- Fair work conditions

Governance

Corporate stewardship, oversight, compliance and accountability. Examples:

- Regulatory and legal compliance
- Risk management
- Business ethics/conduct
- Board diversity and structure
- Anti-bribery and corruption
- Data protection and security
- Competitive behaviour
- Ethical behaviour
- Whistleblowing
- Risk and opportunity oversight disclosure
- Tax reporting and stakeholder communication

A pair of glasses with a dark frame and clear lenses is positioned diagonally across the frame. The background is a vibrant green with a fine, woven texture. The lighting creates soft shadows on the surface beneath the glasses.

Why is ESG important?

Why is there an increasing focus on ESG?

- **Climate change** response is moving centre stage, notably through Net Zero commitments
- **Supply chain ethics** and reputational risk concerns are increasing - for example the impact on Boohoo of Modern Slavery allegations
- **Social issues** driven by events in 2020 are exposing systemic inequalities and the potential political and civil unrest they can lead to, influencing how business thinks about diversity and inclusion.
- **Regulators** are intervening more, driving compliance concerns across many sectors
- **Fast changing consumer demands** are requiring more and more agility and adaptation from companies to respond
- **Investors** are looking for companies to 'walk the walk' with regards to ESG commitments - 'lip service' is not enough
- **Requirements in reporting and disclosure** of ESG data will accelerate in 2021



Recent press

BP to take up to \$17.5bn hit on assets after cutting energy price outlook

Oil major expects demand to stay lower for longer and the shift away from fossil fuels to accelerate



Global regulatory body to harmonise 'plethora' of ESG standards

Ambitious plan by umbrella group for securities regulators aims to make it easier to compare information

The International Organization of Securities Disclosures Standards would work to identify "commonalities" and disclosure standards from across the world to compare information.

BT's £55bn pension scheme commits to net-zero emissions by 2035

8 October 2020, source [edie newsroom](#)

The UK's largest corporate pensions investment fund, BT Pension Scheme, has signalled its intention to reach net-zero emissions by 2035 on behalf of its £55bn portfolio.



FTfm ESG investing

+ Add to myFT

BlackRock pushes for global ESG standards

Overhaul is vital if investors are to understand the risks companies face, says US asset manager

Businesses making eco-friendly claims to be vetted by watchdog

Competition and Markets Authority says rising demand may lead to 'greenwashing'

BBC Sign in News Sport Weather iPlayer

NEWS

Home UK World Business Politics Tech Science Health Family & Education

Science & Environment

Mark Carney: 'We can't self-isolate from climate change'

By Victoria Gill
Science correspondent, BBC News

© 7 May 2020



15 SEPTEMBER 2020

New Zealand first in the world to require climate risk reporting



HON JAMES SHAW

Climate Change

New Zealand will be the first country in the world to require the financial sector to report on climate risks, the Minister for Climate Change James Shaw announced today.

Climate change

+ Add to myFT

UK companies face closer scrutiny on disclosing climate change risks

Accounting watchdog looks to provide investors with more transparency

Business case for integrating ESG

- **Financial performance:** Strong positive correlation between ESG strategies and financial performance
- **Fundraising:** Responsible investors expect meaningful approach to ESG.
- **ESG disclosure requirements on stock exchanges globally:** The ESG performance of a company can be an important factor for strategic investors or launching an initial public offering.
- **Consumer expectations:** Customers/consumers are increasingly influenced by environmental and social values; a particularly strong driver for younger generations.
- **Labour productivity:** Attracting and retaining skilled workers is often crucial to success.
- **Reputational risk:** A good reputation is critical to the success of many businesses.
- **Regulatory environment:** Careful ESG management can help future-proof firms against interventions from regulators that negatively affect their business.

A pair of glasses is positioned diagonally across the frame, resting on a green textured surface. A semi-transparent green overlay covers the entire image, with the text centered in white. The background shows a book and a textured green surface.

The focus of Internal Audit

Considerations for Internal Audit

What are your organisations' **priorities**?

What are the **timelines** for delivery?

How is **success** being monitored and measured?

What other **assurance** is in place?

What is the **appetite** of the Board / NEDs?

What are resource availability and **capability** of Internal Audit?

What is the existing Internal Audit **coverage**?

What does Internal Audit already cover?

Environment

Impact on natural resources and the broader natural environment. Examples:

- Energy consumption/GHG emissions
- Pollution (e.g. to air and water)
- Resource use, such as water, energy and materials
- Waste management
- Noise, land use and landscape
- Green subsidies and incentives
- Land protection
- Deforestation
- Environmental taxes
- Task Force on Climate-related Financial Disclosure (TCFD)
- Climate Change
- Net Zero

Social

Relationships with employees, suppliers, customers and communities. Examples:

- Equality, diversity and inclusion
- Health and safety
- Human rights
- Safeguarding employees and customers
- Supply chain management
- Responsible procurement
- Customer satisfaction
- Engagement with local communities
- Social acceptance
- Social insurance, health care and pension premiums
- Land rights
- Equal pay, living wages and remuneration policies
- Gig economy, flexible workforce and global mobility
- Fair work conditions

Governance

Corporate stewardship, oversight, compliance and accountability. Examples:

- Regulatory and legal compliance
- Risk management
- Business ethics/conduct
- Board diversity and structure
- Anti-bribery and corruption
- Data protection and security
- Competitive behaviour
- Ethical behaviour
- Whistleblowing
- Risk and opportunity oversight disclosure
- Tax reporting and stakeholder communication

Review approaches

High Level and Broad Approach

8 principles of effective ESG governance:

1. ESG accountability
1. Command of the subject
1. Management structures
1. Material risk and opportunity assessment
1. Strategic integration
1. Incentivisation
1. Reporting and disclosure
1. Exchange

Benchmarking

Narrow and Deep Approach

ESG Topical Review

- Control design
- Operating effectiveness
- Compliance
- Overlay of softer, more subjective information

Building ESG topics / indicators into existing reviews

Subject Matter Experts

A pair of glasses with a dark frame is positioned diagonally on a green textured surface. A semi-transparent green overlay covers the entire image, with the word "Questions?" centered in white text.

Questions?