



workiva

The Intersection of ESG & GRC: Streamlining Assurance of Your ESG Efforts

Mark Mellen
Industry Principal, ESG
Workiva

Grant Ostler
Industry Principal, GRC
Workiva

Joseph McCafferty
Editor & Publisher
Internal Audit 360°

Introductions



Mark Mellen
Industry Principal, ESG
Workiva



Grant Ostler
Industry Principal, GRC
Workiva



Joseph McCafferty
Editor & Publisher
Internal Audit 360°

The ESG Landscape

Who cares about ESG?

1. Regulatory



Global movement on the regulatory front has increased pressure

SEC climate, HC, cyber

EU CSRD

Many other climate disclosure proposals

2. Investor



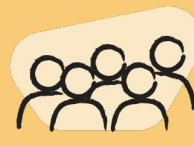
Specific expectations from investors have been laid out

BlackRock, Vanguard, State Street, etc.

Banks

Private equity

3. Stakeholders



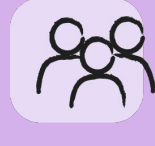
The rise of stakeholder capitalism

Customers

Employees


Shareholders

4. Corporates



Target-setting race has accelerated

Corporate competition



Polling Question 1

Has your organization published an ESG report?

- A. Yes, for over 5 years
- B. Yes, for 1-4 years
- C. We're working on our first
- D. Not yet
- E. Don't know

What are others saying

1/3



of companies identify validating data for **auditing** as a **top 3 challenge** in ESG

71%



of organizations believe ESG reporting has reduced **long-term risk**

85%*



of executives are concerned their company **“does not have the right technology in place,”** despite 97% anticipating technology playing an important role in meeting potential new requirements

80%



of organizations indicated that **technology** was important to validate data for auditing

45%



of companies have outlined **actionable steps** to improve ESG governance

70%*



of business leaders report their companies **will “proceed with compliance”** regardless of when the rule becomes U.S. law

How is ESG impacting your organization?

It's different now

- ESG topics have been around for 50+ years
- Some organizations are already connecting ESG to business value

It's huge!

- ESG includes a huge range of topics
- Lots of data from disparate sources, much of it unstructured and not from a “system”

You need to focus

- ESG materiality assessment yields clarity on priorities
- Material ESG topics should be factors in the corporate strategy process

You need to integrate

- Strive to integrate ESG into your existing risk and governance processes
- Break down silos—don't build new ones!

ESG data challenges



Disparate Sources

As opposed to SOX, most of the data won't come from an ERP or accounting system. It will come from a myriad of sources

Not System Driven

- Much of the data is recorded automatically, but is not stored in a database or system
- How to get complete and accurate data timely

Systems not Audited

- The systems that house ESG data were probably not audited previously
- Are the ITGCs "SOX ready"?

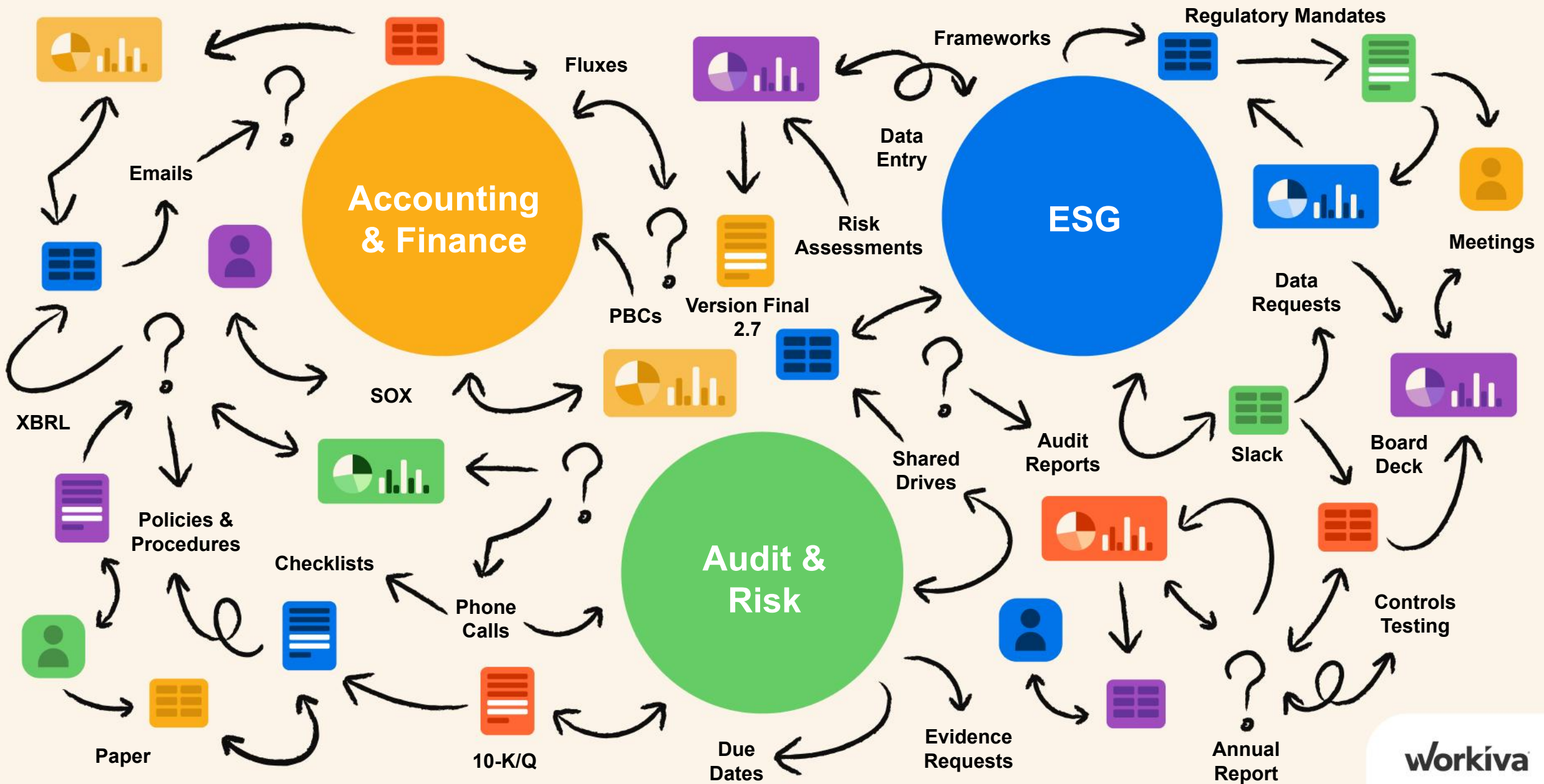
Audit Ready

- New ESG process and control owners are not used to being audited or providing audit-ready data
- You will need to help them!

Connected to Financials

Consistency of ESG data shared in financial and non-financial reports

Today's complexities are not isolated





Polling Question 2

What has your internal audit team planned related to your ESG report(s)?

- A. We don't publish an ESG report, so this is not applicable.
- B. We have no current plans to perform an internal audit
- C. We have plans to perform an internal audit of the content of our sustainability report this year.
- D. We have plans to perform an internal audit of the content of our sustainability report AND related governance, strategy, and risk management.

ESG Reporting Evolved

Integrated reporting with assurance is a team effort



Financial Reporting Process

- Materiality
- Financial impact analysis
- Consistency in disclosures
- XBRL®

Governance, Risk, & Compliance Processes

- Risk management
- Policies
- Controls
- Audits

ESG Processes

- Materiality assessment
- Framework mapping
- Metrics
- Data collection, aggregation, analysis
- Dashboards
- Sustainability reporting
- XBRL

Standardization is key for success

Without standardization of process and technology, we see challenges with...



Lack of process and control documentation



Lack of formal policies & procedures



Time-consuming, manual processes



Difficult data aggregation



Data integrity issues



Limited control/visibility



Inaccurate/inadequate reporting

Standardization is key for success

Without standardization of process and technology, we see challenges with...



Lack of process and control documentation



Lack of formal policies & procedures



Time-consuming, manual processes



Difficult data aggregation



Data integrity issues



Limited control/visibility



Inaccurate/inadequate reporting

With standardized processes and technology, teams benefit from...



Visibility of process:
Who has done what, and when?



Process automation: workflow assignments, reminders, review, resolution



Simplified and centralized evidence management and testing



Ability to continuously monitor transactions, process controls, etc.



Direct data import from source systems, automated pulls

Standardization is key for success

Without standardization of process and technology, we see challenges with...



Lack of process and control documentation



Lack of formal policies & procedures



Time-consuming, manual processes



Difficult data aggregation



Data integrity issues



Limited control/visibility



Inaccurate/inadequate reporting

With standardized processes and technology, teams benefit from...



Visibility of process:
Who has done what, and when?



Process automation: workflow assignments, reminders, review, resolution



Simplified and centralized evidence management and testing



Ability to continuously monitor transactions, process controls, etc.



Direct data import from source systems, automated pulls

And ultimately driving success via...



Greater operational efficiency

- Faster process for management reporting and regulatory filings
- Reduced time spent testing, more timely issue identification and remediation
- Improved audit engagements



Increased effectiveness in reducing risk and increasing reporting quality

- Accurate data and information across critical reports, documents and disclosures
- Time available to discuss root cause analysis and areas for process improvement



Polling Question 3

How is internal audit involved in the ESG process at your organization?

- A. Not at all
- B. We have plans or have reviewed ESG disclosure/data
- C. We are involved in an informal ESG governance structure
- D. We are involved in a formal ESG governance structure**



ESG Risk and Audit



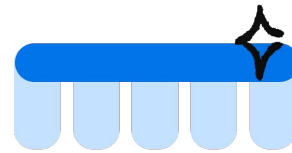
ESG risks in the news

Risk of a material misstatement



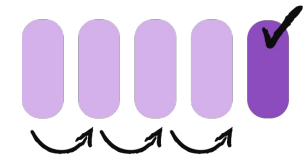
SEC asserts Vale's ESG disclosures to be "materially false and misleading by downplaying the risk of catastrophic financial consequences."

Reputational & greenwashing risk



Regulators have made it clear that greenwashing is now a 'material risk' and supervisory action will be taken against firms found to be misleading customers, investors, and other key stakeholders over the sustainability of their product offerings or transition plans.

Long-term risk of investor funding



SEC fines BNY Mellon \$1.5m for ESG misstatements

How are you managing your ESG risks?

Environmental



Encompasses how a company is exposed to and manages risks and opportunities related to climate, natural resource scarcity, pollution, waste, and other environmental factors, as well as a company's impact on the environment.



Social



Comprises information about the company's values and business relationships. For example, social topics include labor and supply-chain information, product quality and safety, human capital topics such as employee health and safety, and diversity and inclusion policies and efforts.



Governance



Encompasses information about a company's corporate governance. This could include information on the structure and diversity of the board of directors, executive compensation, critical event responsiveness, corporate resiliency, and policies and practices on lobbying, political contributions, and bribery and corruption.

How does ESG impact your internal audit team?

Challenges



- This is a **big effort** (likely bigger than SOX)
- Data challenges are significant (**disparate and unstructured data**)
- Good audit skills are applicable, **but** this is not SOX with a checklist for everything
- **Critical thinking** and **advisory skills** will be **important**—does your team have them?
- Finding **qualified resources** in an already tight market

Opportunities



- Unprecedented opportunity to **earn your seat at the table**
- Early involvement to **build controls into the process** and **leverage technology**
- Internal **audit skills with big leverage**:
 - Critical-thinking skills
 - Risk and controls perspective
 - Expertise in gathering, analyzing, and understanding disparate data sets



Polling Question 4

Have you read the recent COSO guidance “COSO Achieving Effective Internal Control Over Sustainability Reporting (ICSR)?

- A. Did COSO release guidance about internal control for ESG? I didn't know.
- B. Not yet, and it's not a priority for me right now.
- C. I read the Executive Summary and will get into the rest later.
- D. Yes, I've read it in full

Recommended practices¹

ESG Program Governance

- Cross-functional ESG steering committee
- Senior leadership commitment
- Board oversight

Materiality Assessment

- Materiality or risk assessment
- Focus on topics/metrics that are material to stakeholders and matter to your organization

Integrate ESG into Strategy

- Strategy process should consider ESG risks
- Integrate ESG risks into ERM program
- Plan and budget for ESG efforts
- Utilize recognized frameworks

Data Mapping / Completeness

- Determine best sources for material ESG metrics/data
- Verify data completeness and accuracy from the start

Internal Controls

- Identify risks in data collection processing and reporting
- Build in controls to mitigate errors from the start

Key Points

Start now



- Assurance is coming
- This is a big lift, don't squander time—it will take longer than you think
- You have adequate directional info to start now

Be strategic



- Let your business and industry guide
- Focus on material items
- Build controls into the process
- Leverage technology

Data is key



- Lots of data that's never been audited
- Many disparate and unstructured sources
- Data lineage is important for assurance (think IPE)



Questions?