

Quality of Corporate Responsibility and Sustainability Information

Internal & External Audit : Examples and benefits



November 25th 2009

**Financial Management Institute of
Canada**

Professional Development Week

Agenda



Context : Sustainability information disclosure



Implications for organizations



Internal audit : role and objectives



External assurance : principles and benefits



Stakeholders panorama

Context



Context : environmental and social information almost consistently communicated

Regulatory obligations

- Environment protection and climate change
- Environnemental and social information disclosure
- Accounting standards and securities commissions

Investors Pressure

- Carbon Disclosure Project
- Socially Responsible Investment (Ethical Investment Fund, Fondation, ...)

Stakeholders expectations

- NGO, local communities
- Clients
- Employees, trade-unions

Standards and guidelines

- Global Reporting Initiative
- AA 1000
- ISO 26000

Environmental and social information disclosure in financial statements

Consequences of federal and provincial regulatory obligations on financial statements

Asset

- Capital expenditure for equipment compliance with safety standards
- Asset retirements obligations
- GHG emissions credits

Liabilities

- Site rehabilitation, asbestos decontamination
- Emissions exceedance relative to credits

Non accounted liabilities

- Annex Informations

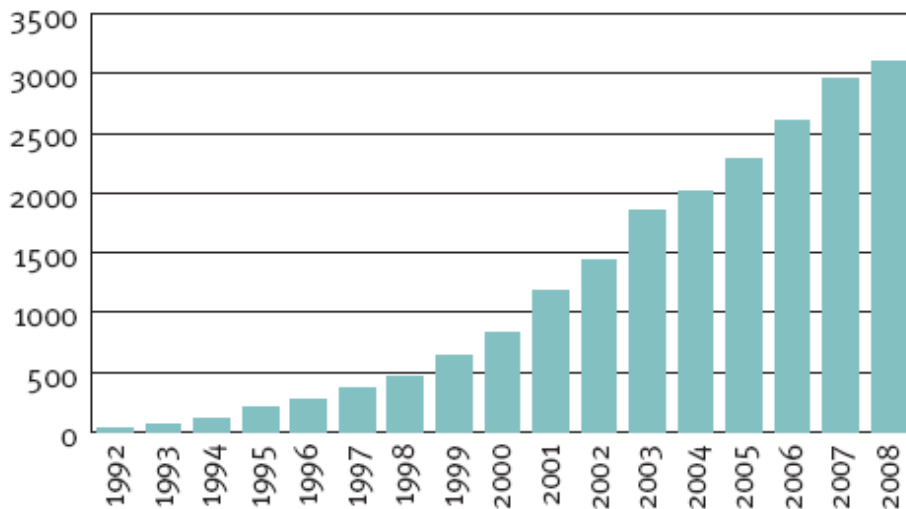
Environmental and social information disclosure in Management Disclosure and Analysis

- National Instrument 51-102 for directors of the Canadian Securities Commission (CSC)
 - Information in MD&A on “**important risks** that have affected or [...] are reasonably likely to affect (financial statements) in the future”
- Chartered Accountants’ of Canada (CICA) – Guidance on Management Disclosure and Analysis (MD&A) (230.3) :
 - "Information is material if it would be considered important by an investor (...) in making a decision to invest or continue to invest in the company.
 - Management’s determination of materiality applies not only to financial statement disclosures but also to all information, qualitative as well as quantitative, (...) disclosed in the MD&A.
- Some informations linked to corporate responsibility and sustainability (e.g., climate change, contaminated soils, social impacts) can fit into these categories

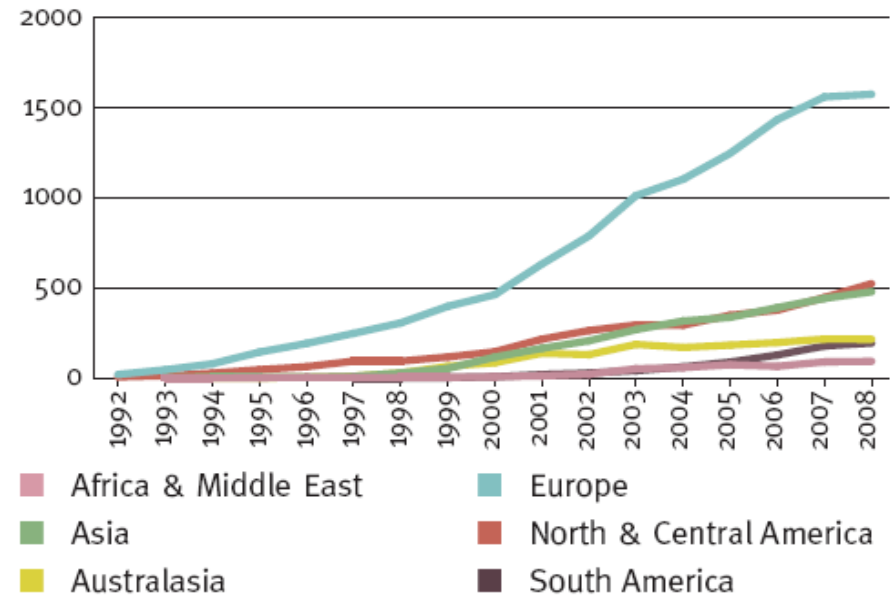
Sustainability information disclosure: a voluntary trend

- Over **3100 CR reports** have been published worldwide in 2008

Global Sustainability Report output per year



Report output per year by region



* Source : CorporateRegister.com, The CR Reporting Awards 2008, Global Winners & Reporting Trends, 2009,

Sustainability Information disclosure: towards a regulatory requirement

- State companies and designed entities (Quebec) :
 - Sustainability Action Plan and annual performance disclosure
- Public companies :
 - Ontario Securities Commission (OSC) is working on a disclosure framework on qualitative and quantitative information for ESG performance (environment, social, governance) : « OSC corporate sustainability reporting initiative ». *Draft Proposal expected January 2010.*
 - Other similar obligations exist in Europe (France, Denmark, UK), Australia, South Africa,...

Implications for organizations



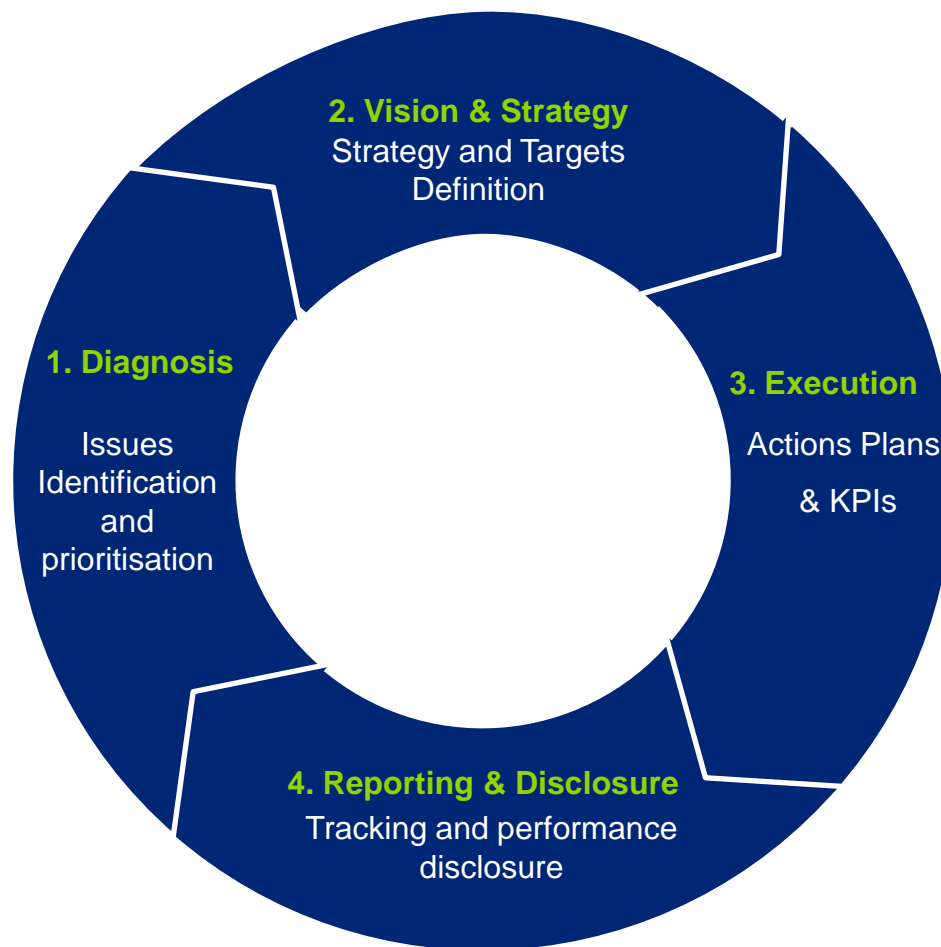
Implications for organizations: a structured approach to risk and opportunities management

Risks

- Reputation
- Financial
- Social Climate
- Regulatory Compliance
- Market Loss

Opportunities

- Cost Reduction
- Innovation
- Brand and Image
- Market Positioning
- Talent Retention



Implications for organizations : Execution and disclosure principles (1/2)

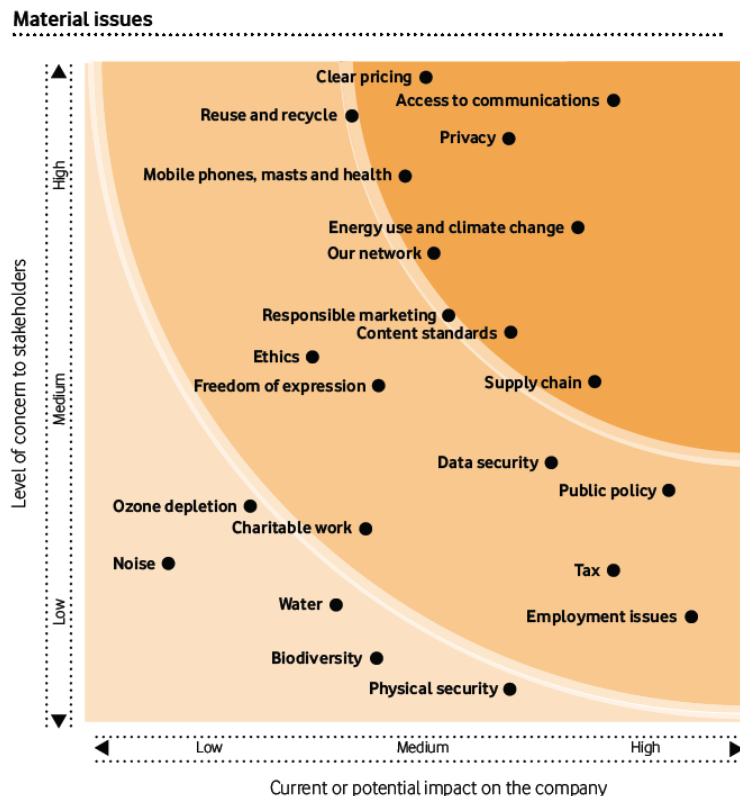
Diagnosis : Stakeholders engagement

– Consultation and concertation process to identify key issues and expectations in different areas (ISO 26000):

- Governance et reporting
- Human Rights
- Employee Relations
- Environnemental Impacts
- Product Stewardship
- Ethical Business Practices
- Community Relations

Strategy : Focus on material issues

– Analysis of risks and opportunities to identify key issues relative to their impact on stakeholders and company



Source: Vodafone Corporate Responsibility report 2008-2009

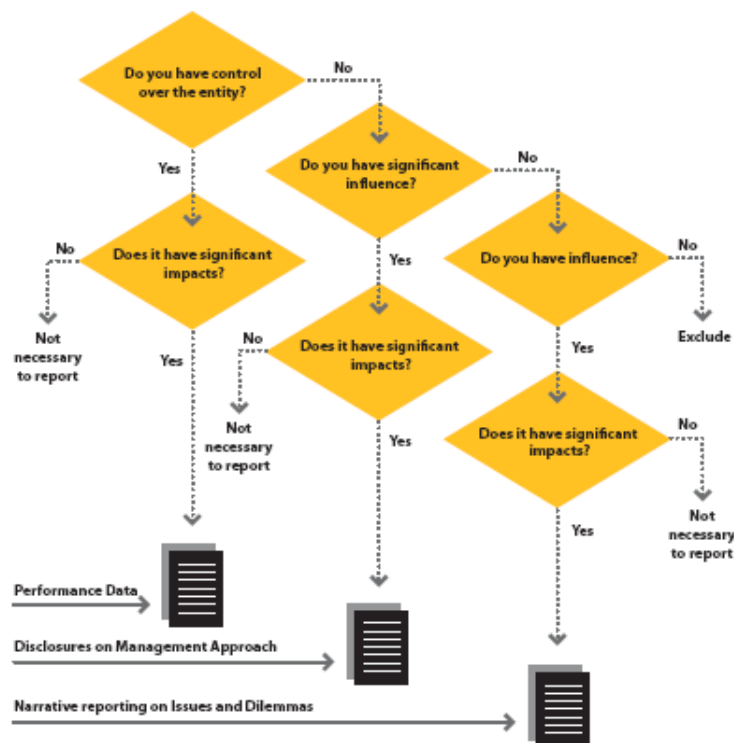
Implications for organizations : Execution and disclosure principles (2/2)

Implementation and monitoring: consider context

- Need to put the information disclosed into context :
 - Issues and performance compared to local, regional and global context
 - Objectives and past achievements put into perspective

Disclosure: be exhaustive in the information disclosed

- The scope for sustainability information disclosure should be aligned with the scope of financial reporting



Implications for organizations

Process definition and implementation

- Governance: definition of roles and responsibilities
- Process definition
 - Translate commitments into operational processes
- Performance tracking
 - Definition of key performance indicators (GRI)
 - Information management systems implementation
- Internal processes efficiency control
 - Tracking of action plans implementation
 - Development and validation of disclosed information
- Sustainability reporting
 - Organization profile
 - Management approach
 - Performance indicators in the various sustainability areas of focus; GRI G3 and sector supplements

Internal audit: roles and objectives



Internal audit is part of the entire sustainability approach

Key phases of a sustainability approach



Role of internal audit

- Evaluation of the risk analysis process
- Completeness of risk and opportunities identified based on:
 - Applicable standards and regulations
 - Stakeholders' expectations

- Assessment of the relevance of the strategy and the objectives based on identified risks and opportunities

- Review of the level of implementation of the action plans
- Review the efficiency of internal controls

- Review of the information being disclosed in annual report
 - Relevance and completeness in regards to sustainability issues
 - Reliability of the performance indicators

Internal audit

Engagement example

Context analysis

- Applicable regulations (environmental, social)
- Sustainability areas of focus and industry best practices
- Stakeholder feedback (e.g., press review)

Review of internal practices

- Commitments, policies, procedures, responsibilities
- Regulatory compliance (inspection reports, accidents reports, claims, litigations, etc.)
- Review of policies level of implementation, number of dedicated resources
- Definition of performance indicators, data collection and compilation processes

Internal audit report

- Identification of actual or potential non-compliance issues
- Identification of significant risks or issues not taken into account
- Management considerations

External assurance: principles and benefits



External assurance Trends

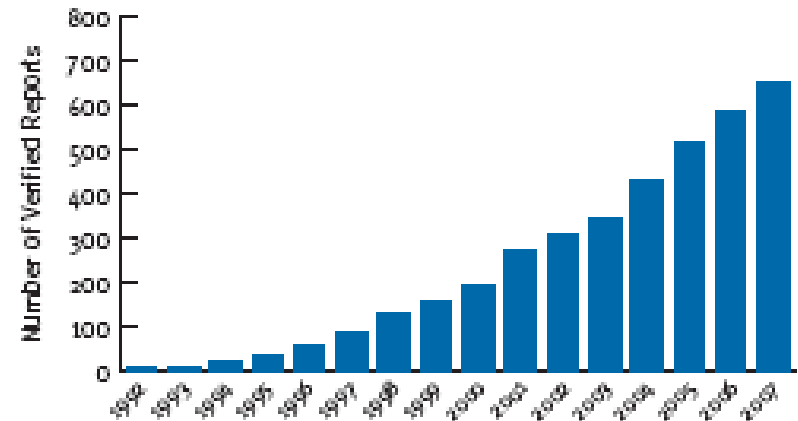
Global level

- Over 650 reports externally assured in 2007 (22% of all reports issued globally)
 - 75% of the CAC40 in France
 - 57% of the FTSE 100 in the UK
- Assured by financial auditors
 - 40% at the global level
 - 95% in France
 - About 60% in the UK

Canada

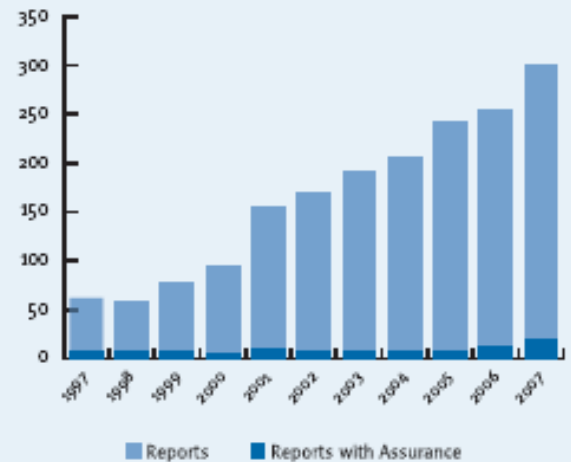
- 108 companies issuing a CR report in 2007 (18% of TSX)
- 45 % reporting according to GRI
- 15% of reports bearing assurance
- 44% are assured by their financial auditor

Figure 12: Growth of External Assurance Statements



Source – The Assure view – Corporate register

Figure 24: US CSR Reporting & Assurance



Source: Canadian Corporate Sustainability Reporting, Best Practices 2008, Stratos

External assurance and sustainability

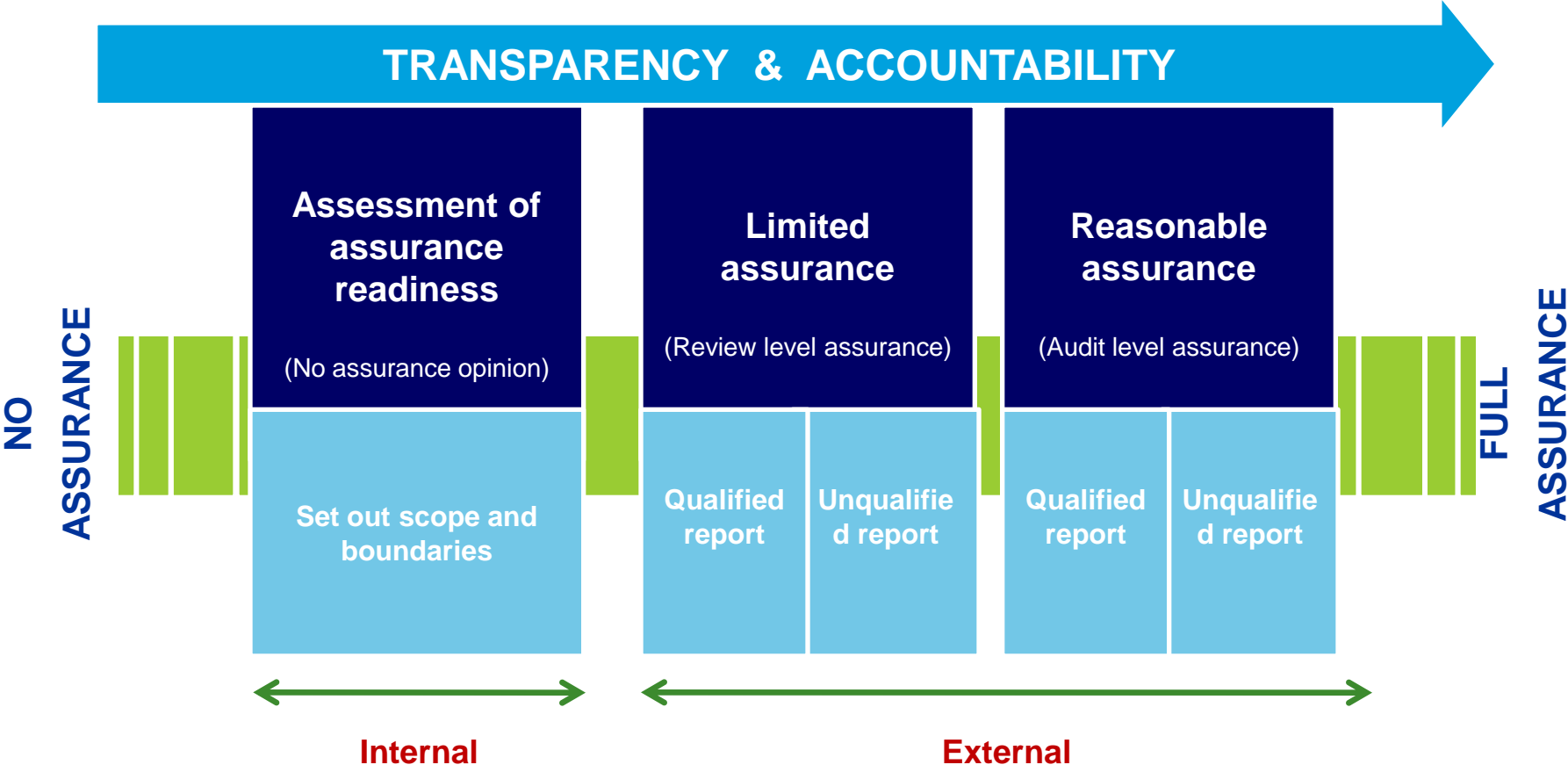
Further considerations

- Continuous improvement approach for sustainability information quality
- Scope of work:
 - Reporting systems and practices
 - Quantitative data (indicators)
 - Level of application to the GRI framework
- Audit standards aligned with financial auditing standards
 - ISAE 3000/Chapter CICA 5025 standard
- Landscape of frameworks:

Guidelines		Standards
Implementation	Disclosure	Assurance
<ul style="list-style-type: none">• ISO 26 000	<ul style="list-style-type: none">• GRI G3 and sectorial supplements: levels A, B, C• AA 1000	<ul style="list-style-type: none">• CICA 5025 (ISAE 3000)• AA 1000 AS

External assurance and sustainability

The assurance continuum



Contact

Johanne Gélinas

Partner

Sustainability and Climate Change

Deloitte & Touche

Tél. : 514-393-5408

jgelinas@deloitte.ca

Deloitte.

Samson Bélair/Deloitte & Touche