

EHS AUDIT PROGRAMS and ESG Reporting:

Getting Better Answers for the Board

Protiviti recently published “10 ESG Reporting Questions Directors Should Consider.”¹ It’s a good list. Environmental, Health & Safety (EHS) Audit² program leaders and auditors should be contributing to the answers. Visibility on ESG topics at the Board level is unprecedented. The scope and pace of drivers from the investment community means this will continue. There has never been a better time for EHS Audit programs to consider relevant risk, and how they can demonstrate their own value. As an ESG specialist/ Sustainability specialist, Douglas Hileman Consulting LLC (DHC) offers five tips to get more out of these conversations. [See blog posts for Board members and Internal Audit.]



1. **Compile all the answers you can provide now.** Protiviti suggests Board members ask about “what we are telling the street”. Environmental Audit programs may be able to provide some information, if the scope includes non-financial reporting / Sustainability reporting. Health and Safety issues are in the “Social pillar” of ESG; the COVID-19 pandemic has made the relevance of H&S risk (including auditing) abundantly important. Compile an honest baseline.

2. **Compare the EHS audit program charter and scope to these questions.** Many EHS audit programs (whether combined or separate) were created to mitigate a specific risk – often the consequences of regulatory agencies’ enforcement actions. The nature and extent of EHS risks have changed. There are several prominent reporting standards and frameworks for ESG information that target investors’ needs. All are working to increase the rigor of ESG reporting/ non-financial reporting, and to achieve more consistency among the frameworks. Just during



¹ “10 ESG Reporting Questions Directors Should Consider”, published October 2020; accessed several times through January 18, 2021; available at [10 ESG Reporting Questions Directors Should Consider | Protiviti - United States](#).

² Also called HSE Audits, SHE Audits, etc. “Environmental, Social and Governance” (ESG) is a term growing in popularity, often considered equivalent to “Sustainability”. See also ESG audits, Sustainability audits, Non-financial reporting audits.



2020, WEF, SASB, IFRS, IIRC and GRI³ published some type of proposed revision or consultation draft and invited comments. The EU is preparing the next wave of activity on the Non-Financial Reporting Directive. The speed of risk is changing faster than many EHS audit programs have kept up.



3. **Build or strengthen relationships with groups who are likely to be answering these questions for the Board.** Internal Audit (the “third line of defense” (or governance)) routinely reports to the Board on internal controls in financial reporting. Their role is likely to grow in non-financial reporting. The CFO may be providing information about Sustainability costs and opportunities. EHS Audit program leaders should strengthen relationships with the Chief Audit Executive, the CFO, and others to advocate for a greater role for EHS Audit.

4. **Identify where EHS Audit can play a bigger role.** EHS auditors have expertise that few can match. EHS auditors know the entity’s business, organization, operations and culture. Experience in frameworks (ISO, GRI, OECD) is relevant. Of course, knowing auditing helps ensuring that EHS/ ESG data and information can be supported. EHS Audit is better positioned to add value than many groups already involved.

5. **Enlist support to chart a path to providing greater value.** Internal groups from Internal Audit, Finance and HR can advocate for a greater role for EHS Audit in mitigating risk and identifying / leveraging opportunities. If your EHS Audit program has not had an independent Quality Assurance Review (QAR) within five years, consider procuring one. An independent voice to identify where and how EHS Audit can contribute experience to meet investors’ growing chorus of demands can help get a growing role. Begin expanding EHS Auditor expertise now by reading the non-financial reporting frameworks, expanding the EHS risk register(s), developing / expanding competence in auditing these topics. Solicit candid feedback from auditees and other stakeholders on the value of EHS Audit’s efforts. It’s a brilliant time to raise the profile of EHS Audit in the organization – don’t miss out.



³ World Economic Forum, Sustainability Accounting Standards Board, International Financial Reporting Standards, International Integrated Reporting Council; GRI was formerly known as Global Reporting Initiative.



About Douglas Hileman Consulting LLC

Douglas Hileman Consulting LLC (DHC) supports Clients in environmental, social and governance (ESG, or “Sustainability”), audits/ risk/ compliance, and non-financial reporting (aka “Sustainability reporting”). Mr. Hileman has been in the forefront of emerging issues for over forty years. He has worked in operations and corporate compliance; environmental, health and safety compliance and auditing; Internal Audit; and external assurance for financial audits and conflict minerals submittals to the SEC. He was the senior technical specialist in environmental management and environmental auditing on the Volkswagen Monitor team, created for the company to fulfill obligations to the US Department of Justice. Mr. Hileman has reviewed frameworks for non-financial reporting (SASB, GRI, etc.), submitting comments on many proposed revisions. He helps members of the Institute of Internal Auditors stay abreast of changing risks and opportunities. As an ESG specialist/ Sustainability specialist, he has supported Client audits, conducted audits, and redesigned Client EHS/ ESG audit programs (often after an EHS audit program Quality Assurance Review (QAR)).

Prior to launching his firm in 2008, Mr. Hileman worked at a Big 4 accounting firm for six years, supporting financial audits, enterprise risk management, internal audit and the Sustainable Business Solutions practice. Mr. Hileman holds the credential in Fundamentals in Sustainability Accounting (administered by the Sustainability Accounting Standards Board). He is also a Certified Risk Management Assurance (CRMA) professional, and a Certified Professional EHS Auditor (both granted by The Institute of Internal Auditors).

See also www.douglashileman.com.