

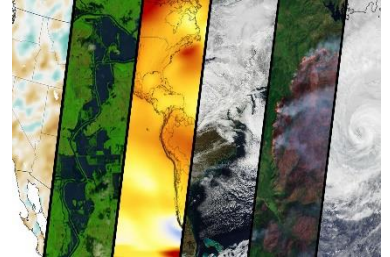
Climate Change, Risk and Internal Audit: Perspectives Old and New

I offered 10 perspectives on climate change, risk and Internal Audit at an IIA meeting in **October 2011**.


What's changed – anything? Everything?

What should Internal Audit (and second line) audit functions do now? Let's look

Douglas Hileman, FSA, CRMA, CPEA



Spoiler alert: I was pretty close. And there's more to do. A LOT more.



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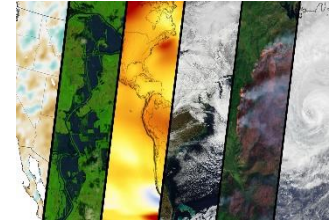
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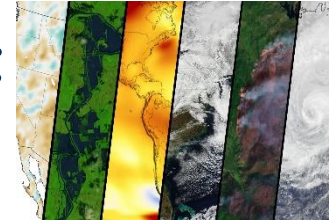
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Climate Change, Risk and Internal Audit: Perspectives in 2010 and 2021



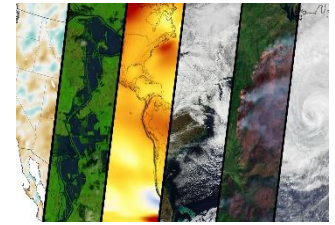
October 2010	October 2021
<p>1. Risk of compliance will continue to expand, including regulatory and contractual (e.g. with customers).</p>	<p>1. Still true. EU, states, customers, business partners and capital markets are imposing more requirements.</p>
<p>2. CC affects many aspects of operations: HVAC, lighting, replacement equipment, transportation, logistics and shipping, and business travel.</p>	<p>2. Still true - and getting harder. The easy energy savings are done. Life cycle approach to products and services getting more attention. CC related disruptions to supply chain highlight new risks.</p>
<p>3. Stakeholders are clamoring for CC to be in financial reporting and disclosures. SEC guidance in February 2010 points to Regulation S-K and MD&A in 10-K as logical.</p>	<p>3. True - and <u>growing dramatically</u>. SEC will propose rules by end of 2021. IFRS formed International Sustainability Standards Board late 2021. Green funds demand comparable, decision-useful reporting and disclosures.</p>

Climate Change, Risk and Internal Audit: Perspectives in 2010 and 2021



October 2010	October 2021
<p>4. CC doesn't really have a "home" in many companies. Many functions that should participate don't.</p>	<p>4. Some progress. There are more Chief Sustainability Officers, but CC may not be in their scope. Companies have gotten better at collecting basic data – but there is more data to be collected. .</p>
<p>5. Internal effort and reporting on CC-relevant issues is widely distributed. Internal reporting on CC-related issues often doesn't match external requests.</p>	<p>5. Some progress. Greenhouse Gas (GHG) emissions inventories for Scope 1 and Scope 2 are fairly common. External stakeholders want more Scope 3 and life cycle info.</p>
<p>6. Incorporating CC into business strategy is often ad hoc. Companies are looking more at supply chain and business partners for coordinated efforts.</p>	<p>6. Global and consumer brands have taken strong steps, including innovative new products. Many companies still scramble to respond to requests from many stakeholders.</p>

Climate Change, Risk and Internal Audit: Perspectives in 2010 and 2021



October 2010	October 2021
7. IT plays a significant role in CC but isn't recognized or managed as such.	7. Improving. Software solutions have made this easier.
8. There are risks from incomplete or unsubstantiated data, such as for Greenhouse Gas (GHG) emissions inventories.	8. Improving, but the risks are expanding too. Better systems for collecting data. Greater need to review, confirm, maintain data – and provide the right data for stakeholder needs.
9. Traditional second line [environmental] audit functions are not covering CC-related issues.	9. Still true; traditional second line has not expanded charter or scope. External parties audit some CC info, such as CDP submittals.
10. Internal Audit can play a significant role in discussions with the Board, mitigating risk, and supporting organizational strategies.	10. Still true –the need (and value!) is even greater. There is sentiment for external assurance – before internal controls are well developed or reviewed. IA should increase role and profile.

Climate Change Data and Information in Financial Reporting and Disclosures

Perspective at Oct. 2010

3. Stakeholders are clamoring for CC to be in financial reporting and disclosures. SEC guidance in February 2010 points to Regulation S-K and MD&A in 10-K as logical.

2010-2020

Companies are slow to disclose. SASB standards included CC topics. TCFD focused exclusively on CC. Reporting and disclosures not comparable or useful; much only boilerplate.



Current Landscape

TCFD published first guidelines in 2017. SEC will propose rules by end of 2021. IFRS launches Int'l Sustainability Standards Board (Nov. 2021). Green funds demand complete, comparable, decision-useful reporting and disclosures.

Perspective at October 2021

CC-related reporting and disclosures will be required in financial filings. Content and format likely to be similar to SASB and/ or TCFD. Reporting includes historical data & info. Reporting & disclosures also includes narrative, and [forward-looking] plans, goals and targets.



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