

5 Roles for Internal Audit in Sustainability Now: Use them or Lose Them



Presented by
Douglas Hileman, FSA, CRMA, CPEA
Douglas Hileman Consulting LLC
at
2025 IIA West District Conference
Anaheim, CA
March 27, 2025

©2025 Douglas Hileman Consulting, LLC

1

Objectives & Agenda

Objectives

- Revisit Sustainability/ ESG
- Empower Internal Audit to refocus and add value

Agenda

- 1) Fundamentals Recap
- 2) Compliance, Risk, Reporting
- 3) Recent Developments
- 4) 5 Roles – and How

3/27/2025

©2025 Douglas Hileman Consulting, LLC

2

2



Disclaimer



Presenter provides no warranty, express or implied.

Neither this slide deck, nor the session create a consulting relationship. The opinions are those of the presenter only, and not of any client, organization, or entity affiliated with the presenter.

The presenter is not a CPA.



3/27/2025

©2025 Douglas Hileman Consulting, LLC

3

3

I. RECAP OF FUNDAMENTALS



3/27/2025

©2025 Douglas Hileman Consulting, LLC

4

4

UN Sustainable Development Goals

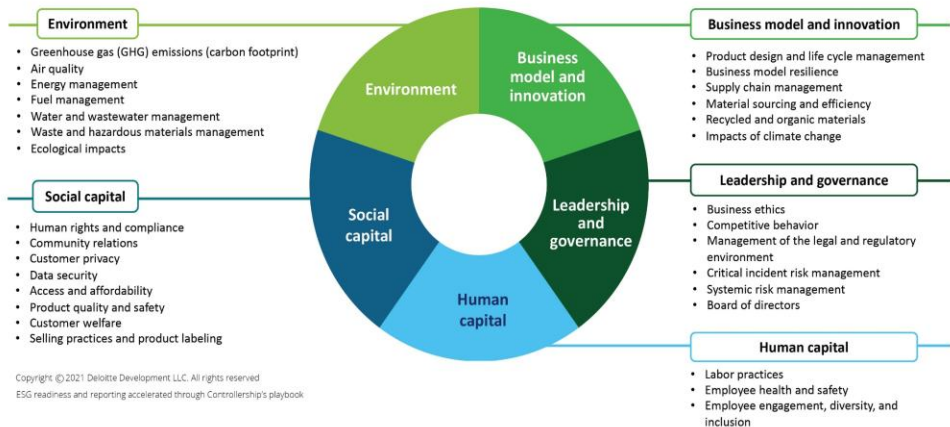


3/27/2025

©2025 Douglas Hileman Consulting, LLC

5

ESG: Deloitte Model (2021)



3/27/2025

©2025 Douglas Hileman Consulting, LLC

6

ESG: Another Model



- “Sustainability” encompasses ‘all things non-financial’.
- “ESG” is one way to begin organizing a wide array of non-financial issues in a taxonomy that enables meaningful strategy, program development, performance measurement, communications, and reporting.
- Aspects of Sustainability may pose financial risk; they may have financial impact. Either/ both may be “significant” or “material” (both terms are defined).
- This depends on sector/ industry, organizational strategy, and other factors.

3/27/2025

©2025 Douglas Hileman Consulting, LLC

7

7

Sustainability: Some Perspectives

- Sustainability is a state; a desired condition.
- “ESG” is a taxonomy.
- Sustainability is no one thing. It differs by sector, geography, organization, and objectives.
- There’s Climate, and there’s everything else.
- Sustainability poses risks and opportunities. To whom/ for whom?
- Demand for reporting has outpaced the development of systems & controls to produce content for reporting.
- Sustainability is dynamic – always has been. Hang on!

3/27/2025

©2025 Douglas Hileman Consulting, LLC

8

8



2. Compliance, Risk, Reporting

3/27/2025

©2025 Douglas Hileman Consulting, LLC

9

9



Laws, Regulations, Standards, Drivers US – Federal (partial)

- Traditional: environmental (EPA); safety (OSHA); wages (Dept. of Labor)
- SEC: disclosures on material topics in Form 10-K
- Consumer Product Safety Commission
- Federal Acquisition Regulation (includes question on greenhouse gas (GHG) emissions inventory)
- Uyghur Forced Labor Protection Act

3/27/2025

©2025 Douglas Hileman Consulting, LLC

10

10

Laws, Regulations, Standards, Drivers: California

- California climate laws (SB 253 and SB 261)
 - “Doing business in California”; reporting is on consolidated basis
 - Revenue thresholds for applicability of each law
 - Reporting period begins with CY 2025
- Aligns with TCFD (framework adopted globally) for
 - Reporting of greenhouse gas (GHG) emissions and [reduction] targets (quantitative)
 - Disclosures on governance, strategy, risk management (narrative)
 - Will require assurance
 - first limited assurance
 - then reasonable assurance

Similar bills proposed in New York, New Jersey, Illinois

3/27/2025

©2025 Douglas Hileman Consulting, LLC

11

11

Laws, Regulations, Standards, Drivers: European Union

Corporate Sustainability Reporting Directive/ EU Sustainability Reporting Standard

- Mandatory reporting and disclosures concurrent with financials
- Applies double materiality
- First reporting period is CY 2025 (“Wave 1”)
- Will require [limited] assurance

Also:

- Green Taxonomy
- Green Finance
- Sustainability Due Diligence (supply chain)
- Cross-Border Adjustment Mechanism (CBAM)

Omnibus Proposals
on 2/26/2025 likely
to bring changes
(stay tuned!)

3/27/2025

©2025 Douglas Hileman Consulting, LLC

12

12

Compliance via Industry and Topical Standards and Frameworks



Each one establishes parameters and criteria for policy, procedures, and reporting. These obligations become compliance criteria.

3/27/2025

©2025 Douglas Hileman Consulting, LLC

13

13

Sustainability Compliance: Legal/Regulatory: About IFRS



DH Views

- Capital markets are “driving the bus.”
- SASB built disclosure standards on U.S. Supreme Court definition of “materiality”; no new law or regulation was required. [SASB now part of IFRS.]
- Whatever SEC does (or does not) do, the trend globally is towards more Sustainability disclosures in financial filings.
- There are general standards. And climate standards.
- More may be coming. Human capital? Nature?
- Disclosures include data and information along supply chain/ value chain.

Why should U.S. companies be concerned with laws passed elsewhere?

If you source outside US, or if you sell outside the US, some aspects of these will apply to you.

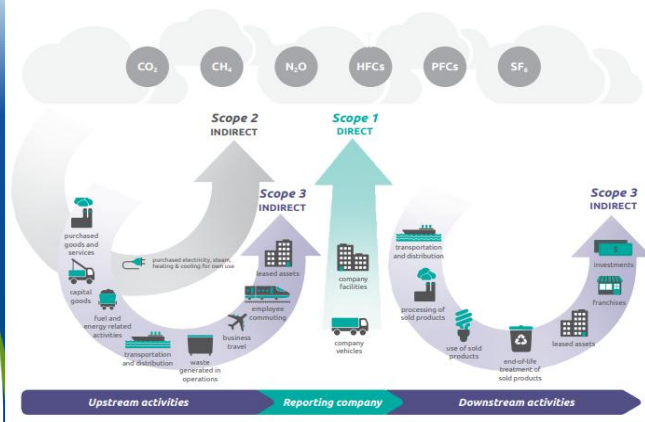
3/27/2025

©2025 Douglas Hileman Consulting, LLC

14

14

GHG Protocol



Scope 1 = Direct emissions, from combustion
 Scope 2 = Indirect emissions from purchase of energy
 Scope 3 = All other indirect

Scope 3: Value Chain
 Upstream: 8 categories
 Downstream: 7 categories

GHG Protocol Corporate Standard
 GHG Protocol Scope 2 Guidance
 GHG Protocol Scope 3 Guidance
 These and more at www.ghgprotocol.org

3/27/2025

©2025 Douglas Hileman Consulting, LLC

15

Sustainability Compliance: Voluntary Obligations

Traditional

- ISO certifications (9001, 14001)
- Energy Star
- Code of Conduct, general company commitments

More Recent

- B Corp; other credentials and certificates
- Best Places (to work, gender equity, most energy efficient, etc.)
- Sector/ Industry standards, frameworks
- Paris Climate Accords (2016)
- Goals and targets



3/27/2025

©2025 Douglas Hileman Consulting, LLC

16

Other Drivers: B2B

- Contractual requirements
- Supply chain due diligence
- Verification / audits
- Commitment for future improvements
- Periodic [B2B] reporting



3/27/2025

©2025 Douglas Hileman Consulting, LLC

17

17

Observations on Sustainability Reporting

- Demand for reporting has outpaced the ability to report.
- Growing calls for assurance.

Sustainability reporting differs from financial reporting:
3 attributes

3 Attributes of ESG Reporting / Sustainability Reporting



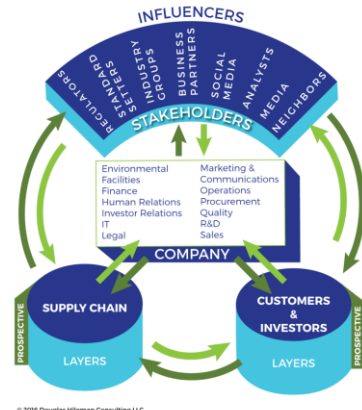
© 2022 Douglas Hileman Consulting LLC

©2025 Douglas Hileman Consulting, LLC

18

Sustainability Compliance: Channels

- Legal and regulatory
 - Enforceable by sovereign entity
 - Legal/ contractual
 - Enforceable by business partner
- Industry standards, frameworks, codes of conduct
- Voluntary obligations



3/27/2025

©2025 Douglas Hileman Consulting, LLC

19

19

Sustainability Reporting Different Channels → Different Data Needs

Data Needs : Examples

- How much water do we use? Where does it come from? Do our operations (or supply chain) impact scarce water resources?
- How much waste from our operations is recycled?
- How much of our raw materials has been recycled?
- What is the GHG emissions (in CO₂e) inventory of the company?
- How much CO₂e in the products you sell to Customer X?
- How much CO₂e at the location in [country, state, or location]?
- What % of suppliers have code of ethics that meet or exceed our requirements? By number? By spend?
- Do suppliers pay fair wages?
- What is our progress towards goals?
- How can we improve ratings with analysts?
- How many customer requests do we get? Do we respond in time?
- What are safeguards to preserve IP?
- How do we know data is accurate and supportable?
- Is data reported via different channels the same? If not, why not?

3/27/2025

©2025 Douglas Hileman Consulting, LLC

20

20



21



3. Recent Developments

3/27/2025

©2025 Douglas Hileman Consulting, LLC

21



22

Recent Developments: United States

- SEC Climate Disclosure Rule will not go into effect
- Federal policies, directives against Sustainability and elements of it
- States maintaining / increasing efforts
- Uncertainty with trade partners (value chain)
- Global realignment may affect priorities

At March 3, 2025

3/27/2025

©2025 Douglas Hileman Consulting, LLC

22

EU Omnibus

Two proposals released 2/26/2025

1) “Stop the Clock”

- Delays effective dates for “Wave 2” and “Wave 3” [medium- and smaller entities]
- “Wave 1” still begins after FY 2024

2) Content; relief includes (*but not limited to*):

- Scope: >1,000 employees
- Value chain: what companies must ask of value chain
- Assurance: Limited only [no more Reasonable]
- Standards: Fewer disclosure topics

3/27/2025

©2025 Douglas Hileman Consulting, LLC

23

23



4. 5 Roles for Internal Audit – and How

3/27/2025

©2025 Douglas Hileman Consulting, LLC

24

24



5 Roles for Internal Audit in Sustainability Now

1) Assurance

- Consider in annual audit plan
- Brainstorm in other audits (like fraud)
- Embed in audit planning

2) Advisory

- Track emerging issues
- Regulation S-X (climate; other?)
- Opportunities
- 2LOD, including 2LOD audits

3/27/2025

©2025 Douglas Hileman Consulting, LLC

25

25



5 Roles for Internal Audit in Sustainability Now

3) Assurance Readiness

- Limited assurance
 - Design of controls
- Reasonable assurance
 - Implementation of controls
- SOX skill sets apply
 - Internal Audit knows: controls; the business; testing; preparing work to be used by others.

3/27/2025

©2025 Douglas Hileman Consulting, LLC

26

26

COSO ICSR



- COSO ICIF is standard for internal controls over financial reporting (ICFR).
- "Reporting" isn't limited to financial
- Supplemental guidance released March 2023
- Douglas Hileman is an author



3/27/2025

©2025 Douglas Hileman Consulting, LLC

27

27

Sustainability Controls: Examples

- Policy(ies): climate; water; human rights
- RACI Matrix assigning roles, responsibilities
- Sustainability provisions in supplier contracts
- Forms to collect electricity use
- Meters to measure water use
- Excel files used to perform calculations
- Commercial solutions for data collection, analysis, compilation
- Cross-functional teams
- Quality control, "four eyes" principle
- Second line audits



3/27/2025

©2025 Douglas Hileman Consulting, LLC

28

28

Component I: Control Environment



Principles	Examples of Risks
<ol style="list-style-type: none"> 1. Commitment to integrity and ethical values 2. Independent Board of Directors oversight 3. Structure, reporting lines, authorities, responsibilities. 4. Attract, develop and retain competent people. 5. People held accountable for internal control. 	<ul style="list-style-type: none"> • Employees interpret weaker Code of Conduct/ commitments as increased opportunity and rationalization to commit fraud. • Sustainability programs are abruptly eliminated, leaving employees, customers unserved. • Reduced efforts on non-financial topics known to be material to the industry reduces financial prospects, increases capital costs. • Downsized Sustainability programs are assigned to individuals without competencies to fulfill obligations. • Board and Management assume each other has non-financial issues under control. • Employees, contractors, business partners fear calling hotlines. Open season for waste, fraud, and abuse.

3/27/2025

©2025 Douglas Hileman Consulting, LLC

29

29

5 Roles for Internal Audit in Sustainability Now

- 4) Refocus on Compliance, Risk, reporting
 - Materiality: ISSB/SASB; Regulation S-K
 - Double Materiality (EU CSRD)
 - Public reporting
 - Different standards and frameworks
 - Different purposes, risks
 - Non-public reporting
 - B2B Value chain
 - Business partners (joint ventures, etc.)
 - Providers of capital and analysts

3/27/2025

©2025 Douglas Hileman Consulting, LLC

30

30

5 Roles for Internal Audit in Sustainability Now

5) Learn, Tailor, Lead

- Learn applicable, relevant reporting requirements and standards (ISSB, CDP)
- Tailor IA efforts to help the organization tailor its efforts
- Remain focused on independence, objectivity, integrity, evidence.

Sustainability considers the future. Let's make sure we have one.

3/27/2025

©2025 Douglas Hileman Consulting, LLC

31

31

Contact Information

Douglas Hileman, FSA, CRMA, CPEA
 Douglas Hileman Consulting LLC
www.douglashileman.com
 818.570.0177



Doug helps clients with compliance, risk, processes and controls, audits, and assurance readiness in the ESG and climate space. He often provides ESG subject matter expertise to law firms, accounting firms, IT and management consultancies. He draws on 40+ years of experience in operations, corporate compliance, management consulting, internal audit and external assurance. He was the senior environmental management and environmental auditing specialist on the Volkswagen Monitor Team.

He is an author of COSO's "Achieving Effective Internal Controls over Sustainability Reporting (ICSR)", released to wide acclaim in March 2023.

©2025 Douglas Hileman Consulting, LLC

32