



WHITE PAPER

## INTERNAL AUDIT'S ROLE IN ESG REPORTING

Independent assurance is critical to effective sustainability reporting

 The Institute of Internal Auditors | *Global*

# PROFESSION UPDATE

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 The Institute of Internal Auditors  
Indonesia

# What is ESG

- ▶ Environmental, social, and governance (ESG) refers to criteria that characterize an organization's operations as sustainable, responsible, or ethical.

Environmental criteria addresses a company's operations environmental impact, and environmental stewardship.

Social criteria refers to how a company manages relationships with and creates value for stakeholders.

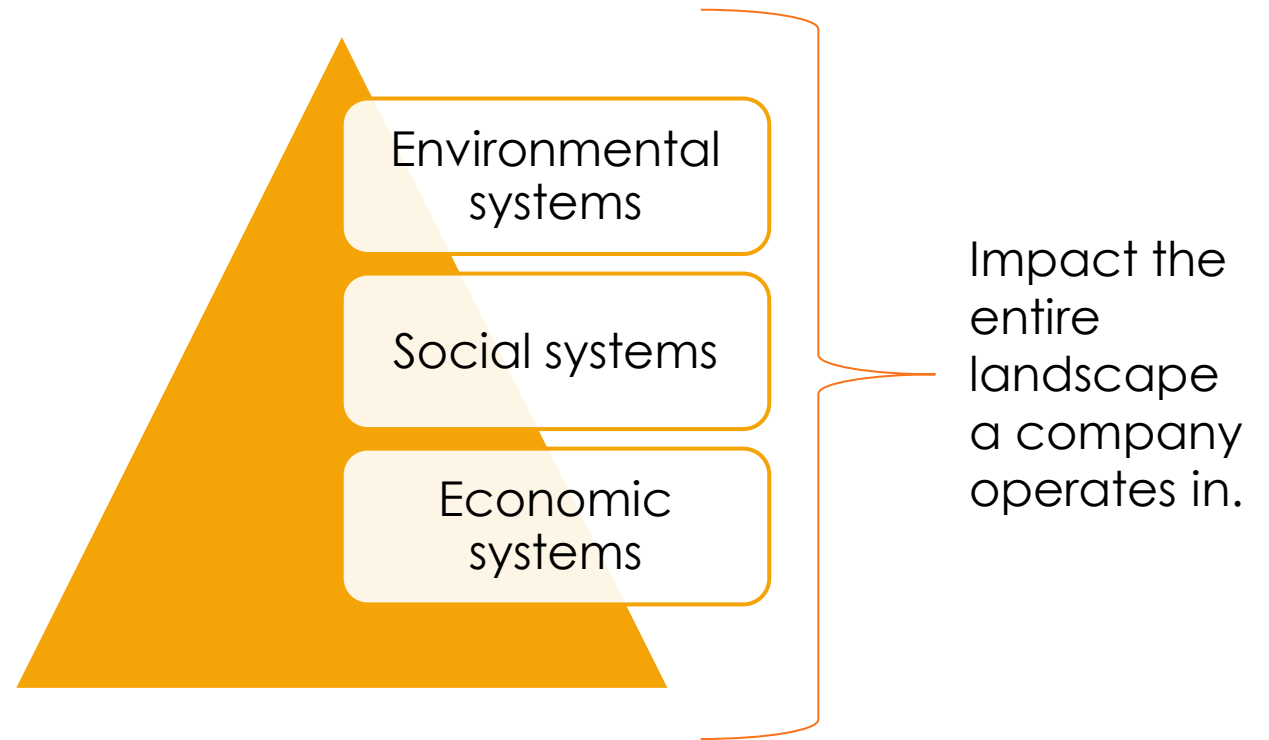
Governance criteria refers to a company's leadership & management philosophy, practices, policies, internal controls, and shareholder rights.

- ▶ ESG is not an organization value
- ▶ ESG is about the ability to create & sustain long-term value

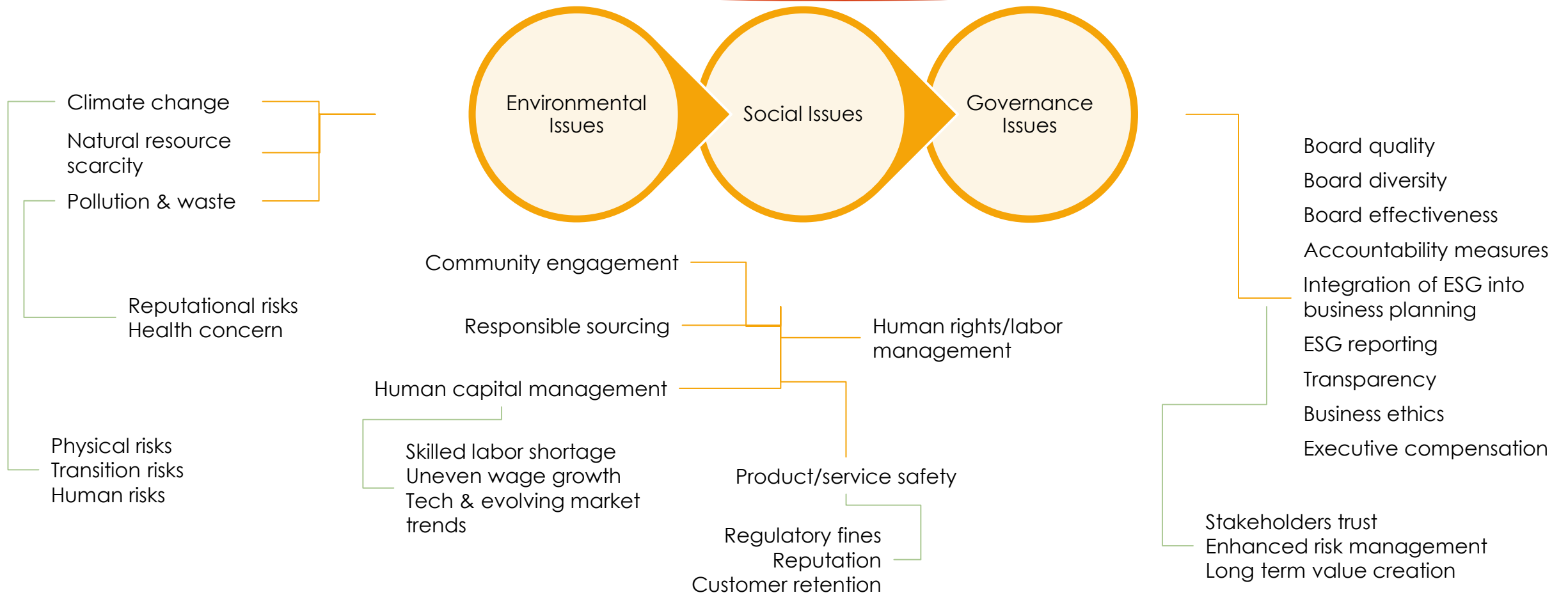
# What is ESG

ESG is used as a framework to assess how a company manages risks and opportunities that shifting market & non-market conditions create.

ESG is about the ability to create & sustain long-term value in a rapidly changing world, and managing the risks & opportunities associated with these changes.

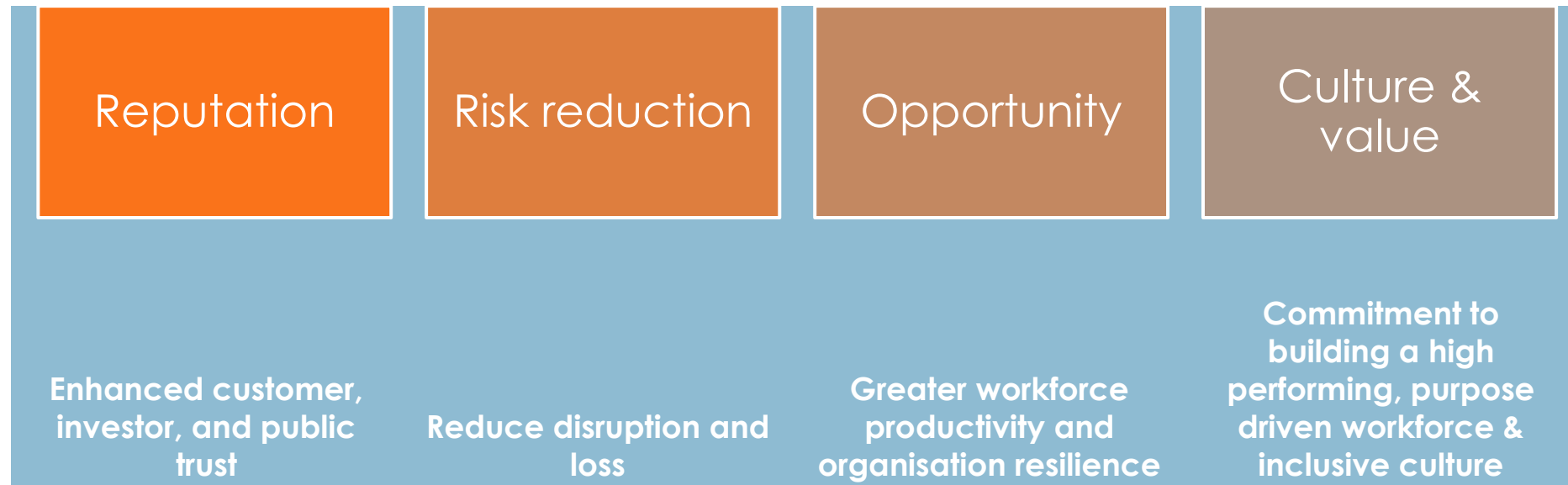


# ESG Factors



# Why is it important?

- ▶ ESG has a significant positive impact on fundamental business issues relevant to the long-term success of any company across industries:



# ESG is influencing consumer, investor, creditors & regulators analysis



**1980s**

**Environment, Health and Safety (EHS)**

- Based on the development of environmental & employee regulations.



**1990s**

**Sustainability**

- Focused on reducing environmental impacts beyond legal requirements.



**2000s**

**Corporate Social Responsibility (CSR)**

- Corporate philanthropy and employee volunteer is used to align social issues.



**2020s**

**Environmental Social Governance (ESG)**

- Holistic concept related to competitive advantage and risk & reward management.

ESG often used interchangeably with CSR or corporate sustainability, however ESG encompasses much more

# ESG Initiatives

## Investors



## Corporations



## Indonesia Regulations

- Surat Edaran (SE) OJK No.16/SEOJK.04/2021 tentang Isi Laporan Tahunan Emiten atau Perusahaan Publik.
- Peraturan OJK No. 51/POJK.03/2017 tentang Penerapan Keuangan Berkelanjutan bagi LJK, Emiten dan Perusahaan Publik.

# Examples of ESG Incidents

The New York Times

## Cambridge Analytica and Facebook: The Scandal and the Fallout So Far

Revelations that digital consultants to the Trump campaign misused the data of millions of Facebook users set off a furor on both sides of the Atlantic. This is how The Times covered it.



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## Volkswagen Tries to Change Workplace Culture That Fueled Emissions Scandal

A whistleblower hotline and compliance officers in each division are among ways the German car maker is improving its compliance culture



Volkswagen Tries to Change Workplace Culture That Fueled Emissions Scandal - WSJ

Hiltrud D. Weimer, left, a member of Volkswagen's board of management, and Larry D. Thompson, an independent corporate compliance monitor who was appointed by U.S. authorities to oversee Volkswagen's compliance overhaul.

PHOTO: HOLGER HOLLEMAN/DPA/AGENCE FRANCE-PRESSE/GETTY IMAGES



“ Internal audit can and should play a significant role in an organization’s ESG journey. It can add value in an advisory capacity by helping to identify and establish a functional ESG control environment. It also can offer critical assurance support by providing an independent and objective review of the effectiveness of ESG risk assessments, responses, and controls. ”

Additionally, internal audit functions that operate in conformance with The IIA’s globally recognized standards are well-positioned to help their organizations apply established, credible internal control frameworks to their ESG efforts.

# Assurance activities

<b>Review reporting metrics for relevancy, accuracy, timeliness, and consistency.</b>	<b>Review reporting for consistency with formal financial disclosure filings.</b>	<b>Conduct materiality or risk assessments on ESG reporting.</b>	<b>Incorporate ESG into audit plans.</b>
Internal audit can provide assurance on whether data (quantitative and qualitative) being reported is accurate, relevant, complete, and timely.	any information that conflicts with formal financial disclosures will raise a red flag with regulators and investors	Have a clear understanding on how ongoing sustainability efforts or public commitments to reaching sustainability goals can rise to the level of materiality.	ESG risks and risk management take on greater significance for organizations.

# Advisory activities

## Build an ESG control environment.

Internal audit can recommend the frameworks (e.g., COSO's Internal Control – Integrated Framework) to manage/mitigate ESG risks.

Internal audit also can advise on developing specific internal controls over ESG reporting.

## Recommend reporting metrics.

Internal audit can provide insights into the kind of data (quantitative and qualitative) that accurately reflect relevant sustainability efforts within the organization.

## Advise on ESG governance.

Internal audit can provide guidance on ESG governance because of its holistic understanding of risk across the organization.



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