

Commenting on SASB's Standards?

Internal Audit Should do this Instead

The Sustainability Accounting Standards Board (www.sasb.org) was founded in 2011, dedicated to improving comparable, meaningful, investor-quality disclosures of material environmental, social and governance (ESG) issues in public filings made by publicly-traded companies. This is typically in the Management Discussion and Analysis (MD&A) section of the Form 10-K. SASB sticks with the definition of "materiality" as is applied by law for investors, and requires no new law or regulation for adoption.

SASB has published exposure draft standards for each of 79 industries, as classified by SASB's unique Sustainability Industry Classification scheme. SASB has also released Proposed Changes to Provisional Standards, and has invited stakeholder comment - through December 31, 2017.



Why Bother to Comment?



SASB always intended the standards to be dynamic. The world changes – and so do the issues that can pose material impact on investors. SASB used algorithms, researchers, and stakeholder outreach to develop the exposure draft standards. They've done the same in proposing the Proposed Changes to Provisional Standards. SASB has considered factors, such as level of regulatory enforcement, level of shareholder activity, and risk to operational continuity. Some parameters were added, some were modified, and some were dropped. Many remained just as they were.

SASB has essentially done industry's homework, and has invited industry to proofread. The open comment period invites perspectives from everyone. Companies arguably have the most at stake – with the expectation that they will provide meaningful disclosures on the topics identified. There could be value in doing a reality check on the proposed changes.



Internal Audit may be considering submitting comments. With less than a month to go, you can still make it – but why? Companies can already elect to omit parameters that aren't relevant, include other parameters that are material (for example, for a subsidiary). So there is already flexibility in the standards. I suggest that Internal Audit can provide greater value elsewhere.



How Can Internal Audit Provide Greater Value?

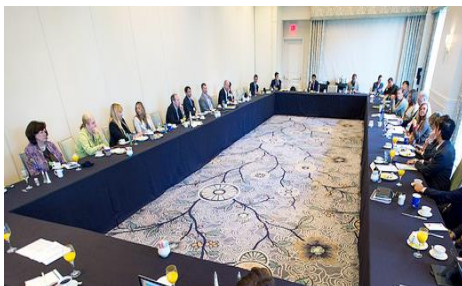
Internal Audit can provide greater value by applying risk management skills and helping to position the organization for success – or raising the flag, if they're not.

1. **Find out what your company discloses now, and compare to peers.** Read the SASB standard for your company's industry. Look at your company's last 10-K. Download the latest State of the Disclosure report – it's at www.SASB.org. If your company has signed up for SASB's Navigator (check with Investor Relations), see how you fare relative to peers.

2. **Check in with the 2LODs.** There may be some second lines of defense (2LODs) as a risk mitigation measure for some of these risks. Environmental, occupational safety, quality, supply chain, business continuity, and other areas may have 2LODs. See if applicable 2LOD functions are adaptive and responsive to changing issues and risks. Many are not – which can lead to a false sense of security.



3. **Look at your 2018 Audit Plan.** The SASB standards identify material ESG risks – about a dozen. Are these in your 2018 audit plan? Have you audited them before? Have these risks been considered for the audit plan? Are you comfortable with those decisions?



4. **Talk to the Disclosure Committee. And Audit Committee.** Internal Audit is obliged to raise risk issues with those charged with governance. If the Disclosure Committee or Audit Committee hear about the SASB disclosure topics (or SASB in general!) first from investors – and not from you – this does not look good for Internal Audit. Simply by raising the issues, Internal Audit can demonstrate vigilance in new and emerging areas of risk

5. **Advocate – or get help.** Internal Audit's default response to risk is often to (what else?) do an audit. This isn't always feasible for many reasons, including budget. What's more, it isn't always the quickest or most effective way to provide value. Consider getting help to produce a robust, relevant gap assessment. If a very basic gap analysis (Steps 1 – 3 above) identifies gaps, advocate for the right resources to begin closing those gaps. Don't forget that one aspect of "risk" is opportunity. A strategic approach to mitigating risk can also result in competitive advantage – but only if you recognize it and act upon it.