



# Internal Audit's Role in Sustainability Accounting Disclosures: Overview

## Douglas Hileman Consulting LLC

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### What is Non-Financial Reporting?

**It's simply re-thinking "reporting" as you know it for everything that isn't financial reporting.**

Organizations report on environmental, social and governance (ESG) factors. Companies publish Sustainability reports and release them publicly. Companies publish ESG information on websites. Non-financial reporting also occurs in B2B channels, such as customers, business partners, and landlords.

Reporting	
Financial	Non-Financial

### Why does our ESG information matter to investors?

Half of global institutional investments are managed by signatories to Principles for Responsible Investment. The assets under management (AUM) that screen for ESG issues increased ~1/3 in two years, to over \$8 Trillion in 2016. In response to SEC's Concept Release on Regulation S-K in 2016, 2/3 of the non-form letters were about ESG, and 80% said they wanted more disclosures. Company ESG performance and risk factors are on the Bloomberg terminal.

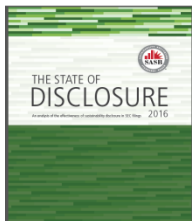
### Who is SASB? Do they have enforcement authority?

Sustainability Accounting Standards Board (see [www.SASB.org](http://www.SASB.org)) was founded in 2011. SASB's mission is to promote robust, comparable disclosures on material ESG issues in financial filings. SASB has no enforcement authority – but it isn't necessary. They have applied existing securities law and principles to ESG. SASB's board includes two former SEC chairs, a former FASB chair, a key author of the COSO frameworks, and the chair is Michael Bloomberg.



### What are "Sustainability Accounting disclosures"?

SASB recognized that one impediment to meaningful disclosures was the difficulty in identifying applicable material ESG issues. So SASB has done that. SASB created Sustainability Industry Codes™ that aligned companies to ESG risks. SASB has published provisional Sustainability Accounting standards for each of 79 industries. Some are quantitative, and some are narrative.



### Why does this seem to be taking off now?

SASB published the "State of Disclosures" report in 2016, showing the extent and quality of each industry's Sustainability Accounting disclosures. SASB launched a Navigator tool in late 2016, enabling investors (including those with a Bloomberg terminal) to see any company's Sustainability Accounting disclosures, and quickly compare their disclosures to other companies.

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## Where does Internal Audit fit?

SASB guidance for implementation, and to those studying for their Fundamentals in Sustainability Accounting (FSA) credential both mention Internal Audit. The IIA's International Professional Practices Framework includes sections on governance and risk management. Typical Internal Audit mission includes the responsibility to protect and improve the organizations, and to assist in identification, evaluation and mitigation of risk. Internal Audit already has a role in disclosure controls and procedures for financial filings. This is a perfect opportunity to provide value.

### Who's usually responsible for this?

*There often isn't a single point of contact. As a result, reporting can be incomplete, inconsistent, or not aligned with goals and objectives. Those are risks to the business!*

## How do we start?

Contact [doug@douglashileman.com](mailto:doug@douglashileman.com) for a briefing to learn more about ESG, Non-Financial Reporting, Sustainability Accounting disclosures, and how to assess risk and leverage opportunities.

## About Douglas Hileman Consulting LLC

Douglas Hileman Consulting LLC (DHC) helps clients with operations, compliance, and aspects of non-financial reporting (safety, environmental, Sustainability, and conflict minerals). Mr. Hileman has in-house experience in these areas, as well as supply chain risk management, many types of auditing, and assurance engagements. This range of experience enables Doug to bridge gaps between functional groups and with external stakeholders.

Doug has written and audited Sustainability reports. He has led audit readiness projects for Sustainability/ CSR reports, often as a co-sourced effort with client staff. His firm has led assurance engagements for the SEC conflict minerals rule for each year it has been an option – one of only four to do so. He has drafted sustainability accounting disclosures. He is a frequent speaker on non-financial reporting (including fraud prevention and detection) to groups including the IIA, ACFE, MIS Training Institute (MISTI), Silicon Valley Conflict Minerals & Human Trafficking Forum, industry groups, and in-house briefings. He and his team serve clients nationwide.



Doug holds Certified Risk Management Assurance (CRMA) and Certified Professional Environmental Auditor (CPEA) credentials from the IIA, and the Fundamentals in Sustainability Accounting (FSA) credential from SASB.

See [www.douglashileman.com](http://www.douglashileman.com) and [www.AuditReadinessPro.com](http://www.AuditReadinessPro.com).