

## Environmental Reporting:

### Marketing Spin or Accessory to Fraud?

All organizations want to present their accomplishments in the best light. However, statements that are intended as simply promotional could be considered “environmental fraud.” Like any fraud, environmental fraud can damage organizational reputation, business strategy. It can also cost money or impact compliance.



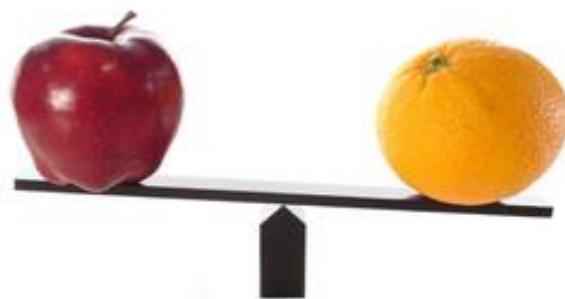
Will you be involved in the preparation of an environment or sustainability report this year? Here are four key questions to support your success.

#### QUESTION 1: Is it true and legal?

Is the statement true? Does the statement contradict any compliance requirements or legal obligations?

It is tempting to make broad, sweeping – and positive – statements like “In 201X, our organization was in compliance with all applicable environmental laws and regulations.” This could be true. It could also be that non-compliance hasn’t been reported or discovered.

Companies may wish to make statements about their supply chain. “All of our suppliers have been certified by Provider XX to Standard YY that their products are not made using any child labor.” This statement may be untrue in several ways, including the statement that anything is ‘certified’. It could breach contracts with Provider XX or the publisher of Standard YY to identify them in this context without their prior review and consent.



#### QUESTION 2: Is it deceitful in any way?

Statements can be deceitful either by commission (saying something that isn’t quite true.) or by omission (leaving out key information that users would want to know).

“We reduced our Scope 1 greenhouse gas (GHG) emissions by 5% over the prior two years.” This can be the result of major investments, new technologies, or modification of operations. Suppose the company sold a cogeneration plant or some facilities. Or production dropped 10%, such that the normalized GHG emissions actually increased?



“We met our environmental goals two years ahead of schedule.” This is an awesome statement, right? Suppose the company established a goal in 2010 to reduce water use by 10% by 2016. In 2015, the company had made 4.5% and progress was getting more difficult. The company revised goals to reduce water use by 5% by 2020. The company achieved this goal in 2018 – two years ahead of the schedule. Does the statement sound quite as awesome with the full story?

**QUESTION 3: Does the organization or any individual accrue any benefit?**

Is there any benefit as a result of the statement that is either untrue or misleading? Consider these scenarios.

- If Acme can report they met their environmental goals, they will be included in an exchange traded fund for environmentally-friendly companies.
- Meeting environmental goals could enable Acme to score bonus points on supplier questionnaires provided by their three top customers.
- A Business Manager gets a performance bonus if (and only if) all facilities in the business meet environmental targets.
- A Facility Manager gets a performance bonus if (and only if) her/ his facility has avoided findings on environmental audits.

There are several reporting frameworks for environmental and sustainability reporting. Some are more mature than others, but all lag the maturity and transparency of financial reporting. External assurance (e.g., an audit) is not required, and the rigor of the audits that are done varies widely. Few – if any – consider the possibility of fraud. Indeed, the awareness of “environmental fraud” or “sustainability fraud” is still an emerging issue.



- The Company’s Vice President of Environment and Sustainability is invited to be a keynote speaker at a prestigious conference, because the Company has met environmental goals for five consecutive years.

The benefit can accrue to an individual, a group or business unit, or the overall company.



#### **QUESTION 4: Does the benefit come at the expense of someone else?**

Fraud involves deceit at the expense of another party. The exchange-traded fund may have no limit on the number of companies in the fund. Or, the fund may be limited to 30 companies, such that Acme would displace another company, with the possibility of incremental changes in stock price, or reputational enhancement for being in the fund.

Acme's incremental performance on a supplier questionnaire could be a differentiator to displace a competitor as a preferred provider for a key customer.

Similarly, the Business Manager's performance bonus could be independent of her/ his peers. Or there could be a finite bonus pool, so that the bonus comes at the expense of a peer who is submitting true and correct information.



#### **FIVE STEPS TO GREATER INTEGRITY IN ENVIRONMENTAL REPORTING**

If you are involved with preparing or publishing an environmental report (or Sustainability report), DHC suggests 5 Tips to leverage these questions to reduce the likelihood of "environmental fraud" and to improve the integrity of the organization.



- 1) Evaluate key environmental data, claims, or statements using the four questions above.
- 2) If the information gets any answer "wrong", consider your options. [Hint: Question 1 should be a "yes", and the others should be "no."].
- 3) Modify misleading or untrue statements, so they can pass the test.
- 4) Use this exercise to raise the awareness of environmental fraud.
- 5) Use the exercise to explore ways to gather and report environmental and Sustainability information that has greater integrity.



### About Douglas Hileman Consulting LLC



Douglas Hileman Consulting LLC (DHC) has experience in four “Lines of Defense”, according to a global model of compliance and risk management. He has experience in: Operations and Corporate Compliance (first Line of Defense – 1LOD); auditing of environmental, safety, sustainability, and supply chain risk (2LOD); Internal Audit (3LOD); and supporting external financial audits, as well as leading Independent Private Sector Audits (IPSAs) for the SEC’s conflict minerals rule (4LOD). He has also led efforts on environmental auditing for negotiated civil and criminal enforcement instruments (with the U.S. Department of Justice) on a multi-national matter.

He is a prolific writer on non-financial reporting, risk management, environmental, and sustainability. He focuses on systems, controls, auditing, risk management – and fraud. He has co-authored several pieces of supplemental guidance for the Institute of Internal Auditors (IIA), including a Practice Advisory on fraud in engagement planning. He authored the first piece on environmental fraud in the BNA Environmental Reporter. He has presented on risks, and potential fraud, in non-financial reporting to several chapters of the Institute of Internal Auditors. He conducted an industry survey on performance metrics for environmental auditing programs, and authored a publication for the IIA’s Environmental, Health & Safety Audit Center.

Prior to launching his firm in 2008, Mr. Hileman worked at a Big 4 accounting firm for six years, supporting financial audits, enterprise risk management, internal audit and the Sustainable Business Solutions practice. Mr. Hileman holds credentials as a Certified Risk Management Assurance (CRMA) professional, a Certified Professional EHS Auditor (both administered by The Institute of Internal Auditors) and Fundamentals in Sustainability Accounting (administered by the Sustainability Accounting Standards Board).

DHC has used a network of experienced professionals in auditing, risk, operations and compliance. DHC has also supported accounting & investigation firms, and law firms as a project lead and subject matter expert.

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

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