



WEBINAR **RISK IN FOCUS 2021**

Climate Change and Environmental Sustainability:

How to tackle associated Risks and harness Opportunities?

10th March 2021





OVERTURE

PASCALE VANDENBUSSCHE
Secretary General - ECIIA



PANELISTS



BERTRAND JANUS

Vice-Chair of the
EFRAG Project Task
Force on Climate
Reporting Disclosures



LUCA PREITE

Internal Audit Manager
Europe, North America,
APAC, Russia, Nordics
and MEAI at Pirelli



FRED RUOFF

Independent consultant
in sustainability

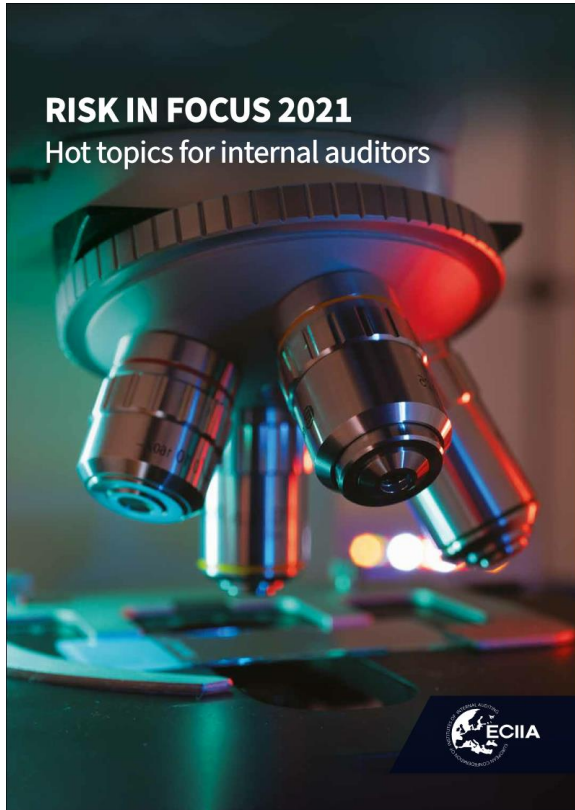


**NANTHIKESAN
SUPPIRAMANIAM**

Lead Evaluation Officer
at the Independent Office
of Evaluation at IFAD



CONTEXT

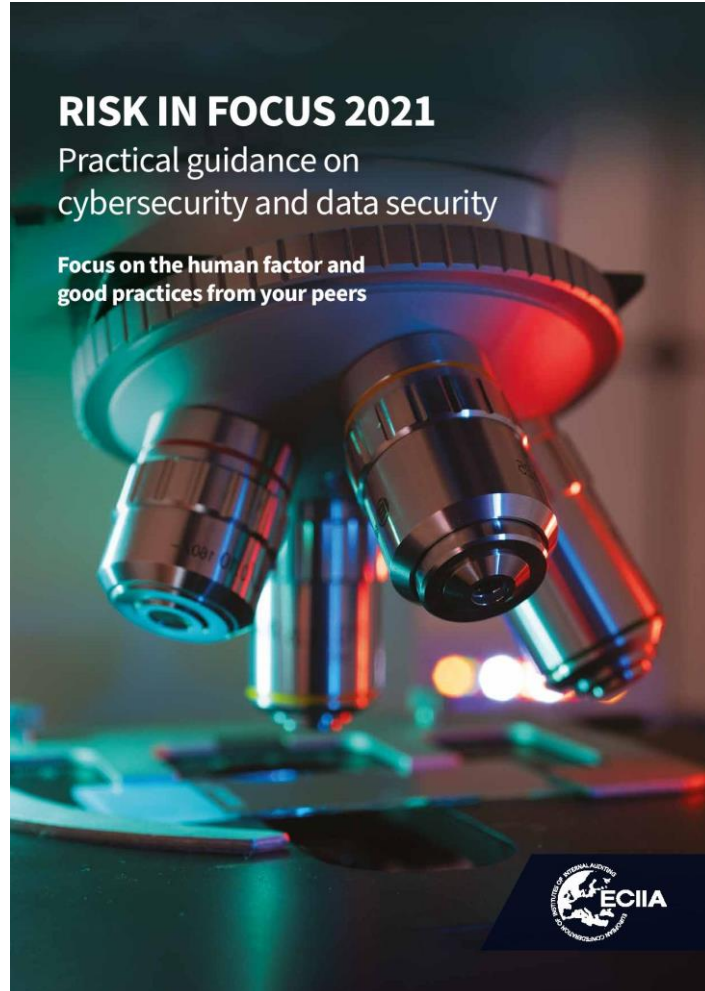


42 
CAEs and Audit Committee Chairs interviewed

 **579**
survey respondents
+10% annual increase


51 
experts interviewed

OTHER PRACTICAL GUIDANCES




RISK IN FOCUS 2021
Practical guidance on
cybersecurity and data security

Focus on the human factor and
good practices from your peers



RISK IN FOCUS 2021
Practical guidance on macroeconomic
and geopolitical uncertainty

How to tackle associated risks
and harness opportunities?



The European Green Deal

Transforming the EU's economy for a sustainable future.

Projects for a "greener" Europe are at the forefront of the EC minds and targets to ensure a sustainable future for our world. By 2050, the main European objective is to enshrine climate neutrality into law and to have an overall emissions reduction of 55% by the year 2030. Europe must become a world leader in the circular economy and has developed in March 2020 a circular economy action plan, focuses on the use of resources being more sustainable.

A European Climate Pact has been launched, it brings civil society, industry, local communities and schools together to facilitate the transition into a "greener" Europe; potentially through the use of green bonds and EU-level tax initiatives.

Increasing the EU's Climate Ambition for 2030 and 2050

Supplying clean, affordable and secure energy

Mobilising industry for a clean and circular economy

LEAVE NO ONE BEHIND (JUST TRANSITION)
FINANCING THE TRANSITION

The European Green Deal

Transforming the EU's economy for a sustainable future.

A zero pollution ambition for a toxic free environment

Preserving and restoring ecosystems and biodiversity

From 'Farm to Fork': a fair, healthy and environmentally friendly food system

Accelerating the shift to sustainable and smart mobility

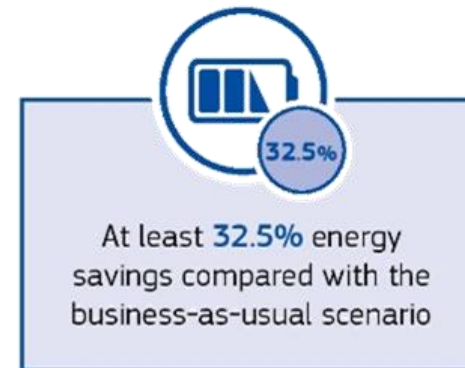
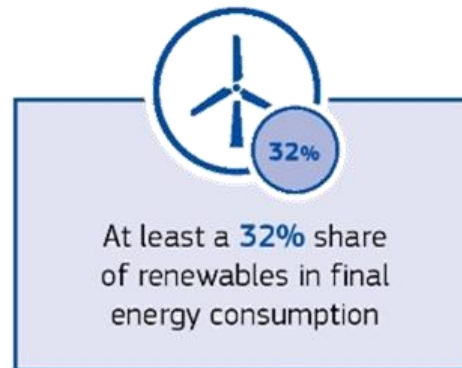
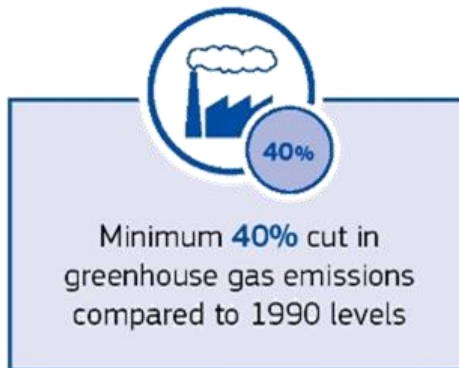
Building and renovating in an energy and resource efficient way

CLIMATE CHANGE : CALL FROM THE EUROPEAN REGULATORS



FINANCE CAN MAKE THE DIFFERENCE

The EU has committed to three ambitious climate and energy targets by 2030:



To make the EU climate-neutral by 2050, Europe needs between **€175** to **€290** billion in additional yearly investment in the next decades.

WHY DO WE NEED TO ACT TOGETHER?

Transitioning to a climate-neutral economy requires global solutions. It is therefore time to align these various initiatives across jurisdictions to:

- scale up sustainable finance to plug the current investment gap
- ensure compatible markets for sustainable financial assets across borders and avoid fragmentation
- achieve economies of scale by exploring synergies

CLIMATE CHANGE : CALL FROM THE EUROPEAN REGULATORS



BENEFITS FOR INVESTORS

greater choice of projects and green finance products to satisfy the fast growing demand



BENEFITS FOR BUSINESSES

new sources of funding through global capital markets and the financial sector worldwide

EU SUSTAINABILITY POLICIES

 CLIMATE AND ENERGY	 ENVIRONMENT	 INVESTMENT AND GROWTH	 SUSTAINABLE FINANCE
<ul style="list-style-type: none"> • 2030 Climate and Energy Framework • Energy Union Package • EU Strategy on Adaptation to Climate Change 	<ul style="list-style-type: none"> • Natural Capital Management <ul style="list-style-type: none"> • Air • Water • Land • Biodiversity • Circular Economy 	<ul style="list-style-type: none"> • Investment Plan for Europe (Fund for Strategic Investment (EFSI); InvestEU; EU cohesion policy funds) • External investment plan • Horizon 2020 	<ul style="list-style-type: none"> • Sustainable Finance within the Capital Markets Union

- Long-term strategy to reach carbon neutrality by 2050
- EU Environmental Action Plan





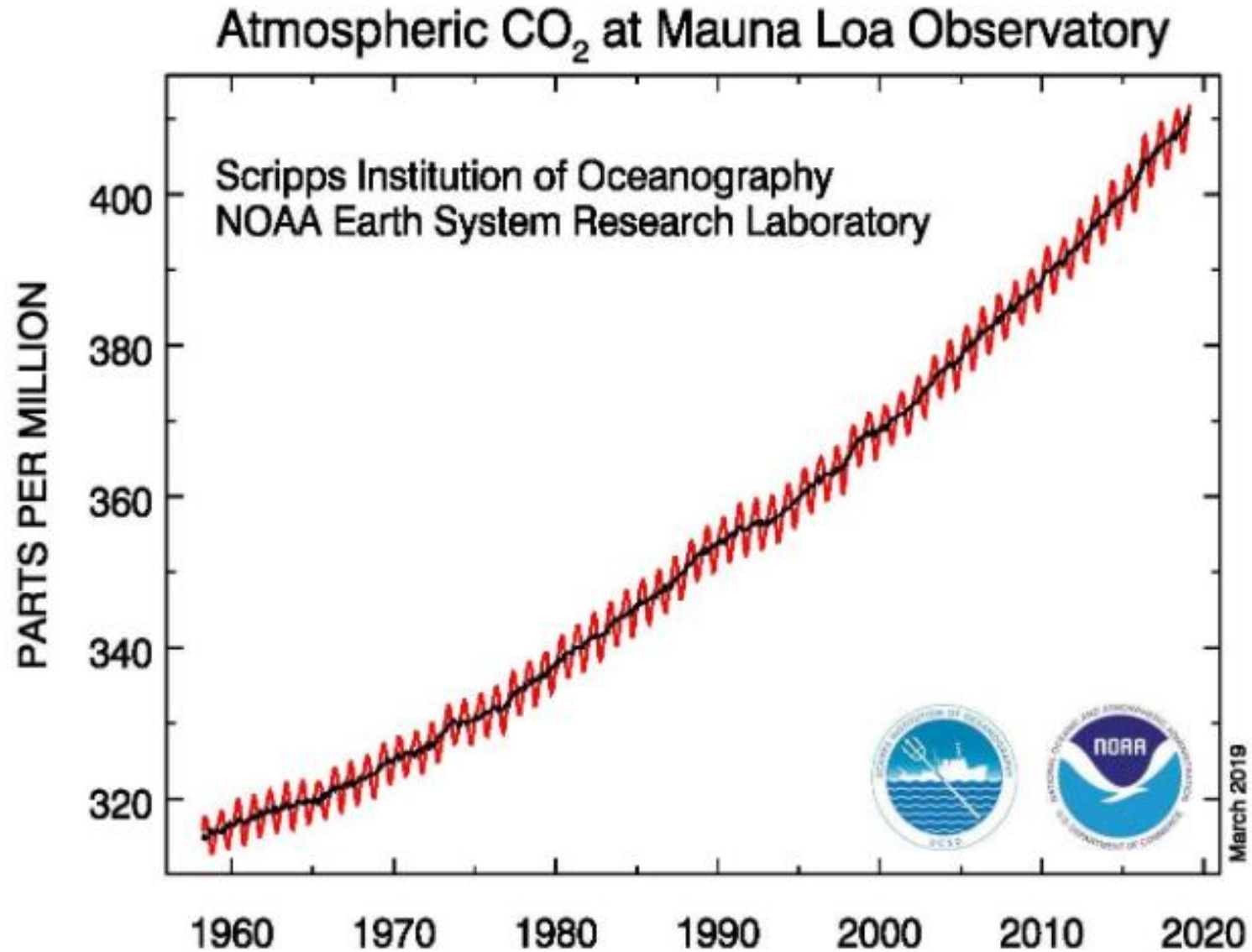
INTRODUCTION

BERTRAND JANUS

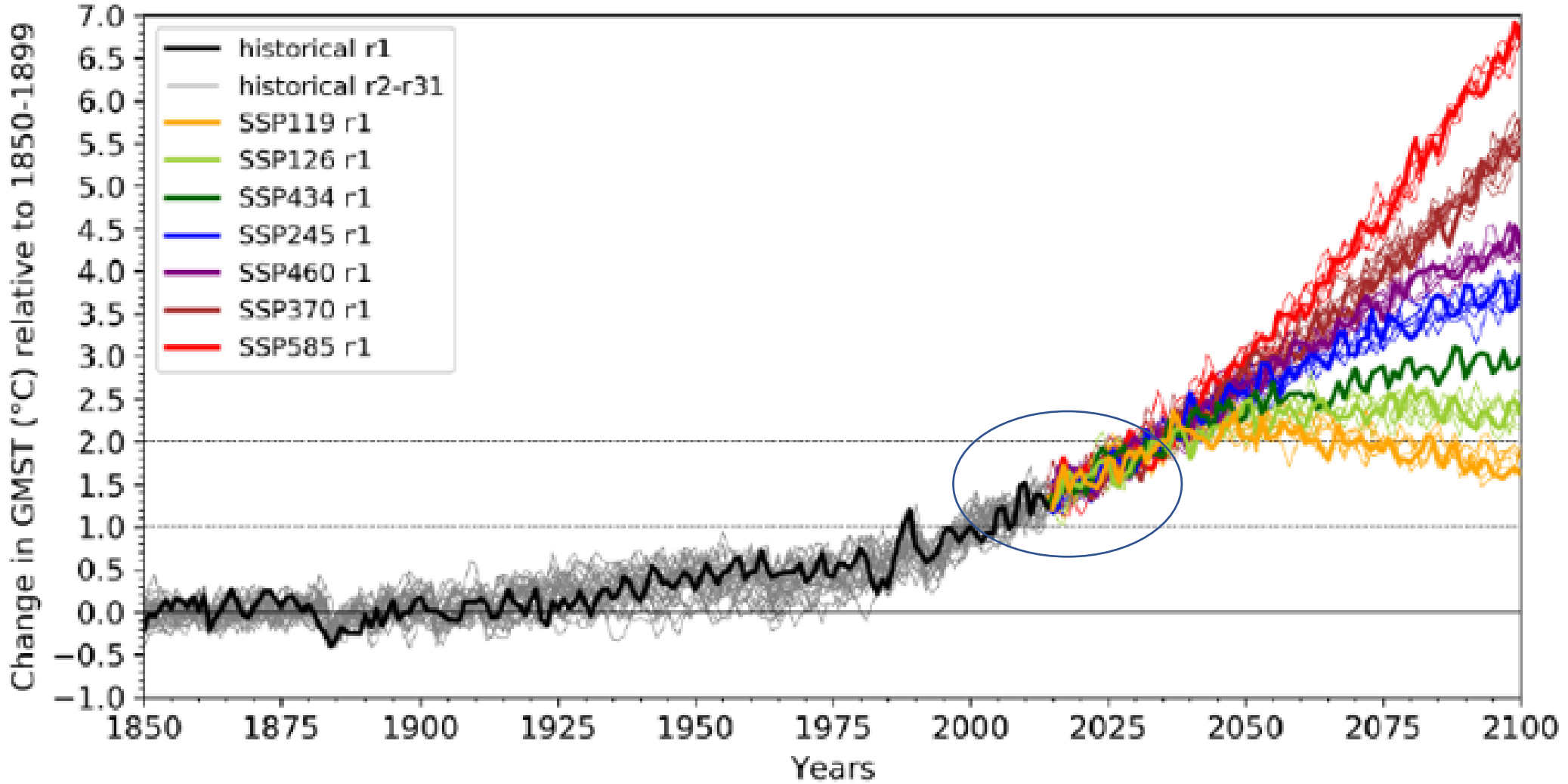
*Vice-Chair of the EFRAG Project Task Force
on Climate Reporting Disclosures*



CLIMATE CHANGE – CONCENTRATION OF CO₂ (ppm) IN THE ATMOSPHERE



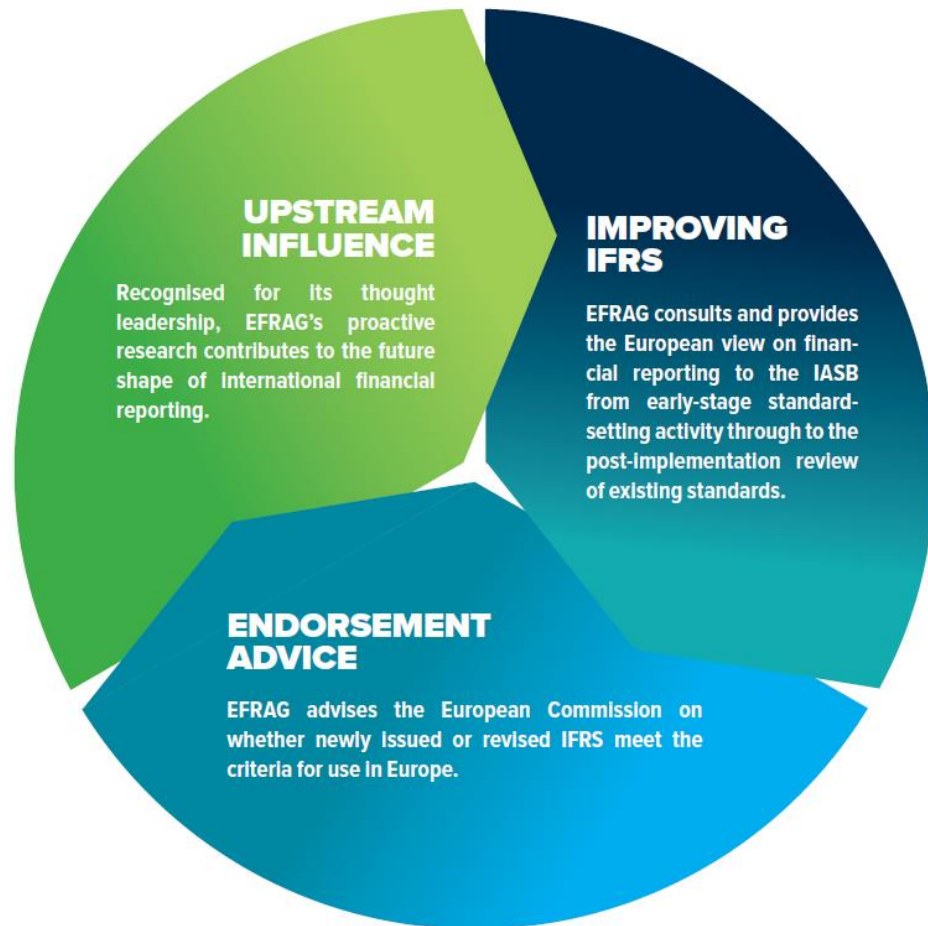
CLIMATE CHANGE – NO IMMEDIATE EFFECT OF ACTIONS TAKEN



EFRAG: EUROPEAN FINANCIAL REPORTING ADVISORY GROUP



FINANCIAL REPORTING



BROADER CORPORATE REPORTING



Stimulate innovation in the field of corporate reporting in Europe by identifying and sharing good practices

- Established by EFRAG at the request of the EC in its March 2018 *Action Plan on Financing Sustainable Growth*
- Facilitates dialogue between reporting companies, users and other relevant stakeholders
- 17-person Steering Group is responsible for European Lab governance, agenda selection (projects), appointment of project task forces (PTFs) and oversight of projects
- **European Lab deliverables have no authoritative or normative status**
- **Different from the EU Non-Financial Reporting Directive (NFRD) and related guidelines**
- PTFs are responsible for the project deliverables including the contents of the project reports



MOTIVATION FOR CLIMATE-RELATED REPORTING (CRR) PROJECT (2018)

- Climate change is increasingly considered as a financial risk for companies
- Companies impact on environment cannot be ignored
- Evidence from various surveys shows that there is room for improvement on climate-related disclosures by companies
- Sharing of good practices and practices to avoid will help companies to improve their climate-related corporate reporting
- Investors increasingly considering climate-related matters in their investment decisions
- Climate-related reporting can contribute to the European Commission's Action Plan objective of stimulating finance and increasing funding for the sustainable economy (i.e. shifting the trillions)



RESPONSIBILITY FOR CRR PROJECT

- Project task force on climate-related reporting (PTF-CRR) was responsible for the project
- PTF-CRR consisted of 23 climate-reporting experts with diverse EU nationalities and functional backgrounds
 - *13 nationalities*
 - *Preparers (including financial institutions), users, academic, civil society*
- Chaired by Michèle Lacroix with Jean-Francois Coppenolle and Bertrand Janus as vice chairs
- Effective from the end of February 2019

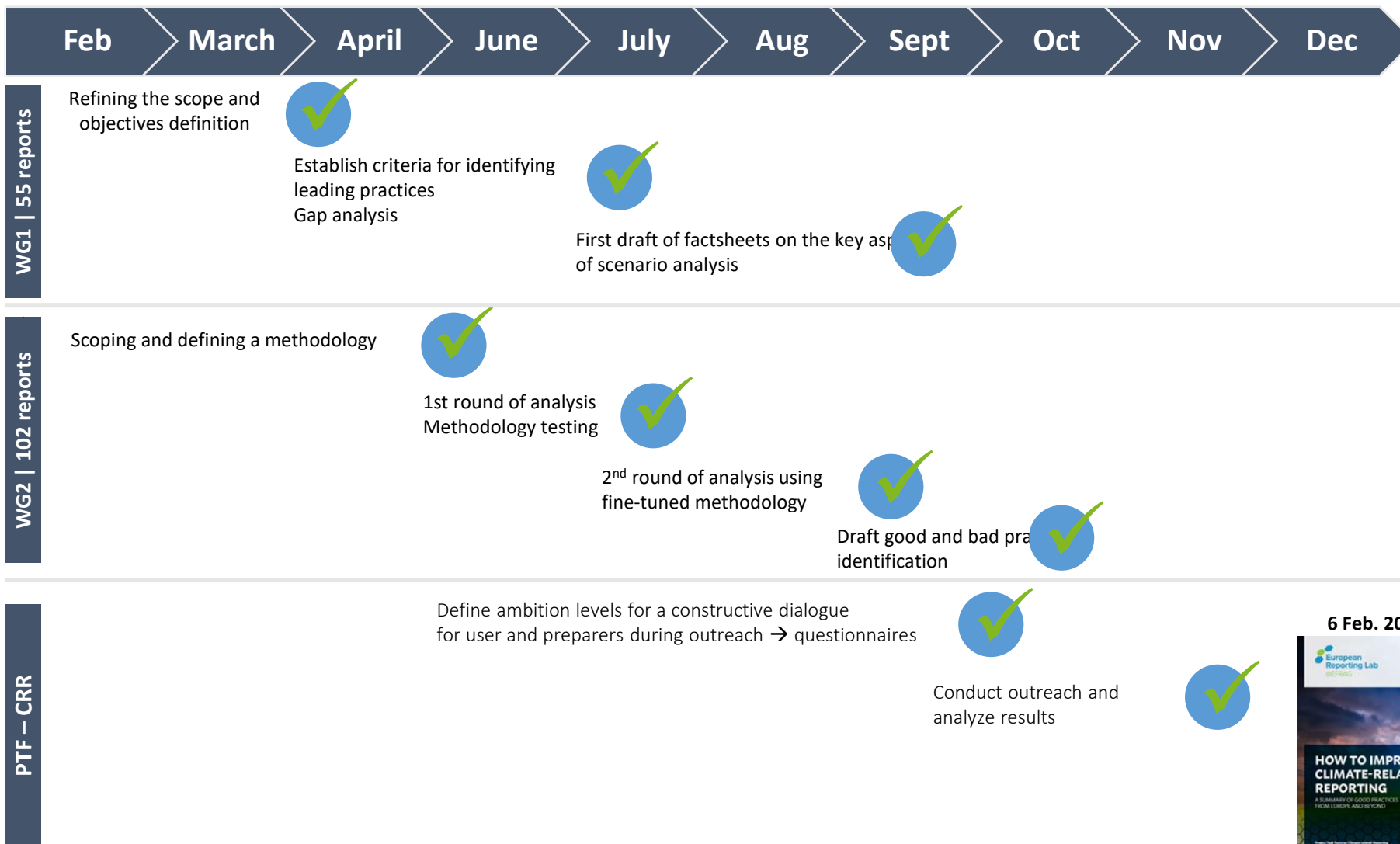


SCOPE OF CRR PROJECT

- Review of current state of climate-related reporting (2018 reporting period) while considering
 - TCFD recommendations with a focus on four thematic areas (Governance, Strategy, Risk management, Metrics and targets)
 - Climate-related reporting elements of the European Commission's NFRD and the related non-binding guidelines
- Analysis of current and potential use of climate-related information by investors and other users
- Two areas of focus in the review of climate-related reporting, namely:
 - A general review of climate-related disclosures
 - An in-depth review of scenario analysis - an innovative and challenging aspect of climate reporting



PROJECT TIMELINE (2019)



OVERALL SAMPLE SELECTION



	Sample used for general review of climate-related disclosures	Sample used for in-depth review of scenario analysis reporting	Overall number of companies reviewed
Companies considered for general review of climate-related disclosures	79	-	79
Companies considered for general review of climate-related disclosures and in-depth review of scenario analysis reporting	21	21	21
Companies considered only for in-depth review of scenario analysis reporting	-	49	49
Total companies reviewed	100	70	149
Companies from which examples were selected	15	21	30
Number of examples selected	20	38	58

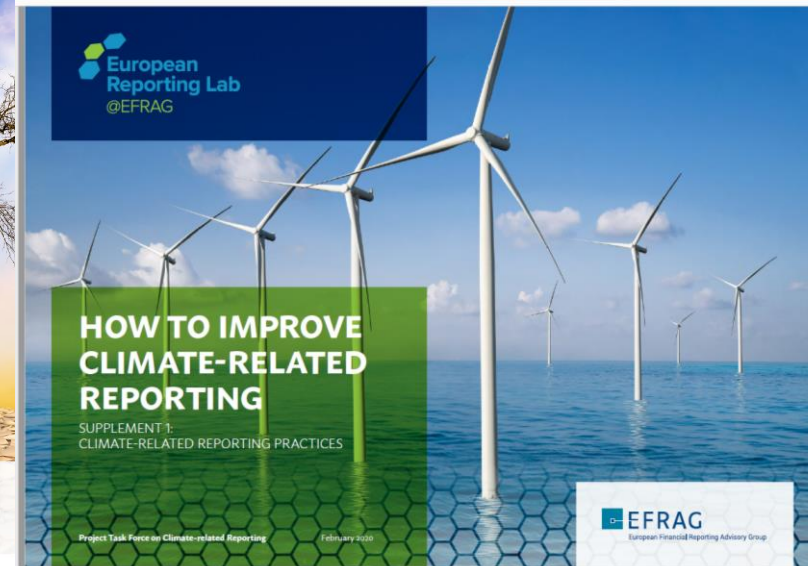
DELIVERABLES



Consists of a main report and two supplement documents:

- Main report (*How to Improve Climate-related reporting: A summary of good practices from Europe and beyond*) includes
 - Key messages
 - Synopsis of project findings
 - Details of approach, methodology and reviewed companies' selection
- Detailed findings from the general review of climate-related disclosures (*Supplement 1: Climate-related reporting practices*) includes
 - Snapshot examples (20 examples from 15 companies) including why examples were selected
 - Preparer and user perspective on each illustrative example
 - Reporting practices to avoid
- Detailed findings from in-depth review of scenario analysis (*Supplement 2: Scenario analysis practices*)
 - Snapshot examples (38 examples from 21 companies) including why examples were selected and a mock-up example
 - Summary of reporting practices, Preparer and user perspective and areas for improvement on ten scenario analysis topics

REPORTS



IDENTIFICATION OF GOOD REPORTING PRACTICES



Methodology: TCFD and NFRD mapping

TCFD Recommended Disclosures		NFRD Elements				
		Business Model	Policies and Due Diligence Processes	Outcomes	Principal Risks and Their Management	Key Performance Indicators
Governance	a) Board's oversight		■			
	b) Management's role		■			
Strategy	a) Climate-related risks and opportunities				■	
	b) Impact of climate-related risks and opportunities	■				
	c) Resilience of the organization's strategy	■				
Risk Mgmt.	a) Processes for identifying and assessing				■	
	b) Processes for managing				■	
	c) Integration into overall risk management				■	
Metrics & Targets	a) Metrics used to assess					■
	b) GHG emissions			■		
	c) Targets			■		

KEY FINDINGS – CLIMATE-RELATED DISCLOSURES



Some key observations on reviewed companies' climate-related reporting include:

- General room for improvement but improvement in 2018 reporting compared to 2017
- Rarely enough explanation on if/how companies' business model and strategy are resilient to climate risk
- Good at reporting policies but less good at reporting how they monitor or perform against policies
- General lack of references to national and international commitments
- Room to improve reporting on how metrics are linked to climate-related targets and performance against targets
- Among four TCFD thematic areas; *Metrics and targets* is the area subject to more advanced analysis and reporting compared to the other thematic areas (*Governance, Strategy and Risk management*)
- Insufficient articulation of four TCFD thematic areas including interaction between them

KEY FINDINGS – CLIMATE-RELATED DISCLOSURES



Some key observations (continued):

- Reporting is more mature among large cap than in small cap and mid cap companies
- Climate-related reporting is not always included in companies' financial filings as recommended by the TCFD and it is sometimes difficult for users to understand how climate risks are evaluated and managed and by whom
- Need to improve reporting of strategy and risks over different time horizons
- Reporting practices to avoid include:
 - Disclosing generic information
 - Reporting without a prior materiality assessment
 - Disclosures that lack supporting information (e.g. description of climate risks in short-, medium- and long-term)

KEY FINDINGS – SCENARIO ANALYSIS REPORTING

- **Emphasis on transition risks;** publications and guidance supporting TCFD implementation focus on transition risk; transition risks are subject to a more detailed analysis and reporting than physical climate risks (*also analysed in ‘Physical risk scenarios’ section of Supplement 2*)
- **Conflicting time horizons:** There is a disconnect between climate change time horizon and typical business planning horizons (*also analysed in ‘Time horizons’ section of Supplement 2*)
- **Preparer challenges** arise due to lack of data for scenario analysis; inherent uncertainty of scenario analysis (*also analysed in ‘Models and data’ section of Supplement 2*)
- **Expectations gap:** Users eager to have access to have quantitative information that preparers are not always comfortable disclosing due to uncertain nature of scenario analysis & potential detrimental impacts on company (*also analysed in ‘Scenario outputs and business decisions’ section of Supplement 2*)



KEY FINDINGS – SCENARIO ANALYSIS REPORTING



Other scenario analysis challenges identified in report include:

- Challenges in translation of scenario analysis model outputs into business variables (*also analysed in ‘Scenario outputs and business decisions’ and ‘ Quantification and monetisation of scenario outputs of Supplement 2)*)
- Shortfalls in providing quantitative impact of climate change risk on financial metrics (*also analysed in ‘Quantification and monetisation of scenario outputs of Supplement 2)*)
- Shortfalls in providing insight into companies’ adaptive capacity and resilience strategy (*also analysed in ‘Scenario outputs and business decisions’ of Supplement 2)*)



CLIMATE CHANGE AS A NEW AND EXPANDING RANGE OF RISKS

LUCA PREITE

Internal Audit Manager Europe, North America, APAC, Russia, Nordics and MEA at Pirelli



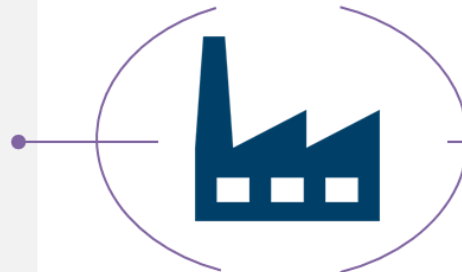
CLIMATE CHANGE: A risk in focus for corporates

From a corporate standpoint, **climate change** presents a **new** and **expanding range** of risks, and with it challenges to **organisational governance** and **business model**.



Example of climate change-related risks SUFFERED by organizations...

- **Extreme weather events** (e.g. flood, hurricane, etc.)
- **Increase in sea and river level**, jeopardizing corporate plants and premises
- **Scarcity** / increased costs of **raw materials**
- **Severe drought** causing shortages in water supply
- ...

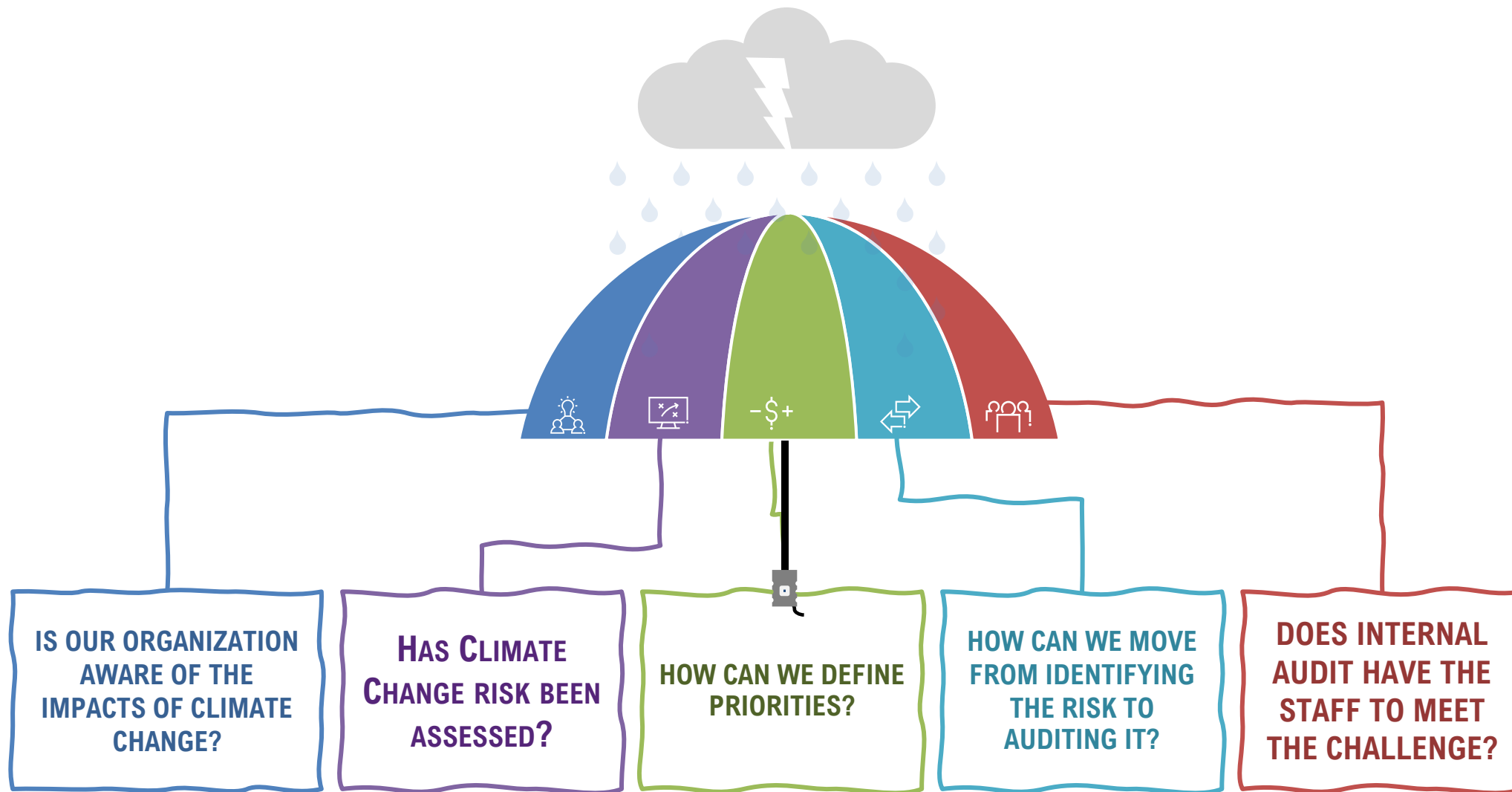


Example of climate change-related risks GENERATED by organizations...

- **Release of CO2** and other **pollutants** in the atmosphere
- **Extensive land use** and **contribution to biodiversity loss**
- Use of **raw materials** characterized by a **high environmental footprint** or which production contributes to the rise of the **global temperature**
- Use of **non-renewable energy source**
- ...



A 5 STEPS (QUESTIONS) APPROACH:



A 5 STEPS (QUESTIONS) APPROACH:



1) Is our organization aware of the impacts of Climate Change?

Keyword: role

- for organizations with specific actions or overall management systems in place, the overriding objective of IA is to provide assurance (as the organisation's **third line**)
- on the contrary, for organizations on preliminary maturity phases, internal audit's role is to challenge executives' awareness on this topic (as the organization's "**trusted advisor**")



Examining the information available (e.g.: long-term strategy, mission, policies, governance, ERM, declarations to stakeholders) and interviewing the C-Level executives.

Testimony

“The prevailing model in mature organizations is to define the central role of IA as assurance”.

A 5 STEPS (QUESTIONS) APPROACH:



2) Has Climate Change risk been assessed?

Keyword: **ownership**

What if there is no reliable risk assessment?

With the aim of improving the organization's risk maturity, IA should approach the work in such a way that management retains a sense of ownership of the process.



Testimony

IA should use the information available in the organization to identify relevant topics to focus on.

The most common and useful sources of information available in the organization:

- Non-Financial Reporting;
- Interviews with the managers involved (e.g. sustainability, HSE, facilities, operations...).

“Internal Audit performing risk assessment needs to be considered carefully in term of disadvantages”.

A 5 STEPS (QUESTIONS) APPROACH:

-\$+

3) How can we define priorities?

Keyword: **subject matter expertise**

Internal audit can seek other functions that have responsibility or expertise in the matter in order to jointly identify priorities.



Prioritization approaches can be based (in case a dedicated risk assessment does not exist) on the timeline of key developments in the specific risk area
To do so, subject matter expertise may be of help.

Testimony

“The second line (or subject matter experts) can support internal audit in defining priorities, as well as in supporting auditees in setting the action plans and internal auditing in validating their status during follow-up”.



A 5 STEPS (QUESTIONS) APPROACH:



4) How can we move from identifying the risk to auditing it?

Keyword: **targets**

A common thread links different possible solutions: the search for organizational goals (e.g. chosen SDGs) and related targets and indicators.



An easy way, in an initial mature environment or in the absence of a specific request from senior stakeholders, is progressively complementing existing internal audit programs with specific audit objectives related to climate change risk.

Testimony

“Mature companies perform dedicated climate change risk audits:

- on new processes (i.e. production of energy from renewable sources);*
- on cross-cutting initiatives with a high impact on climate change;*
- on second line (less frequent) to provide assurance on their activities”*



A 5 STEPS (QUESTIONS) APPROACH:

 5) Does internal audit have the staff to meet the challenge?

 Keyword: long term orientation

A trend of growing interest is expected for many years. This should guide internal audit in assessing its long-term priorities and in any decision on how to acquire relevant competences.



Obviously, the quickest way to get resources and qualified competences is from other departments that may be available within the organization. If these are not (yet) available, internal audit could turn to consultancy.

Testimony

“The competences development is an investment that significantly increases the satisfaction and motivation of auditors, as they work on innovative, fast-growing activities”.





HOW CAN INTERNAL AUDITORS HELP IN MANAGING RISKS ASSOCIATED WITH CLIMATE CHANGE AND MEET STAKEHOLDERS EXPECTATIONS?

Round Table



PANELISTS



BERTRAND JANUS

Vice-Chair of the
EFRAG Project Task
Force on Climate
Reporting Disclosures



LUCA PREITE

Internal Audit Manager
Europe, North America,
APAC, Russia, Nordics
and MEAI at Pirelli



FRED RUOFF

Independent consultant
in sustainability



**NANTHIKESAN
SUPPIRAMANIAM**

Lead Evaluation Officer
at the Independent Office
of Evaluation at IFAD





SUMMARY REPORT



SUMMARY REPORT

On 10th March 2021, ECIIA organized a virtual event, attracting over 400 participants, to raise the importance of assessing climate change risks and how Internal Auditors can move from identifying these risks to auditing it. This event brought together the views of authoritative speakers with various background, from Internal Auditor to EFRAG member and Lead Evaluation Officer.

An initial session by Pascale Vandebussche, ECIIA Secretary General, brought an overview of the climate objectives set by the European Union through the Green Deal and the related relevant legislative aspects to be taken into account for the internal audit sector, i.e. the review of the Non-Financial Reporting Directive, which is planned to be published very soon and the EFRAG report, published last week, on sustainability reporting standards.

This session provided the opportunity to take stock of the ongoing work of EFRAG. Bertrand Janus, Vice-Chair of the EFRAG Project Task Force on Climate Reporting Disclosures, has presented the internal workings of the tasks force established in February 2019 and the methodology used to write the EFRAG report on [“How to improve climate-related reporting”](#) published in February 2020.



PRESENTATION OF THE EFRAG REPORT

Thanks to twelve months of intensive work, the EFRAG Report on “*How to improve climate-related reporting*” provides a summary of good practices from Europe and beyond. This report has been prepared by the Project Task Force on Climate-related Reporting (PTF-CRR) and it consists of a main document and two supplements on general climate disclosures and scenario analysis reporting.

This work reflects the review of 149 companies with 58 good reporting practice examples extracted from 30 companies highlighted. The main report includes key messages and a synopsis of project findings. It also highlights good reporting practices as well as potential ways of improving the current state of play.

Concerning the key findings, it should be noted that whatever methodology is used in reporting, whether it is the NFRD guidelines or the recommendations made by the TCFD, all the spectrum is covered in terms of climate reporting. Lastly, since the publication of this report, there have been clear ameliorations in reporting compared to previous years but there is still room for improvement.

The Vice-Chair of the EFRAG project concluded its presentation by saying that climate reporting is an issue that is not solved yet even if some progress have been made. There is an impetus for companies to take into account the risks associated with climate change even if in the end, the future remains totally unpredictable as the recent pandemic has proved it.



ROLE OF INTERNAL AUDITORS

According to Luca Preite, Internal Audit Manager at Pirelli, climate changes becomes more and more a risk in focus for corporates because on one side, they are affected by the impact of climate change and on the other side, they are active generators of climate change risks. Therefore, from a corporate standpoint, climate change presents a new and expanding range of risks and with it challenge to organisational governance and business model.

As a consequence to climate change, there are two kinds of responses for corporates in which internal auditors can participate. One is the mitigation of climate change by reducing the activities having a negative effects on the environment and the second is the adaptation to the actual or expected effects of the global warming and turn them into opportunities.

To this end, the Italian Chapter of the Institute of Internal auditors has identified a 5 steps Approach on which internal auditors can focus to address the risks associated to climate change and environmental sustainability. Through each of these steps, the internal auditors may question and introspect the organization but also themselves to move from identifying the risks to auditing it and then meet the related challenges.



ROUND TABLE DISCUSSION 1/2

Before the discussion, a survey was carried out among the many participants to find with whom they discuss the risks and opportunities of climate change. Multiple answers were possible and the outcome was fragmented: 47% of the participants answered the executive management, 34% the Risk Committee, 31% the Audit Committee, 28% the Board and 26% simply do not discuss this theme.

Following this poll, Fred Ruoff, independent consultant in sustainability, has found several similarities with a survey conducted in the Netherlands last December. In addition, this survey showed that far too many companies still do not give enough attention to climate change. The panellist also took the opportunity to give two pieces of advice for internal auditors: boards and committees might not be aligned on climate change issues and internal auditors must raise their awareness, auditors need to show the impact and how related opportunities can be beneficial.

Nanthikesan Suppiramaniam, Lead Evaluation Officer at IFAD, opened the discussion by explaining, based on his experience, how internal auditors can help evaluation officers to manage these challenges. Given that evaluation is about assessing results, evaluation officers have to look at internal processes to see if the organization has properly analysed the risks and this is where internal audit comes and can collaborate.



ROUND TABLE DISCUSSION 2/2

Within the UN system, audit is not only about financial aspect but also about compliance with the procedure and the rules. Therefore, it represents a good opportunity for evaluation officers to collaborate with auditors to understand what went wrong. There are a lot of room of collaboration when it concerns compliance audit.

Concerning climate change, the panellist recalls the importance of focusing on the frequency, the exposure and the intensity of risks. There is a need to combine the three aspects to assess the risk properly. All too often, sustainability is left out of the equation, there is a need to look at the ecosystem in which the company operates as a whole and consider how they use it and how they impact on it because this is part of the risk evaluation.

Then, a panellist identified four objectives for the internal auditors when addressing climate change risks: the compliance to the law and regulation, the verification of the achievement of the objectives defined by the company, the correct implementation of the mitigation plan and the liability of the reporting and measurement system. To this end, a close cooperation with the second line function will be important.

Finally, all the panellists were agree to conclude by saying that the role of internal auditors depends on the company and the sector in which they are operating. The level of maturity in terms of climate change management will also influence the role that the internal auditor can provide. Notwithstanding, the role of internal audit remains crucial in assessing climate change risks and it is important that they are part of the journey.





WEBINAR **RISK IN FOCUS 2021**

Climate Change and Environmental Sustainability:

How to tackle associated Risks and harness Opportunities?





**EUROPEAN CONFEDERATION
OF INSTITUTES OF
INTERNAL AUDITING**



www.eciia.eu