

CLIMATE CHANGE AND ENVIRONMENTAL RISK

CHALLENGES AND TOOLS FOR INTERNAL AUDIT



**The Institute of
Internal Auditors**

Title

Climate Change and Environmental Risk -
challenges and tools for Internal Audit

Client

IIA Netherlands

Working group

Thon de Blok (Senior Manager Internal Audit, SHV Holdings NV)
Peter Hartog (Director (interim) / Manager Professional Practice IIA Netherlands)
Fred Ruoff (independent advisor audit and sustainability)

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PREFACE

Climate change is causing many organisations to reconsider and adjust their future course. The physical consequences of climate change, such as rising water levels and more frequent extreme weather events are not the only issues forcing organisations to review their strategy. The transition to the use of sustainable resources to fulfil our energy needs, investors and clients who increasingly want to work with sustainable companies, as well as changing legislation can also require a reorientation. Both risk types can (also) lead to loss of reputation, and in the worst scenario, of permits and/or license to operate of organisations. However, they can also offer new business opportunities.

In view of the strategic importance for the organisation, the internal auditor can also play a role here. Risk in Focus (RiF), the annual survey by auditors in Europe (ECIIA) confirms this by including climate change among the top 10 current risks, demonstrating its increasing importance. At the same time, this moment we see internal auditor's time spent on the area is still very limited. This would seem the ideal moment to study how the Internal Audit Function (IAF) can support the organisation on this theme. Important questions that then arise are: what role could the IAF play, what 'products' can it offer, what tools can be used, what (additional) expertise is required and how to implement it within the IAF?

This report answers those questions and offers a range of tools. Particularly because in the second part of the report, eight organisations with experience in this field were prepared to share their experiences. This provides an overview of good practices which can be used as a guide to enable the IAF to choose its own role which fits best with the strategy and nature of the organisation.

We see various roles here: the internal auditor can look at the production of the non-financial reports, at the control of the climate goals or compliance with legislation. The internal auditor could look at the preparation of non-financial reports, the control of climate goals and at legal and regulatory compliance.

This specific specialist field is developing rapidly. I am therefore delighted with the new Professional Practice group 'Climate Change - Sustainability' in the IIA. Among others, this group of experts will collect, study and share relevant developments with each other and with the members.

We thank Thon, Peter and Fred as well as the respondents and all who contributed to the production of this report.

Linda Post, *President IIA Netherlands*

KEY FINDINGS

Climate Change and Environmental (CCE) Risk is a very relevant and important subject for most organisations. The following survey results offer tools to make it easier for Internal Audit Functions (IAFs) to perform audits on this subject.

The results provide insight into the (possible) impact of the risks and what organisations are currently doing to prepare. The key question was what role IAFs play in this, and what the possibilities are to identify, limit and/or control the opportunities and threats of climate change.

The survey was conducted among 63 heads of IAFs in the Netherlands. A literature study was also performed, and interviews conducted with 8 IAFs who already have experience with audits on climate change and environmental risk. These case studies produced additional concrete tools in the form of good practices.



IMPORTANT FINDINGS FROM THE SURVEY

58%

SDG 13 'climate action' is the most targeted Sustainable Development Goal at 58%

54%

of the respondents see CCE risks as medium risk or higher

55%

of the respondents expect an increase in the climate risk

81%

of the respondents see CCE expressed in reputational risk

71%

CCE risks affects many processes: 25% mention one process, 71% mention two or more

46%

As a driver, social responsibility is the most important (46%), against 30% compliance and 24% business opportunities

There is a great variety in models used:
70% of the organisations need standard models for (risk) management,

86% need standard models for reporting of non-financial information (NFI)

88%

of the organisations have already taken measures

80%

of the IAFs, spend less than 5% of their time on CCE risks, of whom 30% spend no time

23%

of the IAFs have not yet discussed the CCE risks with their stakeholders. 60% include CCE risks in the risk analysis for the audit planning

78%

say that they are still insufficiently informed to study CCE risks

The tasks and roles are diverse:

- 56% do audits on the reliability of the NFI
- 28% do audits on the completeness of the NFI
- 32% assesses the (risk) management of CCE goals
- 22% do advisory work
- 20% take part in risk analyses in this field

KSFs for the audits of CCE risks are:

- 78% - support of Board / RvB / Senior Management
- 53% - CCE part of the organisational strategy
- 39% - suitable standards and framework

RECOMMENDATIONS AND TIPS FOR THE IAF

THE START

- Do not underestimate the CCE risks. The organisation must not get left behind. The IAF can be a driver in this.
- Start by raising awareness in the organisation and making a connection with the various parties involved. Look for 'allies' to get the subject higher on the agenda.
- Harness an incident or serious event (inside or outside the organisation).
- Help the management to concisely and clearly describe the importance of climate change for the strategy and the risk for the organisation as well as the planned actions. If it is part of the strategy, the IAF will obviously include this in scope.
- Ensure that the Executive Board and Audit Committee (AC) are involved. Their support is a key success factor for auditing sustainability.

THE IMPLEMENTATION

- Appoint an internal knowledge group to collect relevant, new developments and to put the theme on the audit calendar and in audits.
- Google and read. Start with publications about environmental, social & governance (ESG). Spending several hours browsing and reading is very useful. An external consultant is not always necessary.

- Study the features of (perhaps industry-wide) standards for managing and the external reports of CCE risks and identify the best standard for the organisation.
- Train auditors. Make sure they have the competences to be able to audit CCE and advise where necessary.
- Discuss the possible and desired role and services of the IAF with management, Executive Board and AC.

THE IMPLEMENTATION

- Start small and 'experiment'. Do not immediately start as assurance provider.
- Align the auditing approach to the risks: sometimes embedded as part of an existing audit, sometimes specific.
- Work together with the second line (Sustainability and Finance departments). Ensure alignment of the message. For that purpose, start with assessing the policy in the Sustainability Department.
- Set up a structured process to involve the various stakeholders in the accountability and auditing process in advance and to inform them on the quality requirements.
- Reach clear agreements with the second line and the external accountant, particularly where NFI is a mandatory part of the accountability information.

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1. INTRODUCTION

BACKGROUND AND GOAL

While the coronavirus pandemic tests the resilience of organisations and changes our lives and ways of working, governments, businesses and organisations also see society changing as a result of climate change. Many publications, including the annual survey 'Risk in Focus' by the IIA, show that climate change is becoming an increasingly important subject for organisations, and thus for the IAF.

Many organisations respond explicitly to this in their business case, product development and marketing. Think of the reduction of CO₂ and other greenhouses gases by industry and consumers, the construction of wind farms, installation of solar panels and heat recovery from wastewater by power companies, the development of heat pumps and hydrogen engines, AH's introduction of in-store herb greenhouses, and the recovery of metals from waste mountains.

We also see great interest for reporting on this in non-financial information.¹ In April 2021, the EU published the Corporate Sustainability Reporting Directive (CSRD), which imposes new demands on more organisations with respect to the reporting of non-financial information (and even a taxonomy whereby companies must clarify which investments contribute to the climate goals). The EU seems to be setting a standard with this. As auditor of Shell, for the first time EY has mentioned the financial impact of climate change and the energy transition as a core element of the audit. In its auditor's report, it has also said that the CO₂ goals communicated by Shell are not keeping pace with the operational plans and pricing.

The pressure of investors and shareholders is increasing too. On its front page on 17 May 2021, for example, NRC reported ("Investor demands greener Shell") the motion of an investor's collective at the shareholders meeting of Shell. On 19 May, the same newspaper reported that the International Energy Agency (IEA),² was demanding a stop to investments in fossil fuel extraction for its members. A week later, in legal proceedings launched by Environmental Defence, the court ordered Shell to reduce its CO₂ emissions via the holding policy of the Shell group by 2030 to a net 45% compared with the level of 2019.

Nevertheless, we see that the amount of time spent on the climate risk by the IAF is still very limited. That was the reason for embarking on a study into the current situation and developments. The aim was to offer tools to help IAFs conduct audits on this subject, which are certain to be extended in the future. The target group consists of IAFs wishing to explore strategically and auditors looking for practical tips and resources. That applies to IAFs in all sectors.

¹ Environmental, Social & Governance (ESG) information and information about Corporate Social Responsibility (CSR) are included together as non-financial information (NFI).

² founded 50 years ago by the oil industry,

RESEARCH QUESTION

Three questions were key in the study:

1. To what extent are organisations faced with the consequences of climate change and related environmental issues?
2. What are organisations doing to tackle (the risks and opportunities of) climate change and environmental issues?
3. What does that mean for the role of the IAF?

By answering these questions, it wants to help the IAF discuss and audit the opportunities and threats of climate change in their organisation.

By climate change and environmental risk, we mean the risk of the values and returns of the organisation declining because the organisation is influenced by climate change and/or (other) environmental factors. This risk can be divided into two categories³:

1. Transition risks, meaning risks related to the transition to a low carbon economy. These risks may lead to policy, legal, reputational, operational, technological and market changes. These transition risks include the carbon risk (the risk that the organisation cannot achieve the CO₂ reduction goals).
2. Physical risks, meaning risks related to the physical impact of the climate and/or environment. These may be acute, such as extreme weather conditions or chronic, such as rising sea levels. Subsequent damage like water crises, involuntary migration or disintegration of ecosystems can be included.

³ This is partly derived from the risk management framework of ABN AMRO: <https://www.abnamro.com/uk/en/product/sustainability-policy>

STRUCTURE OF THE STUDY

The study consisted of three steps: the preparation, the survey and the in-depth interviews. We started by reading about the developments and possible interpretation of the role(s) of the IAF. We made grateful use of a similar study conducted by CIIA UK⁴. Based on this, a questionnaire was drafted, consisting of four parts (see appendix 1):

1. Organisation and Strategy
2. (Re)action of the organisation to the CCE risk
3. The role of the IAF
4. Tools of the IAF

The survey was sent to all IA heads in the Netherlands. In the survey, several experienced IAFs indicated their willingness to share their experiences. For that purpose, eight in-depth interviews were conducted, resulting in eight 'good practices' with a concrete description of the role and working practice of the relevant IAF.

⁴ CIIA UK: Organisations' preparedness for climate change: an internal audit perspective. <https://www.iaa.org.uk/policy-and-research/research-reports/organisations-preparedness-for-climate-change-an-internal-audit-perspective/>

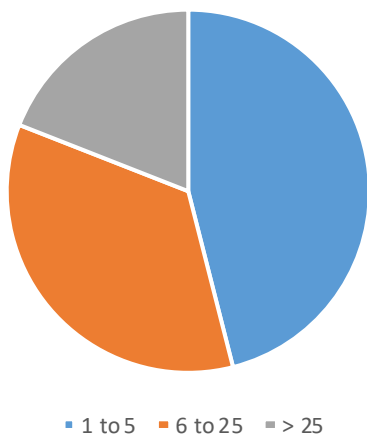


Figure 1 Size of IAFs

RESPONSE

We received 63 responses from the 200 heads of IAFs in the Netherlands who received the survey. This is quite a high score for a new subject that is number 10 of the hot topics listed in the Risk in Focus report. That shows that there is a great deal of interest in this subject. We also see it appearing increasingly frequently on the IAF agenda.

CLIMATE CHANGE IS A RISK WHICH ORGANISATIONS CANNOT AVOID, WHICH WILL ONLY INCREASE IN THE YEARS AHEAD.

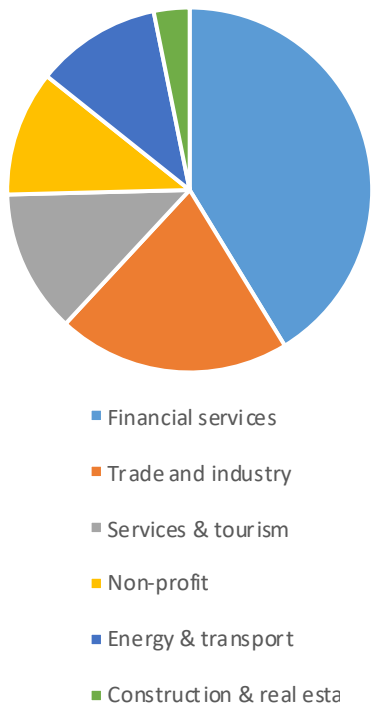


Figure 2 Response by Sector

Three quarters (74%) of the respondents represent organisations with more than 1,000 employees. Nevertheless, many of the IAFs are relatively small (figure 1): 46% has 5 or fewer employees, 33% has fewer than 25 employees. We find the small audit functions distributed in all sectors, while the larger functions are mainly (67%) in the financial sector.

For the analysis, we divided the respondents into the following three sectors (figure 2):

- Financial services (41%)
- Profit/non-financial sector (48%)
This includes trade & industry (21%), energy & transport (11%), services & tourism (13%) and construction (3%).
- Non-profit: government, healthcare and education (11%).

READING GUIDE

Our study confirms that climate change is an unavoidable risk for organisations, that is set to increase in the coming years. Organisations, and certainly their IAFs, are only just starting to manage them adequately. However, there have certainly been some good experiences already. This report provides an overview of these as well as tools for the IAF to develop in this increasingly important area.

In chapters 2 to 5, the results of the survey are described, spread over four parts:

- (2) **The setting**, in which we address the organisation and its objectives with respect to CCE, as well as the risks which threaten these objectives.
- (3) **The answers**, the measures taken by organisations to achieve their climate and other environmental goals, including the tools (models, certain standards, etc.).
- (4) **The role of the IAF (the what)**, addressing what the IAF does in terms of time commitment, activities and products, including the collaboration with the external auditor.
- (5) **The role of the IAF (the how)**, which describes the execution and acquisition of knowledge, as well as the key success factors for a successful role in this field.

Chapter 6 describes the good practices.

ACKNOWLEDGEMENTS

We would like to thank the interviewees for their 'good practices' and the respondents for filling in the survey. In addition, Didi Hoezen (2BHonest), Wim Bartels (KPMG), Tamar van Doesburg (Rabobank) and Aditya Gunadi (Nutreco) helped us set up and elaborate the study.



2. THE SETTING

The study firstly looks at the extent to which organisations are confronted with the (possible) consequences of climate change and the goals they set themselves.

CCE RISKS AND REGULATORY PRESSURE

The estimated level of the climate risk for the organisation is diverse (see figure 3). The vast majority define this as 2 or 3 on a scale of 5. However, most of the respondents expect that risk to rise. Many respondents score the risk a point higher in 3 years' time. That is in line with the previously mentioned Risk in Focus study, but also with other studies such as the Global Risk Report by the World Economic Forum, in which more and more risks relating to the environment and climate are in the top 10.

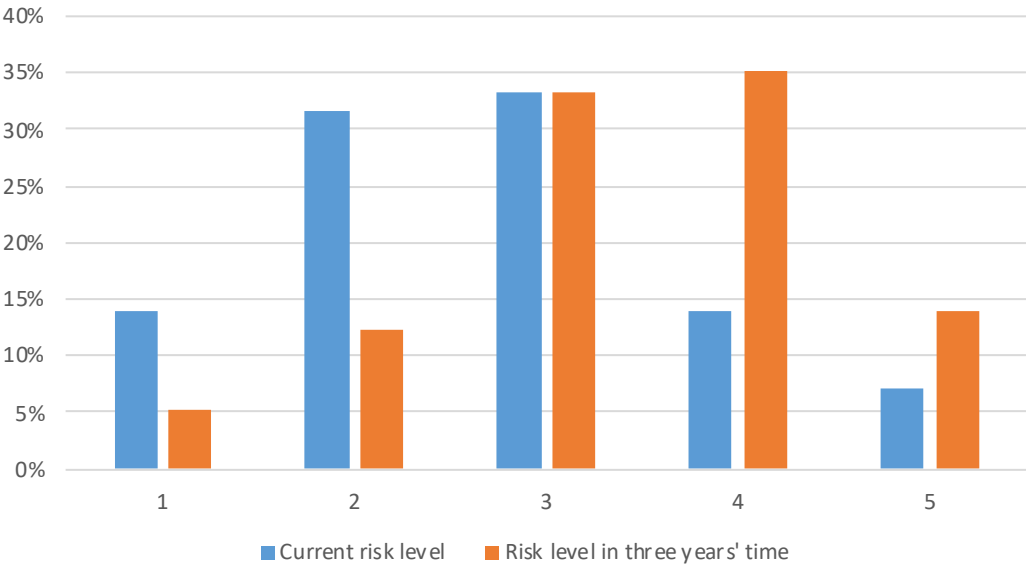


Figure 3 Risk level climate change: now and over 3 years

The impact of legislation varies in each sector. Logically, big differences therefore exist in the perception of the degree of regulation. Incidentally, these perceptions also vary among organisations in the same economic sector.

Figure 4 shows that regulatory pressure tends to be estimated high (over 3). 73% of the organisations rate regulatory pressure at 3 or higher on a scale of 5. In practice, we also see the rapid introduction of new legislation to include ESG risks in the governance, risk management and monitoring of credit organisations and investment companies. Such as recently, the new EU Directives (CSRD) and the EU-Taxonomy and the consultation of the European Banking Authority (EBA).

THE IMPACT OF LEGISLATION VARIES PER SECTOR. IT IS THEREFORE LOGICAL THAT BIG DIFFERENCES EXIST IN THE PERCEPTION OF THE EXTENT OF LEGISLATION.

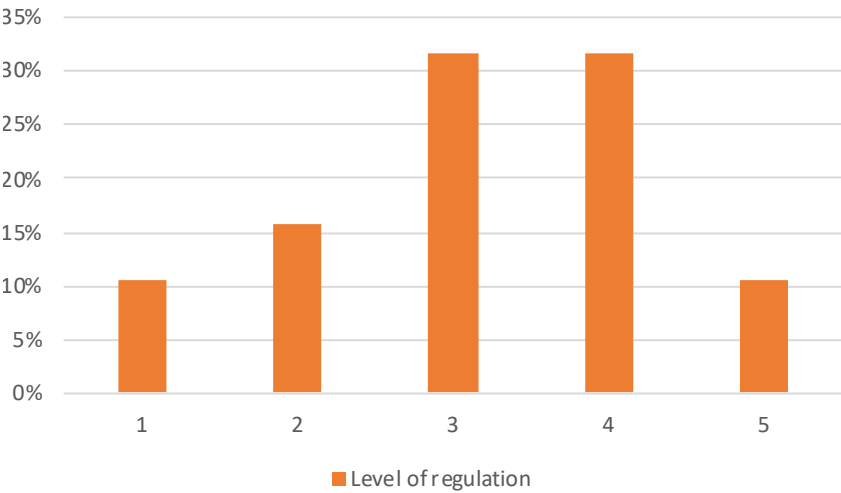


Figure 4 Perceived regulatory pressure

CCE RISKS AND THEIR IMPACT

CCE affects the organisation in many risk areas (figure 5) and processes (figure 6). The scores do not vary much in each sector.

Interestingly, of the affected risk areas, reputation scores highest (81%), then compliance (67%). Legislative pressure seems to be felt strongly. A logical third is the impact on the primary business operations, the operational risk (50%). Good examples are the Taiwanese chip maker TSMC, whose volume of cooling water is threatened due to a shortage of rainwater, the closure of coal-fired power plants by electricity companies

and a bank which has given much of its funding to companies in oil, gas or other non-sustainable energy and now wants to change this. The difficulties of these transitions are reflected in the discussions about the positioning of windmills ('not in my back yard') and licensing for energy-intensive industry. Take Tata Steel, the construction of data centres and hydrogen factories in the Netherlands.

The wide impact is also reflected in the question about the affected processes. Many processes can be impacted. The most affected processes are linked to the main risk areas.

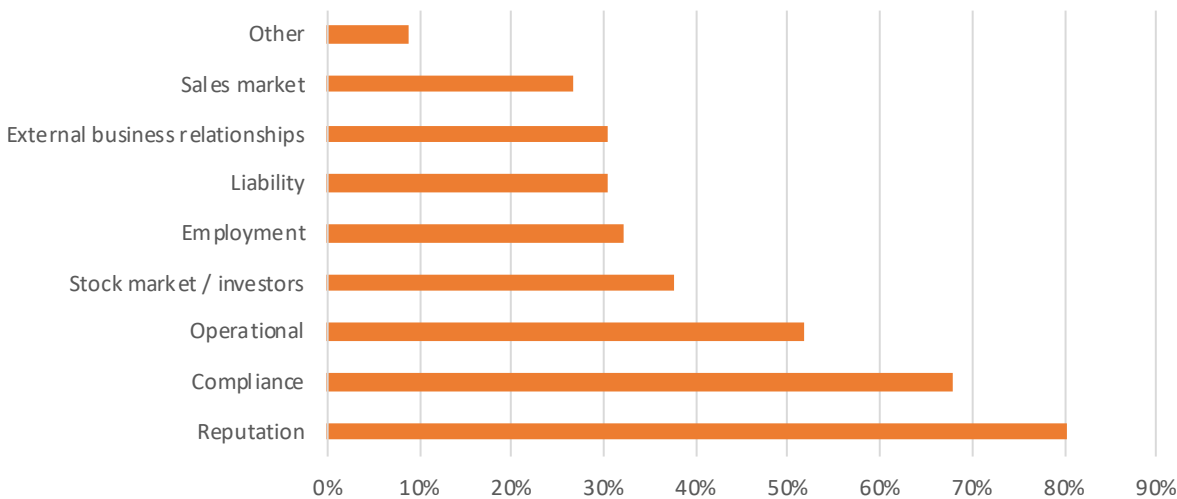


Figure 5 Affected risk areas

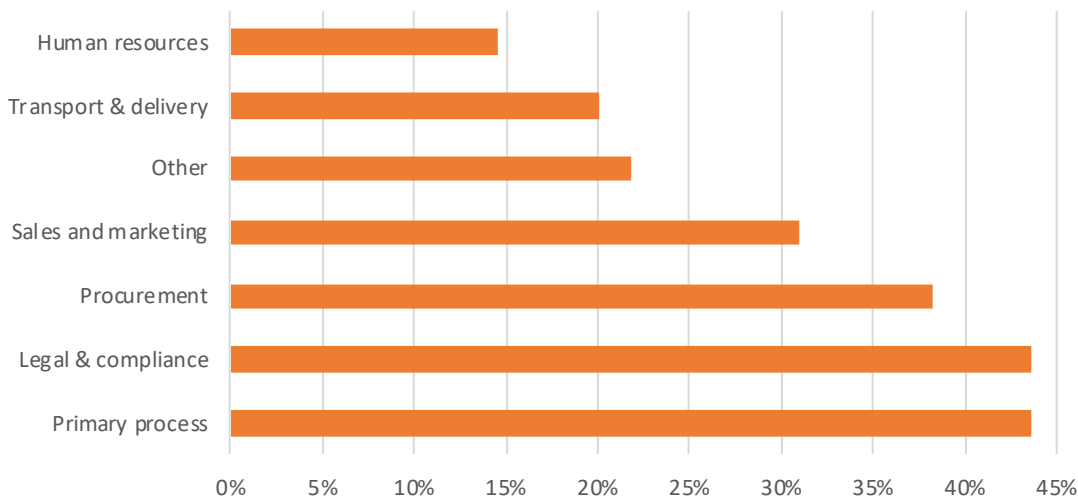


Figure 6 Affected processes

GOALS SET: CCE AND THE SUSTAINABLE DEVELOPMENT GOALS (SDGS)

In our survey, we asked which SDGs the organisations have explicitly included in their strategy. The answers show a wide range and confirm

the importance of the focus of our study into CCE risks. These risks mainly concern SDG 12 'Responsible consumption and production' and SDG 13 'Climate action'. Nearly 40% and 56% respectively have included these SDGs in their strategy.

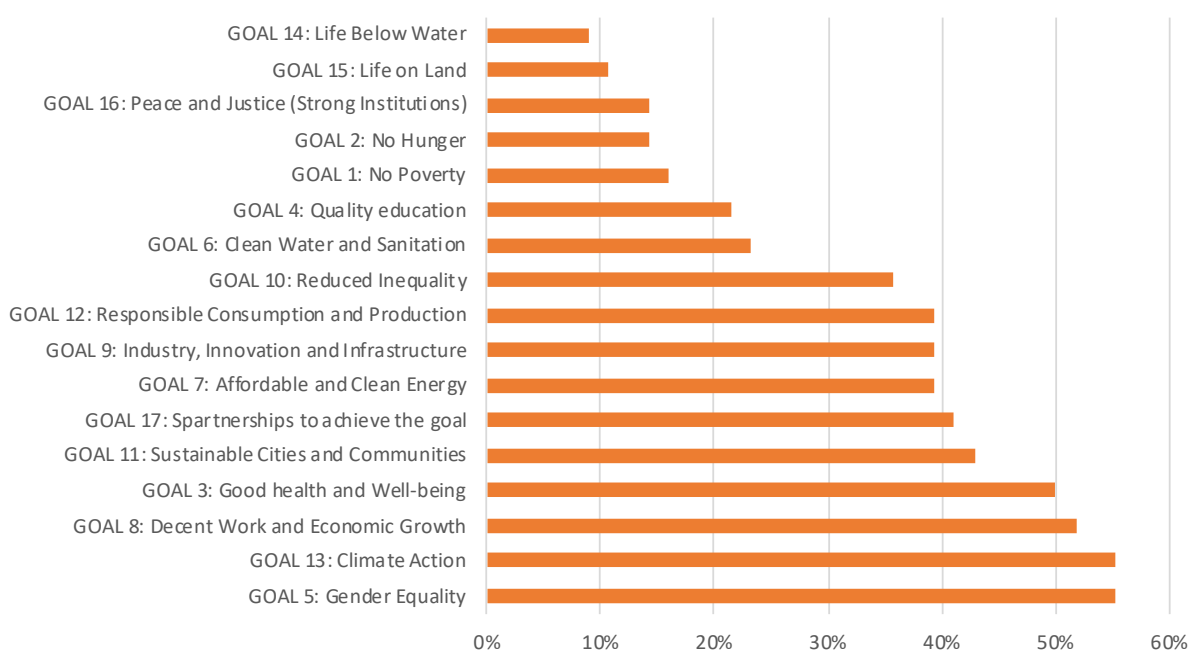


Figure 7 SDGs as part of the strategy



The Sustainable Development Goals (SDGs) were adopted in 2015 by the United Nations as the new global sustainability agenda for 2030. They were promoted as the global goals for sustainable development. There are 17 objectives and 169 underlying targets to operationalise these goals. The member states are responsible for translating them into national policy.

3. THE ANSWERS: MEASURES TAKEN

After analysing the organisations' settings, this module looks at the response of the organisations. It consecutively addresses the why (the drives) of the climate actions taken by the organisation, the goals set in this field, the measures taken, and the resources used by the organisation.

DRIVES: THE WHY

We studied 'why' organisations are now concerned with CCE, to what extent they are driven by:

1. (new) legislation (compliance),
2. opportunities for new business,
3. corporate social responsibility.

Here, they were asked to indicate the importance of these drives for the organisation in percentages. The result is shown in figure 8.

The key motivation in all sectors is the experienced 'corporate social responsibility' (46%). This is followed by 'compliance' (30%) and 'opportunities for new business' (24%). Interestingly, all the participating organisations mention corporate social responsibility as a drive to some degree. The vast majority are driven by all three reasons, to various degrees. However, we see that the motivations differ per industry, as shown from the three groups in the figure. Incidentally, we also see big differences between organisations from the same sector. Thus, the motivation is not just dependent on the industry.

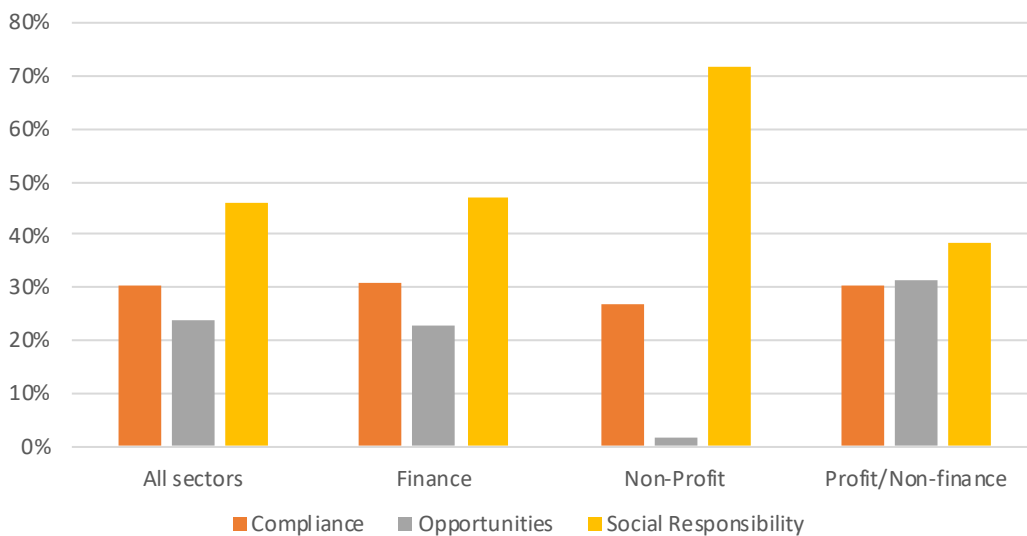


Figure 8 Drives per sector

REDUCTION GOALS

Organisations - driven or not by legislation - tend to translate the climate risk into emission reductions for greenhouse gases, particularly for CO₂. Furthermore, organisations often take a wider range of measures to achieve environmental and/or sustainability objectives, whether related to climate risk or not. These might include reducing emissions of other greenhouse gases and nitrogen (compounds), but also of waste and material use, plastics and transition to a more circular economy. They see climate goals as part of a wider transition to a (more) sustainable economy.

CO₂ reduction objectives

Slightly less than half (45%) of the respondents say they have CO₂ reduction goals, while 23% are considering them. For the organisations with a reduction target, around half aim to reduce emissions before 2025, and the other half before 2030. 75% are also aiming at 25% reduction. The question arises whether that is sufficient to achieve the goals from the Paris Agreement (2015): 50% reduction in 2030, zero emissions in 2050.

25% of the respondents have a 'zero objective', so no more CO₂ emissions: of these, 30% want to achieve this before 2020 or 2025, around 54% in 2030, and 16% in 2040 or 2050. The objectives are quite evenly distributed over the sectors.

However, KPMG research into the reduction of CO₂ shows that very few organisations can say how they will achieve the desired reduction in practice.⁵ That is in line with EY's comment in the introduction with respect to Shell's annual report.

Other environmental objectives

75% of the respondents say that, besides CO₂ reduction, they also have other environmental goals. Most relate to reducing waste and materials use (38%), followed by circularity (30%), reduction of emissions of other greenhouse gases and nitrogen (28%), reduction of the use of plastics (24%) and discharge of toxic substances in water and soil (18%).

Finally, 16% have other objectives not mentioned in the survey, such as 'green finance', 'paperless office', 'biodiversity', 'responsibly sourced (sugar), deforestation-free, 'responsible supply chain', 'water (use) reduction'.

There is therefore a wide range of goals. We feel that the tools for the IAF described in this report can be used for all these goals.

ORGANISATIONS SEE CLIMATE GOALS AS PART OF A MORE COMPREHENSIVE TRANSITION TO A (MORE) SUSTAINABLE ECONOMY.

⁵ KPMG, 'Towards net zero', p 36-37: <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/towards-net-zero.pdf>

MEASURES TAKEN

After the set goals, we asked about the specific measures taken by organisations with respect to the CCE risk (see figure 9). Interestingly, none of the measures mentioned are enforced by more than 50% of the respondents.

The four most common measures are:

- include climate risk in risk register (47%)
- appoint climate and environmental working group (47%)
- involvement of Board/management (45%)
- use of KPIs (41%).

Only 12% of the organisations say that they do nothing.

Measures which seem to be suited to a more mature approach received a lower score:

- 'a full assessment of risks and opportunities related to all products and services' (12%) only the Financial services and Profit/Non-financial sectors score here with 13% and 14% of the respondents. This low score can be explained due to the comprehensive nature of this kind of analysis. The IAF

might play a (leading) role here. It could be an important part of the risk analysis in the framework of the audit (year) planning. In addition, as shown in one of the good practices, climate risk could be assessed per audit.

- 'plan for more expertise in management and Board to enable the to assess and respond to CCE risks and opportunities' (14%).

When we compare the three sectors, we see the following:

- The Financial services scores moderately high on the Risk Register (61%), Working group (61%), Executive Board involvement (57%). This might indicate that the Financial services sector does more with respect to managing the CCE risk, possibly because of tighter monitoring in the sector.
- The Profit/Non-financial sectors score relatively high on 'not yet addressed' (24%). For the Financial sector, that is 4%. For Non-profit 0%.
- For 'use of external parties', Finance (with 30%) and Profit/non-financial sectors (with 29%) score high compared with Non-profit (with 0%).

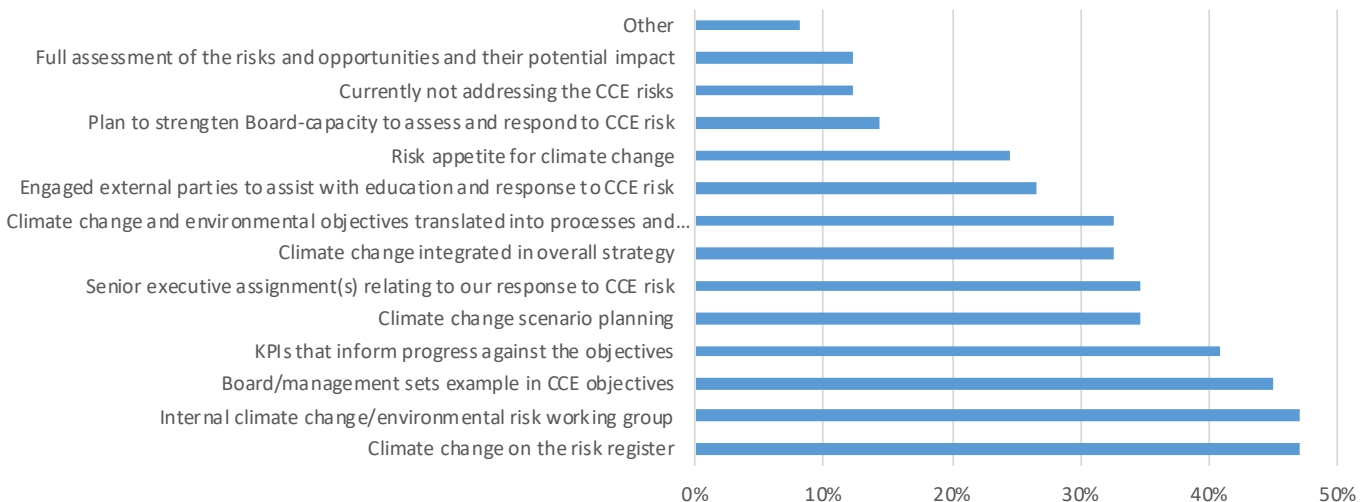


Figure 9 Measures taken against CCE risks

On average, the big organisations (>1000 employees) take twice as many measures to address CCE risk. Big organisations integrate climate measures in the strategy much more often (41% compared with 8% of the smaller organisations). They also tend to use external parties for support more frequently (32% compared with 8%) and tend to have established KPIs to measure progress (49% compared with 17%). None of the small organisations have included CCE risks in the wide risk assessment.

MODELS AND STANDARD FRAMEWORKS

When mitigating the risks and associated accountability, organisations can use models for (a) the risk management, and (b) the external reporting. The IAF can use these as (a basis for) their standards frameworks used in the audits.

Control models

There are many different control models available. Its use is various. Strikingly:

- 18% do not use a model.
- 16% use their own model.
- 16% say they don't know.

Together, these constitute half of the respondents (50%) This is interesting given that there is apparently a great need for standard models. It seems that small organisations are less likely to use a model than big organisations.

The other half (50%) of the respondents say that they use a generally available model. The great diversity in their use is striking here. Of the models mentioned in the survey, COSO ERM and TCFD score highest in use, but only with 12%. Furthermore, only respondents in the Financial services sector seem to use the EU taxonomy. One respondent in the Trade & Industry sector uses ISO26001.



Figure 10 Control models (models for control or risk management)

A brief explanation of the reporting models and their organisations:

COSO ERM is the most used model for risk management and is generally known and used by many IAFs. The World Business Council for Sustainable Development (**WBCSD**) is a global organisation led by CEOs from leading companies. Since 1995, it has worked with the associated companies in and transcending value chains on the transition to a sustainable world.

The **Task Force on Climate-related Financial Disclosures (TCFD)** was founded by the **Financial Stability Board (FSB)** from the G20 to improve reporting of climate-related financial information and provide stakeholders with better insight into the concentrations of CO₂-related assets in the financial sector and the exposure of the financial system to climate risks. In 2017, the TCFD published recommendations around four themed areas which represent the core elements of how organisations work: management, strategy, risk management and statistics and objectives.

The **Plan-Do-Check-Act model (PDCA)**, also known as the Shewhart or Deming cycle, is an iterative design and management method used by many organisations and IAFs for continuous improvement, including measuring and adjusting processes and products.

OECD-(Organisation for Economic Cooperation and Development, 1961, published the OECD Guidelines on Multinational Enterprises containing recommendations for governments of multinational enterprises. They offer voluntary principles and standards for responsible business behaviour in accordance with the applicable legislation. The guidelines are part of the OECD declaration about international investments and multinational companies.

The **EU taxonomy** is part of the European Green Deal. This is not actually a management tool, but a classification system for sustainable investments which identifies risks in the form of activities which will not be sustainable in the future because they do not fit into the sustainable transition.

ISO 26000 is an international ISO standard which focuses on social corporate responsibility. The standard is intended to help organisations worldwide by providing tools for its implementation. Based on socially responsible behaviour, this standard includes seven principles: accountability, transparency, ethical behaviour, respect for stakeholder interests, respect for rule of law, respect for international norms of behaviour and respect for human rights.

Models for external reporting of non-financial information (NFI)

In (external) reporting models, there is also great diversity, but less than in the previously mentioned control models. Organisations who have made a choice, mainly use the Global Reporting Initiative standards (GRI) (24%) or their own model (14%). Fewer organisations use the TCFD model (10%) and the EU taxonomy (6%). Very occasionally, the IIRC or A4S model is used. Others mentioned: SASB, PCAF (for carbon), the CO₂ performance ladder⁶, the Initiative for Carbon Accounting (ICARB) and combinations of standards.

There is a great need for a universal model, both for control (70%) and for (external) reporting purposes (86%). That is certainly understandable for the reporting, because external reports need to be compared to prevent or at least detect

fraud in the form of greenwashing⁷. Regulatory bodies (like AFM and DNB) and stakeholder organisations of investors (like Eumedion) also require standardisation.

There are various arguments among respondents against a standard. However, they share one aspect, namely the risk that the standard does not reflect the goals and nature of the organisation. Some do not believe that one standard can meet all the various needs. This is in line with the warning that applies to the choice of reference models by organisations and auditors: be aware of the principles and determine whether they and the model fit with the organisation.

There are various initiatives aimed at producing a universal reporting standard of non-financial information. In fact, this seems to be an important success factor, particularly for making results transparent to external parties/partners and society.

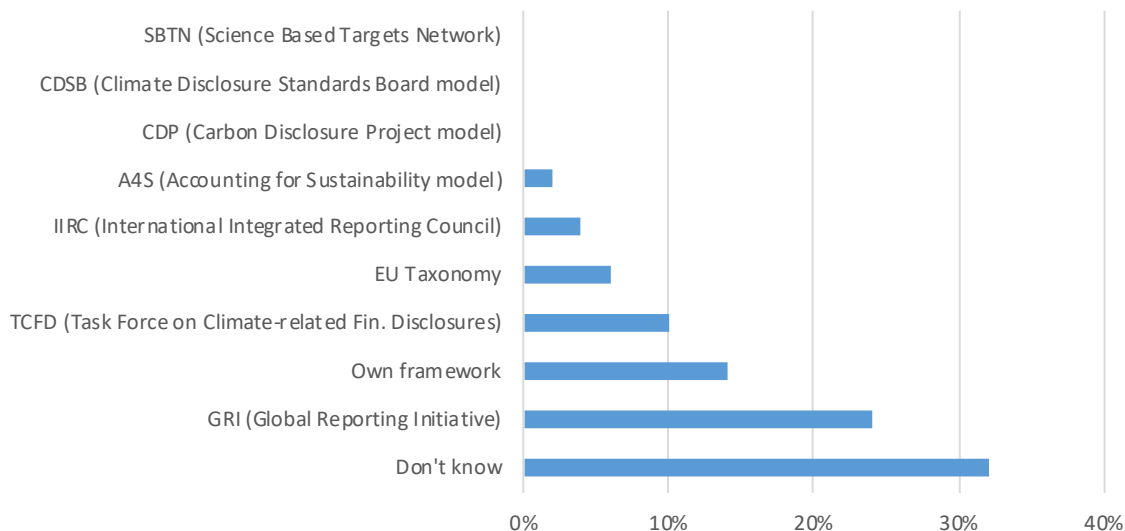


Figure 11 Models for external reporting NFI

⁶ The CO₂ performance ladder is described further (and is subjected to audit) in the Good Practice ADR.

⁷ <https://www.accountant.nl/discussie/opinie/2021/3/greenwashing-als-frauderisico-voor-de-jaarrekeningcontrole-van-de-accountant/?search=true>

A brief explanation of the reporting models and their organisations:

The **Global Reporting Initiative (GRI)** is an independent, international organisation which has developed the world's most used norms for sustainability reporting, the GRI norms. For TCRD and the EU Taxonomy: see box control models.

The **International Integrated Reporting Council (IIRC)** is a global coalition of regulators, investors, accountants' organisations, the academic world and NGOs. The mission of the IIRC is to make integrated reporting and thinking within the regular business operations the norm in the public and private sector. Incidentally, the IIRC and the **Sustainability Accounting Standards Board (SASB)** are merging into a new organisation, the Value Reporting Foundation.

The aim of **Accounting for Sustainability (A4S)** is to inspire financial leaders to promote a fundamental shift towards resilient business models and a sustainable economy. For example, they have developed a model which can measure the impact of climate changes on the business valuation.

The **Climate Disclosure Project (CDP)** is a not-for-profit institution which maintains a global database for investors, businesses and government bodies to manage their environmental impact and thus generate a benchmark for climate management performance. CDP also acts as the secretariat for CDSB.

The **Climate Disclosure Standards Board (CDSB)** is an international consortium of businesses and environmental organisations. It is engaged in developing a global reporting model where 'natural' capital is made equivalent to the financial capital.

The **Science Based Targets Network (SBTN)** is a group of organisations which want to provide businesses and towns with guidelines to help them use science-based goals (SBTs). The SBTN is part of the Global Commons Alliance and builds on the momentum from the Science Based Targets initiative (SBTi), which develops methods and resources for both climate and nature, for businesses and towns.

One of the important initiatives is the '(EU) Sustainable Finance Action Plan' (SFAP), which produced the EU directive (Corporate Sustainability Reporting Directive, CSRD – intended as an update to the Non-Financial Reporting Directive, NFRD) and the taxonomy (a classification system for economic activities). Incidentally, this has significant consequences. The FD talked about forcing hundreds of companies to produce a bigger and more expensive annual report³. The taxonomy gives a sector-by-sector approach. It is certainly feasible that such sector-by-sector standards are

an option to assuage the mentioned objections concerning insufficient alignment to the nature of the organisation.

Another initiative to achieve further standardisation and harmonisation is the announcement of the IFRS Foundation. In September 2020, it published a consultation paper to gauge support for global reporting standards in the field of sustainability and setting up a Sustainability Standards Board. DNB said that it felt IFRS was “the ideal” party to draw up those standards and supports this. The NBA also expressed its support.

FD 25 April 2021: <https://fd.nl/ondernemen/1381436/brussel-dwingt-honderden-bedrijven-tot-duurzamer-dus-duurder-en-dikker-jaarverslag-n1d1ca7vX2Hh>

In addition, the GRI Global Standards Fund is working on developing global standards for sustainability reporting. According to our survey, GRI standards are the most used standards for corporate social responsibility and sustainable behaviour. PwC has joined this Fund.

A specific development here is the desire for 'double materiality'. This is part of the new CSRD and is also requested by TCFD/CPD. This concerns the determining and publishing of information about material financial and non-financial themes whereby, besides the possible impact of the organisation on such themes, the possible financial

impact of those themes on the organisation also emerges. In practice, this will probably mean that, if a theme like climate is material, the company must address the financial implications, for example on the financial performance, position and risk profile.

Obviously, the external accountant will be given the role of auditor, but that is not prescribed in the EU initiative. That is in line with what the Committee Future Accountancy sector suggested: other parties could also carry out the audit. In 2020, however, Minister Hoekstra said that accountants would be the most suitable party.



4. ROLE IAF: THE WHAT

In this chapter, we look in more detail at the role of the IAF. We first look at the 'what'. The 'how' is elaborated in chapter 5. By the 'what', we mean what the IAF does with the CCE risk: with whom this is discussed, what time is allocated to it, what are the activities and products and how the collaboration with the external auditor works.

DISCUSSION PARTNERS OF THE IAF

In view of the importance and diversity of the impact, as we saw in paragraph 2, you might expect the IAF to discuss the climate risk with its stakeholders. That is also expected from Standard 2120 of the IIA, which says that the IAF must evaluate potential risks concerning the governance, the operational activities and the information systems of the organisation in the field of:

- Achieving the strategic objectives of organisation.
- Reliability and integrity of the financial and operational information.
- Effectiveness and efficiency of the business activities and programmes.
- Protection of the assets.
- Compliance with legislation, policy measures, procedures and contracts.

WITH WHOM THIS IS DISCUSSED, WHAT TIME IS ALLOCATED TO IT, WHAT ARE THE ACTIVITIES AND PRODUCTS AND HOW IS THE COLLABORATION WITH THE EXTERNAL AUDITOR.

You could say that CCE risks can affect all those elements.⁹

Interestingly, nearly 20% of the IAFs have not yet embarked on a discussion of CCE risks and opportunities with their stakeholders. But that may be logical, given the 'newness' of the subject and the limited amount of audit (time) spent on it until now. Of those who have discussed it, 45% started recently (over the past year).

⁹ See Standards: <https://www.iaa.nl/SiteFiles/IPPF/Standarden%20NL.pdf>

The figures below (12 and 13) show the discussion partners and the moments when the CCE risks are discussed.

Around 60% of the respondents have now discussed the CCE risks with the Executive Board of Management, the most important stakeholders of the IAF. Also, 60% have addressed it in two or more forums.

They were also asked on which occasions it is a subject of conversation. Totally in line with the professional standards, this is particularly addressed during the risk analysis for drawing up the audit year plan and to a slightly lesser extent in other risk analyses. For around 35%, it is a subject of periodical discussion.

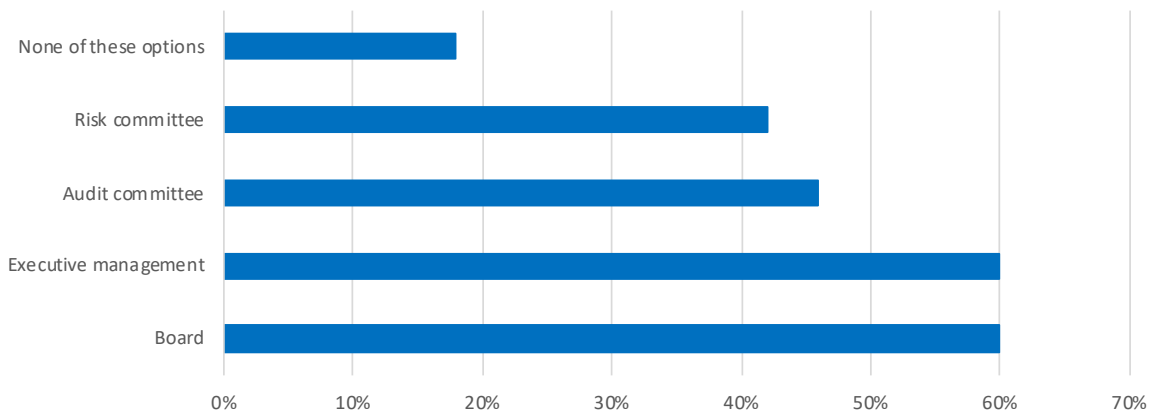


Figure 12 Stakeholders with whom climate risk has been discussed

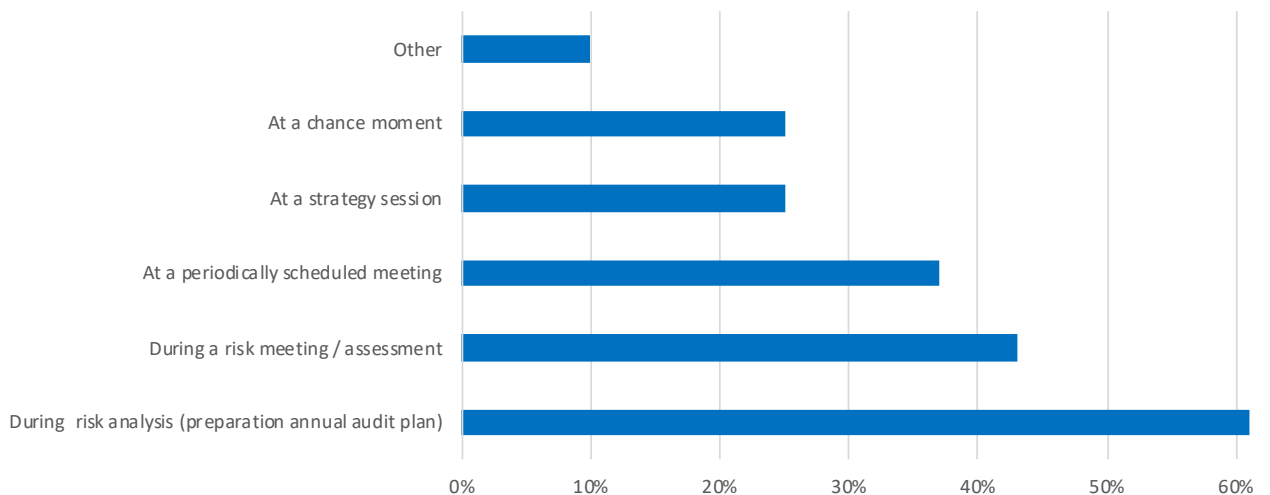


Figure 13 Moments of discussing climate risk

When these conversations start varies (figure 14). As mentioned, 20% have not yet started. Of those who have discussed it, 45% started recently (less than one year ago).

In the non-profit sector, many (40%) started more than 2 years ago. In Financial services (17%) and Profit/Non-financial, however, a significant number (33%) only started the conversation quite recently (last 6 months).

TIME SPENT

For most IAFs, the audits of CCE risks are still in their infancy. The majority (more than 80%) spend a maximum 5% of their time on this, 30% of whom have not yet started. There are no substantial differences between the sectors or between IAFs of different sizes.

In practice, the percentage that has not yet started may be higher. Obviously, it may be expected that many organisations which do not yet have an affinity or experience with the subject did not take part in the survey.

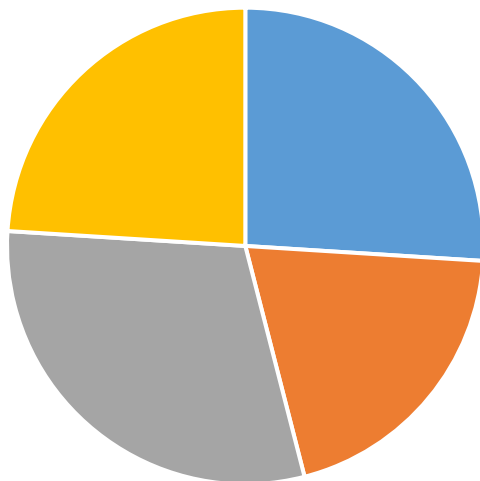
DELIVERED SERVICES/ACTIVITIES PERFORMED

Related to the management cycle, Peter Bos describes four activities or services which the IAF could implement in the field of Corporate Social Responsibility (CSR):¹⁰

- a Support for verification of the social reporting.
- b Assessing the quality of the CSR management.
- c Assessment of compliance with CSR-related legislation.
- d Advising on CSR management, compliance and reporting.

We feel that these four services also apply to the role of the IAF in the field of CCE risks and have taken that as the basis for our analysis.

FOR MOST IAFS, THE AUDITS OF CCE RISKS ARE STILL IN THEIR INFANCY.



■ < last 6 months ■ 6 months – 1 year ■ 1 year – 2 years ■ > 2 years

Figure 14 Start of the discussions about climate risk

10 Bos, Peter W., Internal audit @ CSR: synergie of (nog) niet?, Audit Magazine, September 2014. <https://www.iaa.nl/actualiteit/audit-magazine#archief>

Figure 15 shows the activities that the IAFs develop in the field of CCE risks. 80% of the respondents implement one activity or, which is in fact always the case, a mix of activities. Most attention is devoted to verifying the non-financial information, whereby 56% of the IAFs look at the reliability and 28% (also) look at their completeness. In total, 56% of them also provide a form of advice: 22% act as change agent, 8% is member

of a CCE working group or project and 26% take part in the risk analyses carried out in this respect. For the two other identified services, namely audits of the (risk) management and assessment of compliance with legislation, 32% and 42% of the IAFs respectively devote attention to this.

We also looked at the time commitment over the mix of activities, also per sector (figure 16).

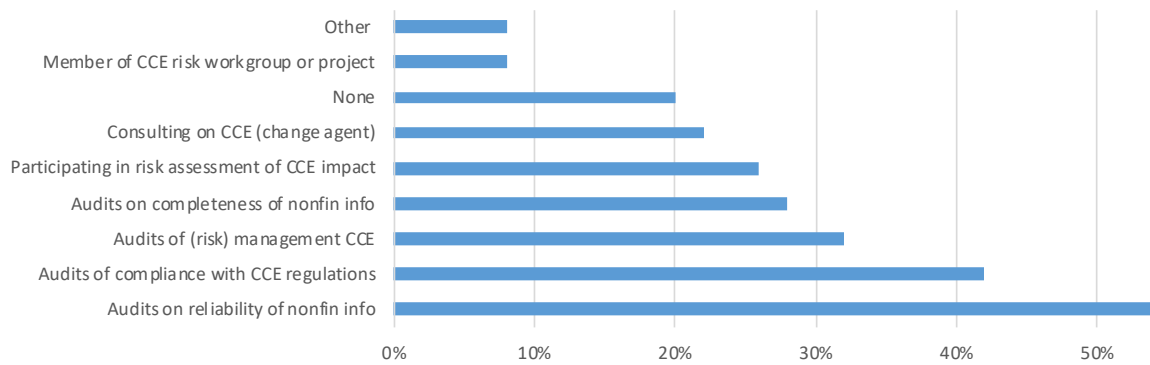


Figure 15 (CCE) activities carried out by the IAF

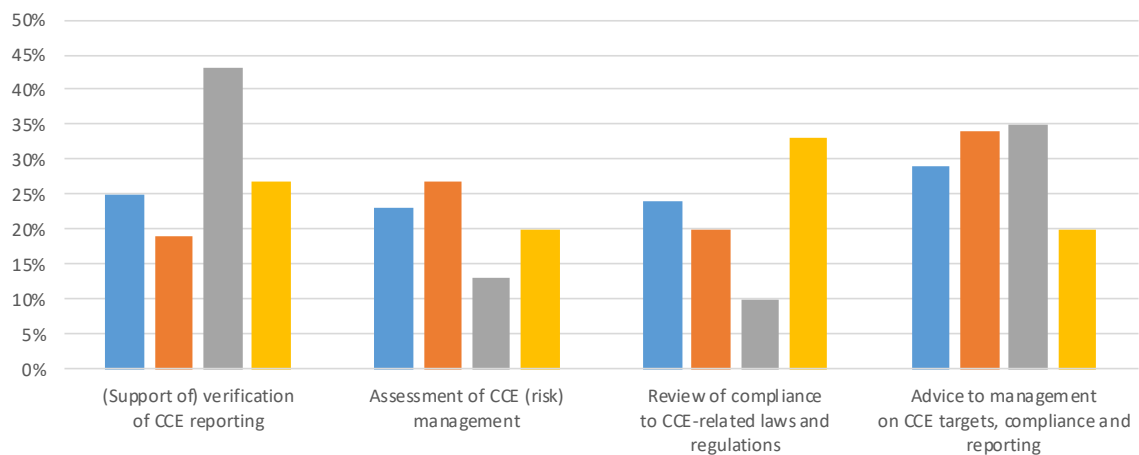


Figure 16 Division activities according to type of service of the IAF, per sector

For the totality, the time spent is quite evenly spread over the four services. Looking at the sectors, however, there are differences:

- In the Financial services and the Non-profit, 'advice' scores moderately high (average 34% and 35% of the time is spent on this).
- In the Non-profit, 'verification of the reporting' scores the highest on average (43% of the time commitment), while 'assessing compliance' (compliance) (10% of the time) scores low compared with the other sectors, as does 'assessing (risk) management' (13%).
- In the Profit/non-financial sector, of the various activities, most time tends to be spent on compliance (33%). That is also more than in the other sectors.

At the same time, it must be noted that the analysis of the mix of activities does not reveal any fixed patterns or correlations with the size of the organisation or of the IAF and the sector. All variations occur. That means that the choice of activities carried out by the IAF is strongly determined by the individual situation in each organisation.

THAT MEANS THAT THE CHOICE OF ACTIVITIES CARRIED OUT BY THE IAF IS STRONGLY DETERMINED BY THE INDIVIDUAL SITUATION IN EACH ORGANISATION.

SUPPORT EXTERNAL AUDIT

Particularly in the assessment of the NFI, the external accountant is used. Here we see the following forms:

- The biggest group among the respondents (42%) say that they have 'only informative' contact. The financial service scores above average here (52%). This does not detract from the fact that big differences exist in that sector.
- A relatively large group (38%) say that they do not (in any way) work together. The profit/non-financial sector scores above average (50%) here.
- 20% work together fully. In the Non-Profit sector, the collaboration with the external accountant is the most tightly knit (60% of the respondents in this sector).

The form of collaboration strongly depends on the choice of the scope of the IAF and the nature of the desired statement (limited or reasonable assurance), as is shown from the good practices in chapter 6. In addition, there are big differences between organisations. Some IAFs consciously choose a complimentary scope, whereby the assessment of the figures is left entirely to the external accountant. Others choose a task allocation whereby the external accountant relies heavily on the IAF, particularly if only a limited degree of assurance is given by the accountant.

5. ROLE IAF: THE HOW

After looking at the 'what' the IAF can and does do in the previous chapter, here we study 'how' they do or can do that: the way of auditing and acquisition of knowledge, as well as the key success factors for a successful role in this field.

METHOD OF EXECUTION

In the survey, respondents are asked how audit activities are performed.

In line with the Three Lines model of the IIA, 47% of the respondents check whether the system works well by assessing whether the second line performs its monitoring work satisfactorily. For the other possibilities to devote attention to the CCE risks, in specific audits or as part of a wider audit, there is a wide variation. There is no preference for one method. We also see that in the good practices described in chapter 6. From the notes at 'other', it can be deduced that many IAFs (20%) are still developing their position.

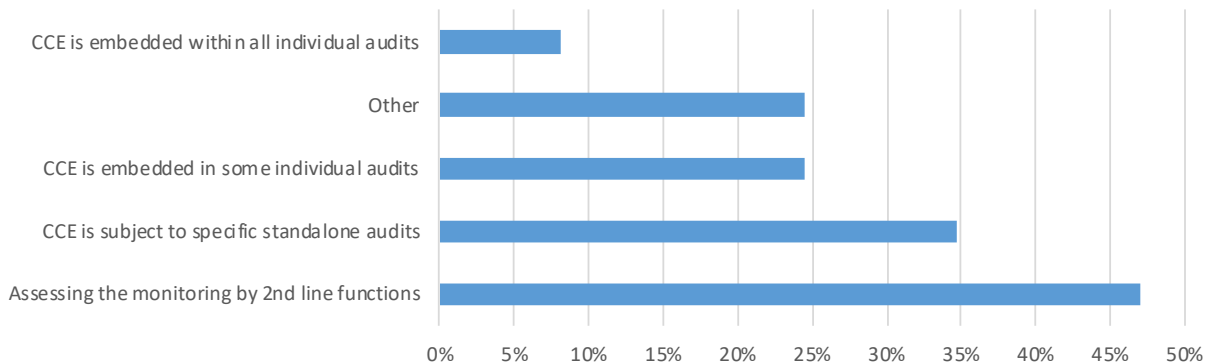


Figure 17 Way of conducting audits

KNOWLEDGE AND SKILLS

78% say that they are still not well enough informed and prepared. This high percentage corresponds with our expectation and was also the reason for this survey.

Incidentally, 33% has not yet acted on this. Those who do act try to resolve this in the usual ways, by hiring in expertise (16%) and training (45%). Other activities mentioned in this respect are:

- Taking part in climate working group(s) in the organisation (as member or observer).
- Contact with experts in the organisation(s).
- Following publicly available information, such as newspapers, (audit-related) publications and general seminars.
- Participating in round table sessions.

In answer to the question whether they **receive sufficient information from the government**, a small number of the respondents (20%) say that they receive sufficient information about preparing for climate change. The majority say no or know nothing about it.



Figure 18 How to get sufficient knowledge and skills

KEY SUCCESS FACTORS

While in the foregoing we mainly addressed the required knowledge and skills of the auditors for auditing CCE risks, for the question about the factors that determine the successful auditing of CCE risks, there is much more emphasis on the importance that the organisation places on it.

It is striking that the budget is not seen as a critical success factor for auditing. The most important fact is support from top management. If that support is there, CCE will generally also have been included in the strategy of the organisation. That strategy is particularly important for the IAF, as explicitly expressed in several good practices (see chapter 6).

Again, we also see here the need for standard models, which was mentioned earlier.

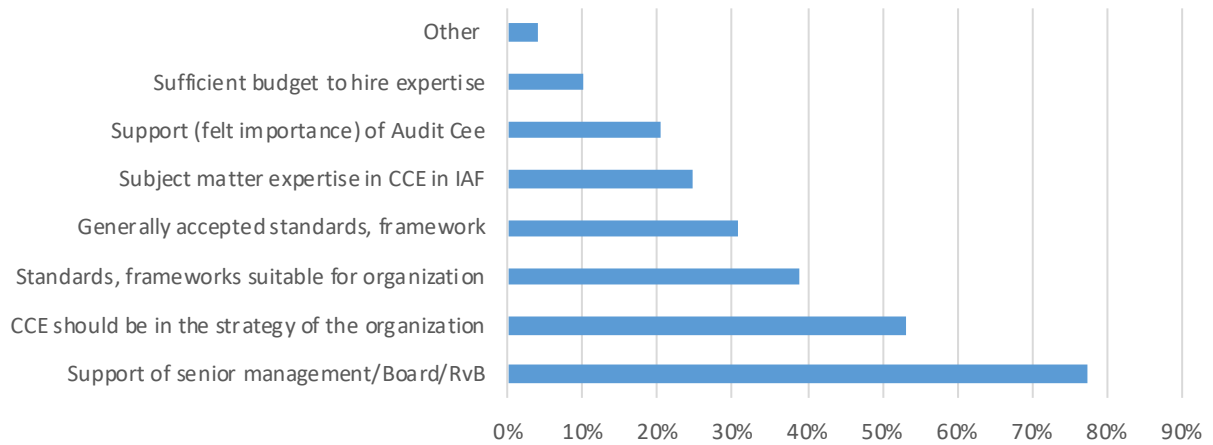


Figure 19 Key success factors



6. GOOD PRACTICES

To give the auditor concrete examples and tools, this chapter describes eight good practices of IAFs which already have plenty of experience in auditing CCE risks. In each of the good practices, we briefly describe how the organisation manages climate issues, before explaining what the IAF does and how. Finally, we provide tips.

With this selection of good practices, we cover many of the possible activities performed by the IAF for the various sectors.

	Audit of (risk) management	Audit of (reporting) NFI	Audit of Compliance	Advice
Financial sector	ABN AMRO Rabobank Achmea	Rabobank	ABN AMRO	ABN AMRO Rabobank Achmea
Profit sector non-financial	Friesland- Campina Atotech	KPN		KPN Atotech
Non-profit sector	ADR		ADR	ADR
Other		Dutch Emissions Authority (NEa)	Dutch Emissions Authority (NEa)	





CASE 1 ABN AMRO

Organisation/positioning

ABN AMRO is one of the leading banks in the Netherlands. It offers a full range of banking and financial products to private and business customers and has over 19,000 employees worldwide. Together with 'customer experience' and 'future-proof bank', sustainability is one of its three strategic goals. This refers to the sustainability of the organisation itself and (particularly) its customers. The overarching goal is speed up the transition to sustainability. ABN AMRO is convinced that all its customers will be affected by this transition in the years ahead. It has therefore made sustainability an integral part of its services. The Integrated Annual Review 2020 explains this strategy further.

ABN AMRO supports the UN Sustainable Development Goals (SDGs) and has chosen to focus on three of these goals: decent work and economic growth (SDG 8: social impact) responsible consumption and production (SDG 12: circularity) and climate action (SG 13).

Activities of the IAF

ABN AMRO has a big IAF with 160 auditors worldwide. The structure of Group Audit reflects the organisation with audit teams for each business line. To have enough links, assurance circles have been created for different themes that transcend the audit team. These act as a knowledge centre, providing assurance on the relevant theme across the units. For example, there are circles for Credit Risk, Culture & behaviour and Anti Money Laundering (AML). There is also a Sustainable circle. Assurance at organisational level is still under development. The circle with participants from all audit teams meets once a month, in addition to a two-weekly half-hour update. The circle defines the deliverables which are delivered in agile-style short sprints, such as work programmes, second read on sustainability aspects in audit reports, knowledge sessions for awareness and training. The chair of the circle updates the MT Group Audit every two months.

Group Audit has chosen not to be the expert in sustainability itself, but to be an expert discussion partner. The experts are in the first and second line. Sustainability is defined as risk type, totally integrated in the risk taxonomy and the risk management, which is also reported about by Corporate Sustainability Risk. Climate Risk is defined as a separate risk within that.

<p>Sustainability</p> <p>Distinctive expertise in supporting clients' transition to sustainability</p> <p>We view sustainability as a business opportunity; our aim is to become a first-choice partner for sustainability. More companies are switching to sustainable business models. At the same time, retail clients are adopting more sustainable lifestyles. As a bank, our role is to support this transition. We have identified three key areas where we can do so: climate change, the circular economy, and social impact – increasingly important in the wake of Covid-19.</p> <p>Which Strategic Differentiators?</p> <ul style="list-style-type: none"> ➤ Responsible investment and financing ➤ Circular economy ➤ Diversity and equal opportunities 	<p>Strategy 2024:</p> <p>In the next few years, we will expand sustainable financing. We will also increase project financing for renewables for mid-sized to large Dutch corporates, and extend sustainable, ESG and Impact investment options for our clients. At the same time, we want to increase the number of circular economy deals we negotiate, particularly through leasing and product-as-a-service transactions. We will also set ambitions on social impact, focusing on financial inclusion, supporting equal opportunities and financial resilience.</p>	<p>Ambitions 2024:</p> <ul style="list-style-type: none"> ➤ Increase volume of client loans and investments to at least one-third of sustainable assets ➤ Increase client ESG and Impact investments to EUR 46 billion ➤ Increase financing for circular economy deals to EUR 3.5 billion ➤ Increase number of A labels in our mortgage portfolio to 28%
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Group Audit uses an integrated audit approach, in which sustainability is always included, from an objective or risk perspective, during the planning and orientation phase of the audit. It is also the intention that attention is always devoted to this in the reporting phase.

The financial sector plays a key role in mobilising sustainable financing and investments and thus has a big impact via its customers on the climate risk. The priority for the audit of sustainability risks is therefore on customer processes (for example as element in issuing credit), followed by internal processes, such as energy management in Facility Management.

Zooming in on sustainability, based on the risks and objectives, there is being looked at the control measures, the monitoring and its functioning, in line with the COSO ERM framework. Incidentally, ABN AMRO must comply with various Sustainable Finance regulations, including the 'ECB guide on climate-related and environmental risks' on which the organisation bases its self-assessments, which can also be used by Group Audit.

Sustainability can also be an independent theme for an audit, such as the programme audit on all Sustainable Finance laws and regulations facing the bank. Here, the emphasis is on how the relevant legislation is translated to adaptations in processes and systems.

Group Audit is not involved in the external reporting of the sustainability KPIs, such as the CO₂ footprint, in the annual report. These KPIs are checked by the external accountant. Group Audit focuses particularly on the processes.

Advice for other IAFs

- Make sure that there is a clear link with the strategic objectives of the organisation. If the organisation has formulated those goals, that gives the internal auditor a good reference framework.
- Align with the commitments issued by the organisation.
- Include sustainability (as organisation) in the existing control framework.
- Include sustainability (as IAF) as a 'normal' part of your audit approach, via the objectives or risk angle.
- For a larger IAF, create a 'knowledge circle' and gather people with an intrinsic motivation and enthusiasm to get others on board.

From ABN AMRO Climate Statement

Climate risk is included in ABN AMRO's risk taxonomy, risk appetite and financial planning as part of sustainability risk. ...

We manage climate risk at client level in line with our Sustainability Risk Policy Framework, and at portfolio level in line with our broader objective of maintaining a moderate risk profile and the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

From ABN AMRO Annual report 2020

The main risks associated with climate change for a financial institution are transition risk and physical risk. The former emanates mainly from technological developments and changes in policies and consumer preferences, while the latter arises from the physical effects of climate change.



Internal Audit

CASE 2 ACHMEA

Organisation/positioning

Achmea is a cooperative insurer, asset manager and (financial) service provider. With nearly 14,000 employees in the Netherlands and 2,500 abroad, Achmea serves 12,000,000 clients every day. In the Netherlands, Achmea operates with different brands, including Zilveren Kruis, Centraal Beheer and Interpolis.

As an organisation with a cooperative identity, Achmea works to achieve a healthy, safe and future-proof society. In doing so, Achmea chooses for impact in five social domains, and it wants to be distinctive with respect to three Sustainable Development Goals.

Besides insurance and preventive advice, Achmea offers more and more services, for example in the field of health, traffic safety and sustainability of homes. Achmea thus wants to create value in a current and relevant way for its clients and for society.

Achmea uses the Three Lines model, also with respect to corporate social responsibility and sustainable enterprise. The business management (first line) formulates 'performance' and 'risk indicators' based on six perspectives, including the social perspective. The CSR director is responsible for the overarching policy (including the Sustainability Charter). Achmea also has two related steering groups (first line): the steering group 'Climate & Energy transition' focuses on the strategic ambitions in the Sustainability Charter and the steering group 'Implementation Sustainability Legislation' focuses on the implementation of (European) sustainability legislation for the financial sector.



THE IA KNOWLEDGE GROUP SUSTAINABILITY AIMS TO PUT THE SUBJECT ON THE AUDIT CALENDAR AND IN AUDITS.

The second line of Achmea consists of the Compliance, Risk Management and Actuarial departments. These departments support and monitor activities based on the business management and both steering groups. The Compliance department does this with respect to the implementation of new sustainability legislation, Risk Management with respect to long-term scenarios for climate change, and Actuarial by studying the vulnerability of solar panels and hail.

Activities of the IAF

Internal Audit consists of around sixty auditors, from various (audit) backgrounds, including psychologists, public administrators and lawyers.

Sustainability knowledge group

In 2021, Internal Audit started the Sustainability knowledge group. An important reason for this is the new European legislation for the financial sector relating to sustainability. The knowledge group consists of four employees whose task is to keep the subject on the audit calendar and in audits. For this purpose, the knowledge group maintains close contact with those involved in the first and second line, develops assessment frameworks and trains fellow auditors.

Audit corporate social responsibility and sustainability

In 2020, partly at the request of the Strategy director and the CSR director, Internal Audit studied the implementation of objectives relating to corporate social responsibility and sustainability. The study was based on four pillars:

1. Study of the management cycle. Based on the Plan-Do-Check-Act model, the method of goal and risk formulation, (control) measures, monitoring and reporting and adjustment were analysed.
2. Survey and in-depth interviews among the top 25 of Achmea. Based on Kaptein's soft controls model, insight was given into the clarity and feasibility of the ambition and the exemplary behaviour relating to corporate social responsibility and sustainability.
3. Comparison of Achmea with other financial organisations with respect to social positioning and profiling, implemented based on public information.

4. Perception in society about the social positioning of Achmea, implemented based on the survey results of StakeholderWatch conducted by the Corporate Communications department.

The third and fourth pillars helped with ensuring that Achmea's performance contributes in a distinguishing way to a healthy, safe and future-proof society.

Advice for other IAFs

■ Sustainability knowledge group

- Set up a knowledge group to effectively and efficiently collect relevant new developments and to put the theme on the audit calendar and in audits.
- Ensure several intrinsically motivated employees and work based on milestones on concrete goals, including establishing assessment frameworks and training fellow auditors.
- Ensure good contacts with those involved in the first and second line and make optimal use of the available knowledge in the organisation.

■ Audit Corporate Social Responsibility and sustainability

- If possible, combine several angles (such as compliance, risk management, effects strategy), because this will produce a 360-degree image (inside-out and outside-in). That is interesting because (external) stakeholders increasingly judge companies on what they do for society.



Auditdienst Rijk
Ministerie van Financiën

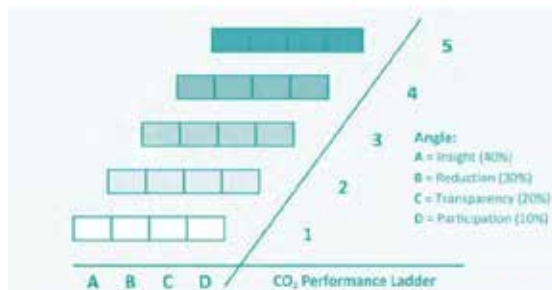
CASE 3 ADR

Organisation/positioning

The Ministry of Infrastructure and Water Management (I&W) wants to be energy and climate neutral by 2030 for energy consumption (electricity and fuels). An interim goal is to emit 30% less CO₂ in 2020 than in 2009 (the reference year), and 40% less in 2024. I&W also aims to make the purchase chain completely climate neutral as well as circular by 2030.

The CO₂ Performance Ladder is a management system and helps I&W obtain insight into its own CO₂ emissions and to focus on reducing them. On the other hand, the Ministry uses the CO₂ Performance Ladder as a tender instrument.

The CO₂ Performance Ladder demands *continuous improvement* of insight, further CO₂ reduction measures, communication and collaboration. This is to be achieved in the company's own business operations and projects (level 3) and in purchasing and chain (levels 4 and 5). I&W has been certified at level 5 since 2020.



THE APPROACH CAN BE COMPARED WITH A STUDY INTO THE STRUCTURE AND FUNCTIONING OF THE PDCA CYCLE.

CENTRAL GOVERNMENT AUDIT SERVICE (ADR)

The Central Government Audit Service (ADR) is the independent internal auditor of the Central Government and the Audit Authority in the Netherlands for the European Commission. The ADR works for the ministries. ADR's services comprise: legal duties, big projects, demand-driven services and projects for the European Union. For the demand-driven services, the theme of sustainability is included as 'following' in the strategic audit agenda, so no active investment in it (yet). Within Central Government, however, there is growing attention for the theme. There are ministries which put sustainability prominently on the agenda, like I&W. The CO₂ Performance Ladder is increasingly seen as a tool which helps organisations achieve CO₂ reduction.

Activities of the IAF

At the request of I&W, since 2016 the ADR performs the annual internal audit CO₂ Performance Ladder. In accordance with the requirements from the CO₂ Performance Ladder Manual 3.1, the organisation is obliged to annually assess the functioning of the management system at least through an internal audit and a management assessment and if necessary, to facilitate continuous improvement. Every year, an accredited external auditor issues the certificate, using the activities of the ADR and the management assessment.

The requirements for the audit are defined in the CO₂ Performance Ladder manual. The research questions used are:

1. To what extent does the management system fulfil the criteria defined in the CO₂ Performance Ladder manual and, insofar as that is not the case, what recommendations for improvement can be made?
2. To what extent does the organisation apply the agreements adopted in the management system (such as objectives, procedures, communication, publication, planned measures, etc.) and, insofar as that is not the case, what recommendations for improvement can be made?

The approach can be compared with a study into the structure and functioning of the PDCA cycle. It can be regarded as a pre-audit, whereby the critical and independent view of the ADR helps the CO₂ Performance Ladder team implement improvements in their existing process or products with respect to CO₂ Performance Ladder before the management assessment and ladder assessment (external audit) take place.

ADR is now seen as an important discussion partner on this subject and is therefore increasingly asked to contribute ideas about the further implementation and improvements. Not so much as the expert on the substance of sustainability, but as the party which knows the organisation well and, as a partner, can help it take the step to embedding.

Advice for other IAFs

- Offer action perspectives in the process relating to the CO₂ Performance Ladder (or insight into the goal behind the process) and actively communicate to the auditee about how to approach the audit. This gives them confidence in the auditor and the audit approach as part of the PCDA cycle.
- Ensure that sustainability is also included on the audit agenda. Start with awareness, making connections within the organisation and training auditors.
- The CO₂ Performance Ladder can be a good management tool for achieving certain CO₂ objectives. The manual offers a lot of information, including how to audit various areas.





CASE 4 ATOTECH

Organisation/positioning

Atotech is a technological company in the specialty chemicals industry. It supplies chemicals, equipment, services and software to clients in electronics (such as for smartphones, communication and computers), and industry (such as for cars and household appliances). The company is listed on the NYSE, has branches in around forty countries with a turnover of around € 1.2 billion (2020), has four thousand employees, seventeen production locations and fifteen tech centres all over the world.

Sustainability is one of the three strategic principles. It is both a 'licence to operate' (to retain various local permits) and the principle for product development. Atotech focuses on the SDGs with which it can make the most impact. Good health and well-being (SDG 3), Clean water and sanitation (SDG 6), responsible consumption and production (SDG 12), climate action (SDG 13). The aim is to formalise reporting on this and be more transparent, among others using clear KPIs with concrete goals. The recent listing on the stock exchange has accelerated these initiatives.

As a technology-driven company, Research & Development (R&D) is extremely important to Atotech. This is the basis for sustainable production processes and products, aiming to improve its clients' production processes and make them cleaner and more efficient. This can be achieved by more efficient use of water, the reduction of environmentally harmful chemicals, the efficient use of raw materials and by reducing energy consumption. Atotech can achieve the greatest sustainability impact via the production processes of its clients. Around 53% of the R&D projects therefore focus on sustainability objectives. Obviously,

Atotech also strives at continuous improvements in its own production processes on the same elements.

At Atotech, sustainability is a shared responsibility. However, the Head of R&D has final responsibility for ESG in the Executive Board. Furthermore, Health, Safety & Environment (HSE) are the responsibility of an independent management organisation, and Atotech has ISO 14001 certification.

The ESG policy is guided by means of a cross-functional steering committee (SC) with members from senior management. The ESG operating committee (OC) is responsible for evaluating, implementing and managing the ESG programme. Besides attention for relevant legislation and for the expectations of stakeholders (shareholders, clients, suppliers, employees, etc.), there is explicit attention for adopting leading standards such as GRI and SASB.

Activities of the IAF

The Head of IA has co-initiated the foundation of the OC at the start of 2020. Long before that, the themes of sustainability, safety and compliance already had high priority at Atotech. However, the letter from Blackrock's CEO in 2020, requesting attention for sustainability and in particular climate change, triggered Atotech's decision to further strengthen this theme. Atotech's CEO distributed this letter internally, leading the head IA to put structured external reporting about ESG on the agenda. In various workshops, the Head IA acted as advisor with respect to potential concrete objectives, robust reporting processes and adoption of formal standards like GRI and SASB. An internal project leader was then appointed to coordinate the reporting about ESG. Particularly in the start-up phase, members of the IAF were actively involved in the brainstorming sessions.

It was agreed that the IAF would assess the processes which lead to externally published KPIs for robustness. In addition, the IAF of Atotech has now been asked to play a role in producing a separate ESG report, by assessing that report before publication. A specific challenge for Atotech when drafting such a report will be that Atotech's products are only part of the extensive production processes with its clients and that the greatest impact on sustainability will be delivered by Atotech via its products, and much less via its own production processes. For example, developing chemical processes in which less water is required has a big impact on the water consumption of Atotech's clients. Atotech's water consumption is limited compared with that of its clients.

FROM 2021, A MORE FUNCTIONAL AUDIT APPROACH WAS CHOSEN, WHEREBY SPECIFIC PROCESSES AND THEMES ARE AUDITED MORE GLOBALLY ACROSS ALL COUNTRIES.

Since the foundation in 2018, the IAF carried out 'country audits', in which sustainability topics were part of an integral audit programme. From 2021, a more functional audit approach was chosen, whereby specific processes and themes are audited more globally across all countries. For example, besides the previously mentioned activities, there are specific ESG-related audits, such as the HSE policy & implementation, on supplier qualification and on wastewater management. And obviously, the IAF works closely with the ERM manager for identifying the key risks, in which ESG risks are an important group.

Advice for other IAFs

- 'Google and read'. Start by reading ESG publications and articles. Spending several hours browsing and reading is very useful. An external consultant is not always necessary.
- Also study the sustainability websites of competitors and other big companies: there are already quite a lot.
- Harness a trigger event and then look for 'allies' in the organisation for support to get the subject higher on the agenda.
- Start small and 'experiment'. Do not immediately start as assurance provider.
- Involve the IA team: it is an interesting area which inspires various (young) auditors and for which they will go the extra mile.
- Align the auditing approach to the risks: sometimes 'embedded' (as element in existing audit), sometimes specific (as Atotech did with respect to wastewater').

In short, don't wait, be proactive and 'get involved' in this subject, certainly in the startphase, as advisor. And once the ball is rolling, you can take a step back and gradually embark on more structured audit work.



CASE 5 FRIESLANDCAMPINA

Organisation/positioning

For the professional market, Friesland-Campina supplies cream and butter products, ingredients and semi-finished products for manufacturers of baby food and products for the food industry and the pharmaceutical sector. FrieslandCampina has companies in 38 countries and exports to more than one hundred countries worldwide. Friesland-Campina is owned by the Zuivelcoöperatie FrieslandCampina UA with over 11,000 members, these being dairy farmers from the Netherlands and Germany. Turnover for 2020 was € 11.1 billion, and at the end of 2020, there were 23,783 employees (FTEs) at FrieslandCampina.

In 2018, it was decided to link this strategy to the United Nations SDGs. Eight SDGs were chosen, because FrieslandCampina feels it can make a real contribution to these:



Friesland-Campina's integrated annual report 2020 addresses in detail how FrieslandCampina contributes to the long-term value creation, expressed in a contribution to the SDGs. This is translated into 10 core KPIs (including CO₂ emissions), distributed over the business groups and Operating Companies - (OpCos).

SUSTAINABILITY IS ONE OF THE (20) PROCESSES. EACH PROCESS HAS AN AUDIT CHAMPION THEY ORGANISE THE NECESSARY TRAINING FOR FELLOW AUDITORS.

The strategy of FrieslandCampina is 'Nourishing a better planet':

Six themes Nourishing a better planet

<p>Better nutrition, affordable for everyone Our aim is to always comply with the FrieslandCampina Global Nutritional Standards and to expand access to nutrition for lower income groups/ countries.</p>	<p>Better living for farmers Our objective is to always have the highest possible performance price for member dairy farmers and to train 75.000 local dairy farmers in 2025 through means of the Dairy Development Programme.</p>	<p>Better climate, carbon-neutral future By 2030 we aim to reduce CO₂-equivalent emissions at production facilities and in transport to production facilities by 40% and by 33% at member dairy farms, in comparison to 2015.</p>	<p>Better nature improving biodiversity In 2022, we aim to have a single integrated score for biodiversity and by 2025 we aim to have set targets for farms.</p>	<p>Better packaging, 100% circular By 2025, 100% of our packaging must be recyclable/reusable and more than 99% of our waste materials must be reused.</p>	<p>Better sourcing, 100% responsible Our aim is for 100% sustainable procurement of agricultural raw materials by 2025, and for 95% of raw materials to be traceable back to source.</p>

Progress is reported monthly internally via Finance. In addition, the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) are followed. The annual report also contains a (negative) assurance statement of the external account about the sustainability-related data.

FrieslandCampina expressly uses the Three Lines model, also for the sustainability processes. For that purpose, there is a specific second line corporate department Sustainability, which is responsible for cascading the goals and KPIs, the policy in this field and for monitoring and reporting on that monitoring. The first line is responsible for achieving the set goals. Finance is responsible for the reporting process of the KPIs.

Activities of the IAF

The third line is fulfilled by Corporate Internal Audit (CIA). This consists of 16.4 FTEs, with a mix of RAs, REs, CIAs, ROs and CFEs. Every year, around 48 reviews are performed at entity level. FrieslandCampina has around 200 auditable entities (including departments at corporate level). The audit approach is risk based, largely fed by the results of data analytics.

Sustainability is one of the twenty identified processes. Each process has an audit champion, which ensures the efficient auditing of that process. That means updating new developments and translating them to the work programme for auditing the sustainability KPIs. When necessary, the champion organises a training for the rest of the department. The champion also maintains contacts with other departments involved, such as the Corporate Sustainability department.

CIA audits sustainability by assessing the Corporate Sustainability department (once every three years) and by including sustainability as one of the strategic goals and KPIs in the assessment of an OpCo. This is done risk based or according to the importance of the OpCo for the strategic goal and according to the extent to which the goals are/are not achieved. In practice, we know that sustainability is in scope in many of the cases (in factories, sustainability is nearly always in scope).

When assessing the OpCo, the control measures in the underlying process are mainly studied:

- the understanding of the KPI (is this 'embedded'?)
- the accountability for the KPI
- safeguarding the reliability of the reporting about the KPI.

No specific statement is given about the reliability of the reporting, as is given by the external accountant for the annual report. The external accountant does not rely solely on the CIA reports. However, they are used as input for the risk analysis.

The work programme is specifically developed by CIA for FrieslandCampina and in consultation with Corporate Sustainability.

Advice for other IAFs

- Ensure support from the board as the key success factor for auditing sustainability. If it is part of the strategy, the IAF will obviously include this in scope.
- Work together with the second line (Sustainability and Finance). Ensure alignment of the message. For that purpose, start with assessing the policy in the Sustainability Department.



CASE 6 KPN

Organisation/positioning

Koninklijke KPN N.V. supplies telecommunication and ICT services and offers consumers land and mobile telephony, Internet and television. For business clients, KPN provides complete telecommunication and ICT solutions. KPN offers wholesale network services to other operators. KPN has identified three Sustainable Development Goals (SDGs) to which they feel they can contribute most.

In the KPN Integrated Report, these are translated into ambitions and results. Particularly for SDG 12, KPIs are also mentioned which have an important relationship with climate change, such as energy consumption, CO₂ reduction and circularity. Traditionally, the central CSR responsibility falls under Communications. The attention for sustainability is strengthened by the structure of the Sustainability department (tactical and operational) in the technical company and Energy & Environmental Management, which mainly focuses on strategic, KPN-wide sustainability aspects.

Activities of the IAF

Internal Audit consists of fourteen FTEs, of whom two auditors are involved with the CCE risks. The role for CCE risks mainly lies with the Integrated

Report (IR), whereby IA particularly focuses on claims in the text and underlying processes (data and text claims). The external accountant carries out the audit on the CO₂ emissions and issues reasonable assurance. For the other KPIs in scope, limited assurance is issued by the external accountant.

Reasonable assurance is relatively expensive but is important for several stakeholders. In the case of limited assurance, besides his own compulsory data-based work, the external accountant can use the work of IA which he assesses with a random test.

The most important activity of IA in this respect is the assessment of the (defence of the) claims. In close collaboration, IA and the external accountant review the draft versions of the IR whereby the claims (approx. 400-500) are identified. For each claim, the composer of the text is requested to provide substantive evidence which is assessed by IA. This may lead to an adjustment to the claim.

Attention is also devoted to completeness, in other words what is not reported, but what would be expected in view of the objectives and previous reports. At the same time, it is important to ensure that the report is balanced and that it does not merely include the positive points.

This work is carried out in a busy period of two months. IA additionally carries out the following work:

- Assess reliability of KPIs which are reported quarterly or annually.
- Advise on the structure, measurement method and reporting of new KPIs.
- Mid-term assessment of the process around the new KPIs, to be certain that everything is going smoothly at the year end.
- Specials, such as the assessment of the reporting process of waste flows (reuse/recycle) when that was changed.

Our strategy to drive impact at scale

 Innovation Make the Netherlands safer and resilient by offering best-in-class connectivity and security	 Society Provide internet access for everyone and everything and stimulate social inclusion	 Environment Build the most efficient network technology to reduce energy consumption despite higher data usage
 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	 11 SUSTAINABLE CITIES AND COMMUNITIES	 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Every quarter, IA reports on the KPN Internal Control System (KICS). That consists of seven subjects, including network service levels and compliance. However, the sustainability KPIs are not yet part of this.

In recent years, IA has invested a great deal in data analysis. These analyses are also used to assess non-financial information, such as energy consumption or the Net Promotor Score (NPS). For the waste flows, however, the data supplied by third parties is not yet solid (and extensive) enough to be used for that purpose.

**DO NOT UNDERESTIMATE
THE POWER OF DATA ANALYSIS.
AVOID THE BLACK BOX MENTALITY.**

For the above activities, source documentation is mainly consulted, data analyses are carried out and interviews conducted, whereby good knowledge of the processes and 'understanding the business' are essential for performing effective audit work.

Advice for other IAFs

- Spread the 'gospel of true findings'.
Note the difference between (marketing) communication and accounting. It must be substantiated.
- Set up a structured process whereby the various stakeholders who wish to give accountability in the IR are involved in the accountability and control process and are aware of the quality requirements.
- Know the business and maintain your internal network. Do not let the organisation leave you out of the loop, make sure that they come to you.
- Do not underestimate the power of data analysis. Avoid the black box mentality. You must at least remain an informed discussion partner and therefore understand it.





CASE 7 DUTCH EMISSIONS AUTHORITY (NEA)

Organisation/positioning

The Dutch Emissions Authority (NEa) is an agency and non-departmental public body (NDPB) under the Ministry of Economic Affairs and Climate Policy. The NEa is a supervisory authority and therefore has a different function than an IAF. Nevertheless, its activities are similar.

Its main duties relate to the European Emissions Trading System (EU ETS) and the subsidy regulations in the field of:

- EU-ETS: in the Netherlands, under the ETS, around 450 companies are required to limit their greenhouse gases.
- Energy for Transport (EvV): fuel suppliers which supply Dutch road and shipping companies, which are required to deliver a % biofuel (renewable energy).
- Electrical energy, such as companies which make charging stations available, such as Fastned and Allego.
- Green gas for gas companies.
- The conversion of coal-fired power stations to solid biomass.

Activities of the Inspectorate

The NEa has around ninety FTEs, twelve of whom are inspectors. They partly have an accountancy background - their activities also have strong similarities with the financial audit.

Usually, the supervision also involves assessing the private monitoring of the regulations.

As an example, the activities relating to the EvV are described:

In the Netherlands, there are 80-90 companies which are supervised by NEa inspectors. They record their share of renewable energy in the NEa's Energy Register for transport (REV).

At least once every three years, the NEa carries out an inspection, to check whether the organisation complies with the relevant legislation and whether the figures are correct. Starting points for this are:

- The reports from the private supervisors, who annually assess the fossil and biofuel records.
- The record of biofuel delivered to the NEa.
- Figures from the tax authorities relating to excise duties.

The NEa looks at the processes (functioning of the AO/IC) of purchasing, production and delivery of fossil and biofuel and the alignment between the administration and reporting, with particular attention to the alignment between the figures in euros and litres.

The private supervisors are accredited by the Dutch Accreditation Council. To ensure good coordination, NEa organises a knowledge session with these supervisors twice a year. This year, 'witnessing' was started - attending an inspection by NEa.

The NEa inspection leads to an Inspection letter in which any omissions are listed. Depending on the seriousness of the omissions, that may lead to a fine or a repayment of the subsidy.

Advice for other IAFs

- Do not underestimate the subject. Organisations must keep pace - innovation is key. The IAF can be a driver in this.
- Know the legislation. Organisations regularly come up short in this. Any fines can be high.
- Consider reputational damage. More and more Freedom of Information Act requests are being received. Now mainly focusing on CO₂, later other subjects will be addressed.
- Make sure that AO/IC is up to date.
- As IAF, make sure that you receive the inspection letters from the supervisory authority.



Rabobank

CASE 8 RABOBANK

Organisation/positioning

Rabobank is a cooperative bank whose mission is: 'Work together to create a better world'. This mission is translated into a strategy with four pillars, which are all connected to various Sustainable Development Goals (SDGs). These are further concretised in Key Performance Indicators (KPIs). Rabobank wants to be leading in the energy and climate transition. It has committed itself to the Paris Climate Agreement (UNFCCC), the United Nations Environmental Program Finance Initiative (UNEP FI) and the Task Force on Climate-Related Financial Disclosures (TCFD), it has signed the Climate statement Netherlands banks, and will comply with (new) climate-related legislation and bank regulation. There are several workflows in Rabobank's internal climate programme, including Climate Reporting (by the TCFD) and Embedded climate risks in credit & risk management.

Activities of the IAF

Rabobank's Internal Audit Department has around 280 FTEs all over the world. Within the department, the Finance & Sustainability team operates with around ten auditors, who spend about 40%

of their time on climate and sustainability. During the annual report period, however, they are engaged in this for 100% of their time. The team will be expanded due to the increase of activities relating to climate and sustainability, for example the new EU taxonomy guidelines.

The audit plan of Audit Rabobank for sustainability is the result of a risk analysis which is carried out annually and updated quarterly. In this, the most important risks seen by Audit Rabobank in the field of climate and sustainability are identified and an audit response is formulated.

An important part of the work of Audit Rabobank consists of assessing the non-financial KPIs, which are incorporated in the half-year report and annual report. Besides these KPIs, the IAF also looks at the correctness and completeness of the claims in the annual report.

The task strongly resembles the 'traditional process' of accounting control. During the year, the process is reviewed (the interim control), after which the figures themselves in the report are assessed. The Group Control department coordinates the reports, while the Communications department manages the process of the annual report. During the year, those responsible for the KPIs already have contact with Audit Rabobank, to discuss how text claims can be substantiated and assessed and how new KPIs can be reliably measured.





Global Reporting Initiative (GRI) and Integrated Reporting (IIRC) are used as reporting standard. For the CO₂ part, there is the Greenhouse Gas (GHG) framework.

The assessment of the financial information is left to the external accountant. For the non-financial information, the external accountant strongly relies on the work of Audit Rabobank, such as issuing the limited assurance statement.

Besides this assessment task for the annual report, Audit Rabobank is involved with the Climate Programme. The sustainability agreements which are supported must be translated into (measurable) goals for the bank, so that they can be reported too. Audit Rabobank is like a 'spider in the web' here. It sees what is going on in the bank and critically reviews the effects.

Several sub programmes have now been defined within the Climate Programme, whereby the Finance & Sustainability team in Audit Rabobank is the lynchpin with the internal audit department. Because this team carries out work for the half-year and annual report for the non-financial KPIs, it has an overview of all the relevant departments and those involved. This benefits new initiatives like the Climate Programme.

IAF, JUST START AND CONTRIBUTE IDEAS TO THE ORGANISATION. DON'T WAIT UNTIL YOU ARE LEGALLY OBLIGED.

Besides working on the half-year and annual report, Audit Rabobank also carries out operational audits on sustainability aspects. An example of this is a study into the sustainability score that Rabobank attributes to big business customers. Because the customers of the bank are the ones which have an impact on sustainability and climate. For that reason, Audit Rabobank is involved in a study of the credit granted to business customers with a liability larger than € 1 million, whereby the customer's sustainability is assessed. This will lead to a conclusion about the governing and executive organisation to make this process more mature.

Advice for other IAFs

- Don't wait, just start. Don't wait until there is a legislative requirement.
- Start making it transparent and discuss it in the organisation.
- Make sure there is a good network in the organisation, so that the IAF is directly involved in new developments.
- Discuss ideas with the organisation about translating objectives to measurable KPIs.

APPENDIX I. SURVEY

DEMOGRAPHICS

1. What is the size of your organisation/legal entity (by number of employees)?

- Less than 50
- 51 to 250
- 251 to 1,000
- More than 1000

2. What is the size of your internal audit function (by number of employees)?

- 1-5
- 6-25
- 25-100
- 100+

3. In which sector do you operate?

- Finance (financial services & institutions)
- Trade & industry (incl. retail/consumer goods/industry)
- Services & tourism (incl. ICT, Telecom, Legal etc.)
- Construction (incl. real estate)
- Non-profit: (Government, Health and Education)
- Energy & Transport
- Other

THE SETTING OF YOUR ORGANISATION

4. Which of the following Sustainable Development Goals (SDGs) are part of your organisation's strategy? (select all that apply)

- GOAL 1: No Poverty
- GOAL 2: Zero Hunger
- GOAL 3: Good Health and Well-being
- GOAL 4: Quality Education
- GOAL 5: Gender Equality
- GOAL 6: Clean Water and Sanitation
- GOAL 7: Affordable and Clean Energy
- GOAL 8: Decent Work and Economic Growth
- GOAL 9: Industry, Innovation and Infrastructure
- GOAL 10: Reduced Inequality
- GOAL 11: Sustainable Cities and Communities
- GOAL 12: Responsible Consumption and Production
- GOAL 13: Climate Action
- GOAL 14: Life Below Water
- GOAL 15: Life on Land

- GOAL 16: Peace and Justice Strong Institutions
- GOAL 17: Partnerships to achieve the Goal

5. On a scale of 1 to 5, what is the level of regulation on issues associated with climate change and environmental issues in your sector?(Not applicable, 1 2 3 4 5)

6. In which general risk areas do climate change and environmental (CCE) issues impact your organisation? (select all that apply)

- Reputation
- Compliance
- Liability
- Operational Stock market / investors
- Employment
- Sales market
- External business relationships
- Other – please specify ...

7. Which processes are most impacted by these CCE-risks? (select all that apply)

- Sales and marketing
- Procurement
- Primary process of production / service delivery
- Transport and delivery
- Legal and compliance
- HR
- Other, please specify

8. On a scale of 1 to 5, what is the current level of CCE risk in your organisation? (1 2 3 4 5)

9. On a scale of 1 to 5, what do you think the level of CCE risk will be in three years' time? (1 2 3 4 5)

THE RESPONSE OF YOUR ORGANIZATION

10. Did you discuss the CCE risks and opportunities with the following stakeholders? (select all that apply)

- The board
- The audit committee
- The risk committee
- Executive management
- None of the above

11. On what occasion(s) did you discuss the CCE risks and opportunities with your stakeholders? (select all that apply)

- At a chance moment
- At a periodically scheduled meeting
- During a risk meeting / assessment
- During the risk analysis of IA in preparation of annual audit plan
- At a strategy session
- Other (please specify)

12. When did you start to discuss the CCE risks and opportunities with your stakeholders?

- Within the last 6 months
- 6 months – 1 year
- 1 year – 2 years
- More than 2 years ago

13. What are the drivers of the strategy of your organisation regarding CCE risk? (100% to be divided)

- We need to comply with new regulations on this
- We see opportunities for new business
- We feel a social responsibility and want to act on climate change

14. Please indicate whether your organisation has a carbon reduction target.

- My company doesn't have a carbon reduction target
- My company is currently considering a carbon reduction target
- Reduced carbon emissions (please specify by which year in next question)
- Zero carbon emissions (please specify by which year in next question)
- I don't know
- Other (please specify)

15. In case of a target of reduced carbon emissions: what % by which year?

< 25% < 25% < 50% < 75% by 2020 2025 2030 2040 2050

16. In case of a target of zero carbon emissions: by which year? Before 2020, 2025, 2030, 2040, 2050

17. Please indicate whether your organisation currently has any additional environmental targets. (select all that apply)

- Other greenhouse gas and/or nitrogen emissions reduction target
- Reduction target of poisonous emissions in water/soil
- Plastics reduction target
- Circularity targets
- Targets on reducing waste and materials use
- No additional targets
- I don't know
- Other, please specify

18. Please tell us how your organisation is addressing the CCE risks and opportunities. (select all that apply)

- We are not currently addressing the risks posed by climate change.
- Our board/management sets an example in formulating and addressing viable CCE objectives.
- We have added climate change to the risk register.
- We have established a risk appetite for climate change.
- We have established a climate change strategy which is integrated with that of the organisation in general.
- We have undertaken climate change scenario planning to better understand how the potential risks and opportunities may affect us.
- We have established an internal climate change/environmental risk working group.
- We have established climate change and environmental objectives that have been translated into internal management processes and controls.
- We have established KPIs that inform progress against the objectives.
- We have undertaken a full assessment of the risks and opportunities related to our products, services, emissions, physical footprint and their potential impact on our financial position and our current strategy.
- We have a plan to build the capacity of our Board to assess and respond to the risks and opportunities associated with climate change and environmental risk.
- We made (a) specific senior executive assignment(s) relating to our response to climate change and/or environmental risk.
- We have engaged external parties to assist with the organisation's education and response to climate change and/or environmental risk.
- Other - please specify

19. Has your organisation received an appropriate level of engagement and/or information from government and/or regulator(s) to assist you in preparing for climate change?

- Yes
- No
- Don't know
- Not applicable (if so, can you please state the reason for that?)

THE FRAMEWORKS USED

20. What management framework does your organisation use to manage the CCE-objectives and risks?

- We do not use a framework
- We have our own framework
- Enterprise Risk Management, from COSO and WBCSD
- ISO 26000
- PDCA model
- OECD
- Task Force on Climate-related Financial Disclosures (TCFD) framework
- EU taxonomy
- I do not know
- Other, please specify: ...

**21. Do you think there should be a universally agreed management framework?
Yes No - please explain**

22. What reporting framework does your organisation use to disclose their environmental, energy and carbon data?

- We have our own framework
- Task Force on Climate related Financial Disclosures (TCFD) framework
- Carbon Disclosure Project framework (CDP)
- Climate Disclosure Standards Board framework (CDSB)
- Accounting for Sustainability framework (A4S)
- Global Reporting Initiative (GRI) standards
- Science based targets
- IIRC (Integrated Report)
- EU taxonomy
- I do not know
- Other, please specify: ...

**23. Do you think there should be a universally agreed framework to report climate-related data?
Yes No - please explain**

YOUR ROLE AS IAF

24. How much of the current work of your internal audit team is related to climate change and/or environmental risk (CCE)?

- 0% < 5% 5 - 10% 10-15% > 15%

25. Please indicate what part (in % - adding up to 100%) of the CCE-related activities in your Internal Audit plan (2021) is dedicated to the following IA's four types of services:

- (Support of) verification of CCE reporting
- Assessment of CCE (risk) management
- Review of compliance to CCE-related laws and regulations
- Advice to management on CCE targets, compliance and reporting

26. What kinds of activities relating to CCE risks are you performing?

(select all that apply)

- Consulting on CCE (as a change agent)
- Being a member of a climate change /environmental risk workgroup or project team
- Participating in the risk assessment of the organization relating to the potential impact of climate change
- Audits of the (risk) management of climate change
- Audits of compliance with relevant regulations
- Audits on the completeness of the nonfinancial information
- Audits on the reliability of the nonfinancial information
- None
- Other (please specify)

27. In which way do you as IAF partner/support external audit in their work on the disclosure of CCE-information of your organisation?

- Full cooperation
- Employee support
- Just informative
- Not in any way

28. In what way are you performing audits with regards to CCE risks? *(select all that apply)*

- CCE is embedded in some individual audits
- CCE is embedded within all individual audits
- CCE is subject to specific standalone audits
- We are looking whether other (2nd line) functions are monitoring adequately
- Other (please specify)

29. As IAF, do you feel sufficiently informed and trained about CCE risk to be able to challenge your organisation on their identification, assessment and response to the climate change?

Yes No

30. What are you doing as IAF to be sufficiently informed about CCE risk to be able to challenge your organisation? (select all that apply)

- None
- Hiring expertise
- Sending employee(s) on education
- Other (please specify)

31. What do you see/experience as the (max. 3) most important critical factors for success in auditing the CCE risk?

- Support (felt importance) of Audit Cee
- Support (felt importance) of senior management / Board / Raad van Bestuur
- CCE should be in the strategy of the organisation
- Subject matter expertise in CCE in IAF
- Sufficient budget to hire expertise
- Standards, frameworks suitable for the organisation
- Generally accepted standards, framework
- Other (please specify)

FOLLOW UP

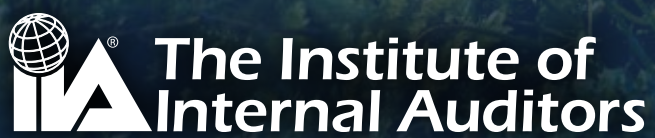
32. We are looking to feature several case studies in our report to showcase good practice internal audit around climate change and/or environmental risk. Is your internal audit team doing any pioneering or interesting work in this field that you would be willing to share with us (for example in an interview or Round Table discussion with colleagues from other organisations)?

Yes No

33. Would you be willing to talk to us on a confidential basis about some of the points you have raised in this survey?

No Yes

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Burgemeester Stramanweg 105F | 1101 AA Amsterdam | 088-0037100 | www.iaa.nl | iaa@iaa.nl