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Internal Audit

Evaluating ESG Governance & Reporting

Central Ohio – AGA
September 19, 2023

-Hello everyone and welcome to our session on Evaluating ESG Governance and Reporting

-Thank you to all the civil servants with us today. You all have a relatively thankless job, though be it an important one.

-I'm very excited to be here as I'm passionate about ESG

With you Today - John Busch

Experience

- 12+ years experience in managing ESG/CSR/sustainability risks
- Works with both public and private sector clients
- Developed numerous ESG risk-management and reporting frameworks including:
  - Drafted policies, procedures, governance structures
  - Evaluated ESG risks and conduct control assessments and gap analyses
  - Provided Continuing Education and general training on ESG risk management
  - Developed monitoring mechanisms and reporting procedures/outputs
- Experienced working across three line of defense

Qualifications and Education

- Certified Risk Management Professional (CRMP), Risk and Insurance Management Society
- Leadership in Energy and Environmental Design (LEED) Accredited Professional, US Green Building Council
- MBA, University of Colorado Denver, Managing for Sustainability
- BA, University of Colorado Boulder, Environmental Studies
- BS, University of Colorado Boulder, Supply Chain and Operations Management

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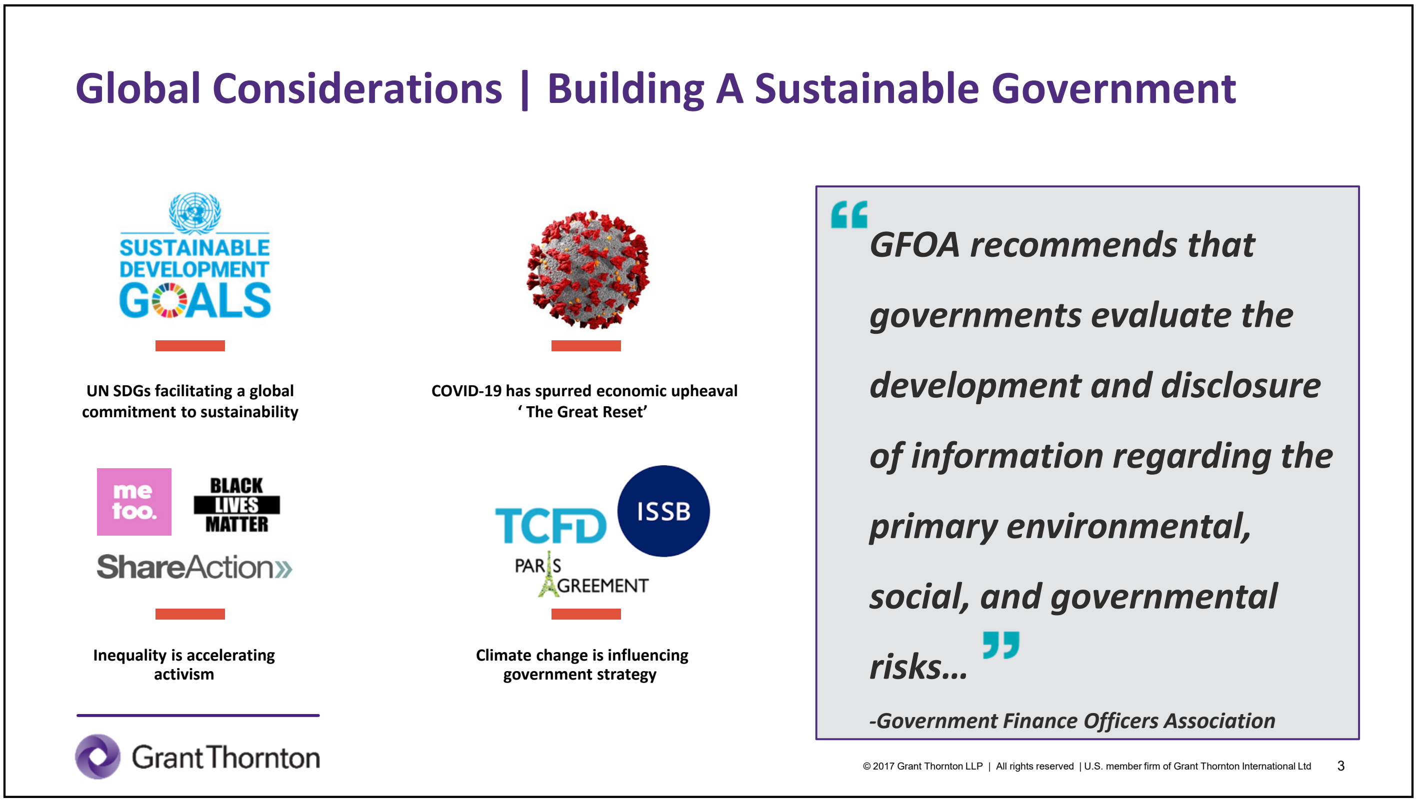
-I've been working in ESG my entire career and it's been interesting to see the evolution over the years (started as sustainability, then CSR, and now under the ESG banner. We'll talk a bit later about how this banner of ESG is often times a repackaging of things already happening.

-I've worked with both public and private sectors entities and try and bring best practices from each

-Work on the Strategic Risk Practice in Grant Thornton helping clients to design and implement their ESG risk management programs.



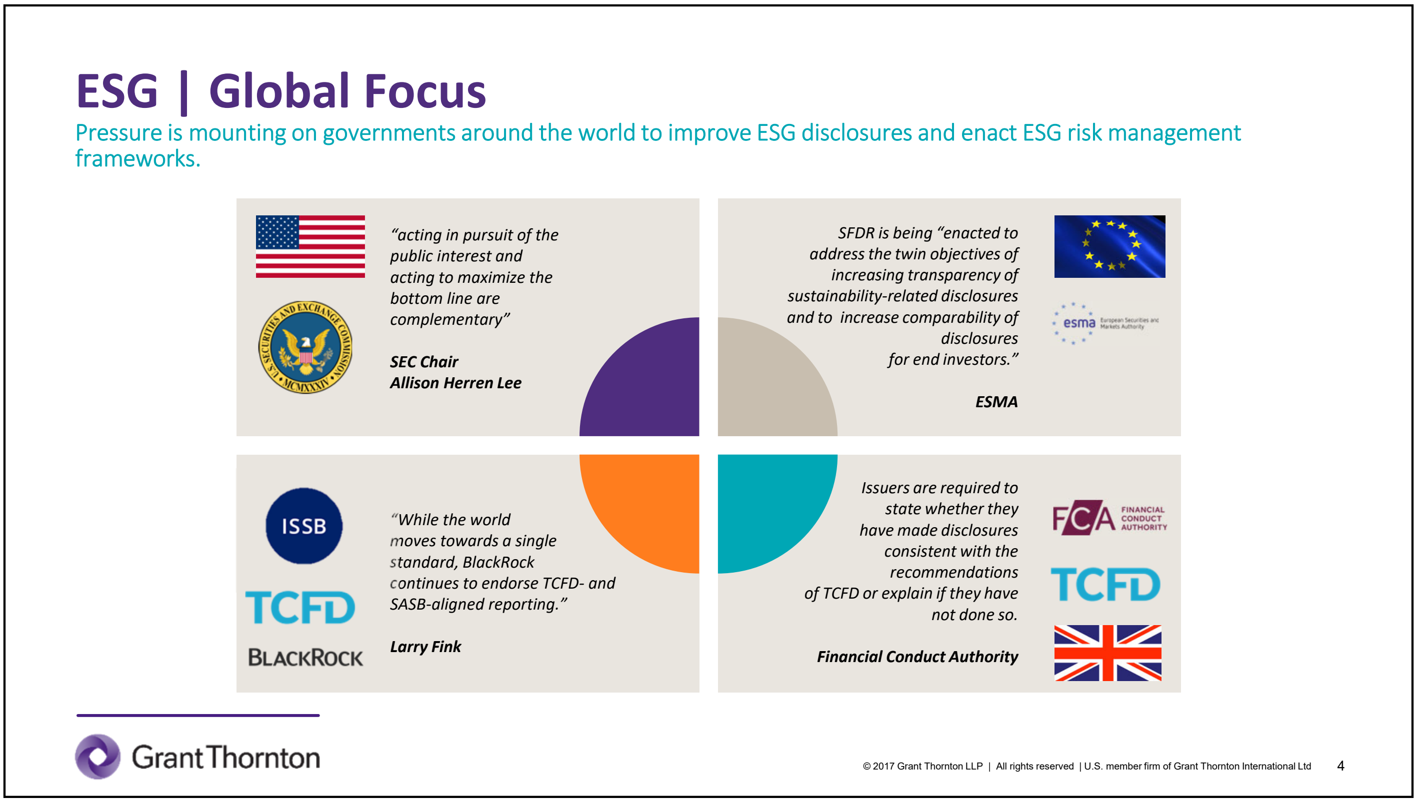
-Many different drivers are contributing to the rise of ESG in society, governments, and orgs around the world

-SDGs provided a framework for early adopters

-Covid brought with it disruption, and economic upheaval which served as a "reset" for many orgs. Reset how they approach their people, their operations, and their mission and values.

-Social activism is increasing, especially among younger generations. These stakeholders are demanding changes from the orgs they support and the governments where they are constituents.

-Climate change is compelling action from governments and businesses. You had the UN SDGs, then the commitment from countries (Paris agreement), and then TCFD and ISSB are frameworks to help implement and report on activities.



-Pressure is mounting across the globe for enhanced ESG practices from our governments and business

-Largely driven by Western Europe and the US, however countries like China and India are taking their own incremental steps to try and balance their development needs with sustainability

-As you may be aware, here in the US, the SEC has proposed rules for publicly traded entities requiring ESG disclosures. Originally planned for release early 2023, but large volume of comments and contentious components have delayed the final rule numerous times. As if often the case, government regs follow the commercial sector and the SEC has said it has this on their radar. You as government auditors can see how it plays out in the commercial space and apply best practices.

-Regulators are the only ones driving the increase in demand for ESG disclosures…institutional investors are leading the charge to better supply investors with ESG information to factor into their risk premium calculations.

Sound Governance and Control is Paramount

Implementing effective controls, audit procedures, and oversight is critical for governments to build ESG credibility.

The Problem

- The various drivers of increased sustainability reporting — investor, regulatory, and social — have created pressure for governments to produce reporting and positioning on ESG topics
- Without a reasoned ESG risk management strategy built on a clear-eyed understanding of the issues, poorly executed sustainability reports and ESG strategies can quickly run afoul of regulatory compliance and astray of investor, customer, and workforce expectations

The Solution

- Focus on effective internal control and governance over ESG matters
- Identify and evaluate its top ESG impacts and determine goals to manage them
- Target goals should be realistic and measurable because of the risk of not meeting them

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-You as a part of a government organization may be receiving pressure from your constituents to improve your ESG posture. You may already be disclosing some elements of your ESG posture through a sustainability report, or often through your bond offering documents.

-Without a focused management strategy, you run the risk of running afoul of regulators, constituents and employees.

-Can result in negative publicity, reduced bond premium, and unhappy/unengaged employees.

-Luckily there is a solution, and even luckier is that this solution is largely going to be a familiar framework to you as auditors or risk professionals.

-Take a risk-based approach and focus on what's material to you and your constituents. Then with this focus on materials risks, apply the same focus on internal controls and governance to manage the risk effectively.

-Finally, when developing your ESG value, goals, and targets, focus on measurable metrics which can be supported by robust evidence to avoid the pitfalls of greenwashing.

Sound Governance (Cont.)

There are numerous challenges in assessing ESG risk management practices which auditors must consider.

Challenge #1:

- ESG reporting can contain a **wide variety of metrics**
- Organizations must establish **policies, processes, and internal controls** that generate reliable information for ESG decision-making, and
- Organizations must solve for the **quality** of data being relied upon to produce and report on ESG matters

Challenge #2:

- Similar to financial reporting, the data used to create ESG sustainability reports are based on the **day-to-day operations** and decisions driving organizations toward achieving objectives, and
- Organizations must solve for the **sufficiency of data** being relied upon to produce and report on ESG matters
- Financial Statement and reporting **assurance** is of critical importance

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 6

-What are some of the challenges associated with governing your entities ESG risk?

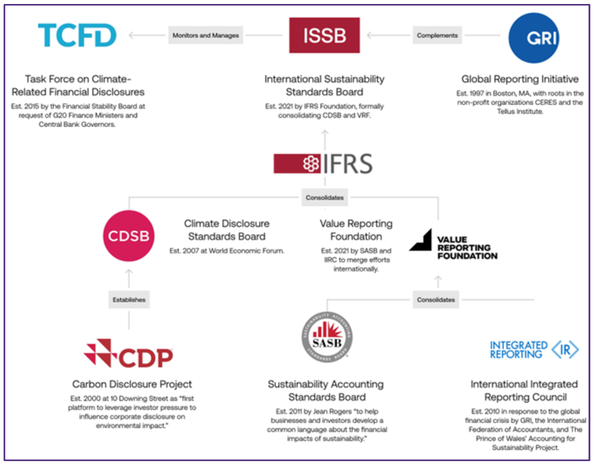
-First are our data challenges. Until the recent release of the ISSB, there was no standardized set of ESG metrics to be reported on. There existed numerous frameworks (TCFD, SASB, GRI, CDP) which may have had different metrics, or recommendations making it hard to know what really is “best practices” for an ESG disclosure.

-Similar to financial reporting, ESG data needs to be reliable if it’s going to be used in decision making, or in public disclosures to ensure there is credibility in the information presented. This requires a suite of policies, processes, and internal controls.

-Challenge #2 is in integrating these policies, procdeures, and controls into day to day operations to produce sufficient, reliable, and ultimately, assurable ESG disclosures.

Frameworks & Standards to Consider

Reporting frameworks and standards evolved from numerous organizations before being consolidated under the International Sustainability Standards Board (ISSB) as part of the International Financial Reporting Standards (IFRS). The graphic below highlights the consolidation efforts.



Source: AuditBoard

The **ISSB framework** connects sustainability disclosure to reporting on financial and other capital.

- Released inaugural standards (S1 and IFRS S2) on 6/26/2023
- Provides a standardized set of recommendations
- Aligned with TCFD and other standards to make transition simple
- A commitment to a program of deeper collaboration between **interested stakeholders**.

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 7

-This is a good thing for all entities disclosing or considering disclosing ESG metrics. Helps to alleviate some of the items associate with Challenge #1 in the slide above. ISSB is newly released and will take some time to refine and for entities to adopt. The good news is that ISSB is based heavily on TCFD and other frameworks meaning information can often be re-purposed with minor formatting type changes. It's expected ISSB will form the standard disclosure framework going forward, so increasing your familiarity with ISSB standards will be helpful to understand the types of information being disclosed.

Definitions: Two Materiality Concepts for 'Sustainability Disclosure'

#1

An entity determines the sustainability topics that are **material for disclosure based on the organization's significant impacts on the economy, environment and people, and their importance to its stakeholders**. The resulting information can serve a broad range of users and objectives and is often referred to as **"sustainability reporting."**

#2

When an entity discloses information **to the sub-set of those users** whose **primary objective** is **economic decision-making** (such as many institutional providers of financial capital), the entity **delineates the sub-set of sustainability topics** that are material for enterprise value creation, recognizing that some of that performance may already be reflected in the annual financial accounts.

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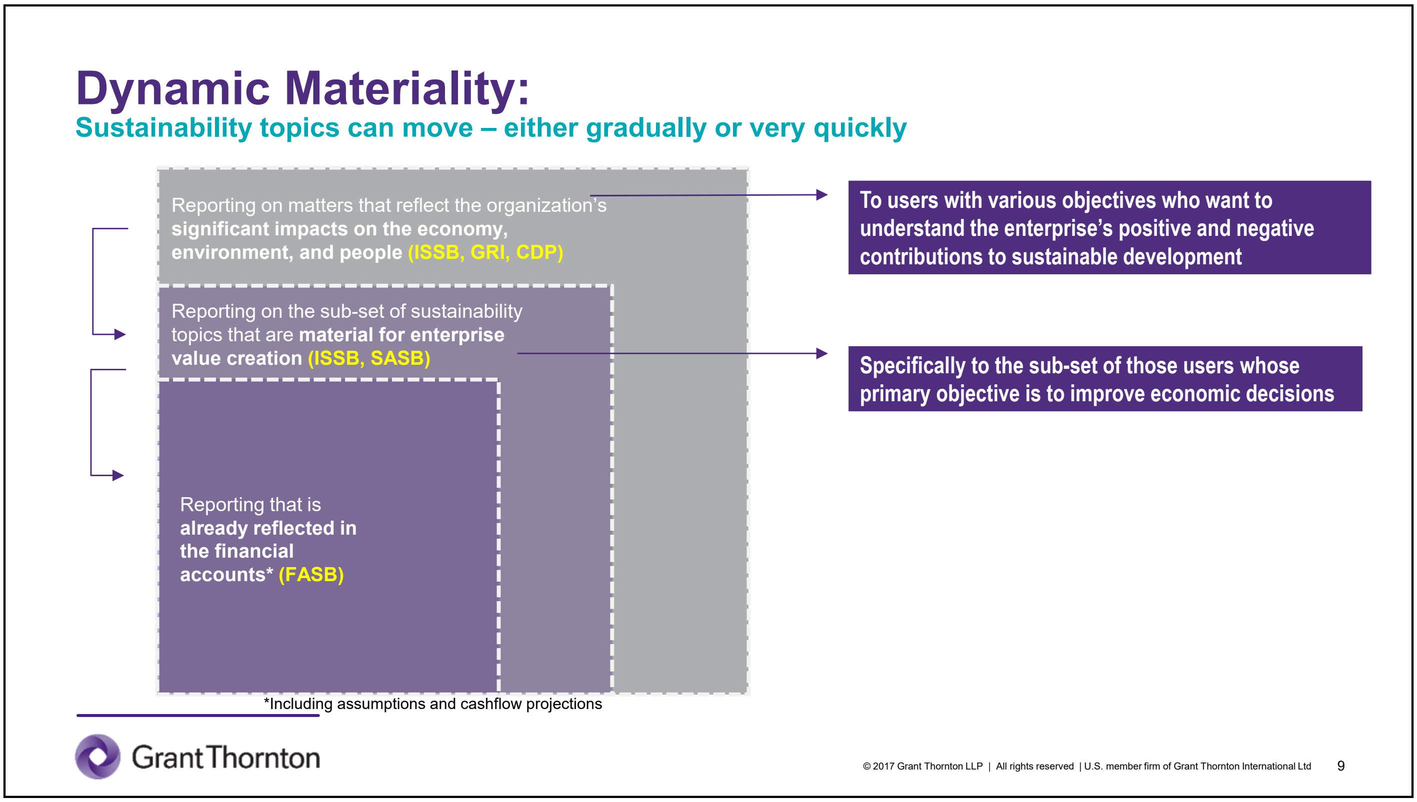
-Earlier I spoke about taking that risk-based approach, well how do we do that? First, there are a couple different ways to look at materiality, and it's primarily based on the audience and their use of the data.

-First is a broader materiality definitions which looks at the organization's impact more broadly on the economy, the environment, and people. This view serves stakeholders who want to know how the organization is working to achieve good outcomes for this collective set of stakeholders.

-Contrast that with #2, which is focused primarily on investors who want to understand the economic aspects and risks which may impact their return. So in this instance, the stakeholder might be very interested in how climate risks impact government operations and whether there is risk of poor management resulting in lower returns.

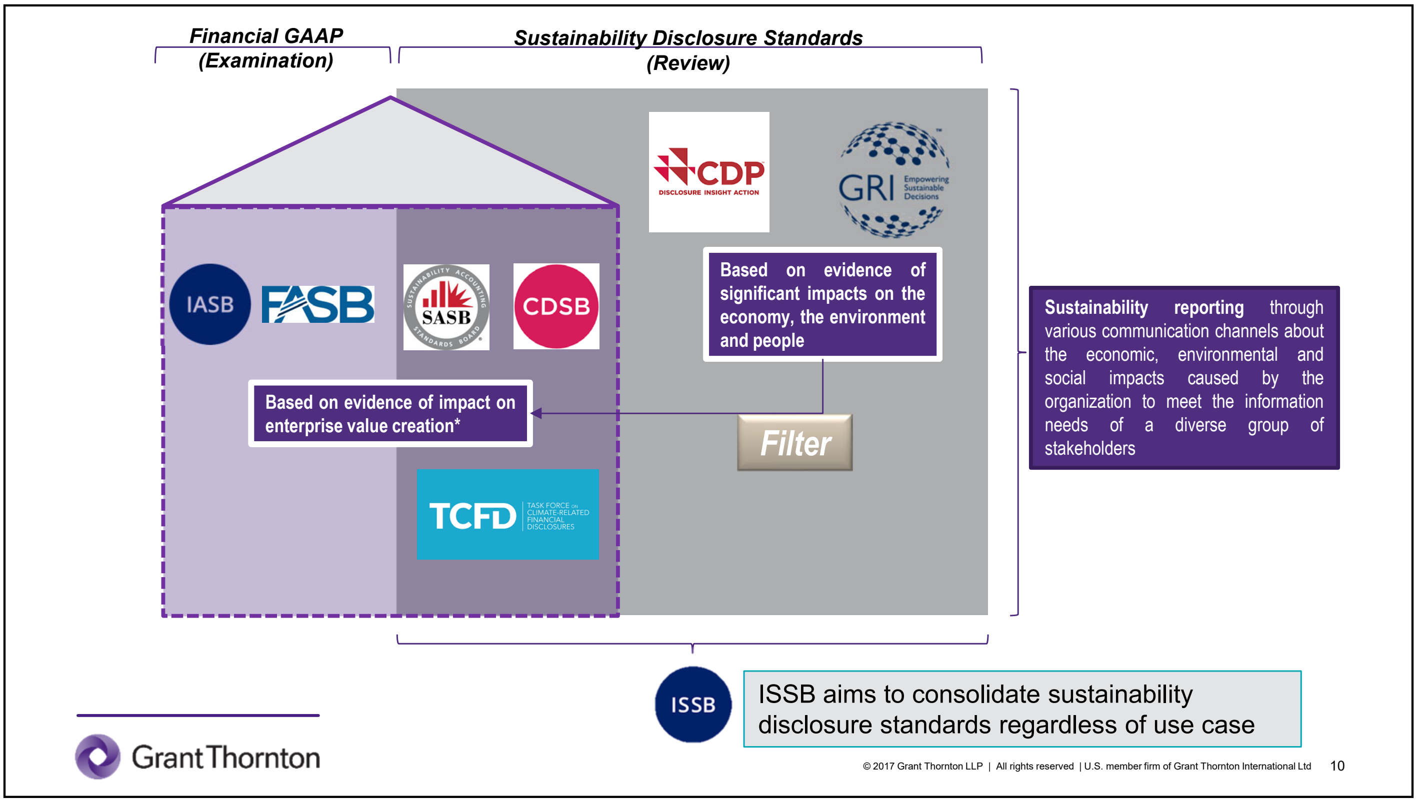
-Orgs can use either approach, of a combination which is termed "double materiality".

-Some companies may conduct a materiality assessment to solicit feedback from various stakeholders to try and determine which topics are material, and under which use cases and then tailor their strategy around that.



The topics/risks which are material to an organization can change rapidly, or very slowly depending on the overall economic and political climate. Climate change, data privacy are some examples of ESG risks which have quickly become material, whereas water management, and executive compensation for example are experiencing a slower velocity.

-This graphic helps visualize the two materiality concepts above showing how we work from a broader scope (the grey box which corresponds to the impact on the broader environment/economy), to a more narrow scope (purple boxes) with specific economic use cases.



This graphic is another visual to help understand the variety of disclosure frameworks and how they interconnect. It's especially important to recognize that these ESG disclosure are beginning to bump up against our Financial reporting use cases and audiences. Starting to be more similarities and a common set of users looking for financial and non-financial information in making investment decision.

-Ultimately, the ISSB aims to consolidate these and make it easier for organizations to put forth a single disclosure which will meet the needs of various stakeholder groups.

ESG Risk Management

Now that we've covered the problem, and some of the disclosure frameworks, low let's look at the actual ESG risk management techniques that you as auditors will need to become familiar with as part of providing oversight and assurance of disclosure.

ESG Risks | Overview*

Environmental

- Climate Risk
- Waste and Recycling
- Water Access and Management
- Supply Chain Sustainability
- Green House Gasses (GHGs) and Energy

Social

- Labor Relations and Pay Equity
- Employee Culture and Experience
- Human Capital Development
- Inclusion and Belonging
- Data Privacy
- Human Rights

Governance

- Ethical Standards and Behavior
- Board Diversity and Independence
- Board Transparency and Accountability
- Executive Compensation

*Not a complete list of ESG risks

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ESG Risks | Climate Risk Overview

Physical Risk

The immediate risks arising from weather-related events and slow onset climactic changes

Acute Risk – relates to specific weather events having increased severity or frequency. Examples include:

- Heatwaves / cold waves
- Wildfires
- Flooding
- Severe storms
- Climate rebellion – physical disruption and collateral damage

Chronic Risk – relates to longer-term changes in climate patterns. Examples include:

- Changes in rainfall
- Rising sea levels
- Increase in global temperature
- Drought
- Pestilence and crop damage
- Climate migration

Transition Risk

The financial risks associated with an adjustment towards a sustainable economy

- Policy and Legal: Regulatory: Portfolio analysis aligned with short, medium and long term time horizons
- Policy and Legal: Risk management responses resulting from scale and speed of new legislation
- Policy and Legal: Increased due diligence requirements with regard to investments with green declarations
- Market: Changes to credit risk management client assessments / credit ratings, incorporating newly determined ESG metrics
- Market: Knee-jerk reactions to portfolio reshaping
- Technology: New ESG data, ESG scenarios and ESG data driven stress tests over variable time horizons

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ESG Risk Management | Activities

Auditors can improve their effectiveness by understanding nuances of ESG risk management governance, processes, data, and tools.

Identification of ESG Risk
- Example: Risk Sensing Survey and Classification/taxonomy

Risk Assessment
- Example: Climate Risk Assessment and Scenario Analysis

Mitigation
- Example: Business Continuity Plans and testing

Monitoring
- Example: Dashboards aggregating ESG risk

Reporting and disclosure
- Example: Annual Sustainability Report or Bond Offering documents

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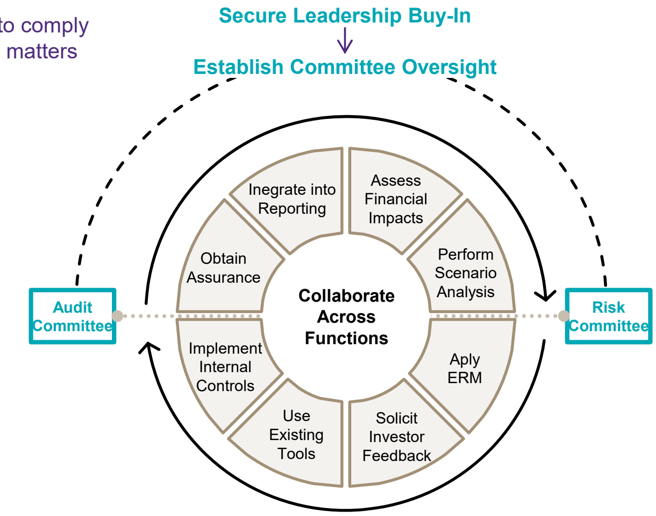
ESG Governance | TCFD Pillars

Risk management is a central force of the four core elements outlined by the Task-Force on Climate-related Financial Disclosures (TCFD) for best-in-class implementation of climate-related financial disclosure.

Implementation of the TCFD Elements requires action steps to comply with disclosures for a wide variety of financially material ESG matters

Four Core Elements of the TCFD Recommendations*



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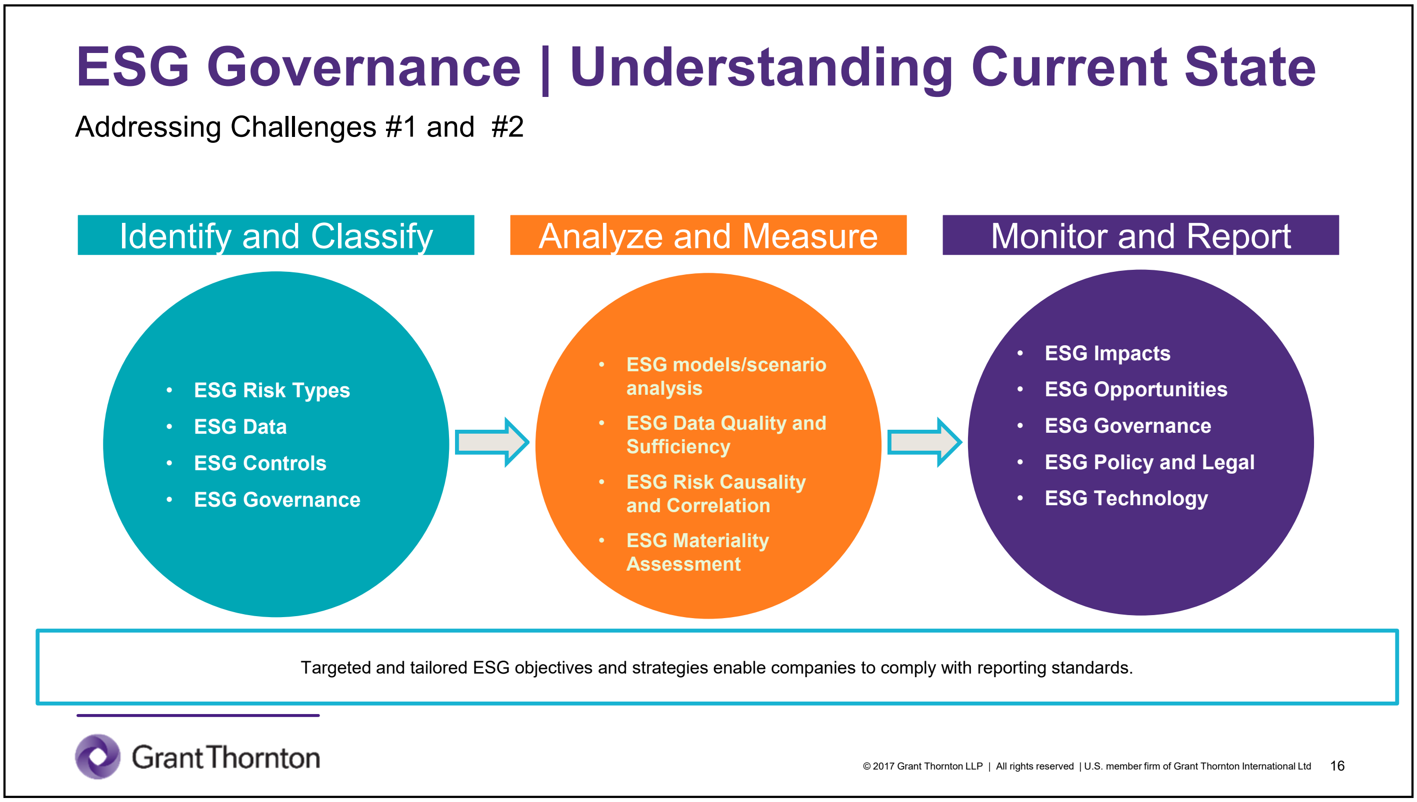
*Source: Sustainability Accounting Standards Board Foundation ("SASB") and CDP Worldwide on behalf of the Climate Disclosure Standards Board ("CDSB"), TCFD Implementation Guide (2019)

 15

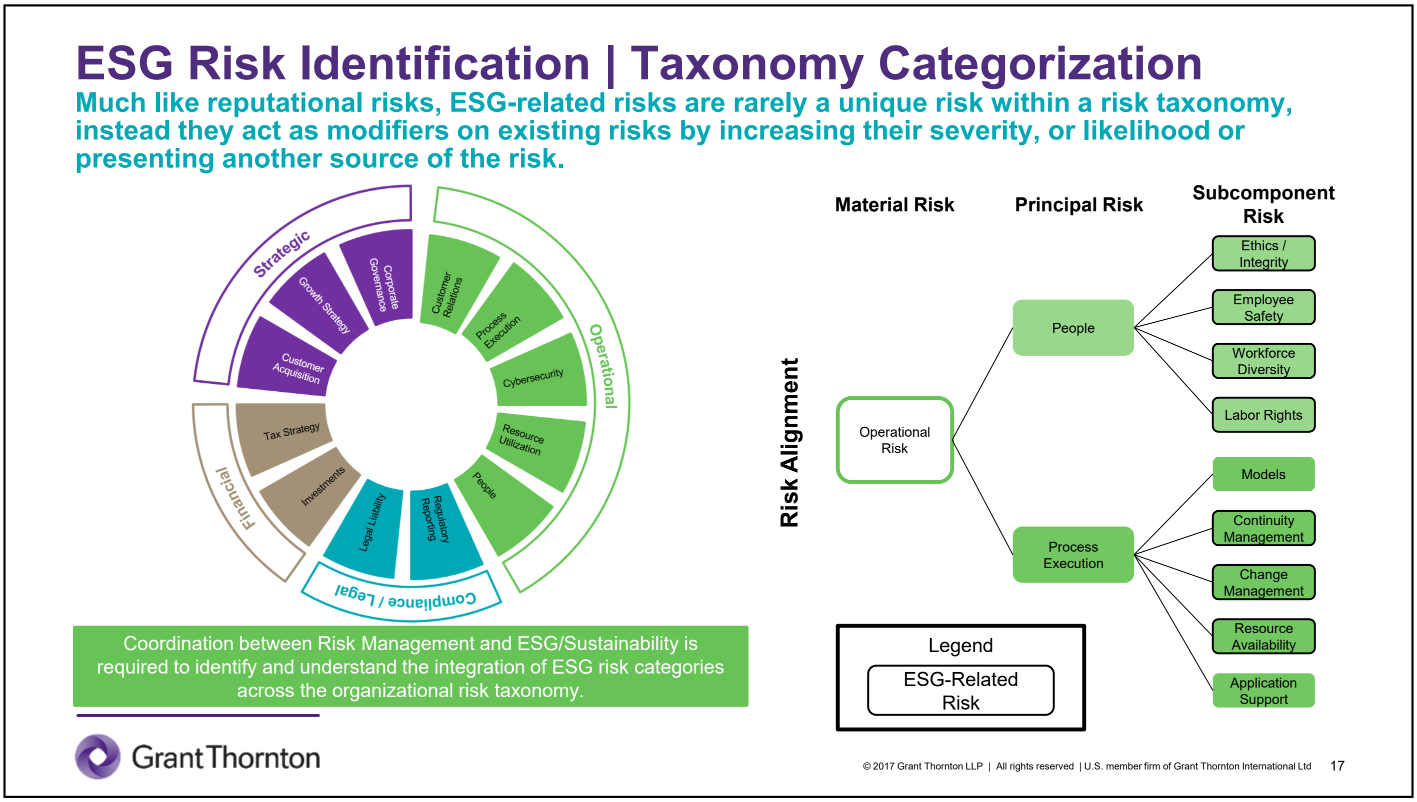
-Let's begin more broadly with governance, which can see from this TCFD graphic is the overall component which governs the activities and decisions in the three other pillars.

-Governance is key and while it seems like an easy challenge to tackle, that's not always the case. ESG governance has evolved depending on how organizations evolved. So ESG governance is not always prescriptive because org may have slightly different structures and concerns. I've seen ESG governance across audit, risk, Nominating & Corp Governance, and sustainability. There is not necessarily a right/wrong way, as long as the governance structure makes sense for your org and ultimately provide oversight all the way up to the Board/Commissioners, etc.

-But a good practice is detailed in the graphic on the right, which shows how multiple committees at different levels (think your management committees and Board-level committees) work in tandem to understand and escalate the risks from the different organizational functions.



-These categories in the circles are aligned to the Risk Management activities above and our governance needs to be able to go across all these different aspects. Auditors play an important role in understanding the activities and governance structures in place to oversee activities across all different areas.



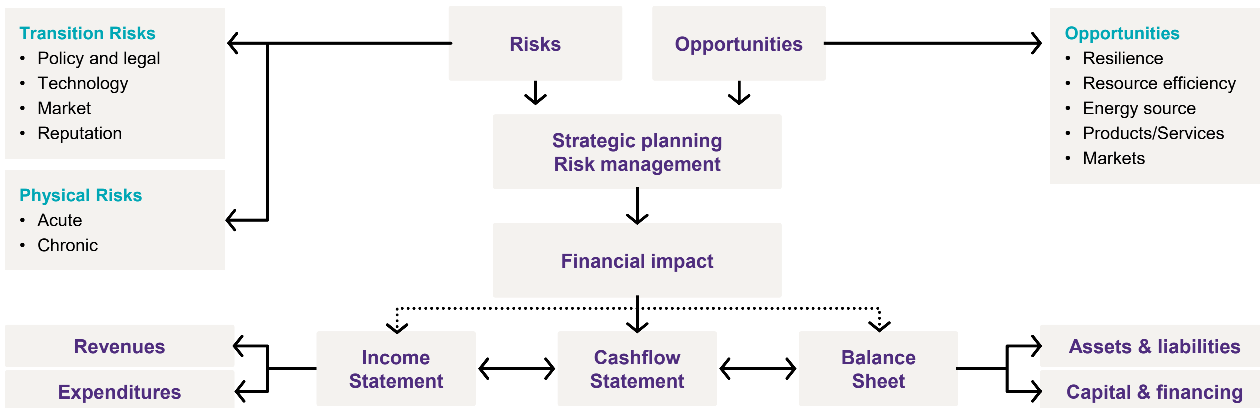
-As auditors, it's important to understand how we are identifying, and then classifying our ESG risks.

-This lays the groundwork for how we are going to define and manage these risks. This defining of ESG risks is important because it affect how we might manage it. For example, you may hear ESG (and climate risk specifically) as a "transverse" risk. This means it's not really its own risk category, but rather acts on existing risks to make them more frequent or severe. For example, climate risk is a driver of Business Continuity risk. In other instances, it may be appropriate to add a new risk to the taxonomy if the ESG risk doesn't have another category to go in…for example DE&I might need to be it's own risk in the taxonomy.

-This is a great example to share of how ESG is somewhat of a new label applied to activities already being undertake. If you look at this pinwheel you see there are multiple risk types, and then the green on the right is breaking out a subset of our operational risks. One of those green boxes is "Continuity Management" which has the hot label of resiliency, when in reality, BCP, and BIA planning is a long-term component of operational risk management.

ESG Risk Assessment | Climate Risk Assessment

Climate risk assessments are becoming more common, and auditors should familiarize themselves with the inputs, outputs and assumptions associated with these assessments.



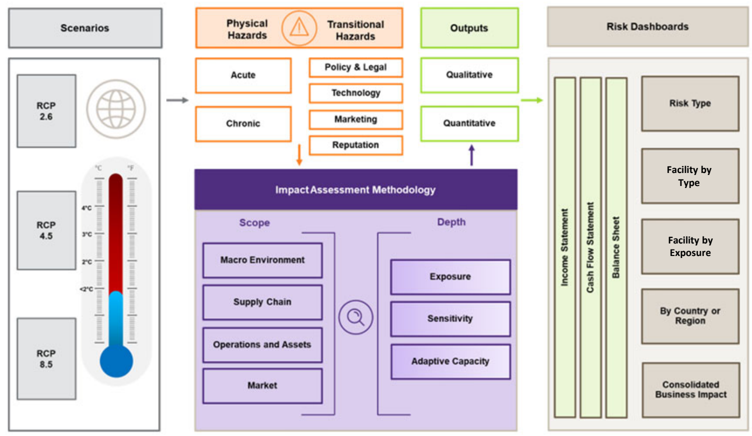
*Source: Sustainability Accounting Standards Board Foundation (SASB) and CDP Worldwide on behalf of the Climate Disclosure Standards Board (CDSB), TCFD Implementation Guide (2019)

ESG Risk Assessment | Scenario Analysis

Benefits

- Forward looking
- Details Best, Middle of the Road, and Worst-Case outcomes
- Enhances strategic planning
- Mitigate losses
- Maximize returns (opportunities)
- Strengthens resilience

Scenario Analysis Overview



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ESG Risk Assessment | Example Considerations

Considerations	Examples
Understanding how this information was developed is important in determining **which additional factors should be considered before relying on the information**.	If investors are using the information to compare carbon emissions across an industry, it will be important to **understand the differences in calculation of the metric from one entity to another** to understand if the amounts are comparable.
What scenarios were chosen for the analysis and **how well do they reflect the range of possible climate outcomes** for the jurisdiction?	Climate scenarios are produced by third parties and **have differing assumptions**. How an entity choses what scenarios will be used and how many scenarios may be considered can **help understand the suitability of those scenarios to the jurisdiction.**

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ESG Risk Mitigation | Business Continuity

Business continuity plans can be enhanced by further challenging the inputs and assumptions associated with the plans and with testing activities.

BCP Plan Design Considerations

- How will plan owners be notified in the event of a disturbance?
- How are critical processes defined? How often is the criteria reviewed?
- Does the plan consider all elements related to service including people, processes, and technology?
- What are the number and range of scenarios planned for?

BCP Plan Testing Considerations

- How often are plans being tested?
- How are results documented?
- How are issues being tracked to remediation?
- How are changes to climate challenging the assumptions and parameters of any scenarios considered?

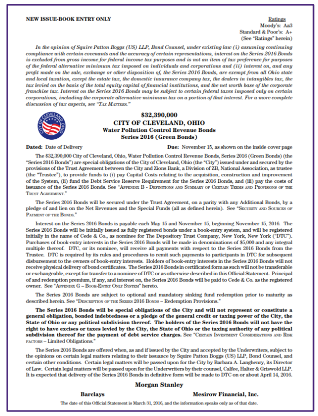
ESG Risk Reporting | Disclosures

ESG risk disclosures and the data sets underpinning them should be scrutinized with a similar lens applied to financial reporting data and associated controls.

Audit Considerations

- How reliable is the data being disclosed?
- What data governance exists to improve data quality?
- What assumptions, omissions, or misrepresentations might be present in the disclosure?
- Who needs to review and approve the contents of the disclosure?

Sample Reports



NEW ISSUE-BOOK ENTRY ONLY

Ratings
Moody's: Aa3
Standard & Poor's: A+
(See "Ratings" herein)

In the opinion of Squire Patton Boggs (US) LLP, Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series 2016 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (ii) interest on, and any profit made on the sale, exchange or other disposition of, the Series 2016 Bonds, are exempt from all Ohio state and local taxation, except the estate tax, the domestic insurance company tax, the dealers in intangibles tax, the tax levied on the basis of the total equity capital of financial institutions, and the net worth base of the corporate franchise tax. Interest on the Series 2016 Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of tax aspects, see "Tax Matters."

$32,390,000
CITY OF CLEVELAND, OHIO
Water Pollution Control Revenue Bonds
Series 2016 (Green Bonds)

Dated: Date of Delivery **Due:** November 15, as shown on the inside cover page

The $32,390,000 City of Cleveland, Ohio, Water Pollution Control Revenue Bonds, Series 2016 (Green Bonds) (the "Series 2016 Bonds") are special obligations of the City of Cleveland, Ohio (the "City") issued under and secured by the provisions of the Trust Agreement between the City and Zions Bank, a Division of ZB, National Association, as trustee (the "Trustee"), to provide funds to (i) pay Capital Costs relating to the acquisition, construction and improvement of the System, (ii) fund the Debt Service Reserve Requirement for the Series 2016 Bonds, and (iii) pay the costs of issuance of the Series 2016 Bonds. See "Appendix B - Definitions and Summary of Certain Terms and Provisions of the Trust Agreement."

The Series 2016 Bonds will be secured under the Trust Agreement, on a parity with any Additional Bonds, by a pledge of and lien on the Net Revenues and the Special Funds (all as defined herein). See "Security and Sources of Payment of the Bonds."

Interest on the Series 2016 Bonds is payable each May 15 and November 15, beginning November 15, 2016. The Series 2016 Bonds will be initially issued as fully registered bonds under a book-entry system, and will be registered initially in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of book-entry interests in the Series 2016 Bonds will be made in denominations of $5,000 and any integral multiple thereof. DTC, or its nominee, will receive all payments with respect to the Series 2016 Bonds from the Trustee. DTC is required by its rules and procedures to remit such payments to participants in DTC for subsequent disbursement to the owners of book-entry interests. Holders of book-entry interests in the Series 2016 Bonds will not receive physical delivery of bond certificates. The Series 2016 Bonds in certificated form as such will not be transferable or exchangeable, except for transfer to a nominee of DTC or as otherwise described in this Official Statement. Principal of and redemption premium, if any, and interest on, the Series 2016 Bonds will be paid to Cede & Co. as the registered owner. See "Appendix G – Book-Entry Only System" hereto.

The Series 2016 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See "Description of the Series 2016 Bonds – Redemption Provisions."

The Series 2016 Bonds will be special obligations of the City and will not represent or constitute a general obligation, bonded indebtedness or a pledge of the general credit or taxing power of the City, the State of Ohio or any political subdivision thereof. The holders of the Series 2016 Bonds will not have the right to have excises or taxes levied by the City, the State of Ohio or the taxing authority of any political subdivision thereof for the payment of debt service charges. See "Certain Investment Considerations and Risk factors – Limited Obligations."

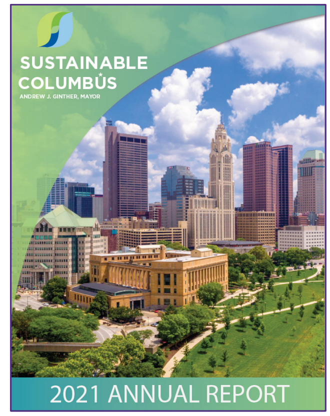
The Series 2016 Bonds are offered when, as and if issued by the City and accepted by the Underwriters, subject to the opinions on certain legal matters relating to their issuance by Squire Patton Boggs (US) LLP, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by Barbara A. Langhenry, its Director of Law. Certain legal matters will be passed upon for the Underwriters by their counsel, Calfee, Halter & Griswold LLP. It is expected that delivery of the Series 2016 Bonds in definitive form will be made to DTC on or about April 14, 2016.

Morgan Stanley

Barclays **Mesirow Financial, Inc.**

The date of this Official Statement is March 31, 2016, and the information speaks only as of that date.

City of Cleveland Green Bond Statement



City of Columbus Progress Report

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Getting Started in Your Organization

Consider Where the Entity is Today with ESG Reporting

Auditors and Board members must consider where their entity is today with respect to ESG information:

- Determine **all relevant or material risks** associated with ESG reporting?
- Have the **necessary information** and determine **what cadence** should ESG information be provided to the board?
- Do board committees have **explicit oversight responsibility for ESG**, and what role do other committees and the full board play in ESG oversight?
- Does the entity have the appropriate internal **controls, policies, and personnel** in place to accurately **track** and **disclose** ESG information?
- Who in management is **preparing and providing** the ESG information, and what is the finance function's role in the preparation of this information?
- **Where and how** is the information currently being reported? Is this in line with where investors expect to see it?
- Is the entity currently **following a framework or a standard** for disclosing this information? If so, is it the appropriate framework or standard for the entity

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Consider Whether the Information is Standardized and Reliable

- **Standardized information** can help investors understand the calculation and comparability of metrics across companies.

- **If the information is not standardized**, investors may want to consider whether this calls into question the relevance and reliability of the information.

- When evaluating the **reliability** of the data, investors may want to ask the following questions:
  1. Where are they getting the data? From the entity directly? From a data aggregator? From a ratings agency?
  2. What is the governance structure around the data from the provider?
  3. Does management disclose its processes for preparing and presenting this information?
  4. Was the metric prepared and presented in accordance with **a standard and/or a framework?**

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The Role Of Internal Audit in entity Prepared ESG Information

Has **the metric** been disclosed consistently year over year?

If so, **was the calculation the same each year**?

Has **third-party assurance** been provided on the information?

If so, **by whom** (e.g., engineering firm, independent accounting firm, environmental firm)?

+ two more questions:

1. What was the level of assurance (e.g., reasonable vs. limited)?
2. What are the qualifications of the assurance provider, and what does the assurance incorporate (e.g., some non-CPA firms qualify the assurance and say they are not opining on the accuracy of the data)

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ESG Assurance | Risk Response and Controls

Risk strategies will vary based on the risks identified and the resources available to each organization.

Processes for ESG Risk Management & Compliance

Risk Mitigation	Risk Avoidance	Risk Transfer	Risk Acceptance
Organizations put in place measures to reduce risks, generally at some cost. Risk mitigation can be complete or partial.	In some cases, an organization can avoid risks totally by not indulging in any activity that may give rise to those risks. This may result in lost / missed opportunities.	Risk can be transferred to third parties who are willing to take those risks on your organization's behalf.	If costs of mitigation / transfer are high, it sometimes makes sense to do nothing. The risk generating activity continues as usual and is monitored for changes.

When the ESG Risk Mitigation strategy is deemed appropriate, controls will take multiple forms depending on the source of the risk.

People

Policy & Procedures
E.g., whistleblower protection

Training
E.g., bias reduction classes

Process

Third Party Controls
E.g., supplier alignment and management

Monitoring/Reporting
E.g., statements

Systems

ESG Data & Analytics
E.g., sentiment analysis

Trend Tracking
E.g., new risk factor identification

Regardless of the strategy chosen, risks and controls must be continually re-evaluated to ensure ESG strategies remain appropriate for current challenges and are both reliably and validly reported to third parties.

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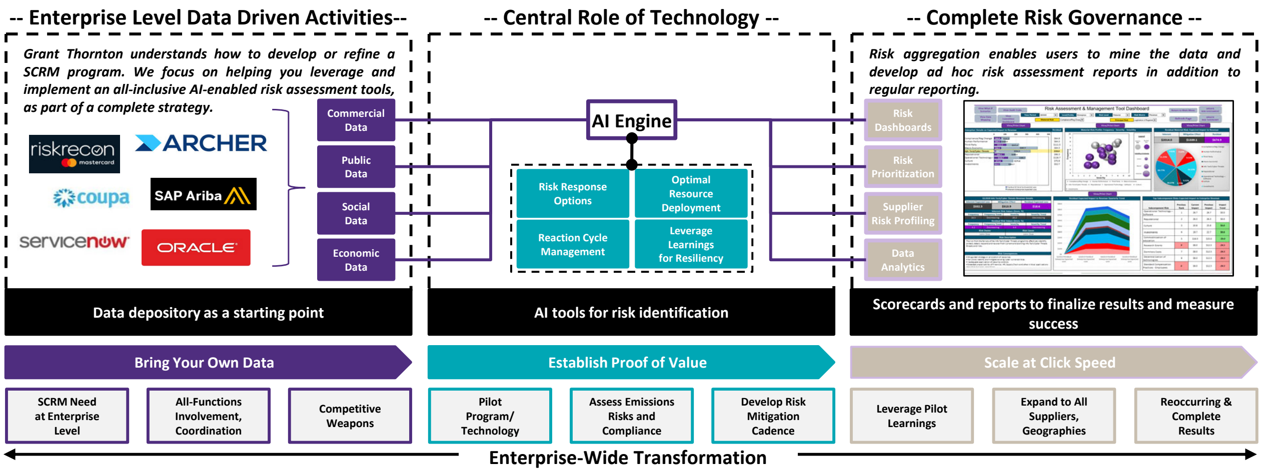
ESG Data Management | Overview

Managing the ESG data ecosystem to be a single source of truth will facilitate a stronger assurance level for both internal and external ESG data.



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ESG Practices | Do Not Follow

The following are a few of the most common misconceptions and problematic practices among entities when dealing with the management of ESG topics:

- **Excessive Focus on Ratings**: A entity approach that focuses exclusively on improving the entity's rating is at risk of allocating more resources to "checking boxes" instead of developing a strategy that is tailored to the entity's unique outlook and exposure to risk.
- **Treating ESG Solely as a Communications Effort**: Communications can help the entity amplify its messaging, but they cannot substitute for a robust management system that addresses material risks.
- **Lack of Board and Management Oversight**: The entity's ESG management strategy should be positioned as a core part of the entity's vision and values. The involvement of the board and senior management is key.
- **Disconnect from Business Strategy**: An ESG strategy that does not consider the entity's strategic objectives and does not inform the main corporate strategy fails to serve its purpose.
- **Compliance-Oriented Approach**: An approach to ESG management focused on compliance with rules and regulations may appear as reactive and indicate a reluctance to go above and beyond minimum requirements.
- **Inconsistencies across the Firm:** Lack of a entity-wide strategy and coordination leaves significant gaps in the entity's ESG management programs, with potential exposures to risk.
- **Lack of Assessment and Monitoring**: Lack of effective monitoring of ESG performance impedes the entity's ability to make progress and receive full credit for its ongoing initiatives through reporting.

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ESG Practices | Follow

An ESG strategy cannot be separate from the broader organizational strategy. The further development of an ESG strategy effectively means the integration of sustainability elements to a entity's core strategy.

- **Emphasis on Material Issues:** Priority is given to the most material issues from a financial, environmental, and social standpoint.
- **Strategic Alignment:** The emphasis on materiality allows for the developmer of an ESG strategy that is fully integrated with the broader strategy.
- **Board Leadership and Oversight:** The Board and top management will own the strategy and oversee its implementation.
- **Innovative Programs and Policies:** Introduction of new policies, procedures and technologies to achieve the entity's long-term strategic objectives.
- **Metrics and Goals:** The implementation program includes quantitative and qualitative objectives which can be monitored to measure the entity's progress towards its goals.
- **Monitoring:** The implementation should allow for regular assessment of the effectiveness of the various programs, so that the entity can make adjustments for improvement.

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Case Study | Cross Functional ESG

Poor Example:

- Responsibilities for ESG management are siloed across different departments with separate governance structures, and varying levels of standards and procedures. Some departments may include:
  - -Sustainability Team
  - -Engineer/Product Development
  - -Third Party Management Team
  - -Internal Audit
  - -Enterprise Risk Management

IA Considerations:

- -Varying level of standards
- -Process and data dependencies between departments
- -Data exchange errors and omissions between team

Good Example:

- Responsibilities for ESG management are centralized and governance rolls from departments through central team and up to the Board of Directors.

IA Considerations:

- -Easier data lineage tracking
- -Consistent standard applied to all procedures and data sets
- -Integrated governance led from the Board

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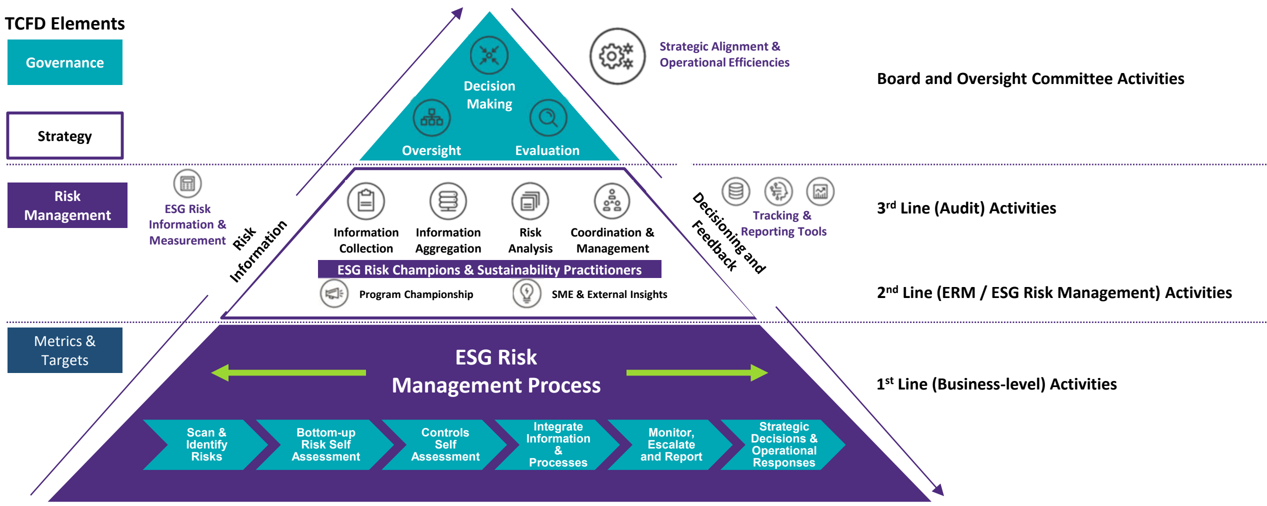
ESG Governance | Putting It All Together

Embracing and applying ESG standards through ERM generates more risk resilient and success in the long run to deliver higher returns to shareholders and value to all stakeholders.



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Questions and Contact Details

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Thank you!

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