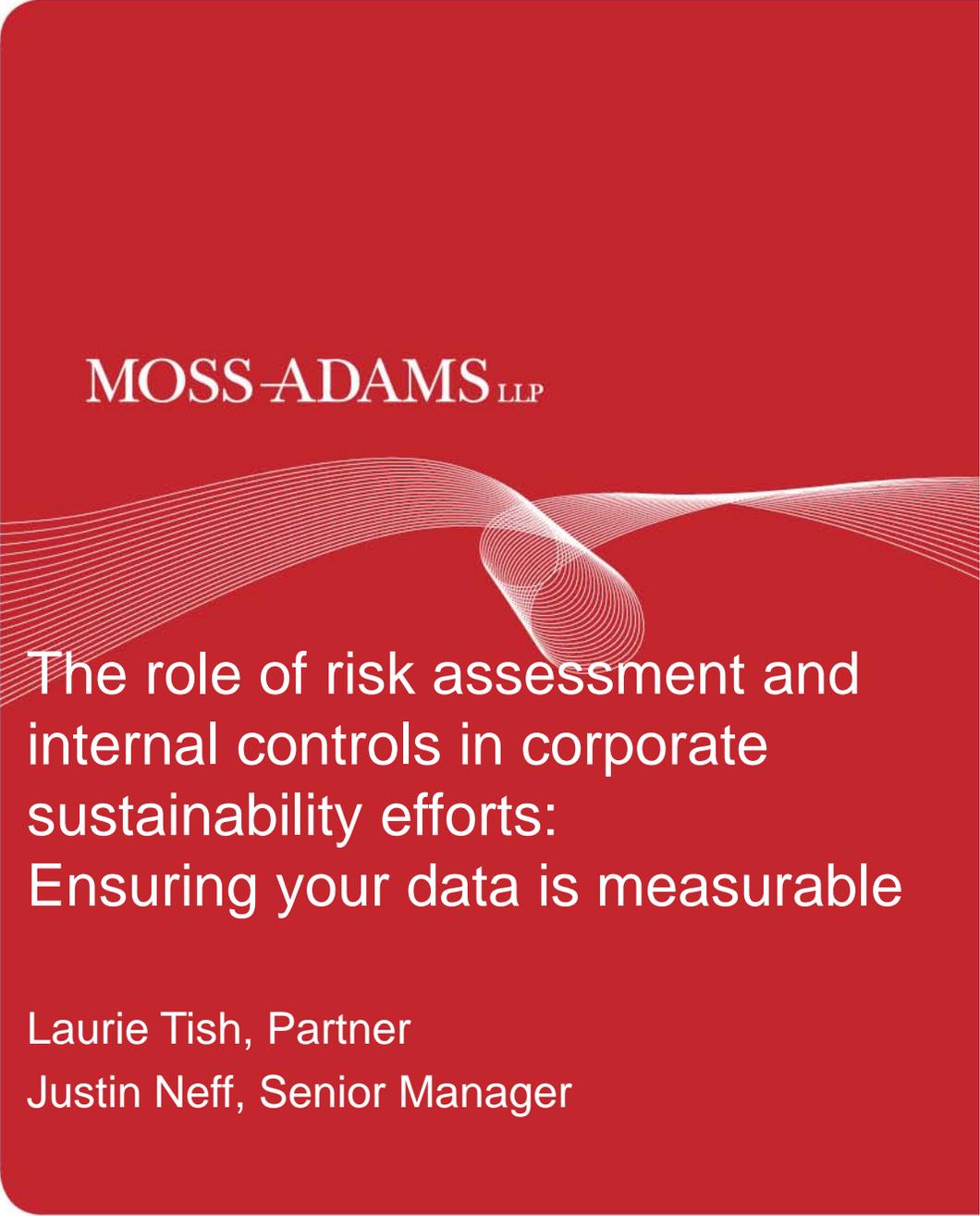


Seattle University and IIA
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MOSS ADAMS_{LLP}



The role of risk assessment and
internal controls in corporate
sustainability efforts:
Ensuring your data is measurable

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Sustainability Reporting

From Ben & Jerry's Homemade Inc. 2013 CSR report:

“In 1988 we wrote it down. It's in the preamble of our three-part Mission Statement, that we are, “dedicated to a sustainable corporate concept of linked prosperity.” We've been working on it ever since. The idea is as simple as it is radical: as the company prospers, all those touched by the company also prosper, including employees, suppliers, customers, and communities. A simple idea, but it takes a lot of work by a lot of people to make it happen.”

From Starbucks 2013 Global Responsibility Report:

“Since Starbucks opened its doors more than four decades ago, we have always set out to be a different kind of company. Our mission: to inspire and nurture the human spirit – one person, one cup and one neighborhood at a time.”

Sustainability and Business

Primary reasons to conduct business in a sustainable manner:

- Supplier networks demand it
- Government contracts necessitate it
- Customers require it
- Potential employees insist on it
- Public policy encourages it



Corporate Social Responsibility (CSR) Reporting

- CSR Reporting: A concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations
 - Financial and non-financial information
 - Increases accountability
 - Measures how well the company is living up to its values
- Creation of reports that provide a picture of overall performance across the 'triple bottom line'
 - Economic
 - Environmental
 - Social performance

Benefits of CSR Reporting

- Transparency and accountability
- Implication of high quality management
- Stronger relationship with vendors
- Higher retention of employees
- Engagement and relationship with stakeholders
- Branding
- Higher levels of trust
- Scrutiny of operational data at same level as financial data
- Can be a good management tool
- Integration of operational, environmental and social data with financial data

Challenges for CSR Reports

- Scope is controlled by company/client as there are no generally accepted, consistent CSR standards
 - Indicators used can be arbitrary or modified
 - Stakeholders do not typically have formal input
- CSR reports vary widely in content and methodologies
 - Criteria for data and conclusions may not be clear
- Temptation for 'greenwashing'



Subject Matter of Reports

- Company selected key performance indicators
 - Ingredients
 - Supplies
 - Human Resources/Personnel/Social factors
 - Economic Performance
 - Greenhouse Gas Emissions
- Compliance with *California Transparency in Supply Chains Act* disclosures
- Dodd Frank Act – Section 1502 Conflict Mineral Rules

Standards and Criteria

- Internal Company Criteria
 - Explanation of perspective, context, vision
 - Identification of key performance indicators
 - Measurable
 - Clearly understood
 - If subject matter relates to a highly technical area, third-party specialists can be utilized and then relied upon by verifier (i.e., Fair Trade International)
 - Should be supported by a well-documented structure of internal controls
 - Timeliness of reporting is important

Key Performance Indicators and Metrics

- Considerations
 - System Description and Policies
 - Risk Assessment
 - Key Controls
 - Preventative
 - Detective
 - Measurable, auditable
 - Document, document, document!

Key Performance Indicators and Metrics (Continued)

- Use the COSO framework
 - Control Environment
 - Risk Assessment
 - Control Activities
 - Information and Communication
 - Monitoring Activities



Source: Chapter 2 of the 2013 COSO *Internal Control: Integrated Framework*.

Examples of Controls around Key Performance Indicators

- Coffee Beans (fair trade, shade grown, organic)
 - Policies and procedures relating to criteria used
 - Research and investigation of vendors for evidence of third party certifications (FLO-Cert etc.) is performed
 - Contracts and agreements supporting fair trade, organic status etc. are approved and maintained
 - Product purchases are supported by documents such as bill of lading indicating product specification consistent with contract terms
 - Evidence of review and validation of product specification for shipments received is maintained (i.e. initials or other indication of approval on bill of lading)
 - Segregation of product by specification in receiving area (i.e. organic product is stored in a separate area)

Examples of Controls around Key Performance Indicators

- Greenhouse Gas Emissions - Whipped Cream (Nitrous Oxide)
 - Documentation of methodology for determining amount of whipped cream use attributable to a given measurement period
 - Tracking of whipped cream chargers purchased by date, including reconciliation to accounting data supporting purchases
 - Maintenance of support for purchases made, including purchase invoice, bill of lading etc.
 - Maintenance of support for estimation of nitrous oxide emissions per charger based on industry accepted guidelines (IPCC etc.), and manufacturer provided data
 - Inherent uncertainties of GHG presents complexities

Examples of Controls around Key Performance Indicators

- Supply chain ingredients, such as non-Genetically Modified Organism (GMO) sourcing
 - Identify all the 'links' in the chain
 - Develop basis and criteria for compliance
 - Policy for documentation to be retained and types of compliance follow up and testing (contract, physical inspection etc)
 - Preventative controls
 - Bills of lading
 - Labels on shipments of ingredients
 - Detective controls
 - Internal audit of supply chain
 - Collection of contracts, vendor statements on an annual or periodic basis

Examples of Internal Control Opportunities

- No formal policies or procedures/system descriptions in place
- Finance or Accounting Department is not involved and frequently does not even know the company is “reporting”
- No formal data collection system in place
- No controls over accuracy, selective reporting or ‘puffery’
- Misreporting within the supply chain can cause compliance deficiencies or “probation” within supply chain, expensive corrective actions and even loss of customer relationships
- ‘Greenwashing’ - looking green is a business advantage

Who performs the review or verification of data?

- **Certified Public Accountants**
 - Could follow U.S. Generally Accepted Auditing Standards (GAAS) or International Auditing and Assurance Standards Board
 - Usually structured as an attest engagement
 - Compliance attestation (AT 601)
- **Industrial Compliance firms**
 - Checklist format
 - Pass/fail report
 - 'Client' is often not the auditee
- **'Expert' Panels**
 - This is not an attest engagement or any form of verification
 - Assessment of content only

External Review Committee Report

- Committee members are usually selected by the Company and/or have close ties to the Company's Board or management
- Report contains the following:
 - Identification of task or focus of group
 - Description of process
 - Disclaimer that any data was verified or audited
 - Observations and comments regarding report content
- See Shell report for example

A good reason to have an
audit.....(or at least a strong internal
control structure!)

“The accuracy of environmental and social data
may be lower than that of data obtained through
our financial systems”

-- Shell Oil 2010 Sustainability Report

Role of the CPA in Auditing CSR Reports

- CPA firms can issue audits, attestation or review reports which verify the key performance indicators and data within CSR reports
 - Similar to an audit or review of financial statements
 - **External** assurance
- Data included in the CSR report is evaluated against criteria
- An opinion is expressed on the fair presentation of the data based on the criteria
- Wide variety of verification subjects and methodologies
 - Integrated report
 - All or portions of the published CSR report
 - Code of conduct or other supply chain procedures
 - Product certifications

Audit Report Content

- Addressed to stakeholders
- Identification of data or activities that is the subject matter of the report
- Identification of the criteria used to evaluate the data/subject matter
- Explain which standards were used in connection with the audit/verification
- Identification of procedures performed (optional)
- Opinion

The Importance of Measurement and Verification

“Saving the world is a nerdy
business - everything has to be
measured and verified”



---Jostein Solheim, CEO of Ben & Jerry's Homemade Inc.

Who we are – Firm Facts

- Moss Adams LLP was established in 1913
- Corporate headquarters in Seattle
- 22 Offices in 6 States
- Largest firm in the Puget Sound region and the largest firm headquartered in the Western US
- 15th Largest firm in the nation
- Over 2,000 employees and 265 Partners
- 2 affiliated companies: Moss Adams Capital and Moss Adams Wealth Advisors
- Industry Group Focused
- Tax, Audit and Consulting Services

Questions?

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