Research Project

ACC336- Intro to Internal Audit- Fall 2021

California State University Dominguez Hills

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In this project, we will research ESG (Environmental, social and governance) reporting in which we will define what is meant by ESG reporting. We will also discuss why there is an increase in that reporting demand. Furthermore, we will elaborate on the role of the internal auditor in ESG reporting and learn how we will implement a strong ESG strategy if we were the Director of Internal Audit at Target. We will explain either I thought of the CIA exam or not.

ESG Reporting

Environmental, social, and corporate governance (ESG) reporting corresponds to the publication of information about the activities of the company in three areas: environmental, social, and governance. It helps the organization to be more open about its risks and capabilities. It's a tactic for persuading skeptics that a company's operations are genuine. It gives quick overview of the company's influence to the investors in these three areas. The performance of various ESG variables is summarized in this assignment, which supports in screening the investments. Investors could use ESG reporting to recognize firms that may offer a bigger financial risk because of environmental issues or other social or governmental actions (Sphera, 2021).

The E, or environmental, element of ESG data refers to how a firm is subject to and addresses opportunities and risks connected to climate, pollution, natural resource shortages, disposal, other environmental variables, and a firm's environmental effect. The S, or social, element of ESG includes data on the firm's values and commercial ties. Labor and supply-chain statistics, product safety, human capital concerns like safety and health at work, and equality and diversity policies and objectives. Documentation on an organization's overall governance is included in the G, or governance, element of ESG. This might consist of data on the board of directors' structure and diversification, executive remuneration, critical event reaction, business durability and campaigning, political contributions, and corruption and bribery policies and procedures, among other things. For various reasons, businesses provide ESG data (AICPA & CIMA, 2021).

ESG reporting includes the qualitative and quantitative measures of a firm's performance about ESG risks, challenges, and advantages. ESG reporting is an effective and efficient way for businesses to respond to a broad range of stakeholder queries in one document. Preparing an ESG report, on the other hand, maybe difficult since it must adhere to the reporting methodology's standards and have a proper mix of data from several agendas. Furthermore, businesses must decide how to communicate pertinent information and what ESG data and indicators to publish (PWC, 2021).

Why Is There Such a Rise in Demand for this Type of Reporting?

Companies are turning to ESG reporting to suit their stakeholders' information demands and demonstrate openness about their efforts to detect, manage, and disclose ESG risks. With the majority of the world’s most significant global risks (both in terms of effect and likelihood)4 classified as ESG issues by the World Economic Forum (WEF), managing these risks was never necessary. Investors, regulators, and consumers will put more pressure on global corporations to publish environmental, social, and governance (ESG) implications in 2021, although such reporting is not mandated. The rising ESG reporting need, according to BlackRock CEO Larry Fink, is a seismic change, with so many individuals realizing that climate change risks are investment risks. The demand for ESG data is being determined by increased concern about climate risk and whether business and economic sectors are ready to handle it (Aquaoso, 2021).

The financial markets in the United States would face significant systemic threats if nothing were done. These risks might substantially impact asset prices, international financial markets, and international economic sustainability. While ESG activities are often focused on social and capital, they can also help protect financial capital. The information gathered is relevant and significant for reasons other than completing reporting obligations. Finally, companies and financial institutions offering open and unambiguous ESG data are more appealing to creditors and borrowers and better equipped to deal with government requirements and stakeholder demands to fulfil ESG goals (Aquaoso, 2021).

Role of Internal Auditor in ESG Reporting

Internal auditing techniques can incorporate ESG issues in a variety of ways. Standalone evaluations can aid in highlighting rules, controls, and requirements about ESG strategy and techniques at a specific time. More targeted ESG evaluations can go deeper into specific ESG topics, such as when stakeholders are concerned or low market volatility. Internal audit also can take a more holistic approach, including ESG risk analysis into more extensive audit programs to keep a pulse on the company. This method may be used to demonstrate the degree to which ESG-related actions are recognized, considered, and recorded across the organization (Fedele, 2021).

Internal auditors may examine an organization's environmental, social, and governance risk from various perspectives and assist connect the dots. Furthermore, auditors can evaluate risk strategy by determining if climate strategy and risk preference are regularly communicated during the business and if climate-related risks are included in new goods and services. Risk evaluations, measurements, and analysis; measuring and reviewing; portfolio and investment management; risk technologies and data and operational risk processes, people, and environment are all areas where similar questions might be answered. Internal audit is critical in ensuring that basic internal controls linked to financial, managerial, and compliance operations are in place and functioning properly. Verifying the efficacy of ESG-related procedures and actions to assist firms in managing risks and developing adaptability is part of this job (Fedele, 2021).

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