

ViewPoints

FOR THE AUDIT COMMITTEE
LEADERSHIP SUMMIT

Issue 17: July 14, 2011

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Environmental risk and reporting

Introduction

On June 16–17, 2011, members of the Audit Committee Leadership Networks in North America (ACLN) and Europe (EACLN) met in Washington, DC, for their sixth annual summit meeting. Members discussed current challenges relating to bribery and corruption, board oversight of major transactions, and environmental risk and reporting.¹ For the last session, members were joined by Juan Costa Climent, Ernst & Young's global leader for Climate Change and Sustainability Services. Mr. Costa has held a number of senior positions in the Spanish government, including minister for science, technology, and industry, and he is the author of *An Unstoppable Revolution*, which describes the benefits for the world economy of protecting the environment.

ViewPoints contains a summary of the key points raised during the discussion, along with background information and selected perspectives that members and experts shared before and after the meeting.² For further information on the networks, see "About this document," on page 11. For a full list of participants, see Appendix 1, on page 12.

Executive summary

Environmental issues have continued to grow in importance since the ACLN and EACLN first addressed the issue of sustainability, including environmental issues, at the November 2007 summit.³ The following aspects of environmental risk and reporting were discussed at this year's summit and are described in more detail on the following pages:

- **The pressure on business to address environmental risks is increasing** (*Page 2*)

Environmental risks are a growing concern for governments and other stakeholders, including investors, non-governmental organizations (NGOs), customers, and company employees. Their activities are pressuring companies to tackle environmental issues, although these pressures are felt unevenly across different sectors and regions. Meanwhile, companies themselves have a direct economic interest in husbanding the natural resources that they need for their own products and services.

- **Companies and boards vary in their response to new demands** (*Page 5*)

Many companies are more preoccupied with environmental risks than opportunities. Members reported that European companies are generally more apt to take a strategic approach toward environmental issues than their American counterparts, though leaders are emerging on both sides of

¹ *ViewPoints* for these discussions can be found at Audit Committee Leadership Summit, "[Sixth Audit Committee Leadership Network](#)," July 2011.

² *ViewPoints* reflects the networks' use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments made before, during, and after meetings are not attributed to individuals or corporations. However, the guests have given permission for their remarks to be attributed. Comments by the guests and network members are shown in italics.

³ Audit Committee Leadership Summit, "[Commentary on 'The Governance of Sustainability'](#)," *ViewPoints*, January 23, 2008.



the Atlantic. On both American and European boards, the audit committee may take the lead on environmental issues if it oversees risk management, but the boards of heavily regulated companies may have a separate committee for environmental issues.

- **Environmental reporting is rarely scrutinized by boards or auditors** (*Page 7*)

Mandatory and voluntary standards for reporting on environment risks and initiatives are becoming increasingly important, and there is growing interest in integrating environmental reporting with the annual report. Many companies now publish sustainability or corporate social responsibility reports, and a few have already started to produce integrated reports. Board and audit committee oversight of sustainability reporting is still sporadic, however, and the issue of third-party assurance of those reports is evolving as standards emerge.

For a list of questions for audit committees, see Appendix 2, on page 13.

The pressure on business to address environmental risks is increasing

Environmental risks and regulations are established facts of life for business, especially in sectors such as chemicals, energy, extractive industries, and manufacturing. The need to comply with regulations and the risks of not doing so are generally well understood by most companies. In recent decades, however, environmental risk has come to be recognized as a broader concern, and more and more business activities are now seen as threatening to the natural world, human health, and companies' own long-term economic performance. Most recently, incidents such as the ruptured oil well in the Gulf of Mexico and the radiation leaks from a damaged nuclear power plant in Japan have underscored the risks.

International regulatory pressure is a driving force

Mr. Costa noted that environmental issues are “*on the agenda of regulators and policymakers all over the world.*” The increasing attention to climate change, for example, has brought with it a significant wave of new regulations and proposed regulations:

- **The Environmental Protection Agency (EPA).** In the United States, the EPA has ruled that greenhouse gases (GHGs) threaten public health, prompting the agency to establish rules requiring industries that are heavy emitters to “obtain permits demonstrating that they are using the best practices and technologies to minimize GHG emissions.”⁴
- **The European Union (EU).** The EU is continuing to develop and expand its emissions trading scheme (ETS) for carbon, which is expected to have major consequences for European companies.⁵ For example, the EU plans to extend the scheme to include all airlines flying into and within Europe, a move that has

⁴ Robert Kropp, “[Investors Lobby Congress in Support of EPA.](#)” *Reuters*, April 6, 2011.

⁵ See Ernst & Young and Tapestry Networks, “[The Sustainability Journey: From Compliance, to Opportunity, to an Integrated Business Strategy.](#)” *InSights for European Audit Committee Members*, September 2010.



provoked a legal challenge by airlines outside of Europe and expressions of concern by the US government.⁶

Sustainability executives at large companies have identified other important environmental regulatory initiatives as well, such as the EU's Waste Framework Directive, which revised older directives on waste. As the *Financial Times* noted, "On both sides of the Atlantic, legislators and enforcement agencies are increasingly trying to pursue a multiple strategy: seeking to reduce the amount of waste generated, promote recovery of as much usable material or energy as possible, and minimise landfill."⁷ These efforts will force companies to focus not only on their own waste management efforts but on waste management throughout their supply chain.

Failure to abide by environmental laws can be very expensive, especially if violations lead to actual environmental impacts. A 2007 settlement between the US Department of Justice and American Electric Power (AEP) for violations of the US Clean Air Act required AEP to install state-of-the-art emission controls at an estimated cost of \$4.6 billion and to pay a \$15 million civil penalty and \$60 million to mitigate the harm caused by its violations.⁸ The Gulf oil spill is still under investigation, but legal experts expect that a global settlement (combining fines, damages, and other penalties) could amount to tens of billions of dollars.⁹ The incident shows how an environmental risk can quickly morph into a political risk, threatening the existence of the company, and ultimately end up as a material financial risk.

A wider group of stakeholders is also weighing in

Mr. Costa also highlighted the increasing pressure from a number of other stakeholder groups, many of which were identified by research participants in two recent issues of *InSights* (one for Europe and one for North America).¹⁰

- **Investors.** Mr. Costa said that "*investors are much more concerned [than in the past] about sustainability and environmental performance.*" For example, institutional investors such as the California Public Employees' Retirement System (CalPERS) have stepped up their direct engagement with companies and are pressing management on their sustainability record. They are also asking stock exchanges to include sustainability reporting in their listing rules.¹¹ Some US members, however, noted that investor pressure was uneven: "*I'm not seeing shareholder pressure, at least from those that hold meaningful positions.*"

⁶ Pilita Clark, "[US Rejects EU Emissions Zone.](#)" *Financial Times*, June 22, 2011.

⁷ Ross Tieman, "[Waste Management: A Problem That Comes in Heaps.](#)" *Financial Times*, December 15, 2008.

⁸ US Department of Justice, "[The Largest Environmental Settlement in History.](#)" November 2010.

⁹ Ed Crooks, "[BP Spill Costs to Soar, Say Experts.](#)" *Financial Times*, April 19, 2011.

¹⁰ Ernst & Young and Tapestry Networks, "[The Sustainability Journey: From compliance, to Opportunity, to an Integrated Business Strategy](#)" (mentioned earlier), and Ernst & Young and Tapestry Networks, "[The sustainability journey: from compliance, to opportunity, to integration.](#)" *InSights* for North American Audit Committee Members, August 2010.

¹¹ Ruth Sullivan, "[Pressure to Name and Shame Bourses.](#)" *Financial Times*, February 20, 2011.

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- **Equity analysts.** An Ernst & Young survey of global executives found that “43% of respondents believe equity analysts are currently including climate change-related factors in the valuation of their company. A further 30% believe analysts will incorporate climate change factors within the next five years.”¹²
- **Customers.** Mr. Costa noted that “consumers are showing a preference for green goods and services.” Many members saw similar trends, but some remarked that even if consumers approve of sustainability in principle, they don’t always do so in practice. Describing a popular product with well-known negative environmental impacts, the member said, “But consumers don’t want to give them up, and they vote with their pocketbooks.”
- **Employees and potential employees.** Several members highlighted the importance of employee views on environmental issues. One said, “As a large company, you have to be out in front. Employees think it is important.”
- **Non-government organizations (NGOs).** NGOs such as Greenpeace and Oxfam have won strong support for their causes by drawing public attention to corporate environmental mishaps, public health and safety disasters, and violations of labor law. One member described a company’s experience of being the target of an activist NGO: “At one point, it was almost dangerous – we had people climbing roofs. We had disruptions of the annual meeting.”
- **Banks and providers of directors and officers (D&O) liability insurance.** These institutions are building sustainability factors, such as climate change risks, into their underwriting practices and pricing decisions. One participant in *InSights* research said, “D&O liability insurers are settling with plaintiffs in private over some of these issues.”¹³

Sustainability underpins long-term viability

Mr. Costa highlighted that companies have a direct stake in protecting the resources they themselves rely on for their operations. The increasing scarcity of water, for example, has to be taken into account. Mr. Costa noted that “every 20 years, energy, water, and food needs increase by 50%.” He argued that environmental risk is no longer a technical risk, but a material financial risk that, if not responded to properly, can affect the viability of a company: “Many profitability strategies are not sustainable. You have to include sustainability in corporate strategy.”

Mr. Costa pointed to several imperatives of a sustainable corporate strategy, such as taking into consideration the waste that is generated, the consumption of energy, and what goes into a product: “The idea is that you are working in a closed circuit, shifting from a value chain approach to a value cycle approach.”

¹² Ernst & Young, *Action Amid Uncertainty: The Business Response to Climate Change* (Ernst & Young Global Limited, 2010), 9.

¹³ Ernst & Young and Tapestry Networks, “The Sustainability Journey: From Compliance, to Opportunity, to an Integrated Business Strategy,” 3.



Companies and boards vary in their response to new demands

Companies and boards vary in how they are addressing the mounting pressure to deal with environmental risk. In terms of integrating environmental issues into their business strategy, some companies have expended considerably more effort than others.

European companies tend to be further along than their American counterparts

ACLN members generally reported that, although compliance with regulations is a necessity, their companies are only in the early stages of integrating environmental issues into company strategy, in some cases because the pressure from stakeholders is not all that strong. One ACLN member noted, *“I do think that ‘sustainability’ is a recognized term, and to the extent it has economic benefits, it’s being embraced. Beyond that, we don’t hear from investors or other strong voices. There’s a hesitancy to deviate from shareholders. Sustainability is endorsed in principle, but not beyond.”*

EACLN members believe that European companies are further along in pursuing sustainability and trying new approaches. They pointed to the example of Unilever, which launched educational campaigns on laundry habits and developed a detergent that cleans at lower temperatures.¹⁴ As one member put it, *“In Europe, companies increasingly see sustainability as a value creator. It has evolved more quickly, thinking in those terms.”* Mr. Costa pointed out that governmental pressure is stronger in Europe: *“One of the reasons there’s more awareness in Europe is regulation. The EU is more active.”*

One member offered a caveat regarding environmental initiatives: *“What looks good today may not be good tomorrow. The electric car has been deemed to be unsustainable because of the battery. Premises can change. Opportunities require significant investment, but you need to understand the science behind it.”* In a pre-meeting conversation, another member pointed to the pitfalls of taking on ambitious projects: *“It’s inspirational, but if we don’t deliver, it could blow up in our faces.”*

Nevertheless, some members in both the ACLN and the EACLN reported that their companies recognize the economic opportunities presented by environmentally friendly efforts and have clear aspirations to move forward. Mr. Costa noted that not all US companies are lagging: *“In some cases they are more innovative, developing interesting strategies that are profitable.”*

For example, Wal-Mart is the subject of a recent book that describes how senior management at the company recognized the opportunities in sustainability efforts, such as reducing waste in packaging, and subsequently saved the company enormous sums of money.¹⁵

¹⁴ Unilever, “Products and Consumers: Our Impact,” 2011.

¹⁵ Bryan Burrough, “Behind the Greening of Wal-Mart,” *New York Times*, May 14, 2011.

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Boards take different approaches to oversight

Companies' different approaches are reflected in how actively boards are addressing environmental issues. Pre-meeting conversations with members suggested that there is a range of engagement:

- **The board is strongly engaged.** The boards of heavily regulated companies may track environmental compliance closely, particularly matters entailing significant risk for the company. Also, the boards of companies that are moving ahead on integrating sustainability issues into their core business strategies are likely to be more actively involved in environmental and other sustainability issues. The chief sustainability officer (CSO) or equivalent leader may report directly to the board on these matters.
- **The board is less involved.** Many boards do not yet focus closely on environmental and sustainability issues. A member said, *"We don't spend a lot of time at the board level. We did get a full board presentation on this last year, tied into the business plan. We're trying to make it a positive thing, but it's not a huge focus."* This observation was in line with the findings of the research conducted for a recent issue of *InSights*.¹⁶ Some members reported that even when the company has a CSO, that person does not necessarily report directly to the board, though they may be involved in preparing materials for board committees that can be presented by someone else, such as the chief financial officer.

The role of audit committees in reviewing environmental activities varies as well:

- **The audit committee takes a leading role.** When viewed as a risk, environmental issues may come to the audit committee, if it oversees risk management: *"If it's big, the audit committee is interested. The audit committee needs to be sure that the company has thought about these risks."* One member said, *"It's a regular part of the audit committee's rhythm to have reports from teams around the company."* Another member noted that the audit committee assesses the reserves for environmental risks: *"It's the function of the audit committee to evaluate whether the reserves are too big or too small, and we update this on a quarterly basis."*
- **Other committees take the lead.** Heavily regulated companies may have a separate environmental, health, and safety committee that oversees environmental issues. Also, companies seeking to lead on sustainability may create a separate sustainability or corporate responsibility committee. If the issues are seen as highly strategic, one member noted, the committee may consist of the entire board.

At the summit, a member noted the difference in philosophical stance between boards in Europe and the United States: *"The question is the role of the board – there's a big difference between the US and Europe. In the US, it's shareholder driven. In Europe, it's all the stakeholders. The stakeholder issue is very important."* Mr. Costa noted the value of reaching out to stakeholders to understand what issues are truly important: *"It has to do with materiality. You have to have discussions with all stakeholders and identify which risks are material."*

Environmental reporting is rarely scrutinized by boards and auditors

Along with the pressures to achieve certain operational outcomes, companies are facing mounting pressure to become more transparent in their practices and policies on environmental and sustainability issues. Recent

¹⁶ Ernst & Young and Tapestry Networks, *"The Sustainability Journey: From Compliance, to Opportunity, to an Integrated Business Strategy,"* 4.

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years have seen the emergence of regulations and voluntary codes on sustainability reporting, an area with obvious implications for boards and especially audit committees. Research conducted by Ernst & Young found that “more than two-thirds of the Fortune Global 500 companies publish some form of sustainability or corporate sustainability report.”¹⁷ An important component of sustainability reporting is information on environmental risks and impacts, and what companies are doing to mitigate them. Carbon emissions are a major focus.

Mandatory reporting is becoming a reality

New mandatory reporting initiatives are emerging on both sides of the Atlantic:

- **The United States.** In the United States, both the EPA and the Securities and Exchange Commission (SEC) have been active. In 2009, the EPA published a rule for mandatory reporting of GHGs from large emissions sources (25,000 metric tons of carbon dioxide equivalent). The agency estimated that the rule covers 85%–90% of US GHG emissions from about 10,000 facilities.¹⁸ The first reports under the rule were originally due on March 31, 2011, but the EPA has extended the deadline to September 30, 2011.¹⁹ Though Republicans in Congress are waging a campaign to stop EPA regulation of GHGs, they have not been successful so far.²⁰

Meanwhile, the SEC has issued interpretive guidance on “disclosure related to business or legal developments regarding climate change,” clarifying existing environmental requirements without establishing any new obligations.²¹

- **Europe.** Mr. Costa noted that “in Europe, we have mandatory sustainability reporting in many countries.” The European edition of *InSights* notes, “Several EU Member States require companies to report on their sustainability performance in some way, including France, Sweden and Denmark. Other EU countries, such as the United Kingdom and the Netherlands, have developed guidelines to encourage companies to report.”²² In addition, companies that are part of the EU emissions trading scheme monitor and report on their carbon dioxide emissions.

The European Commission has also conducted a public consultation on non-financial reporting, initiated because “considerable demand has grown in the EU for improving the comparability, reliability, and relevance of information companies disclose, for example, on issues relating to social and environmental

¹⁷ Ernst & Young, *Seven Questions CEOs and Boards Should Ask about “Triple Bottom Line” Reporting* (Ernst & Young Global Limited, 2010), 4.

¹⁸ Environmental Protection Agency, “Mandatory Reporting of Greenhouse Gases (40 CFR part 98),” *Fact Sheet*, August 2010, 1.

¹⁹ “Final Regulation Extending the Reporting Deadline for Year 2010 Data Elements Required Under the Mandatory Reporting of Greenhouse Gases Rule,” *Federal Register* 76, no. 53 (March 18, 2011).

²⁰ Timothy Gardner, “U.S. Senate Rejects Measure to Stop EPA on Climate,” *Reuters*, April 6, 2011.

²¹ Securities and Exchange Commission, “SEC Issues Interpretive Guidance on Disclosure Related to Business or Legal Developments Regarding Climate Change,” news release, January 27, 2011.

²² Ernst & Young and Tapestry Networks, “The Sustainability Journey: From Compliance, to Opportunity, to an Integrated Business Strategy,” 6.



aspects.”²³ The consultation period closed on January 28, 2011, and the Commission is determining how to proceed.

Emissions trading schemes and International Financial Reporting Standards (IFRS)

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) are engaged in a joint project to “provide comprehensive guidance on the accounting issues that arise related to emissions trading schemes, including asset recognition, measurement and impairment, liability recognition and measurement, timing of profit and loss recognition, accounting for vintage year swaps, presentation, and disclosure.”²⁴

The project is broadly scoped to include all emissions trading schemes and tradable rights, but it is in its early stages. The boards’ staffs are currently seeking feedback on a number of issues, including a few tentative decisions taken by the board in November 2010. Feedback will be presented to the boards in the latter half of 2011.

Voluntary reporting is gaining momentum

Two sets of voluntary reporting standards have achieved a degree of momentum, both developed by transnational non-profit organizations:

- **Global Reporting Initiative (GRI).** Founded in the late 1990s and based in The Netherlands, the GRI is a global, multistakeholder network funded by governments, corporations, and foundations. Many *InSights* participants cited the GRI framework as an example of best practice in sustainability reporting and said the GRI’s influence is increasing. Over 1,500 organizations have completed a GRI report, and organizations can have the GRI assess the extent to which the GRI guidelines have been applied in their reporting.
- **Carbon Disclosure Project (CDP).** Based in the UK and acting on behalf of over 550 institutional investors, the CDP aims to “harmonize climate change data from organizations around the world and develop international carbon reporting standards.”²⁵ Thousands of organizations measure and disclose their GHG emissions and climate change strategies through the CDP.

Integrated reporting standards are under development

Interest has been growing in the concept of integrated reporting, whereby the annual report and the sustainability report are combined into a single report. The International Integrated Reporting Committee (IIRC), established in 2010 and composed of representatives from a number of different stakeholder groups, is working “to create a globally accepted integrated reporting framework which brings together financial,

²³ European Commission, *Summary Report of the Responses Received to the Public Consultation on Disclosure of Non-Financial Information by Companies* (Brussels: European Commission, 2011), 3.

²⁴ Financial Accounting Standards Board, “[Emissions Trading Schemes](#),” December 6, 2010.

²⁵ Carbon Disclosure Project, “[What We Do](#),” 2009.



environmental, social, and governance information in a clear, concise, consistent and comparable format.”²⁶ Among the issues it is considering is the question of whether standards should be mandatory or voluntary. The committee will release a discussion paper for public consultation in the third quarter of 2011 and plans to put forth proposals for consideration at the G-20 finance ministers’ meeting in October. A member said, “*We have to involve ourselves in the IIRC.*”

Integrated reporting was also included as a topic in the European Commission’s consultation paper on non-financial reporting. Respondents generally supported the concept, noting that it would raise awareness of the links between financial and non-financial reporting, though some expressed concerns about information overload.²⁷ An audit expert at Ernst & Young noted that integrated reporting should be more than a compliance exercise; it should help investors understand companies’ environmental risks and long-term sustainability. A small but growing number of large companies publish integrated reports – about 20 companies, globally, including Novartis, Southwest Airlines, and United Technologies.²⁸ Royal Philips Electronics and Royal Ahold, on whose boards EACLN members sit, are also among them.

The reporting oversight roles of the full board and the audit committee vary

At the EACLN meeting in April, members discussed the possibility of extending their oversight of reporting to include non-financial reporting.²⁹ Environmental and sustainability reporting are areas in which best practice in board oversight is still open to discussion. Just as oversight of activities relating to sustainability and the environment still varies from board to board, so too does oversight of reporting:

- **The board’s role is minimal.** Many members reported that their boards and audit committees do not yet systematically review their companies’ sustainability reports prior to publication. In a pre-meeting conversation, one member noted, “*The company issues an annual sustainability report. It’s discussed at the board and in the audit committee, but it has been mainly on an exception basis.*” Another member said, “*The board does not review it in advance [of its release]. We get the reports as a matter of information, not as a matter of corporate governance.*” At the summit, a member remarked, “*The reality is that companies publish so much material. Why would we identify environmental reporting for oversight and auditing? I see other areas as more important.*”
- **The board plays an important role in reviewing reports.** In pre-meeting conversations, several ACLN and EACLN members were of the opinion that the board should review the company’s sustainability reports. One member explained, “*The board’s role is to make sure that the information is reliable. The quality is often poor. Reports can be unbalanced or inaccurate, so boards have a role in ensuring that they are supportable and balanced.*” Some members mentioned that their boards did indeed discuss these reports. At the summit, a member noted, “*Both my companies have integrated reports. The full board should at least yearly talk about sustainability and review the report.*”

The distribution of responsibilities among committees and the full board also varies:

²⁶ International Integrated Reporting Committee, “[Mission Statement.](#)”

²⁷ European Commission, [Summary Report of the Responses Received to the Public Consultation on Disclosure of Non-Financial Information by Companies](#), 14.

²⁸ Arielle Bikard, “[Where Financial Reporting and CSR Meet.](#)” *Compliance Week*, December 21, 2010.

²⁹ European Audit Committee Leadership Network, “[Internal Controls over Financial Reporting.](#)” *ViewPoints*, April 28, 2011.

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- **The audit committee leads.** For several members, “it starts with the audit committee, but the whole board gets it, also.” Mr. Costa noted that while some sustainability issues are probably not the responsibility of the audit committee, others clearly are: “If you’re talking about housing for the poor, the audit committee is not the place. But if the risks can become financial, the audit committee has a role.”
- **Other committees lead.** On boards that have a separate committee responsible for corporate social responsibility, that committee is typically tasked with reviewing sustainability reports. Some boards have a committee focused specifically on environmental issues: “At my company, there are separate committees. The sustainability committee needs different expertise. It made sense to split that responsibility.”
- **The full board leads.** On some members’ boards, the full board reviews the sustainability report: “We see it at the board, but not at the audit committee.” One member felt that the current state of sustainability reporting made it a task more appropriate for the full board than the audit committee: “It’s not scientific or detailed. Most audit committees would say it’s too general for us to act on, so the board should [review] it.”

The role of assurance will become clearer as standards emerge

The role of external auditors and other service providers in providing assurance for sustainability reporting is also evolving. In a few countries, including France and Sweden, rules have been adopted requiring some level of verification, and other countries may follow suit.³⁰ InSights research found that while few companies overall use external firms to review sustainability information, many of the world’s largest companies are using accounting firms to assure their sustainability reports.³¹

ACLN and EACLN members broadly agreed with this finding. One member said, “External auditors are playing a good role. [Depending on the company,] sometimes it’s our auditor, and sometimes it’s another audit firm.” Another member noted, “More and more, the Big Four are stepping in and reviewing environmental reports.”

However, some members remarked that they did not use any kind of external auditing of non-financial reports, and some expressed a wish to discuss what an external auditor’s role should be. Cindy Fornelli of the Center for Audit Quality³² has argued that “the process of third-party verification should be standardized, to eliminate any question about the rigor that was applied in analyzing company-generated data.”³³ An audit expert at Ernst & Young noted that the level of assurance auditors can provide is an open question, given that the systems to support the data and the data gathering are in their infancy.

³⁰ Ernst & Young and Tapestry Networks, “The Sustainability Journey: From Compliance, to Opportunity, to an Integrated Business Strategy,” 13.

³¹ *Ibid.*

³² The Center for Audit Quality is a nonpartisan, nonprofit group based in Washington, DC, that works to enhance investor confidence and public trust in the global capital markets. The organization is affiliated with the American Institute of CPA’s, and its membership consists of US accounting firms.

³³ Cindy Fornelli, “Sustainability Reporting – Can It Evolve Without Assurance? The Audit Profession Can Help to Build an Assurance Model,” in *The Landscape of Integrated Reporting: Reflections and Next Steps*, ed. Robert G. Eccles, Beiting Cheng, and Daniela Saltzman (Cambridge, MA: The President and Fellows of Harvard College, 2010), 153.

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Conclusion

The pressure on companies to address environmental risks has been steadily increasing, as governments and other stakeholders have become more active on environmental and sustainability issues. However, this pressure is still uneven across sectors and geographies, which is reflected in the varying degrees to which companies and boards have focused on environmental issues and whether they treat them as strategic considerations or as compliance problems. In general, members reported that European companies and boards are more engaged than their American counterparts, though leaders are emerging on both sides of the Atlantic. In the area of environmental reporting, a proliferation of regulatory requirements and increasingly influential voluntary standards are driving companies to report more on environmental issues, but relatively few boards are reviewing reports closely or overseeing external assurance of their accuracy.

Mr. Costa emphasized a key point, however: the current global economic model is unsustainable, and environmental risks are becoming material financial risks that can affect the viability of a company. As this reality becomes increasingly inescapable, Mr. Costa noted, more and more companies will embrace environmental initiatives as strategic imperatives, and boards will take a stronger interest in these initiatives and how they are explained to shareholders and the public. Members broadly agreed but expected this evolution to take a number of years.

About this document

The European Audit Committee Leadership Network (EACLN) and Audit Committee Leadership Network (ACLN) are groups of audit committee chairs drawn from leading European and North American companies committed to improving the performance of audit committees and enhancing trust in financial markets. The networks are convened by Ernst & Young and orchestrated by Tapestry Networks to access emerging best practices and share insights into issues that dominate the new audit committee environment.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Anyone who receives *ViewPoints* may share it with those in their own network. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

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Appendix 1: Participants at the Audit Committee Leadership Summit

European and North American Audit Committee Leadership Network members participating in the summit, who sit on the boards of over 40 large, mid- and small-cap public companies between them, included:

- Denny Beresford, Audit Committee Chair, Fannie Mae and Legg Mason
- Werner Brandt, Audit Committee Member, Lufthansa
- Les Brun, Audit Committee Chair, Merck
- Phil Hodgkinson, Audit Committee Chair, BT
- Judy Richards Hope, Audit Committee Chair, General Mills & Union Pacific
- DeAnne Julius, Audit Committee Chair, Roche Holding
- Ewald Kist, Audit Committee Chair, Royal Philips Electronics
- Marie Knowles, Audit Committee Chair, McKesson
- Mike Losh, Audit Committee Chair, Aon & TRW Automotive
- George Muñoz, Audit Committee Chair, Altria and Marriott International
- Chuck Noski, Audit Committee Chair, Microsoft
- Ian Prosser, Alumnus, Sara Lee
- Guylaine Saucier, Audit Committee Chair, Areva and Danone
- Tom de Swaan, Audit Committee Chair, GlaxoSmithKline and Royal Ahold
- Bernd Voss, Audit Committee Chair, Continental AG
- Chris Williams, Audit Committee Chair, Wal-Mart
- Mario Zibetti, Audit Committee Chair, Fiat Group

Members who participated in debriefings after the summit included:

- Aldo Cardoso, Audit Committee Chair, GDF Suez
- Labe Jackson, Audit Committee Chair, JPMorgan Chase
- Oscar Munoz, Audit Committee Chair, United Continental Holdings
- Bill Osborn, Audit Committee Chair, Caterpillar
- Peter Ueberroth, Audit Committee Chair, The Coca-Cola Company
- Sandy Warner, Audit Committee Chair, General Electric Company
- Lars Westerberg, Volvo Group

Ernst & Young professionals other than Mr. Costa participating in the meeting included:

- Tom Hough, Americas Area Vice Chair, Assurance Services
- Steve Howe, Americas Managing Partner
- Christian Mouillon, Global Vice Chair, Assurance Services



Appendix 2: Questions for the audit committee

- ? What kinds of pressures are stakeholders exerting on your company regarding environmental risks? Do you expect those pressures to increase or decrease over the next five years?
- ? What existing or emerging regulations are likely to be the most challenging? What aspects of new sustainability-related regulations are most worrisome?
- ? How have new regulations and pressures from stakeholders shaped operations at your company?
- ? Does your company view the growing focus on environmental issues as a risk or an opportunity?
- ? How does the board oversee the environmental aspects of the company's operations? Which committees are involved, and what are their responsibilities?
- ? What would cause boards and/or audit committees to increase their focus on environmental issues?
- ? What kind of environmental reporting does your company perform? Does it publish a sustainability report? Are there plans to move to an integrated annual report?
- ? What are the challenges of environmental reporting? How can it be improved?
- ? How does the board or audit committee oversee environmental reporting? Are reports reviewed and amended by the board before publication? Which committees are involved?
- ? What should be the role of external assurance in validating environmental reporting?