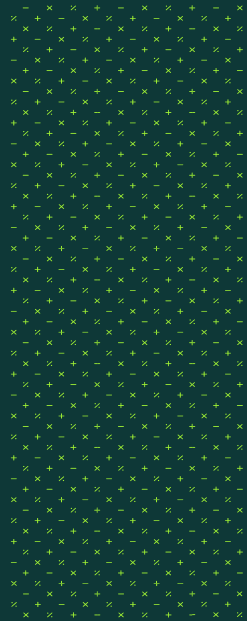




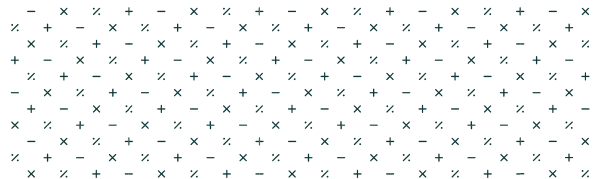
Environmental Social Governance Reporting and the Role of Assurance

Laurie Tish, CPA, Assurance Partner
Tricia Bencich, Inclusion & Social Responsibility Associate Director



1

What is Environmental, Social & Governance (ESG)?



2 Presentation to FEI September 2021

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Environmental, Social & Governance (ESG)

- A general term used in capital markets and used by investors and stakeholders to evaluate corporate behavior and to determine the future financial performance of companies
- Criteria that is a set of standards for a company's operations that socially conscious investors use to screen potential investments
- It's about creating more value with less impact
- "The new measure of success for corporations, non-profits and countries alike" ~*The Financial Times*



Environmental, Social & Governance (ESG)

- Environmental criteria consider how a company performs as a steward of nature and the global environment
- Social criteria examine how it manages relationships with employees, suppliers, customers and the communities it serves and where it operates
- Governance refers to how a company is managed by those in the senior executive offices and the board of directors



Corporate Social Responsibility (CSR)

- 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
- Sustainability reporting is the disclosure and communication of ESG goals as well as the company's progress towards them
- Reports covering ESG topics are often referred to as Corporate Social Responsibility reports or Sustainability reports



Why Is This Important?

- Customers are factoring sustainability into purchasing decisions
- Employees (and recruits) are placing importance on corporate sustainability and ESG
- Stakeholder pressure, including investors, to be transparent on labor standards, supply chains, and inclusion & diversity efforts
- Cost savings and tax credits
- Regulatory compliance
- It's a way to tell your company's story
- To be seen as an industry leader



Consumers' Spending Habits Are Changing

- Consumers are not just basing their food and beverage purchases on taste and price
- Environmental impact and sustainable packaging is also factoring into purchasing decisions
- Local sourcing of ingredients is becoming increasingly important
- Large retailers are greening their supply chain

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Consumer Reports Survey

- Here's what consumers look for when it comes to food labeling:



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Employees (And Recruits) Want To Know!

- 83% of people will trust a company more if it is socially responsible (USA Today poll)
- 90% of young professionals would prefer to work for an environmentally friendly employer (MonsterTRAK Survey)
- 50% of young professionals would turn away from an employer that lacked good ESG policies (personneltoday.com)

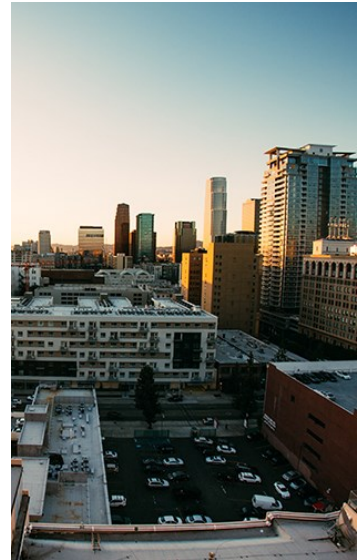
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Regulatory Compliance

- Compliance with California Transparency in Supply Chains Act disclosures
- Dodd Frank Act – Section 1502 Conflict Mineral Rules
- Biden administration proposals to impose sweeping financial disclosures on climate risk
- Various food packaging regulations – federal and state
- Increasingly, municipalities are dictating ‘green’ investment policies



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Challenges to ESG reporting

- ESG reporting is often divorced from financial reporting – there is a lack of consistency
- There is no one set of standards for reporting
- Verification of reports is somewhat rare, particularly in the US
- Research shows corporate reporting focuses on positive contributions (lack of transparency of any negative impacts)
- Opportunities for ‘green washing’

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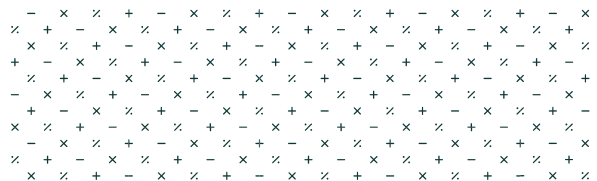
GREENWASHING
THEETHICALEVOLUTION.COM/
GREENWASHING-IN-BEAUTY/

WHAT IS IT?
GREENWASHING IS WHEN BRANDS USE MARKETING TECHNIQUES TO PERSUADE YOU INTO BELIEVING THEIR PRODUCTS ARE "GREEN" AND GOOD FOR YOU.

HOW DO I SPOT IT?
BRANDS OFTEN OVERUSE THE COLOUR GREEN TO PROMOTE THEIR PRODUCTS. THEY ALSO DON'T PARTAKE IN ACTIVISM OUTSIDE OF SELLING THEIR BRAND AND USUALLY TEST ON ANIMALS.

WHAT CAN I DO?
YOU CAN AVOID THESE BRANDS BY BOYCOTTING THEIR PRODUCTS AND CALLING THEM OUT ON THE DANGEROUS CHEMICALS IN THEIR PRODUCTS AND THEIR USE OF GREENWASHING TO MISLEAD YOU.

ESG and CSR Reporting



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Reporting

Creation of reports that provide a picture of overall performance across the “triple bottom line”

- Economic
- Environmental
- Social



Reporting Variations

- Integrated report
- ESG or CSR sustainability report
- Greenhouse Gas Inventories or Carbon Footprint reporting
- Code of conduct or other supply chain report
- Web site claims and assertions
- Product certifications
- Other marketing materials



Reporting Standards and Criteria

- There is no single globally accepted framework for sustainability reports
 - Global Reporting Initiative (GRI)
 - Sustainability Accounting Standards Board (SASB)
 - International Integrated Reporting Council (IIRC)
 - Value Reporting Foundation (VRF: SASB and IIRC merger)
 - Country specific standards (Australia, Japan, Netherlands, UK)
 - Carbon Disclosure Project (CDP)
 - Climate Disclosure Standards Board (CDSB)
 - Company's Own Criteria



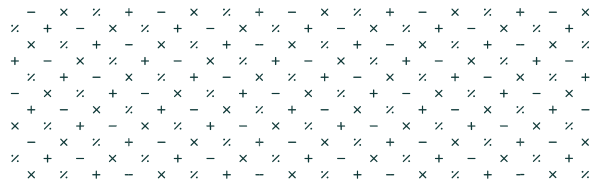
Disclosure of Carbon Footprint

More and more companies are looking at disclosure of their carbon footprint (GHG emissions) as a way to demonstrate:

- Increased awareness of emissions
- Business leadership in understanding the associated risks
- How they are creating opportunities to innovate and generate revenue from sustainable products and services
- How they are future-proofing their business from climate change and water impacts



ESG and CSR Reporting – How to get started



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ESG Reporting Factors

- **Decide on a framework.** Information overload is common when companies organize their first ESG or CSR report. A defined framework will help gather the information that's most meaningful.
- **Define goals and measurement systems.** To demonstrate the credibility and quality of the report, clearly articulate the baseline, set benchmarks and long-term goals, outline how progress will be measured, and implement a monitoring system.
- **Demonstrate a connection.** Explain how the mission statement, growth plan, and overall business strategy tie into the key performance indicators (KPIs) laid out in the report.
- **Develop an internal control structure** to support your framework and your goals.
- **Be consistent.** Consistency between the sustainability report and other public reports, such as SEC filings, financial statements or press releases, is crucial. A lack of transparency and consistency will decrease the report's validity and undermine trust in the company.

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ESG Reporting Factors – Decide on a Framework

- What key performance indicators are important to your company, your investors, your customers and all stakeholders?
- The Global Reporting Initiative and the Sustainability Accounting Standards Board offer two common frameworks
- Many companies develop their own criteria and KPIs



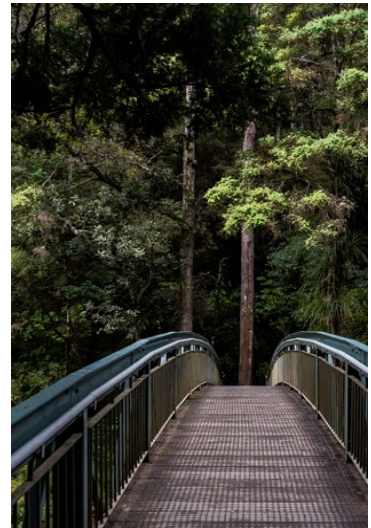
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ESG Reporting Factors – What are key performance indicators?

- A Key Performance Indicator (KPI) is a quantifiable measure used to evaluate the success of an organization, employee or mission in meeting objectives for performance
- When used in the context of ESG, it is the measurement of the goal or focus for strategic and operational improvement
- KPI's can be developed for all ESG topics including environmental (supply chain, greenhouse gas emissions); social (employee turnover, benefits provided); and governance (racial diversity of board or top management)



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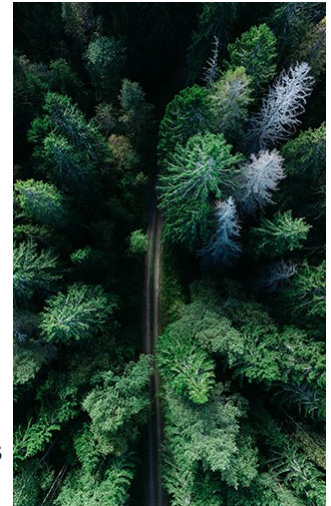


20

ESG Reporting Factors – Examples of KPIs and Metrics

- Environmental

- Fair Trade, Cage-Free, and Non-GMO purchasing
- Greenhouse gas emissions
- Supply chain
- Reduction of use of energy used in facilities
- Products sustainably sourced or manufactured
- Plastics and non-recyclable waste reduction
- Water usage in locations of high baseline water stress
- Toxic waste produced and reduced



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ESG Reporting Factors – Examples of KPIs and Metrics

- Social

- Benefits provided
- Gender pay gap
- Percent of employee retention
- Percent of gender and racial/ethnic group representation for management and employees
- Number of suppliers identified with high risk labor conditions and actions taken
- Types of employee wellness initiatives
- Number of volunteer hours
- Donations to charities and nonprofit organizations

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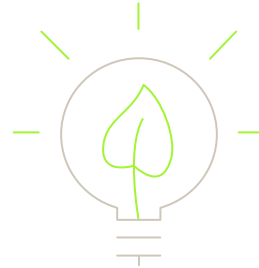


22

ESG Reporting Factors – Examples of KPIs and Metrics

- Governance

- Number of female directors
- Number of minority directors
- Board oversight of climate issues
- Executive compensation tied to ESG initiatives
- Verification of ESG initiatives



ESG Reporting Factors



Emphasis on environmental impact, with most companies who report emissions, reporting on scope 1 & 2 GHG emissions.



The human element – framing successes and lessons learned through the stories of management, employees, and community members.



Diversity and inclusion in recruiting practices and supply chains, including developing business relationships with marginalized groups.



Stepping beyond traditional PDF reporting for non-financial storytelling to create dynamic digital experiences.



Taking a stance by stating bold and ambitious goals, with more accelerated timelines than ever. Many companies pledging to be carbon neutral within the next 10 years.



Identifying relevant Sustainable Development Goal; and the rise of Circularity reporting creating a focus on net impact.



ESG Reporting Factors – Define Goals and Measurement Systems

- Develop long term goals and short term goals supporting each identified key performance indicator
- How will these goals be met?
- How will each goal be measured?
- Who in the company is responsible (ie the owner) of the goal?



ESG Reporting Factors – Demonstrate a Connection

- Relevance is important when identifying KPIs and determining your framework for your report
- Reporting factors should be consistent with the company's mission and strategy
- KPIs should relate to your operations and business purpose
- What is important to your stakeholders?



ESG Reporting Factors – Develop an Internal Control Structure

- An ESG report will not hold up to scrutiny (or an audit or review) unless there is a robust system of internal controls supporting it
- Internal control structure should be as robust as the structure that supports financial systems such as payroll or accounts payable
- When possible, data should be linked or sourced from the company's general ledger
 - Inventory accounts are very useful for supply chain items
 - Bills of lading and invoices can be structured to identify environmental items such as non-GMO or organic materials
- Approvals and monitoring by management is very important

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ESG Reporting Factors – Consistency

- Consistency of ESG reports to other published company reports, particularly financial related data is important
- Year over year consistency of KPIs and method of measurement is valued, particularly if the report is being audited or reviewed
- Goals are often long term and should remain in place through the stated time frame

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Moss Adams ESG Reporting



Community Thrives in the West

The Moss Adams Foundation made significant strides in 2020, despite the tremendous obstacles presented by the COVID-19 pandemic and other major events.

While 2020 presented challenges to all, we remained committed to and achieved our goals—which proved even more critical during a year of immense need. Building on the momentum and groundwork laid in previous years, as well as the energy generated by new initiatives, we accelerated progress on our longstanding mission: To deliver on the promise of a better tomorrow by cultivating opportunity for everyone.

With this objective in mind, we set our intention on three key areas for 2020:

- Philanthropy
- Inclusion and diversity
- Environmental stewardship

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ESG Reporting Continues to Evolve

- Increased transparency on metrics
- Tell the story
- Look back and ahead
- Reinforce messaging within the firm

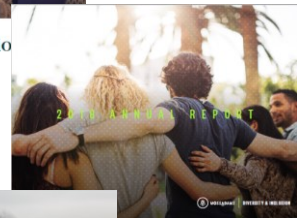


Leading with Inclusion

At Moss Adams, we're committed to fostering an inclusive and diverse culture that welcomes and celebrates each person's individuality. Difference isn't merely acknowledged—it's expected.

Honoring our differences is essential to building a sustainable firm that is more dynamic, agile, and better reflects the communities in which we live and work. Cultivating an inclusive culture requires a thoughtful, proactive approach and a strong commitment to creating a sense of belonging for all.

We're proud of our accomplishments so far and look forward to our continued progress in 2020.



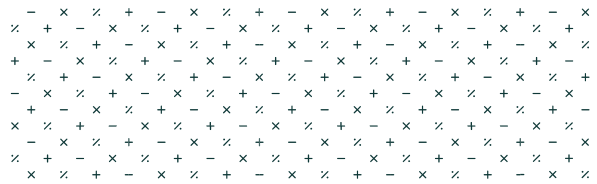
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The Role of Assurance in ESG Reports



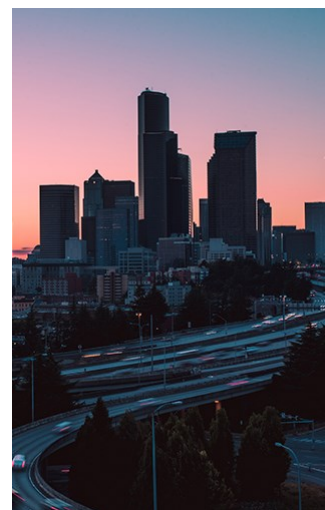
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ESG/CSR Verification

Who performs the review or verification of data?

- Certified Public Accountants
 - Follow U.S. Generally Accepted Auditing Standards (GAAS) or International Auditing and Assurance Standards Board
 - Usually structured as an attest engagement
- Industrial Compliance firms
 - Checklist format
 - Pass/fail report
 - ‘Client’ is often not the auditee
- ‘Expert’ Panels or Third Party Opinion
 - This is not an attest engagement or any form of verification
 - Assessment of content only



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A Contrast in Reports

Subaru CSR Report

- www.subaru.co.jp/en/csr/report/pdf/2017/csr_report_2017_all.pdf
- Refer to the third-party opinion on page 157


Starbucks Global Environmental and Social Impact Report

- www.starbucks.com/responsibility/reporting-hub
- 2020 Global Environment and Social Impact Report: Refer to KPIs on pages 7-22 with reference to independent auditor on page 23; Audit report in its entirety is included in the link below the report



Independent Accountant's Report

— Example

 MOSSADAMS

Independent Accountant's Report

To the Stakeholders of Starbucks Coffee Company

We have examined the data identified below (the Data) contained within the Starbucks Coffee Company's Global Social Impact Report (the Report) for the fiscal year ended September 27, 2020. Starbucks Coffee Company's management is responsible for the Data. Our responsibility is to express an opinion on the Data listed below based on our examination:

- 98.6% ethically sourced coffee purchases as contained in the **Ethically Sourced Coffee** section on page 20 of the Report;
- 99.7% ethically sourced tea purchases as contained in **Ethical Tea and Cocoa** section on page 21 of the Report;
- Investment in farmer loans of \$42.9 million as contained in the **Global Farmer Fund** section on page 21 of the Report.

The criteria used to evaluate the Data are contained in the respective sections of the Report indicated above.


Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Data is in accordance with the criteria, in all material respects. An examination involves performing procedures to obtain evidence about the Data. Those procedures are described in more detail in the paragraph below. The nature, timing, and extent of the procedures selected depended on our judgment, including an assessment of the risks of material misstatement of the Data, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our evidence-gathering procedures included, among other activities, the following:

- Testing the effectiveness of the internal reporting system used to collect and compile information on the Data which is included in the Report;
- Performing specific procedures, on a sample basis, to validate the Data, through communications with Starbucks Coffee Trading Company buying operations in Lausanne, Switzerland, and Corporate headquarters in Seattle, Washington;
- Interviewing partners (employees) responsible for data collection and reporting;
- Reviewing relevant documentation, including corporate policies, management and reporting structures;
- Performing tests, on a sample basis, of documentation and systems used to collect, analyze and compile the Data that is included in the Report, and
- Confirming certain of the Data to third-party confirmations and reports.

In our opinion, the Data for the fiscal year ended September 27, 2020, is presented in accordance with the criteria indicated above, in all material respects.

Moss Adams LLP
Seattle, Washington
April 28, 2021



Third-party Opinions



Mr. Toshihiko Goto

Chief Executive Officer, NPO Sustainability Forum Japan
Chairman, Sustainable Management Forum of Japan
Founder, Japan Sustainable Investment Forum
Director, Green Finance Organization
Director, Global Compact Network Japan

Chair and member of various committees of the Ministry of the Environment, including Eco Action 21 Guideline Revision Review Committee (Member), Environmental Information Disclosure Platform Development Working Group (Chair), Environmental Communication Award (Juror), and Tripartite Round Table on Environmental Business (TREB) of the Tripartite Environment Ministers Meeting among China, Japan and Korea (Head). ISO/TC207 Expert. Former GRI Board Member. Graduate of The University of Tokyo Faculty of Law.

Last year, in my Third-party Opinion, I talked about responding to the paradigm shift and the formulation of long-term goals in the form of "Goals and Aspirations". Since June 2017, the paradigm shift has begun to manifest itself in specific events, such as the decision by the UK and France to ban the sale of petrol and diesel vehicles from 2040. I believe that we have reached the point where the automobile industry will be unable to ensure its future survival unless it revises its business model; that is to say, it must innovate (engage in creative destruction) to survive.

Following the Lehman Crisis in 2008, the G20 economies took the lead in establishing the Financial Stability Board (FSB), whose membership includes the finance ministries and central banks of those countries. In January 2016, the FSB set up the Task Force on Climate-related Financial Disclosures (TCFD), recognizing that the time had come when the risks and opportunities posed to industry by climate change and the consequent impact on the financial sector could no longer be ignored. The TCFD's final report, Recommendations of the Task Force on Climate-related Financial Disclosures, was submitted to the G20 in July. One of the TCFD's recommendations was that the financial sector should require companies to disclose scenario analysis information.

Scenario planning/analysis is just strategy formulation; at the very least, an interdepartmental team from the Head Office's corporate planning, finance and accounting, CSR and environment, IR, and purchasing departments should begin research and deliberations, with the assistance of external experts, if required. There are only three or four years left, so it is now or never.

Subaru's Environment Policies have been revised, based on the concept that "The earth, the sky and nature" are Subaru's fields of business. Until now, the prevailing approach to environmental measures across the globe has been that business activities come first, with companies seeking to internalize the external diseconomies (environmental destruction) of those activities as much as possible. As I perceive it, your company's new policy spells out the fact that the company is part of the environment, which is excellent.

Last year, I said that the EMS had reached its final version in its existing form. I also described the need to switch to ISO 14001:2015 and integrate it into the business management system. I wonder whether this will be considered in the voluntary action plan for the period through to FY2020. I hope that this aspect will be made more visible.

It is splendid to see that you are actually undertaking a variety of environmental initiatives, but I hope that you will consider RE100 (100% renewable energy) as a mitigation measure. Due to various constraints, efforts to promote widespread use of RE and reduce its cost are lagging behind in Japan, but in the U.S., it appears possible that solar power will be cheaper than grid power by the 2020s, so I would recommend that you consider advanced examples in the U.S. Adaptation measures will be considered in scenario analyses.

I think that you need to analyze why the overseas affiliates have higher CO₂ emissions than Subaru itself, even though their energy use is lower.

In Europe, listed large companies are obliged to formulate and publish a policy on the diversity of their board of directors, on the grounds that a lack of diversity demonstrates weakness in the area of innovation. It will likely take more than 20 years to consistently produce a certain number of female executives, for example, from within the company, even if you launch initiatives now. In the interim, I hope that you will at least make full use of women in committees focused on the environment, CSR, and risks, and also in decision-making.

Finally, I note that the report uses a larger typeface and has been edited to make it easier to read.



Response to the Third Party Opinion

Thank you for providing your opinion again this year on the Environment section of our CSR Report 2017.

You were kind enough to praise our Environmental Policies, which we revised last April, for spelling out the fact that the company is part of the environment. Partly in response to the revision of ISO14001, but also with the objective of making our corporate management more sensitive to the environment, we revised our Environmental Policies and are working to ensure that our environmental management is seamlessly integrated with our corporate management.

Climate change is the most important challenge faced worldwide today and it is closely linked to our company's business activities and products. Taking this very seriously, we will strive to implement the most proactive initiatives possible, while reflecting opinions from both inside and outside the company, in order to achieve more stable, resilient, and sustainable management.

Furthermore, in publishing this report, we will give consideration to ensuring that all our various stakeholders understand these activities initiatives of our company.

Going forward, we will continue our efforts to make an even greater contribution to the sustainability of society and promote specific activities to this end, including the matters you have pointed out for our consideration.

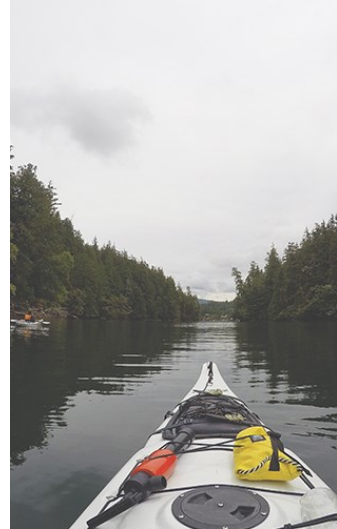
February 2018

Yoichi Kato
Subaru Corporation
Director of the Board
Corporate Senior Vice President
Environmental Committee Chair



What is the value of external assurance?

- External assurance to stakeholders
 - Increases accountability
 - Measures how well the company is living up to its values
 - Creates a “level playing field”
 - Discourages “greenwashing”
 - More “points” awarded for verified information if submitting report to Carbon Disclosure Project (for GHG reports)



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Audits and Verification: How does this pertain to ESG reports?

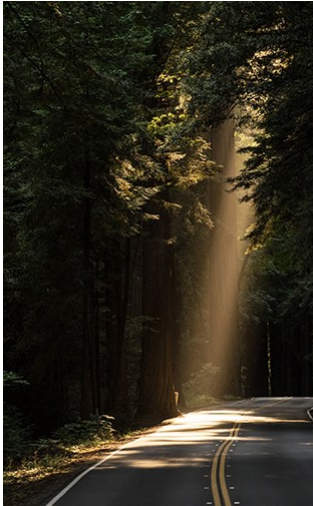
- CPA firms can issue audits, attestation or review reports which verify the key performance indicators and data within ESG and sustainability reports
- Wide variety of verification subjects and methodologies
 - Integrated report
 - All or portions of the published ESG report
 - Code of conduct or other supply chain procedures
 - Product certifications

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What Kind Of Assurance Do We Provide?



Attestation Standards Issued by the Auditing Standards Board

- Examination
- Review
 - Greenhouse Gas (GHG) emissions reports typically are structured as reviews due to inherent uncertainty of GHG quantification

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Audit (Examination) 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

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Review Procedures

- Testing the effectiveness of the internal controls and key systems
- Interviewing key individuals responsible for data collection and reporting
- Reviewing relevant documentation, including corporate policies, management and reporting structures
- Performing tests, on a sample basis, of documentation and systems used to collect, analyze and compile the data
- Use of third party data and reports



Resources

- SASB www.sasb.org
- CDP (Carbon Disclosure Project) www.cdproject.net
- Global Reporting Initiative www.globalreporting.org
- American Institute of Certified Public Accountants' (AICPA) www.aicpa.org/interestareas/businessindustryandgovernment/resources/sustainability
- International Integrated Reporting Committee www.integratedreporting.org
- Society for Corporate Governance www.societycorp.gov.org
- United Nations Conference on Trade and Development www.unctad.org
- Accounting for Sustainability www.accountingforsustainability.org



Questions?



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