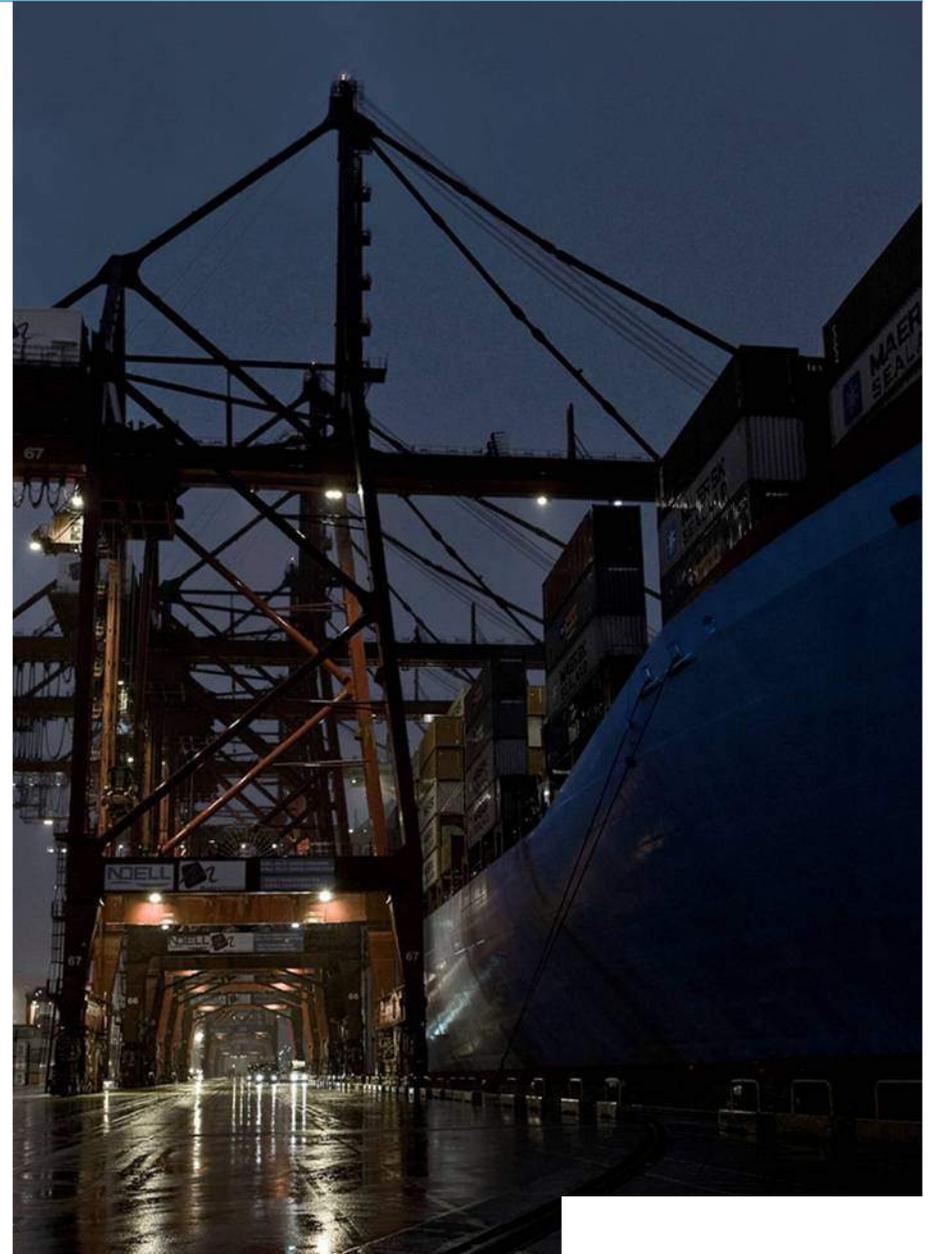


October 2013

How can we ensure the non-financial control environment – and why even bother?



- Is it possible to secure the data quality of the non financial data sets?
- Reuse the financial tools
- Datatypes – and demands for documentation
- Control environment
 - Demands for the local control environment
 - Demands for the HQ
- Why even bother?



Is it possible to secure the data quality of the non-financial data sets?

- That sustainability reporting – isn't that just guesswork and reporting of incidental available "data" - but not necessarily valid and complete data?
Unfortunately, often yes - but it does not have to be that way!
- Most non-financial data can easily be evidenced strongly - but it requires good processes and tools
- A few things cannot be ensured with strong evidences – but those can be made plausible – just like we work financially with provisions, contingent liabilities, intangible assets, etc.
- So, if you want to - you can ensure an equally good control environment non-financially as financially – and it demands you use financial scoping and consolidation, as you otherwise will not be able to control the validity and completeness of the non-financial data with the help of the financial data

Advantages of using financial logic, when working with non-financial data

- Re-use IFRS as far as possible – both on boundaries and consolidation – that provides comparable data between financial and non-financial data
- Re-use the financial consolidation system – it is as good as free - and there is no implementation time – at worst a bit of training to new users. No Excel!!!
- Re-use the reporting process – it is already known by the organisation
- Better cooperation between financial and non-financial staff
 - In all fairness, non-financial staff are not very accustomed to dealing with concepts such as: evidence, controls, monitoring, SOPs, consolidation-trees etc.
 - Financial employees are not so good at telling the story behind the numbers.

Re-using financial toolbox means?

- Sustainability GAAP – define responsibilities, boundaries, consolidation methodology, choice of submission-system, indicators/KPIs, conversion standards, deadlines etc.
- Remember – collect data in its purest form, with the least amount of local calculation-demands; e.g. CO2e divided by sources – not in CO2e-units. This way you eliminate a big local error-risk of wrong conversion-calculations
- Upload sheets
- Explanation sheets
- Quality assurance tools on Business Unit and Group level
- EuroSox control inventories, which are presented to the Audit Committee
- Demands for sign off on data, explanations, and control environment from reporting units

Data types and demands for the documentation

2 data types: Documentable and probable data

Please ensure to define the data types in the accounting policies in the report – courtesy of the reader, who are to use these data in his analysis

Definitions and examples:

Documentable data:

For example: CO2e, energy, FTEs segregated by genders and management-layers, employee turnover, LTIs, exposure hours own employees, fatalities, donations and all governance data

Probable data:

For example: water, waste, exposure hours contracted staff

Requirements for documentation:

Documentable data:

ISA 500

The documentation is from external sources, effectively controlled, it is direct evidence - no inferences, in writing, and original

Probable data:

To the extent ISA 500 evidences exist - use that

Data must always be defensible, so assumptions of the probable data must be made in writing and shall be verified by the reviewer.

Demands for local control environment – the EuroSox way

- Establish a risk assessment
 - measure both on quantitative and qualitative impact per indicator – just like you do for financial data.
 - Since the non-financial data should be scoped and consolidated as the financial data, it is possible to use financial data as context to define what is quantitatively important non-financially.
- Based on risk assessment specify control objectives
- Based on the control objectives establish lists of the key controls that are / will become established in so-called control catalogues
- Control catalogues will typically define the control activities, evidences of the controls are performed, type of controls (preventive, detective, automatic, manual, etc.), responsible person for the Standard Operating Procedures (SOPs) to be adhered to, and a reference to the underlying SOP
- All financial and non-financial controls should obviously be monitored to make sure they actually are performed as described

How to make non-financial and financial people co-work?

- Apart from the obvious "tone at the top"
- For instance consider the following:
- Establish teams in each reporting unit consisting of both financial and non-financial people.
- Highlight and praise the different abilities – together we get better
 - Non-financial people find and document the data – and the financial people control and submit the data in the consolidation system to Group
 - They could co-work to establish sound explanations for development in data
 - They could co-work to define and implement controls
- Establish workshops where both financial and non-financial people participate
 - Discuss definitions, appropriate controls & evidences, tools, and developments in new requirements for new reporting etc. – and not the least share best practice

Demands for the HQ

- Software Selection - NOTE: Excel is NOT a consolidation tool . It is no-go
- Maintain GAAP
- HQ must on top of the local control environments make sanity-check of data. To a large extent comparison of financial and non-financial notes is very useful, e.g.:
 - FTEs from financial reporting can be re-used. If there are FTEs in an entity, then there must be at least electricity, water and waste. There may also be heating of a kind - but it depends on geography
 - Cost data for CO2 sources (diesel, electricity , oil etc.) should be compared with consumption volumes per entity per activity – this can also ensure units are right
 - Electricity and district heating should be obtained per country. If the country-choice deviates strongly from the home country of the entity – get an explanation
 - If the entity owns/leases machines and/or transportation equipment etc., then there must also be CO2 source consumption.
- The reporting unit must explain themselves if reporting deviates, when making these simple logical tests
- Make sure all line-by-line consolidated entities that report financially, also report non-financially (subsidiaries and joint operations – also non-operated entities) – if not you will get sustain-data with no financial context
- Make sure all submit explanation sheets => much easier and more robust explanations can be developed at Group
- Make sure the reporting unit get sign off from CEO and CFO on data and explanations.

Why even bother?

- Integrated reporting is just around the corner, wherefore non-financial reporting has to achieve a much better quality - see for instance:
- Proposals from IIRC on "integrated corporate reporting framework" was launched this spring – and IIRC has signed a Memorandum of Understanding with IASB
- The EU proposed this spring a requirement for reporting of "information on policies, businesses and results relating to environmental, social and employee-related aspects, human rights, anti-corruption and bribery and diversity on boards of directors" in all large companies in the EU (very similar to § 99a+b - but could turn out to be more extensive)
- CDSB in the UK, where GHG-reporting from this year is mandatory to be incorporated in all listed companies' financial reports
- Research shows that the non-financial reporting has connotations on stock prices - but if investors are to be able to use the non-financial data directly in their analysis, these data must be of a much better and comparable quality between the companies – but also compared to the financials for the individual company; e.g. turnover, cash flow and production quantities etc. See also the new survey made by ACCA and Eurosif, on investors demands for useful non-financial reports

Questions?

- Thank you for the attention
- Contact:
jane.thostrup.jagd@maersk.com
- Models and methodologies are described more in depth in my Danish textbook for auditor students – an enlarged international version will be available from Routledge spring 2014:

