

CLIMATE CHANGE & INTERNAL AUDIT



BACKGROUND



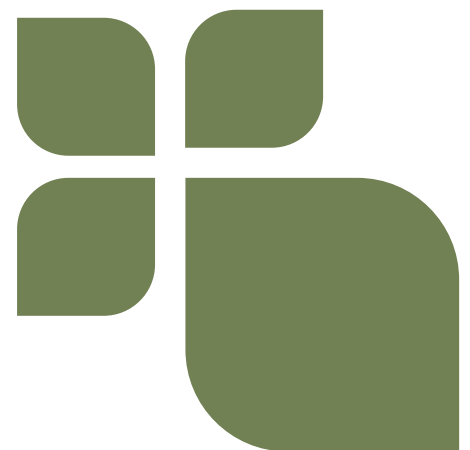
We all are facing climate change impact in our day to day life now. Now everyone across the globe can feel the impact and on one is untouched. This was not the case in pre COVID Pandemic era. News reports now a day's are full of untimely rains / Floods / Storms / excessive snow fall / Global warming and so and so forth. This will have natural fall out on every business irrespective of size and location of business.

This phenomenon poses a challenge to every business enterprise how to assess the Impact on its business and how to mitigate the same. It also poses a challenge to internal audit function how to foresee the risks associated with climate change for every enterprise and how to make it part of Internal audit reporting requirements.

How can be advise the business leaders and business enterprises on mitigating the same. This can create a value addition to internal audit function if required skill set is acquired by the profession.

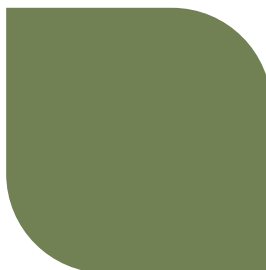
Another dimension of this change is regulatory guidelines on sustainability reporting by the regulators.

We are seeing new trend of organizations creating this internal function of sustainability reporting. We will see soon all large enterprises having a large team in this internal function of Business sustainability. Once this becomes internal part of any enterprise we as internal auditors will be required to audit and report on the same. We will see how internal audit will get impacted due to climate change.



CHALLENGES OF ASSESSMENT OF CLIMATE CHANGE ON BUSINESS

- As of now we do not have any clear idea what impact climate change will have on the current business and on future business expansion plans of large enterprises. In fast changing world where technology is getting obsolete in 2-3 years time how to make long term business plans.
- No such structured framework in place as of now in many large business enterprises to capture the impact assessment of climate change on their business. And soon this will become big business risk.
- Currently it is not part of business continuity plans or disaster recovery plans of many large organizations.
- Business strategy plans of many enterprises are today not taking in to considerations the impact of climate change Liability arising out of legal cases being filed by Environment group in courts.





- With increased awareness in public through Social media at large of climate change new generation Customers may shun products of many business enterprises if it has huge impact on environment. This can have reputation risk for the business.
- Investor Community will start demanding soon the impact assessment of climate change

On current business lines and How new products & services will impact the Environment before making any investment decisions.

- Pressure from Governments to achieve the targets agreed at current COP 26 summit and related change in regulatory guidelines & its implementation. Non Implementation of new regulatory requirements can also have financial penalty impact for the organizations.



MITIGATION PLAN AND ROLE OF INTERNAL AUDITORS

- Enterprises should create & develop a policy of impact assessment of climate change on current business and document the same. Same should form part of Enterprise risk matrix of the Organizations. Risk mitigation plans also should be prepared.
- Make use of sustainability reporting standards and available data points in these reports for preparation of mitigation plans and gaps indentified by the consultants.
- Make it part of scope document of Internal audit function and reporting requirement. Training should be given to staff on expectation and required technical knowledge / skills for this new activity.
- Document revised roles and responsibilities for key positions with inclusion of this risk as part of Business strategy and creation of measurement matrix for the enterprise.

Prepare process overview flowchart of creating new internal function of Business sustainability department.

- Make use of new regulatory guidelines / Government initiatives to address the climate change.
- Assessment of impact on future cash flows & related profitability impact.
- Engagement with Green funds to tap the Capital required for investments.
- Develop key process document formats (Templates) needed for capturing relevant information and controls perspective of this new risk
- Discuss with stake holders & understand their views
- Discussions with vendors / contractors /service providers to indentify the possible impact they can have on our supply chain & obtain buy-in for the same.
- Identifying and suggesting possible solutions with cross-functional department matrix.



**We place our values,
standards and ethics
very high, in every
work we do !**



CA. Anil Girdhar

Partner, New Delhi

Email - anil.girdhar@kirtanepandit.com



DISCLAIMER

The note has been prepared exclusively for the benefit and internal use of the recipient and does not carry any right of reproduction or disclosure. The information contained herein cannot be reproduced or used in whole or in part without express prior written permission of Kirtane & Pandit. No representation or warranty is given by Kirtane & Pandit as to the achievement or reasonableness or completeness of any idea and/or assumptions presented here. Neither Kirtane & Pandit nor their respective associates shall have any liability (including liability to any person by reason of negligence or negligent misstatement) for any loss arising from use of this note and its contents (express or implied). This note does not claim to contain all information that recipient may require. Recipient should not construe any information contained herein as advice relating to business, financial, legal, taxation or investment matters. Recipients are advised to consult their own business, financial, legal, taxation and other advisors concerning the company.

