

## Report

Governance risk &amp; assurance

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## The sustainability challenge – improving the ‘bottom line’

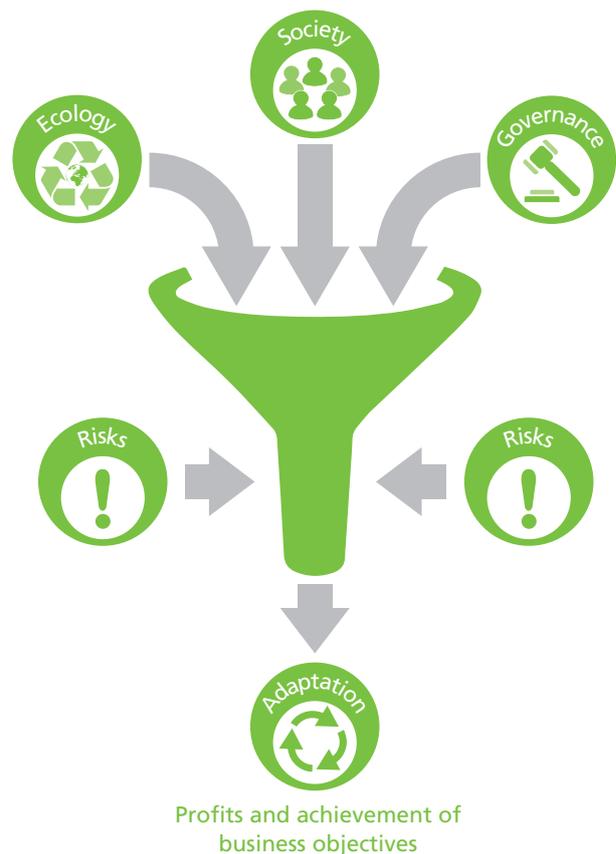
Sustainability and environmental risk assessments and assurance reviews can help businesses to meet the sustainability challenge.

Maintaining the optimum level of productivity whilst ensuring the management of environmental, social and governance concerns meet the range of international sustainability requirements is a vital aspect of controlling critical risks.

The UN’s Brundtland Commission described sustainable development as: “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. It covers environmental, social and ethical impacts on an organisations’ stakeholders. This definition is a guiding principle when assessing risk and providing assurance.

The Intergovernmental Panel on Climate Change (IPCC) in its most recent ‘synthesis report’ highlights the potentially catastrophic impact human activities continue to have on the environment and longer-term sustainability. The requirements for transparency in business reporting and the need to demonstrate social responsibility and good governance means that a robust and realistic sustainability strategy should be developed and applied across every enterprise.

One fundamental question senior managers and board members ask is: does my organisation do enough to meet stakeholder expectations in respect of sustainability? Global developments are changing the way managers need to operate in order to pre-empt or react to risks and sustainability threats. Increased awareness of potential negative impacts on the value chain are vital to protecting the business both now and in the future. The globalisation of the marketplace has created a distance between business and the direct consequences of their actions. Ensuring your business has an equitable and transparent approach to sustainability is a vital aspect of maintaining stakeholder confidence.



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### Background – increasing risk in a volatile world

Business continuity experts are feeling uncertainty relating to sustainability risks and associated implications, demonstrated by the thought leadership in the sector. The Aon 2015 Global Risk Management Survey highlights corporate social responsibility (CSR) and sustainability as key risks. This is echoed by the World Economic Forum's Global Risk Report (2016), focusing on the significant risk associated with urbanization, environmental degradation, climate change, aging populations and the increasing disparity between average incomes and the wealthiest. Risk to energy security and the transition to sustainable energy, climate change and social unrest were identified as key threats by the Business Continuity Institute. It's clear that good business relies on a virtuous circle of sustainability or eventually the cumulative effective of poor stewardship will irrevocably damage value.

Tackling the big issues such as water accessibility, changing climate conditions, availability of resources and modern slavery are all vital for companies to maintain competitive advantage and their reputations. As climates change and supplies of water and raw materials alter, maintaining a vigilant approach to monitoring availability and sustainability is vital.

The ratification of the Paris Agreement on Climate Change by two of the world's biggest polluters (US and China) was heralded as a positive and significant change. Since the US election and change in government, however, this agreement now hangs in the balance and the risk landscape seems to have worsened. Making sure your business is ready for whatever change takes place remains crucial to securing future growth. Being ready for a variety of consequences makes good business sense and is a wise investment of time and effort.

### Does your business have an effective sustainability strategy?

Stakeholder expectations are more demanding as awareness of potential issues and longer-term impacts grows. The swift pace of change to the environment, demographics, international regulation and pressure from governments and their electorate have resulted in ever greater complexity of risks. There no longer seems to be long-term stability within any sector of business and a dynamic evolution seems to be the norm. The capacity and capability to react effectively and with confidence to multiple waves of regulatory risk emerging from the sustainability agenda can impact an organizations strategy and delivery model.

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We can help support you, the board and audit committee create an effective sustainability strategy and assurance. A deep awareness of geopolitics, emerging market risk and global economic volatility are all factors which need to feed into understanding sustainability and the company's value chain. Our experts can help shine a light on areas of sustainability which may benefit from improvement or strengthening.

### Sustainability management, controls and reporting

Moore Stephens provides a range of assurance and advisory services to help you improve sustainability management, controls and reporting. This can help your business overcome obstacles to efficiently mitigate sustainability risks and prepare for future sustainability issues.

### Sustainability and environmental assurance reviews

A sustainability assurance assessment can help establish a baseline for improvement and allow the business to analyse the developments and confirm that governance and controls are right for the business.

We offer robust sustainability and environmental assurance reviews, ensuring a comprehensive approach to sustainability management and transparency is applied. We assess and confirm an end-to-end approach developed and applied by the business, seeking to improve your proficiency and competencies to drive forward the sustainability agenda and deliver measurable and continuous benefits to the value chain.

We examine the factors required for you to maintain a 'business as usual' approach whilst embedding a culture that considers sustainability in all aspects of your business. Our work looks at the transparency of your systems and reporting, by applying various stress-testing scenarios and establishing the potential outcomes. Through the use of these scenarios, we assess strategic foresight based on what the future may look like in the coming three, six or nine years. The extrapolations are based on sustainability research undertaken by specialists in the field. By looking at your business in depth and from all angles we can help you protect and maintain value creation within the business.

**Business benefits**

- Identifies potential threats, enabling managers to effectively defend and protect the operation and business reputation.
- A clear line of sight of the governance and controls currently in place and identification of areas where change or enhancement would make a real difference.
- Facilitates activities which will enable sustainability resilience and develop expertise.

**Develop and design sustainability adaptation response plans using ‘root cause analysis’**

Every business is unique. Therefore, we can assess and help develop bespoke sustainability response plans, giving management and staff the confidence that the advice and assurance we provide will meet the needs of the business, social and environmental systems critical to the company.

**Sustainability and environmental risk assessments**

Making sure you regularly undertake a thorough analysis of sustainability threats is pivotal to maintaining an insightful understanding of the causes of environmental, social and governance issues. Increased knowledge of the severity of sustainability threats gives managers a powerful edge to ensure the business continues, while competitors may experience greater levels of shock or complete failure. Good sustainability risk management enables robust strategies for response to business the changing economic, social and geopolitical environment.

**Key questions**

- Innovation – Have you undertaken any exercises to improve your organisations sustainability performance?
- Employee, customer and wider stakeholder feedback – Have you looked to key stakeholders for their perspective and ideas regarding your organisation’s sustainability capabilities and others perceptions? Has any benchmarking being undertaken?
- Policies and procedures – Do your policies and procedures support sustainable outcomes?

We can assist your business by undertaking an end-to-end risk assessment of business critical sustainability issues. We can then facilitate a review of the most appropriate form of resolution e.g. re-design, elimination, substitution etc. We know that the more complex your business – its supply chains and international network – the harder it can be to comprehensively identify the major sustainability risks. To facilitate this process a comprehensive risk map can be developed. Production of a risk map enables ongoing analysis of threats and can support managers when modelling changes in the risk profile as threats change and evolve.

Sustainability can be negatively impacted from a wide range of different sources, for example:

- far reaching natural disasters;
- cyber accidents;
- environmental catastrophes;
- acts of terror;
- large scale involuntary migration;
- rapid and massive spread of infectious diseases;
- failure of financial mechanisms or institutions.

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Making sure the sustainability risks to your business have been fully assessed and that effective governance and controls have been established is an essential investment and makes sound commercial sense. We assess risks based on factual evidence or substantive research, not supposition or conjecture. This enables the business to really question the end-to-end approach in respect of sustainability and long-term objectives. Only by gathering all of the information can a business truly gain meaningful data and insight.

Risk analysis can:

- identify areas of your business currently at risk either from immediate threats or in respect future predictions or impending changes to legislation and regulation etc.;
- look at current and past performance of your business and the current ability to deliver improvements in sustainability in keeping with stated imperatives (vision, mission and values);
- inform an ‘options appraisal’ to consider whether there are alternative and cost effective ways of achieving objectives which better address sustainability concerns;
- develop plans which protect the operations, brand and reputation in respect of sustainability. This can be via alternative sourcing, re-design products, policies or processes, alter administrative approaches or substitute factors of production etc.

## Top tips

1

Develop a sustainability strategy and seek independent assurance that your sustainability strategy is robust and achievable.

2

If you don't yet have a sustainability strategy start small. Assess how sustainability is overseen in each department or segment of the business. This can help generate a holistic approach to strategy development.

3

Define what sustainability means to the business and if possible to key stakeholders (develop a shared understanding).

4

Get the board on board.

5

Confirm that CSR forms part of the strategic approach to sustainability.

6

Ensure internal communications regarding sustainability initiatives help managers and staff understand the value of it.

7

Utilise transparency to transmit your sustainability credentials and leverage the benefits of transparency in order to drive forward the sustainability agenda within the business.

8

Capitalise on the benefits of integrated reporting to present an accurate and compelling impression of the business to meet the sustainability expectations of investors and governments.

9

Develop sustainability targets and objectives which can be measured i.e. SMART.

10

Aim to integrate sustainability within the culture of the business. Seek to ensure that sustainability is not seen as a 'bolt-on' or after thought.

11

Confirm that sufficient resources have been allocated to for the business to effectively pursue sustainability improvements and measure the benefits realised.

12

Develop some sustainability risk indicators to bring a level of consistency to periodic assessment of corporate impact on the environment and society.

13

Make sure that sustainability deliberations form part of the approach to risk assessments and risk management.

The above list is not exhaustive. Please contact us for more information.

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