

By embracing the world in enlightened and productive ways

and by leading in the effort to coordinate constructive policies worldwide—US companies will free themselves to work on the big challenges, like finding solutions for climate change, minimizing systemic risk in the financial system and sustaining our leadership. With this strategy, the US won't be retreating from any Waterloos. We'll engage with the rest of the world in a positive, productive, life-enhancing quest for the best ideas.

—PwC's American Perspectives, 2008

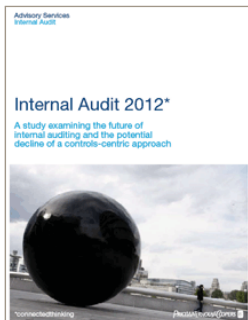
Internal Audit perspectives.

Internal Audit perspective on sustainability

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Internal Audit 2012



An opportunity for transformation

The rise of operational sustainability

Google “sustainability” and you’ll see that tens of millions of others have had the same idea. It’s a crucial concept for businesses today, as they struggle to balance short-term financial viability with long-term strategic goals, and to build and preserve shareholder value while enabling future generations to meet their own needs. Companies have much to consider and should not do so in a vacuum. Internal Audit can help.

Today’s business culture is no longer just a dollars and cents proposition. It’s more like dollars and sense—sense of social awareness and consciousness. To some, like Ben Cohen and Jerry Greenfield, founders of the Vermont-based Ben & Jerry’s ice cream behemoth, it never was only about the dollar. Social, environmental, economic, and ethical realities have always been as much a part of their product and brand as cherries and milk.¹

It’s a way of doing business that companies today are embracing more than ever, not only because they perceive it as the right thing to do, but also because they recognize that it’s the smart thing to do. Consumers, employees and investors are demanding that businesses pay attention to socially responsible commitments. More and more businesses are aggressively taking heed as part of their efforts to grab a competitive advantage.

Regardless of how proactive a company chooses to be, regulators are near certain to create an environment in which it will inevitably become not only the right thing to do or the smart thing to do, but also the only thing

to do. As your company prepares to take on the challenge, here are some critical thoughts that should help your future plans and actions.

Leveraging sustainability to curtail risk

First and foremost, a commitment to building sustainability into your operations must come from the top and must take into account both operational functions and external factors. The hum of regulation, for example, can clearly be heard with regard to operational sustainability, particularly where climate change is concerned. Down the road, such activity can impact your company’s operations and those of your suppliers. At the same time, a scarcity of raw materials continues to drive costs upward and exert pressure on margins.

Climate change itself and unmitigated physical risks can compromise or destroy everything from manufacturing plants to transportation infrastructures, bringing disruptions to production and supply chains and driving costs skyward.

Your company’s reputation can be decreased significantly if these risks are not properly identified and addressed. Flawed environmental, social, and ethical policies and conduct can taint your corporate brand and alienate clients, prospects, and talent alike and having a negative impact on your bottom line. The harsh treatment: Congress unleashed on Detroit’s automakers—and the public scorn the executives earned for flying into the nation’s capital on individual private jets—provide stark examples of just how quickly things can go wrong.

¹ According to their 1997 book, Ben & Jerry’s Double Dip, How to run a values-led business and earn money, too, the fledgling entrepreneurs scored a profit only after Ben’s father—an accountant—explored them to price their products more realistically.

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A sustainability role for Internal Audit

You and your team can leverage Internal Audit's core competencies, going beyond traditional financial and compliance functions within your organization, to act as a powerful tool for your company as it grapples with the transformational issue of sustainability. Internal Audit will need to work collaboratively with all stakeholders to realign audit coverage, and to focus a portion of their audit plan on management's strategic initiative around sustainability and processes that are critical to stakeholder value. Internal Audit can provide the overall assurance and risk management oversight that can help drive business success related to your strategic initiatives, including sustainability.

Key examples of long term sustainability goals are:

- Strategically realigning your supply chain to achieve sustainable long-term cost reduction
- Developing "green technology" to achieve more operational efficiency/cost benefit and goodwill in the marketplace
- Redesigning support service functions like Finance, HR, and IT to maximize the benefits of Shared Service Centers, Outsourcing and Off-shoring

Key questions executives, Internal Audit, and other stakeholders should ask:

- Does your company's leadership recognize and communicate the business case for building sustainable operations?
- Do you need help understanding key sustainability issues and their potential impact on your company's reputation and brand?
- Are you setting the right sustainability tone and direction as you govern?
- Do your risk assessments take into account sustainability risks?
- Have you identified any current and upcoming compliance risks?
- How are you protecting long-term shareholder value?

² Also known as a CSR or Sustainability report.

- Is the data underlying the annual, non-financial Corporate Social Responsibility² report reliable?

PwC's Transformational Internal Audit (TIA) methodology provides greater insight to the processes within your organization that provide value to stakeholders. The TIA methodology allows internal audit to report on non-financial metrics where companies feel they will drive the most benefit from their sustainability efforts, including: improved business processes, cost reductions through efficiency and effectiveness gains, and the ability to attract and retain customers and employees.

Leveraging sustainability to build opportunity

It's not just about reining in risk. Using a sustainable operations view also enables you to assess the risks that all stakeholders face and to identify strategic opportunities. This is a pivotal time during which proactive companies can get to work and enhance value going forward. Building more sustainable operations now will enable you to effectively identify and manage strategic and operational risks—and to create strategic advantages.

Right here, right now. Your source

PwC has published a series of comprehensive articles on the topics of sustainability and Internal Audit, including, *The sustainability agenda*, *Internal Audit 2012*, and *An opportunity for transformation: How Internal Audit helps contribute to shareholder value*.

Contact information

For a deeper discussion about how Internal Audit can support your corporate sustainability initiatives, please contact:

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