<u>Checklist: Considerations in Selecting an ESG Advisor or Auditor</u>

PracticalESG.com

The massive growth in corporate ESG initiatives has spawned a tidal wave of self-proclaimed ESG experts in advisory and auditing services. As with any other potential business partner, buyers of ESG services need to perform due diligence on the service provider to minimize risk and unpleasant surprises.

ESG advisors may be engaged to help develop programs or assess program efficacy. ESG program implementation/performance and associated data rolls up through the organization and out externally to a range of stakeholders. Certainly, you want to make sure your company executes well and that you can demonstrate that. An important element of that is ensuring that the advisor or auditor you select and rely on has the knowledge, skills and background to warrant your reliance.

While this is not an exhaustive list, some of the more important aspects (yet perhaps less obvious) of service provider qualifications to evaluate include:

1. **Test their technical expertise**. Understanding a degree of technical aspects of manufacturing/assembly operations is a critical foundation of establishing the correct context for ESG programs and risks. It isn't always important for service providers to know details or even have experience with your specific industry or processes. For instance, metal parts fabrication is generally similar regardless of the actual part or industry. Applicable employee safety programs, such as respiratory protection, may vary from industry to industry based on the contaminant, but there is much consistency in applicability triggers and programmatic requirements for manufacturing.

   In interviewing service providers, have them tell stories about actual project experiences. Listen to their responses to determine if they are using lingo that is appropriate to your industry and/or processes. Avoiding "yes" or "no" questions helps tease more narrative – and therefore more revealing – responses for you to evaluate.

2. **Explore their knowledge of how equipment functions**. While the service providers don't need to know how to actually operate your company's equipment, they should have a reasonable understanding

of how the equipment functions, including possible malfunctions. This is especially important in understanding the context of pollution control equipment monitoring data. As an example, CO_2 emissions differ greatly based the type and size of boilers, and fuels used. If the equipment is not correctly reflected in emissions calculations, then the emissions reported will not be accurate.

Likewise, service providers need to understand limitations and failure points of pollution control and safety equipment, including monitoring, calibration, inspections and maintenance. Failures in this category lead to inaccurate data and worker safety exposures. Air emissions baghouse gauges are subject to fouling, water/wastewater pH probes frequently fail, flow meters foul and have operational limitations and safety equipment needs ongoing inspections. Manufacturers of these types of equipment have specifications for operation, maintenance and performance limitations that ESG service providers should be familiar with to identify where data might not make sense and how the devices can be bypassed.

3. **Ensure the service provider isn't limited to a specific framework**. Providers can get locked into a specific framework, such as ISO, GRI, SASB or industry-specific initiatives. Where this is the case, you can be forced into a predetermined approach that is not aligned with your company's specific needs. For instance, SASB tends for focus on **financial impacts of ESG to the company**, whereas GRI relates to **ESG impact of the company on non-financial stakeholders**. Unless you are looking for alignment to a specific standard, framework or program, make sure your ESG service provider can provide you with programs/assurance services that are framework agnostic.

4. **Don't emphasize ESG certifications.** As with ESG initiatives and frameworks, there is a big bowl of alphabet soup of ESG and related certification programs. These can apply to both firms as a whole and to individual practitioners. Among the more common certifications are those from – or related to – well known entities such as ISO, ANSI, SASB, GRI and AICPA.

   Lesser-known organizations have specific focuses, such as Board of Global EHS Credentialing (Certified Professional Environmental

Auditor, Certified Process Safety Auditor, Certified Industrial Hygienist), Association of Professional Social Compliance Auditors (APSCA), iEMA in the UK, Association of Certified Fraud Examiners (ACFE), Institute of Internal Auditors (Certified Internal Auditor, Certification in Risk Management Assurance) – and the list goes on.

In the last 24 months, a number of ESG certificate programs have popped up, many of which require little more than attending six to eight hours of on-line training and payment of a fee.

Don't be too focused on or enraptured by firm or individual certifications. The important factor is how the individual(s) on your project team performs, which is more a function of the practical experience and knowledge not a certification. In situations where you deem a particular certification is important for your ESG advisory team, it may not be necessary for all team members to have the same certification as that might create limitations.

5. **Listen to the terminology they use.** While not everyone agrees with this, using the phrase "management systems" rather than "controls" may not be simply a matter of semantics. It can be an indicator of meaningful differences in the service provider's knowledge and project approach. Using "management systems" terminology can indicate older ways of thinking, outdated knowledge of the market and a more tactical/siloed attitude. Service providers that use an updated lexicon around "controls" may be more advanced, have a better appreciation for the cross-functional nature of ESG and present a more strategic perspective. It isn't necessary for everyone on the team to speak in "controls" terms, but a least the project lead should.

6. **Don't focus on the titles of team members.** Titles may not be indicative of experience. This is not anything unique to ESG, but it needs to be addressed. One notable trend in ESG hiring during the past 12-24 months has been offering big titles for a small amount of experience. Corporate ESG directors and ESG practice leaders these days can have little more than five years of ESG experience. Senior leadership or partners may have less than ten. Similar to certifications, it is best to not be swayed by individual titles, nor should you infer an experience level with a title. It might be

worthwhile asking about years of specific ESG experience associated with the titles of the project staff.

7. **Engage service providers that stay within their areas of competency**. ESG competence greenwashing is an unfortunate reality for which both service providers and buyers are complicit. Service providers seeking to maximize revenue opportunities may oversell their expertise in a number of ways.

    - ESG audit providers may sell site-level ESG implementation services (a conflict of interest)
    - Marketing/communications providers may sell services related to product content/formulation
    - IT companies may sell CO_2 emissions management services
    - Environmental consultants may sell corporate governance services
    - Social auditors may sell audits covering areas beyond their technical knowledge
    - Accountants may sell technical environmental or safety services

    Buyers of these services may be oversold on a firm's or individual's capabilities, or they may select their ESG service or assurance provider based on factors other than expertise, such as:

    - The buyer has an existing business relationship with a provider
    - The buyer wants to establish a new business relationship with a service provider for reasons unrelated to technical ESG capabilities
    - Cost
    - Industry-specific experience in matters other than ESG

    At the extreme, companies can face legal liabilities from oversights, omissions, errors and negligence on the part of unqualified ESG service providers. That risk grows daily with the global emphasis on ESG data, ratings and performance expectations. At a minimum, companies find themselves with work that does not meet expectations/requirements and then hiring a qualified service provider to redo the work correctly.

8. **Ensure service providers continually apply professional skepticism and information validation processes.** Even if the service provider is not performing audits, they should continually critically assess the information with which they are working. Service providers who don't apply professional skepticism may not understand the engagement requirements or technical information enough to know what should be questioned or explored further. With the ambiguity surrounding ESG, along with its new business importance, having defensible and credible information is a must. Ongoing questioning and validation of associated data and reporting should be expected.

9. **Consider whether their experience and client list reflect your company's position on the ESG performance spectrum.** Not every ESG consulting firm/advisor is appropriate for every company. Companies just beginning their journey, taking small steps or those that aren't looking to take a global leadership position can find themselves frustrated by consultants looking to make world-class ESG programs for every one of their clients. It can be more challenging than expected to find a service provider that is willing to be pragmatic and realize that it is acceptable for some companies to be less proactive than others.

10. **Consider small or boutique ESG firms. Big firms don't have a monopoly on ESG expertise.** There are many small firms made up of highly qualified ESG practitioners who made the choice to move away from the big firm environment/culture. As with anything, proper due diligence into the firm and its members is warranted.