#beSUSTAINABLE

TOOLKIT:

Governance

Created for you by:

BURSA MALAYSIA

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This Toolkit: Governance ("**Toolkit**") is issued by Bursa Malaysia Securities Berhad to, among others, assist listed issuers in preparing the Sustainability Statement as required under the Listing Requirements of Bursa Malaysia Securities Berhad [paragraph 9.45(2) and paragraph (29), Part A of Appendix 9C of the Main Market Listing Requirements (supplemented by Practice Note 9) and paragraph (30) of Appendix 9C of the ACE Market Listing Requirements (supplemented by Guidance Note 11)].

While this Toolkit is intended to provide the relevant information and guidance for listed issuers to prepare their Sustainability Statement, it may not be exhaustive in its coverage. Listed issuers must exercise discernment and diligence when using this Toolkit.

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ACKNOWLEDGEMENTS

Bursa Malaysia would like to acknowledge the invaluable input and expertise towards the development of this Toolkit, provided by the Climate Change & Sustainability Advisory Unit of KPMG Management & Risk Consulting Sdn Bhd and SHEMSI Sdn Bhd.

We would also like to accord a very special word of thanks to representatives of listed issuers, investors, industry bodies and non-governmental organisations as well as individuals who were involved in our focus groups, interviews, multi-stakeholder sessions and public consultation for their contributions in the development of this Toolkit.

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1. Purpose

Paragraph 6.2 (a), Practice Note 9 of the Main Market Listing Requirements requires disclosure of:
the governance structure in place to manage economic, environmental and social risks and opportunities (“**sustainability matters**”)

The disclosure on how sustainability is positioned and governed within an organisation (“**sustainability governance**”) is in line with the disclosure on corporate governance as required by the Main LR, where listed issuers are required to disclose how they have applied, among others, **Recommendation 1.4** of the Malaysian Code on Corporate Governance 2012 (“**MCCG 2012**”) issued by the Securities Commission of Malaysia – “*the board should ensure that the company’s strategies promote sustainability”*.

The purpose of this Toolkit is to provide guidance to listed issuers on how to establish a governance structure to manage economic, environmental and social (“**EES**”) risks and opportunities (“**sustainability matters**”), thereby facilitating disclosure of sustainability governance in the Sustainability Statement.

This Toolkit provides insights into the way sustainability matters may be governed within an organisation. Good governance in terms of sustainability enables the board of directors to consider and manage business strategy, taking into account all material sustainability risks faced by the organisation, and capitalising on any sustainability opportunity available to the organisation.

This Toolkit should be read in conjunction with Bursa’s Malaysia’s Sustainability Reporting Guide (“**the Guide**”), including the definitions provided in the Guide. The Guide recommends the disclosure of the roles of the highest governance bodies or persons responsible for incorporating sustainability considerations in the organisation’s purpose, value and strategies and for identifying, evaluating, managing and monitoring EES risks and opportunities.

2. Content of this Toolkit

This Toolkit covers the following:

- Overview of the different governance phases an organisation goes through in its journey to embed sustainability in its organisation;
- Better governance practices adopted by established organisations;
- Examples of how sustainability is governed within certain organisations; and
- Examples of governance and organisational structures for sustainability.

3. Sustainability Governance

Sustainability governance refers to the structure an organisation has in place to ensure accountability, oversight and review in the identification and management of sustainability matters, i.e. who is responsible for the organisation's sustainability performance and disclosures.

The desired state of sustainability governance is where sustainability management becomes part of the Board's business-as-usual and is integrated within business strategy. The journey towards integrating sustainability into Board strategy is illustrated in Figure 1 below:

PHASE 1

Sustainability outside of Board's agenda

- Sustainability is not one of the agenda items during the Board meeting
- There might be some sustainability initiatives taking place as independent projects

PHASE 2

Sustainability included in Board's agenda

- Sustainability issues are included in the Board's agenda
- The governance body sets up a committee to think about a strategy for sustainable initiatives or assigns that responsibility to a chief sustainability officer
- Metrics and KPIs to measure performance against these sustainability incentives are set up

PHASE 3

Sustainability integrated into Board's strategy

- Oversight of a sustainable strategy by the Board
- Sustainability risks and opportunities are seamlessly part of the strategic agenda for the organisation
- No need for a sustainability committee

Figure 1

Adapted from *Integrated Governance*, A New Model of Governance for Sustainability, UNEP FI Asset Management Working Group Support, June 2014.

An organisation may approach its sustainability governance in various ways. There is no 'one size fits all' approach as it is dependent on the organisation's culture, needs, industry size, sustainability-related risks and opportunities, and maturity in responding to those risks and opportunities. Therefore, an organisation is encouraged to adopt an approach that is fit for purpose. Generally, there are 3 key elements that an organisation should consider in establishing a robust governance structure, as detailed in Figure 2 below:

Figure 2

3.1 Strategy and stewardship

3.1.1 Director's responsibilities

The ultimate accountability for the integration of sustainability in an organisation, including sustainability-related strategy and performance, should be at the highest level, i.e. the Board, due to its responsibility for the strategic direction of the organisation.

Given the emerging trend of EES risks and opportunities increasingly affecting business value as well as share prices, incorporating sustainability considerations into the workings of an organisation leads to value creation for its business and stakeholders in the longer run. This is because EES considerations enable the organisation to look beyond short term profitability and consider medium to long term business viability. Similar to how directors are held accountable for the financial position and performance of an organisation, as the business environment evolves, businesses will be expected to deliver longer term value and more will be expected of directors in this space.

3.1.2 Alignment with business strategy

Organisations which pursue sustainable business objectives (for example, by taking sustainability considerations into account in planning strategies or setting the strategic direction for their businesses) tend to optimise the value they bring to their stakeholders, particularly in the medium and long term. This is because sustainability, like business strategy, is a concept that advocates long term value creation for business, and supports business continuity and competitiveness over the long term.

A common mistake made by organisations is isolating business strategy from their sustainability efforts. Sustainability should not be considered in isolation but embedded in the strategic direction of the business. At times, a realignment of the organisation's objectives may be required (to one that looks into the longer-term).

For organisations that plan to have a robust long-term business strategy, the Board is encouraged to consider reviewing their existing business strategies from time-to-time, applying a sustainability lens to re-assess whether the existing business strategy is robust enough to withstand material sustainability risks and has taken into account the opportunities. For example, an organisation's decision to shift towards a just-in-time production business model may expose itself to higher business risk (e.g. disruption) if a party within its supply chain often faces labour practice issues such as strikes and is unable to ensure uninterrupted input of raw materials to the organisation. Therefore, it is important for an organisation to review and update its business strategy in order to incorporate and take into consideration current sustainability trends that may have bearing on its strategic direction. This in turn may lead to the formulation of a more feasible and sensible business strategy.

Best practice

The Board is encouraged to set the tone at the top to enable sustainability strategies to be effectively driven throughout the organisation. While the Board may delegate the management of sustainability matters to a Board committee, management committee or a division within the organisation, the Board should be informed of the current position of its sustainability matters, especially those material to the business, today and into the future.

Given the Board's responsibility on the oversight of risk management and internal control, many Boards now require their organisations' principal risks, which are identified, assessed and managed via the enterprise risk management ("**ERM**") framework, to be presented at Board meetings. Sustainability risks should also be identified, assessed and managed via the ERM framework for the purpose of better informed strategic decision making by the Board.

3.1.3 Business responses towards sustainability

Depending on the maturity of their sustainability thinking and readiness to integrate sustainability in business strategy, different organisations may have different responses towards managing their sustainability risks and opportunities. In order to determine an optimal governance structure for its business, it is important for an organisation to understand the type of business response it is having with respect to sustainability. Generally, business responses towards sustainability can be categorised into three stages, as follows (Figure 3)[1]:

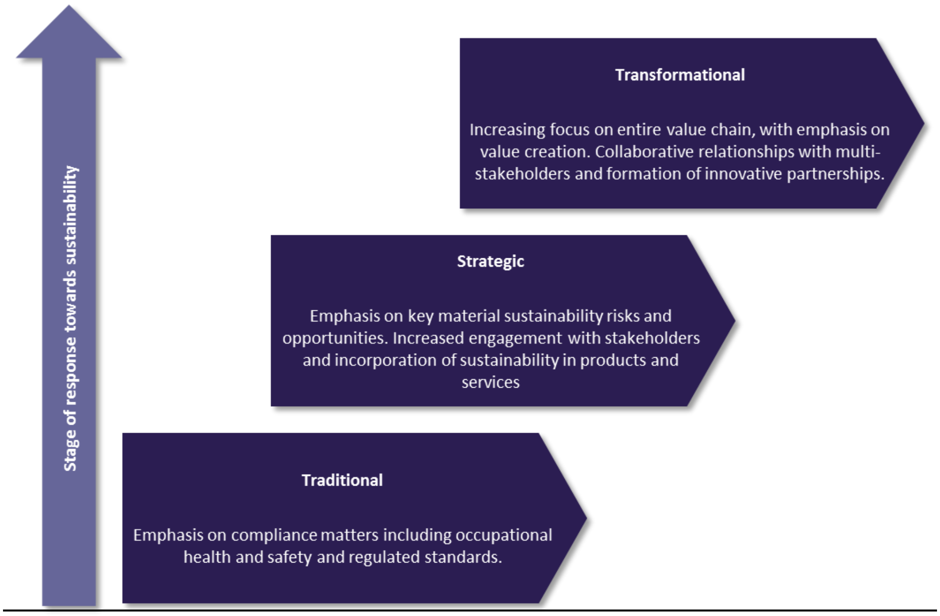

Figure 3

Due to existing legislative and regulatory requirements, most Malaysian organisations are at the **Traditional** stage, where compliance matters relating to sustainability may have already been considered. Organisations, at this stage, most probably demonstrate passive responses, i.e. only

[1] Adopted from a KPMG Methodology

managing sustainability risks when these have materialised or have impacted financial performance. Commonly, organisations that view the management of sustainability matters from a compliance point of view take a passive approach rather than a strategic approach which focuses on leveraging sustainability to enhance their business value.

Organisations at the **Strategic** stage would approach sustainability in a more strategic manner, managing their sustainability risks and opportunities with particular focus given to those that are identified as material to them. Furthermore, those organisations would have established better engagement processes with stakeholders as stakeholder input and feedback form an important element in helping the organisation understand and address stakeholders' concerns.

A **Transformational** stage, on the other hand, enables a more holistic and integrated consideration of sustainability, where the value chain (including supply chain) is given better focus, and collaborative relationships with multi-stakeholders are leveraged to explore better options for addressing or capitalising on sustainability risks and opportunities.

For further guidance on establishing a fit-for-purpose governance structure based on the level of business responses, please refer to the "Governance structures for sustainability" below.

3.1.4 Policies

Policies are important corporate tools for communicating and channelling messages particularly in a top-down manner. A policy may be used as a statement of intent, for the purpose of communicating the organisation's sustainability-incorporated business strategy to its stakeholders, including shareholders.

A basic policy for this purpose may include the following:

- vision statement;
- sustainability strategies and linkages to long-term business strategies;
- goals, targets and/or milestones;
- commitment statement; and
- disclosure.

Example: Sustainability policy for the financial sector

"We aspire to foster a stable relationship with and create sustained value for our key stakeholders, including the customers, shareholders, regulators, environment and the community within which our business operates in.

Apart from retaining our position as the largest financial service provider of the country, we continue to extend our reach towards Asian markets, at the same time ensuring our business takes a responsible approach in the way it offers financial services.

In upholding our commitment, we will:

- respect our customers' privacy – protect personal information in accordance with national laws and regulations and relevant industry privacy standards;
- support financial capability building of our customers – aim to help customers to better manage their finances and enabling informed financial decisions; and
- practise responsible lending – lending activities will be guided by our lending commitments, which include applying the Equator Principles and assessment processes aligned with the UN Global Compact and UN Guiding Principles on Business and Human Rights.

On an annual basis, our Executive Committee, together with the Executive Directors, discuss the organisation's performance targets and progress towards achieving the long-term sustainability of the business, for subsequent endorsement by the Board of Directors.

Disclosures will be made in the sustainability statement of the Annual Report which will include a summary of this policy, measures and actions taken as well as our progress towards achieving our objectives."

Apart from having a sustainability policy, an organisation may incorporate sustainable behaviour in other corporate policies such as a Code of Ethics or Code of Conduct in order to regulate ethical and sustainable behaviour among employees (and in some instances external stakeholders such as suppliers and contractors). The policies should reflect the organisation's stance in terms of sustainability, promoting behaviours such as honouring good labour practices, preventing human rights violations, conservation of environmental resources, etc.

In order to ensure that the policies set by the organisation are observed, the organisation may establish mechanisms to facilitate internal and external feedback or whistle-blowing for stakeholders to escalate any concerns of non-observance against its sustainability stance or commitment. For example, a stakeholder may, via this mechanism, report to relevant authorities, e.g. the Sustainability Committee, the procurement and use of non-Roundtable on Sustainable Palm Oil ("**RSPO**") certified palm oil products when the organisation has made a commitment to only source RSPO-certified palm oil products for its business operations. It is important that such mechanism is able to protect the identity of the complainant or whistle-blower in order to encourage escalation of concerns or whistle-blowing activities without fear of reprisal.

3.2 Management and monitoring

3.2.1 Governance structures for sustainability

An organisation is encouraged to establish its sustainability governance that is fit for purpose, considering amongst others, the existing governance structure, Board culture, resources, stakeholders, etc. An organisation may assign sustainability-related responsibility, such as that of a Sustainability Committee or a Chief Sustainability Officer, to existing committees or officers. For example, the Chief Operating Officer or Chief Financial Officer may take on the roles of a Chief Sustainability Officer in ensuring all material sustainability matters are being considered and managed by the organisation throughout its business operations. The bottom line is that the Board should be ultimately responsible for embedding sustainability into the organisation and its business strategy.

Figure 4 below depicts the typical steps when moving along the journey towards integrating sustainability into Board strategy:

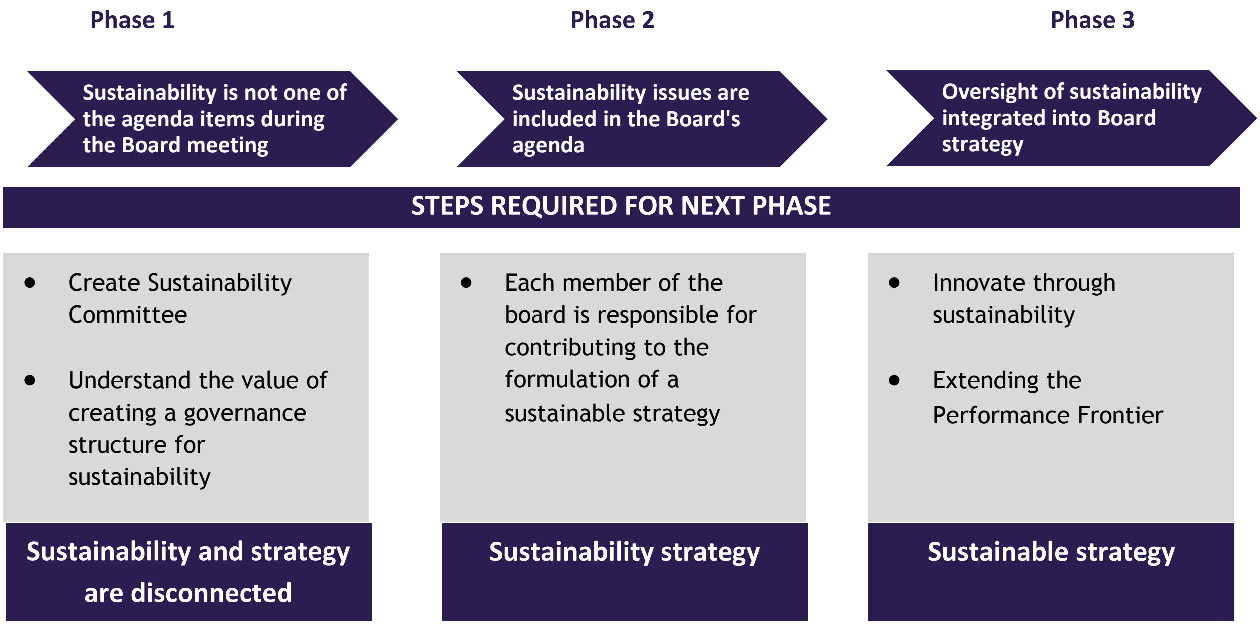

Figure 4: The journey towards integrating sustainability into Board strategy[2]

(Source: Adapted from Integrated Governance, A New Model of Governance for Sustainability, UNEP FI Asset Management Working Group Support, June 2014)

As indicated in the previous section, in order to determine the right governance structure for sustainability, an organisation should first determine its level of maturity in embracing sustainability, including the level of its response towards sustainability. The Board then looks at how it can embed sustainability to complement its business strategy.

To start the journey in embedding sustainability, at a minimum, sustainability has to be properly understood and appreciated (i.e. how sustainability brings real value to its business instead of being perceived as a compliance issue or a philanthropic activity). The responsibility has to be undertaken by the Board or its delegate (e.g. a Sustainability Committee or a Board member). The organisation will need to be able to understand sustainability from the perspective of risk and opportunity. Incentives, including performance targets and compensation packages (commonly long-termed), should also be established to motivate the intended mindset in the decision making process of the Board or senior management.

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[2] *Adapted from Integrated Governance, A New Model of Governance for Sustainability, UNEP FI Asset Management Working* Group Support, June 2014.

As discussed above, the desired state (i.e. Phase 3) is the holistic integration of sustainability in business strategy (i.e. the business strategy itself is a sustainable business strategy). At this stage, the Board, Board committees and senior management would intrinsically consider sustainability matters in making their decisions. This means the organisation would not require a separate Sustainability Committee anymore, as sustainability has already been integrated into each governance unit of the organisation. At this phase, sustainability innovation becomes a driver towards growth and differentiation of the organisation within its business environment.

3.2.2 Board oversight and delegation of sustainability management

In order to create the right culture for sustainability in an organisation, it is crucial for governance to start at the highest level to drive the intended culture within the organisation. Board level accountability and commitment on sustainability are important towards ensuring that sustainability is embedded across the organisation and adequate resources, systems, and processes are in place for managing sustainability matters.

For the purpose of assisting the Board in monitoring the implementation of sustainability-related strategies (which should complement, or be integrated with, the business strategies), the Board is encouraged to ensure that it has identified or appointed a position or function to be responsible for the organisation's overall implementation of sustainability strategies. The position or function may be held by, for instance, the Board Sustainability Committee, the Risk Management Committee, the Chief Executive Officer, etc.

Having a direct or close reporting channel to the Board may enhance the effectiveness of such position or function in embedding sustainability into the organisation's business. Furthermore, the closer the reporting channel is to the Board, the better the quality of sustainability disclosures, due to the ability of persons holding such position or function to relate sustainability to the overall business strategies (i.e. at the strategic level).

Global practices

A survey was conducted to assess the quality of reporting among the world's largest 250 global companies, based on the Fortune Global 500 ranking for 2012. The quality of sustainability disclosures is found to be significantly higher in companies where the responsibility for reporting lies with senior leadership (e.g. the Board, Chief Executive Officer or the Chief Sustainability Officer), compared to other companies where reporting responsibility lies with senior managers who are not Board members.[3]

[3] The KPMG Survey of Corporate Responsibility Reporting 2013, KPMG International, 2013.

Depending on the governance structure of the organisation, the Board may establish a separate Sustainability Committee responsible for monitoring the implementation of sustainability-related policies, measures and actions in achieving the organisation's sustainability milestones and goals. The Sustainability Committee may be responsible for the following:

Board Sustainability Committee

- advising the Board and recommending to it, the business strategies in the area of sustainability;
- monitoring the implementation of sustainability strategies as approved by the Board;
- recommending to the Board sustainability-related policies for adoption, and monitoring the implementation of the policies;
- recommending to the Board for its approval sustainability matters identified as material;
- overseeing the overall management of stakeholder engagement, including ensuring grievance mechanisms are in place;
- overseeing the management of sustainability matters, with particular focus on matters material to the organisation; and
- overseeing the preparation of sustainability disclosures as required by laws and/or rules, and recommending it for the Board's approval.

3.2.3 Roles of other Board committees

Risk Management Committee

While a major part of sustainability management looks into the management of sustainability risks and opportunities, there will be areas where issues dealt with by the Sustainability (Management) Committee and Risk Management Committee may overlap. In light of this, effectiveness and efficiency of these two committees may be enhanced if they work closely with each other. Generally, it is not unusual for both of these committees to have common members, or representatives from the other committee to attend key committee meetings. In some organisations, these two committees are merged in which the management of sustainability risks and opportunities is integrated into the enterprise risk management framework.

Example: Roles of Risk Management Committee relating to sustainability

When a Risk Management Committee takes up the roles of a Sustainability Committee, its combined role may entail the following:

- overseeing the management of principal business risks and significant/material EES risks;
- ensuring resources and processes are in place to enable the organisation to achieve its sustainability commitments or targets; and
- approving disclosure statements relating to management of sustainability matters of the organisation.

Audit Committee

The Audit Committee plays an important role in the oversight of audit matters with particular focus on matters impacting the organisation's financial position and performance. As businesses are increasingly impacted by EES risks and opportunities, increasingly the Audit Committee would be required to see the link between sustainability matters and financial performance of an organisation, especially when sustainability risks materialise or when opportunities are being leveraged. The Audit Committee will need to understand the necessity of obtaining information relating to the organisation's sustainability management in overseeing financial reporting. See **Accountability and assurance: Audit Committee's role** below for further details.

Food for thought

- Has the Board identified the position or committee responsible for overseeing the implementation of sustainability management? Does such personnel or committee have direct access to the Board?
- Is there an avenue or forum for input by the heads of business departments or functions to be considered in the overall implementation of sustainability strategy?
- Does the annual assessment on Board, Board Committees and Directors incorporate sustainability considerations?
- Does the company align remuneration of Directors and Senior Management with performance and progress of sustainability goals and objectives?

3.2.4 Day-to-day sustainability management

The Board may appoint or identify a position or function to be responsible for the implementation of sustainability initiatives and the day-to-day management of sustainability matters in business operations. This position could be a Chief Sustainability Officer, who may work together with the Chief Executive Officer in setting implementation plans and targets for identified sustainability matters, and report to the Board Sustainability Committee. A close relationship between the Chief Executive Officer and the Chief Sustainability Officer is important as it reflects how well sustainability considerations are made in conjunction with business management decisions within the organisation.

Similar to that of a Risk Management (Working) Committee, a Sustainability (Management) Committee may also be set up, where the implementation of sustainability strategies within the organisation is discussed and assigned, including setting targets and performance indicators. The Sustainability (Management) Committee may comprise the heads of relevant departments or functions as well as the Chief Executive Officer and the Chief Sustainability Officer. The Sustainability (Management) Committee oversees sustainability performance, as well as serves as a forum to gather input from each department or function, and reports to a higher governance level, such as a Board committee or the Board, on the overall operational management of sustainability matters. The responsibility of the Sustainability (Management) Committee may also include overseeing the conduct of materiality assessment process, ensuring robust processes are in place, e.g. stakeholder engagement processes and identification of material sustainability matters.

Figure 5 below depicts an organisation's governance structure for sustainability and how sustainability-related responsibilities may be assigned to the respective committees or positions. For example, where the Board Sustainability Committee is delegated by the Board to approve sustainability strategy, the development of sustainability strategy should be conducted by a different separate committee or person, e.g. the Chief Executive Officer, to ensure separation of duties.

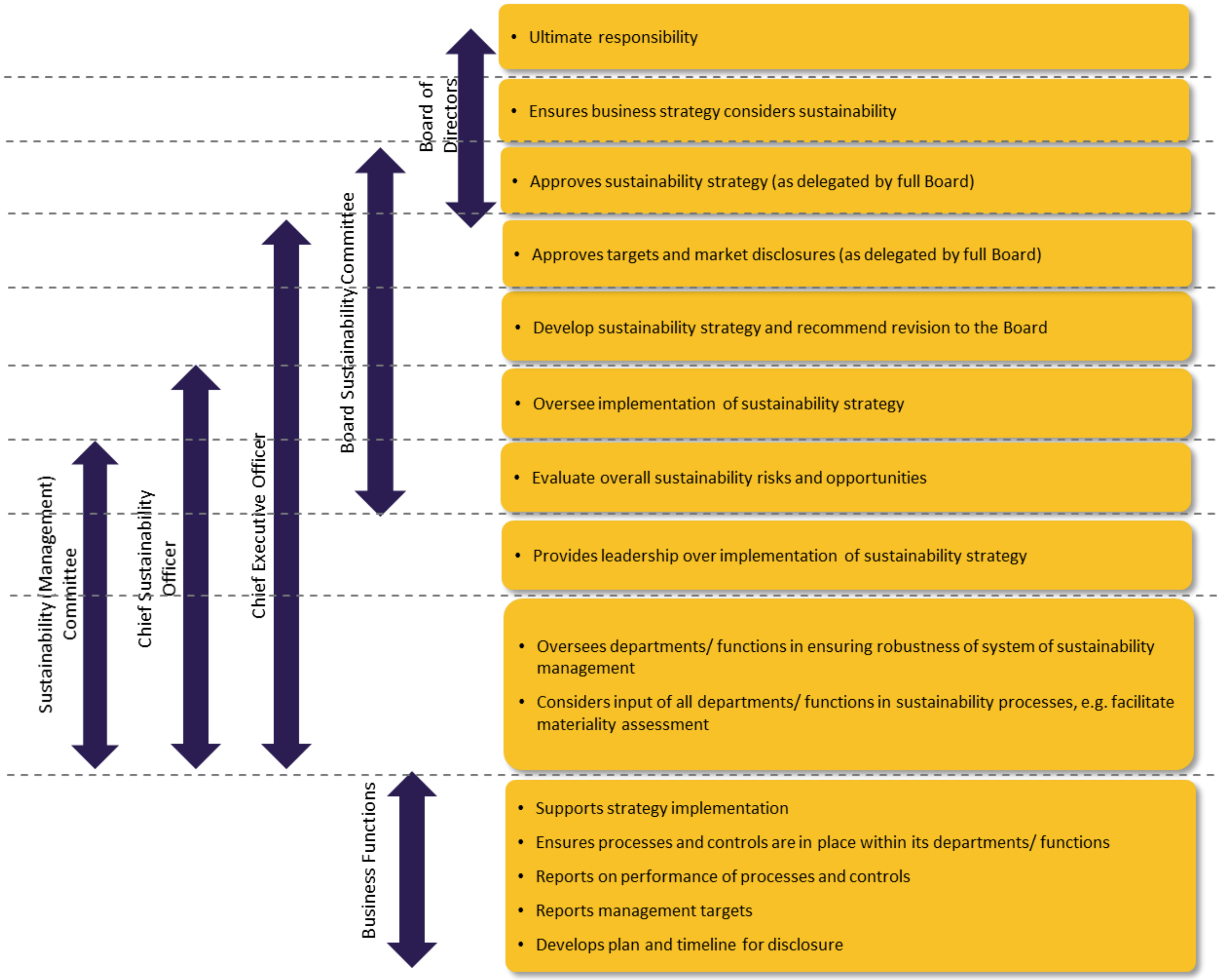


Figure 5

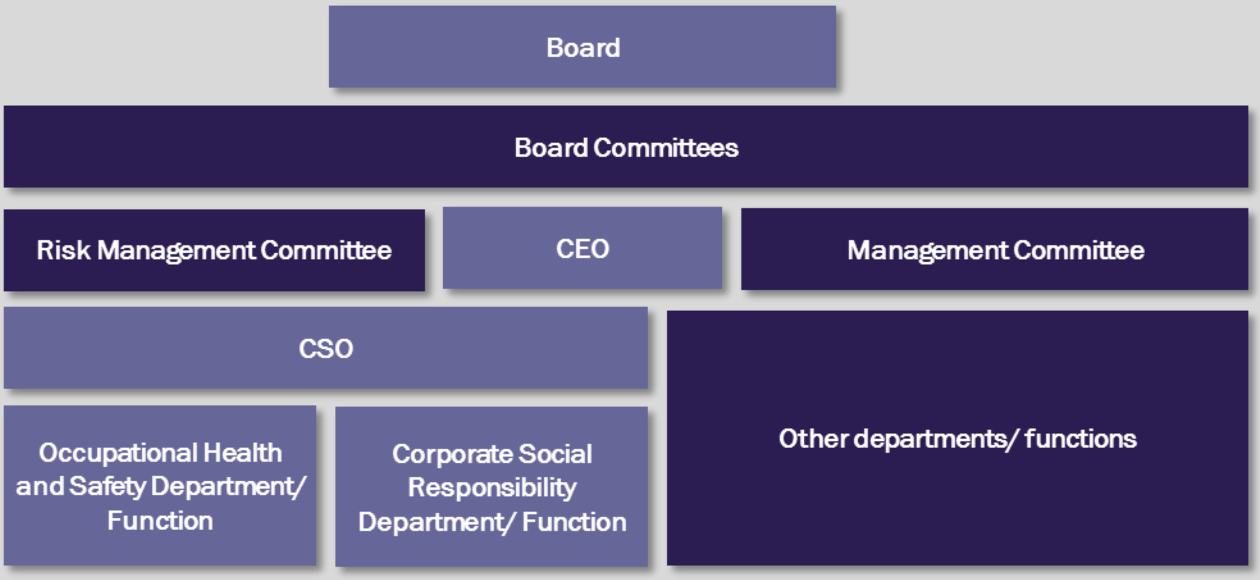
Examples: Governance structures

The following diagrams further illustrate different governance structures which may be set up by an organisation for sustainability management and reporting purpose:

Legend

	governance structures with designated sustainability-related management/reporting responsibility
	other governance structures
CSO	chief sustainability officer
CEO	chief executive officer

Example 1:

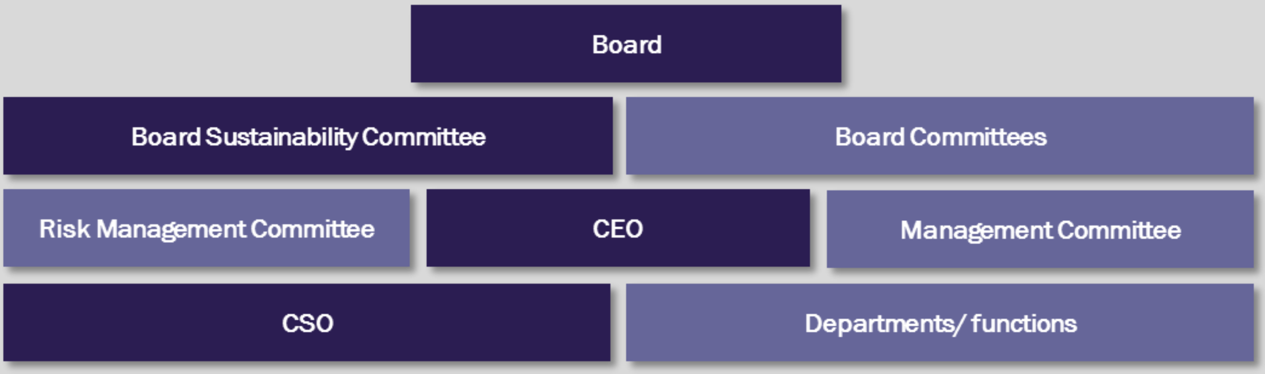


- The Board is ultimately accountable for managing sustainability matters in the organisation.
- There is no Sustainability Committee at Board and management or working level.
- The Chief Sustainability Officer is the key coordinator in ensuring sustainability matters are addressed in each department and works closely with the Risk Management Committee and reports to the Chief Executive Officer
- The Chief Executive Officer is responsible for driving implementation of sustainability strategy approved by the Board and reports the progress to the Board.

Example 2:

- The Board is ultimately accountable for managing sustainability matters in the organisation.
- A Sustainability Committee is established as a working committee. The Sustainability Committee may comprise a Chief Executive Officer, Chief Sustainability Officer and the Heads of Departments or Functions. The Sustainability Committee will be responsible for the implementation of sustainability strategy as approved by the Board.
- The Chief Sustainability Officer coordinates with and provides support to various departments or functions on identification and management of material sustainability matters, including overseeing stakeholder engagement and materiality assessment, and works closely with the Risk Management Committee and the Chief Executive Officer and reports to the Sustainability Committee.

Example 3:



- The Board is ultimately accountable for managing sustainability matters in the organisation.
- A Board Sustainability Committee is established, comprising members from the Board. The Board Sustainability Committee looks into the organisation's sustainability strategies, and makes recommendations to the Board.
- The implementation of the approved sustainability strategies is driven by the Chief Executive Officer, who reports to the Board Sustainability Committee.
- The Chief Executive Officer is assisted by the Risk Management Committee and the Chief Sustainability Officer, who coordinates with various departments or functions on sustainability matters and oversees engagement with stakeholders and conduct of materiality assessment.

3.3 Accountability and assurance

3.3.1 Accountability and performance

To align its commitment and interest with longer-term strategic direction, an organisation is encouraged to consider sustainability performance, including targets and measures, as criteria for assessing the effectiveness of the Board, Board committee, individual directors and key senior management. In doing so, the sustainability considerations of the organisation will need to be linked to the remuneration of directors, as well as key senior management personnel. This is in conjunction with the emerging trend for remuneration of directors and senior management which calls for a long-term focus to protect the interests of an organisation.

The remuneration of directors and key senior management could be determined by sustainability-related key performance indicators ("KPIs"), which could be closely linked to the business strategy, and considered alongside other key success factors, e.g. revenue generation and risk management.

For example, an organisation in the financial sector is likely to have customer data protection as a sustainability-related KPI which can then be linked to the remuneration of the Board and senior management.

Example: Assurance practice

The Board of an oil palm plantation business requires the Chief Executive Officer ("**CEO**") to provide assurance over the adequacy and effectiveness of risk management and internal control systems in the organisation. To substantiate his/her assurance to the Board, the CEO requires assurance to be provided by each head of department, focusing on the risk management and internal control of their respective departments.

As the organisation's current management assurance process takes into account sustainability management, the head of estate operations of the oil palm plantation business needs to assure that there are controls in place to preserve and protect endangered species within the vicinity of its operations, amongst others. At the same time, the head of corporate communication provides assurance on the stakeholder engagement and materiality assessment process (assuming that these responsibilities are assigned to the corporate communication department).

3.3.2 Board's assurance

In approving the sustainability disclosure and making it publicly available to the organisation's stakeholders, the Board should be satisfied with the accuracy and completeness of the sustainability information disclosed. The Board may obtain internal and/or external assurance that an adequate and effective system of internal control and risk management is in place, focusing on, amongst others, sustainability-related internal controls.

It is a best practice for Boards of listed issuers in Malaysia to disclose if they have obtained assurance from their Chief Executive Officers and Chief Financial Officers on whether the organisation's risk management and internal control system is operating adequately and effectively in all material aspects.[4] Boards may consider leveraging current management assurance processes to include sustainability management such as stakeholder engagement and materiality assessment.

Boards may also engage independent professionals to conduct audit or assurance activities and obtain an independent opinion with respect to the quality (e.g. accuracy, completeness) of sustainability information disclosed. Given the Board's role in overseeing audit activities, the Board may delegate the responsibility to the Audit Committee to oversee the conduct of the audit or assurance activities. See following subsection **Accountability and assurance: Audit Committee's role** for further details.

3.3.3 Audit Committee's role

In some organisations, the Risk Management Committee notifies or reports to the Audit Committee especially on risk management matters relating to the adequacy and effectiveness of internal control over financial reporting. A similar approach may be taken for sustainability management. Sustainability risks (e.g. climate change events such as floods and earthquakes that significantly affect revenue generation and debt collection of the business) which have significant financial implications need to be reported to the Audit Committee. The Audit Committee needs to be able to relate the impacts of sustainability information presented to it, in terms of the risks and opportunities, to financial reporting. This enables the Audit Committee to be better positioned to carry out its oversight role over financial reporting as well as evaluate business performance to determine if the organisation is progressing according to its business strategy.

The Audit Committee's role in overseeing the organisation's audit activities may also include assisting the Board in obtaining the assurance in relation to the organisation's sustainability management, as mentioned in **Accountability and assurance: Board's assurance** above. The Audit Committee may consider extending the scope of its internal audit function to include processes and systems around sustainability management and reporting of the organisation. Further, the Board may also delegate its responsibility to the Audit Committee to oversee any periodic or ad-hoc audit or assurance activities with respect to the organisation's sustainability management and reporting processes.

Food for thought

- How does the Board ensure that sustainability matters are being managed in a manner that supports or drives the business strategy?
- Does the organisation's internal audit areas cover sustainability?
- What is the Audit Committee's role in ensuring all sustainability-related figures reported are accurate and complete?

[4] By virtue of Paragraph 15.25 and Practice Note 9 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, together with the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers.

3.3.4 Sustainability disclosures and assurance

The relationship between an organisation and its internal and external stakeholders contributes and affects its value. The ability of an organisation to engage and communicate effectively with its key stakeholders may determine its long term success, viability and growth. Therefore, sustainability disclosure serves as a continuous engagement with stakeholders in communicating and sustaining the business value. Sustainability disclosure also provides an avenue to benchmark and assess the organisation's performance, in various contexts such as legislation, regulations, performance standards, industrial commitments, etc. It demonstrates how the organisation responds to its economic, environmental and social risks and opportunities.

Best practice: Value of Reporting

Figure 6 below illustrates how sustainability reporting can be used to position the organisation, from a tool to promote reputational benefits to one that focuses on value enhancement to the reporting organisation and its stakeholders:

Figure 6

(Source: Sustainability Reporting – A Guide, KPMG Australia, 2008)

3.3.5 Reporting assurance

The transparency and credibility of sustainability disclosures may be enhanced by independent assurance, providing better value to the organisation and its stakeholders. Accountability and transparency are seen as an enabling factor for organisations to develop and maintain (internal and external) stakeholder confidence.

Assurance may be provided on a variety of areas, depending on the areas the organisation wishes to focus on, as well as the desire to obtain assurance without placing undue burden to the organisation. Commonly, organisations obtain assurance with regard to credibility, reliability and/or relevance of disclosures.

Adherence to international reporting standards and guidelines, coupled with assurance on reporting, facilitates stakeholder trust in reporting. Commonly, assurance of sustainability reports and/or processes may be performed in accordance with assurance standards such as ISAE3000 (International Standard on Assurance Engagement) or AccountAbility's AA1000 series of standards.

Best practice: Disclosing assurance provided

Where some form of assurance is provided, organisations are encouraged to detail the nature of the assurance. This may include:

- the organisation's approach and current practice(s) with regard to assurance;
- the relationship between the organisation and assurance provider, including details of how independence and conflicts are identified and managed; and
- involvement of the highest governance body or senior executives in seeking assurance on the organisation's sustainability-related disclosures, including internal sign-off of these disclosures.

4. Disclosure of Governance

The governance structure of sustainability sets out the systems and processes around sustainability management for an organisation, including how sustainability is linked to business strategy, stewardship and roles and responsibilities of the Board, management processes, etc.

With respect to **Paragraph 6.2(a) of Practice Note 9 of the Main LR,** the Guide recommends the following disclosure requirements relating to governance structure[5]:

- the role of the highest governance body (e.g. Board or sub-committees, etc.) in setting the organisation's purpose, values and strategies which incorporates sustainability considerations; and
- the role of the highest governance body or person (e.g. sustainability committee chaired by CEO) responsible for identifying, evaluating, monitoring and managing EES risks and opportunities.

[5] 'Governance – G4 Sustainability Reporting Guidelines: Reporting Principles and Standard Disclosures, Global Reporting Initiatives, 2013.

Further to the above-mentioned recommended disclosure requirements, meaningful disclosure on good governance of an organisation's sustainability management may entail the following information:

- the Board's roles and responsibilities, and the activities performed for the year in relation to sustainability;
- the way in which sustainability is incorporated into the organisation's business strategy;
- identification or appointment of an individual or function with ultimate responsibility for sustainability reporting;
- identification of an individual or function responsible for the day-to-day management of sustainability and the reporting structure; and
- review, and assurance where applicable, of the sustainability management and reporting process in ensuring the effectiveness and adequacy of the system.

5. Reference to International Standards

1. *AA1000 AccountAbility Principles Standard 2008*, AccountAbility, 2008.
2. *G4 Sustainability Reporting Guidelines: Reporting Principles and Standard Disclosures*, Global Reporting Initiatives, 2013.
3. *G4 Sustainability Reporting Guidelines: Implementation Manual*, Global Reporting Initiatives, 2013.
4. *The International <IR> Framework,* International Integrated Reporting Council (IIRC), 2013.
5. *Integrated Governance: A New Model of Governance for Sustainability*, UNEP Finance Initiative, 2014.
6. *From Tactical to Strategic: How Australian businesses create value from sustainability*, Global Reporting Initiative Focal Point Australia, Sydney, 2014.
7. *The KPMG Survey of Corporate Responsibility Reporting 2013,* KPMG International, 2013.