

Changing Approaches to Management Systems

CEAA Annual Conference
Vancouver, BC
October 14, 2004

Presentation Outline

- ❑ Current Auditing Landscape
- ❑ Corporate Governance Changes
- ❑ Impact on EHS Auditing and Auditors

New Economy - Trends

E-Business



Globalization



Stakeholder World



Knowledge Economy

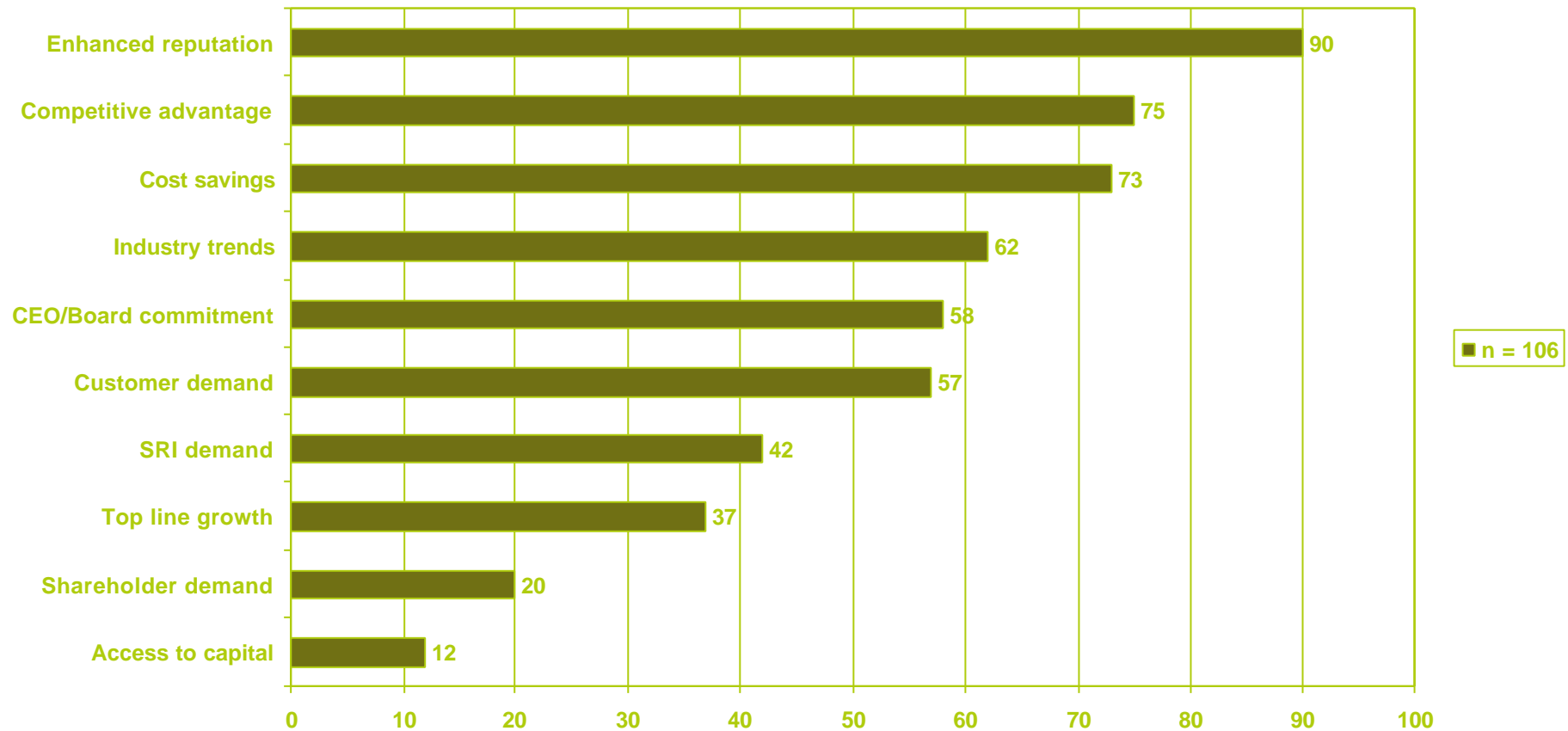


Influence of Stakeholder World

- ❑ CERES, WBCSD, UN Global Compact
- ❑ Non-financial performance measures
- ❑ Book value/market value gap
- ❑ Value of reputation and brand

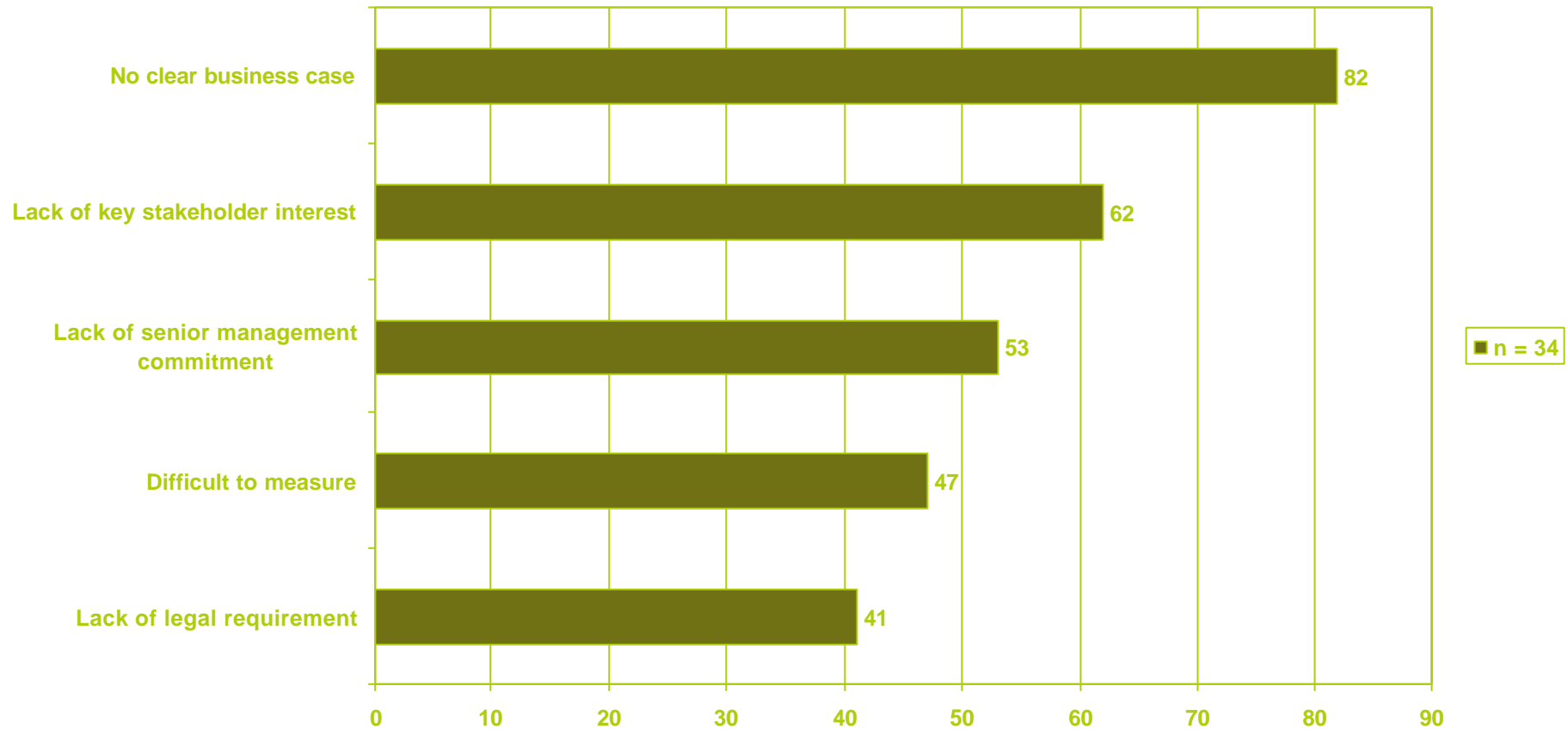


Top Ten Reasons Respondents Have Adopted Sustainable Business Practices*



*Source: PwC Sustainability Survey Report (August 2002)

Top Five Reasons Respondents Have Not Adopted Sustainable Business Practices*

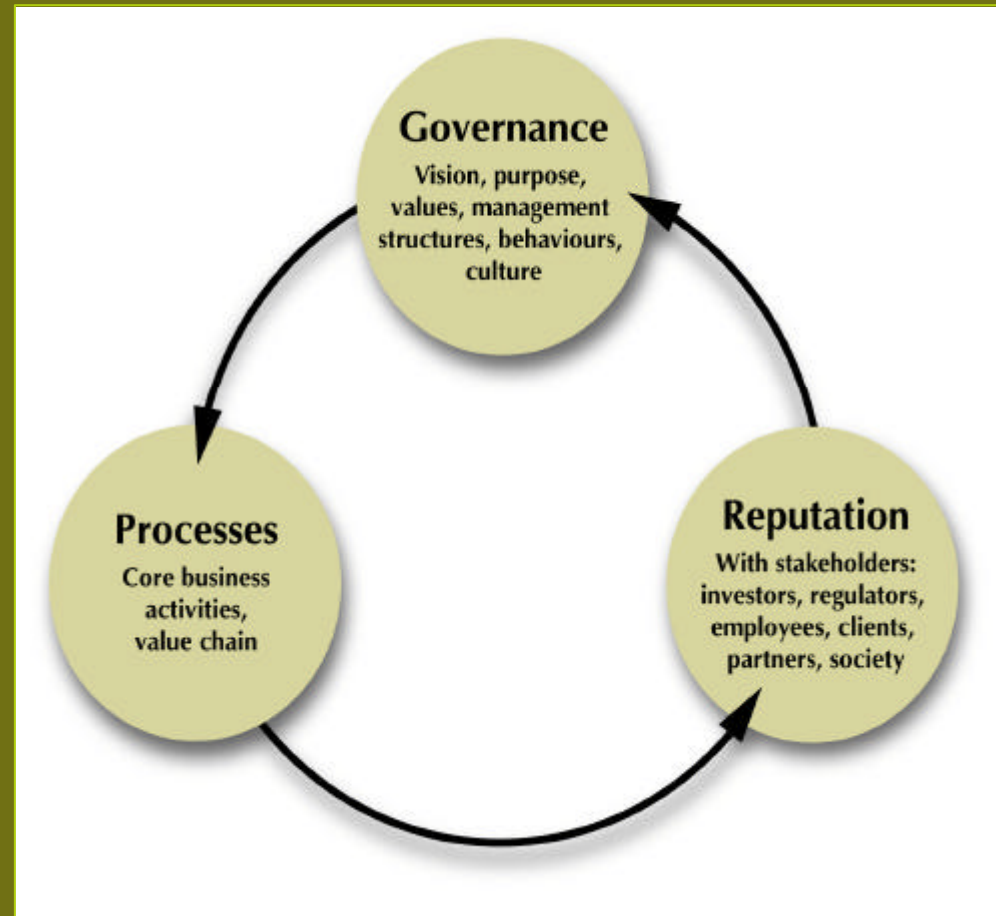


*Source: PwC Sustainability Survey Report (August 2002)

The PwC Sustainable Business Model

Differentiators

- ❑ Sustainability principles in strategic orientation
- ❑ Different values – which they live
- ❑ Broader measures of value and success
- ❑ Serving a wider range of stakeholders



Role of Regulatory Changes and Voluntary Initiatives

- ❑ Sarbanes-Oxley (SOX) Act (2002)
- ❑ Bill 198/Ontario Securities Act (2004)
- ❑ Global Reporting Initiative (GRI)



Sarbanes-Oxley Act (2002)

- ❑ SOX designed to restore confidence in capital markets and financial reporting
- ❑ Increases responsibility of officers and BOD
- ❑ Enhances personal accountability of CEO and CFO
- ❑ Strengthens internal control frameworks
- ❑ Enhances transparency
- ❑ Severe penalties – disbarment, fines, prison terms

Sarbanes-Oxley Section 302

- ❑ Requires quarterly and annual certification by CEO and CFO regarding
 - Completeness and accuracy of financial reports
 - Nature and effectiveness of internal controls supporting information reported
- ❑ Deficiencies and any fraud in internal controls have been disclosed
- ❑ Changes in internal control frameworks



Sarbanes-Oxley Section 404

- ❑ Requires an annual report by management regarding internal controls and procedures for financial reporting
- ❑ Attestation required as to accuracy of report by financial auditor
- ❑ What will external auditor expect to see?
- ❑ Are there business risks to different levels of assurance for \$\$\$ reported in
 - Financial statements
 - Financial disclosures
 - External disclosures
 - Internal reports?



Bill 198/Ontario Securities Act (2004)

- ❑ Broadens Ontario Securities Commission (OSC) powers
- ❑ Penalties for non-compliance and fraud increased
- ❑ Regulators directed to develop rules to enhance investor confidence
 - MI 52-109 requires CEO and CFO certification process (as for SOX 302)
 - MI 52-110 Audit Committee rule
 - MI 52-108 Auditor Oversight rule (CPAB)



Global Reporting Initiative (GRI)

- ❑ Sustainability reporting guidelines
- ❑ Voluntary, consensus-based
- ❑ Linkage to globalization trend
- ❑ Corporate governance initiatives
 - Cadbury/Turnbull (UK)
 - King Report (S Africa)
 - Brazilian Stock Exchange
 - OECD Guidelines
 - World Bank Governance Forum
 - SOX/Bill 198



GRI - Corporate Governance

- ❑ Overview of governance structure
- ❑ Overarching business policies
- ❑ Management systems
- ❑ Stakeholder engagement



Sustainability Governance - Definition

“The processes and structure used to direct and manage the corporation’s sustainability policy and goals with the objectives of preserving and enhancing shareholder value”



GRI - Corporate Governance

- ❑ Overview of governance structure
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Environmental Considerations in Financial Statements

❑ Reserves for environmental remediation liabilities (contaminated sites, etc.)

- Completeness of costs
- Discounting
- Capital/operating expense classification

❑ Other environmental liabilities (fines, litigation, etc.)

❑ Potential recoveries (insurance, other Responsible Parties)

❑ Asset retirement obligations – ponds, lagoons, asbestos, etc.

❑ Environmental guarantees



Enron Fallout – Governance in the Spotlight

- ❑ Broader scope of management systems
- ❑ Enterprise risk management (ERM)/COSO
- ❑ Integrated management systems

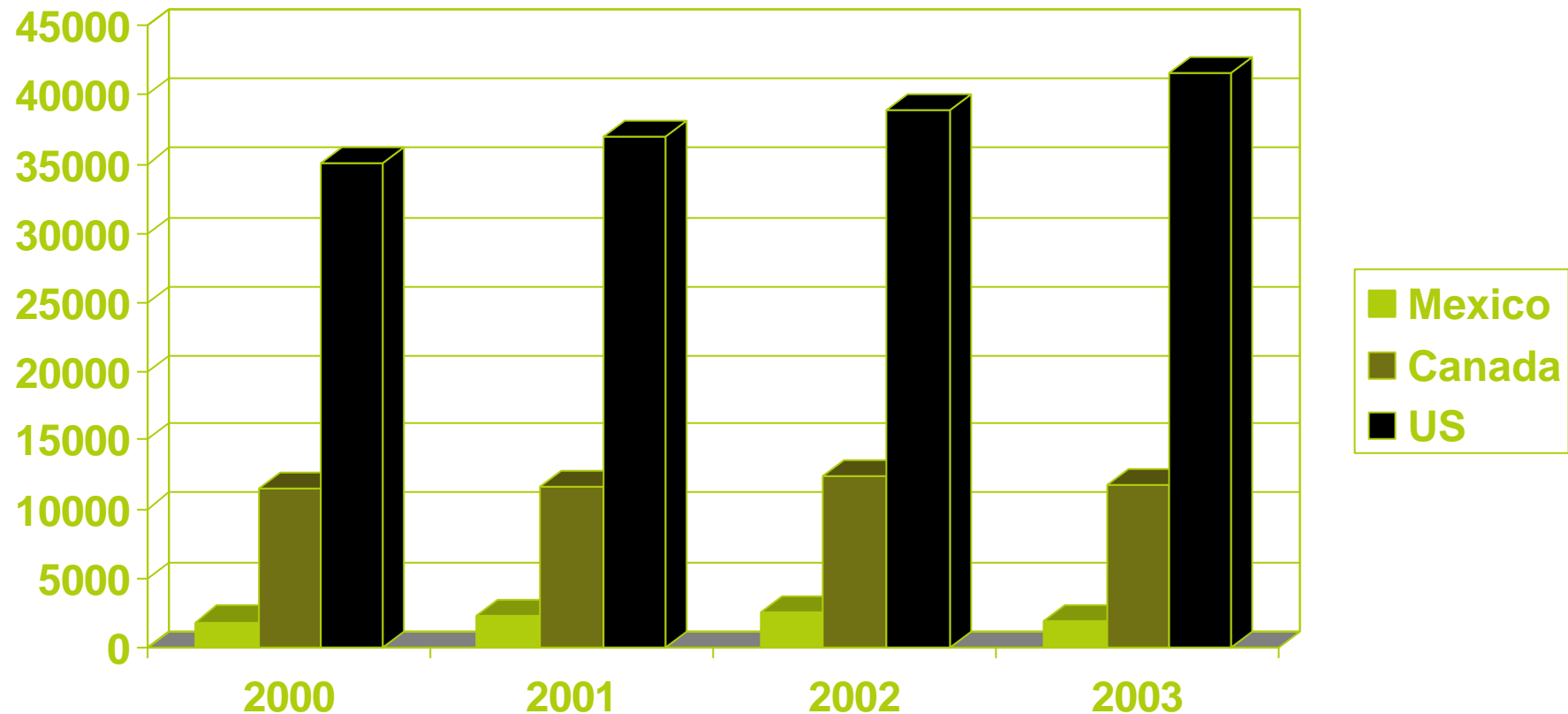


Closer Linkage – Financial and Operational (EHS) Functions

- ❑ Alignment of performance objectives with strategy
- ❑ Impact of internal and external events
- ❑ Feedback to strategic planning and objectives setting
- ❑ Risk assessment/response
- ❑ Information and communications

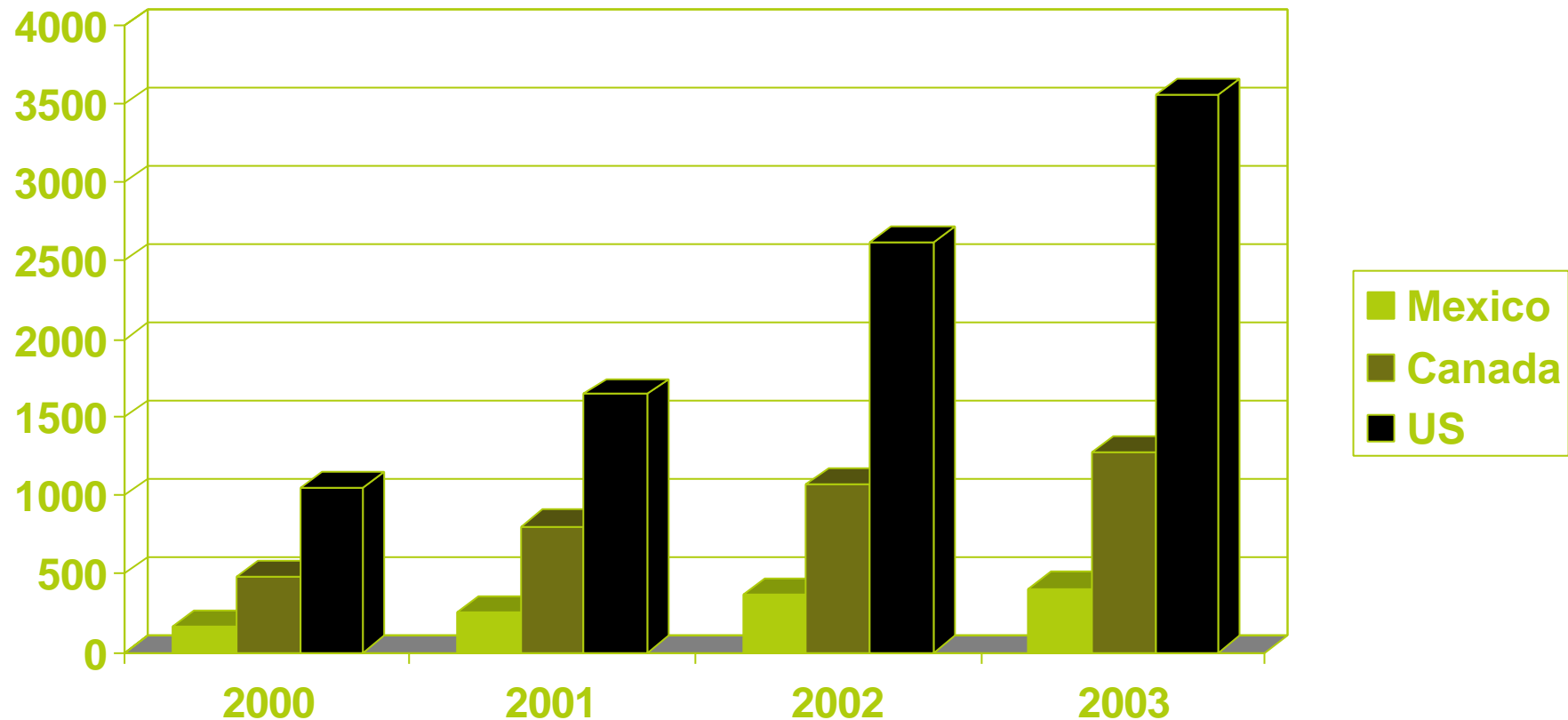


Growth in ISO 9001 Registrations – North America*



*Source: The ISO Survey of ISO 9001:2000 and ISO 14001 Certificates (2003)

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Shift in Emphasis to Support Financial Reporting

- ❑ Knowledge of internal financial and operational controls
- ❑ EHS issues and financial relevance



Key Take-Homes



- ❑ Influence of external stakeholders/reputation
- ❑ Financial controls impacting EHS management systems
 - ❑ Systems integration
- ❑ Shift in emphasis to governance elements of management systems

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