



# OECD Auditors Alliance ideaLab Session

FROM BLACK TO GREEN

Auditing environmental crime and violations by large companies

*Sep 29, 2021*



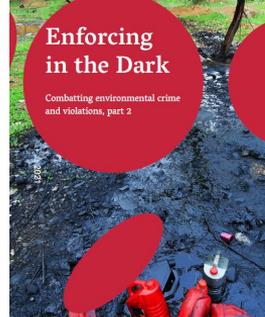
**Algemene  
Rekenkamer**

# The PROBLEM - What are we dealing with?

- Environmental crime and violations by large companies in chemical and oil industries
- Damages to society significant: environment, health, market competition
- Times-are-a-changin': public opinion and regulations
  - Recent IPCC report: Man-made disaster in the making due to climate change
  - Dutch court ruling: Shell must dramatically reduce its carbon emissions
- Combating environmental crime and violations are probably part of the solution

# Research phases in a recent Dutch audit

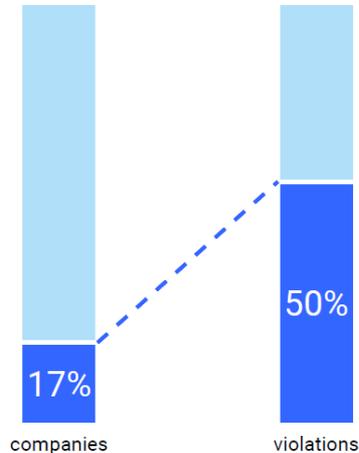
- **Exploratory phase:** identifying relevant auditing norms (i.e. legislation and prior AR reports in our case), talks with stakeholders, asking for access to relevant data
- **Analysis phase:** identifying data flaws (which led to separate report), data preparation, pattern detection
- **Conclusion phase:** relating data patterns to the auditing norms.
  - With the audit criteria, we chose to not go beyond current regulation, but conclude that the current situation fell short of living up to auditing criteria. There is a gap between regulations and desired behaviour
- **Recommendation phase:** Here we did some recommendations that went beyond current regulations, i.e. making inspection results public
- **Post-audit phase:** Involving relevant parties, from both government and the industry



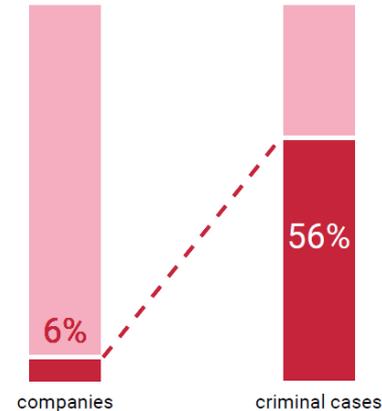
# The landscape is differentiated

- Our Dutch audit on detected violations showed that the problem is concentrated
- Frequent offenders (BLACK) – Middle group (GREY) – High compliance group (GREEN)

**80 companies (17%) responsible for 1,750 violations (50% of all violations)**



**30 companies (6%) responsible for 88 criminal cases (56% of all criminal cases)**



# What do these results mean for auditors?

- Current environmental regulations are not always adequate in preventing and addressing the environmental impact of polluting companies.
- This “Regulatory Gap” reduces the value and impact of audits and inspections.
- **What can both internal and external auditors do to bridge this gap and help these companies go “greener”?**
- What (other) audit criteria can be applied?
- What stakeholders can play a role?
- What role is there for reporting standards?

# Mentimeter (1)



Criteria and recommendations:

- Should audit ***criteria*** go beyond current regulations?: **yes/no**
- Should audit ***recommendations*** go beyond current regulations?: **yes/no**

## Mentimeter (2)

- Should auditors work with stakeholders, including the industry, to formulate audit ***criteria*** that go beyond current regulations?: **Yes/no**
- Should auditors work with stakeholders, including the industry, to formulate ***recommendations*** towards bridging the regulatory gap?: **Yes/no**
- Do you think reporting standards can be a powerful change agent in bridging the regulatory gap?: **Yes/no**

# Reflection by Martin Dees

- Responsibility and accountability as underlying forces for sustainable (including environment-friendly) governance
  - formal, socially expected, and self felt responsibility/accountability (external and internal stakeholder dialogue!)
  - statement of responsibility as a starting point (from violator to ambassador?)
- Potential of reporting and auditing
  - proposed Corporate Sustainability Reporting Directive (April 2021) as an opportunity: *‘The reporting standards should promote a more integrated view of all the information published by undertakings in the management report to provide users of that information with a better understanding of the development, performance, position and impact of the undertaking’*. Requirement of audit (assurance) by statutory auditor. Equal status of sustainability information and financial information
  - auditors could also be ambassadors and advisors (‘triple A’-involvement)
  - public sector should respond by embracing integrated reporting as well!

# Summary of key takeaways

- **Check out the audit by the Netherlands Court of Audit, *Enforcing in the Dark***
- <https://english.rekenkamer.nl/publications/reports/2021/06/30/enforcing-in-the-dark>

