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Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the World Business Council for Sustainable Development (WBCSD)

Re: Public Exposure of Draft Supplemental Guidance *Enterprise Risk Management: Applying enterprise risk management to environmental, social and governance-related risks*

Dear COSO and WBCSD,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to share comments regarding the COSO and WBCSD Public Exposure of Draft Supplemental Guidance *Enterprise Risk Management: Applying enterprise risk management to environmental, social and governance-related risks* (Guidance). ALGA represents more than 350 audit organizations and more than 2,200 members. This topic is of interest to our members, and we encourage individual audit organizations and members to comment independently should they choose to do so.

We have reviewed the exposure draft in its entirety. Overall, we believe the Guidance is clear and understandable and the examples are helpful. In addition, we agree that the guidance will help organizations respond to ESG-related risks. Nevertheless, the Guidance states that it is designed to be used by any organization, including governments. The language used throughout the Guidance is directed toward publicly traded companies. Therefore, we recommend the Guidance incorporate language, examples, and survey information that is more inclusive and representative of government organizations.

We provide some examples of how government can be incorporated into the Guidance and also some general comments below.

1. The following are general examples of areas where government could be incorporated into the Guidance:
 - a. Consider using a term like 'stakeholder' when using the term 'investor.' The term investor is used frequently in the document in a manner that refers to corporate investors and does not address government parties.
 - b. Consider using language, such as 'governing body' or defining the term 'board' at the beginning of the Guidance to help better represent government organizations.
 - c. On page 24 a survey of public companies is referenced. Is there a government survey or just examples of governments that have implemented ERM?

- d. There are opportunities to add government examples to page 5 and 27.
 - e. Beyond a vision and mission statement there are other opportunities for governments to promote ESG through tools such as legislation and resolutions.
 - f. On page 75 there is a significant focus on corporate risks in terms of revenue, costs or EBITDA. Governments may have a very different primary focus, such as maintaining public safety.
2. We agree with the introduction on page 4, that governments have various roles in solving ESG-related risks and some ESG-related risks are identified and addressed based on the types of services provided. However, governments are also similar to all other organizations and have ESG-related risks that relate to how they conduct their government operations and provide services as well. For example, a government unit can own many buildings and vehicles that are used to deliver their services. Although it is not the primary responsibility or mission of the government unit, efforts can be made to reduce energy usage and increase the use of alternative fuel types.

We recommend a section be written that talks more specifically about governments' role in ESG and their responsibility to identify and respond to ESG-related risks relevant to how governments' conduct operations and provide services.

3. The introductory paragraph on page 3 states

Over the past decade, the prevalence of ESG-related risks has steadily increased while the more traditional economic, geopolitical or technological risks are less dominant.

This statement appears to contradict the information provided in Table 0.1 on page 4 which identifies cyberattacks, a subset of technology, as a top risk according to the World Economic Forum's Global Risks Report. We recommend removing the term technology or clarifying the statement.

4. The last box on page 16 attempts to differentiate "corporate governance" from the third pillar of ESG, "governance." However, the third pillar of ESG was not defined in the document. The information provided does not clearly differentiate the meaning of the terms. We recommend adding a definition of the third pillar of ESG earlier in the document to be used for comparative purposes.
5. On page 29, the Guidance recognizes the need for everyone to have a broad understanding and ability to manage ESG risks, however, some internal and external customers (i.e., risk owners, board member, and citizens) may not understand ESG limiting their contribution to the process. The Guidance does not offer a way to ensure everyone is educated. To address this need, we recommend adding training about ESG in general and the type of risks that are relevant for both internal and external customers to this page.
6. On page 38, the Guidance suggests the reader identify *what shifts in the regulatory or legislative environment impact the organization*; however, very little attention is given on how to identify or address ESG regulation and legislation in Modules 4 and 5. We recommend the Guidance specifically address how to identify or address ESG legislative and regulatory issues in Modules 4 and 5.
7. It is not clear how the example on page 45 relates to the topic of this section titled *Stakeholder Engagement*. We recommend additional information be added to the example to clarify how it ties in with the section. For example, the title of the example can be changed to include language from the applicable section, such as 'Entergy New Orleans – the value of stakeholder information.' We also recommend using

the term 'blind spot' or other relevant term within the body of the example to help connect the guidance and example together.

8. On page 77 an example of how JetBlue assessed an ESG risk is provided, however, the example does not give information on what JetBlue did with the assessment. If the results of the assessment were not used in decision making the example may not be relevant. We recommend adding a conclusion on how this information was used or would have been used.
9. The *Expert Input* section on page 80 suggests the use of the Delphi approach to obtain expert input. Like some of the other tools listed in this module, the Delphi approach has some limitations. We recommend adding a sentence to note that the Delphi approach has pros and cons which should be explored and understood before application.
10. The terms inherent and underlying assumptions are used on page 89. It is not clear if the terms underlying and inherent have a different meaning in this case. We recommend using one word or the other if the terms can be used interchangeably or are not significantly different.
11. The draft does not address the need to review and revise ESG-related risks for unintended consequences of decisions made in response to ESG risks. We recommend a discussion about unintended consequences of ESG responses be discussed in another section on page 116.
12. The examples in Table 7.2 are comprehensive and easy to understand. Without more precise information the example used to make the point after this table did not add any value. We recommend removing the example on page 126.
13. The purpose of Table 7.5 and the following section, *TCFD's Core elements of recommended climate-related financial disclosures*, on page 130 are not clear. We recommend additional information be added to clarify the correlation to the module.
14. The checklists in each section are a great tool for users of the Guidance. We recommend the checklists in each module also be included as a separate attachment or addendum for ease of use.
15. A case study that illustrates an application of the model would be a useful way to present the Guidance. We recommend a case study be developed and added to the appendix.
16. We also recommend correcting the following:
 - a. Pages 70 and 73 each have a Figure labeled as 4.1 and both figures have the same title. We recommend changing the second Figure's number (4.1a) and title to address that information was added.
 - b. The reference to section 3 on page 72 should be updated to refer the reader to a page number;
 - c. Table 4.7 on page 79 and Table 7.5 on page 130 have not been referenced in the narrative of the Guidance. To help improve readability of the Guidance, consider referencing the Tables within the narrative;

- d. Figure 6.1 is a visual aid that can be difficult to interpret. The words are not legible without zooming in on the screen; and
- e. White letters do not print very well on a gray background even in the printable version of the document.

Thank you for the opportunity to provide input in the review process.

Respectfully submitted,

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