Non-Financial Reporting in European Arena and Internal Audit at a Global Enterprise

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Agenda

1. Autogrill Group
2. General Principles at Autogrill S.p.A.
3. IA at Autogrill S.p.A.
4. Risk Audit Work Cycle – Risk Assessment
5. Challenges for IAs
The world’s leading provider of food & beverage services for travelers

- 29 countries
- About 1,000 locations
- More than 4,300 stores

90% of our business is carried out through concessions

Airports
Motorways
Railway stations
Serving 900m customers with leading brands and a diverse employee base

- 54,000 Employees (61% of whom are women)
- 250 Brands
- 900m Customers per year
Leader with a global footprint

Net sales by region:
- North America: 47%
- North Europe & Rest of the world: 28%
- Italy: 7%
- Other regions: 18%

Net sales by channel:
- Airports: 50%
- Motorways: 41%
- Railway stations: 4%
- Others: 5%

€3.9 billion F&B revenues in 2014
A global restaurant

**NORTH AMERICA**
- 82 airports
- 97 service areas
- 5 shopping malls

**EMEA**
- 40 airports
- 625 service areas
- 55 railway stations
- 72 towns, malls and other venues

**ASIA and PACIFIC**
- 21 airports
General Principles

Assumption

Autogrill intends to ensure that all corporate levels are aware of the need of adequate risk and control management system, which is essential for orienting the company to the achievement of its goals.

All Autogrill employees are responsible for the correct operation of the internal risk and control management, within the scope of their functions.

Risk and control management is a process, effected by an entity’s board of directors, management, and other personnel, applied in strategy setting and across the Enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

By identifying and proactively addressing risks, business Enterprise protects and creates value for its stakeholders, including owners, employees, customer and society overall.
General Principles

Code of Ethics – Value

*Ethical, legality* and *fairness* are the three *values* which Autogrill brings to all its relationships, both inside and outside the organization.
General Principles
Code of Ethics – Internal Control System

The Code of Ethics defines the Internal Control System.

It is the set of instruments necessary or appropriate to direct, manage, and monitor the activity, with the objective of ensuring the effectiveness and efficiency of operations, compliance with laws and company procedures, the protection of corporate assets and minimization of risks.

“Autogrill acts pursuant to the principle whereby each Recipient is accountable for their activities and for compliance with the principles of the Code and with every corporate standard or procedure [...] intends to establish an adequate internal control system which is essential for orienting the company to the attainment of its goals”
• **Vision:** Elevating risk and control awareness throughout the organization by promotion of the company’s values.

• **Mission:** Evaluate Group’s risk management and internal control system adequacy, adoption and effectiveness giving objective assurance to top management and Control Bodies.
IA at Autogrill S.p.A.

Organizational Reporting Line

Chairman

Board of Directors

Statutory Board

CEO

Director in charge of Internal Control & Risk Management

Control & Risk Committee

Chief Audit & CSR Executive

MetricStream

GRC SUMMIT 2015
Risk Audit Work Cycle
With the help of the MetricStream Solution...

A comprehensive Audit Management Solution with advanced capabilities:

- Risk based auditing, audit project management, issue tracking
- Built-in remediation workflows, time tracking, automatic alerts, and offline capabilities

Enables IAs and CAEs to build a robust internal audit framework:

- Aligned with the Standards and best practices
1. Risk Analysis and Assessment
Risk assessment per business entity of risk category, risk area, risk’s universe and processes.

2. Risk Audit Plan
Planning and scheduling per business entity, per risk area and risk category.

3. Engagement Planning
Develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations.

4. Fieldwork
Document collection, interviews, risk & control management answers evaluation, worksheet, flowchart, testing.

5. Audit Report
General Risk & Control Management System evaluation, reporting detailed risk audit result (findings, recommendations, action plan).

6. Follow-up
Action plan major issues implementation status review and reporting.

Continuous Auditing
Risk Assessment to identify KPI/KRI to monitor risk area/process on regular basis.
IA Risk Audit Work Cycle

Risk Analysis & Assessment

The construction of the audit plan is based on a structured activity of RISK ASSESSMENT.

The risk analysis is an assessment of risk and materiality related to department risk management strategy and practices, compliance objectives, management control framework and practices, financial and performance information.
IA Risk Audit Work Cycle

Risk Analysis & Assessment

The **Risk Based Methodology** for Audit Plan deployment lays its grounds on the definition of three main pillars, which are part of the Risk Assessment Framework:
IA Risk Audit Work Cycle

Risk Analysis & Assessment

Risk Based Methodology – Risk Assessment Framework

The Risk Assessment Framework comprises all aspects coming from the risk analysis and assessment activity, which is performed by mean of a “risk assessment operational matrix” implemented by Group Internal Audit Dept, in order to:

- Map Risk Areas of the Risk Categories, taking in consideration managed processes of every business entity;
- Include information resulting from Risk Assessment;
- Process all collected information in a structured way;
- Support the definition of the audit plan.
Overcoming Business Challenges Challenges for IAs

- More complex responsibilities, less resources
- Inefficient manual processes
- Lack of streamlined processes
- World-wide collaboration, coordination and integration
- Limited visibility into internal audit processes, quality assurance programs and action plans
Companies are facing an increasingly complex and varied set of challenges such as demographic changes, human rights issues in the supply chain, environmental pressures, that:

– it is becoming increasingly clear that traditional financially oriented management and corporate reporting does not help investors understand and feel confident in their understanding of a company’s full range of current activities and future direction, including both its financial and non-financial aspects;

– non-financial reporting offers significant benefits to organizations in terms of stakeholder engagement, reputation and risks control;

– businesses more and more use sustainability reporting as a powerful tool in their decision-making as well as in their corporate policy and strategy.
EU DIRECTIVE AND ECIJA POSITION PAPER ON NON FINANCIAL REPORTING

CORPORATE SOCIAL RESPONSIBILITY

The European Commission puts forward a new definition of CSR as “the responsibility of enterprises for their impacts on society”.

To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of:

– maximizing the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;
– identifying, preventing and mitigating their possible adverse impacts.
Current EU legislation, in particular, the Fourth Company Law Directive on annual accounts, addresses the disclosure of non-financial information in a way that companies may choose to make public certain information on environmental, social and other aspects of their activities.
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WHAT’S AROUND EUROPE

Over time, some Member States have introduced disclosure requirements that go beyond the Fourth Company Law Directive. For instance:

• the **UK** introduced legislation in 2006 which is now being updated;
• **Sweden** adopted legislation in 2007;
• **Spain** in 2011;
• **Denmark** amended its legislation in the same year;
• the latest update in **France** dates from May 2012.

On June 2013, regulation on sustainability reporting came into force in **Norway**. The Norwegian government requires large companies to provide information on how they integrate social responsibility into their business strategies.
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WHAT’S AROUND WORLD

Sustainability reporting is increasingly a core topic in international forums and was afforded unprecedented attention at the June 2012 United Nations Conference on Sustainable Development (Rio+20). At Rio, governments agreed on the importance of corporate transparency and sustainability reporting, and that they have a role to play in advancing it, as stressed in paragraph 47 of the outcome document The Future We Want.

In recent years also countries like India, China, Brazil, South Africa and the US have pioneered a number of innovative policies on sustainability disclosure.
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INTEGRATED REPORTING <IR>

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs.

Together, this coalition shares the view that corporate reporting needs to evolve to provide a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.

The International Integrated Reporting (<IR>) Framework is being developed to meet this need and provide a foundation for the future.
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INTEGRATED REPORTING <IR>

<IR> is a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation.

An integrated report is a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.
In its resolutions the EU Parliament acknowledged the importance of businesses divulging information on sustainability such as social and environmental factors, with a view to identifying sustainability risks and increasing investor and consumer trust.

The European Council formally adopted the Directive on Non-Financial Reporting with the objective of increasing EU companies’ transparency and performance in respect of environmental and social matters and thereby contributing effectively to long-term economic growth and employment.
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September the 29th, the European Union Council adopted the Directive on the disclosure of non-financial and diversity information. To comply with the new measures, public interest entities (defined by Art. 2 of the 2013 Accounting Directive as: listed companies, credit institutions, insurance undertakings, others defined by Member States as public-interest entities) with more than 500 employees will report on:

- environmental, social and employee-related, human rights, anti-corruption and bribery matters. Companies will also have to describe their business model, policies, outcomes of the policies and principal risks on the above matters, the diversity policy applied for management and supervisory bodies, and relevant non-financial KPIs.

Member States have 2 years to transposed the directive into national laws. Additionally, member States may exempt companies that provide a report of the FY which covers the same content and if it’s published with the management report in accordance, or made publicly available within 6 months after the balance sheet date.
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The European Commission aims to prepare a non-binding guidelines on the methodology for the reporting of non-financial information. The Directive should be translated into national law and the first publication of non-financial information is expected in 2017 for all European countries.

The European Commission plans to release a review report with possible further legislative proposals. The Commission is also examining the possibility of introducing an obligation requiring large undertakings to produce, on an annual basis, a country by country report containing tax-related information such as profits made, taxes paid on profits and public subsidies received. Conclusions in respect of this new requirement are due in July 2018.
In April 2015 the European Confederation of Institutes of Internal Auditing (ECIIA) published the guidance - *Non-financial reporting: building trust with internal audit*.

The guidance shows how internal audit can help organizations achieve better **transparency** in their **reporting** and **improve their corporate governance** when implementing the new European Directive on Non Financial Reporting.
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In this context, internal audit has a crucial role to play.

Internal audit’s remit goes beyond Financial Reporting and related controls.

Regarding non-financial reporting process and disclosures, internal audit can provide assurance that the risks are being effectively mitigated and suitable controls have been implemented.

Assurance over non-financial information is a developing area and internal auditors are in a good position to provide it as they have experience in carrying out assurance engagements in accordance with professional standards.

Internal Auditors should review their skill sets to be in a position to provide assurance on specific areas.
Thank You

Questions?

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