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Why Independence Matters: External Assessment and Assurance of ESG Performance in the Resources Sector

Centre for Social Responsibility and Mining

Sustainable Minerals Institute

August 2021

Introductions

Presenters

David Brereton | Emeritus Professor
Sustainable Minerals Institute

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Commentators

Deanna Kemp | Professor & Director
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Bruce Harvey | Adjunct Professor
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Acknowledgement of **Country**

The University of Queensland (UQ) acknowledges the Traditional Owners and their custodianship of the lands on which we meet.

We pay our respects to their Ancestors and their descendants, who continue cultural and spiritual connections to Country.

We recognise their valuable contributions to Australian and global society.



Webinar structure

Workshop aims and focus (5') David

Setting the context (10') David

Overview of key schemes and frameworks relevant to mining (15')
Kathryn

Ensuring independence and credibility (10') David

Recent Australian developments: MCA and Towards Sustainable
Mining (TSM) (5') David

Challenges and opportunities (5') David

Closing comments: Deanna and Bruce (10')

Q&A (10')



Webinar aims

1. Explain why external assessment and review of environmental, social and governance (ESG) performance has become an important issue for mining and other sectors.
2. Provide an overview of the assurance frameworks that are most relevant to the mining sector, focusing on *the asset vs. corporate level* (i.e. site level performance).
3. Clarify what is required for external assessors/reviewers to demonstrate independence and competence – and explain why these qualities are important.
4. Discuss the challenges and opportunities that developments in this area present for mining companies, industry professionals, and external parties.



Clarifying terminology

Assurance: An overarching term to describe the process of determining whether specified requirements relating to a product, process, system, person or body are fulfilled. Assurance processes can include audits, reviews and evaluations. Assurance may be undertaken internally, externally, or through a combination of approaches.

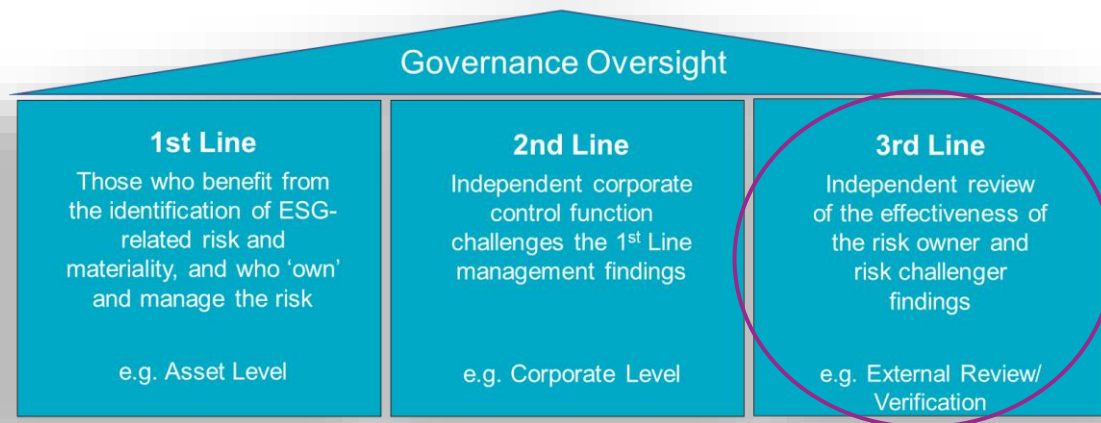
Verification: Assignment of responsibility to a qualified external party to confirm the accuracy, or otherwise, of an entity's performance and assertions. This can be done by reviewing work already done and/or collecting additional evidence.

Certification: Confirmation by a qualified third party that conformance requirements have been met to a specified level.



In an ideal world...

The three lines of defence model of assurance



Acknowledgements to Bruce Harvey



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Setting the Context

Recent developments in the global mining sector

A proliferation of ESG-related performance standards and assessment frameworks.

Increased (if uneven) adoption by companies.

Industry organisations are becoming increasingly active in the area.

Growing acceptance of the need for some form of independent assurance/verification of ESG performance.

Source of graphic: SRK Consulting



The Drivers

Growing global focus on sustainability and CSR.

Ongoing doubts about whether governments are able to provide effective oversight of companies and their ESG performance.

Lack of public confidence in the ability and willingness of companies to self-regulate. Concerns about 'greenwashing' and 'cherry picking'.

Rising demand from manufacturers and consumers for products and their component parts to be responsibly sourced (e.g. jewellery, computers, phones).

Companies have expanded their understanding of what constitutes a business risk.

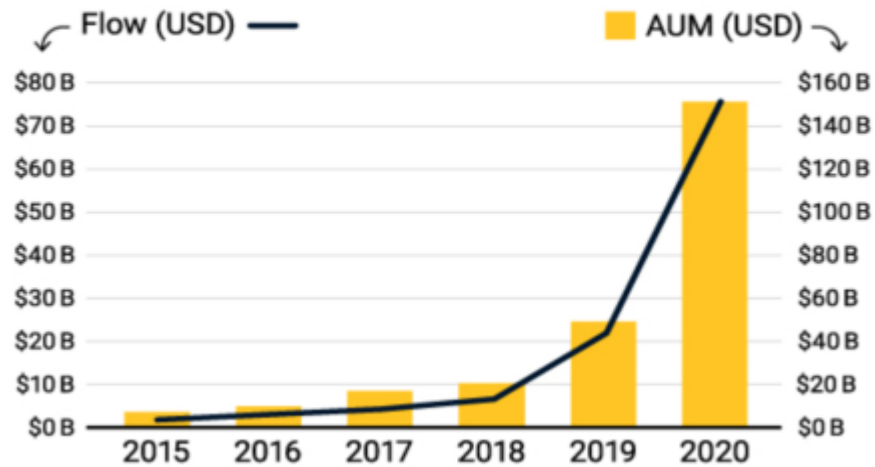
ESG investing is on the rise: investors – especially institutional investors - want credible information to guide their decisions.



Trends in ESG investing

Global ESG ETF growth

Since 2015, ESG ETFs have grown 25X, from \$6 billion to over \$150 billion AUM.



Source: Refinitiv/Lipper Research and MSCI ESG Research LLC (Feb, 2021)

<https://www.visualcapitalist.com/visualizing-the-sustainable-etf-universe/>





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Overview of Key Schemes and Frameworks

More terminology

Voluntary sustainability standards (VSS) are *“rules that producers, traders, manufacturers, retailers or service providers follow so that the things they make, grow or do don’t hurt people or the environment”*

(UN Forum on Sustainability Standards)

Performance Standard focuses on sustainable and responsible production

Chain of Custody Standard for due diligence, traceability and stewardship along the supply chain

Other terms: Performance expectations (ICMM) and Due diligence standard (Copper Mark)



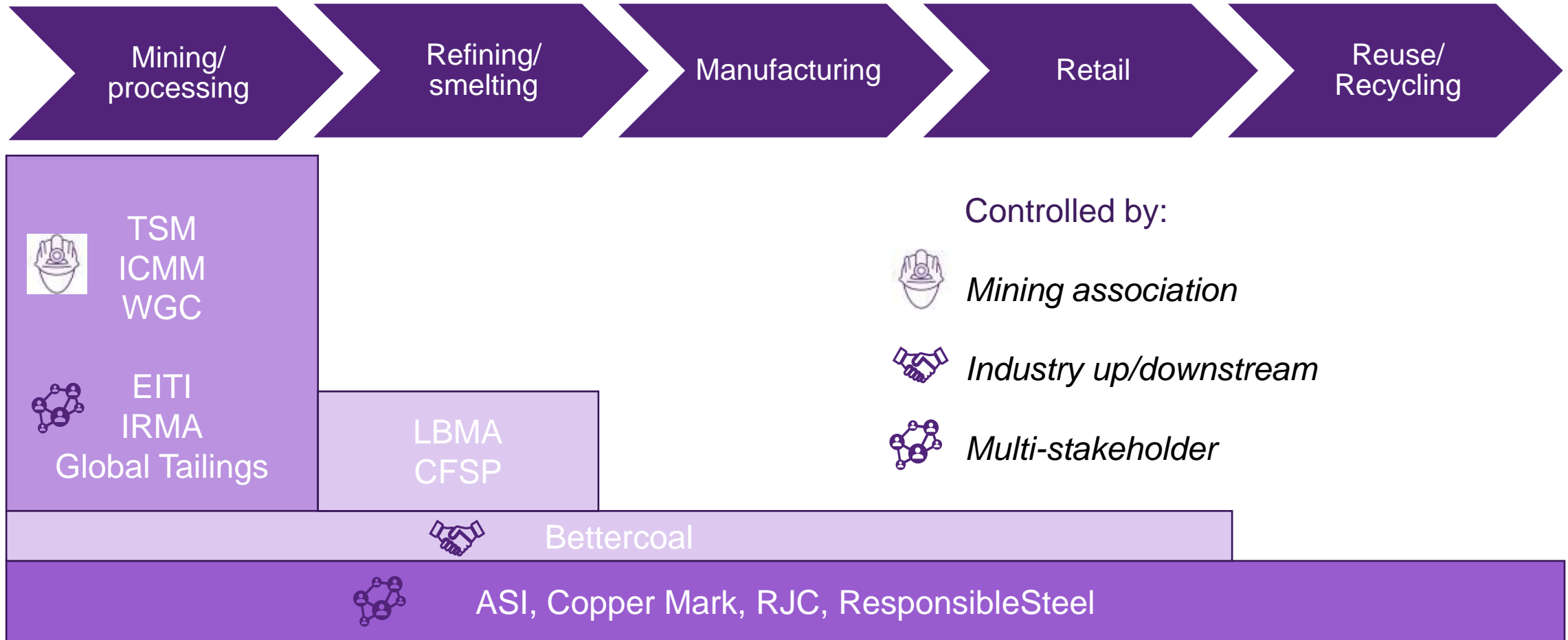
Proliferation of principles, schemes, initiatives...



The Cyanide Code



Scope of standards and certification



Local example: ASI certification at Gove, NT

Rio Tinto Aluminium 1st mining certification by ASI in 2018:

*“We received a letter from one of our major customers, who was asking, even before the ASI came out... **was our bauxite ethical?** We were able to say that we already had renewable energy in the refineries and smelter [in Canada], we had very strong land use agreements in place where we were mining bauxite [in Australia] ... **ASI certification** was clearly an advantage to the business...”*
(Interview VP Communities and Social Performance, 6/7/2018)

Lessons:

- Self-assessment before auditing identified gaps to address
- Site team was used to internal auditing, but found the process rigorous, e.g. re-certification required after 3 years, Feb-June 2021
- External auditors need training to balance independence with contextual understanding





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Good Practice in ESG Assurance

Standards for Standards

ISEAL is the global membership organisation for ambitious, collaborative and transparent sustainability systems



ISEAL Key design principles

Consistency: to ensure replicable results

Rigour: the ‘intensity’ of the assurance process that best enhances accurate results

Competence: of individuals carrying out assurance, to interpret and apply intent of the standards

Impartiality: to ensure fair and objective treatment of organisations seeking certification

Transparency: to provide for stakeholder scrutiny and build confidence

Accessibility: affordable, culturally sensitive, comprehensible and within reach of target clients



Demonstrating Independence

Mechanisms for establishing credibility with external stakeholders include:

1. Engagement rules for assurers that minimise the potential for conflicts of interest (real or perceived).
2. Strong professional competency requirements.
3. Transparency of process and outcomes.
4. Independent oversight mechanisms, including multi-stakeholder governance arrangements.



Competency

Lack of competency – real and/or perceived – is also a significant threat to credibility.

Competency encompasses:

- Technical competency (individually or collectively) in relevant disciplines.
- Adequate level of knowledge of the entity being assessed and the context in which it operates.
- Experience in conducting audits and assessments.
- Ability to analyse and interpret data: quantitative and qualitative.
- Engagement and listening skills.
- Ability to work in teams.
- The ability to identify and address threats to impartiality.



Examples of threats to impartiality

Self-interest threats: e.g. being in a financially dependent relationship with the entity being reviewed; or wanting to secure further business from that entity in the future.

Self-review threats: e.g. reviewing systems that you, or your organisation, were directly or indirectly involved in developing.

Familiarity (or trust) threats: e.g. having family or personal relationships with those whose work is being reviewed- also a perception risk

Intimidation threats: e.g. being explicitly or implicitly threatened with adverse consequences if outcomes of a review or assessment are unfavourable.

Bias threats: having ideological predispositions that favour, or are antithetical to, the entity being reviewed.

Source: Adapted from British Standards Institute (BSI) Conformity Assessment Requirements for bodies providing audit and certification of management systems



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Canada comes to Australia

Recent Developments

In early 2021 the Minerals Council of Australia (MCA) formally adopted *Towards Sustainable Mining* (TSM) an assessment and reporting framework developed by the Mining Association of Canada.

From 2025, MCA members will be required to assess and publicly report on their performance against TSM indicators.

- Work is currently under way to adapt TSM to the Australian context, establish governance arrangements and develop a training program.

The MCA emphasises that a key benefit of TSM is that an **independently verified** system will reinforce the sector's commitment to continuous improvement in safety, environmental and social governance (ESG).



Towards Sustainable Mining (TSM)



<https://mining.ca/towards-sustainable-mining/>

<https://mining.ca/wp-content/uploads/2021/01/TSM-Primer-English.pdf>



A Quick look at TSM

Described by MAC as:

A set of tools and indicators to drive performance and ensure that key mining risks are managed responsibly at participating mining and metallurgical facilities.

Comprises eight **Assessment Protocols** covering:

- Communities and People
- Environmental Stewardship
- Energy Efficiency

Five level rating system. MAC's aim is for all facilities to score A (level 3) or better in all areas.

Limited public reporting: summary results for each facility and general overviews are published in the annual TSM Progress report.



TSM Verification Framework

- Facilities self-assess annually against the Principles.
- Every three years an independent Verification Service Provider (VSP) critically reviews a company's self-assessments.
- Community of Interest (COI) Advisory Panel undertakes Post-Verification Reviews of a sample of companies.



TSM Requirements for VSPs

These include:

- Demonstrated competence and experience in auditing and in the subject matter being verified.
- Must have completed training in TSM.
- No ownership or employment ties to a MAC Member.
- Must not have performed related technical or management work at the facility being assessed within the past two years.

MAC publishes a list of approved VSPs.

Note: MAC advises that it is currently reviewing these requirements and may strengthen them in some areas.

Source: <https://mining.ca/wp-content/uploads/2020/01/VSP-Terms-of-Reference-2019.pdf>



Things to think about

What are likely to be the main challenges in rolling out TSM in Australia and how should these be addressed?

Will TSM pass the 'independence' test with other actors (i.e. communities, civil society, governments, ESG investors)? What will need to be done to ensure confidence in the system?





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Challenges and Opportunities

For industry

Potential benefits:

- A vehicle for companies to improve their image and build stakeholder and consumer confidence that commodities have been responsibly produced.
- Approached properly, can also be an improvement opportunity.

Leveraging these benefits requires:

- building internal capacity to undertake self-assessments, prepare for reviews, etc.;
- identifying external reviewers/assessors who are competent and have credibility with external stakeholders;
- resisting the temptation to control or unduly influence the assurance process;
- committing to transparency;
- responding constructively to uncomfortable/critical findings (vs. defensiveness).

For Industry Professionals

A potential growth area for ESG assurance and verification service providers.

Challenges and potential pitfalls:

- avoiding and managing potential conflicts of interest – real and perceived;
- maintaining credibility with both industry ‘clients’ and key external actors;
- safeguarding the integrity of the process;
- ensuring an appropriate level of knowledge about the local context.



Closing comments:
Deanna Kemp and
Bruce Harvey





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Thank you

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