

# ESG in Healthcare

## Focus on internal audit's vital role

By Shameka Smith, CIA®, CCEP, Mike Witek, CIA®, CFE, and Debbie Coronado

*Environmental, social and governance (ESG) standards are a growing area of focus for healthcare organizations. Key stakeholders, including patients, communities, executive leadership and board members want to know that their organizations are operating ethically in those areas and for the betterment of their communities. Internal auditors are well positioned to contribute to ESG initiatives.*

Healthcare organizations will want to make sure they stay on top of evolving ESG-related standards and make moves to align their ESG-related initiatives to their overall strategic goals. They also will need to make plans to mitigate associated risks. Internal auditors can play a vital role in these efforts, acting as an important line of defense.

Begin with a background on ESG, related risks and steps you can take to help your organization initiate or expand on ESG goals.

### What is ESG?

Though the acronym ESG might be new, the underlying concepts are not entirely uncharted territory for the healthcare industry. Exhibit 1 provides examples of areas that are included in ESG. The environmental category covers how business operations can affect the environment and vice versa. The social category covers how an organization's operations can affect its people and communities. The governance category covers how a company behaves and governs itself.

### Exhibit 1 - Examples of ESG focus areas

Environmental	Social	Governance
1. Waste and pollution	1. Diversity, equity and inclusion (DE&I)	1. Transparency, ethics and integrity
2. Resource use and depletion	2. Human rights	2. Corporate reputation (corruption, fraud, regulation)
3. Greenhouse gas emissions	3. Community investment	3. Stakeholder engagement (community, patient, employees)
4. Habitat destruction, preservation and biodiversity	4. Workplace safety	4. Internal systems of controls, practices and procedures
5. Climate change	5. Hiring practices	5. Privacy and data security
6. Supply chain stewardship	6. Patient safety	6. Donations and political lobbying
	7. Training and education	7. Board diversity and structure
		8. Supply chain resiliency



## *ESG initiatives will be realized when measuring effectiveness and communicating results to stakeholders.*

At its broadest, ESG can be defined as how an organization interacts with the environment, how it treats people and how it governs itself. Does the organization treat the community and employees fairly? How diverse and inclusive is the organization? Are the organization's actions ethical and representative of the community that is served?

Many ESG components might already be included in an organization's mission, vision and values statement or are demonstrated by way of reporting. For example, the social component of ESG includes strategies and goals related to DE&I. Also, how a not-for-profit hospital interacts with its community and stakeholders and the programs and benefits that are provided would fall under the social component of ESG. Organizations might communicate ESG-related activities through topics and metrics shared in their annual sustainability or corporate responsibility reports.

### **Risks**

Patients, employees, vendors and other stakeholders are likely to increasingly want to associate themselves with organizations that demonstrate their focus on ESG. As organizations move to align their ESG-related initiatives to their overall strategic goals, they might face risks related to expectations.

Reputational risk is an external risk that an organization might face if it is not demonstrating a commitment to ESG initiatives to its community. For example, patients, employees or communities might feel misunderstood or misrepresented, if a provider organization is perceived as failing to provide services that meet the unique social or cultural needs of its community.

Organizations might face regulatory compliance risk, including fines or penalties, for not reporting on required climate-related disclosures that materially affect their financial statements. Stakeholder engagement will

be affected if organizations are not compliant with laws and regulations.

Internal risks can include failure to protect worker health and safety, lack of employee trust, or creation of a workplace community that does not demonstrate inclusivity or a focus on environmental issues or ethical governance.

An especially important risk in an industry rife with workforce challenges is failure to attract and retain talent. The failure can result in part because of employees who might be just as interested, if not more interested, in the organization's values as they are in salary and benefits. With these and other risks in mind, organizations will want to have effective controls in place for assessing and monitoring their ESG programs.

### **How can you help?**

An organization might have numerous ESG initiatives in place, but the value will only be fully realized by measuring effectiveness and communicating efforts and results to their stakeholders. You can act as one of your organization's lines of defense because you are well positioned to test control measures, suggest needed improvements and objectively communicate on effectiveness. You can also evaluate the accuracy and reliability of data sources used and help identify metrics that might not have been considered.

In addition to being able to identify risks and provide guidance on how to mitigate those risks, internal auditors bring other benefits to ESG. You can bring your skill set, which includes identification and validation of internal controls and opportunities for process improvements, to an emerging area that might not yet be fully structured.

Because of your experience working across multiple departments and organizational areas, you have a deep understanding of your organization's mission, vision and values and how they are embedded across the organization.

Because of your forward-thinking perspective, you can help identify opportunities and provide valuable advice and recommendations about how to expand on or enhance current processes and procedures based on organizational goals.

As is the case with most important initiatives, data will be crucial to measuring and tracking goals and results. You should be involved in defining goals and metrics for ESG strategies and providing assurance to stakeholders related to the accuracy and integrity of data.

### **Steps to take now**

You can help lead new ESG initiatives or build on existing ones at your organization by taking first steps.

#### ***Take an inventory***

Some much-needed good news in today's challenging financial climate is that organizations can build on existing resources and strategies already in place to develop or expand on their ESG initiatives. You can help your organization capitalize on existing processes and help structure them with ESG in mind.

Take an inventory of your organization's efforts and how it reports or communicates these efforts to stakeholders. You might find, for example, that recycling programs are a strong example of its environmental efforts in the community. Or you could discover that antifraud initiatives are sending a good message to the community about efforts in the areas of governance and transparency. Your organization is not starting from a blank page with ESG, and you can help tell a story of progress.

#### ***Form a cross-functional committee***

ESG requires an effort spanning the entire organization to determine priorities and develop and implement plans for execution. In addition to taking an inventory of existing ESG initiatives, you can help your organization's leadership bring individuals from around the organization together, especially those from diverse groups, to discuss what is important to them.

You should take stock of any existing affinity groups (formal employee groups that bring together employees with similar backgrounds and interests) and determine areas where gaps

or overlaps exist. You may find that groups could be added to promote inclusivity within the workforce. You can engage with stakeholders on ESG topics by facilitating surveys of various employee groups to capture their insights on what initiatives are most important to them.

#### ***Stay up to date with regulations***

Compliance requirements related to ESG are evolving. For example, the U.S. Securities and Exchange Commission has proposed [climate risk rules](#) that would require registrants to disclose significant new information about how their organization is measuring and addressing climate risk. Disclosures could be required in registration statements and annual reports as soon as 2023.

Your organization might not be subject to such a regulation, but organizations that they do business with could be. Also, in 2021, the U.S. Department of Health and Human Services (HHS) established the [Office of Climate Change and Health Equity](#) (OCCHE). The OCCHE mission is to protect the health of people throughout the U.S. in the face of climate change, especially those experiencing a higher share of exposures and impacts.

Make sure your organization stays up to date with evolving regulations and processes are in place for receiving and tracking updates.

#### ***Look to other organizations for inspiration ... or be an inspiration***

Regarding ESG initiatives, competition is not a priority. You can look to peer healthcare organizations to assess their ESG programs and take away valuable ideas and strategies. Likewise, you can share your ideas and approaches with peer organizations.

Look to organizations such as the [Sustainability Accounting Standards Board](#), [Global Reporting Initiative](#), [Task Force on Climate-Related Financial Disclosures](#), and [Greenhouse Gas Protocol](#) for information, reporting standards and frameworks, and training.

Some early adopters of ESG reporting measures have included stakeholder engagement and materiality. The key indicators can include feedback from key stakeholders, such as patients, employees, caregivers, community members,

## ***Take an inventory of your organization's ESG efforts and what is communicated to stakeholders.***

## Test the materiality process and the relevant key performance indicators and other metrics.

and organizational leadership. A major step your organization can take is to identify the metrics that are important to them, and then build goals for the metrics and communicate them to your stakeholders.

### Audits to consider

Consider audits that your internal audit team might engage in related to ESG efforts. Examples of assessments indicate the scope of work involved:

- Evaluate current ESG program effectiveness, including:
  - Test the materiality process and the relevant key performance indicators and other metrics.
  - Measure alignment with external frameworks.
- Review information technology controls related to ESG-reporting data streams.
- Verify preparedness to report on:
  - Board and management oversight and governance of climate-related risks, including processes for identifying, assessing and managing climate-related risks
  - Climate-related risks identified by your organization and how the risks materially affect the financial statements, strategy, business model and outlook
  - Greenhouse gas emissions
  - Details on your organization’s public climate-related targets or goals, including any use of carbon offsets or renewable energy certificates

### Resources

- [Prioritizing Environmental, Social and Governance: Exploring Internal Audit’s Role as a Critical Collaborator \(theiia.org\)](https://theiia.org)
- [Internal audit has pivotal role in ESG reporting - Journal of Accountancy](#)
- [As New Rules Loom, Internal Audit’s Role in ESG Reporting Under Review - Internal Audit 360](#)

### Conclusion

As ESG becomes increasingly vital to your organization’s business operations and strategy, your role in these efforts is crucial. You must be involved in current and future ESG efforts to ensure the structure, data, risk monitoring, internal controls, organizational insight, and experience needed to accomplish goals and monitor success. As your organization moves forward with their ESG initiatives, you can serve as a valuable adviser. **NP**



*Shameka Smith, CIA®, CCEP, is a principal in the Crowe healthcare consulting group with more than 25 years of professional internal audit and consulting experience, including 13 years in healthcare. She serves healthcare internal audit clients, focusing on regulatory compliance. Shameka can be reached at [Shameka.Smith@crowehrc.com](mailto:Shameka.Smith@crowehrc.com) and 314-802-2026.*



*Mike Witek, CIA®, CFE, is a senior manager in the Crowe healthcare consulting group with 15 years of professional internal and external audit experience, including five years in healthcare. He leads client engagements across a multitude of specialties and works with internal audit teams, expanding the use of technology in their processes. Mike can be reached at [Mike.Witek@crowehrc.com](mailto:Mike.Witek@crowehrc.com) and 314-802-2839.*



*Debbie Coronado is a senior consultant in the Crowe healthcare consulting group. She has more than 20 years of professional experience, including eight years of healthcare consulting experience focusing on 340B audits and consulting for various covered-entity types. She also supports a variety of healthcare internal audit engagements. Debbie can be reached at [Debbie.Coronado@crowehrc.com](mailto:Debbie.Coronado@crowehrc.com) and 314-802-2808.*

*Education costs money, but then so does ignorance. – Sir Claus Moser*