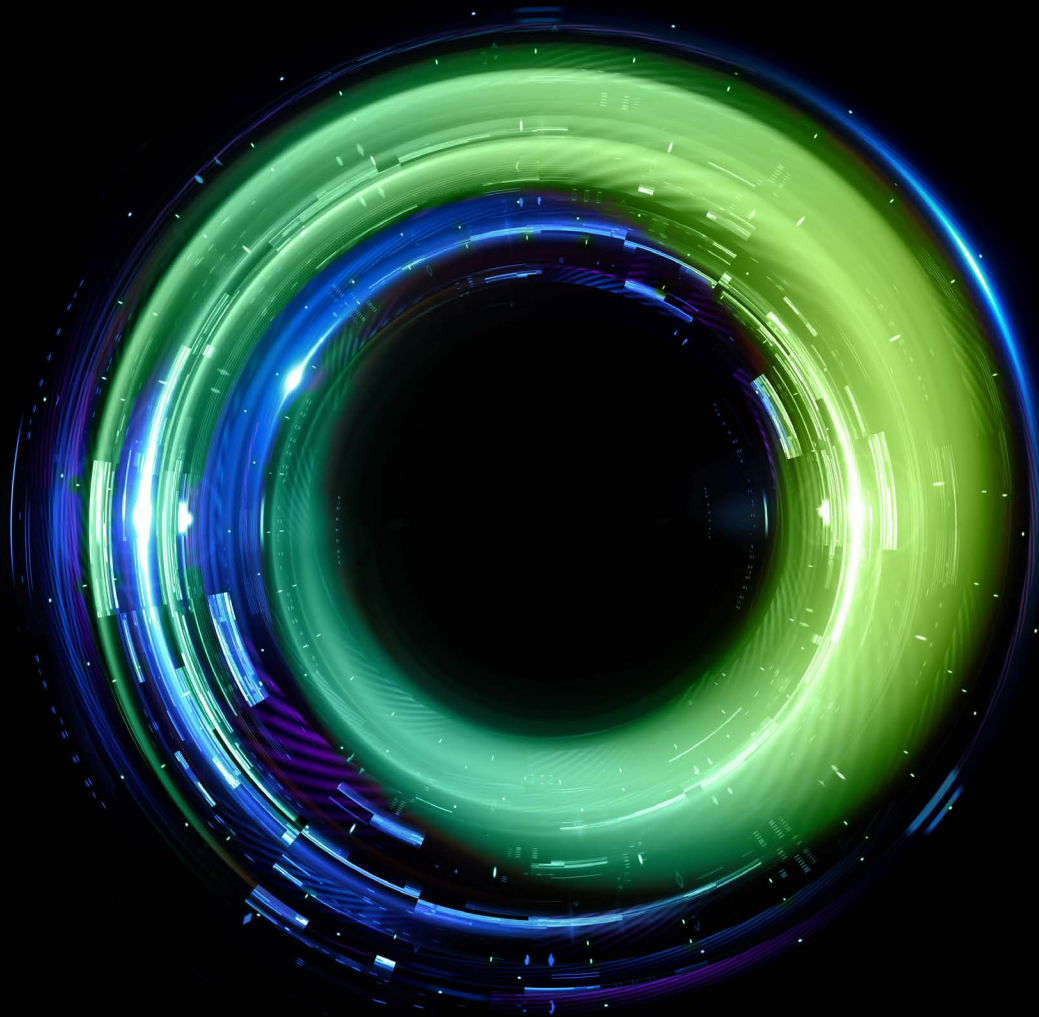


Deloitte.



How Risk and Internal Audit operate in social purpose companies

March 2023



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Executive Summary

Social purpose companies often organize their business models, resources, relationships, and strategies around achieving specific forms of social progress. These companies look to leverage their influence, reach, and scale to bring their purpose to life. Purpose is a value creation mechanism for these companies, so identifying the risks linked to purpose is an imperative for management and a company's Board of Directors.

In October 2022, the British Columbia Lottery Corporation (BCLC) engaged Deloitte to conduct research into the experience of Risk and Internal Audit leaders working to operationalize purpose into their respective companies. We talked to 12 Canadian and international leaders, seeking to understand how their company's declared social purpose—the reason they exist—informs the role of the Risk and Internal Audit functions in their companies. Overall, we found the roles of Risk and Internal Audit are evolving. Through our research and qualitative analysis, we identified the following themes about where social purpose companies were heading:

1. Boards take ownership of purpose and ensure associated objectives are embedded in strategy.
2. Authentic social purpose companies go beyond “better world” statements and develop measurements to document tangible societal benefits and progress towards declared objectives.
3. Social purpose companies recognize the importance of economic value and viability and seek to generate both social and economic value from their activities.
4. Companies have a culture and frameworks for decision-making that are informed by purpose.
5. Companies leverage and mobilize their networks to amplify and realize the impact of their purpose initiatives and become a stronger force for good.¹

Recognizing this desired end-state, we identified seven recommendations that companies can begin implementing to ensure their Risk and Internal Audit functions make a meaningful contribution to the company's pursuit of social purpose. These recommendations are:

1. Advocate for governance structure and practices which empower the pursuit of purpose.
2. Apply a purpose lens to risk management tools.
3. Embed purpose into decision-making frameworks.
4. Be pragmatic about measuring progress on purpose.
5. Elevate the advisory role of Risk and Internal Audit.
6. Focus the Risk and Internal Audit teams on stakeholder value creation.
7. Build broad ecosystems and knowledge networks.

This report was produced as a collaboration between Deloitte and BCLC.

The British Columbia Lottery Corporation is a provincial Crown corporation that conducts and manages gambling in a responsible manner. Funds generated by lottery, casinos, and sports betting go back to the Province to help support healthcare, education, and community programs across British Columbia. BCLC recently adopted a social purpose—to “deliver win-wins for the greater good”—with the intention of best serving the interests of players and communities.

As BCLC embarks on its social-purpose journey, the organization is sponsoring a series of reports that aim to uncover the role functions play in embedding and activating social-purpose in a company's day-to-day decisions and actions. This white paper is the second by BCLC. The first was a report on the marketing function called Marketing on Purpose, which can be found at corporate.bclc.ca.

Members of BCLC's Board, management, and Risk and Internal Audit teams, provided critical insights into the organization's current approach to social purpose and served as advisors and contributors on the content of this report.

¹ We recognize that “good” is a subjective term and what one company views as good may not be viewed the same by all. The key point through the use of this term is that a company and its leadership have strongly held beliefs that their purpose is “good”.

The bottom-line result is that purpose-driven, people-centric, values-driven companies outperform. Not just because they do better sustainably over time, but because they avoid the risk.

– Ann Franke CEO – Chartered Management Institute (UK)

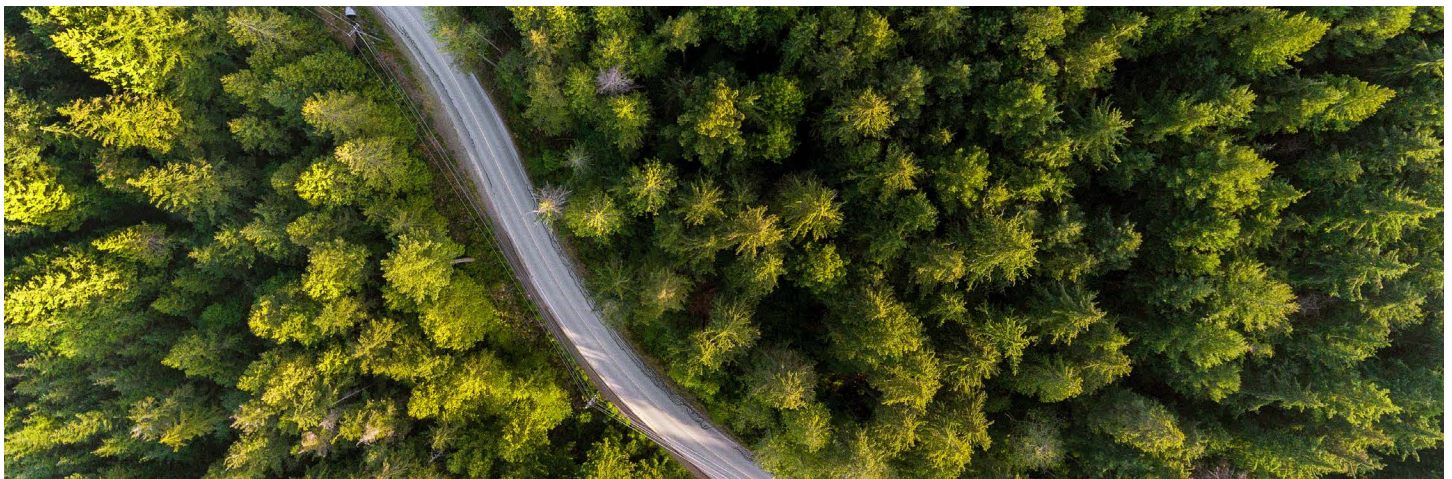
Ultimately, we found that Risk and Internal Audit teams are being asked to provide guidance on new, purpose-related topics. Leaders are excited about the Risk and Internal Audit functions expanding their value beyond traditional financial, compliance, and regulatory responsibilities into more advisory roles. There is hope that, by applying objectivity and care to a company's social purpose, the Risk and Internal Audit functions help meet stakeholder, partner, and societal objectives.

This report and its recommendations can be used in two ways. Firstly, by drawing on these recommendations, companies can create a phased workplan to embed social purpose within the Risk and Internal Audit mandates and services. Secondly, this report supports the ongoing professional development of Risk and Internal Audit practitioners.

Risk and Internal Audit are well positioned to connect the high-level corporate governance and corporate strategy with the specific processes and decisions that are made every day. When Risk and Internal Audit provide assurance, interested parties can be confident that a company is on a path to translating good intentions into real impact.

What should Risk and Internal Audit do if their companies do not have a social purpose?

This report is directed at companies that have a social purpose as the reason they exist or that are preparing to adopt one. For companies who do not yet have a social purpose, this report can be used to surface and inform discussions regarding the transformation to becoming a social purpose company. Readers from companies without a social purpose can also become informed about social purpose trends in business. Whether or not a company has a social purpose, this report provides valuable recommendations for Risk and Internal Audit professionals seeking to increase the value they provide to a company.

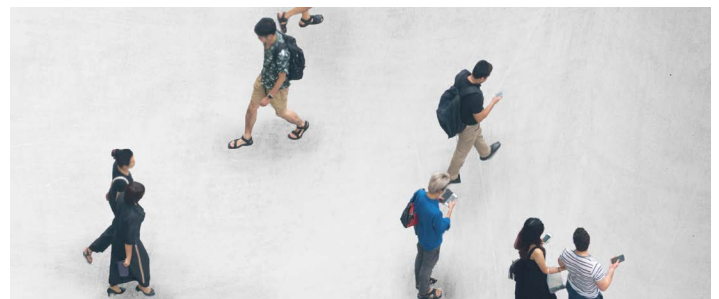


Social Purpose: A Stakeholder Lens on Value Creation

“In the short term you incur costs because you don’t have the scale. In many of these initiatives you need to step off the pavement, be confident that the short-term choices will pay back.”

- Vice-President, Corporate Audit, Consumer goods organization

Stakeholders are demanding that companies play a more meaningful role in society by re-thinking their corporate philosophy and re-tooling their business to help society address its challenges. Viewed this way, social purpose provides a clear and consistent reason for being. Purpose can connect everything a company says and does, attract and engage stakeholders and partners, and drive value creation in the company.



Social purpose provides two forms of leadership for a company. Social purpose is a company’s **North Star**. That is, social purpose provides a compelling and motivating idea to inspire stories, unleash innovation, and build loyalty. Social purpose also provides guardrails—the ethical bounds that define business conduct, safeguard the long-term license to operate for the company, and mitigate downside risks.²

“Purpose is our north star, it’s embedded in our culture”

- VP Risk, Apparel Organization

At a strategic level, by articulating and acting on a social purpose, leaders set their companies on a course to look beyond shareholder value creation and strive for outcomes that solve the problems of people and planet as set out in their purpose. At an operational level, a company’s social purpose informs a company’s strategic and operational priorities, how it allocates resources, how it relates to stakeholders, and its investment strategies.

There is a strategic risk in not having a purpose.

- Board member, Financial services institution

In addition to the positive change social purpose companies look to make, there is also a growing body of evidence that purpose is connected to long term financial performance and more sustainable and viable businesses.^{3,4}

² Directors & Investors: Building on Common Ground to Advance Sustainable Capitalism. The Enacting Purpose Initiative.

³ Social purpose business and the case for changing strategies. United Way

⁴ Claudine Gartenberg, Andrea Prat, George Serafeim (2019) Corporate Purpose and Financial Performance. Organization Science 30(1):1-18.

As social purpose companies continue to grow and develop, so must the different functions within them in order to become truly dedicated to, and realize the benefits of, its social purpose. In this white paper, we explore the role of Risk and Internal Audit functions within a social purpose company. While not traditionally associated with social purpose, we argue that Risk and Internal Audit functions should hold an important role through a company's social purpose journey. Risk can help navigate the risks of purpose as well as the risks to purpose. Internal Audit can provide assurance and advice on how a company is achieving its social purpose as well as accelerating learnings from management actions and decisions in striving to achieve purpose. Together, a company's Risk and Internal Audit functions help a company to anticipate challenges to its achievement of purpose and navigate these effectively.

We begin this paper by outlining the different stages companies go through in becoming a social purpose company to set a broader context for understanding the roles of the Risk and Internal Audit functions. We then outline what we heard from leaders of social purpose companies before providing recommendations for social purpose companies looking to be deliberate in how their Risk and Internal Audit functions can support their pursuit of purpose.

What is the definition of social purpose?

There is no single definition of social purpose or a social purpose company. The definition adopted by the sponsor of this report is that a social purpose business is one whose enduring reason for being is to create a better world. Another popular definition of social purpose comes from the British Academy, which is that a social purpose company produces profitable solutions for the problems of people and planet, and not profit from creating problems. A third definition comes from the ISO 37000 guidance on organizational governance. The ISO defines purpose as a company's meaningful reason to exist.

(Note that while the language of "social" is used, it includes a company that has an environmental purpose.)



A Company's Purpose Journey

"Strategy only lasts a few years; thus, purpose is more enduring than strategy"

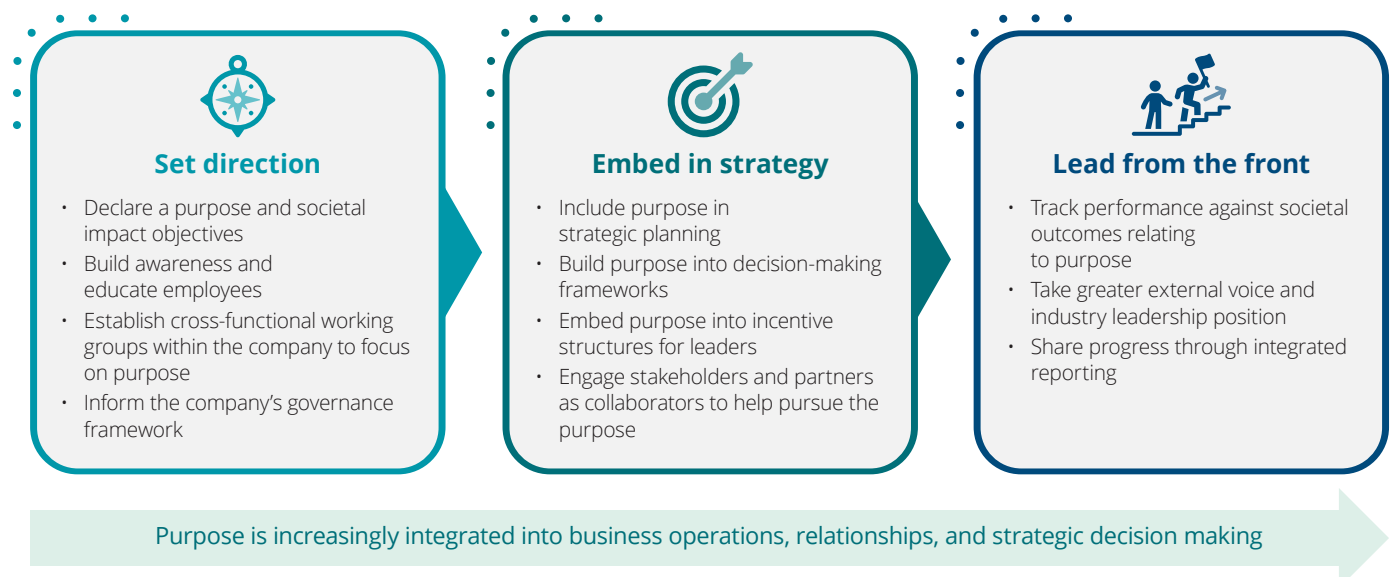
– Vice President, Social Purpose, Financial service institution

While some companies grow with purpose in their DNA, many businesses are just embarking on their purpose transformation. That said, becoming a social purpose company may increase a company's risk exposure. In determining whether to even begin the journey to becoming a social purpose company, a company should consider the potential effects to its risk profile:

- **Strategic risk** – as social outcomes are included as priorities for the companies, and strategies evolve, there are new risks to achieving goals regarding both profit and societal impact.
- **Reputational risk** – aspirational commitments and greater transparency opens companies up to greater scrutiny. Stakeholders and partners will expect companies to have a voice on social issues aligned with a company's purpose.
- **Compliance risk** - there may be increased investor and regulatory scrutiny of companies that have adopted a social purpose, including whether there is a connection between the purpose statement, strategy as described, and a company's actions and impacts.
- **Ethical risk** – A social purpose is grounded in a company's leadership perceptions about what's 'right for the world' on an ongoing basis. This is a task open to subjectivity and criticism from different groups with different and conflicting agendas.

There are other risks companies should consider in not adopting a social purpose which include talent risk (e.g., not having a social purpose may limit the ability to attract and retain talent) and strategic risk (e.g., not having a social purpose could reduce a company's ability to build trust with stakeholders).

For those undertaking transformational change, this journey takes place over three stages as outlined in the figure below. Making progress on purpose is not achieved quickly nor superficially, hence the need for a deliberate roll-out as described below.



"I've found it is best to seize one area of impact – one that is well-aligned with your brand; focus on it, be the best at it."

– President, Sustainability advisory firm

"The only way to manage the increased risks of expectations of social purpose is to be genuine about your pursuit of a stated purpose."

– Board member, Financial services institution



In the first stage of purpose transformation, company leaders focus on building buy-in and awareness about what the company's purpose is and what the company hopes to accomplish. By declaring a purpose, educating employees, establishing working groups within the company, and adjusting its governance framework, a company is establishing a shared understanding of purpose. Setting the company's direction and building buy-in mitigates risks by ensuring alignment across the company's governance, leadership, and employees.

In the next stage, purpose becomes embedded in how the company does business by ensuring strategic objectives and associated operational targets help pursue purpose. While the nature of how a company achieves progress towards its purpose may vary depending on the company and the purpose, progress does require deliberate action. These actions may be a combination of strategic (e.g., ensuring the company's strategic plan has purpose woven throughout) and operational (e.g., adopting decision-making frameworks to include purpose and engaging stakeholders on the purpose). By embedding purpose in strategy and operations, the company mobilizes resources and stakeholders toward the achievement of purpose. In a colloquial sense, this stage is about 'putting your money where your mouth is' and is required if a company is genuine about its pursuit of purpose and the impact it wants to create.

Only in the final stage should a company expect purpose-related outcomes and financial results. In this stage, a company can hope to see the impact of the work done in previous phases along with the corresponding economic value. However, to do this effectively requires an ability to accurately collect and report progress toward purpose, associated societal outcomes, and financial objectives. By tracking progress, a company can understand how its efforts are contributing to its purpose, creating value for the company and its stakeholders, and adjust as needed.

Collectively, these stages outline the steps for a transformation to a social purpose company. Risk and Internal Audit are key partners to both identify and manage the risks inherent in this journey, and to uncover new social and financial value propositions for the company.

What Leaders are Saying

We conducted 12 interviews with leaders in social purpose companies about the roles of Risk and Internal Audit within their company. While these companies are leaders in their field, the link of Risk and Internal Audit to the company's purpose is still developing. However, leaders consistently told us that social purpose must be woven through everything a company does, and the decisions it makes day-to-day. Through that lens, these leaders were able to articulate their vision as further maturation occurs. Broadly, leaders want to see Risk play a key role in helping identify purpose-related risks their company faces and how these risks evolve throughout the purpose journey. For Internal Audit, leaders want the function to help the Board and senior leaders to build and enforce guardrails to ensure purpose is centered in the company. Specifically, we identified five themes from these interviews which influence how Risk and Internal Audit functions may support social purpose companies:

1. Boards take ownership of purpose and ensure associated objectives are embedded in strategy. Additionally, the Board will hold management **accountable to key social purpose outcomes**. Risk and Internal Audit functions could help ensure that the Board has ownership and robust governance over purpose.
2. Authentic social purpose companies go beyond "better world" statements and develop measurements to document tangible societal benefits and progress towards declared objectives. Risk and Internal Audit functions **provide assurance** on the chosen measures of impact and monitor progress towards desired purpose outcomes.



"Our five-year strategy sets out the sustained, proactive, and urgent steps we are taking to advance financial inclusion and social justice to deliver our purpose."

– Vice President, Social Purpose, Financial services institution

"Every team across the business needs to think about the risks you're facing when adopting a purpose statement right from the beginning, but this is rarely the case in practice. Without thought to risk, the statement could end up being an intangible 'motherhood and apple pie' idea rather than something actionable."

– Chief Internal Auditor, Technology and communications firm

3. Social purpose companies recognize the importance of economic value and viability and seek to generate both **social and economic value** from their activities. The Risk and Internal Audit functions can ensure strategies were designed to achieve both profit and purpose related outcomes. These functions can be trusted advisors to management when decisions require a company to identify the financial impact of purpose investments.

4. Companies have a culture and frameworks for decision-making that were **informed by purpose**. Creating culture and decision frameworks are an important and ongoing activity for purpose-driven companies. Culture and decision frameworks help employees buy into the purpose and understand what is expected of them in their day-to-day work to contribute to a company's social purpose.

5. Companies leverage and mobilize their networks to amplify and realize the impact of their purpose initiatives and become a stronger force for good. Risk and Internal Audit functions within these companies may need to look for guidance from external organizations, such as professional associations, to help reshape how they perform their roles. Additionally, Risk and Internal Audit may help inform how these organizations work with their partners and become purpose-driven themselves.

“Whether you’re a non-profit or for-profit organization you need to maintain financial controls. That doesn’t go away as a social purpose company.”
– Vice-President, Professional standards body

“As a purpose-led company, we are present when issues counter to our purpose arise; we get involved in activism, and this means we attract a lot of attention. From a risk perspective, we have a lot to balance in this way”
– VP Risk, apparel organization



These themes provide an overall understanding of how leaders anticipate the evolution of the roles of Risk and Internal Audit in social purpose companies. For these leaders, Risk and Internal Audit are not secondary considerations or “hurdles” to be overcome on a company’s quest to achieve purpose. Rather, these functions help a company articulate what counts as meaningful impact, provide Boards and management with the tools to measure progress, provide advice when difficult decisions need to be made, assist in setting the tone of being purpose-driven, and work with professional groups and peers to evolve their role.

These themes provide a destination for the social purpose journey of Risk and Internal Audit functions. The next section outlines more tangible practices for progress in this journey.

Recommendations for Risk and Internal Audit Functions



In considering the themes identified above, we have identified recommendations on the roles for Risk and Internal Audit in social purpose companies. These recommendations, detailed below, include:

1. Advocate for governance structure and practices which empower the pursuit of purpose.
2. Apply a purpose lens to risk management tools.
3. Embed purpose in decision-making frameworks.
4. Be pragmatic about measuring progress on purpose.
5. Elevate the advisory role of Risk and Internal Audit.
6. Focus the Risk & Internal Audit team on stakeholder value creation.
7. Build broad ecosystems and knowledge networks.

Recommendations one to three focus on high-level decision-making and oversight. Do the Board and management have the tools to effectively oversee the implementation of purpose and understand corresponding risks? Has a company built the frameworks to continually make decisions in a way that consistently facilitates the achievement of purpose?

Recommendation four outlines tangible practices for embedding Risk and Internal Audit in a company's purpose journey. How can a company include Risk and Internal Audit in the process? How can Risk and Internal Audit help a company identify whether it is making progress toward achieving its purpose?

Recommendations five and six describe suggested shifts in the roles of Risk and Internal Audit from "providers of assurance" to genuine partners in helping a company achieve its purpose. For some teams within some companies, this may require a cultural shift as the Risk and Internal Audit functions can be viewed as barriers to "doing the real work".

Finally, recommendation seven outlines the need for Risk and Internal Audit to look beyond their company. As social purpose companies continue to evolve, it is expected that the roles and practices of Risk and Internal Audit will shift and working with peers will help ensure the ongoing development of these practices.

1. Advocate for governance structure and practices which empower the pursuit of purpose.

“Conversations relating to purpose risk are reported at a full-board level”

– Chief Internal Auditor, Technology and communications firm

“A lot of organizations have purpose, but very few Boards govern for it. Thus, there isn’t a complete line of sight for anyone in the organization, and these are governance gaps that Internal Audit and Risk should have mandates to address.”

– Board member, crown corporation

Risk and Internal Audit can both play a critical role in supporting a company’s Board and senior leaders to provide leadership aligned with a company’s purpose. Boards need to work with management to ensure the company embeds its purpose in its strategy and culture. Companies that adopt social purpose as an integral part of their strategy must also adapt their governance and risk oversight to a shifting risk landscape. Social purpose can create new risks, redefine old risks, and pose new and challenging trade-offs for companies. At the same time, the pursuit of purposes presents new opportunities for companies to pursue which could lead to innovation, competitive advantage, and growth.

Risk can support governance through proactive guidance and advice. This guidance involves advising the Board and senior leaders on both the ‘risk of purpose’ and ‘risk to purpose’. By providing an appropriate enterprise risk framework which involves establishing risk appetite statements, setting risk tolerances, and developing reporting and monitoring systems, Risk provides tools and insights to help make informed decisions. This support from the Risk function can advise on the pursuit of purpose, the impacts of the pursuit of purpose on other areas of a company (e.g., stakeholder relationships), progress toward a company’s strategic goals, or business challenges facing the company. Seen this way, the Risk function becomes an enabler of purpose rather than a constraint to purpose.

Internal Audit can review how a company has been governed by examining whether a company’s governance is designed to deliver on purpose and whether the Board and senior leaders have adequately accounted for purpose in their decision-making. Examples of such reviews could include examining the role that purpose took in defining corporate values, Board decision-making, the influence of purpose in strategic planning and risk management, the terms of reference for the Board and any Committees, the structure and content of Board reports, the contents of meeting minutes, and evidence of purpose within talent related matters (e.g., executive compensation).

Further, because the Board needs metrics embedded within the corporate strategy to monitor progress on the purpose, Risk and Internal Audit can be advisors on those metrics. Risk and Internal Audit can also scout out and be familiar with governance standards and benchmarks that boards can use to effectively govern a company’s purpose, such as [ISO 37000 Guidance for Governance of Organizations](#).

More broadly, Risk and Internal Audit can be valuable by interrogating the ‘theory of change’ that connects company action to societal outcomes and shows how this action may create value for the company and its stakeholders. Absence of a robust theory of change is a risk in itself.

2. Apply a purpose lens to risk management tools

“There’s been a need for risk professionals to get clear on their why, and communicate, communicate, communicate.”

– Chief Internal Auditor, Technology and communications firm

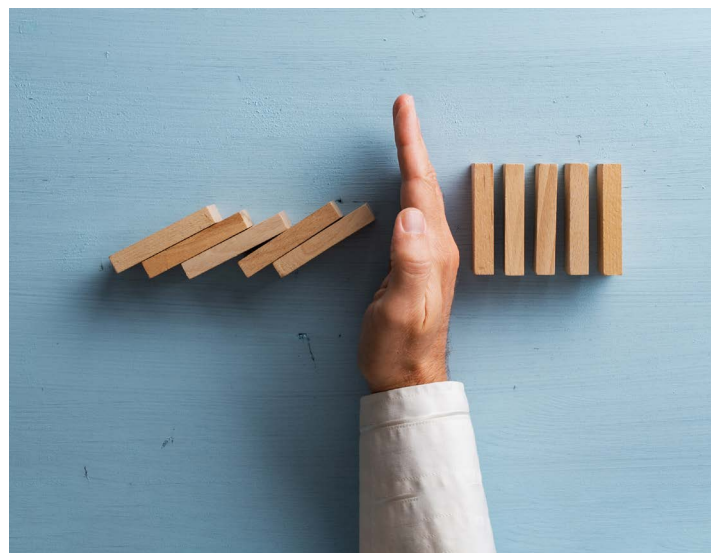
“Risk and Internal Audit have started to get involved in purpose, but still only at a high level. Yet, they have an important role to play in linking everything back to reputational risk – particularly the perception that the organization isn’t just greenwashing, but also actually doing something in practice.”

– Global Risk Partner, Deloitte

The evolution of the risk landscape and the changing needs of risk oversight means risk management tools and reporting must also evolve to remain relevant to the needs of a company.

A company’s Risk function should revisit how risks are identified and assessed, through the application of a purpose “lens” when categorizing and prioritizing risks. This means adjusting a company’s aperture to identify purpose-related risks during the risk identification phase. When in an assessment phase, the criteria for evaluating the impact of a risk should be explicitly linked to the impact a risk may have on progress toward a company’s purpose. For example, one company in the fashion sector noted that with action comes risk. This company invests significantly in fighting causes around the world through activism, which attracts a lot of attention but can present risks to supply chains and to the brand’s reputation; risks that would not have been as prevalent had the company not focused on activism to advance its social purpose.

In addition to the new risks associated with pursuing purpose, a company’s Risk function must also consider the risks of not making progress toward a company’s purpose. One example of this in practice involved a company which moved “social impact” being one risk within its “strategic risk” bucket to including it as a fifth pillar in its enterprise risk profile (alongside strategic, operational, financial, and compliance risk).



When considering a company’s risk management strategies, a Risk function can actively identify purpose-related opportunities to address a company’s corporate risks. For example, a company’s purpose could help address talent shortages as the purpose may attract additional candidates.

Embedding purpose into a company’s enterprise risk framework and audit strategy can frame the role for the Risk and Internal Audit functions in helping the company achieve and address the risks to its purpose. With a purpose-informed mandate, these functions are tasked with determining the risks of not fulfilling the purpose, in addition to the traditional concern for risks to the corporate strategy.

3. Embed purpose in decision-making frameworks

“We adopted a responsible suppliers code and policy, which defines how our business partners both upstream and downstream should operate.”

– Vice-President, Corporate Audit, Consumer goods organization

“It’s one thing to write down and talk about purpose, it’s another thing to operationalize.”

– Vice-President, Professional standards body

Operationalizing purpose requires decisions to be made every day in line with a company’s social purpose objectives. These decisions are key to creating a purpose-driven culture within a company and fostering the authenticity expected by internal and external stakeholders. It can help avoid the risk of “purpose-washing”, a term given to companies that have a social purpose but whose decisions are frequently not aligned with it. Decision-making frameworks provide a structured and repeatable process for making decisions and reduce variability and unpredictability across a company. The creation of decision-making frameworks, centered on purpose, embeds purpose in the day-to-day operations and relationships of a company. They are both guardrails and opportunity drivers. The traceability and transparency of a decision-making framework can provide a tool for ensuring accountability and advancing innovation. Decisions can be compared to the criteria set-out in a framework and, if there are notable deviations or a pattern of deviations, decision-makers can be held accountable. The Risk and Internal Audit functions can help create, embed, and monitor these frameworks across a company.

A Risk function can provide input into a decision-making framework to help ensure decisions are aligned with a company’s risk appetite as well as account for the potential impact on, and opportunities of, a company’s top risks or new risks that arise as a result of purpose. For example, one company built a social purpose decision lens that asks five questions relating to how a decision being made creates progress towards purpose objectives. If an activity is identified as contravening purpose, a process has been developed to evaluate the best course of action. Another example is the creation of a policy for procurement which embeds social purpose. This policy specified the company’s intent to raise awareness of social purpose with suppliers, encourages them



to adopt a social purpose themselves, and brings forward social purpose collaboration opportunities. By embedding purpose in decision-making frameworks, companies can potentially address a risk (e.g., a supply chain misaligned to a company’s purpose), and create an opportunity (e.g., creating more potential partners in the pursuit of purpose).

The role of an Internal Audit function within this recommendation is to examine and review how a company adheres to its established decision-making frameworks. This can include auditing overall compliance across a company, compliance within certain functions or teams, or specific, individual decisions with high levels of risk or importance. In the absence of a decision-making framework, and perhaps to demonstrate the need for one, the Internal Audit function could evaluate how decisions, actions and investments across the company currently take the purpose into account. This early examination could also set the baseline for purpose-embedded decision-making from which improvements will be expected in future. Internal Audit might include in its work plan to conduct at least one purpose-related audit a year and report to the board on its findings and recommendations.

4. Be pragmatic about measuring progress on purpose

“In 2010 we didn’t have a clue how to measure and deliver these things. The business was feeling uncomfortable going through the process of defining and collecting the measures. But we made the commitment then went to work it out. Some methods for measurement were straightforward, while others took more creativity and iteration.”

– Vice-President, Corporate Audit, Consumer goods organization

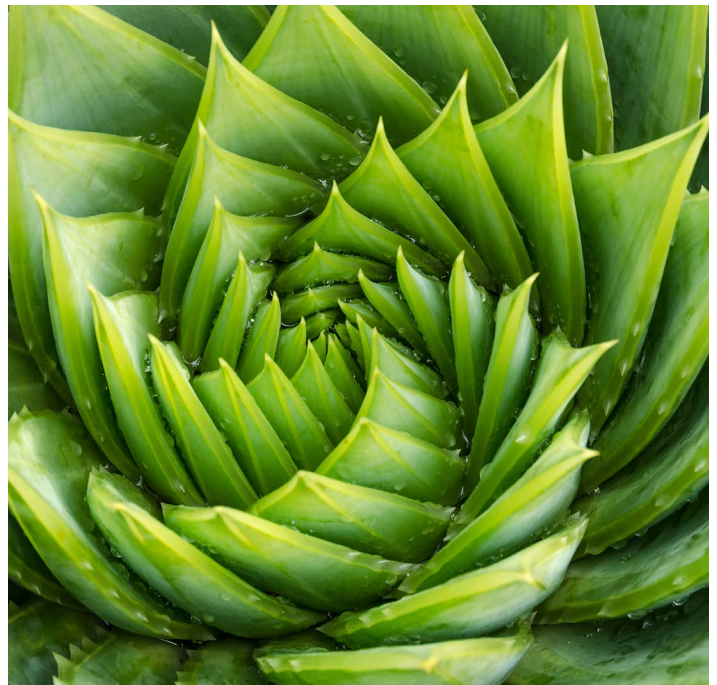
As with any journey, ‘progress’ can be measured in many ways, and what gets measured, gets done. Management should leverage Internal Audit’s expertise to identify and track the most appropriate metrics at each stage of a company’s purpose journey. In the first stage of transformation, a company can audit the steps taken, including employee engagement and education. For example, a leader of one organization consulted for this project created purpose training modules. Completion of these modules is mandatory, and the enterprise-wide completion rate creates an auditable metric.

In the second stage, the primary areas of audit can shift to compliance with purpose-related processes (e.g., the percentage of advertising spend on purpose-driven marketing) or the culture of a company. Purpose-related questions can be embedded in employee surveys as part of audits of culture. These can be designed to determine if staff understand a company’s social purpose, are committed to achieving it, and see evidence of teams and management delivering purpose-related outcomes.

Lastly, when a company reaches the third stage, Internal Audit should be focused on measuring societal impact. This can occur through performance or social audits. Both types of audits have been used extensively by government organizations and nonprofit sectors to measure social impact, and recently have been used by for-profit entities evaluating the efficacy of their corporate social responsibility initiatives. They can be tuned up for use in purpose audits.

Internal Audit can also seek out objective measures of social purpose integration such as this [Social Purpose Assessment Tool](#), to benchmark the company’s progress, and flag gaps and opportunities for Board and management consideration. Tools such as this can also help Internal Audit create a roadmap for assessing purpose governance over time.

At all stages, Risk and Internal Audit can help ensure reliability and validity of the measures that a company selects to track progress towards societal impact. To do this, these functions should document the reasons for and against each metric, including ease of collectability, measurability, auditability, geographic scope, and relevance to a company’s social purpose and strategy. Throughout a company’s social purpose journey, Risk may also identify external Key Risk Indicators that might anticipate trends or events that might impair progress.



5. Elevate the advisory role of Risk and Internal Audit

“The modern view of internal audit is that it moves beyond just a traditional assurance function to a trusted business advisor and this allows the function to think more broadly about strategy, including those around purpose.”

– Global Internal Audit Partner, Deloitte



Companies that adopt purposes can open themselves up to risk if demonstrable actions do not follow words. This means the broader trend within companies of Risk and Internal Audit functions taking on advisory roles becomes particularly important within a social purpose company.

There are two benefits for the Risk function to take on an advisory role. Firstly, for a company, the Risk function can help inform leaders and decision-makers to understand how a company's purpose influences its stated risk appetite and how pursuing a social purpose can affect a company's strategy. If a company's risk appetite or strategic objectives need to be reconsidered, the Risk function can provide valuable input. An example of this comes from the financial sector. One leader highlighted that they are re-examining their credit risk tolerance in consideration of one of their purpose objectives to provide banking services to financially vulnerable people. Secondly, learning how to apply a purpose lens to the function's work early and consistently helps to ensure the Risk function is aligned with a company's social purpose and can better integrate social purpose into its day-to-day work.

Considering the Internal Audit function as an advisory partner on the purpose transformation can assist in identifying how purpose, or elements of purpose, can be measured as part of an eventual auditing program. Additionally, by integrating the Internal Audit function into conversations regarding purpose, a company's Internal Audit function is better prepared to apply these learnings and identify areas where a company's strategic goals may not be aligned with a company's social purpose, or where a company's social purpose investments may not be achieving the intended societal and financial outcomes and provide accompanying recommendations.

This is an emerging area as integrating purpose into Risk and Internal Audit functions is unfamiliar territory for most leaders, not all KPIs are quantifiable, and answers are rarely black and white. However, leaders in the Risk and Internal Audit functions can increasingly play the role of advisor and provide guidance to company leaders.

6. Focus the Risk & Internal Audit teams on stakeholder value creation

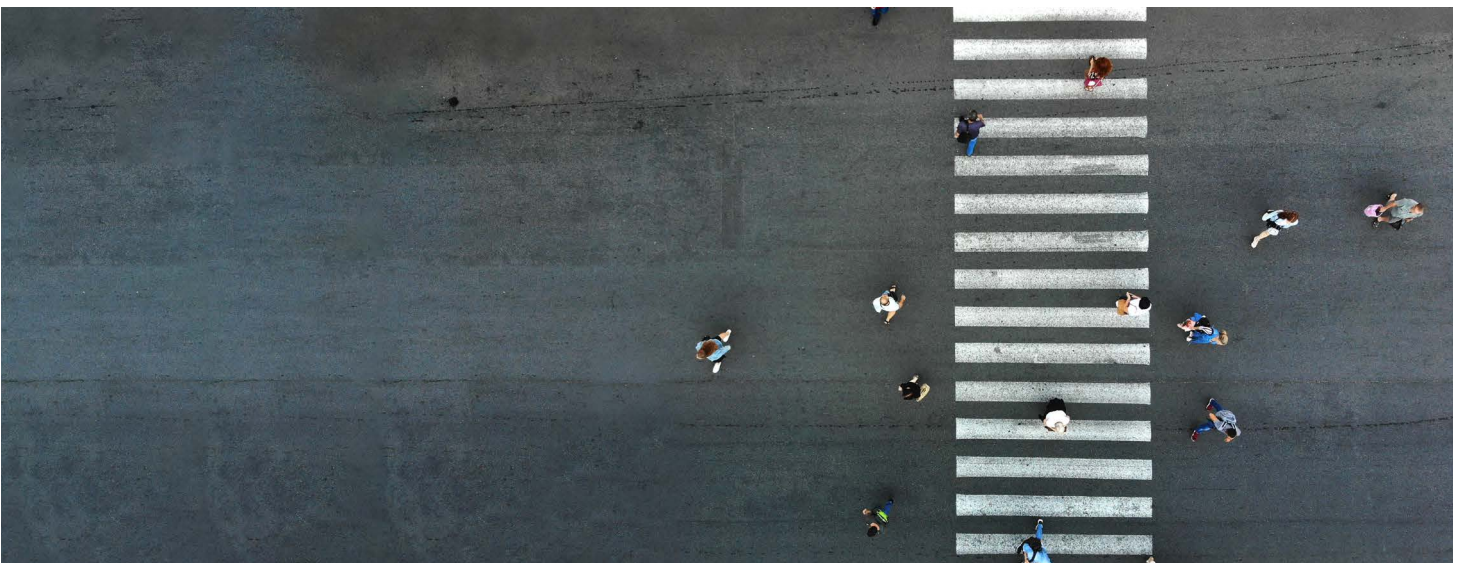
“We’re constantly talking about how we can create value – how we can serve our purpose. If people stop asking, I’d be concerned.”

– Chief Risk Officer, Financial services institution

Social purpose companies are motivated to create value for external stakeholders and partners in addition to shareholders. Thus, the Risk and Internal Audit functions also have a role to play in creating this value. The Board and senior leaders within a company should set the expectation of these two functions that they are not separate from a company’s overall goals but are co-creators of value for stakeholders. Through their respective duties, the Risk and Internal Audit functions can provide meaningful assurance to stakeholders regarding the stability of the company and its commitment to purpose. These functions can also assess how engaged and supportive the company’s stakeholders are in advancing the purpose and surface opportunities for greater stakeholder alignment and value creation. This assurance helps the company realize its purpose and corresponding financial objectives and further positions Risk and Internal Audit as value-creating functions.

The Risk and Internal Audit functions can have direct influence on external stakeholders as well. These functions can ensure the professional firms they hire have a social purpose and, if not, at least social purpose expertise. There may be opportunities for the Risk and Internal Audit functions to educate stakeholders on social purpose and perhaps even consider shared social purpose collaborative opportunities that are relevant to the firm.

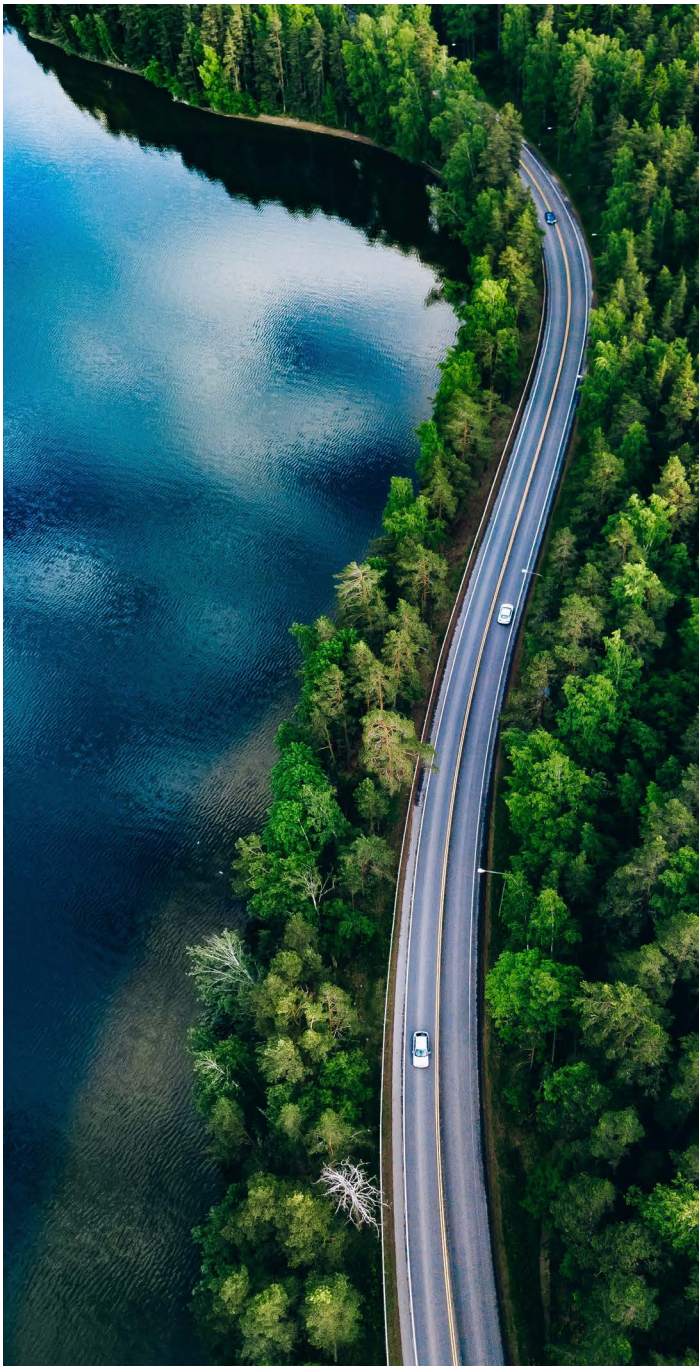
In addition to the value created for stakeholders, a company’s senior leadership should recognize the Risk and Internal Audit functions as co-creators. Other functions should not view the Risk and Internal Audit functions as “blocking the real work”. While some in a company may perceive the typical work of Risk and Internal Audit as slowing down progress, both functions serve an important role in ensuring the ongoing viability of a company. And, ultimately, risks to the ongoing viability of a company are risks to its purpose. With this focus on purpose realization, Risk and Internal Audit can help a company identify its gaps and opportunities that might otherwise go unaddressed.



7. Build broad ecosystems and knowledge networks

“Every public service organization has a social purpose, even if it isn’t voiced, it’s built into the collective understanding. For-profit organizations adopting purpose can look to these organizations for guidance”

– President, Sustainability advisory firm



A wealth of untapped insight into how to navigate the social purpose journey exists within organizations with long histories of building social purpose into their collective understanding. Typically, these organizations include government agencies, nonprofits, and co-operatives. However, there are also businesses with more mature social purpose identities. Risk and Internal Audit functions can leverage openly available guidance from these organizations and should look to establish broader knowledge-sharing communities of practice to support technical aspects of purpose including benchmarking and risk assessments. They can reach out to and support their professional organizations to develop guidance, standards, best practices, case studies, metrics, and professional development training. Supporting the development of purpose-led Risk and Internal Audit practices can help build a peer network from which to learn and grow and capitalize on the efficiencies generated by shared investment. Additionally, as social purpose companies evolve, so will the roles of Risk and Internal Audit. By building collaborative networks, leaders within Risk and Internal Audit functions can prepare themselves to adapt to the ongoing evolution of leading practices in the field. This will further help Risk and Internal Audit teams create value for stakeholders and their companies and become strategic partners to their companies and society overall. As a result, leaders are better positioned to attract and retain talented Risk and Internal Audit staff who are seeking to work for purpose-driven companies in purpose-driven roles.

The Future of Risk and Internal Audit

We are only just embarking on this era, in which companies have begun to adopt and pursue a social purpose to serve the interests of stakeholders rather than just those of its shareholders. These are, as a result, promising but turbulent times for business – leaders are making bold declarations of intent, stakeholder and partner expectations are rising, regulators and policy makers are taking an interest, and shareholders are expecting purpose to help deliver healthy returns.

As noted in our recommendations, Risk and Internal Audit functions have a real role to play in building the social purpose companies of the future. These functions are expected to be partners on the journey from providing guidance and advice to the Board and senior leaders, to proactively working with other functional areas to manage risks and identify opportunities, and align work with purpose, to providing assurance to external stakeholders that a company is committed to and achieving its purpose.

This means that Risk and Internal Audit functions are being asked to provide guidance on how to maximize the benefits from pursuing purpose. These functions are excited about expanding beyond traditional financial, compliance, and regulatory responsibilities, into more advisory roles; all in the knowledge that, by applying objectivity and care to social purpose, they can help companies meet and benefit from this new set of social outcomes. This shift comes at an interesting time for these functions as well as the growing capabilities

of artificial intelligence and technology are either replacing other roles of Risk and Internal Audit or automating various processes (e.g., dashboards) meaning there is an opportunity to leverage the knowledge of experienced professionals in these functions in new ways. Adding purpose to the Risk and Internal Audit functions may help retain these valued professionals, while helping attract the new cohort of professionals seeking to work for purpose-driven companies.

This new Risk and Internal Audit mandate for social purpose companies may seem overwhelming at first. But as with anything, working with Board and management, these functions will need to develop an actionable phased workplan addressing the recommendations in this report.

The landscape will continue to shift as stakeholders and partners demand more accountability and transparency from companies. Ideas like community and stakeholder participation in audits, values-based metrics, and external reporting of audits may once have been considered ‘fringe’ in the business community but may soon become mainstream. With the pace of change showing no sign of slowing, we expect to see a lot of innovation in the space.

To navigate all this change, Risk and Internal Audit teams must stay laser-focused on their value creation role for internal and external stakeholders and partners – and design their team, remit, and ways of working with the specific intent of supporting the delivery of purpose-based social outcomes.

“Our social purpose is our reason for being. It informs the decisions we make. It’s at the heart of every interaction with our members [customers], employees and community partners. It’s our North Star vision for how we create impact. We’re not dreaming of a better future, we’re building one.”

– Vice President, Social Purpose, Financial service institution

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