



THE SUSTAINABILITY PROJECT (TSP)

VERIFICATION SUPPLIER SELF-ASSESSMENTS | 2023 SUMMARY

Third-party Verifier



Insite Compliance

www.insitecompliance.com

Engagement

Dec 1st '23 - Jan 31st '24

Responses verified

571 supplier responses

Team size

17 accredited verifiers

Inquiries

support@tspproject.org

Insite Compliance (<https://insitecompliance.com>) joined The Sustainability Project (<https://tspproject.org>) as an independent third-party verifier for the Sustainable Supply Chain Alliance (<https://thessca.org>) of its member companies' suppliers self-assessments on the Environmental, Social and Governance (ESG) questionnaire. Insite's primary role was to review suppliers' assessments and verify the accuracy and integrity of suppliers' 'Yes/No' responses by cross-referencing the supporting data from documentation or company websites, to summarize and identify any gaps or areas for improvement and to provide recommendations for changes to the 2024 ESG Core questions. Insite additionally developed criteria to provide the Insite team with clear and consistent verification guidelines and to help streamline supplier improvement feedback.

Timeline

The verification process for 550 (+ or -) assessments was scheduled to begin in September, with an end date of January 31st. However, suppliers continued revising and resubmitting assessments until mid-November. As a result, the verification team was advised to delay the start date until December 1st. Despite this setback, the team successfully met the January 31st deadline and completed a total of 571 verifications, thanks to Insite's ability to quickly onboard and train additional resources.

In early talks with the Sustainable Supply Chain Alliance (SSCA), it was outlined that Insite would review suppliers' ESG/Environmental practices self-assessments and verify that their responses were supported by documentation or company website content and that Insite would compile a summary highlighting gaps and insights from year one to present to the SSCA. As the start of the project got pushed further out into the third quarter of 2023 and a new round of assessments was being submitted, Insite was asked to prioritize developing a criteria script for determining the completeness and adequacy of suppliers' self-assessment answers at the beginning of the project instead of the end.

Defining the criteria was a challenging task due to the absence of established industry (utility) specific standards and provisions. By leveraging the management team's experience with multiple industry [compliance] standards, Insite was able to develop the criteria. In mid-September, Insite received confirmation that the SSCA legal team had approved the criteria. Insite provided well-informed requirements based on multiple industry standards and best practices, as well as recognized reporting initiatives. After reviewing the first year of the verification process, it has been determined that no changes are needed to the current criteria and the SSCA

and utility companies have access to this set of approximately 147 criteria points through the TSP system.

Year one verification of supplier self-assessments revealed some challenges. One of the primary issues was the lack of submitted data sources by some suppliers, making it difficult to verify every supplier's self-reported measures. Another was the apparent lack of understanding by many suppliers on what constitutes a good management system and how to develop clear policy statements. That said, valuable insights were gained in year one. Though all suppliers didn't provide data sources, a large percentage did and Insite was able to verify that aligned data sources supported many suppliers' ESG statements.

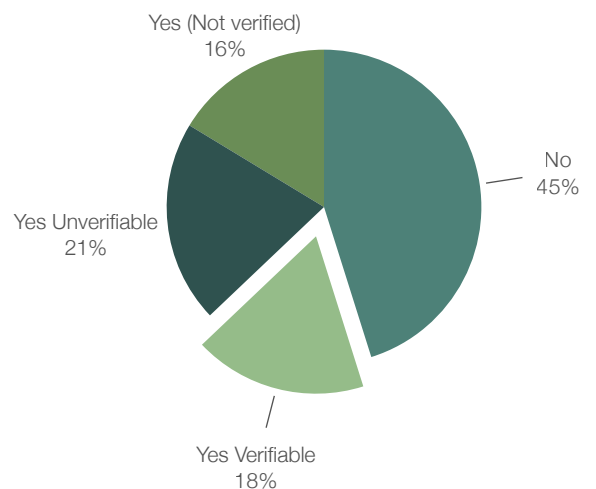
Recommendations

To enhance the verification process and foster mutual understanding among stakeholders—including the SSCA, utility companies, and suppliers—it is advisable to define and communicate clear criteria. Such criteria are instrumental in ensuring that all parties have a consensus on the goals suppliers should strive for. Transparency and trust stem from this clarity, allowing suppliers to align their practices and processes with SSCA-recommended guidelines. While adherence to these guidelines would not be mandatory, they would offer suppliers a concrete point of reference. The guidelines would facilitate a comprehensive

framework to help suppliers voluntarily evaluate and calibrate their Environmental, Social, and Governance (ESG) contributions in accordance with established SSCA principles or comparable reporting initiatives. The absence of these well-defined benchmarks may hinder suppliers' ability to perform thorough gap analyses and effectively quantify their ESG performance.

It is important to note that individual companies and suppliers would have the option to decide on their own criteria for compliance and could choose to adhere to stricter or more lenient requirements based on their corporate policies and reporting preferences. However, having a clear list of SSCA recommended best practices (criteria) allows companies to transparently communicate whether they have chosen

Does your company have a formalized ESG Strategy?



General Recommendations

- 1. Formal adoption of SSCA recommended guidelines (benchmarks) to be shared with suppliers**
- 2. Requiring that suppliers upload supporting documentation or provide a direct link to the relevant section of their company's website**
- 3. Allow a minimum of 3 months if 600+ supplier responses are to be verified in 2024**

not to meet them, rather than leaving room for speculation or misunderstanding about the requirements. This approach also gauges budget considerations and aims to streamline the process for handling the verification of a large volume of assessments.

Insite also identified areas for improvement, such as providing additional training materials to suppliers on management systems and policies. We also propose making the submission of supporting data sources mandatory. For instance, when answering question 1.1, "Does your company have a formalized ESG strategy?" 51% of suppliers claimed 'Yes', but their responses were unverifiable without supporting documentation. Requiring suppliers to upload relevant documents or provide URL links would enhance response validation significantly. Appendix A contains recommendations from Insite to enhance the clarity and effectiveness of specific ESG questions. These suggestions include rewording, omitting, or adding elements to improve the overall quality of the questions. The recommendations below focus on formatting the questions in a way that helps suppliers understand what constitutes an adequate response and utilizes self-assessments as both a data collection and teaching tool. These recommendations additionally assist individuals completing the assessment in identifying the most suitable person within their company to answer specific sections or the entire assessment.

Insite Training and Working Materials

Insite developed its internal verification process and training materials through a sampling evaluation of suppliers' assessments. This evaluation helped shape Insite's internal TSP verification process and methodology and the development of the criteria script. Insite also created an online report template integrated into the TSP system. This online report helped ensure the thoroughness of the review process, which in some instances, broke questions into sub-questions that certified all important data points were covered. It also helped reviewers select the level of verifiability.

For example:

When a supplier responded 'Yes' and provided supporting documentation, or the report reviewer was able to locate it and the response matched the information provided in the data source, it is classified as 'Verifiable'.

If the supplier Self-reported 'Yes' but did not provide a supporting data source and Insite could not locate supporting data, it was classified as 'Self-reported 'Yes' > 'Unverifiable'.

Supplier Verification and Review of Supporting Documentation

The verification process required the Insite team to ensure that suppliers' self-assessment answers matched the supporting documents they submitted by demonstrating that they have systems and policies in place to support their ESG

“A significant percentage of suppliers simply answered 'Yes' without providing any supporting data. None-the-less, if the information was available publicly, the Insite team was able to locate it and mark the answer: Yes > Verifiable.”

strategy. The TSP platform additionally used the verified data to compare suppliers' assessments against other suppliers in the pool. The verification process promotes transparency and enables fair and accurate measurement of suppliers' performance against the established criteria. Suppliers were expected to upload supporting documentation or provide a direct URL link to relevant content on their company website. However, a significant percentage of suppliers simply answered 'Yes' without providing any supporting data. Although it was assumed that most suppliers would provide supporting documentation or reference policies/statements posted on their company website for each response, when the suppliers did not provide supporting documentation, the Insite team (demonstrating their dedication to TSP) spent considerable time trying to locate the information on the supplier's website. In most cases, if the information was available, the team was able to locate it, though in some cases the supporting documentation or content was not available. This led to a finding of [supplier] self-reported 'Yes' but unverifiable due to lack of supporting documentation. Many companies also chose not to answer certain questions, making it difficult for the team to ascertain the reason why. Was it because they didn't have a policy in place or simply did not understand the question(s)? It's difficult to ascertain the specific reasons for suppliers' insufficient or absent responses without information on how many suppliers took advantage of the training and guidance materials offered by the SSCA and TSP. However, certain observations provide areas for recommendations. As expected, the larger and more experienced suppliers, who are familiar with certification schemes and reporting initiatives such as ISO Standards or sustainability reporting standards such as the GRI, demonstrated an understanding of management systems and how to draft effective policies.

Many suppliers' responses lacked concrete policies or processes and were more along the lines of aspirational statements. For instance, when asked about implementing an environmental management system that adheres to recognized standards, one supplier merely listed energy-saving devices in their office. While eco-friendly enhancements are commendable, this response falls short of meeting the criteria of a comprehensive management system. A proper system should assess the completeness and effectiveness of controls by identifying the presence of required systems, specifying the policy's location, assigning responsibility, outlining implementation strategies, and detailing monitoring procedures.

Supplier Feedback

Utility companies and their suppliers benefit from the criteria developed by Insite and the extensive functionality of TSP to receive general feedback for improvement. It's important to note that Insite's role was to verify supplier documentation, ensure alignment with public statements, and assess the adequacy of supplier policies and processes, although not their effectiveness. Nor did the scope of work allow for

Insite to develop comprehensive remediation or corrective action plans. Suggestions for the wording of auto feedback (“improvement messages”) to be generated by the TSP system are provided when a 'No' response or an 'Unverifiable' response is received. Additionally, an example message for 'Inadequate' supplier responses is included. They are suggestions; the Executive Director of the SSCA will finalize the wording.

Note that for a 'No' response, there were two possible scenarios where suppliers could indicate "No" on the self-assessment: For example:

No - The company currently does not have an ESG (Environmental, Social, and Governance) Strategy in place.

No - In the last 36 months, the company has not faced fines exceeding USD \$10,000, received a Notice of Violation (NOV) or Consent Order from an environmental agency, or encountered a reportable environmental incident.

No action was needed by verifiers for the first scenario. Regarding the second instance, verifiers noted the self-reported "No" as either 'Verifiable' or 'Unverifiable,' based on whether supporting data was provided.

Self-reported Yes – Unverifiable

“Thank you for being a part of The Sustainability Project. Your response to this question is 'Yes'. However, the verifiers were unable to locate supporting documentation or URL links on your company's website. As a result, your response is recorded as "Self-reported 'Yes' Unverifiable." To maintain the integrity of TSP, we kindly ask you to provide supporting documentation prior to the 2024 self-assessment due date.”

No Response

“Thank you for participating in The Sustainability Project. Based on your recorded response, it appears that you answered 'No' to certain questions. If your 'No' response was due to uncertainty about meeting the requirements, please click on the recommended criteria for guidance and review the SSCA and TSP training materials.”

Self-reported No – Unverifiable

“Thank you for being a part of The Sustainability Project. Your response to this question is 'No'. However, the verifiers were unable to locate supporting documentation or URL links on your company's website. As a result, your response is recorded as "Self-reported 'No' Unverifiable." To maintain the integrity of TSP, we kindly ask you to provide supporting documentation prior to the 2024 self-assessment due date.”

Verifiable, Accurate but Incomplete

“Your response is accurate but incomplete. Please consult the SSCA recommended criteria for the missing data points.”

Conclusion

The main objective of Insite's initial engagement with The Sustainability Project was to help build confidence in the integrity of the supplier information gathered on the TSP platform. Through the verification process, Insite was able to help identify gaps in suppliers' understanding and implementation of ESG strategies and where additional education and support are needed. Year one verification of suppliers' self-assessment data sources laid the groundwork for benchmarking ESG practices in the second year by providing the insights needed to help support the SSSA's objective of advancing sustainability within the electric utility supply chain, irrespective of regulatory timelines. We look forward to continuous involvement with The Sustainability Project and furthering our partnership with the Sustainability Supply Chain Alliance to advance these efforts.

APPENDIX A

RECOMMENDATIONS TSP SELF-ASSESSMENT QUESTIONNAIRE

General recommendation

Breaking down the ESG strategy and company/suppliers' code of conduct questions into specific sub-questions enables suppliers to pinpoint missing provisions and assists suppliers in evaluating their policies. This approach also helps ensure thorough verification of all data points.

Many companies completing the self-assessment provide services rather than goods/products. To accurately reflect their operations, it is recommended to mark questions 3.1 through 3.4 as 'Not Applicable'. It is also advised to make revisions to the Employee and Supplier Code of Conduct and incorporate a section confirming that suppliers maintain a clear policy against sourcing any materials, minerals, or products from territories recognized in the Department of Labor's "List of Goods Produced by Child Labor or Forced Labor."

Section 1 - Environment, Social & Governance (ESG) Strategy

1.1 Does your company have a formalized ESG strategy and performance targets that: 1/ Define a future vision of ESG performance, 2/ Are clear, actionable, and achievable, 3/ Are resourced effectively, 4/ Address material issues for the business?

Revised Format:

1.1 Does your company have a formalized ESG strategy and performance targets that:

1.1a Define a future vision of ESG performance,

1.1b Are clear, actionable, and achievable,

1.1c Are resourced effectively,

1.1d Address material issues for the business?

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1.2 The company's formalized ESG strategy and performance targets are clear, actionable, and achievable.

Revised Wording:

1.2 The company's formalized ESG strategy and performance targets are clear, **measurable**, and achievable.

Section 2 - Code of conducts and policies

Separate the question *Does your company's employee code of conduct contain sections pertinent to ... Child and Forced Labor?* into two separate questions. This differentiation is crucial because not all forced labor involves children, while child labor is considered a form of forced labor.

Section 11 - Social & Governance Reporting

11.3 Does your company have a target for diverse spending publicly communicated?

Revised Wording:

11.3 Does the company have a specific financial target (percentage) dedicated to transactions with diverse-owned businesses?

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11.6 When do you expect to achieve your diverse spending and/or representation target? (Please describe the target, or why you do not have a target, in comments)

Revised Wording:

11.6 When does the company expect to achieve its target for diversity and inclusion - i.e. a target that strives for equitable representation across all organizational levels and ensuring fair practices in procurement and spending decisions?

New Questions

- A) Include an optional question asking for the name and title of the person completing the self-assessment, available to TSP only. This optional question could help provide insight into any challenges suppliers may have faced in completing the assessment. For instance, was it delegated to an administrative staff rather than a manager responsible for the supplier's ESG strategy policies? Capturing this information could also help in updating training materials.
 - B) Does the company have a designated individual or team responsible for monitoring and updating evolving ESG regulations and reporting practices?
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