



# Road to readiness

KPMG ESG Assurance Maturity Index 2023



KPMG International



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# Foreword



Environmental, social and governance (ESG) related topics are reshaping business operations, performance measurement, and risk management, introducing both new challenges and opportunities. It's within this context that we are pleased to launch KPMG's inaugural ESG Assurance Maturity Index, developed to help inform companies, investors and wider stakeholders on the current landscape. It comes at a pivotal time, as companies globally undertake a critical journey to prepare for new ESG regulatory requirements.

Most companies are already doing some reporting on ESG topics, primarily on a voluntary basis. But now the rules and market demands are changing, and what was once done at a company's discretion is now becoming mandatory and subject to independent third-party assurance. Time is of the essence as sustainability reporting frameworks come into force.<sup>1</sup>

To gain investor and stakeholder confidence and mitigate the risk of greenwashing, ESG reporting should be subject to a level of scrutiny comparable to the financial information that users depend on. This means that companies need to invest in and improve data quality by applying disclosure control and risk frameworks akin to those used in financial reporting.

The impending regulatory requirements are unquestionably driving the urgency to become ready for ESG assurance, but that is just part of the story. As our Index and research show, the potential benefits to becoming assurance ready go beyond mere compliance. Stakeholders from investors to employees to society as a whole want to know more about how companies are operating in a sustainable way. This has been the

impetus for the regulatory action but assuring ESG data can more broadly contribute to a company's reputation. The rigor and processes required to obtain ESG assurance can improve operations through accurate insights for decision-making, risk management and efficiency gains.

The KPMG ESG Assurance Maturity Index and associated research are designed to offer a path forward and provide a roadmap with guidance on areas to focus on, and the steps to take to become ready for ESG assurance.

KPMG professionals are right there on the journey with you. We are operationalizing ESG across our global organization to ensure our KPMG firms' ESG assurance work is performed to the same consistent level of rigor and quality as our financial audit activities and benefits from the same advanced technology platform. We recognize that your stakeholders are broader than just investors, and as auditors it is the responsibility of KPMG firms' to serve the public interest and keep the public's trust.

We hope you gain fresh insights from our Index.



**Larry Bradley**  
Global Head of Audit  
KPMG International



**Mike Shannon**  
Global Head of ESG Assurance  
KPMG International

<sup>1</sup> KPMG has extensive insights on all the developments in sustainability reporting: [ESG Reporting — KPMG Global](#)

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# About KPMG's ESG Assurance Maturity Index

KPMG surveyed senior executives and board members with ESG reporting and assurance knowledge at **750 companies** across industries, global regions, with a mean revenue of US\$15.6B.

The KPMG ESG Assurance Maturity Index is composed of

## Five pillars

designed to help companies measure progress in each of these areas:

(1) governance, (2) skills, (3) data management, (4) digital technology, and (5) value chain\*.

Each pillar is supported by one or more questions from the survey. The scores from each question within a pillar were averaged to arrive at the overall score for the pillar. The pillar scores were then weighted as follows:

Governance	Skills	Data management	Digital technology	Value chain*
0.25	0.25	0.25	0.15	0.10

The Index, measured on a basis of **0–100**, examines the progress companies have made in these areas to gauge the relative maturity of a company's ESG reporting program in order to assess its assurance readiness.

Based on their rankings, companies are classified as

<b>Leaders</b> (the top 25 <sup>th</sup> percentile)	<b>Advancers</b> (the next 50 <sup>th</sup> percentile)	<b>Beginners</b> (the bottom 25 <sup>th</sup> percentile)
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Research was conducted between April — June 2023.

*\*Survey respondents were originally asked about 'supply chain' but as this area develops, supply chain is now being thought of as 'value chain' so we have updated our language to align with current terminology.*

# Executive summary

**66%**

of respondents say their firms must now report ESG data or will be required to soon.



**Only 25%**

of companies feel they have the ESG policies, skills, and systems in place to be ready for ESG assurance.

**65%**

of leaders see digital tools as key to being ready to obtain ESG assurance.



Of those least ready for ESG assurance, **58%**

say it is challenging to balance ESG assurance goals with the profit expectations of shareholders.



**Only 27%**

of companies have robust policies and procedures to support the development of their ESG disclosures.



**Only 26%**

of companies have a clear audit trail to support their non-financial information.



## Five steps to help you become ready for ESG assurance

- 1. Determine applicable ESG reporting standards**
- 2. Build robust ESG governance and develop the right skills**
- 3. Identify the applicable ESG disclosures and data requirements across functions**
- 4. Digitize ESG data processes and ensure high quality data**
- 5. Work with the value chain to collect ESG information**

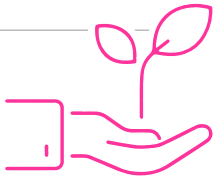
## Benefits of having your ESG data assured\*

Greater market share <b>56%</b>	Improved profitability <b>54%</b>
Reduced interventions <b>52%</b>	Better decision making <b>52%</b>
Greater innovation <b>49%</b>	Stronger reputation <b>47%</b>
Greater shareholder value <b>46%</b>	Reduced costs <b>44%</b>

\*Benefits cited by Leaders in the KPMG ESG Assurance Maturity Index

# ESG assurance: The beginning of the road

**75%**



of companies surveyed are in early stages of **ESG maturity** and therefore, less ready for ESG Assurance.

The KPMG ESG Assurance Maturity Index found that the majority of companies are still at the beginning of their ESG assurance journey and not ready to have all of their ESG data independently assured. While the top 25 percent of companies surveyed are characterized as “Leaders”, this is very much a relative designation. Leaders in the research are those that have achieved an average Index score of 64.8 (on a scale of 0–100) while Advancers saw an average score of 45.4, with 30.5 being the average score for Beginners. The research shows that although Leaders are more advanced in becoming ESG assurance ready, for the most part they still have a lot of work to do.

The correlation between company size and ESG assurance maturity is evident, with larger companies showing greater integration of sustainability into their day-to-day operations. The largest firms, with revenues exceeding US\$10B, achieved an average score of 56.3, notably higher than US\$5–10B companies (45.3) and those under US\$5B (41.7). Publicly traded companies, on average, displayed higher ESG assurance maturity than privately held companies, with scores of 48.5 and 43.3.

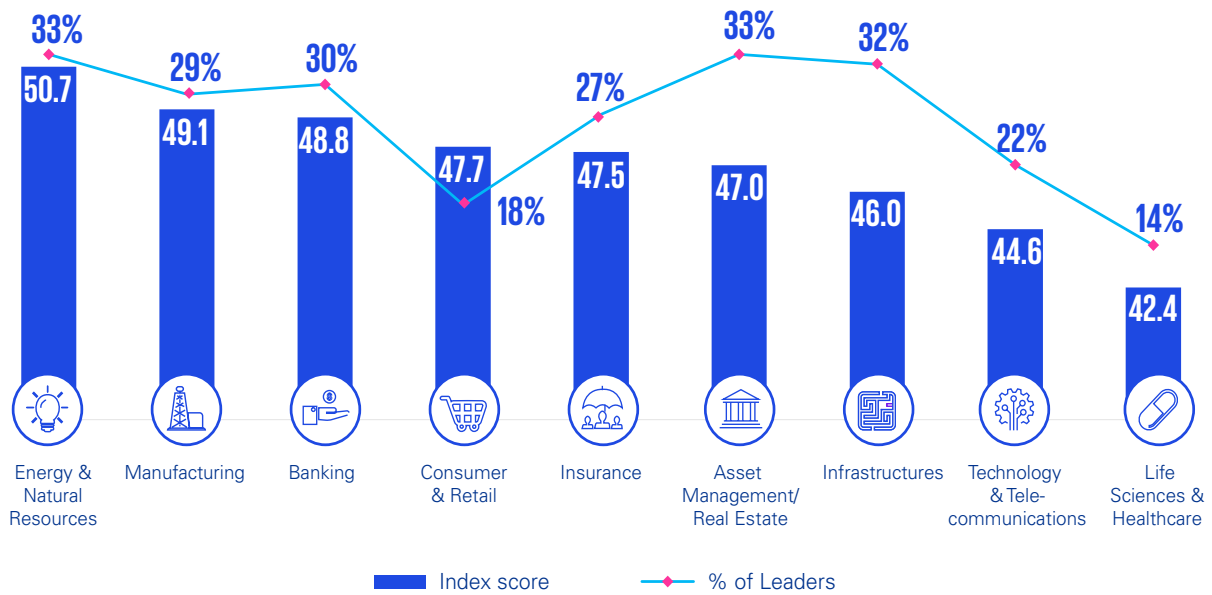
On an average basis the Index shows only a moderate difference in maturity according to industry. However, larger differences among industries emerge when viewed by the percentage of Leaders in each, as shown in Figure 1, Energy and Natural Resources, as well as Asset Management & Real Estate firms have a 33 percent share of Leaders compared with just 14 percent of Life Sciences and Healthcare organizations, for example.



“Assurance requirements are here. Soon, third-party assurance will no longer be an iced to have; it will be a table stake. While there are some larger companies that have been working to get ESG assurance ready, most companies haven’t built out much of the infrastructure that they need to have their ESG data assured. Now is the time for companies to establish their processes and become assurance ready.”

**Maura Hodge**  
ESG Audit Leader, KPMG in the US

**Figure 1: Index score and percent of Leaders by industry**



Where a company is headquartered has a bearing on their assurance readiness. Companies in North America average the highest maturity score followed by Europe, Asia Pacific and Latin America.

By country, ESG assurance readiness of companies is relatively close between the highest-ranking countries — France (50.4), Japan (50.0) and the US (49.4) and the lowest-ranking — Brazil (43.1) and China (43.0).

However, when examined by the percentage of Leaders, wider differences are evident. Thirty-eight percent of firms in Japan are Leaders, compared with just 18 percent in Canada, the UK and Brazil, for example.

**Figure 2: Maturity score by headquarters region**

**North America**

**48.3**

**Europe**

**46.8**

**Asia Pacific**

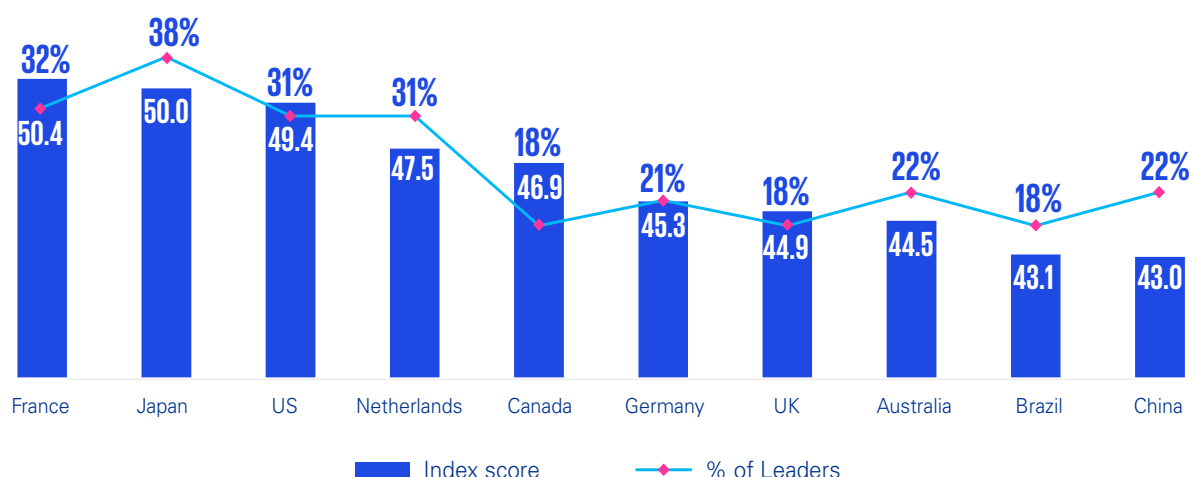
**45.8**

**Latin America**

**43.1**



**Figure 3: Maturity score and percentage of Leaders by country**



Japan emerged as a leading country in the Index, attributed to several key factors. Japanese companies have traditionally placed a higher emphasis on generating societal and stakeholder value compared to their counterparts. This mindset is evident in their issuance of integrated reports and their significant representation among Taskforce of Climate Related Financial Disclosures (TCFD) adopters worldwide.

Additionally, Japanese public companies must incorporate sustainability information into a

dedicated section of their annual securities report, effective beginning fiscal years ended March 31, 2023.<sup>2</sup> This action by Japan's Financial Services Agency signals an aim to implement national sustainability reporting standards in line with IFRS Sustainability Disclosure Standards. This development has sparked discussions on assurance of ESG information, prompting companies to actively seek ways to bolster the credibility of their sustainability data while improving their disclosure approaches.

<sup>2</sup> Japan introduces mandatory ESG disclosures for public companies', Morgan Lewis, December 22, 2022.

“

**As sustainability-related information is increasingly integrated into financial analysis of investors, companies should seriously consider how to ensure sufficient data quality. This should also improve the quality of the compass that management would rely on, in driving the journey of sustainability transformation.**”

**Tomokazu Sekiguchi**

Partner, Head of Department of Professional Practice, Disclosure  
KPMG in Japan





# What's driving the ESG assurance imperative?

## Two-thirds

**of the business leaders surveyed said their companies must report ESG data now or will soon be required to do so; the percentage is even higher, 78 percent, for listed companies.**



Not surprisingly, more publicly listed companies will be required to report ESG data compared to privately-held ones, yet the results of the survey indicate that obtaining assurance on ESG information is quickly moving from a competitive advantage to a stakeholder expectation, making it de facto mandatory, even when regulations might not require it.

There are a number of drivers leading companies to report and increasingly assure their ESG data, but regulatory pressure is clearly number one. Two-thirds of the business leaders surveyed said their companies must report ESG data now or will soon be required to do so; the percentage is even higher, 78 percent, for listed companies. At the same time, a solid majority, 64 percent, say they are feeling regulatory pressure to obtain assurance over their ESG disclosures. The higher a company's revenue, the more likely that it will be required to report ESG data.

“

**ESG reporting and assurance frameworks are changing so significantly, even companies that are mature and have been doing assurance in some areas are unlikely to say they are truly ready for ESG assurance.”**

**Neil Morris**

Global Head, Assurance and  
ESG Methodology  
KPMG International



# Benefits of assuring ESG data can go far beyond compliance



## Forward-thinking

**companies approach ESG assurance not merely as a box-checking exercise, but as a way to create value for their organization.**

With increasing regulatory requirements, being assurance ready can be viewed as table stakes, but done right, it can also yield significant business benefits. Preparing for the rigor of the assurance process means producing higher quality data and information. It can identify gaps and areas where processes can be improved, with potential ways to gain efficiencies in collecting and reporting data.

Assured ESG data helps to give companies greater credibility with investors and all stakeholders potentially increasing brand loyalty, which once lost can be difficult and expensive to win back. More than half of all respondents (54 percent) and 47 percent of CEOs and board members look beyond just compliance and see gaining greater market share as a potential benefit, attracting ethically minded customers and investors seeking to align their values with their choices. A range of other potential benefits highlighted in our research are increased customer satisfaction (46 percent) and, greater innovation (49 percent), with a significant number, 44 percent, also citing decreased costs (e.g. operational costs), investment/asset optimization, and stronger reputation.

Leaders in the Index, who are further along the assurance journey, see potential benefits in having their non-financial data assured where Beginners do not yet fully appreciate all the opportunities. Over half of Leaders, 54 percent, see the opportunity to improve profitability, by, for example, resource optimization and waste reduction, while just 22 percent of Beginners see this potential benefit. A similar percentage of Leaders, 52 percent, see improved decision making as a benefit of becoming ESG assurance ready, compared to 30 percent of Beginners.



**There is an initial cost to becoming ESG assurance ready, but one of the potential benefits is that it allows the company to show how they will operate not only profitably in the long-term, but also sustainably, in a much more credible way.**

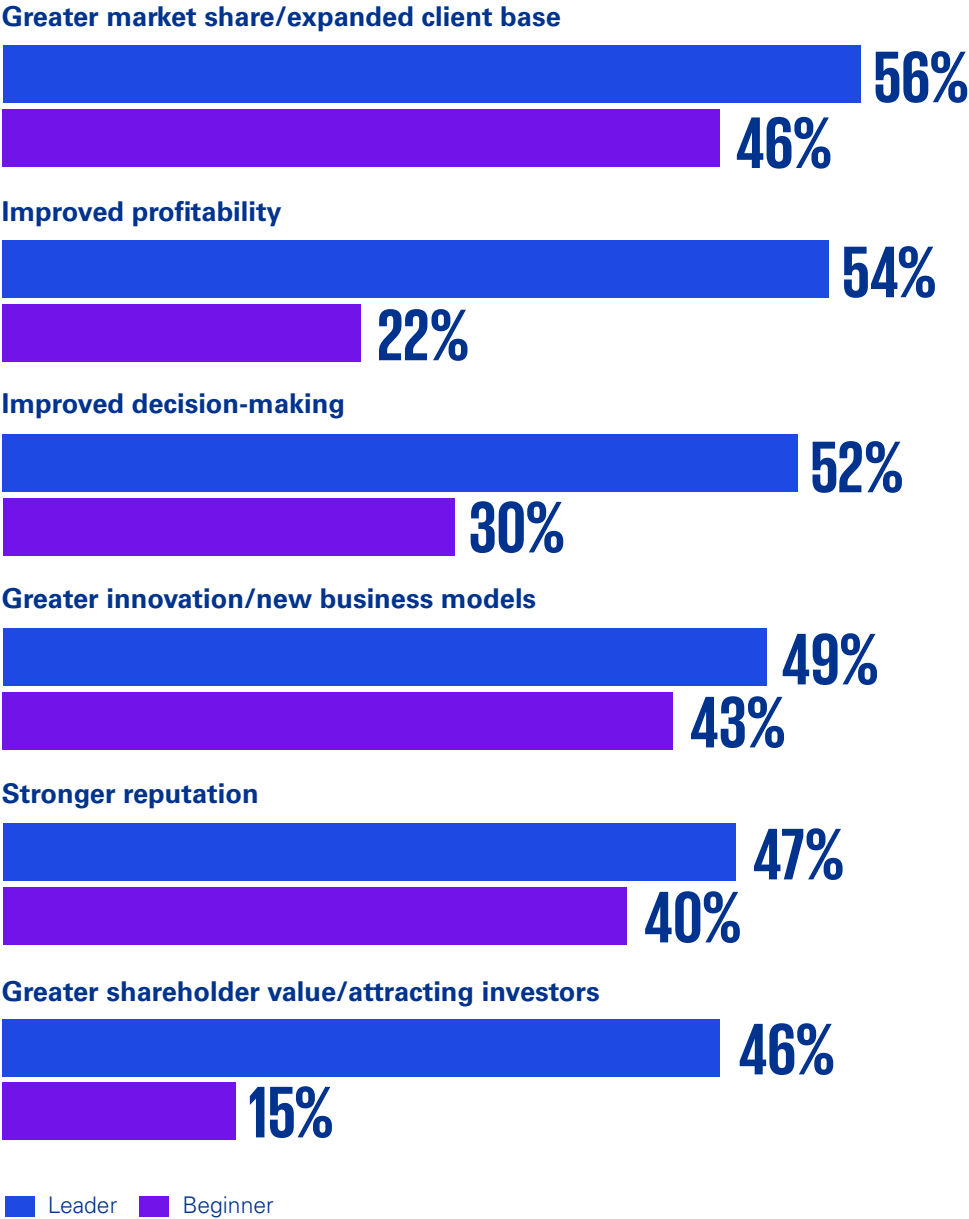
**George Richards**

Partner

Head of ESG Reporting and Assurance  
KPMG in the UK



Figure 4. Areas where leaders and beginners see benefits in having their ESG data assured.



# Challenges persist as companies prepare for ESG assurance

Of the 56 percent of firms that are reporting ESG data in the public domain, 93 percent are doing some level of external assurance. Yet, of those, just a fraction are obtaining reasonable assurance (14 percent) or limited assurance (16 percent) over all of their ESG disclosures that will be required under incoming regulations, signaling that there is still more progress to be made on their ESG assurance maturity journey.

The Index reveals that companies are experiencing a range of challenges in preparing for ESG assurance. These hurdles run the gamut, from lack of skills and insufficient budgets to unclear, evolving regulations and inadequate digital solutions and data access.

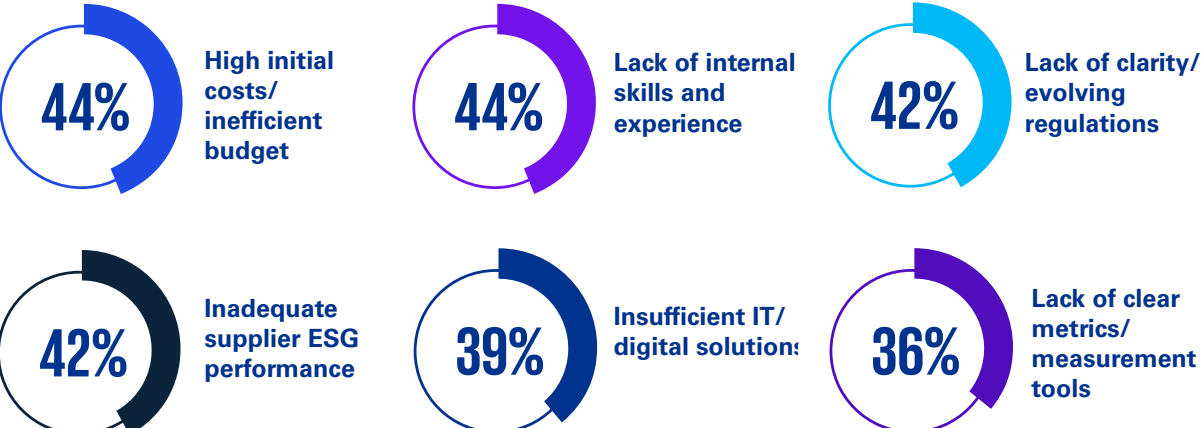
On average, beginners cite between four and five main challenges; leaders report fewer, about three to four. However, some hurdles grow as companies become more mature in ESG assurance.

For instance, as leaders strive to do better, they become more aware of weaknesses in supplier ESG practices and gaps in current metrics.

“**ESG assurance contributes to transparency and helps reduce the risk of unintentional green or social washing.**”

**Sarah Bagnon-Szkoda**  
 Partner in charge  
 ESG Department of Professional Practice  
 KPMG in France

**Figure 5. Top six challenges in preparing for ESG assurance**



## Data collection and reporting are lagging

In order to be ready for assurance, a company needs to be in control of its data. Collecting and reporting required data is one of the main hurdles for most companies. There are typically inconsistencies in how data is gathered and reported across organizations, with companies needing to make estimates to fill in the gaps. The extensive data requirements of the forthcoming EU regulations will require reporting not only on environmental criteria, but also on a broad range of social factors, including diversity and inclusion, working conditions and health, putting further pressure on companies.

Unlike financial data, which typically resides in a relatively small number of interconnected systems, ESG data may need to be collected from a plethora of disparate systems that have not been designed to interact with each other. For example, there could be a standalone system for measuring carbon emissions that doesn't support social or health and safety metrics. So, a metric such as carbon emissions per headcount or hours worked can't be determined easily.

Our research identified several areas where companies are lacking with respect to data capture. Just over half of companies capture data on scope 1 and 2 greenhouse gas (GHG) emissions and waste, and only 36 percent of companies are capturing scope 3 GHG emission data.

Fewer than half say their companies capture data on other ESG performance metrics, including impact of workforce diversity and inclusion employee retention, and pay equity. The lack of data capture on these social metrics suggests that many companies have yet to fully integrate these considerations into their business strategies. This disconnect highlights the gap between societal expectations and corporate actions. To bridge this gap, companies need to transparently collect and report data on diversity, retention, and pay equity, demonstrating their commitment to addressing these vital social issues.



As awareness of the importance of climate risks and other ESG metrics grows and as regulatory and market pressures increase, more companies are likely to prioritize and improve their data collection. And for many in the coming years, these metrics will be required for companies not only to report on, but also to get assured.

## Data quality-checking is also lacking

Just as it is essential to collect the right data, it is equally important to ensure the quality of the data. Our research finds that necessary quality-checking falls short for many companies. Close to half, 44 percent, of companies surveyed rely on the staff manager preparing the ESG data, that person's line manager, or the manager of the report to check the accuracy of the data.

Of the 56 percent of firms reporting ESG data in the public domain, 53 percent test their process and controls for ESG data on a rotating basis, and far fewer, 22 percent, do annual testing of process and controls over all performance metrics. And while banking is the leading industry in this regard, only 40 percent of those doing testing are doing comprehensive yearly testing.

Despite the challenges, many companies recognize that assurance enhances credibility and transparency, instilling trust among stakeholders, investors, customers, and regulatory bodies. This fortified trust is critical in an era where ethical and sustainable practices are integral to business success.

**Figure 6: Percentage based on companies doing testing**

How controls are tested	All	Industry high	Industry low
Process and controls are tested over high-risk performance metrics only.	<b>25%</b>	43% Manufacturing	18% Infrastructure
Process and controls are tested on a rotating basis, including high risk performance metrics each year.	<b>53%</b>	70% Asset Management & Real Estate; Consumer & Retail	20% Banking
Process and controls are tested over all performance metrics every year.	<b>22%</b>	40% Banking	10% Asset Management & Real Estate Consumer & Retail

# Five steps to help you become ready for ESG assurance

Becoming ESG assurance-ready requires a multi-dimensional approach. An effective strategy includes a number of key components. These are the first important steps to address on your ESG assurance journey:

## 1. Determine applicable ESG reporting standards

## 2. Build robust ESG governance and develop the right skills

## 3. Identify the applicable ESG disclosures and data requirements across functions

## 4. Digitize ESG data processes and ensure high quality data

## 5. Work with the value chain to collect ESG information

## 1. Determine applicable ESG reporting standards

Sustainability reporting is developing quickly, with new requirements from the International Sustainability Standards Board (ISSB) and EU, and proposals from the US. The aim of the ISSB™ Standards is to create a global baseline for investor-focused sustainability reporting that local jurisdictions can build on.

There is commonality among the requirements, however, there are also areas where they are not aligned. For multi-nationals and others needing to apply multiple frameworks, the challenges will be magnified if the requirements are not compatible.

KPMG has guidance on some of the practical challenges you may encounter as you prepare for the new sustainability reporting standards. [Comparing sustainability reporting requirements — KPMG Global.](#)



## 2. Build robust ESG governance and develop the right skills

Board and CEO engagement is critical to ensure that data and processes are robust and ready for assurance. For most companies, the ESG agenda has become a priority for CEOs, essential to attracting the best people, and in ensuring the budget, systems and processes required. Meanwhile, for boards of directors, especially with large listed companies, increasing ESG reporting and assurance requirements are demanding their attention.

As expected, ESG is on the board agenda for about three-quarters of companies surveyed overall. This includes, reviewing ESG data, taking ESG actions, monitoring ESG performance, and identifying ESG risks/opportunities. The Leaders have even greater board engagement, exceeding 80 percent in all of these areas.

Digging a little deeper, the research reveals there still can be challenges at the board and CEO level, with Leaders in assurance readiness holding a clear advantage. Over half of Leaders (54 percent), say their board is knowledgeable about their company's ESG assurance issues, compared to 27 percent of Advancers/Beginners. A slightly lower percentage of Leaders, 39 percent, say ESG transparency is a top priority for their C-suite and board, compared with 23 percent of non-leader respondents.

Leaders are also doing a better job of getting shareholders on-board with ESG assurance efforts. An impressive 82 percent of Leaders don't think achieving ESG assurance goals while meeting shareholder profit expectations is a challenge. By comparison, 51 percent of CEOs and board members surveyed at companies that are less ready for assurance say it is challenging to balance their ESG assurance goals with profit expectations of shareholders.

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**Where CEO and board sign-off is required, it inherently enhances the comprehensiveness and precision of ESG data. This step is pivotal in achieving readiness for assurance — when you're in a position for your CEO and board to provide their endorsement, you're also better prepared for your assurer to sign-off.**

**Sebastian Soares** ”

Partner, Assurance Leader, KPMG in Brazil and South America region

**Figure 7: C-Suite and board views on ESG assurance**

	Leader	Advancers/ Beginners
Our board of directors is knowledgeable about the ESG assurance issues facing the organization.	54%	27%
ESG transparency is a top priority for our C-Suite and board of directors.	39%	23%
It is challenging to achieve ESG assurance goals while meeting shareholder profit expectations.	18%	51%

**Having a team with the right skills is critical**

The CEO and board play a pivotal role in cultivating an ESG-focused culture, setting clear goals, and communicating their significance throughout the organization. Even so, the personnel demands of becoming assurance ready bring a unique set of challenges. Generally, the underlying ESG data owners will have operational roles within the business, while the reporting process will be owned by the finance function.

There is a significant advantage to have people with the skill set to prepare financial information and statements and manage an audit. At the same time, they will need to have a depth of understanding to navigate the ESG content and metrics they are trying to assure.

Our research found the vast majority (82 percent) of Leader companies have completed or are at mid-implementation in setting up a team to manage ESG metrics and disclosures, compared to just 31 percent of those considered Advancers or Beginners.

Leaders are also ahead in providing ESG training to their staff, but many have more to do. Over half (54 percent) of Leaders provide regular training throughout the year, compared to 34 percent of Advancers and Beginners, while less than a third make the training compulsory with testing, still far more than the 7 percent of non-Leaders.

“  
**Companies that are most successful in becoming ESG assurance ready are those that get everyone in the company onboard with the mission, creating a culture that appreciates the company’s impact on the environment and society and the value that ESG reporting can bring.**

**Ubbo van Zessen**  
 Partner  
 Head of ESG  
 KPMG in the Netherlands

**Figure 8: Frequency of staff ESG training**

ESG training frequency for staff	Leader	Advancers/ Beginners
Never	-	1%
Ad hoc	2%	7%
Annually	15%	52%
Regularly throughout the year	54%	34%
Regular compulsory training with testing	29%	6%



### 3. Identify the applicable ESG disclosures and data requirements across functions

Data management is crucial to becoming ESG assurance ready. There are three main components:

- Identifying the material topics and the right metrics
- Implementing processes to collect the data
- Putting controls in place to ensure data quality

As outlined on page 14, the first step in capturing the right ESG data for assurance is determining the applicable reporting requirements and then determining what the right metrics are for your business. Metrics need to be clearly defined and documented. Performing a materiality assessment will help define KPIs and ESG metrics, so that there can be an assurance opinion that the metrics have been measured and reported in accordance with your reporting criteria.

Companies obtaining assurance under the EU reporting requirements should perform materiality assessments for two dimensions (Double materiality) — financial and impact; and assure disclosures in either dimension. For example, under ‘impact’, the assessment would include a company’s upstream and downstream value chain, with materiality assessed based on severity and likelihood of the impact. While ‘financial’ materiality will require disclosure of sustainability-related matters that (may) trigger material financial effects on a company, with materiality assessed based on the likelihood and (potential) size of the financial affect. In the case of financial materiality, the assessment will not be limited to matters within the company’s control.

Most companies in our research have made progress in defining key performance indicators and collecting and reporting KPI data both internally and externally, but Leaders stand out, with more than 90 percent making moderate or significant progress in these areas.

For capturing data, nearly half, 45 percent, of Leaders recognize the value of having a custom ESG reporting management system, compared to just 9 percent of Beginners and Advancers. For the majority,

# 45%



of Leaders recognize the value of having a custom **ESG reporting management system**.

56 percent of all companies have an integrated governance, risk, and compliance (GRC) system that combines ESG matters and ensures they are managed together with performance updates and presented to management.

#### Building effective processes and controls

To obtain ESG assurance, whether limited or reasonable, it’s essential to have robust data processes, controls and systems. This ensures companies can prevent the need to restate data from one reporting period to another. It also safeguards against regulatory scrutiny and perceptions of misleading claims (greenwashing). Leaders are well ahead of others in this regard.

On average, Leaders ranked higher for progress on processes and controls for ESG data. Most notably, Leaders rank more than three times higher than other respondents for having process and controls documented, in place and tested for environmental data; with similar leadership for governance data and social data.

However, as our research suggests, the vast majority of companies may still have more to do to create systematic processes for data collection, validation, and verification. Standardizing procedures across departments, utilizing digital technology and maintaining a centralized documentation repository, while conducting regular tests to ensure data accuracy will become even more critical for some companies due to greater regulatory requirements or other stakeholder pressures.

As the regulatory landscape continues to evolve, companies will also need to continually enhance and refine their data management practices across all ESG dimensions.

**Figure 9: Most advanced process and control stage for ESG data**

	Leader	Advancers/ Beginners
<b>Process and controls documented, in place and tested</b>	Environment	50%
	Governance	52%
	Social	45%

“

The first thing we see as companies become assurance ready is the quality of their data improve significantly. This ultimately leads to better business decisions and a more informed strategy, which can be used to strengthen the relationship with all relevant stakeholders and potentially reduce financing cost.”

**Oliver Geier**

Partner  
KPMG in Germany



#### 4. Digitize ESG data processes and ensure high quality data

Data collection is central to becoming ESG assurance ready. The higher the quality of the data and the more granular it is, the richer the insights and better-informed decisions that can be made. Companies are used to collecting detailed data on financial performance and metrics, but collecting non-financial data brings additional layers of complexity. With diverse sets of metrics ranging from greenhouse gas emissions to gender diversity there are typically inconsistencies and gaps in the way data is gathered across the organization.

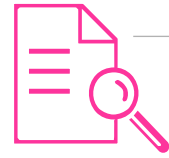
Digital solutions can be valuable in addressing the data collection task, and virtually all, 96 percent, of the Leaders in our Index say they are at mid/full implementation of ESG data capture systems, more than double that of Beginners and Advancers.

The majority of Leaders, 66 percent, agree digital tools are key to being ready to obtain ESG assurance, compared to 38 percent of the Advancers and Beginners. Perhaps surprisingly though, CEOs and board members are less convinced that these tools are essential — just 37 percent say they are key to helping them be ready for ESG assurance. This skepticism could stem from a lack of understanding of the specific benefits, concerns about costs, or perceptions that traditional methods are sufficient.

One of the ways to raise the maturity level for non-financial data collection is integrating non-financial data capture with financial reporting systems. It can be a challenge with the very different types of information and systems in place, but the benefits can be significant.

The survey finds 87 percent of Leaders have attained mid/full integration of their ESG data systems with financial reporting systems, compared to just 35 percent of other firms.

# 74%



of respondents in our **research acknowledged they lack** a clear audit trail to substantiate non-financial ESG information.

#### Maintaining supporting documentation for audit trails

Having a robust audit trail is essential to being assurance ready — it is what ensures the reliability and transparency of reported data. Three-quarters, 74 percent, of respondents in our research acknowledged they lack a clear audit trail to substantiate non-financial ESG information.

The audit trail provides essential evidence that traces the sources of data and how specific information was ascertained in the reporting process. It encompasses structured and unstructured, quantitative, and qualitative data.

With potentially hundreds of ESG data points getting reported and assured, achieving a clear audit trail is complex and demands a concerted effort from organizations. This involves integrating ESG considerations into core business operations, implementing rigorous data collection and management systems, and fostering a culture of accountability from top to bottom. By addressing this gap, companies can not only enhance their readiness for assurance but also demonstrate their genuine dedication to sustainable and responsible practices, earning the trust and confidence of stakeholders in an era where values and accountability hold more weight than ever before.

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**Integrating non-financial with financial data capture systems gives you the benefit of consistent financial controls over your non-financial information. We recommend using existing financial reporting tools to the fullest extent possible, extending them to encompass non-financial reporting.** ”

**Patrick Chu**

Partner, Head of ESG Reporting and Assurance  
KPMG China

## 5. Work with the value chain to collect ESG information

As companies grapple to get a better handle on their ESG data, getting data from their value chain can be especially challenging. It is a major issue as in many cases, the majority of a company's carbon footprint is coming from indirect emissions across the value chain. There are also likely to be other sustainability and social information from suppliers that companies need to take into account.

Obtaining high-quality information from suppliers will only become more critical as regulations increasingly force companies to have their suppliers aligned.

Leaders are further along in working with their suppliers. More than half, 55 percent, say they have established broad contractual ESG requirements for their suppliers, while about a third, 28 percent have

robust, product-specific contractual requirements. The majority of Leaders, 61 percent, ask suppliers to feed ESG data into their data platform.

We also expect to see increased use of alternatives, such as product and invoice based ESG indicators, as a way to bypass issues with capturing supplier data, but this may not ultimately meet regulatory requirements.

Suppliers may not feel the same level of urgency if they are operating in a different regulatory environment. They may also be challenged to provide information that meets the requirements of a variety of frameworks used by their customers. Even so, expect pressure on supplier to ratchet up to provide information required in timely manner.

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**Obtaining ESG data from suppliers on a timely basis has become part of the procurement process. Companies that are thinking strategically are asking how they can help customers meet their ESG goals – capturing the right data is a differentiator.**

**Daniel Camilleri**  
Partner, KPMG Australia”



# Preparing for ESG assurance — how to move forward

This is a pivotal time for companies as they undertake their journey to prepare for ESG assurance. Regardless of the level of assurance, it doesn't alleviate any of the responsibilities to report accurate information; Limited assurance doesn't equate to limited reporting; accuracy remains paramount.

The KPMG ESG Assurance Maturity Index offers a framework for assessing your position in the ESG assurance maturity journey and charting a path forward.

As the research reveals, the challenges are diverse for those championing ESG assurance in their organizations — from costs and expertise gaps to regulatory ambiguity and supplier ESG performance.

Even so, the Leaders, typically larger companies, are more likely to have a business strategy that revolves around a sustainability perspective. They see ESG assurance as an opportunity, more than just a compliance requirement. The challenges are more acute of course for companies ranked as Beginners in becoming ESG assurance ready. The key for those companies is to get started now.

Doing a materiality assessment to identify relevant sustainability metrics for your business and stakeholders is a great place to start. This anchors your ESG strategy, reporting focus, and assurance targets. Peer benchmarking offers insights, while an assurance map can help you prioritize metrics, identify gaps in the data and in determining what data needs to be fed into decisions the board is making.

To be ready for assurance, you will need to ensure that your ESG disclosures will meet preconditions for assurance. This means having suitable criteria for your disclosures. Having sufficient evidence in terms of data, that is of appropriate quality to allow your auditor or assurance provider to form an assurance conclusion. With meticulous preparation, clear communication strategies, and collaboration among

stakeholders, you can establish a robust foundation for the assurance process, ensuring the accuracy and transparency of your ESG data and reporting for external validation.

The [KPMG Ready for Assurance](#) service can help you navigate the complexities of ESG assurance and to be ready for new regulatory requirements.

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**There is great value in assessing the preconditions prior to an assurance engagement taking place. This means ensuring you have identified the right framework, selected the right metrics and have robust processes for collecting and aggregating the data. Having the preconditions satisfied now, in advance of the 2024 reporting cycle can be a huge step in meeting the coming requirements and help set businesses up for success.**

**Mike Shannon**

Global Head of ESG Assurance  
KPMG International

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# Glossary



**Audit trail:** A step-by-step record by which accounting, trade details, or other financial and non-financial data can be traced to their source.

**ESG (Environment, social and governance):** represents a set of criteria that companies use to evaluate and communicate their performance in key areas beyond traditional financial metrics.

**Greenhouse gas (GHG) emissions: Scope 1:** Covers emissions from sources that an organization owns or controls directly.

**Greenhouse gas (GHG) emissions: Scope 2:** Covers emissions that a company causes indirectly and come from where the energy it purchases and uses is produced.

**Greenhouse gas (GHG) emissions: Scope 3:** All emissions not covered in scope 1 and 2, created by a company's value chain.

**Limited assurance:** A level of assurance at an acceptable level that, based on professional judgement, is meaningful for the intended users. It results in a negative conclusion (i.e. 'nothing has come to our attention to indicate that the information is materially misstated).

**Materiality assessment:** An assessment to help identify a company's most material issues and determine what should be reported. The process includes reaching out to internal and external stakeholders for input.

**Non-financial reporting:** the process of disclosing information about a company's ESG performance, impacts, and initiatives in addition to its financial data.

**Reasonable assurance:** Expressing reasonable assurance requires the assurance provider to obtain sufficient appropriate evidence to conclude that the sustainability-related information prepared, in all material respects, in accordance with the applicable reporting criteria (positive conclusion).

**Sustainability:** the practice of conducting business in a way that meets the needs of the present without compromising the ability of future generations to meet their own needs.



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Designed by Evalueserve.  
Publication name: Road to readiness  
Publication number: 138990-G  
Publication date: September 2023