



Forensic services for Environmental, Social and Governance (ESG) Framework



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ESG landscape

Businesses are increasingly demonstrating success through sustainability efforts and Environmental, Social and Governance (ESG) metrics, alongside financial performance. Nearly 99 per cent of the US S&P 500 organisations report on ESG metrics¹ driven by a growing consciousness among business leaders.

The continuously evolving global regulatory landscape and stringent frameworks by various governments are driving organisations to incorporate ESG into their business. The European Union (EU) has implemented Sustainable Financial Disclosure Regulations (SFDR), EU Taxonomy, Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD) to ensure sustainable and responsible business growth.

Close to 50,000 organisations are subject to mandatory sustainability reporting, including non-EU organisations, which have subsidiaries operating within the EU or are listed on EU regulated markets. Additionally, the US Securities and Exchange Commission (SEC) has also proposed enhancing climate-related disclosures. In India, Securities and Exchange Board of India (SEBI) mandates top 1,000 listed organisations to disclose ESG performance under Business Responsibility and Sustainability Reporting (BRSR), which is aligned with global sustainability reporting standards. SEBI has also

introduced ESG Rating Provider and ESG Investing frameworks. The Reserve Bank of India (RBI) has also included green projects in priority sector lending and notified the 'framework for acceptance of green deposits'.

Non-compliance of ESG regulations can result in significant penalties and reputational loss. The SEC imposed USD68 million in civil penalties for ESG issues in the fiscal year 2023². Enforcement by Indian regulators is also expected to increase as the ESG environment matures.

As organisations augment their efforts to respond to an increasingly demanding system, they face immense pressure to maintain integrity and meet expectations on several fronts. The mounting pressure on the Board of Directors and management to perform during economic slowdowns, coupled with the nascency of ESG governance standards and regulations, may blur the line between what is 'acceptable' or 'unacceptable'.

Therefore, robust corporate processes should be built and monitoring mechanism should be developed to prevent or minimise the possibilities of misrepresentation, misstatement and false declaration while ensuring integrity across various aspects of E, S and G related regulations.

¹ S&P 500 ESG Report Assurance Analysis, CAQ, June 2023

² SEC Announces Enforcement Results for Fiscal Year 2023 dated 14 November 2023, SEC.gov



ESG integrity risks

Environment

1. Green funds may be used for unauthorised/ineligible projects, particularly in areas where incentives exist
2. Transferring ESG funds to subsidiaries/group organisations without prior permission of the investors/lenders
3. Pledging of shares or other assets of ESG organisations for obtaining loans/funds for related/connected organisations
4. Deliberately compromising monitoring systems and mechanisms over environmental controls such as emissions, air and water monitoring systems, among others
5. Greenwashing: False/misleading product claims about sustainability
6. Incorrect assessment and reporting of environmental impact
7. Bluewashing: Advertising about registration with UN Global Impact without following UNGC principles
8. Improper waste management

Social

1. Non-compliant labour/working conditions and inadequate industrial safety standards for protection of workers
2. Purplewashing/Pinkwashing: Organisations attempting to appeal to the diversity and inclusion of women/LGBTQ communities to distract from contradictory internal practices
3. Inadequate or no insurance policies, health and safety management systems for employees
4. Brownwashing: Creating a public image supportive of people of colour, while not implementing relevant policies in its own business
5. Misuse/abuse of security forces to violate civil rights and human liberties, especially in high-risk regions
6. Counterfeiting and product diversion



1. Increased cyber security risk
2. Regulatory non-compliances such as financial statement frauds, evasion of taxes, insider trading, among others
3. Weak internal controls and inadequate management oversight
4. Unauthorised use of brand assets
5. Bribery of statutory authorities to obtain fraudulent licenses/permissions or overlook non-compliances during inspections
6. Intentional under/over-reporting of ESG metrics to regulators and investors to demonstrate a favorable picture or position that does not exist in reality

Governance

How can KPMG in India help?

The various E, S and G stipulations may have existing mechanisms, both internal and external. However, a forensic approach would help in streamlining and increasing the efficacy of the existing mechanisms.



<p>7</p> <p>Proactive integrity and compliance review</p>  <p>Review and monitor adherence to various E, S and G related policies and programmes. Proactively detect any indication of non-compliance or breach of sustainable supply chain, IT, operations, among others.</p>	<p>8</p> <p>Investigation and remediating ESG breach</p>  <p>Independent investigation into ESG related allegations like greenwashing, reporting manipulation, regulatory breaches, misuse of grant funding, general ethics, compliance violation and other whistleblower complaints.</p>	<p>9</p> <p>Digital forensic and incident response</p>  <p>Analyse digital footprints associated with cyber incident risks, including but not limited to business disruptions, data leakage, denial of service, financial frauds, malware and cyber incidents.</p>
<p>10</p> <p>Physical Security Advisory Services (PSAS)</p>  <p>Expert consultancy in physical security risk assessments with an ESG lens. Integrated security project management considering ESG impacts, Electronic Counter Surveillance (ECS) and crisis management incorporating human rights policies/principles, among others.</p>	<p>11</p> <p>Brand protection</p>  <p>Risk assessment/ investigations to identify perpetrators of illegal trade and recommend preventive measures to mitigate such risks.</p>	<p>12</p> <p>Market intelligence of ESG breaches</p>  <p>Gather discrete information related to malpractices for ESG through field intelligence and surveillance.</p>

In today's business landscape, organisations are increasingly held accountable for their Environmental, Social, and Governance practices. Our forensic services team offers comprehensive solutions to help you navigate through the complex ESG landscape.

Contact us to learn on how our ESG forensic services can support your organisation's commitment to deliver ethical and sustainable practices.



KPMG in India contacts:

Manoj Kumar Vijai
Partner and Head - Risk Advisory,
Office Managing Partner – Mumbai
T: +91 98926 00654
E: mkumar@kpmg.com

Namrata Rana
Partner and National Head of ESG
T: +91 98100 82526
E: namratarana@kpmg.com

Rajosik Banerjee
Partner and Head, Financial Risk Management
Deputy Head, Risk Advisory
T: +91 98203 03556
E: rajosik@kpmg.com

Jagvinder S. Brar
Partner and Head
Forensic Services and F-Tech
T: +91 97169 09339
E: jsbrar@kpmg.com

Suveer Khanna
Partner and Head
Forensic Investigation
T: +91 96196 32131
E: skhanna@kpmg.com

Mustafa Surka
Partner, Forensic Services
Risk Advisory – Consumer Markets and Retail Lead
T: +91 98199 88629
E: mustafasurka@kpmg.com

kpmg.com/in

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KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

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