



Internal audit's role in ESG

Issue 1

kpmg.com/eastafrica



Supporting your ESG Goals

Environmental, social, and governance (ESG) issues are becoming increasingly relevant for all institutions. *Companies understand that businesses embracing ESG are best able to secure talent, strengthen the employee value proposition, attract loyal customers, and raise capital. ESG has gone from a nice-to-have to an integral piece of long-term financial success.** As a result, sustainability is generating a new type of risk: ESG risk. *Companies have begun reimagining their governance structures over ESG, creating steering committees composed of executive leadership and making strategic decisions about commitments, actions, and disclosures.*** Companies are also adjusting business risk strategies and corresponding risk appetite statements—making sure roles and responsibilities are fully transparent throughout all three lines of defense. Internal audit can play a critical role in providing objective assurance and advice on ESG reporting and sustainability matters more broadly.



Environmental

considers how an organization performs as a steward of nature. This can include issues related to financed emissions, waste management, water management, and climate change vulnerability.



Social

examines how organizations manage relationships with employees, customers, and the wider community. Risks that fall under this category can include corporate social responsibility, labor management, data privacy, general security, health and safety and well-being.



Governance

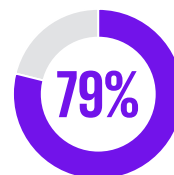
refers to variables such as business ethics, board and leadership, executive pay, audits, internal controls, intellectual property protection, and shareholder rights.

Stakeholder expectations have pressured companies to shift their focus from maximizing shareholder returns to maximizing shareholder value, which resulted in organizations publicly reporting sustainability commitments and strategies. *With the potential recession testing CEOs' commitment to their ESG strategies, reducing investment may lead to long-term financial risks. This test comes at a time when CEOs have made significant strides in tying ESG to profitability, and it becomes a matter of prioritizing short-term and long-term returns.****

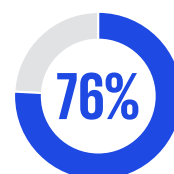
* KPMG 2022 Global CEO Outlook, August 2022

** KPMG 2022 Global Sustainability Reporting Survey, September 2022

*** KPMG 2022 US CEO Outlook, August 2022



A vast majority of CEOs believe that, as confidence and trust in governments decline, the public is looking to businesses to fill the void on societal challenges.



And that major ESG challenges, such as income inequality and climate change, are a threat to their company's long-term growth and value.

Source: '2022 CEO U.S. Outlook – Growth Strategies for turbulent times' - KPMG



Regulatory, investor, and stakeholder pressure

ESG strategy has become necessary to address stakeholder requirements and regulation as well as to build competitive advantage, improve resilience, and drive value. Regulators are looking to companies to lead the environmental and governance changes required to meet sustainable goals in the long term. Regulatory bodies are also paying close attention and SEC regulations are underway. As a result, companies will come under greater pressure to reorient their business to sustainable activities.



Great ESG expectations

ESG has become a business imperative, impacting financial resilience, growth, and stakeholder expectation. The downsides of failing to meet ESG expectations can lead to high cost or difficulty in raising finance, recruitment challenges, competitors gaining an edge, threats to tenure, disengaged employees, and loss of customers.***



'No regrets' moves

Each company's sustainability journey will be unique. Companies just beginning their journey should align their strategy to their unique business needs and not approach it from an 'ESG-in-a-box' solution. Rather than waiting, there are several 'no regret' moves companies can begin making, which include: understanding stakeholder expectations, determining strategic imperatives against key ESG topics and defining key metrics, and considering investing in quality non-financial data management.

As with financial reporting, the independent and objective assurance that internal audit can provide must be an integral part of an organization's ESG response.

**** [ESG Journey to Assurance](#)





Objective insights and advice on ESG matters

Internal audit is in a unique position within the organization to provide guidance, add value, and leverage its experience to provide an efficient approach in implementing change. Providing guidance around operationalizing ESG strategies and goals in a manner that can be subject to internal controls in the wake of upcoming changes is an imperative. According to the Institute of Internal Auditors, internal audit has clear roles in providing assurance and advisory ESG services that may include the following:



Assurance

- **Internal audit's undeniable role in ESG reporting:** ESG systems and controls should have adequate time to mature and have internal audit's first look prior to facing inevitable external auditor scrutiny.
- **Review reporting metrics for relevancy, accuracy, timeliness and consistency:** Providing public ESG reports (non financial) information that accurately depicts an organization's ESG efforts is critical. Any conflicts with formal financial disclosures will raise a red flag with investors and regulators and are particularly important as regulatory oversight and public scrutiny increases.
- **Conduct materiality or risk assessments on ESG reporting:** Organizations' ongoing ESG efforts or public commitments to reaching ESG goals can quickly give rise to higher levels of materiality.
- **Incorporate ESG into regular audit plans:** Internal audit has deep corporate knowledge (culture, ethics, governance frameworks and processes and their related risks) and should come to recognize ESG-related assurance engagements in the future.



Advisory

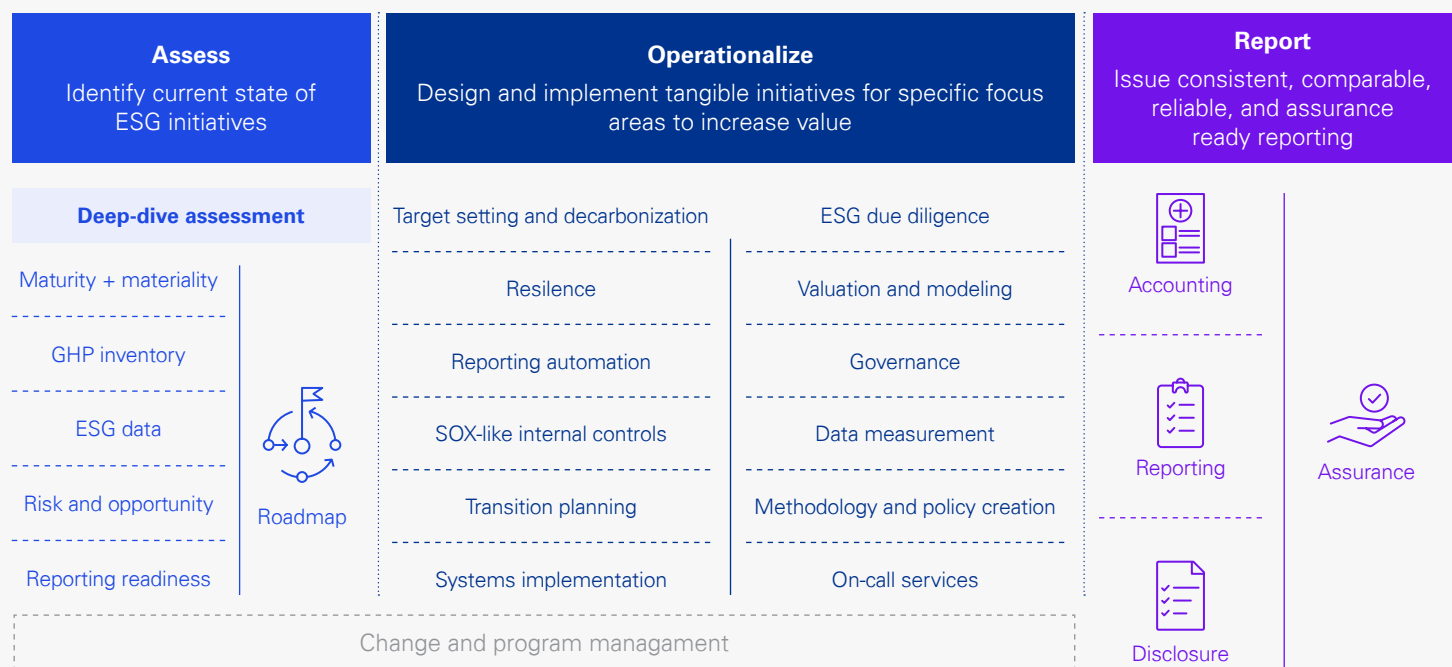
- **Identify areas that are less well-defined and build an ESG control environment:** Internal audit can initiate discussions that are not quite ready for assurance; involving regulatory guidelines or expectations, and advise on developing specific internal controls for ESG reporting.
- **Recommend reporting metrics:** Internal audit can provide insights into the kind of data that accurately reflects relevant ESG efforts within the organization.
- **Advise and advocate on ESG governance:** Internal audit can provide guidance on ESG governance due to its holistic understanding of risk across the organization and advocate for the company to approach ESG risk in a thoughtful manner.

Internal audit can support management in answering the following questions:

- Do we have a clear view of all ESG risks and opportunities, including compliance risk related to existing and upcoming SEC and regulatory expectations; and are those regularly reassessed?
- Are we prepared for these upcoming legislative and regulatory expectations?
- Do we have a proper ESG culture and risk management that goes hand in hand with our ESG goals and strategies?
- What are our ESG public commitments today and do we have policies, procedures, controls, and data to support these public commitments?

ESG journey

Internal audit can play a critical role in each phase of a company’s ESG journey




Key drivers

Stakeholder opinion

Stakeholders, customers, employees and other stakeholders linking climate to risk management, value creation, and brand reputation

Regulations

Rising regulatory expectations and/or mandates in areas of climate risk management, governance, board/management accountability, and reporting

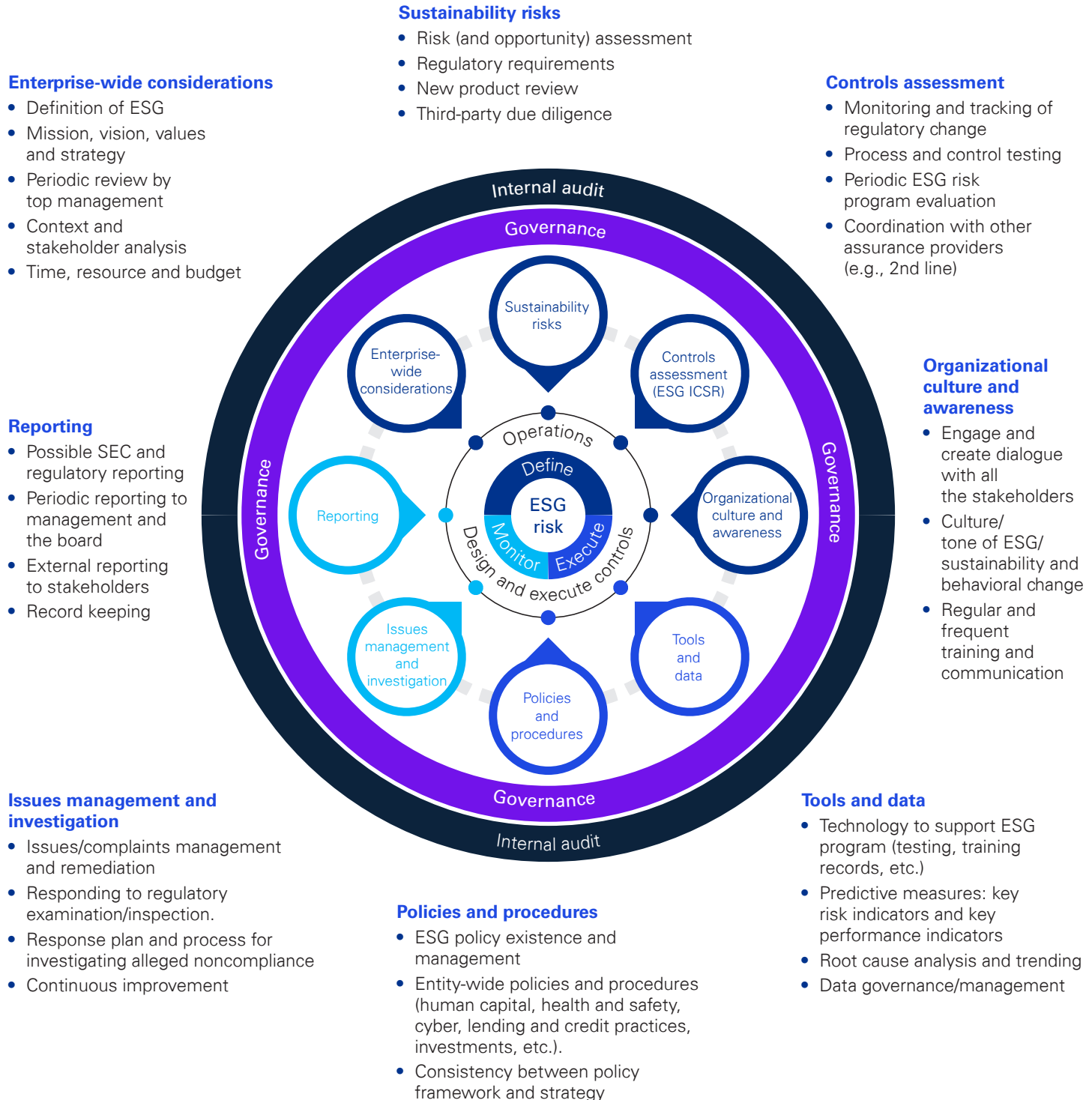


ESG internal audit methodology

Internal audit's ESG mandate should go beyond simply identifying risks and preventive controls. It should include ensuring linkage among strategy, governance, and risk management to ensure internal controls are working efficiently throughout the organization. Our ESG internal audit approach combines different elements of our established internal audit methodology supplemented by our internal expertise in ESG.

Key ESG categories

Internal audit coverage



A photograph of two men in business suits walking through a modern, brightly lit building with large glass windows. The man on the left is wearing a grey suit and glasses, gesturing with his right hand. The man on the right is wearing a dark blue suit and is holding a silver suitcase handle. A blue circle graphic is positioned to the right of the text box.

Service offerings: How can KPMG help?

KPMG's Internal Audit methodology is flexible and can be tailored to each company's specific needs. Internal audit service offerings can range from examining aspects of the company's ESG governance policy such as high-level oversight, risk assessment, due diligence procedures, and awareness to assessment of controls in place to support existing ESG commitments. The suite of assessments identified on the next page can be separately performed or executed in phases as part of an overall readiness ESG assessment.



ESG governance assessment



Internal controls over sustainability reporting



ESG in internal audit

Objectives

Assess the organization's ESG governance structure in alignment with the COSO 2013 framework. Assessment may include consideration of the following:

- Board oversight and committee structures.
- Materiality assessment review.
- Policies and procedures.
- Strategy to link identified ESG risks to a company's business imperatives including its business model.
- Operational plan implementation (target operating model implementation).

KPMG accelerator: ESG governance framework with leading practices underpinned by the COSO 2013 Internal Control Framework and TCFD.

Identify published ESG commitments and metrics along with an assessment of controls, policies procedures and data to support external ESG reporting.

- Assess ESG commitments and metrics against peers and regulatory expectations.
- Assess entity level and ESG reporting processes and controls.
- Assess whether policies, procedures and controls are in place to ensure incorporation of complete and accurate reporting of key metrics, including regulatory reporting considerations for metrics impacted by recent SEC proposals, such as climate greenhouse gas emissions and cyber security.

KPMG accelerator: Metric risk assessment methodology and risk accelerator toolkit for a set of common metrics, including process flows, RACIs, and risk and control matrices.

Develop/design tactical steps for implementation of an internal assurance model over ESG reporting and setting course for embedding ESG into the internal audit function.

- Support preliminary ESG risk assessment to help determine areas of focus.
- Assist internal audit functions in embedding ESG considerations into their audit universe and plans.
- Support reporting strategy, policies, processes, controls, people, technology, data, etc. to achieve overall readiness.

KPMG accelerator: ESG operational risk templates, such as audit programs, risk assessments, and audit reports.

Market drivers

Federal and state regulatory expectations as well as the SEC proposed rules are looking at the following:

- how companies oversee governance of ESG risks;
- how ESG related risks are identified; and
- how they materially impact a business' strategies, models and outlook.

These qualitative elements, if adopted as proposed, can have far-reaching impacts in formalizing how they govern, monitor, measure, analyze, and report ESG activities.

Many companies voluntarily assess and report on their ESG commitments. A primary concern, however, has been the resulting lack of standardization across definitions, data, and established controls to support these commitments.

In addition, proposed mandatory financial and nonfinancial ESG metric disclosures by the SEC and increasing regulatory scrutiny have emphasized the need to ensure a robust control environment to support the accuracy of these disclosures.

Federal agencies have developed strategies to quantify, disclose and mitigate climate-related risks to the assets of public and private entities.

Regulators are taking action to address climate risks within their supervisory frameworks. There are some initial expectations regarding the use of tools in assessing the links between climate risks and economic outcome, such as climate scenario analysis and risk modeling.

Multidisciplinary Approach

We have access to a wide range of ESG competencies, assets and solutions. This broad ESG lens requires a multidisciplinary team. KPMG has a one-stop-shop approach to help ensure that the right professionals are engaged to support our clients.

Experience

Our team of subject matter professionals, with expertise in internal audit as well as ESG, has the skills and knowledge to provide innovative internal audit services that meet varied needs across a wide range of industries.



Contacts

**Bernard Amukah**

Partner and Ethiopia Market Lead
KPMG in East Africa
E: bamukah@kpmg.co.ke

**Daniel Karuga**

Partner and Head of Enterprise Risk
Services
KPMG in East Africa
E: dkaruga@kpmg.co.ke



Peter Mwangi
Associate Director, Enterprise Risk
Services
KPMG in East Africa
E: petermwangi@kpmg.co.ke



Faith Maina
Senior Manager - Enterprise Risk
Services
KPMG in East Africa
E: fmaina@kpmg.co.ke



Abraham Tamiru
Manager - Audit and Assurance
Services
KPMG in East Africa
E: atamiru@kpmg.co.ke

kpmg.com/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2025 KPMG Advisory Services Limited, a Kenyan limited liability company and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.