The journey continues: Navigating the road to readiness

KPMG ESG Assurance Maturity Index 2024

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Foreword

The environmental, social and governance (ESG) agenda is rapidly moving forward, with new rules coming into force that oblige companies to report on their ESG risks, opportunities, and performance. To make this reporting credible, disclosures will require independent third party assurance.

It was against this backdrop that, last year, we published the inaugural KPMG ESG Assurance Maturity Index. The Index found that companies had a long way to go to prepare for ESG reporting and assurance. So, how are they doing now?

Our second year of analysis shows that some progress has been made — but nevertheless, many organizations are still in the early stages of readiness. The time has come for a concerted focus on putting in place the necessary systems, processes and controls to gather the data required, and aim to ensure these are sufficiently robust to stand up to external assurance.

In a real sense, the clock has started to tick. In the intervening time since we published the inaugural Index last year, the EU's European Sustainability Reporting Standards (ESRS) have been finalized and published — with the first sustainability reports due to appear in early 2025. The International Sustainability Standards Board (ISSB) has also published its standards, and these are set to be implemented locally in jurisdictions around the world.

Given the standards are so new, and in some cases still evolving, companies may find themselves on a steep learning curve and potentially face challenges in collecting and verifying their ESG data. As a result, it may be more common to see qualified assurance opinions in the early years.

While regulatory requirements are driving the urgency for businesses to gather their data and get assurance-ready, there are expected benefits beyond mere compliance. Stakeholders from investors to customers and employees want a clear picture of what companies are doing to operate on a more sustainable basis. The organizations that can present robust, accurate information — free from suspicions of greenwashing — have an opportunity to derive a competitive and reputational advantage.

KPMG professionals are supporting organizations on this journey. We have channeled considerable investment into helping ensure that our ESG assurance work is performed to the same consistent level of rigor and quality as our financial statement audits and is delivered through our same advanced audit technology platform, KPMG Clara. For us, ESG assurance is not an add-on — it is an integrated part of what we do.

We hope our second ESG Assurance Maturity Index will bring valuable insights to companies as they prepare for ESG reporting and assurance, as well as to the wider ecosystem of stakeholders who are taking an ever-keener interest in all matters ESG.

Larry Bradley
Global Head of Audit
KPMG International

Mike Shannon
Global Head of ESG Assurance
KPMG International

About the Index

KPMG surveyed senior executives and board members with ESG reporting and assurance knowledge at

1000 companies

across industries, global regions, with a mean revenue of **US$18.9 billion**.

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	0.25
Skills	0.25
Data management	0.25
Digital technology	0.15
Value chain	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

Leaders

(the top 25th percentile)

Advancers

(the next 50th percentile)

Beginners

(the bottom 25th percentile)

Research was conducted between February — April 2024.

Contents

Executive summary

Firms that must now report ESG data or will soon be required to do so:

2024 75% vs **2023** 66%

Beginners who say it is challenging to balance ESG assurance goals with shareholder profit expectations:

2024 65% vs **2023** 55%

Firms that have the ESG policies, skills, and systems in place to be ready for ESG assurance:

2024 29% vs **2023** 25%

Leaders who now place robust, product-specific requirements on their suppliers:

2024 42% vs **2023** 28%

Leaders who see digital tools as being key to being ready to obtain assurance:

2024 46% vs **2023** 65%

Companies with clear audit trail to support their non-financial information:

2024 29% vs **2023** 26%

Leaders top business benefits

Decreased costs **63%**

Greater market share **62%**

Reduced legal and regulatory interventions **55%**

Stronger reputation **54%**

Five steps to help you become ready for ESG assurance

1. Determine applicable ESG 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 strive to ensure high quality data
5. Work with the value chain to collect ESG information

01

ESG assurance: The journey continues

71%

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

The KPMG ESG Assurance Maturity Index 2024 ("the Index") found that the majority of companies are still near the beginning of their ESG assurance journey and therefore are not ready to have all of their data independently assured.

In 2023, we classified 25 percent of companies as 'Leaders' who had — relatively speaking — made progress in terms of the systems, controls and policies needed to gather robust ESG data for assurance; that percentage has now increased, albeit modestly to 29 percent. This is not surprising given the regulatory environment continues to evolve.

Positively, not only has the percentage of companies in the Leader category grown, but the average score of those Leaders has also increased — with a 3.4 percent rise from 64.8 to 67.0. The average score for the middle cohort of companies — Advancers — has also risen, by 1 percent from 45.4 to 45.9.

However, the Beginner group has lost ground, with the average maturity score falling by 5.3 percent, from 30.5 to 28.9. Given that we are now a year closer to mandatory regulatory requirements for ESG reporting in the EU, and some international jurisdictions, this drop is a concern. While there is still time to make up ground, Beginner companies are reaching the point where concerted action is needed. The task ahead, especially for those in the EU is significant and will require considerable resources.

Consistent with last year, the Index also reveals that the higher a company's revenue, the more likely it is to be advanced in its ESG assurance preparations. The average score for companies with revenues of over $10bn is 55.1, significantly higher than the score for those with revenues between $5 and $10bn (45.65) or under $5bn (39.3). At the largest companies with revenues of over $100bn, the score peaks at 69.5. Not surprisingly, publicly traded companies displayed higher ESG maturity than privately held ones, with scores of 49.5 and 44.7.

Figure 1. Average maturity index score by ownership

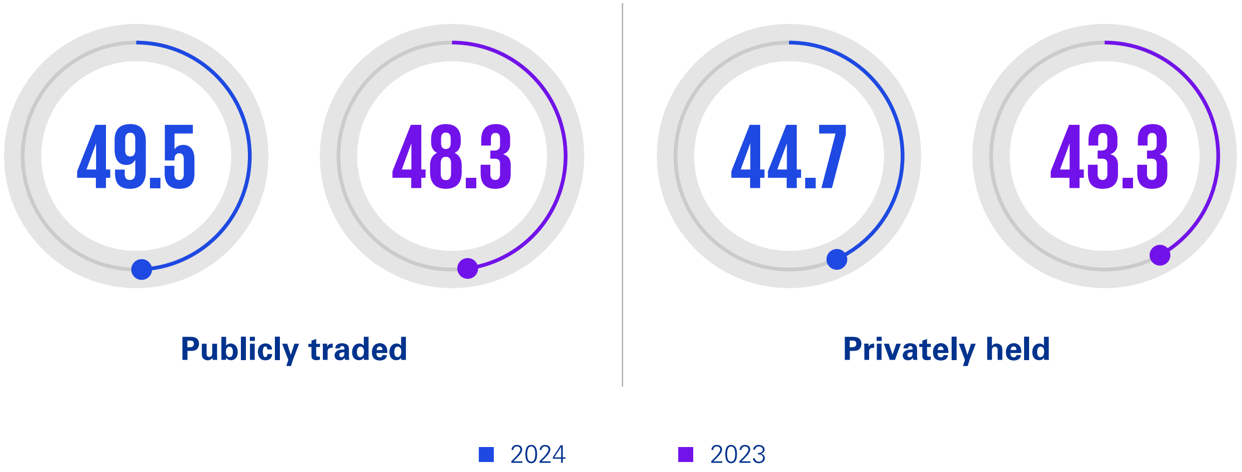


Figure 2. Average maturity index score by stage

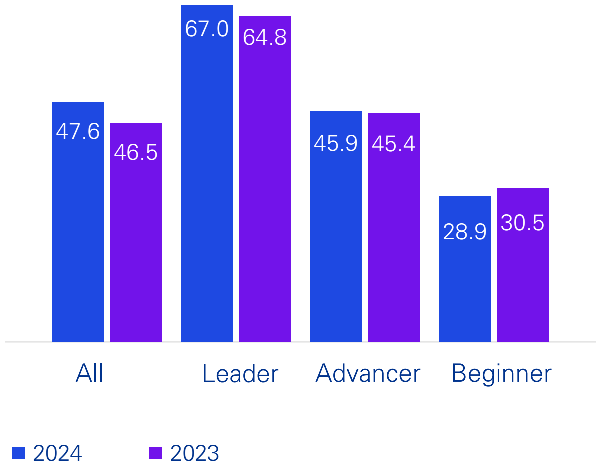
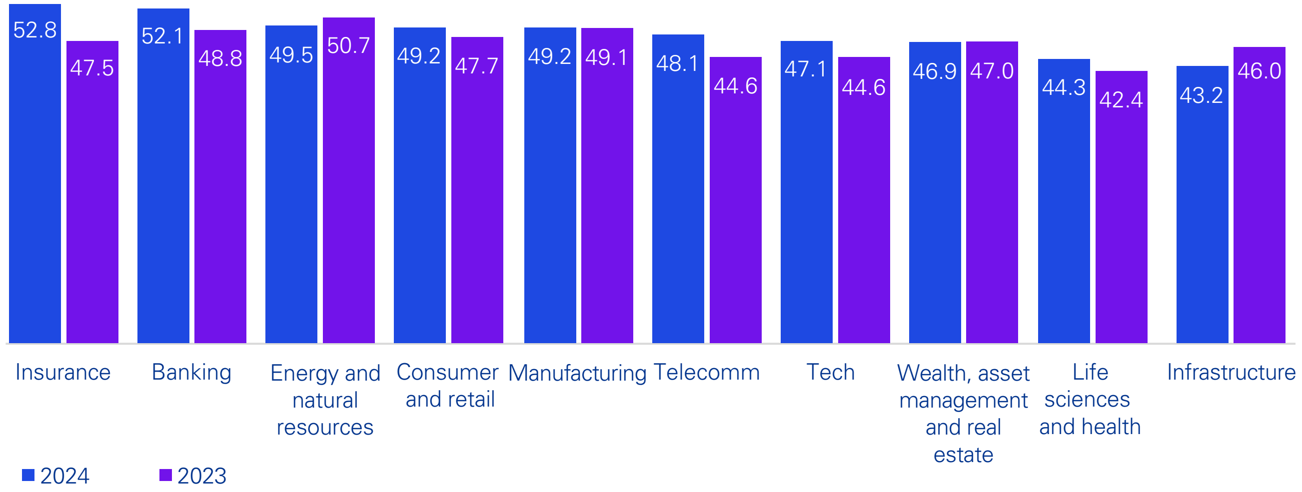


Figure 3. Average maturity index score by industry



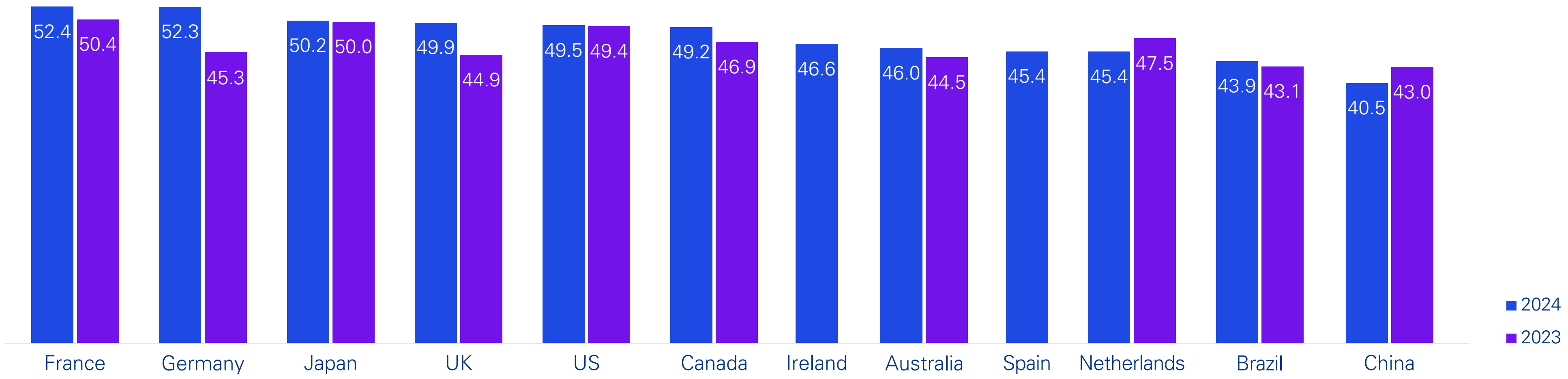
Last year the Index revealed only moderate differences in ESG maturity between industries, and this is true again in 2024 — although there have been some notable movements. In 2023, it was Energy & Natural Resources that topped the scores with 50.7 but this year Insurance has leapt to number one position with an 11 percent rise to 52.8. Banking comes in just behind in second position, with a 7 percent increase to 52.1. The Infrastructure sector has the lowest score, at 43.2.

Where a company is headquartered has an impact on their ESG assurance readiness. As in 2023, France tops the scores (52.4), while Germany has moved up strongly to second place with a 15 percent increase to 52.3. Similar to last year, companies in Japan perform well with a score of 50.2. Other major jurisdictions — US, Canada and UK — are not far behind, with the UK score rising 11 percent. While China scored lowest (40.5) with a 6 percent drop from last year. This could be due to the fact that an increased awareness in stakeholder expectations is driving a higher awareness in the work they need to do.

By region, it is North America that achieves the highest rating (49.4). Although a number of European countries perform strongly, Europe is second at 48.8. This is largely because the Index this year includes over 200 companies based in Spain and Ireland — and maturity there is relatively low, bringing the overall score for Europe down. Excluding Spain and Ireland to compare on a like-for-like basis with last year, the score for Europe would have risen from 46.8 to 50.0.

With the EU's Corporate Sustainability Reporting Directive (CSRD) now in force and effective from 1 January 2024, certain large companies with listed securities on EU-regulated markets and with more than 500 employees must publish ESG data in line with the European Sustainability Reporting Standards (ESRS) from early 2025. The clock is ticking for these companies to meet the requirements.

Figure 4. Average maturity index score by headquarters country



Note: Spain and Ireland were not part of the 2023 Index and therefore have no year over year comparative data.

Figure 5. Maturity score by headquarters region

	North America	Europe	Asia Pacific	Latin America
2024	49.4	48.8	45.6	43.9
2023	48.3	46.8	45.8	43.1

02

The rising ESG assurance imperative

Three-quarters of business leaders surveyed said their companies must report **ESG data** now, up from two-thirds in 2023. Over the next 1-2 years, nearly every business leader

99.7%

expects to be required to report.

“The main impetus for companies to share their ESG information in a more transparent and credible manner stems from meeting the growing expectations from many different stakeholder groups. Leaders see the value and the potential business benefits of it — done well, it helps create a competitive edge.”

Patrick Chu,
Head of ESG Reporting and Assurance,
KPMG China

The primary catalyst prompting businesses to disclose their ESG data is regulation. As ESG reporting requirements in regions such as the EU, US, and other jurisdictions draw near, an increasing number of companies find themselves obligated to report.

Regulation is the most common driver cited by survey respondents, and is up from a year ago (70 percent versus 64 percent).

However, regulation is by no means the only driver. This year's Index reveals that pressure is growing on companies across a number of fronts. Stakeholder activists are cited by 57 percent of executives, up from 49 percent, while investors and financial markets have both increased compared to last year, both cited by 48 percent of respondents.

Increased frequency of reporting

Eighty-five percent of executives say that their organization reports ESG data at least annually. Amongst Leaders, a quarter (26 percent) report it half yearly while nearly one in ten (8 percent) report ESG data every quarter. A third of Leaders (35 percent) say they report data throughout the year (half yearly, quarterly, monthly). By contrast, a third of Beginners (32 percent) say that ESG data is not reported externally at all at this time.

The most common format (34 percent of companies) is to report in a standalone sustainability or ESG report, while a third (44 percent) report their information in a separate section of the annual report. A fifth (22 percent) produce an integrated annual report that discloses detailed ESG strategy and information. Across Leaders, Advancers and Beginners, the figures are up for separate ESG reports, indicating this is the current direction of travel, at least for now.

> "Producing ESG data more frequently is helpful because you can both accelerate your ESG reporting and assurance timeline as well as evaluate progress and adjust ESG performance throughout the year. Establishing a reporting strategy that addresses both internal and external reporting mediums will be key to complying with regulation and generating value from your ESG reporting."
>
> **Maura Hodge,**
> Sustainability Reporting and Assurance Leader,
> KPMG in the US

> "The interactions and combinations between financial and non-financial information are going to steadily increase in a more connected ecosystem, providing greater transparency."
>
> **Sebastian Soares,**
> Head of Assurance Brazil and South America,
> KPMG in Brazil

ESG assurance gaining momentum

With regards to ESG assurance, nearly two-thirds (63 percent) of organizations obtain limited assurance over some or all of their disclosures, while just over half (52 percent) receive reasonable assurance over some or all. However, this reasonable assurance is often over a very small number of critical KPIs. These limited and reasonable assurance figures have both increased from last year (50 percent and 47 percent respectively). Just nine percent of respondents do not obtain any external assurance currently.

In terms of who carries out ESG assurance, in 42 percent of cases it is the firm's financial auditor (up from 34 percent last year), while the same proportion use a different audit firm (down from 46 percent). Amongst Leaders, the highest percentage use their financial auditor (44 percent) while 41 percent use a different audit firm and 15 percent use another independent external assurance provider.

It is worth noting that in some jurisdictions such as Australia, proposed legislation (for the introduction of the International Sustainability Standards Board (ISSB) standards) would make it mandatory to use the financial statement auditor for assurance of ESG information. It will be interesting to see whether this becomes the prevailing pattern across other jurisdictions.

03

Expected benefits of ESG assurance increase as companies progress along the journey

Leaders see more expected benefits than Beginners, and the gap is widening

Last year, we noted a wide range of potential benefits from obtaining ESG assurance beyond mere tick-box compliance, with respondents flagging greater market share, improved profitability and better decision making among the chief upsides.

These factors continue to feature this year — and indeed, the expected benefits are increasing the further companies progress in their ESG assurance journey.

Increasing returns for Leaders

This is especially evident when we look at the feedback from Leaders.

Figure 6. Biggest percentage-point increases in reported benefits for Leaders, 2024 over 2023

Also noticeable is a widening gap between Leaders and Beginners. For example, there is a 30 ppts delta between Beginners and Leaders when it comes to expecting to see decreased costs. Beginners are experiencing fewer benefits across the board — an incentive, if any were needed given the regulatory imperatives, to accelerate progress and move further ahead.

There are some wrinkles in the findings, however, that suggest the expected benefits do not all come in a straight line. For example, this year, only 45 percent of Leaders say they expect to see increased profitability (through market share gains, increased efficiencies, resource optimization, waste reduction, etc.), down from 54 percent in 2023. One explanation for this may be that it takes more time than envisaged for the financial benefits to hit the bottom line, especially in these early days when ESG reporting is still largely voluntary.

Aligning ESG with business strategy

To realize the potential benefits, it is critical that there are clear actions taken and are integrated into business operations in order to achieve ESG targets. This is an area where Leaders clearly understand that meaningful reporting reflects real results and is an area of improvement for Advancers and Beginners. Eighty-six percent of Leaders have set and broken down ESG targets into all or most operational functions, this falls to 54 percent of Advancers and just 7 percent of Beginners.

The over-riding message is clear: preparing for the rigor of the ESG assurance process can bring multiple expected business benefits. The discipline needed helps organizations produce higher quality data and information, identify areas where processes can be improved, and realize efficiencies. At the same time, being in a position to publish high-quality, credible ESG information helps reduce the risk of allegations of 'greenwashing' and makes the business potentially more attractive to investors, customers and other stakeholders, helping to boost reputation and increase engagement and sales.

> "Regulation is a key driver — but this whole topic is in fact market-driven as ever wider numbers of stakeholders demand robust ESG information. If businesses respond in the right way, they will likely be rewarded in the long run. Don't look at this as a compliance exercise, but as a platform for better engagement."
>
> **Neil Morris,**
> Global Head of ESG Assurance Methodology,
> KPMG International

04

Challenges slowing down progress in preparing for ESG assurance

Skills and resources are seen as the biggest challenge as the size of the task has become clearer

When our research was conducted for last year's survey, April – June 2023, key standards such as the ESRSs and ISSB S1 and S2 had not yet been published and the exact demands were therefore unknown, even if the general shape of the coming requirements was understood. Now that the standards have been published, there is clarity over exactly what is needed — and this has brought the challenges more fully into focus. Most companies are still a long way off readiness.

A range of stumbling blocks

But what are the chief obstacles in the road? It is instructive here to look at Beginners as they are most likely to be grappling with blockers to progression. Doing so, a standout challenge is evident: a lack of internal skills and expertise, cited by 61 percent of respondents. This ranks significantly higher than any other challenge.

Figure 7. Challenges bigger for Beginners than Leaders

	Beginner	Leader	Diff.
Lack of internal skills and expertise	61%	32%	-29 ppt
Insufficient IT/digital solutions	48%	22%	-26 ppt
Cost of compliance/little available funding	41%	21%	-20 ppt
No internal champion and team	23%	10%	-13 ppt
Complexity of reporting requirements	47%	36%	-11 ppt
Inconsistent reporting standards	38%	28%	-10 ppt

While digital and IT solutions remain a significant challenge, there are signs of encouragement. This year, 68 percent of firms overall and 76 percent of Beginners say they capture Scope 1 and 2 emissions data — a key requirement in ESG reporting — which is an increase from 55 percent and 56 percent respectively in 2023. For Scope 3, the percentages are lower, however, they have also increased to 51 percent of all firms and 37 percent of Beginners, from 36 percent and 28 percent last year.

Examining perceptions of the challenges also helps us see how and where Leaders are making progress. There are big falls year over year in those rating costs as a barrier (from 35 percent down to 21 percent), IT/digital solutions (from 30 percent to 22 percent) and metrics/measurement tools (43 percent to 34 percent).

People and skills top of mind

Looking across all groups combined, the biggest single challenge is the lack of internal skills and expertise (44 percent). We see the race for talent intensifying as companies compete to find and secure highly specialized skillsets from a limited talent pool, all at the same time. Over half of companies (54 percent) say they are planning to hire externally as a result — and indeed amongst Leaders the proportion is higher still, at 59 percent. This suggests that as businesses progress further in the process, they realize they will need more skills to fully achieve maturity in ESG reporting and assurance.

The people challenge is closely followed by inadequate supplier performance (43 percent). Indeed, for Leaders this is their biggest barrier (46 percent) — a sign that involving the supply chain in ESG reporting is a key part of the task, and not surprising, also one of the hardest. We will discuss this in more detail towards the end of the report.

> “It is actually encouraging to see that companies are becoming more aware of the challenges of getting ready for ESG assurance. Clients are appreciating the value of assurance more too. These are positive signs as organizations gear up.”
>
> **Tomokazu Sekiguchi,**
> Head of Department of Professional Practice-Disclosure,
> KPMG in Japan

05

Five steps to help you become ready for ESG assurance — revisited

In our 2023 report, we outlined five key steps to help businesses prepare for ESG assurance. These steps still stand, even if more organizations have now moved further along the journey.

1 **Determine applicable ESG 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 standards

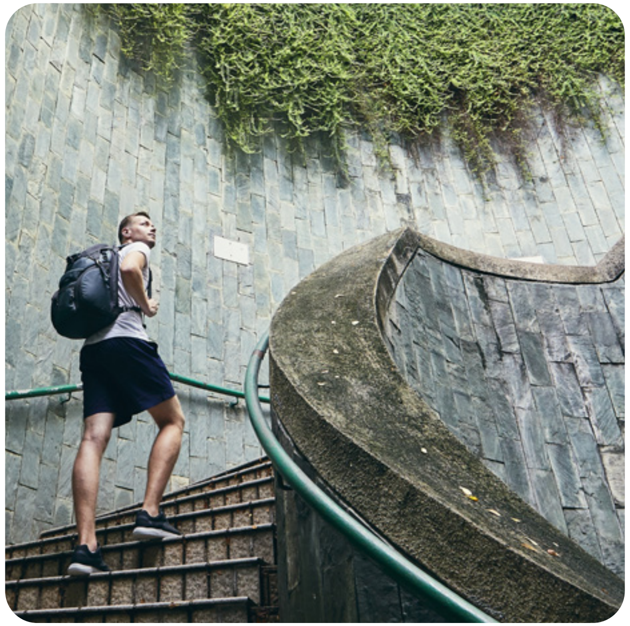
By now, many companies are aware of incoming reporting requirements though still discovering what compliance will look like.

The three key incoming frameworks are:

- the **European Sustainability Reporting Standards (ESRS)** published by the EU and applicable to businesses operating in that region
- the S1 and S2 standards published by the **International Sustainability Standards Board (ISSB)**. Jurisdictions including Brazil, Costa Rica, Sri Lanka, Nigeria and Turkey have already announced decisions to adopt or otherwise use the ISSB Standards. Other countries such as Canada, Japan and Singapore are working on how the ISSB requirements will be incorporated into local reporting.
- the final rule from the **US Securities and Exchange Commission (SEC)** that will apply to businesses with a US listing, although the SEC stayed the climate rule in April 2024 pending judicial review.

Timing: The ESRSs apply for certain large companies listed in the EU from the year commencing 1 January 2024, meaning that the first mandatory reports will be due from early 2025. The requirements are then phased in for other large or listed businesses. The timing of adoption of the ISSB standards will be determined by each jurisdiction — with Turkey and Brazil being among the first to set out their mandatory adoption timetable (starting from 2024 and 2026 respectively, with first reporting in 2025 and 2027). Subject to the stay, the SEC requirements will first apply for large accelerated filers for fiscal years beginning in calendar year 2025.

Assurance: The CSRD has a staggered or laddered approach whereby reporters can start with having limited assurance but, must move to reasonable assurance later. For the ISSB standards, the assurance requirements will again be stipulated at a jurisdictional level. For example, Brazil has adopted a migration plan from limited to reasonable assurance that is similar to the CSRD regime. Absent the stay, assurance is required under the SEC rule for Scope 1 and 2 GHG emissions, while certain disclosures are subject to audit.



Corporate Sustainability Reporting Directive (CSRD)

Based on the EU companies* included within our Index, 30 percent feel ready for independent ESG assurance under the CSRD. However, the average maturity index score for these companies is just 48.6, indicating that there is still a lot of work to do considering the fast-approaching deadlines.

Under CSRD large, listed EU companies will start reporting from 2024, with other large companies starting in 2025. Listed SMEs, that will choose to opt out for two years, and non-EU companies with substantial business in the EU will be phased in with all required to report starting 2028.

In the first wave, CSRD mandates companies obtain limited assurance over their reporting, with a CSRD limited assurance standard expected in 2026. It is anticipated to be based on the forthcoming international sustainability assurance standard (ISSA 5000), with the Committee of European Auditing Oversight Bodies (CEAOB) considering whether specific add-ons and possible carve-outs are required.

Until the CSRD standard is in place, EU countries can adopt national standards or guidance, with a number already having done so. The CEAOB is working on non-binding, high-level guidelines on the procedures to be performed by auditors or independent assurance service providers.

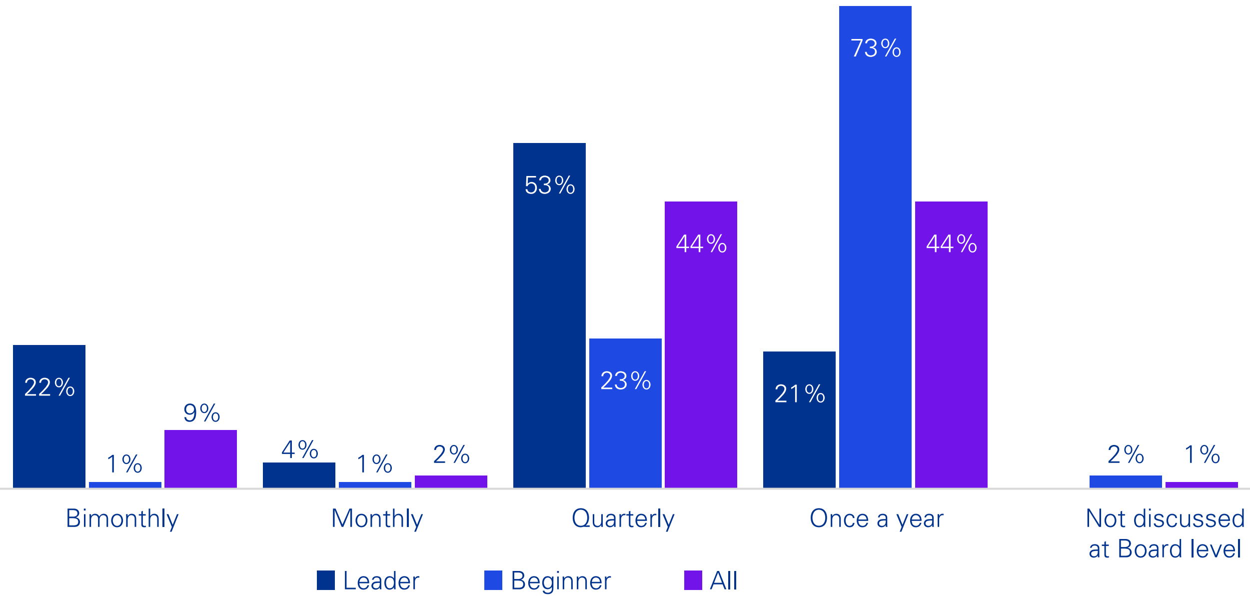
Eventually the European Commission will likely consider the appropriateness of moving to reasonable assurance and, if appropriate, adopt reasonable assurance standards by October 2028.

*Based on company respondents from France, Germany, Ireland, Netherlands, and Spain (n=380). Survey conducted February-April 2024.

2 Build robust ESG governance and develop the right skills

Governance starts at the top — and Board and CEO engagement is critical to ensure that data and processes are robust and ready for ESG assurance.

Figure 8. How often the board discusses ESG matters

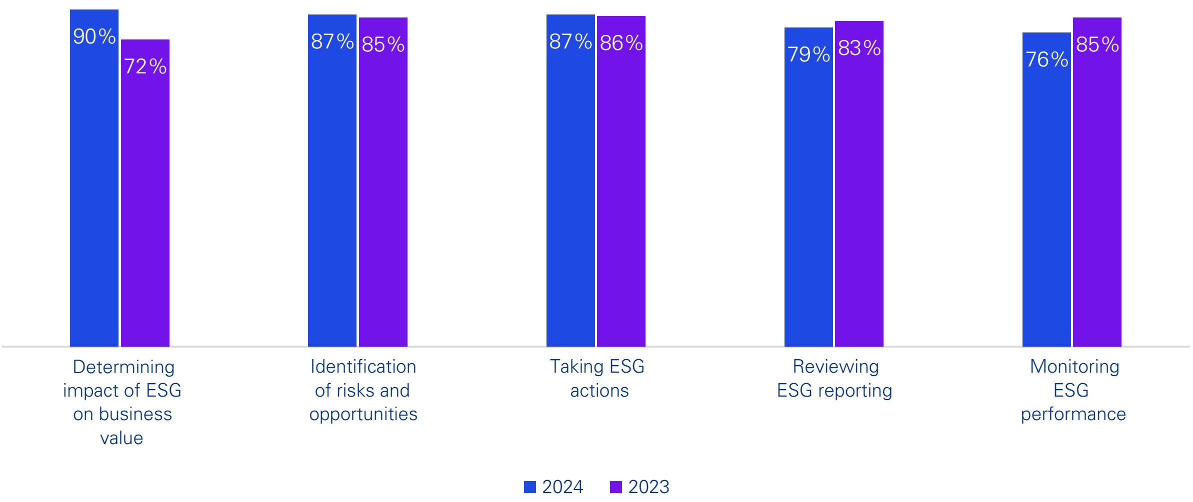


To help ensure best results, Boards should make ESG matters a standing agenda item. They will want to follow the example of boards in ESG Leaders, which typically meet throughout the year to assess the impact of ESG on business value, identify ESG opportunities and risks, monitor ESG performance, review ESG reports, and take ESG actions. Getting the board's active participation in ESG matters can help organizations accelerate their ESG assurance efforts and overcome barriers impeding their plans.

Boards shaping up to a continuing journey

Figure 9. Areas of moderate to extensive board responsibility

Leaders



> "Boardroom intent and action around ESG reporting and assurance continues to grow, for example through the Board's increased involvement in identifying ESG risks. That then needs to translate into an appropriate operating model that drives high quality ESG reporting. This governance will help ensure that reporting is assurance ready."
>
> **George Richards,**
> Head of ESG Assurance,
> KPMG in the UK

We would certainly urge that Boards do not lose their focus on ESG, despite the wider economic and financial challenges of the times. The ESG agenda should remain a priority, essential to maintaining a positive market reputation and attracting the best people to the organization.

Since 2023, Boards in Leader companies have taken on more responsibilities in three key ESG areas: (1) determining the impact of ESG on business value, (2) identifying ESG risks, and (3) taking ESG actions. But respondents don't believe their boards are as focused on reviewing ESG reporting and monitoring results as they were last year.

Beginners on the other hand report a lower level of Board responsibility for most ESG activities than they did in 2023. These include reviewing ESG reporting, taking ESG actions, monitoring performance, determining the impact of ESG on business value, and taking responsibility for ESG actions. The only area of board responsibility that did not drop year on year for Beginners is identification of risks and opportunities.

As our research indicates, there is more to do in terms of Boards' awareness and understanding of ESG assurance and related issues. A year ago, 34 percent of respondents agreed that their Board of Directors was knowledgeable about the ESG assurance issues facing the organization — and that figure is static this year (33 percent). The proportion of respondents who agree that ESG transparency is a top priority for the C-Suite is also unchanged at 27 percent (itself quite low). Over the coming months and years, these percentages need to show an uplift if organizations are truly to get to grips with the demands of ESG assurance and the priority it requires.

Having teams with the right skills is critical

ESG reporting and assurance processes are complex — so having teams with the right skills is critical to the endeavor. Generally, the underlying ESG data owners will likely have operational roles in the business, while the reporting process will be owned by the finance function. People with a depth of understanding of ESG content and metrics, strong process and controls skills, the skill set to prepare financial information/statements and manage an audit, and detailed knowledge of assurance requirements are all critical to successful reporting programs.

Leaders are making the most progress — 86 percent are mid or completed implementation of a team with the requisite skills. Nevertheless, as noted earlier, nearly six in ten Leaders (59 percent) also expect to need to make external hires. Beginners, meanwhile, have gone backwards and are losing ground. Three-quarters (73 percent) are just starting to put together their teams and a quarter (23 percent) are still in the planning stage. The longer they leave it, the harder it is likely to become to find the people they need with the right skills.

Another crucial aspect is training of existing staff in order to prepare them for a new era of ESG reporting and assurance, and upskill them in specific areas as necessary.

This is another area where we see significant differences between Leaders and others. Nearly half (46 percent) of Leaders have a combination of mandatory and optional training throughout the year — but only 15 percent of Advancers and 1 percent of Beginners have this.

In both Advancers and Beginners, the most common approach is annual training (update and refresher) — while Leaders have moved to a more agile and continuous learning framework that can better meet real world needs.

> “In the early years of required assurance, we expect that there will be a higher number of instances of modified reports on ESG. But this is not necessarily a bad thing as companies mature in their systems and processes and should be expected. However, this will require an educational process amongst assurance providers, preparers, and users of such reports.”
>
> **Oliver Geier,**
> Head of ESG Assurance Expert Group,
> KPMG in Germany

3 Identify the applicable ESG disclosures and data requirements across functions

Data management is a critical piece of the puzzle in becoming ready for ESG assurance. 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

Quantitative metrics or key performance indicators (KPIs) need to be clearly defined and disclosed. Performing a materiality assessment will help determine relevant KPIs. Under the EU requirements, a double materiality assessment should be conducted — financial (i.e. financial effects of sustainability-related matters) and impact (the impacts on the upstream and downstream value chain), whereas ISSB standards consider financial materiality only. Either way, appropriate identification and definition of your KPIs, documentation of the process to collect the data to produce the KPI, and designing and implementing controls over the completeness and accuracy of the data must be in place to receive ESG assurance.

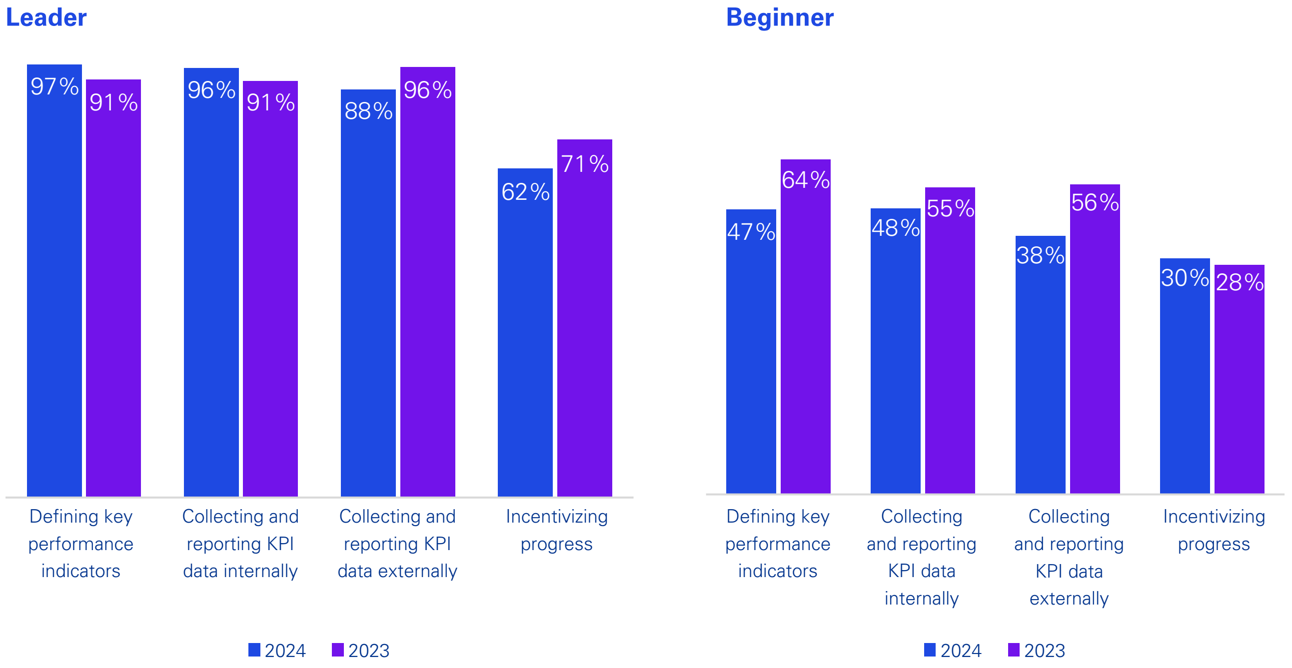
KPI progress

Encouragingly, we find that both Leaders and Advancers have made progress since last year in defining KPIs and collecting and reporting ESG data. Nearly all Leaders (97 percent) have defined their KPIs, up from 91 percent in 2023, while for Advancers the percentage has grown from 77 percent to 81 percent. They have also made progress in collecting and reporting ESG data internally (now 96 percent of Leaders and 87 percent of Advancers). However, interestingly the proportion of Leaders who collect and report ESG data externally has dropped back, from 96 percent a year ago to 88 percent now. This may be a reflection of the more stringent requirements that they now face as regulations have emerged.

Beginners meanwhile lag in every aspect and have fallen back on their positions last year. Less than half (47 percent) have defined their KPIs, for example, where a year ago that figure was 64 percent. This is another example of how Beginners seem to be making backward progress as the requirements rise — necessitating a redoubling of their efforts.

Leaders have forged ahead in defining ESG KPIs and collecting them internally. Though, they report less progress than last year in reporting KPI data externally and incentivizing ESG progress. To overcome continued employee resistance and lack of urgency, companies may want to ramp up their incentive programs.

Figure 10. Moderate or significant progress defining KPIs and managing ESG metrics



Firms are also increasing the number of performance measures they capture — from an average of 7-8 in 2023 to 9 or more now, with Leaders often capturing more than 10. As we noted earlier, there has been a general increase in the number of companies capturing Scope 1 and 2 emissions data, and also the harder-to-capture Scope 3 data. Other areas seeing notable increases include Net Promoter Scores (NPS), the percentage of suppliers with carbon reduction targets or goals, health and safety performance, social value KPIs, whistleblowing statistics, and compliance breaches by category — demonstrating a growing emphasis on sustainability, transparency and responsible business practices.

Figure 11. ESG performance measures reported externally and routinely collected internally

	% of respondents that collect data internally & report it externally	Diff. from 2023	Routinely captured internally
Greenhouse gas emissions (Scope 1 and 2)	74%	+ 35 ppt	68%
Waste	70%	+ 32 ppt	58%
Greenhouse gas emissions (Scope 3)	69%	+ 45 ppt	51%
Customer net promoter score (NPS)	66%	+ 47 ppt	47%
Carbon offsets	65%	+ 39 ppt	52%
Employee engagement	63%	+ 47 ppt	48%
Water usage	63%	+ 41 ppt	41%
Health and safety performance	62%	+ 49 ppt	43%
Impact of climate-related risks (TCFD)	61%	+ 39 ppt	52%
Social value KPIs (SROI)	55%	+ 50 ppt	26%
Workforce diversity and inclusion	55%	+ 35 ppt	48%
% of suppliers with carbon reduction goals	51%	+ 44 ppt	40%
Brand/reputation/trust indices or KPIs	48%	+ 26 ppt	55%
Cybersecurity incidences and breaches	41%	+ 21 ppt	67%
Whistle-blower statistics	41%	+ 36 ppt	28%

Developing integrated data capture systems

For capturing data, the most common approach (52 percent) is an integrated governance, risk and compliance (GRC) system that manages material ESG matters. Amongst Leaders, this stands at 58 percent. A further 40 percent of Leaders have a bespoke ESG reporting management system. By contrast, Beginners are at a much less advanced stage with 77 percent relying on specific or adhoc tools and systems to capture data.

To help ensure data quality, it is essential to have robust data processes, controls and systems. This is another area where results are encouraging, with firms across categories moving towards more regular testing of processes and controls. Whereas in 2023, for example, nearly two-thirds (63 percent) of Beginners tested controls on a rotating basis, now more of them regularly test high-risk performance metrics. There has been a significant increase in the proportion of Leaders that test all performance metrics every year — a 50 percent uplift, from 23 percent to 34 percent.

The research also finds that companies, are using methods for quality checking of ESG performance information, with the most widespread methods being quality checks by the manager responsible, management or internal audit testing, and disclosure committee or legal/compliance review. Leaders on average carry out the widest range of quality checks.

> Last mile solutions for writing reports and disclosures have become more mature now and there are some good products on the market. It's obtaining the source data needed at the front-end, managing that data, and ensuring the correct governance and controls are in place, are the big hurdles for organizations to get over."

Farah Bundeali,
National ESG Assurance Leader, KPMG in Canada

4 Digitize ESG data processes and strive to ensure high quality data

One of the key aspects to becoming assurance-ready is to collect all necessary data. Companies are used to collecting financial data, but non-financial data is a less familiar task and also comes in many different forms — carbon-related, environmental, social, people-related — and often sits in disparate pockets of the business.

This challenge means that establishing digitized processes to collate, calculate and consolidate non-financial data is essential. The survey finds that, overall, companies have not made significant progress in this regard compared to last year: 62 percent are at mid- or complete implementation, a figure that a year ago stood at 59 percent. However, Leaders have made some strides here, with half (50 percent) at mid-implementation and a further 43 percent having completed it, up from 34 percent in 2023.

Beginners in particular need to accelerate their efforts here — 70 percent of them are only starting to implement the systems they need while 18 percent are still in planning phase.

Figure 12. Mid/full implementation of ESG data capture systems

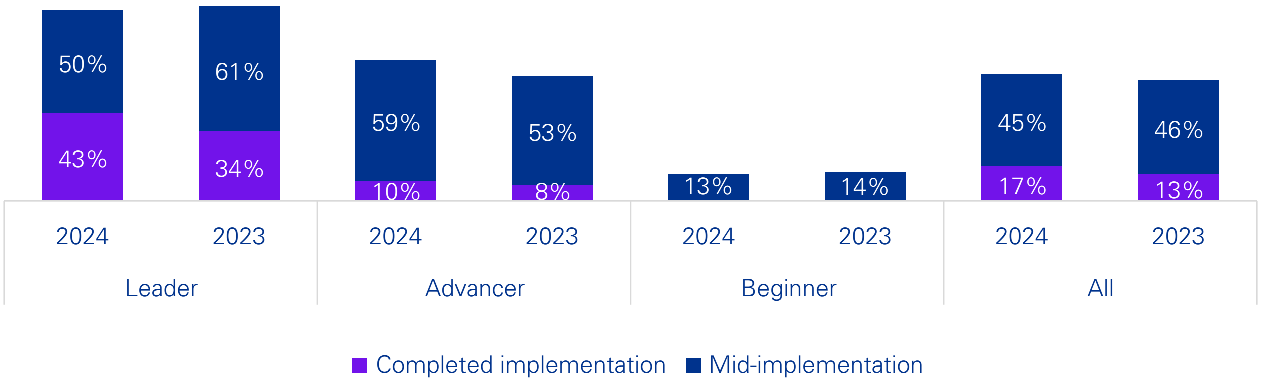
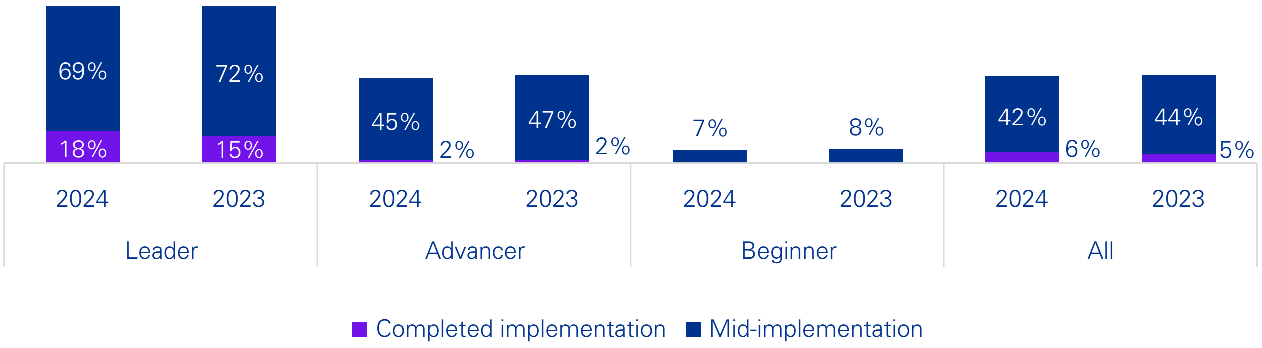


Figure 13. Mid/full integration of ESG data systems with financial reporting systems



Financial and non-financial integration: A work in progress

One way to increase the maturity and efficiency of the process is to integrate non-financial data capture with financial reporting systems. This can be a technical challenge but the expected benefits are significant. In this area, we find that not much has changed since last year. The majority of Leaders (69 percent) say they are at mid-implementation, with just under one in five (18 percent) having completed it. Overall, 48 percent of companies are at mid- or complete implementation — the same figure as in 2023.

However, one area where we see more progress is in the number of technologies businesses are using to collect, store and analyze their non-financial data. This has increased from around 4 last year to 4.5 this year, while among Leaders it has grown from 4 to nearly 6. The biggest increases are coming in the use of AI, blockchain, cloud, IoT, cybersecurity and risk management tools, and ESG-specific platforms.

Having a clear audit trail is another critical feature of being ready for ESG assurance. But this is another aspect in which progress has stalled. Last year, only a quarter (26 percent) of respondents said they had a clear audit trail — and this has only nudged up to 29 percent. Leaders have made slightly more progress, moving from 30 percent to 37 percent, but this still leaves the majority of that cohort with more work to do. With potentially hundreds of ESG data points getting reported and assured, establishing a trail for the information is an important and necessary step.

> “Non-financial information is not like financial data, that you can more or less press a button on your ERP system to produce. It is encouraging to see that, directionally, organizations are moving towards more systemization and automation to collect and report their ESG information, albeit with diversity in terms of progress. In some areas, there’s still a way to go.”
>
> **Sarah Bagnon-Szkoda,**
> Partner in charge, ESG Department of Professional Practice, KPMG in France

5 Work with the value chain to collect ESG information

Obtaining ESG information from across a company's value chain is essential for many aspects of ESG reporting and assurance. Raising ESG standards and aspirations across the supply base is also a key aspect of an organization's own total ESG footprint.

For this reason, the survey shows that working with the value chain has become an increased priority for Leaders in particular. As they have made more progress on their own internal processes and systems, naturally they then have more capacity to look further down the line. However, as we noted earlier, this is also one of the hardest of all aspects to master, with inadequate supplier performance being the single biggest challenge flagged by Leaders.

Asking more of suppliers

Nevertheless, Leaders are sticking to the task and are increasing their demands of suppliers, setting more stringent requirements. Over four in ten (42 percent) now place robust, product-specific requirements on their suppliers, up from 28 percent in 2023. Leaders have also strengthened their processes to help ensure suppliers support their ESG assurance efforts — with more requesting suppliers to provide ESG data into their own systems (64 percent) and integrating ESG screening into supplier onboarding (48 percent). There has also been a rise in Leaders requesting the supplier obtains ESG assurance, although this is still at relatively early stages, increasing from 10 percent to 23 percent.

Most Beginners (78 percent) still only have basic requirements, such as anti-bribery and corruption stipulations in contracts and legal documents — unchanged from last year.

Advancers have also made limited progress in this area, although over half (51 percent) request suppliers to provide ESG data into their own systems, and there has been a rise in the proportion of Advancers using contractual levers to encourage ESG performance (from 6 percent to 19 percent now).

Figure 14. Processes for ensuring suppliers support ESG efforts

	Leader	Beginner	All
Request that supplier provides ESG data feeds into your company's data management system	64%	41%	53%
Integrate ESG screening into supplier onboarding process	48%	26%	39%
Ensure key suppliers support your company's ESG strategy (e.g., have set net-zero targets)	47%	24%	37%
Request that third-party supplier reports certain ESG information	24%	35%	25%
Request that third-party supplier obtains ESG assurance over its data	23%	19%	23%
Use contractual levers (rewards/penalties) to encourage ESG performance	16%	16%	17%
None of the above	0%	7%	2%

"Under the CSRD, companies are responsible for the data in their whole supply chain (and will need to report it between one to three years). Getting reliable and accurate data is therefore key. This is becoming a big focus and will impact those in the supply chain beyond the EU borders."

Danielle Landesz Campen,
Head of ESG Assurance,
KPMG in the Netherlands

"Reliable and accurate supplier information really matters because an organization's own ESG reporting is not complete without it. Many small suppliers do not have digitized systems or established processes to reliably gather data. How much can you trust the information you're getting from them? This is an area where robust, independent ESG assurance is essential."

Daniel Camilleri,
Head of ESG Assurance,
KPMG in Australia

Moving further forward on the ESG assurance journey

We are entering a key phase on the path to ESG assurance. There is still time to prepare — but there is also little time to lose.

It is important to note that in the early years of required assurance, we expect that there will be a higher number of instances of modified reports on ESG. But that is not necessarily a bad thing. A modification simply means that there is a matter that needs to be highlighted to stakeholders. In time, the collection and reporting of information is expected to improve and as a result, the number of modifications should reduce.

One of the lessons from the Leaders is that the further you go in the process, the more you realize that there is a lot to do. Organizations that pick up the pace now are likely to be grateful for that decision.

For those in the initial stages, a materiality assessment is a good place to start. This helps identify relevant sustainability metrics for the business and your stakeholders, and anchors your ESG strategy, reporting focus, and assurance targets. Using an ESG assurance mapping technique can help you prioritize metrics, identify gaps in the data, and determine what data needs to be fed into decisions the Board is making.

Wherever you are in the journey, to be ready for ESG assurance you should aim to ensure that your ESG disclosures will meet the preconditions for assurance. This means having suitable criteria for your disclosures; and 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 thorough preparation, clear communication, and collaboration among stakeholders, you can establish a robust foundation for the ESG assurance process, helping ensure 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 be ready for the new regulatory requirements that are fast approaching.
To better understand your ESG Assurance readiness in comparison with your peers, complete KPMG's ESG Assurance Maturity Benchmarking tool.

“The regulations that are coming into effect provide the requirements and the guidelines — but really this is about good business. Strong ESG reporting, underpinned by rigorous assurance, creates a discipline that enhances business processes and market position. KPMG professionals are helping organizations as they move along this path.”

Mike Shannon,
Global Head of Assurance,
KPMG International

How KPMG in Poland can help you?

ESG assurance

As market and stakeholder expectations evolve and reporting requirements become mandatory, the ESG information companies publish must be accurate, reliable, and complete to provide confidence in your business.

ESG assurance requires the same rigor demanded in your financial statement audit, including understanding the strong link between financial and non-financial information. ESG assurance providers should have the same deep level of understanding of a company's business model that is required for an audit of financial information. This can help eliminate redundancy, connect risks to each other, and create cost efficiency — in line with your own ESG reporting journey.

KPMG audit professionals can help bridge the gap and provide assurance across a wide range of sectors, frameworks, and metrics to ensure that you can meet the increasing requirements mandated by regulators and expected by stakeholders. Our teams stand ready to serve the public interest in providing ESG assurance over what truly matters.

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Publication name: The journey continues: Navigating the road to readiness
Publication number: 139457-G
Publication date: June 2024

Document Classification: KPMG Public