



# KPMG UK ESG Assurance Services

**Building confidence in your ESG disclosures**

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# Introduction

Demand for clear and transparent ESG information is growing as government regulation strengthens and stakeholder expectations rise. As a result, companies are increasingly reporting on non-financial information in their annual reports and suite of ESG reporting. ESG is now a Board level issue for many companies in the UK. There is also an expectation on financial statement auditors to perform additional procedures on the front half of accounts, and management are looking to ESG reporting to convey strategy, meet public expectations, and help to manage risk. Lenders focus on reporting to inform credit availability, and investors use ESG reporting to inform capital allocation decisions, risk premiums, and to assess if a firm suits their investment mandate or strategy. Finally, regulators are showing increasing interest through requirements under the UK Companies Act, the Taskforce for Climate Related Financial Disclosures, the Department for Business, Energy and Industrial Strategy (BEIS) and EU Requirements.

KPMG are experts in delivering a number of different types of ESG assurance to help companies build confidence in their ESG reporting within this changing landscape, with over 50 KPMG member firms in our global network offering specialist knowledge and understanding of the complexity of diverse regulatory frameworks. Our specialised team has amassed a wealth of experience working with large global clients. Our technical experience on ESG reporting enables us to provide feedback and recommendations throughout the assurance process, thereby ensuring each client receives the highest quality assurance and the utmost care.

KPMG has a dedicated ESG Assurance team which can provide both data assurance and principles-based assurance, depending on our client's needs. Our assurance services can be provided to both audited entities and non-audit clients. This can include assurance over principles such as the Global Reporting Initiative (GRI) or the Task Force for Climate-Related Financial Disclosures (TCFD), green bonds assurance, ESG-linked financing assurance, full report assurance, or specific data metrics assurance, as well as readiness assessments for non-audit clients.



## The value of assurance



### Enhanced creditability

Signal to stakeholders not only that these metrics have been reviewed by an independent party, but also that the metrics are genuinely important to company.



### Benchmark to best practice

We can provide insight into disclosures seen elsewhere in the market and enhance the overall quality of non-financial reporting.



### Audit efficiency

There are a number of synergies to benefit from when KPMG are providing ESG assurance alongside the statutory audit.



### Drive improvement

In addition to our ISAE (UK) 3000 ESG assurance opinion, we can provide improvement observations on the company's ESG process and controls. This will focus on the quality of data which is frequently an area where management oversight and rigor is not as strong as for financial reporting.



### Regulatory red lines

Understanding and proactively managing your risks is key to developing a business that is 'regulation ready' and resilient to changing legislative demands.

## Why KPMG



### Audit rigour

Our team combines ESG subject matter experts with qualified accountants, experienced in the rigour and requirements of financial audit and non-financial information assurance.



### Connected team

Our team works collaboratively with other ESG specialisms and teams across KPMG in the UK and globally to make sure that clients get the right subject matter experts.

Reporting is often both the start and the end of a client's ESG journey.



### Tailored approach

Our team understand that every client is different, and we tailor our approach accordingly.

We are experienced at designing support to all budgets, and provide valuable insight and challenge at the right level for each individual client.



### Reporting experts

Our team is passionate about integrating ESG information into broader corporate reporting, to ensure that businesses efficiently articulate their true value and long term sustainability.

We understand broad corporate reporting requirements, in addition to specific ESG requirements.



### Latest developments

The ESG reporting landscape is changing rapidly, with new mandatory requirements being introduced and existing standards becoming more aligned to one another.

Our team are at the forefront of these changes and can provide insight into the future of reporting.

# ESG Assurance

## Overview

Environmental, Social and Governance (ESG) metrics and disclosures are an increasing focus for businesses as they respond to a wave of scrutiny from stakeholders - from investors and regulators to employees, customers, and the public. Expectations are changing rapidly, and the range of ESG metrics and disclosure frameworks used is vast and varies by sector, size, and complexity of business, as well as global location.

## How KPMG can help and what we offer

We offer assurance over KPIs across the E, S, and G of ESG, including this non-exhaustive list of examples:

### E (Environmental)

#### Energy and climate

- Energy consumption
- % of renewable energy
- Energy intensity
- Reduction in energy, emissions, and intensity
- Scope 1, 2 and 3 emissions

#### Air Quality and Emissions

- NOx and SOx
- Air emissions

#### Materials

- Volume of materials used
- Recycled materials %
- Reclaimed products
- Packaging composition

#### Supply chain

- Suppliers screened using environmental criteria
- Environmental impacts in the supply chain

#### Waste

- Waste generated
- Waste disposal
- % waste sent to landfill

#### Water

- Withdrawal volume
- Consumption
- Recycled and reused water volume
- Discharged
- Water quality (BOD, COD)

#### Biodiversity

- Operational sites in protected areas
- Site in areas of high biodiversity value
- Impact on biodiversity
- Habitats protected / restored

# ESG Assurance cont.

## S (Social)

### Employee benefits and satisfaction

- Employee turnover
- Parental leave
- Notice period length
- Benefits for full time and part time employees

### Human rights

- Child labour
- Forced labour
- Collective bargaining
- Human rights policies
- Employee training

### Laws and regulations

- Non-compliance with health and safety regulations
- Political contributions
- Non-compliance with labelling and disclosures
- Customer data protection

### Health and safety

- Occupational health and safety
- Injuries and illnesses
- Reportable incidents
- Incident rate

### Diversity

- Gender diversity and pay gap
- Ethnicity pay gap
- Governance bodies' composition
- Ratio of salary and remuneration by gender
- Discrimination incidents

### Supply chain

- Impact on communities
- Development programmers
- Suppliers screened using social criteria

## G (Governance)

### Structure

- Governance structure
- Delegating authority
- Body responsible for ESG
- Role of the highest body in setting strategy
- Evaluation of performance

### Compensation

- Remuneration policies
- Process for determining remuneration
- Stakeholders' involvement in remuneration
- Annual total compensation ratio

### Measurement and review

- Identifying ESG impacts
- Effectiveness of risk management processes
- Communicating concerns
- Nature and total number of critical ESG concerns

# Other Assurance

## Gender Pay Gap

### Overview

Reporting on pay gaps helps companies to understand the size and causes of their pay gaps and identify any issues that need to be addressed. Employers in the UK with more than 250 employees are required to publish gender pay gap data every year. Employers must publish six calculations which reflect the difference in bonus and base pay between males and females across the whole organisation, irrespective of their role or seniority.

### How KPMG can help and what we offer

KPMG can review your Gender Pay Gap disclosures and perform assurance under ISAE (UK) 3000 over the reported metrics and disclosures, in line with UK Government regulations. This provides confidence to stakeholders that reported figures are in line with legal requirements and best practice for Gender Pay Gap reporting.

## Carbon Emissions Reporting

### Overview

The Companies Act (2006) requires all UK large companies to report on their greenhouse gas emissions as part of their annual Directors' Report. Under the recently introduced Streamlined Energy and Carbon Reporting (SECR) requirements, large companies must disclose their UK energy use, greenhouse gas emissions and intensity metrics. Additionally, quoted companies must report on their global emissions and energy use. Whilst not a SECR requirement, obtaining assurance is recommended as best practice to ensure the accuracy, completeness and consistency of data.

### How KPMG can help and what we offer

KPMG can provide both pre-assurance and assurance over Scope 1, 2, and 3 emissions, as well as the intensity metrics reported. We can help ensure that our clients are reporting in line with regulatory requirements and industry standards, ensuring best practice in reported metrics and disclosures.

# Other Assurance cont.

## Climate-related Financial Disclosures

### Overview

Financial markets are increasingly demanding comprehensive information from companies about the risks and opportunities associated with climate change. The Task Force on Climate-related Financial Disclosures (TCFD) aims to improve and increase reporting of climate-related financial information. The UK has made TCFD-aligned disclosures mandatory (comply or explain) for premium listed companies for periods starting on or after 1st January 2021, with the intention of expanding the scope across the economy by 2025. Assurance is not currently compulsory, however receiving external assurance over these TCFD disclosures helps to safeguard investors' interests and ensures disclosures are in line with best practice based on assurance of similar front half of annual report ESG disclosures. We also expect that assurance will become mandatory in the near future.

### How KPMG can help and what we offer

KPMG can review and provide assurance over your governance, strategy, risk management disclosures and the metrics reported under ISAE (UK) 3000. Additionally, KPMG can review disclosures to confirm adherence to the TCFD principles as set out within the TCFD Implementation Guide.

## Green, Social, and Sustainable Bonds

### Overview

The transition to a sustainable global economy has driven increased interest in the financing of investments that provide a clear ESG benefit. This is reflected in the rapid growth of the fixed income market, in particular the use of bonds with a clear use-of-proceeds structure, such as green bonds, social bonds and sustainability bonds. The ICMA Green Bond Principles (GBP), the Social Bond Principles (SBP) and the Sustainability Bond Guidelines (SBG) have become the leading framework for the issuance of sustainability bonds. Although voluntary, this guidance recommends assurance of these bonds for transparency.

### How KPMG can help and what we offer

KPMG can perform verification over the use of proceeds or impact reports, offer non-audited entities a readiness assessment, and offer a workshop to upskill staff on the requirements of the assurance process for green bonds.

# Other Assurance cont.

## Sustainability-Linked Financing

### Overview

ESG factors are fast becoming a strategic priority which has resulted in rapid market growth for sustainability-linked bonds (SLBs) and sustainability-linked loans (SLLs). These are forward-looking performance-based instruments with a flexible structure which offers a reduction in basis points associated with performance against ESG metrics, which are typically linked to KPIs in annual reporting. ICMA's Sustainability-Linked Bond Principles (SLBP) dictates that SLB issuers should publish information on their performance against the selected KPIs and should obtain a verification assurance report relative to the Sustainability Performance Targets. Additionally, some UK companies have begun to offer their suppliers sustainability-linked financing to encourage companies to monitor, report and improve their impact.

### How KPMG can help and what we offer

KPMG can provide limited/ reasonable assurance per ISAE (UK) 3000 in respect of the KPIs which underpin the sustainability-linked finance. Additionally, KPMG can provide limited/ reasonable assurance per ISAE (UK) 3000 regarding the Sustainability Performance Targets, as advised by the ICMA's SLBP guidance. Additionally, in some instances, KPMG can meet the requirements for facility agreements with regards to sustainability-linked loans with Agreed-upon-Procedures under ISRS 4400. For supplier sustainability-linked financing, KPMG can provide assurance over metrics used to measure performance of suppliers and can also critically challenge and assure the processes and controls in place for monitoring the supply chain.





# Other Assurance cont.

## Impact Reporting

### Overview

Investors are increasingly concerned about the Environmental, Social and Governance (ESG) impact of their investments. This has created a demand for asset managers to report on both the positive and negative impact of their investments. The Operating Principles for Impact Management (OPIM) provides a reference point against which the impact management systems of funds and institutions may be assessed. Signatories are required to publish an annual Disclosure Statement in which they describe how the OPIM Principles are incorporated into their investment process and the extent of its alignment with each Principle. Additionally, each Signatory must provide regular independent verification of the alignment of its impact management systems with the Impact Principles.

### How KPMG can help and what we offer

KPMG can provide limited/ reasonable assurance for asset managers over Impact Reporting under ISAE (UK) 3000, this assurance can either cover the full report or specific sections of the report. In respect of the OPIM Principles, KPMG can provide independent verification of the alignment of impact management systems with the Impact Principles and can highlight aspects of systems and processes where alignment may be enhanced.

## UN PRB

### Overview

The United Nations Principles for Responsible Banking (UN PRB) helps the banking industry demonstrate how it makes a positive contribution to society. The UN PRB includes six principles which provide the framework for a sustainable banking system, encouraging alignment with the Sustainable Development Goals and the Paris Climate Agreement. 18 months after signing the UN PRB, signatory banks must report on their impact, how they are implementing the Principles, the targets they have set and the progress they have made. No later than four years after becoming a signatory to the Principles, banks are required to obtain limited assurance over these disclosures.

### How KPMG can help and what we offer

KPMG can provide limited/ reasonable assurance over the UN PRB disclosures under ISAE (UK) 3000 and was involved in the development of the UN PRB Guidance for Assurance Providers. The assurance provided is principles-based and evaluates whether the description of the bank's processes and activities and their outcomes sufficiently reflect what the bank has done, rather than evaluating the applied approach itself.

# Assurance options

There are a range of third party assurance options that KPMG can provide to businesses seeking assurance over ESG disclosures. Assurance products can be strengthened in subsequent reporting cycles until the desired level of assurance is obtained. Assurance can be provided over selected quantitative or qualitative disclosures or over the full suite of disclosures.

## Assurance Readiness Assessment:

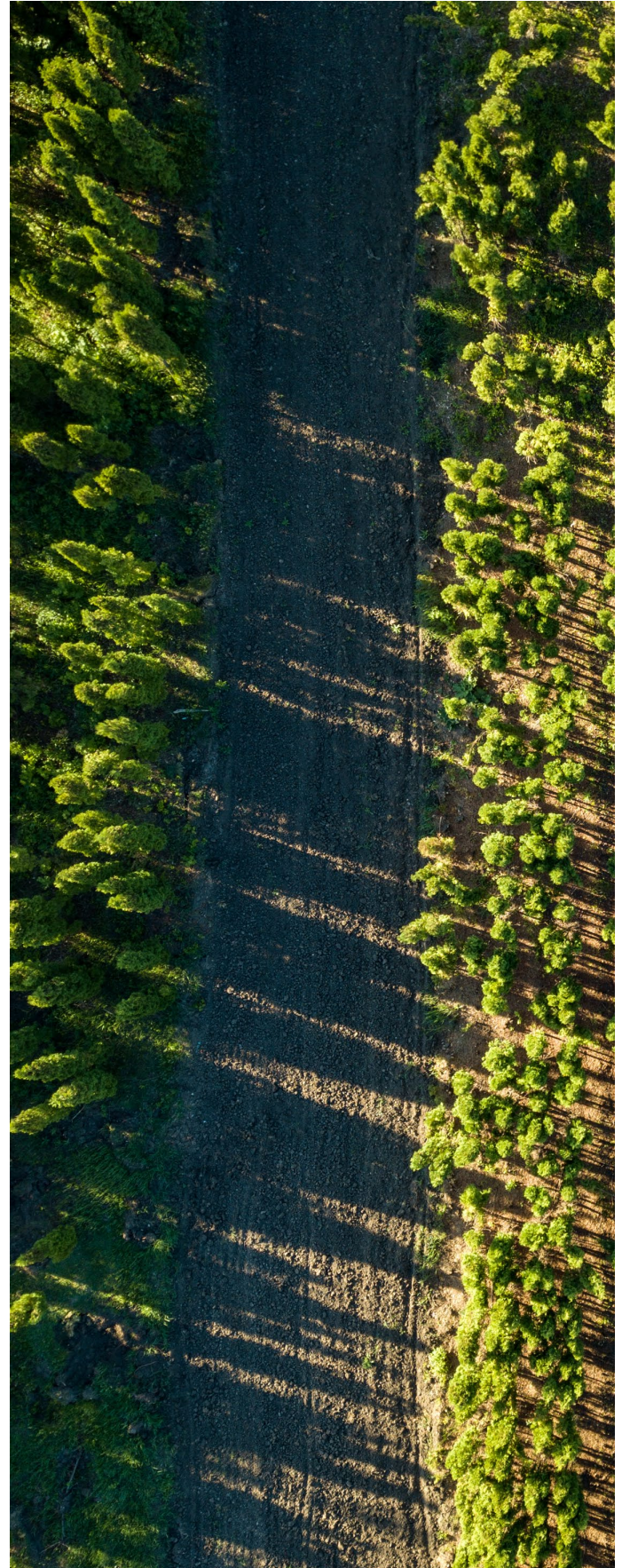


The first step on the road to third party assurance is for an entity to develop in-house reporting criteria based on relevant guidance. In our assurance readiness assessment, we assess whether your reporting criteria are a suitable basis for third party assurance by considering the crucial qualities of relevance, completeness, reliability, neutrality, and understandability. Gap analysis is provided to show where any development is needed.

## Agreed Upon Procedures:



A tightly defined scope of work set by the entity seeking a factual report of findings over selected areas of ESG disclosures.



# Assurance options (cont.)

## There are various options for this type of assurance:

Assurance opinions can be made privately or made available to the public.

Private opinion	Public opinion
A private opinion can be issued for internal use. This may be a desirable option for first-time assurance, providing the option to learn from the assurance process before committing to public assurance.	A public opinion may be made available to the public and is published alongside the disclosures that are being assured. This demonstrates the completeness and accuracy of disclosures to users of the report.

We can provide limited or reasonable assurance.

Limited assurance	Reasonable assurance
<p>A lower level of assurance than that provided in a financial statements audit.</p> <p>The assurance provider performs a more limited set of procedures compared to those required to give reasonable assurance.</p>	<p>Reasonable assurance is a similar level of assurance as provided in a financial statement audit.</p> <p>Although this level of assurance is less common for ESG disclosures in the UK, we believe that the importance of this subject matter means market leaders will adopt reasonable assurance voluntarily in the coming years, while the longer term regulatory horizon suggests this could ultimately become mandatory.</p>



## Contact Us



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