ESG reporting and assurance:

The issues and opportunities for year-end

Our responses to your FAQs from the October 2022 virtual event

November 2022

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Section 1: ESG Reporting

Q1: Participant Question: How understanding are auditors and regulators going to be about inconsistent items being reported in the first couple of years as we get to grips with what is reliably measurable?

In the UK, we have seen how FCA has commented on the quality of TCFD disclosures by premium listed companies via its thematic review published on July 2022 where FRC has also considered the consistency of the financial statements with the narrative reporting. In the thematic review, FRC has mentioned that they will be writing letters to companies included in their sample for further clarification. We expect FRC to continue the review in the coming years.

KPMG is currently leading the assurance practice among the accounting firms and have provided reasonable and limited assurance in climate reporting across various industries. As part of the assurance procedures, we will report any inconsistencies noted in the annual report.

Q2: Participant Question: Please confirm the TCFD reporting applicability thresholds as being greater than £500m revenue and more than 500 employees?

For accounting years beginning on or after 6 April 2022, private companies with over 500 employees and £500m turnover will be required to comply with requirements per sections 414CA and 414CB of the Companies Act 2006 – in line with recommendations from the Task Force on Climate-Related Financial Disclosures.

The thresholds work on a standalone and consolidated basis (for a UK company with subsidiaries).

Q3: Participant Question: Supply chain risk appears to be high on the agenda. Are there many data providers covering this? If so, who are main providers?

There is a range of companies that could provide this information including ESG scores and progress as well for companies.

For certain industry-specific data, this could be obtained from vendors directly.

Q4: Participant Question: What does TCFD, TNFD, and ISSB mean?

- TCFD - Task Force on Climate-related Financial Disclosures
- TNFD - Task Force on Nature-related Financial Disclosures
- ISSB - International Sustainability Standards Board

Q5: Participant Question: How does TNFD differ from TCFD?

TCFD focuses on climate impacts whilst TNFD focuses on nature more generally. In the current beta framework, TNFD requirements and structure are largely similar to TCFD requirements, with TNFD provide more detailed process to be undertaken in the internal operations. The TCFD recommendations have been incorporated into the listing rules whereas the TNFD has not yet.

Q6: Participant Question: What is the ESG framework for reporting?

Firstly, it is driven by any applicable laws and regulations to disclose ESG. For example, if you are a premium listed entity on London Stock Exchange you will be required to comply with TCFD disclosure requirements.

Secondly, if you are in an industry where there are expectations for additional disclosures in providing meaningful and comparable ESG disclosures, there are a few ESG frameworks that could be adopted, for example, United Nations Global Compact, Global Reporting Initiative (GRI), and UN Guiding Principles on Business and Human Rights.

Q7: Participant Question: Will the ISSB sit alongside the IFRS (applicable accounting standard) in the preparation of the Annual Report? And are the standards likely to be audited and require assurance?

ISSB standards will be part of the broader body of IFRS that will complement the existing IFRS standards via IFRS-S. The ISSB published an exposure draft of IFRS-S1 in March 2022.

From our survey of top 100 UK companies, we have seen 69% of the Companies provide a formal assurance statement and we expect this trend to continue moving forward.

We believe there is an appetite for regulators to make this mandatory as we have seen in the proposed CSRD requirements in the EU.

Q8: Participant Question: To what extent do the requirements apply to non-listed entities?

For non-listed entities with over 500 employees and £500m turnover, they are required to comply with requirements per sections 414CA and 414CB of the Companies Act 2006 for accounting years beginning on or after 6 April 2022. The requirements of the Companies Act 2006 are broadly consistent with TCFD requirements.

Q9: Participant Question: Will companies need to report scope 3 data at some point?

We believe with the increase in data availability, the regulators in the UK will soon make this requirement mandatory for all entities. Currently, disclosure of Scope 3 emissions is voluntary for quoted companies but strongly encouraged if companies consider it as material.

Q10: Participant Question: How will the introduction of assurance regulation affect decisions on deciding assurance scope?

We believe the level of assurance being reasonable or limited assurance will be driven by standard industry practice.

Q11: How will assurance regulation seek to capture the 's' in ESG?

The UK reporting landscape has not currently mandated assurance on social disclosures and metrics. Broadly we are seeing companies choosing to assure key metrics and KPIs, including on OH&S, employee training and wellbeing, responsible supply chain management, diversity and inclusion, and modern slavery and human rights. This is important to ensure the robustness and reliability for these data points, particularly when they form a key pillar of a company's ESG strategy and where performance against these social metrics is linked to directors' compensation.

The direction of travel for ESG metrics is towards increasing assurance, with the European **Corporate Sustainability Reporting Directive (CSRD)** requiring auditing (assurance) of reported information including on social matters and treatment of employees, respect for human rights, and diversity on company boards. The UK Government intends to adopt the standards developed by the International Sustainability Standards Board (ISSB) which will create a baseline for reliable and quality sustainability reporting. Audit requirements are not within the ISSB's remit, however local regulators may choose to require assurance. As we noted in our '**Get ready for ISSB sustainability disclosures**' report, regardless of mandatory assurance requirements, companies will need to ensure they have the processes and controls in place to produce robust and timely information, which would include to support reporting on material social factors and metrics.

Q12: Participant Question: Given that the new administration in the UK has a clearly stated position on regulation in general and is ambiguous on their commitment to net zero, do you think the UK could now take a different path to the US and EU?

We do not believe so. The call for a comparable ESG disclosure is largely market-driven so we expect the pressure for better ESG reporting to stay. In addition, the net zero ambitions and targets have now been signed into law in the UK and EU, so we believe commitments will accelerate and become more descriptive of the UK economy and as a whole will meet its commitments.

Q13: Participant Question: Are companies increasing the number of internal ESG roles and do you think companies that do not have internal ESG roles are at a disadvantage?

We are currently seeing this trend in UK Companies due to the ever-increasing demands and requirements for ESG disclosure. We believe having an internal ESG role to coordinate various ESG reporting requirements will be beneficial for companies.

In the SEC's proposal, it was proposed for organisations to disclose if any member of the board or management to have climate-related expertise. We believe the UK will follow this approach in the future as such it would be beneficial for companies to start thinking about having internal ESG roles.

Q14: Participant Question: What are your views on the Global Reporting Initiative? Will its use become more prominent?

GRI's reporting requirements are largely driven by stakeholders other than investors. Accordingly, GRI would be the best tool to provide comparable information for the said stakeholders. In addition, GRI is a useful tool to consider double materiality approach in line with EFRAG.

ISSB and GRI signed a Memorandum of Understanding in March 2022 where the two organisations seek to coordinate work programmes and standard-setting activities. As such we do not expect one standard to be more prominent than the other, but rather it will complement each other.

Section 2: ESG Assurance

Q15: Participant Question: Is there a specific ISAE type framework used for the limited/reasonable assurance work?

ISAE 3000 (and ISAE 3410 for Greenhouse Gas emissions) is the most commonly used assurance standard and is widely considered best practice. It can be used for both limited and reasonable assurance engagements. It's worth noting that the standard setters are recognising the importance of getting a consistent approach for ESG assurance. The International Auditing and Assurance Standards Board (IAASB) proposed consultation in 2023 will be on a specific ESG assurance standard beyond ISAE 3000.

Q16: Participant Question: What are the assurance requirements for small non-listed banks?

All assurance for UK-based companies is currently voluntary. However, that may change in the future with the developments in the SEC, ISSB & EFRAG regulations which include mandatory assurance requirements. Whether small, non-listed banks are caught by these regulations or not (and when) will likely depend on the size and location of the bank. For further information, please refer to slide 2 in the webinar slide pack. **Click here.**

Q17: Participant Question: Do the regulations determine material topics for assurance or does the company?

A bit of both! We would always recommend that companies undertake a materiality assessment to determine and prioritise the material ESG topics for the business (and for assurance).

A materiality assessment should include a review of the regulatory landscape to identify mandatory ESG reporting and assurance requirements. It should also involve engaging with stakeholders (internal and external) to understand their views on which ESG topics are most material to the business (influence and impact).

Q18: Participant Question: What types of measures are FTSE100 entities linking to executive remuneration?

Most are linked to climate and emissions related measures. Some are broader than this and extend to other environmental and social measures. Also, several Annual Reports are vague/unclear on specifically what ESG measures are linked, for example some just mention 'achieving of sustainability targets'.

Q19: Participant Question: What does having Scope 1 & 2 assurance mean?

This would depend on the scope of the assurance. Most commonly, companies have the quantitative absolute Scope 1 emissions (tCO2e) and absolute Scope 2 emissions – market-based and location-based (tCO2e) assured for the previous year. This would mean the company would have had to have measured the absolute emissions and the assurance would be over these figures - the output being an external assurance opinion. The steps taken to reduce emissions may be discussed with management, however, this would not form part of the Assurance Opinion.

Less commonly, companies seek assurance over qualitative disclosures, for example, if a company upgrades their diesel fleet to electric, they will have to provide evidence for the steps taken to reduce emissions.

Q20: Participant Question: Is it possible to get reasonable assurance on all aspects of Scope 3?

An assessment of the maturity of your Scope 3 reporting would need to be conducted to be able to determine if reasonable assurance could be provided on all categories. It is also possible to give a hybrid opinion where some categories are covered by limited and others reasonable assurance.

The use of estimates would not necessarily prevent reasonable assurance as long as those estimates were made in accordance with the published reporting criteria and properly documented.

Q21: Participant Question: Where do you find that ESG responsibility rests between the Board, the Audit Committee, and the Risk Committee?

If ESG is integrated into the business, responsibility rests with all these groups. The Board is ultimately accountable for ESG. Performance against ESG targets is increasingly being linked to Director's remuneration. The Audit Committee increasingly have responsibility for oversight of ESG reporting, in the same way that they do for financial reporting. In the future, companies will also have responsibility for publishing their Audit and Assurance Policy (as proposed through the BEIS corporate governance review). The Risk Committee have the responsibility for considering ESG-related risks and integrating ESG throughout their risk management processes.

Many companies now have Sustainability or ESG Committees that report directly to the Board.

Q22: Participant Question: Has KPMG globally achieved reasonable assurance on all categories of Scope 3?

We are not aware of any companies that have achieved reasonable assurance over all Scope 3 GHG emission categories yet. Most companies are just starting to assess and measure their Scope 3 emissions, which can be complex involving a high degree of estimation and assumption. We have been supporting some of the leading companies in this space with 'pre-assurance' (completing a review of Scope 3 calculation methods, processes, assumptions etc, to determine how ready they are for external assurance). We have provided limited assurance over Scope 3 emissions for several of our assurance clients.

Q23: Participant Question: A lot of these activities are completed as side of desk. Is there a trend for purpose-built teams being set up to address these and how big are these teams/what roles do they have?

We are seeing a significant increase in the number of companies that have a sustainability team led by a Chief Sustainability Officer. The size of the team varies depending on the size and structure of the company. For example, for multinationals, there is usually a dedicated team at Group level of around 3-5 people, supported by sustainability professionals in key global locations and supported by other business functions (e.g., finance and internal audit for reporting). We are increasingly seeing ESG reporting move into the remit of the finance team and sustainability managers then focusing on strategy development and delivery.

Q24: Participant Question: Is there a summary of ESG requirements?

Click **here** to read the ESG Reporting Regulations Talk book. This summarises all incoming regulations, when and what they are, and who they will be applicable to.

Q25: Participant Question: Will KPMG publish a newsletter and pending legislation/reporting and voluntary disclosures so we can keep track of reporting requirements?

To receive ESG updates on new publications, webinars, and newsletters in real time via email, you can sign-in or create an account on our **ESG insights centre**.

For daily updates, **click here** to follow us on LinkedIn.

Section 3: Climate Transition Plans

Q26: Participant Question: As we see more climate disclosures being made in the financial statements, could climate-related KPIs move away from non-financial assurance?

As climate-related KPIs require disclosure in financial statements, it would indeed require more robust assurance and controls frameworks. This speaks to the importance of aligning financial reporting and non-financial reporting, to streamline the processes and reduce the burden across teams.

Q27: Participant Question: What is the link to the GFANZ publication on frameworks?

Click here to read the publication.

Q28: Participant Question: What needs to be included in the financial statements to be aligned with TCFD?

TCFD provides recommendations for the front half of the annual report. Requirements for financial statements will be picked up by additional regulatory requirements.

Q29: Participant Question: Which non-listed entities are impacted and what timeframe is there for them?

Non-listed companies will likely be impacted by the Sustainability Disclosures Requirements, which will adopt ISSB requirements for use in the UK. More details are expected in the updated Green Finance Roadmap, which is delayed until Q1 next year.

Q30: Participant Question: Is there a risk of inaccuracies in Scope 3 Transition Plan activities, given climate science and customer data are evolving?

Transition Plans should be regularly reviewed and should evolve to reflect increasingly granular and robust data, which is particularly relevant for Scope 3 ambitions and activities. They should also be clear about the uncertainties and limitations in the analysis. In practical terms, this means that as your Scope 3 accounting becomes more robust, your Transition Plans should evolve to reflect confidence in the data. It could also mean setting targets associated with Scope 1 and 2 first, with Scope 3 following once you gain more certainty.

Q31: Participant Question: When starting the journey towards TCFD, do you think a transition plan can lead to a TCFD in the first year?

As there's alignment between the TCFD pillars and what should be included in a Transition Plan, they shouldn't be completed in isolation. A Transition Plan is what I would consider the 'next stage' in the climate strategic response cycle, as many of the recommendations relating to e.g., governance, risk management are connected to the overarching TCFD recommendations.

Q32: Participant Question: Should a Transition Plan include reference to both a client's assets and the organisation managing those assets?

Ultimately, yes it should. While you might not have direct control over the activities/decarbonisation levers outside of your own organisation, you can use tools internally to support (e.g., internal carbon pricing for forward decision-making; client/customer engagement).

Glossary

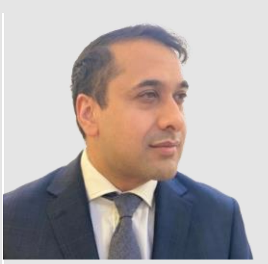
BEIS	The Department for Business, Energy & Industrial Strategy
CSRD	The Corporate Sustainability Reporting Directive
CTP	Climate Transition Plan
EFRAG	European Financial Reporting Advisory Group
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Emissions - Greenhouse Gas emissions
GRI	Global Reporting Initiative
IAASB	The International Auditing and Assurance Standards Board
IFRS	International Financial Reporting Standards
ISAE	International Standard on Assurance Engagements
ISSB	International Sustainability Standards Board
SASB	Sustainability Accounting Standards Board
SEC	Securities and Exchange Commission
SECR	Streamlined Energy and Carbon Reporting
TCFD	Task Force on Climate-related Financial Disclosures
TNFD	Task Force on Nature-related Financial Disclosures

Contact us

George Richards

Partner, ESG and Reporting and Assurance
KPMG in the UK

george.richards@kpmg.co.uk
https://www.linkedin.com/in/george-richards-2228793/



Vijaypal Bains

Director, ESG Reporting
KPMG in the UK

vijaypal.bains@kpmg.co.uk
https://www.linkedin.com/in/vijay-bains-a45b859/

Holly Gregory

Senior Manager, ESG Assurance
KPMG in the UK

holly.gregory@kpmg.co.uk
https://www.linkedin.com/in/holly-gregory-919b3b59/

Carys Goodwin

Manager, Climate Risk and Strategy
KPMG in the UK

carys.goodwin@kpmg.co.uk
https://www.linkedin.com/in/carys-goodwin-681b5494/

kpmg.com/uk

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