



Preparing for ESG assurance: The path to readiness

ESG voices podcast series

Presenter

Hello and welcome to another episode of ESG voices. This podcast series addresses the opportunities and challenges within ESG through interviews with ESG specialists from KPMG and beyond. Throughout this series, we discuss a broad range of environmental, social and governance issues aiming to support governments, businesses and communities in creating an equitable and prosperous future.

ESG related topics are reshaping the way businesses operate, measure performance and manage risk as a result of new regulatory requirements and ways of reporting. Additionally, the increasing need for companies to obtain independent ESG assurance is becoming crucial to ensure transparency, credibility, and accountability in their sustainability efforts.

To prepare for this assurance, companies can invest in and improve data quality by applying disclosure, control and risk frameworks that support their ESG initiatives. In today's episode, I'm joined by Mike Shannon, Global Head of ESG Assurance for KPMG international, Corinne Dougherty, Audit Partner, KPMG in the US, and Oliver Geier, ESG Assurance Leader, KPMG in Germany, and for the EMA region who will discuss how companies can become ESG assurance ready in a time of flux.

To kick off our conversation, can you outline what it means to be ESG assurance ready? What's driving this new imperative? Mike, I'm hoping we can start with you.

Mike Shannon

Thank you. And I'm happy to be here with all of you today. Regarding being ESG assurance ready, as the world continues to progress on its journey with sustainability reporting standards and the regulatory filing requirements that are associated with those standards, assurance is an important part of both the reporting and regulatory ecosystems. It allows stakeholders to place reliance on the sustainability data that is being reported.

And as companies progress on their reporting journey, they need to ensure that their systems processes, record keeping. All of that is maintained at a level to allow an independent assurer to perform procedures to validate that information. Much like what is done to prepare financial information for financial statement audits.

Presenter

Great. Thank you for that background, Mike. And now Corinne, over to you. In order to become ESG assurance ready. What steps should organizations take to prepare?

Corinne

Thanks. Happy to be here. There are five key steps companies can take to be assurance ready. First is determine applicable ESG reporting standards. Understanding the specific reporting requirements for where you do business is critical. Whether it's the Corporate Sustainability Reporting Directive in the EU, the SEC Climate Rule in the United States, or the International Sustainability Standards Board. S1 and S2 standards that are being adopted by several countries. You will need to know what your company is in scope for, the timing of when the regulations are effective and the assurance requirements.

The second step is to build a strong governance structure and develop the right skills. Establishing strong governance structures and ensuring your team has the necessary skills to manage ESG data and processes is imperative. This includes setting up dedicated ESG committees, training staff and integrating ESG responsibilities into existing roles. Robust governance ensures accountability and oversight, which are critical for reliable ESG reporting.

The third step is identify the applicable ESG disclosures and data requirements across functions. Data management is critical in becoming ready for assurance. You'll first need to understand the topics and metrics that are material to your organization. Then you will need to implement processes to collect the data and put controls in place to ensure the quality of the data.

The fourth step is digitize ESG data processes and strive to ensure high quality data. One of the key aspects of becoming assurance ready is to collect all necessary data. Many companies are moving to establishing digital processes to collect, calculate and consolidate non-financial information, to maintain data quality, and to become more efficient with reporting.

The last step is work with the value chain to collect ESG information, as their reporting regulations are now requiring companies to report ESG data across a company's value chain. This step is critical for ensuring that all relevant data points are captured, and that the information is accurate and complete.

Presenter

Thanks, Corinne and Oliver. What are some of the challenges facing organizations as they look to properly report on their ESG performance?

Oliver Geier

Thanks very much. Very happy to be here and happy to take that one. So I'm from Germany, so from the EU, and so I'm looking at this, with an EU specific lens. In the EU. The thing that is really driving the developments, obviously is the CSRD, the Corporate Sustainability Reporting Directive that Corinne already mentioned and we can currently very transparently observe, some of the challenges in the first wave of the CSRD reports, being prepared and assured just now. I can maybe summarize those challenges in maybe four areas:

So one, specifically for the CSRD, the sheer scope and complexity of required disclosure. Right. Let's have a look, at the reporting standards directly for the CSRD the EU had EFRAG, another body in the EU, develop ESRs, and I don't want to go into a lecture here on those, but just to give our listeners a feeling, who haven't heard yet, at least, we have 12 new standards: two overarching, ten topical standards on E on S and, and G and the topics cover, among others, climate change mitigation, climate change adaptation, pollution, water, biodiversity, circular economy, your own work force, workers in the value chain, and more. And that is only topics. You then have numbers of KPIs, different per standard. There might be dozens, from CO₂ scopes over energy consumption and from pollution to hazardous materials. So, in total this might come to hundreds of data points. And so, they are in many cases new, right? So you have to have new definitions and there is no established dominant practices.

And this then leads to the second area. For all these newly to be defined material disclosures, you then need processes, controls, reporting ways to be planned. That is a huge task and you have to have those aligned to the financial statements because ESG will be part of the management MD&A. So, on the same timeline. And, just to make that point as well, if your company is an EU based group, all of this generally means worldwide, right?

So then we have the third area: apart from the operational to do's for such a huge change, there is also a high need

for alignment within many companies. We have to align internal and external issues, stakeholders and that takes time. Balancing those views takes time and effort.

And last but not least, the fourth issue then is capacity and experience issues. I mean, just from a general, economy point of view, skilled labor, so to say, is scarce already, accounting departments, for example, are sometimes struggling to find people. And this new topic draws many people, but demand is even higher, right? So we have a full, full on war of talent here as well.

And even if a company can get sufficient capacity quickly, experience is another issue. Back to my opening point. Standards are completely new. There is no or only few guidance. In accounting, we've had 100 years of guidance and commentary, and in ESG, not so much. So, in summary, there are many challenges.

Presenter

What about opportunities in the space?

Oliver Geier

Yeah, maybe I might start here with some good news as well. So many preparers will have to report under the CSRD, only in the beginning of 2026, on the year 2025. And so, they still have some time left. Not too much, given the complexity though, but companies can and should plan for implementing in 2025 now. And the 2025 companies also can possibly profit from the EU first wave experiences that we're gathering at the moment, and they can align with us as auditors to avoid surprises during that process and find efficient setups.

And the auditor usually knows the audited company very, very well. And so in my view, the auditor is the logical choice and also to be the assurance provider. But I mean, apart from my specific EU perspective, there will be of course, additional opportunities in such a field. Corinne, do you have anything to add?

Corinne

Yeah, Oliver. Thanks. There are some additional opportunities to consider; first being improved risk management. So ESG reporting processes and assurance can help identify and mitigate potential risks. It can also lead to better understanding of long-term sustainability challenges and opportunities. Another opportunity is related to operational efficiency. So ESG data collection often reveals areas for improvement and resource management, and efficiency, and potential cost savings through sustainability initiatives can be identified during the reporting and assurance process.

And then the last area, I would say from an opportunities perspective, is related to talent attraction and retention. Strong ESG performance and transparent reporting can really enhance your employer brand. And this is also a way to engage employees through purpose driven initiatives identified in the ESG process.

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Mike Shannon

One thing I want to add on that is when you look at the other regions of the world that aren't subject currently to the CSRD, both preparers and assurers, as you go through the assurance readiness journey, have the luxury of learning from what's happening in Europe right now. And with the timetables being more elongated, there's a lot more time to prepare and plan and work together to make sure that companies are meeting the needs of the assurers before the process begins.

Presenter

Thank you for all of that insight. Now, moving on to the KPMG ESG assurance maturity Index, which is composed of five pillars designed to help companies measure progress in governance skills, data management, digital technology and value chain. Mike, how are you seeing companies stack up in each of these areas so far?

Mike Shannon

What's interesting, this is the second year that we've done the survey. And in our current survey, just 29 percent of the respondents believe that they have the policy skills and systems in place to be ready for ESG assurance. Now, that's up slightly from 25 percent in our 2023 survey. But you would think those numbers would have moved more than they actually did.

The flip side is you can say that 71 percent of companies are still in the early stages of ESG maturity and therefore are less ready for ESG assurance. But what's interesting is when we actually dug deeper into the numbers to understand them, what we realized is companies have made a lot of progress from the prior year, but as they've gone on that journey, they've realized that the goal line, the finish line for where they need to be to be fully reporting and assurance ready, has moved from what they thought their initial understanding was of that finish line.

So the absolute work has improved, but the relative percentage of where they're at on the journey still looks very similar to where it was a year ago.

Presenter

Thanks, Mike. Interesting to hear some of the recent survey results. The survey findings also show that a majority of companies are still at the beginning of their ESG assurance journey. Corinne, what is your advice for companies who have yet to start?

Corinne

The first place to start is really starting with a strong foundation. And what I mean by that is to begin by conducting a thorough assessment of your current ESG data collection processes and controls, and then from there, identify gaps in your existing systems and prioritize areas for improvement. From there, really, it's developing and documenting internal control procedures for ESG data collection, processing and reporting, and then aligning

ESG controls with existing financial reporting control frameworks where possible. And then from there, regularly test and evaluate the effectiveness of these controls.

Another area to focus on is to enhance data traceability and documentation; maintain detailed records of data sources, calculation methodologies and assumptions. That step is really critical to be able to be assurance ready. You'll also want to ensure that you have supporting documentation that is readily available for review, and to be able to provide to your assurance provider.

Another area to focus on is to establish clear data ownership and accountability, and this is assigning responsibility for specific ESG metrics to relevant departments or individuals within the organization, really creating a clear chain of custody for ESG data all the way from collection to reporting, but then implementing regular interval reviews and sign offs on the ESG data.

Oliver, what are your thoughts on what companies should start doing to get ready for assurance?

Oliver Geier

Well, in general, as I had mentioned before, just engage with your auditor or your assurance provider early on. And Corinne, as you said, focus on your reporting processes, on data quality. This is the basis of the reporting and it's independent of whether you have limited assurance or reasonable assurance. This is your base. And so you should focus on that together with your auditor.

Presenter

Thank you, Oliver. And Mike, I'm hoping we can quickly touch on technology and the role it plays in assurance as we go into year one of the CSRD reporting.

Mike Shannon

So one of the most important aspects of our assurance approach at KPMG is that we are utilizing leading edge technology, like our KPMG Clara workflow for assurance, which now includes AI-led support for our KPMG teams to make sure that we have a globally consistent and complete application of the assurance standards when performing our procedures, and this is so important given that this is the first time that we're all going through this on a large scale basis. Having our KPMG Clara workflow for assurance aligned to the reporting standards and the assurance standards, it's critical for us to deliver the quality that our clients need.

Presenter

Thanks, Mike. Before we wrap up, any final thoughts you'd like to share with our listeners? Oliver, can I start with you.

Oliver Geier

Maybe again, speaking from the EU perspective, ESG reporting, ESG assurance, is now here. It will not go away. So yeah, better quickly start riding the wave than be under it.

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Presenter

Thanks Oliver, and Corinne?

Corinne

Don't just think of assurance as a compliance exercise. Consider how ESG assurance fits into your overall corporate strategy and how it can create value. For example, it can be a way to communicate transparently about your ESG journey with investors and other stakeholders. There is value in that.

Presenter

Great. Thank you for that, Corinne. And now, Mike, over to you.

Mike Shannon

Well, I would just close out with the level of assurance being performed does not alleviate a company from their obligation to report accurate data. We shouldn't feel like

the level of assurance should drive the level of quality in that reporting. And they always say limited assurance or no assurance doesn't mean limited reporting. So the burden is on the preparers to make sure that they are providing and filing the regulatory requirements for accurate information, whether the information is being assured or not.

Presenter

Mike, Corinne and Oliver, thank you for taking the time to speak with us today. You've given our listeners a lot to think about, and for our listeners to better understand how your organization is tracking against your industry peers in ESG Assurance Readiness, you can always visit [KPMG.com](https://www.kpmg.com) forward slash navigating ESG assurance to complete our online benchmarking tool and receive your custom report.

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