Professionalizing sustainability reporting using technology

How to comply
A practical guide for CSOs and CFOs

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The bar is being raised on sustainability reporting. This is a rapidly evolving field with a variety of reporting frameworks, with some overlapping requirements but no global consistency. Crucially, a step-change in the level of assurance means that many organizations will need to be able to demonstrate an auditable trail for the content they present in their environmental, social and governance ESG reporting.

This paper highlights the key sustainability reporting tasks required for organizations and provides a solution to managing the challenges of meeting both external compliance and internal transformation. We call it *KPMG Powered Enterprise Sustainability*.

Scalable technology is a must for managing the data, calculations and compliance required. KPMG Powered Enterprise Sustainability helps tackle the major challenges associated with sustainability reporting, while helping organizations to get more from their investment in Microsoft technologies."

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The world of sustainability reporting has seen rapid growth over the past few years with many countries working on transitioning from volunteer-based reporting to creating requirements for businesses to adhere to.

[†]Acronym	Full name of framework	Jurisdiction
TCFD	Task Force for Climate Related Financial Disclosure	Canada, Singapore and Switzerland, among others
ISSB	International Sustainability Standards Board	Australia and the UK, among others
SEC	U.S. Securities and Exchange Commission	United States
CSRD	Corporate Sustainability Reporting Directive	European Union

01 Sustainability reporting challenges and pitfalls

The picture is complex, with different regulatory bodies around the world moving at different speeds with different (or lagging) requirements across the international, jurisdictional or local frameworks such as those from the TCFD, ISSB, SEC and CSRD.[†] Your organization's sustainability reporting needs depend on the location it's based in, but in all jurisdictions, the level of reporting will become broader and more detailed. Therefore, a change in mindset is required.

For example, from 2024 onwards, companies will have to report on hundreds of metrics and targets. In addition to tracking performance on climate change, the circular economy and pollution, organizations should be transparent about how they tackle biodiversity loss and reductions in resource and water use. Social challenges, like the treatment of workers within their own organization and across the value chain, are also part of the new CSRD.

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Regulatory bodies are not the only external sources that need to be considered when looking at ESG and sustainability topics, stakeholders such as customers and rating agencies are now taking a close look too. The third level of reporting resides in the business itself, to monitor performance of the organization against net-zero targets, and often to align management performance and remuneration accordingly.

02

Three levels of reporting

Reporting across these three layers has different requirements, in different formats, with different frequencies associated with them. The sources of data to draw on will vary across the three layers, will need different interpretation and presentation skills, and will increasingly need to be traceable and auditable.

External (market), Regulatory (regulatory bodies) and Internal (the business) reporting make up the three levels of reporting required:

01 External reporting and disclosures

02 Regulatory reporting: direct submission to regulators

03 Management reporting (internal reporting)

A number of key challenges arise:

01 **Double materiality**
Reporting on both your organization's impact on the environment, as well as the environment's potential impact on your organization (e.g. mandatory for CSRD).

02 **Increase of companies in scope**
Companies can be in scope based on their revenue or employee size while non-listed companies and smaller enterprises may become impacted in some jurisdictions.

03 **Targets**
Certain regulations will require sustainability targets to be set, acted on and reported on.

04 **Vastness of information**
Disclosures should contain forward-looking and retrospective information, while extending the scope to the whole value chain.

05 **Mandatory assurance**
Some jurisdictions will require mandatory assurance on reported information. This will have audit implications.

06 **Annual reporting**
How best to make mandatory disclosures alongside the financial statements.
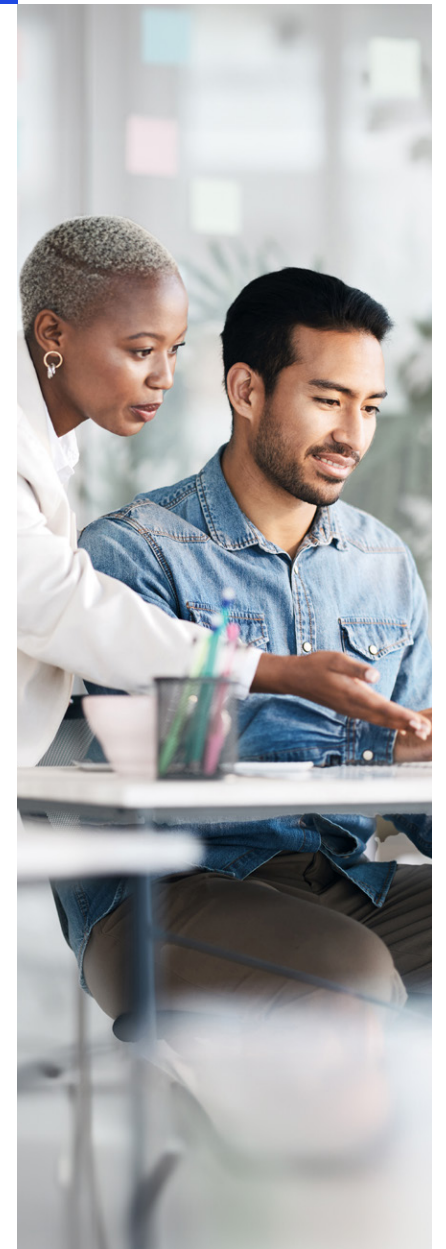
What can typically go wrong with sustainability reporting?

There are significant risks and costs associated with crafting a bespoke internal solution for sustainability reporting. They include (but are not limited to):

Non-auditable data: especially around data that have been collated and input manually.

Guesswork: especially in understanding your ability to report against the components of regulatory reporting.

Hand-cranked responses: manual or semi-manual report production cannot be scaled to meet the needs of ever-increasing breadth and depth.

Remaining siloed: bottom-up reporting does not provide a holistic, cross-functional view for management to act on.

Cost and timeline: building a bespoke solution can be hugely time consuming and use costly resources that could be better leveraged.

Building tomorrow's legacy: bespoke solutions tend to have a short shelf life as requirements can change quickly.

KPMG Powered Enterprise Sustainability helps to provide a model answer to the workflows, technologies and governance that are required to transform your organization's ability to meet the sustainability reporting needs of today, while providing a platform to intercept future sustainability reporting needs.

It does this by providing five major components, enabled by the Microsoft technology ecosystem for ESG:

Component	Key features
1. Assessment capability	Double materiality assessment, reporting readiness and data map maturity — understand where you are now, and what the gaps are.
2. Data connectors	To provide automated connection to sources of both structured and unstructured data from both internal (e.g., ERP platform) and external (e.g., supplier or environmental data).
3. Data model	A place to hold and aggregate ESG-related data. Helps with audit trails and caters for solution and sector-specific data needs. Provides a platform for calculations and reporting.
4. Calculations	Provides ESG calculations, especially for carbon, water and waste. Allows for solution and sector-specific (or other custom) calculations.
5. Reporting	Provides the structured reporting and dashboards needed across the audiences of regulatory, market and internal (at the necessary reporting intervals) for your jurisdiction and sector.

Powered Sustainability is designed to:

Professionalize your current carbon, water and waste reporting capability.

Allow you to intercept emerging standards (such as assured reporting).

Extend your capability to include more social and governance reporting as required.

Like all solutions from the KPMG Powered Enterprise family, it does so by:

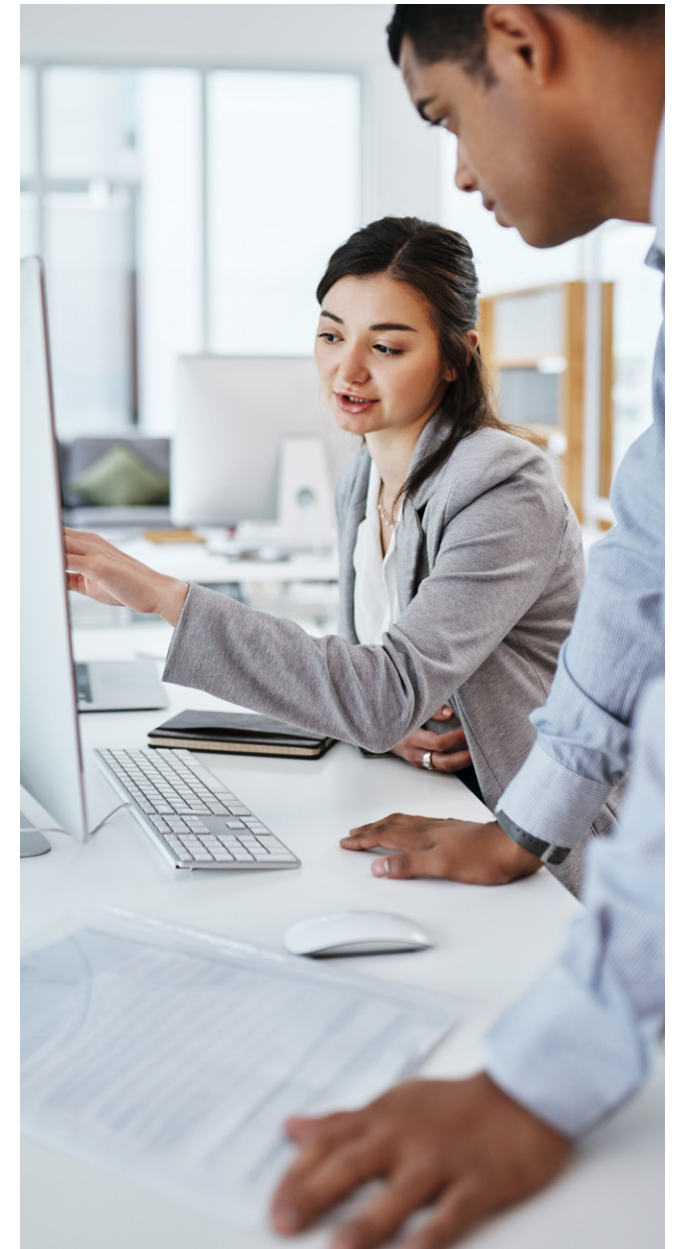Starting with the model answer.

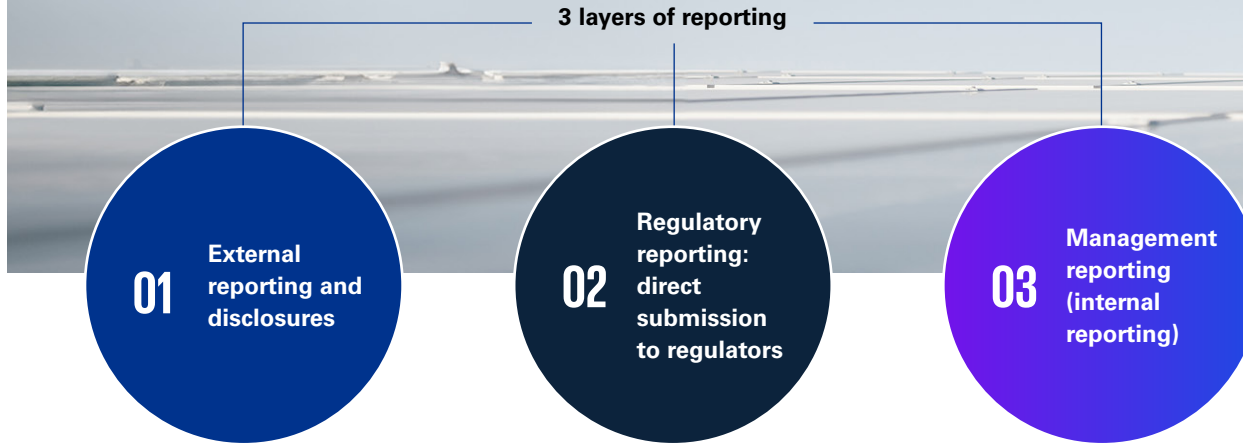Transforming with leading technology.

Evolving with a clear path forward.

Powered Sustainability can help deliver a pre-defined Target Operating Model for ESG with KPMG leading practice across People & Culture, Process & Controls, Tech & Data, Governance, and Service Delivery Models, all pre-configured for the Microsoft Cloud for Sustainability platform. It also contains integration with the widely used Workiva ESG financial reporting platform. Powered Sustainability is designed to create **central access and progress tracking** for ESG stakeholders in the organization.

Three levels of reporting

3 layers of reporting

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Annual Report & Accounts (including TCFD report). Sustainability, ESG reports, information on company's websites and product information.

Inclusion of underlying assessments of material climate-related risks and transition pathways for regulatory bodies (e.g. 2021/2022 ICAAPs for Banks and Building Societies and the ORSA for Insurers).

Management reporting that monitors the performance of the organization's net-zero targets to actuals and aligning to management performance and remuneration.

Powered Sustainability contains a number of accelerators that help ease the process of building an effective ESG capability. For example:

The assessment tools have pre-defined templates to determine which topics are material to you and what standards, frameworks and regulations to disclose.

Data tools that provide an audit trail for manually input data (often 50% of all source data) and consolidate thousands of data points to a manageable number for interrogation and reporting.

Carbon accounting calculators.

Reporting accelerators to create a timeline for regulatory, market and internal reporting and direct submission to regulators.

Target Operating Model and Technology

People & Culture

Delivery model

Process & Controls

Governance

Tech & Data

Regulations in many cases operate in isolation, yet governing bodies often request company-wide information, so global organizations need a global solution. Through a deep understanding of the regulations, KPMG professionals know how regulations and requirements interact and overlap and can help you identify the opportunities and risks.

For most firms, building an effective, repeatable, assured sustainability reporting capability will be about making significant (but incremental) steps towards success. It is unlikely to be a 'one fix and done' style of program.

This is because managing data is key to achieving that success. Change programs that are heavily data dependent require significant due care around data connectors, data migration, data quality and data 'lakes' (i.e. secure repositories for clean, trusted data that can be regarded as the single source of truth).

Add to that the need to have a mechanism for handling manual data (perhaps as much as half of all data you'll need to use in sustainability reporting), it builds a picture of the need for agreed, measurable stages within the change program, and reinforces the need to work with a trusted alliance partner who understands how to make complex change a reality.

03 How KPMG can help

KPMG Powered Enterprise Sustainability is designed to help turn ambiguity into action. The KPMG approach is to help solve the immediate challenges associated with sustainability reporting with a detailed, consolidated readiness assessment, and a comprehensive data aggregation and analytics platform.

By implementing Powered Sustainability, pre-configured for the leading ESG technology platform (Microsoft Cloud for Sustainability), your team will be much better placed to:

Know what to do, when to do it.	Create dashboards tailored to your legislative environment (e.g. CSRD).
Provide assured reporting where it is needed.	Improve storytelling around ESG data.
Influence the supply chain, rather than just report on it.	Intercept social and governance reporting as they crystallize.
Manage data that need to be collected manually.	Discover a solution to sustainability reporting more quickly than an in-house build.
Automate other data collation and aggregation.	Create a platform able to absorb future needs.
Create dashboards for carbon, water and waste.	Have a solution that can intercept emerging technologies such as generative artificial intelligence (GenAI).

By deploying a solution based on the Microsoft technology stack, Powered Sustainability helps your organization to increase its return on existing scalable technology investments (e.g. Microsoft Azure, Microsoft Power BI, etc.).

Where to start

More information on KPMG's ESG capabilities can be found here: <u>Powered Sustainability</u>

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