



ESG assurance

Becoming a baseline expectation

kpmg.ch/sustainability

On course for better ESG reporting

ESG reporting and assurance is already a majority practice

Investors, consumers and employees are increasingly seeking information on environmental, social and governance (ESG) aspects to support their decision making. At the same time, new green regulations are popping up around the world as governments work toward ambitious climate goals. With ESG now firmly at the heart of strategy, business leaders are committing to sharing insightful non-financial performance information with their stakeholders.

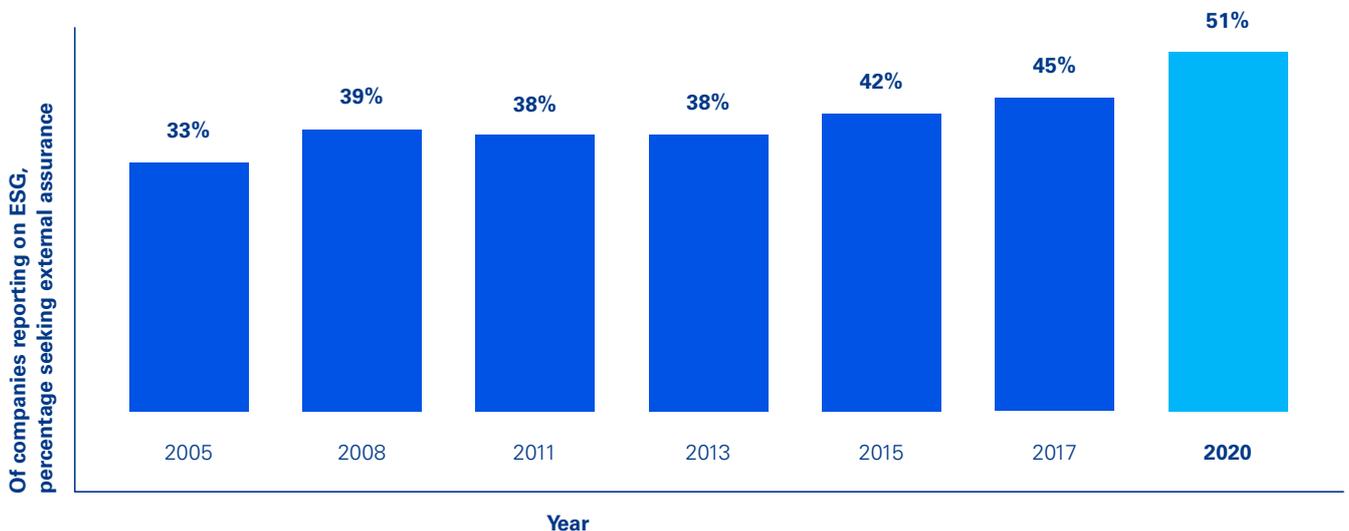
Against this background, sustainability reporting has become an important communication tool, and trust in the quality and accuracy of disclosures is essential. A growing number of companies are choosing to reduce risks and build on this asset by getting external assurance on their ESG disclosures.

KPMG’s recent survey of sustainability reporting – “The time has come” – revealed that of the top 100 companies (by revenue) across 52 countries, 80% have reported on ESG, and half of those (51%) have gone a step further to seek assurance.

Growing regulatory activity and move towards mandatory rules

For many Swiss companies, assurance on non-financial information was for a long-time a “nice to have”, in the absence of mandatory requirements. However, newly proposed requirements under the Corporate Sustainability Reporting Directive (CSRD) in the EU are introducing mandatory limited assurance requirements for 50,000+ companies, including European subsidiaries of Swiss groups. This push for sustainable finance is also driving demand from investors for reliable, trustworthy information. Switzerland has also established some mandatory assurance rules on newly introduced due diligence aspects. This is consistent with the general and global trend toward more mandatory assurance rules and reflects the regulators’ perspective on the value added by third-party assurance on information.

Global growth in independent assurance of sustainability information



Source: “The time has come” – the KPMG Survey of Sustainable Reporting 2020, December 2020, page 23

Background and benefits of ESG assurance

The benefits of obtaining independent third-party assurance on non-financial information are not limited to legal compliance. Rather than a tick-the-box exercise, it's an opportunity for companies to improve and communicate the credibility of their sustainability efforts to relevant stakeholders.

Area	Background	Benefits
 <p>Readiness for upcoming requirements</p>	<p>The last five years have been characterized by a growing and rapid proliferation of regulations that have put compliance models to the test. Examples include 1) the upcoming EU regulations on sustainability reporting potentially from 2024 on, and 2) non-financial reporting requirements under the Swiss Code of Obligations in line with the current EU non-financial reporting directive (NFRD), and regarding due diligence and transparency in relation to minerals and metals from conflict-affected areas and child labor.</p>	<ul style="list-style-type: none"> • Raise internal awareness for upcoming regulations and the need for more robust processes and controls • Avoid surprises at a late stage
 <p>Establish trust</p>	<p>External stakeholders, such as investors and debt holders increasingly rely on non-financial information for their decision making. Internal stakeholders might use KPIs for bonus schemes. Trust in published and internal information on ESG performance becomes therefore important, both for reporters and readers.</p>	<ul style="list-style-type: none"> • Improved stakeholder communication and credibility • Better sustainability ratings • Trust in your own processes and controls
 <p>Obtain insights and improvements</p>	<p>Getting ESG data right requires a systemic approach based on optimal, efficient and sustainable control and compliance models. With the right foundation in place, companies have access to insights that will help them improve processes continuously.</p>	<ul style="list-style-type: none"> • Get valuable insights on how to improve processes and data quality • Improved understanding of how information flows into external reporting

Understanding assurance

Companies as well as internal and external stakeholders are already familiar with the audit report on the financial statements. But what about other types of assurance? Let's take a look at what assurance is, where it's used and how it works.

What is assurance?

Assurance is an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against certain criteria (for example a KPI that constitutes a subject matter that was reported in line with GRI SRS). The most widely used external assurance standard for non-financial information is ISAE 3000. In accordance with this most-used international standard, there are five elements:

- 1) Three-party relationship, 2) Subject matter, 3) Criteria, 4) Evidence, 5) Assurance report.

What can be assured?

Assurance can be provided on a wide range of subject matters. It can address both the quantitative data and information aspects of impact reporting (e.g. KPIs on greenhouse gas emissions, water use or accident frequency) as well as the qualitative aspects to provide comfort on the processes and controls over a company's reporting and the information a company chooses to have assured (e.g. compliance management systems such as with regard to child labor as required by new Swiss regulations). Assurance will require clearly identified subject matters (scope).

How does assurance work?

Criteria are a specific set of reference or a framework, against which an assurance provider must evaluate the subject matter. Suitable criteria are required to enable reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment. There are currently various initiatives under way in the field of sustainability reporting. At present, recognized sustainability reporting frameworks and standards include the Sustainability Reporting Standards (SRS) of the Global Reporting Initiative (GRI) and the Greenhouse Gas Protocol, for example. Internally developed criteria can also be applied by companies. However, suitable criteria can also be derived from law, or be self-developed, as long as they fulfill certain key aspects.

In assessing the suitability of the reporting criteria, it's important to consider:

Objectivity 	Measurability 
Completeness 	Relevance 
Accuracy 	Replicability 

Frequently asked questions at the start of assurance projects

- Subject matter: What KPIs / information do I want to get assurance on?
- Criteria: Which criteria are appropriate for it (e.g. based on external framework or internally developed)?
- Evidence: What and in which form is data available to support the KPIs, and which processes are in place to collect it?

How KPMG can help

Readiness assessment

A readiness assessment is an important first step in establishing whether your company is ready for assurance and in identifying improvement potential. KPMG performs assurance procedures on selected parts of your sustainability report. Rather than issuing an assurance statement, we provide you with an improvement letter that sets out key findings of the assessment and recommendations to close existing gaps.

Once the selected subjects and indicators are ready for assurance, we can officially provide assurance on selected parts of your sustainability report or the report in full. The scope and amount of testing will depend on whether you choose limited or reasonable assurance. We follow a four-step approach:

1. Obtain an impression of the current sustainability report and relevance of disclosed KPIs
2. Assess the robustness of the sustainability data management systems, including internal control mechanisms for selected parameters
3. Verify the completeness, accuracy and comparability of the data reported for selected parameters and information
4. Support management with recommendations for improvement of sustainability management and reporting

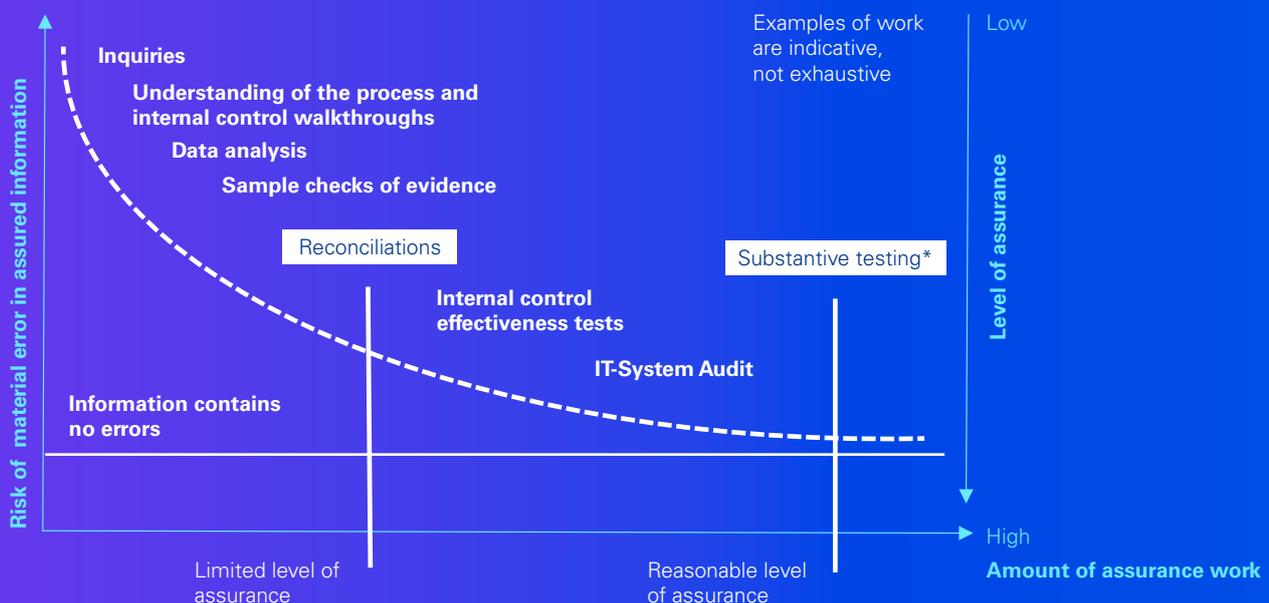
Limited assurance

In a limited assurance engagement, the nature, timing and extent of procedures is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in our professional judgment, meaningful. Upcoming regulations currently require a limited assurance. It is also the most commonly used option for assurance.

Reasonable assurance

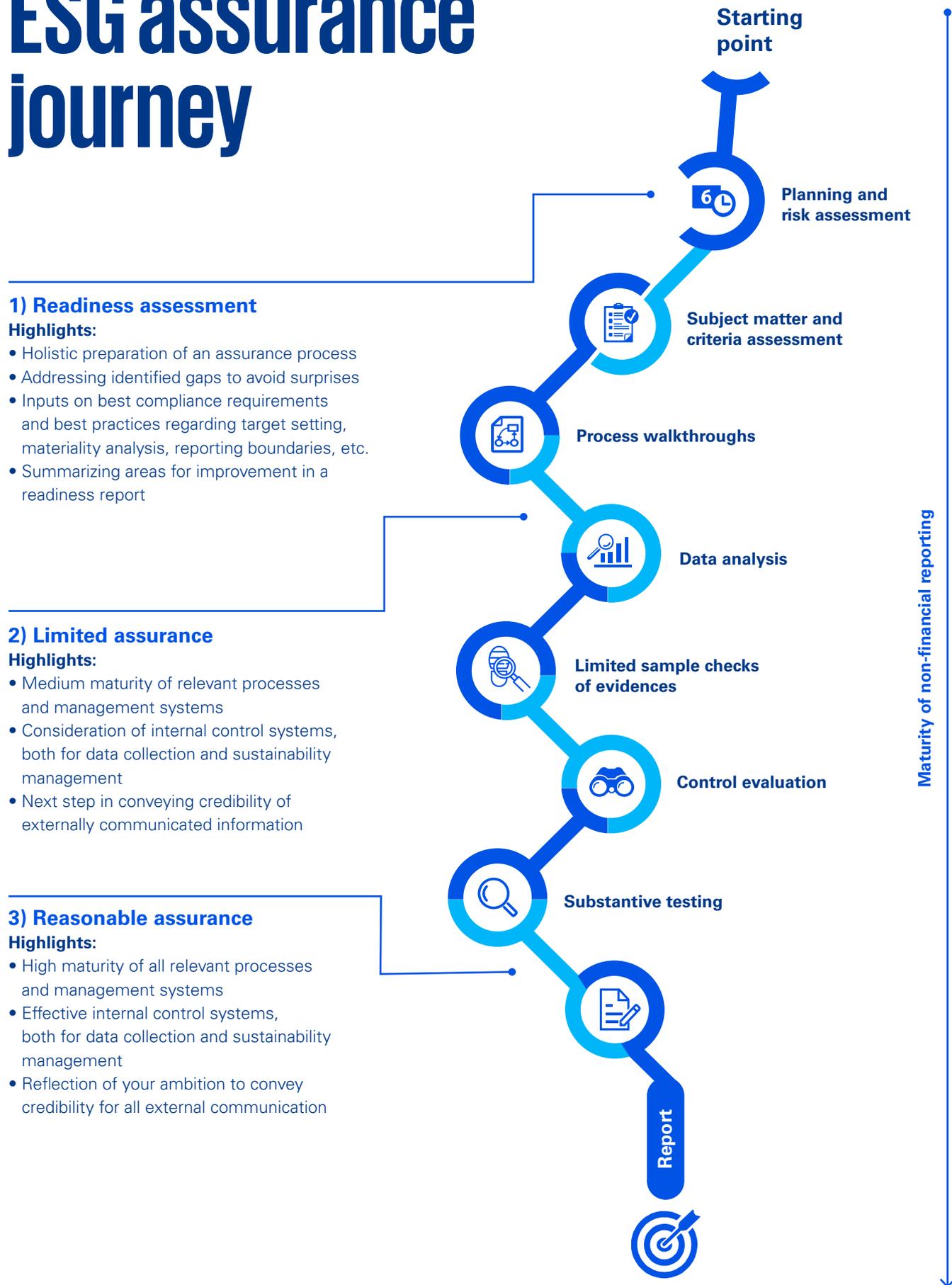
In a reasonable assurance engagement, we aim to reduce engagement risk to an acceptably low level in the circumstances of the engagement as the basis for our conclusion. Extensive procedures are required.

Limited assurance vs reasonable assurance



* Substantive testing can include extensive statistical sampling and analytical tests based on defined expectations.

ESG assurance journey



1) Readiness assessment

Highlights:

- Holistic preparation of an assurance process
- Addressing identified gaps to avoid surprises
- Inputs on best compliance requirements and best practices regarding target setting, materiality analysis, reporting boundaries, etc.
- Summarizing areas for improvement in a readiness report

2) Limited assurance

Highlights:

- Medium maturity of relevant processes and management systems
- Consideration of internal control systems, both for data collection and sustainability management
- Next step in conveying credibility of externally communicated information

3) Reasonable assurance

Highlights:

- High maturity of all relevant processes and management systems
- Effective internal control systems, both for data collection and sustainability management
- Reflection of your ambition to convey credibility for all external communication

Questions to ask now

As you embark on your ESG assurance journey, ask these questions to set the course for ESG reporting that adds value for your stakeholders and your organization.



- What is our organization's objective in obtaining assurance? Where and how is the assurance report to be used?
- Are we required to obtain assurance for certain entities due to local legal requirements?
- Who are the intended users of the sustainability report and the assurance report?
- What are the biggest challenges we currently face in terms of internal processes and ownership?
- Do we already apply reporting criteria/frameworks appropriately (e.g., GRI, GHG Protocol, internally developed criteria)?
- What level of accuracy and assurance do we require?
- Does our current auditor have the appropriate qualification to provide the preferred service?

If you have any questions,
please reach out to our specialists:

Silvan Jurt

Partner
Head Corporate
Sustainability Services
Audit Corporate
+41 58 249 50 25
sjurt@kpmg.com

Patrick Schmucki

Director
Co-Head Climate &
Sustainability
Financial Services
+41 58 249 27 35
pschmucki@kpmg.com

Cyrill Kaufmann

Senior Manager
Corporate Sustainability
Services
Audit Corporate
+41 58 249 71 08
ckaufmann@kpmg.com

KPMG AG

Badenstrasse 172
P.O. Box
8036 Zurich

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received, or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. The scope of any potential collaboration with audit clients is defined by regulatory requirements governing auditor independence. If you would like to know more about how KPMG AG processes personal data, please read our **Privacy Policy**, which you can find on our homepage at www.kpmg.ch.

© 2022 KPMG AG, a Swiss corporation, is a subsidiary of KPMG Holding AG, which is a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.