SUSTAINABILITY

Sustainability reporting – What you should know

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KPMG LLP (KPMG) defines corporate sustainability as "adopting business strategies that meet the needs of the enterprise and its stakeholders today while sustaining the resources, both human and natural, that will be needed in the future."
Sustainability reporting – What you should know

Climate change, sustainability, clean technology, “going green” are topics high on the agenda of boards and management of most, if not all, major companies. Many are doing much more than talking about it—they are undertaking large-scale initiatives to improve their business performance, manage costs, respond to stakeholder demands, and prepare for regulatory requirements. Moreover, leading companies are recognizing the need to integrate their sustainability strategy to their fundamental operational strategies.

As companies link sustainability initiatives with overall business strategies, it is important to evaluate the internal processes and controls used to generate reliable data for internal decision making and external reporting of sustainability strategies, objectives, and deliverables. At KPMG, we have robust global capabilities well suited to respond to the needs of companies around the world.

What is sustainability?
People and companies refer to sustainability by different names—corporate citizenship, social responsibility, climate change initiatives, or “Green” movement. In essence, sustainability includes anything from environmental awareness and involvement in local community issues, to capturing, measuring, and reporting green house gas (GHG) emissions data, to modifying company business processes to reduce the operational use of natural resources and energy.

What is sustainability assurance?
Stakeholders (investors, employees, customers, suppliers, and the community) and the capital markets are increasingly demanding better, more transparent communication of nonfinancial sustainability data. Sustainability reports—also called Corporate Social Responsibility (CSR), Environmental Social Governance (ESG) or Triple Bottom Line (TBL) reports—that convey information about an organization’s economic, environmental, and social impact are increasingly being issued in conjunction with financial reports—and stakeholders are using them more often in evaluating the long term viability of a company.

According to a recent KPMG International global survey of 378 senior executives, conducted in cooperation with the Economist Intelligence Unit, 62 percent of companies surveyed have a strategy for corporate sustainability, and just over a third (36 percent) have issued at least one public report on sustainability with another 19 percent planning to do so soon.¹

At KPMG, we understand the importance of sustainability to companies and have invested significantly in developing services to meet their sustainability objectives—including business performance, process and control analyses and attestation capabilities to help address the challenges of measuring and reporting sustainability data.

In 2009, approximately 3,800 companies issued some form of CSR report. This number is expected to rise to 4,000 for 2010.²
Why sustainability assurance?
Independent assurance over sustainability metrics and reports can:

- Provide confidence to stakeholders, directors, and senior management as to the accuracy and credibility of publicly disclosed performance data and associated information
- Provide comfort to management that the sustainability information supplies a robust basis for decisions and an accurate presentation of performance against business objectives
- Become a tool for mitigating risks associated with the potential disclosure of inaccurate or misleading information
- Add independent credibility to publicly disclosed performance data and information
- Provide useful feedback on better practice observations

Sustainability reporting – Important questions to consider

Some simple questions can help senior management determine the type of assistance needed related to sustainability reporting. An affirmative answer to these questions may suggest you would benefit by having an objective assessment over your data and/or processes and controls.

1. Does your company have a sustainability program? If so, is it integrated with core business strategies?
2. Does your company collect and report sustainability information for use outside the company – e.g., issue a sustainability report?
3. Is sustainability information being integrated with financial information in annual reports, public disclosures, and 10-Ks?
4. If your company issues a sustainability report, is it reasonable to assume stakeholders are relying on reported data for investment or commercial purposes?
5. Are senior executives’ compensation plans tied to, or affected by the company’s performance around its sustainability initiatives?
6. Are nonfinancial sustainability-related metrics and results often discussed publically in forums where financial results are also presented (e.g., investor calls)?

In addition to considering the questions above and determining whether or not an objective assessment of data, processes, and controls is warranted, it’s also important to understand where your company sits on the sustainability reporting continuum.

“For sustainability programs to be properly integrated into operational strategy, meaningful and reliable metrics must be developed along with the underlying processes and systems to produce such information.”

Sustainability Reporting – The three stages of maturity

There are different levels of maturity within sustainability reporting. Understanding where your company is in the process and the important considerations at each stage can help ensure your sustainability initiatives accurately reflect your objectives.

Stage 1: Companies that are not collecting and reporting information:

If your company is not yet collecting, or is in the early stages of collecting and reporting sustainability information, important questions to consider may include:

- What are your company’s competitors doing in this space?
- Are your company’s customers starting to make decisions based on sustainability data and/or metrics? Are there meaningful benchmarks against which they are assessing their vendors?
- Have you considered the likelihood of future regulation regarding reporting sustainability-related data?
- If asked by stakeholders, could your company create or find reliable internal data related to your company’s carbon or water footprint?

Stage 2: Companies that gather and/or publish climate sustainability data with no independent verification:

If your company is currently using or reporting data without independent assurance, important questions to consider may include:

- How confident is your CFO/leadership in the source and accuracy of your sustainability data/information?
- Have there been restatements of this data in the past? Have you considered the potential impact to your brand credibility if your sustainability information is found to be inaccurate?
- Does your sustainability data stand up to the same level of scrutiny as your financial data — particularly if it’s being used to make decisions based on credibility and controls?
- Are you aware of potential risks associated with collecting and reporting data or of sharing/publishing data that is not subject to strong controls?
Stage 3: Companies issuing reports that are verified by a third party other than an independent, certified public accountant (e.g., presently using an environmental consulting or engineering firm):

If your company’s sustainability reports are currently “verified” by someone other than an independent certified public accountant, important areas for consideration may include:

- Does the verifier have the infrastructure, experience and resources to ensure data integrity across multiple entities in multiple jurisdictions around the world?
- Does the verifier understand the link between the sustainability data and the financial performance of your company, including compliance and tax-related opportunities?
- Does the verifier understand the broader business implications of data integrity and can they help your company move toward integrated reporting?
- Does the organization have significant experience in analyzing processes and internal controls?
- Do they follow robust professional standards including independence, documentation, quality control and peer review?

KPMG – Helping companies meet their sustainability reporting needs

KPMG’s Climate Change & Sustainability (CC&S) cross-functional Audit, Tax and Advisory teams work with our clients to understand the issues, risks, and opportunities presented by today’s sustainability challenges. KPMG CC&S Advisory professionals—with knowledge and experience in carbon footprinting, water and energy conservation, efficient supply chain management, and business optimization—work closely with KPMG Audit professionals to provide client sustainability reporting services in two primary categories:

- Sustainability data process and controls
- Sustainability program assurance – Internal and External

Sustainability data process and controls:

KPMG Audit and Advisory professionals and sustainability subject matter experts can help companies assess the quality of their processes and controls over gathering key sustainability data and metrics—or optimize existing processes—focusing on strategy, risk assessment, operational improvement, and benchmarking against Industry best practices. We then provide recommendations for improvements.
Sustainability Program Assurance:
We can help companies assess (either for internal or external users) their internal and external sustainability reporting systems, controls and or data by performing attestation services over the data and/or controls. We can then provide guidance and recommendations for improvement of their systems.

Brand enhancement, cost reduction, regulatory requirements, and risk management are important drivers for implementing a sustainability strategy and reporting internally and externally on progress against key metrics. With company executives and stakeholders increasingly viewing sustainability as a source of innovation and new growth, it’s more critical than ever that the data collected and reported is accurate, complete and consistent with core business values.

In addition to helping companies assess the quality of their systems, data, and controls, KPMG’s Climate Change & Sustainability practice offers knowledge and experience spanning the science of climate change and energy conservation, the social responsibility of sustainability, the business risks and opportunities and the realities of regulation and policy change.

KPMG’s Climate Change & Sustainability (CC&S) practice
The focus of KPMG’s CC&S practice is to assist companies in better understanding the complex and evolving business and regulatory risks relating to climate change and sustainability while helping them capitalize on the resultant commercial opportunities.

Our comprehensive, global CC&S services include:

• Evaluating specific risks and opportunities to drive competitive advantage
• Helping companies understand and react to the impact of regulatory frameworks, including tax and carbon emission regimes
• Assessing and benchmarking sustainability programs, including cost reduction targets
• Evaluating and assisting with the design of critical non-financial information streams with respect to carbon emissions, corporate social responsibility and the rapidly-evolving changes within the commercial supply chain; and, ultimately
• Providing assurance on these new information streams.

For more information on how KPMG can help your company meet its sustainability objectives, please contact a member of our Climate Change & Sustainability practice.

KPMG and sustainability organizations
KPMG actively leads, supports, and participates in a range of local and international organizations and membership-based forums focused on climate change, sustainable development, and broader corporate responsibility issues. Those specifically related to sustainability reporting and assurance include:

• GRI – Global Reporting Initiative
• CDP – Carbon Disclosure Project
• UNCTAD – Expert Member (Environmental Accounting)
• The Sustainability Consortium
• International Integrated Reporting Committee (IIRC)

1 KPMG International “Corporate Sustainability – A Progress Report”; April 2011
2 Corporate Register “CRReportingAwards ‘10 – Global Winners & Reporting Trends”; April 2010
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