WHITE PAPER

5 Tips to Stay Ahead of Risk

ESG, Efficiency, and Employee Engagement

Top Tips at a Glance

1 Establish ESG internal controls

With the Corporate Sustainability Reporting Directive (CSRD) hot off the press and the SEC's final ruling pending, a lot is still up in the air with ESG—but it's never too early to start! Enough guidance is available for audit and risk teams to get going. You should start to understand and document material ESG risks and internal controls. Now is the time to prioritize ESG controls to ensure your data is consistent, reliable, and trusted.

2 Build program governance to support ESG programs

Implementing program governance around ESG is just as important as establishing the appropriate controls, especially given the complexity of working across systems, teams, and geographies. From board and C-suite oversight to setting ESG targets and measuring progress, having program governance in place will help you achieve ESG goals.

3 Apply lessons from SOX

As you begin to lay the foundation for your ESG program, be strategic and consider the lessons learned from SOX. For example, before jumping into testing, documenting, and more—standardize and automate processes.

4 Embrace audit automation

Automating repetitive tasks in your SOX and first line processes can have a dramatic impact on efficiency. Begin by evaluating the configurable automation capabilities within your current systems and optimize from there.

5 Instill an efficiency mindset

Finding ways to increase efficiency won't come from technology alone—it also has to be a part of your team's mindset. By creating a culture where everyone is committed to continuous improvement and leveraging the right technology, you'll be able to maximize efficiencies across your core processes.

Let's Dig Deeper

1 Establish robust internal controls for ESG

Now is the time to start: If internal controls over ESG metrics aren't on your organization's radar, it's time to bring together a multidisciplinary team e.g. sustainability, accounting, manufacturing, human resources, and internal audit to start understanding ESG reporting metrics and implementing internal controls to ensure integrity in your organization's ESG reporting.

Regulation preparation: Coming in hot! CSRD will impact both organizations based in the European Union and those with significant subsidiaries within the region. In addition, the SEC's pending final rule on climate-related disclosures means it's urgent to start preparing ESG data for heightened regulatory disclosure and scrutiny. This means ensuring your ESG data has the same reliability and consistency as the financial data you disclose.

ESG data completeness and accuracy: If you've already been disclosing ESG metrics, that's awesome! Before you get too far along, make sure you have a rock-solid reporting foundation. Do you have repeatable processes and controls in place to support an effective, future-proof ESG program? Are you consistent in how and where you calculate ESG-related metrics? Considering all the data and systems that are going to come into scope with ESG, it's crucial to get moving on this journey to prepare for the assurance requirements and provide audit-ready, investor-trusted data.

> **It's good to take a step back and really think about what the SEC is trying to achieve, which is similar to other global regulators—it wants to make sure that the information investors and all stakeholders receive is consistent and reliable.**
>
> **Sue King**
> Partner at KPMG

2 Build effective program governance around your ESG program

ESG involves the entire organization: Getting your house in order takes on a whole new meaning when it comes to ESG. It impacts everything across your organization, which is why implementing effective governance is necessary.

Critical collaboration: Collaboration between key stakeholders across departments is a crucial element of ESG success. Establishing a multidisciplinary team with

members from accounting and finance, sustainability, legal, investor relations, and more means you can take action faster when new regulations or rules come out.

Shoot for the stars—aligning on goals: Next, it's time to set up processes to determine ESG targets and what commitments your organization will make externally. You can start by benchmarking what competitors in your industry are disclosing. Then think about how your organization will set goals and objectives and operationalize the achievement of these goals. Building the right process will help you measure progress toward ESG goals, create transparency, provide assurance, and drive stakeholder business value.

3 Start with lessons learned from SOX

It will take time (...a lot of time): ESG will be even more of a time commitment than SOX because it truly involves the entire organization, including accounting and finance, sustainability, and internal audit—(AKA get that head start while you can). Unlike SOX, which focuses on data already captured in financial systems, ESG encompasses a vast range of disparate data, which will take much more time to gather, synthesize, analyze, and understand.

A strategic approach: Without well-coordinated plans and cross-departmental alignment, jumping right into tactical elements—like many organizations did with SOX—can create silos and potential rework. There is a massive opportunity to tackle ESG strategically from the start to build alignment for better collaboration and decision-making.

Standardization—the path to ESG assurance: The biggest lesson audit, risk, and compliance teams can apply from SOX to ESG: standardization! By first standardizing your processes, you can then automate as much as possible.

4 Optimize automation across your audit and SOX processes

Make the most of it: Companies tend to evaluate new technologies before taking advantage of functionality that's available in their current tools and systems. Start by capitalizing on automation opportunities within your current systems. Whether an ERP or GRC platform, there are likely additional ways you can automate to transform processes.

Tech + standardized processes = efficiency: Standardized processes coupled with the right tools means you'll be more efficient and effective. If you've optimized your current systems, you can evaluate additional technologies that will help transform the first line. Focusing on first line maturity is key to drive efficiency across your processes.

More automation, more engaged employees: More automation of repetitive tasks means your team can spend more time on what matters most. With the right technology in place, your employees can focus on learning new skills, developing stronger relationships, and making a greater impact on your business.

> **When you create the right culture in an organization, where you're holding people accountable and saying it's incumbent on everyone to understand what the risks are in their process and embed that cultural ownership of it, you can really drive a lot of efficiency.**
>
> **Sue King**
> Partner at KPMG

5 Embed efficiency into your culture

Efficiency—a foundation of culture: Emphasizing the importance of efficiency across your team is a great way to get buy-in and ensure the entire team is committed to ongoing process improvement.

Touch things once: When you think about how much time is spent on a SOX program—and will be spent on ESG reporting and assurance—excessive time is spent obtaining and handling necessary information. Instill confidence in your team to "touch things once"—owning their processes and relationships to eliminate the need to request information multiple times.

Engaged employees drive efficiency: Engaged employees who understand the "why" behind their work can execute with confidence. When processes change, employees will feel empowered to adjust their projects as needed to keep everything running smoothly.

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