



The rise of Sustainability and ESG

For decades, increasing attention has been given to the concept of Environmental, Social and Corporate Governance (ESG) by both the public and private sectors. Companies are no longer only evaluated from an economic perspective, but also from a societal and environmental one. The rising importance of ESG is illustrated by the amount of standard-setting initiatives that have been developed over the years. Some well-known examples include the ISO26000 standard on Social Responsibility, the Global Reporting Initiative, the implementation guidelines developed by Sustainability Accounting Standards Board, and the universal sustainability development goals (SDG's) set by the UN Global Compact.

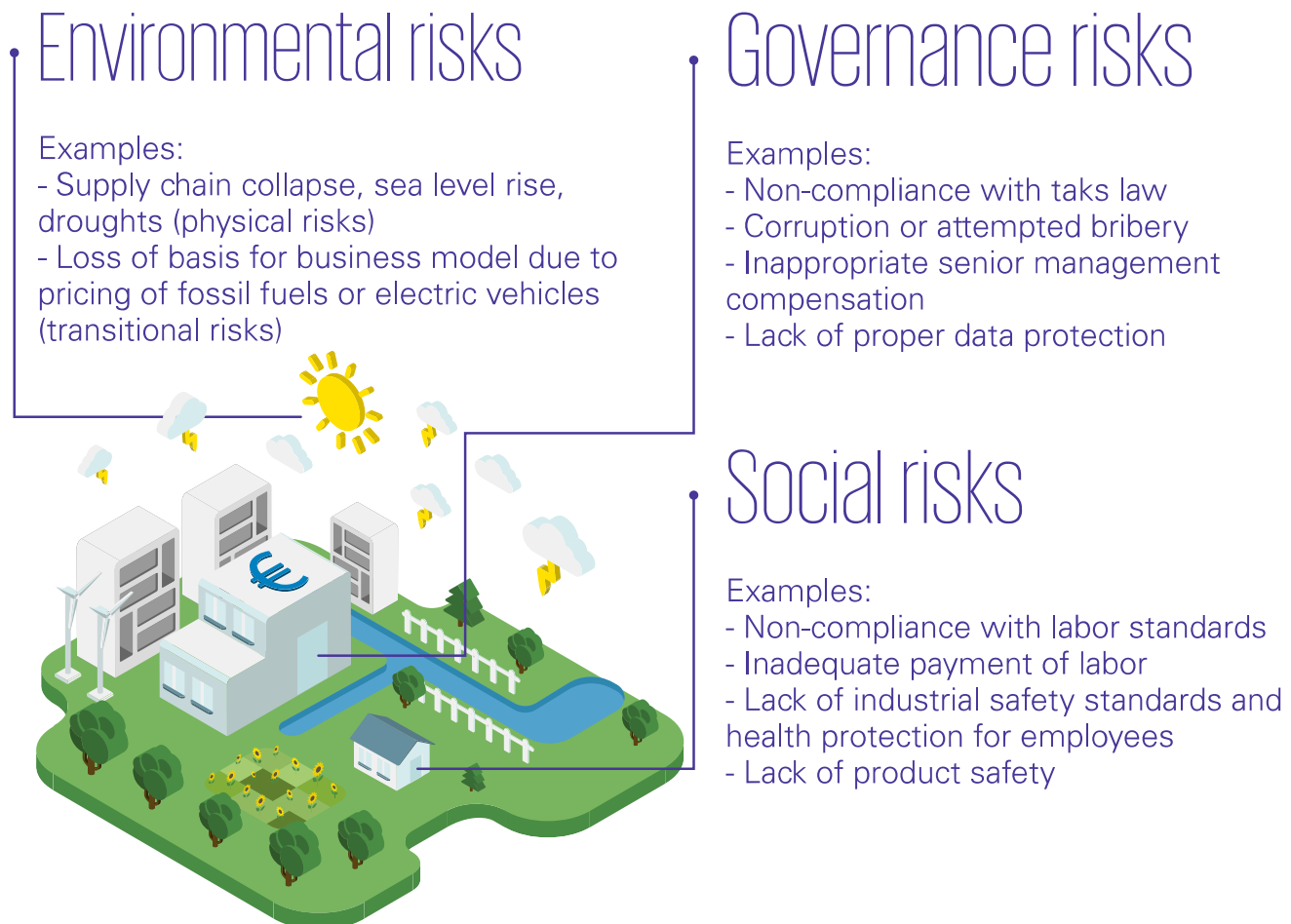
Sustainability reflects on the impact an organization has on society and the environment, whilst making business decisions and conducting its activities. It is a broad concept which covers the areas of Corporate Governance, Human Rights, Labor Practices, Environment, Operating Practices, Customer Issues, Community Involvement and Development. Important to note is that each organization can define its own areas of focus depending on its size, location, business activities, and stakeholders expectations.

A sustainability process flows throughout all hierarchical levels of an organization, from its strategic goals down to its operational practices. Given the overarching character of the concept, it is essential that sustainability initiatives are consistently managed, meaning that organizations should evaluate their ESG impacts, risks and opportunities across the entire value chain. When assessing ESG-risks, organizations should think beyond the 'traditional' reputational risks. Issues and malpractices related to ESG can pose environmental, compliance, financial and reputation risks that can severely damage the company.

For banks and insurers, the financial risks of climate change are in sharp focus as regulators set out expectations for stress testing, ESG disclosures and climate risk management. Asset and fund managers are being required by regulators and investors to embed sustainable investment throughout their businesses and to consider the full spectrum of ESG.

Fears that ESG would fall off the radar due to the pandemic have been quashed as the crisis has highlighted that business sectors are deeply interconnected across borders, that societies of all types and wealth levels are vulnerable, and that the environment is under increasing strain. There is strong momentum to change the financial services landscape for the better. However, firms need to balance improving their ESG credentials with the need to survive the impacts of the crisis and manage issues such as credit risk, cost reduction and consolidation.

Sustainability can be measured by three central factors: Environmental, Social or Governance (ESG) criteria. These factors can have negative impacts on assets, the financial and earnings situation, or reputation of businesses and therefore have to be considered as risks.



What is internal audit's role in sustainability?

Many organizations have included one or more ESG initiatives in their strategic plan and mission. The importance of which is underlined by customers, investors, regulators and other stakeholders who are expecting actions and reports that go beyond financial results.

Consequently, sustainability should be on everyone's agenda, including that of any internal auditor. Management can commit their internal audit function to obtain reassurance over the ESG processes and data.

Internal audit can support management in answering relevant questions such as:

- Do we know who the company's stakeholders are, and their expectations regarding the organization's ESG responsibility?
- Do we have a clear view on all ESG risks, including compliance risk related to existing and forthcoming national and international legislation, and are those regularly re-assessed?
- Do we have a proper ESG culture that goes hand in hand with our ESG initiatives?
- Do we measure our ESG activities, based on KPI's linked to the ESG strategy?

To that end, internal auditors should view ESG holistically, assessing the feasibility and credibility of the company's strategy and objectives, screening its due diligence procedures, evaluating the quality of the ESG policies and procedures, and in particular, verifying whether the ESG culture of the organization is sufficient to successfully implement all of the aforementioned elements. Internal audit should examine these aspects at both an operational and strategic level, across different departments.

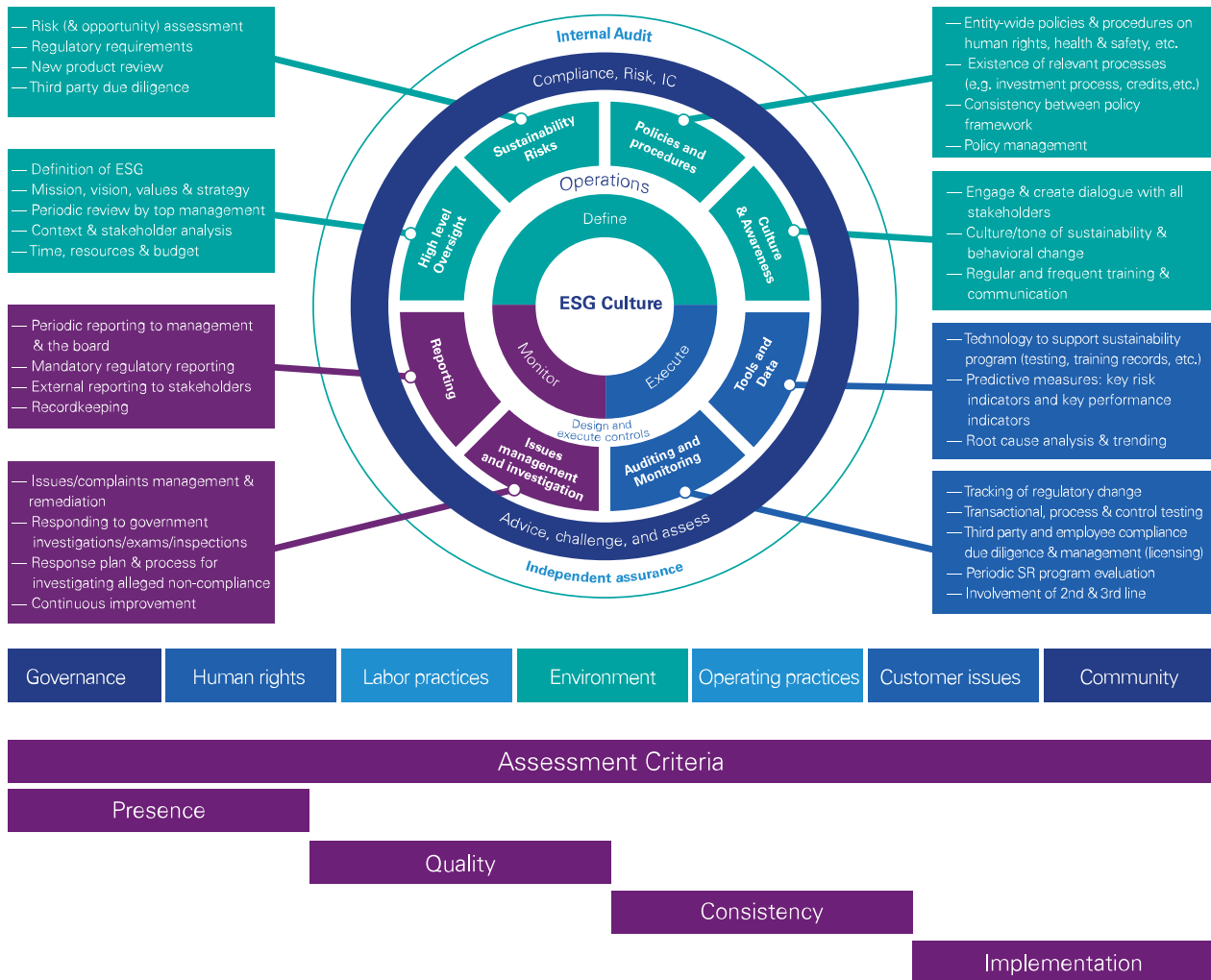
A company's internal audit activity should also go beyond simply identifying risks to include identifying root causes, potential risk management strategies and preventive controls, as well as ensuring that governance, risk management and internal controls are operating effectively throughout the organization. In order to so, they can rely on KPMG's Sustainability Audit Methodology.

KPMG's Sustainability Audit Methodology

KPMG has developed an internal audit work program combining different elements of well-known standards, which serve as a basis for good practices, supplemented by our internal expertise in the areas of internal audit and ESG. The methodology assesses sustainability initiatives across three stages: Define, Execute and Monitor. In their assessment, internal auditors should examine aspects that define the company's ESG policy like high-level oversight, risk assessment, due diligence procedures and awareness and implementation actions.

Internal audit should also carefully consider the tools and technology that the organization has put in place as well as the controls and other monitoring activities. Finally, the organization should install proper measures to respond to internal and external issues and should report in accordance with stakeholders' expectations.

In order to facilitate an assessment of the organization's maturity, the elements of the sustainability audit methodology are evaluated based on their presence, expected level of quality, consistency in comparison with other measures and their degree of implementation throughout the organization.



In practice, sustainability policies and initiatives can encompass a range of themes including human rights, environment and climate, ethics in operations, or community initiatives. Focus areas vary based on sector, industry and stakeholder demands. KPMG's work program can be tailored to organizations' focus areas and definition of sustainability reporting. In addition, our internal audits are carried out in accordance with the KPMG audit methodology, which accounts for the international internal audit standards as prescribed by the Institute of Internal Auditors (IIA).

The KPMG Difference

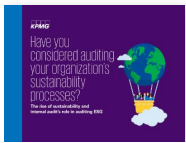
KPMG has profound experience and a tested methodology to deliver solutions across the spectrum of internal audit as well as sustainability advisory services. We differentiate ourselves by our:

Expertise. Our team of subject matter professionals, with expertise in internal audit as well as sustainability has the skills and knowledge to provide innovative internal audit services that meet varied needs across a wide range of industries.

Flexible methodology. KPMG's Internal Audit methodology is flexible and can be tailored to each company's specific needs.

Multidisciplinary approach. We have access to a wide range of competencies within KPMG. Our experienced and highly qualified core team can always appeal to appropriate Subject Matter Professionals within the KPMG network as needed. In addition, KPMG can serve as a one-stop-shop and support organizations with the implementation of possible points of improvement brought forward by the Internal Audit.

Download our brochures here



Sustainability Auditing

The rise of sustainability and internal audit's role in auditing it



Sustainability auditing for the Financial Sector

The rise of sustainability and internal audit's role in auditing it



Contact us

Olivier Elst

Partner, Risk & Regulatory | Advisory
KPMG in Belgium

[Email](#)

[Email](#)



Risk & Regulatory

Keeping up with changing regulatory standards has never been easy.



Sustainability insights

KPMG Sustainability is continually developing our knowledge and ideas.



Legal	Privacy
Accessibility	Sitemap
Help	Glossary
Terms & Conditions	Contact
Offices	Whistleblowing Hotline
Media	About KPMG

a private English company limited by guarantee. All rights reserved.

For more detail about the structure of the KPMG global organization please visit <https://kpmg.com/governance>.