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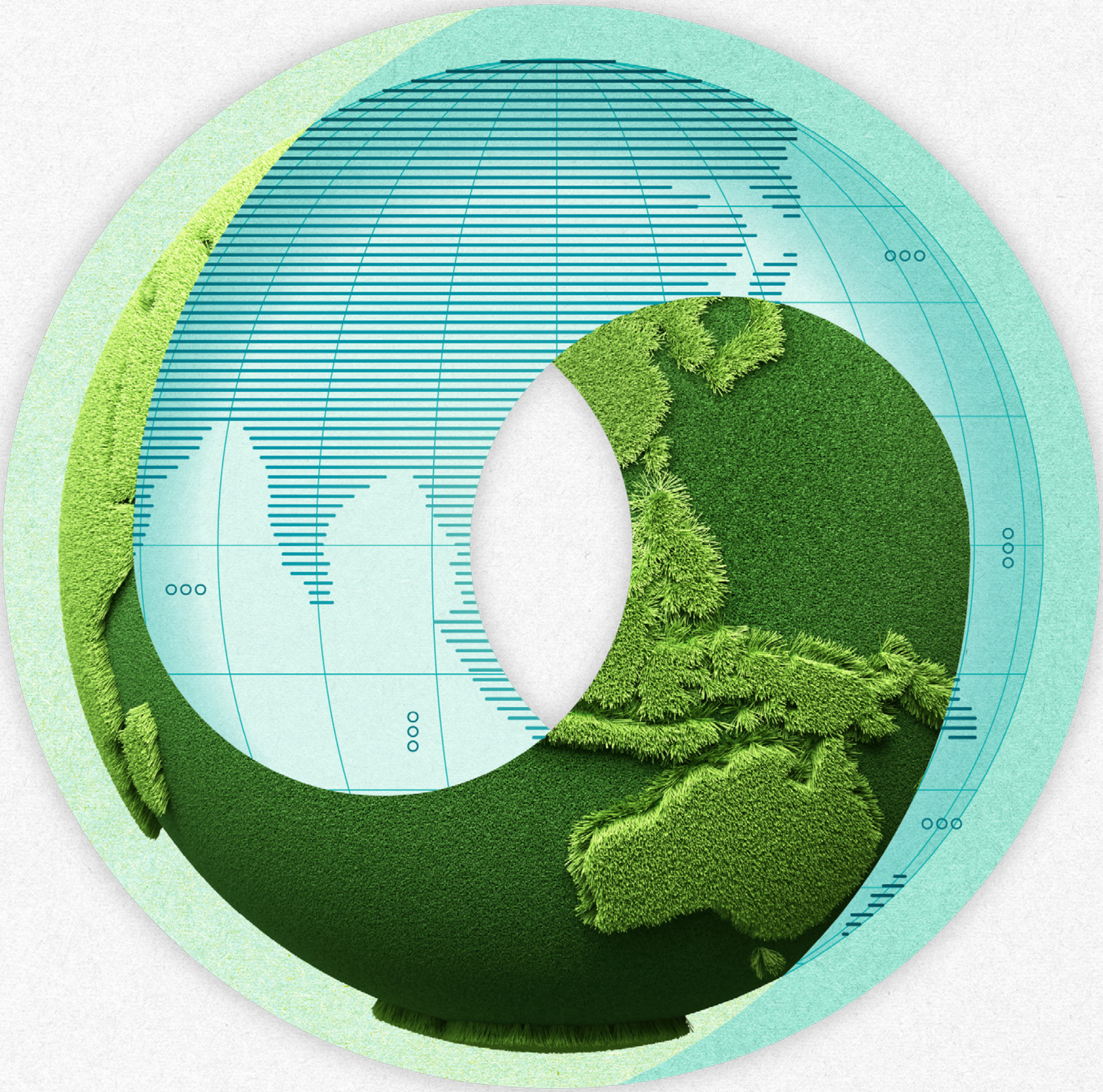


How CFOs can build confidence and control

Sustainability Reporting Controls and Governance

Asia Pacific Mandatory Sustainability Reporting Series: Paper 6

Across Asia Pacific, most organisations are becoming familiar with emerging sustainability reporting requirements – but fewer are focused on building the necessary controls or risk management systems.

This is no easy feat. It involves meeting complex disclosure obligations using standards applied to new subject matter and unfamiliar data. With heightened expectations from regulators and stakeholders, getting this right is critical.

With the push for assurance-ready sustainability disclosures, finance leaders are stepping into a central role – responsible not just for sustainability reporting, but for ensuring trust.

About the series

This is the last of six papers in the Asia Pacific CFO sustainability reporting series. This paper explores effective sustainability governance and controls. The previous paper explores setting up data for successful reporting.

1. What CFOs need to know today
2. The CFO's building blocks for success
3. How CFOs drive impact and realise value
4. The CFO's operating blueprint
5. The CFO's guide to sustainability data
6. How CFOs can build confidence and control

Access the full series here

Sustainability disclosure requires stronger governance and controls

Fewer than 50% of respondents to ESG reporting benchmarking, undertaken by Deloitte, in 2024 had confidence in their sustainability reporting controls[i]. For many organisations, mandatory disclosures demand a level of maturity that has not yet been established for sustainability data and reporting processes. The scope and complexity of sustainability reporting requirements also challenge existing control approaches (see Figure 1).

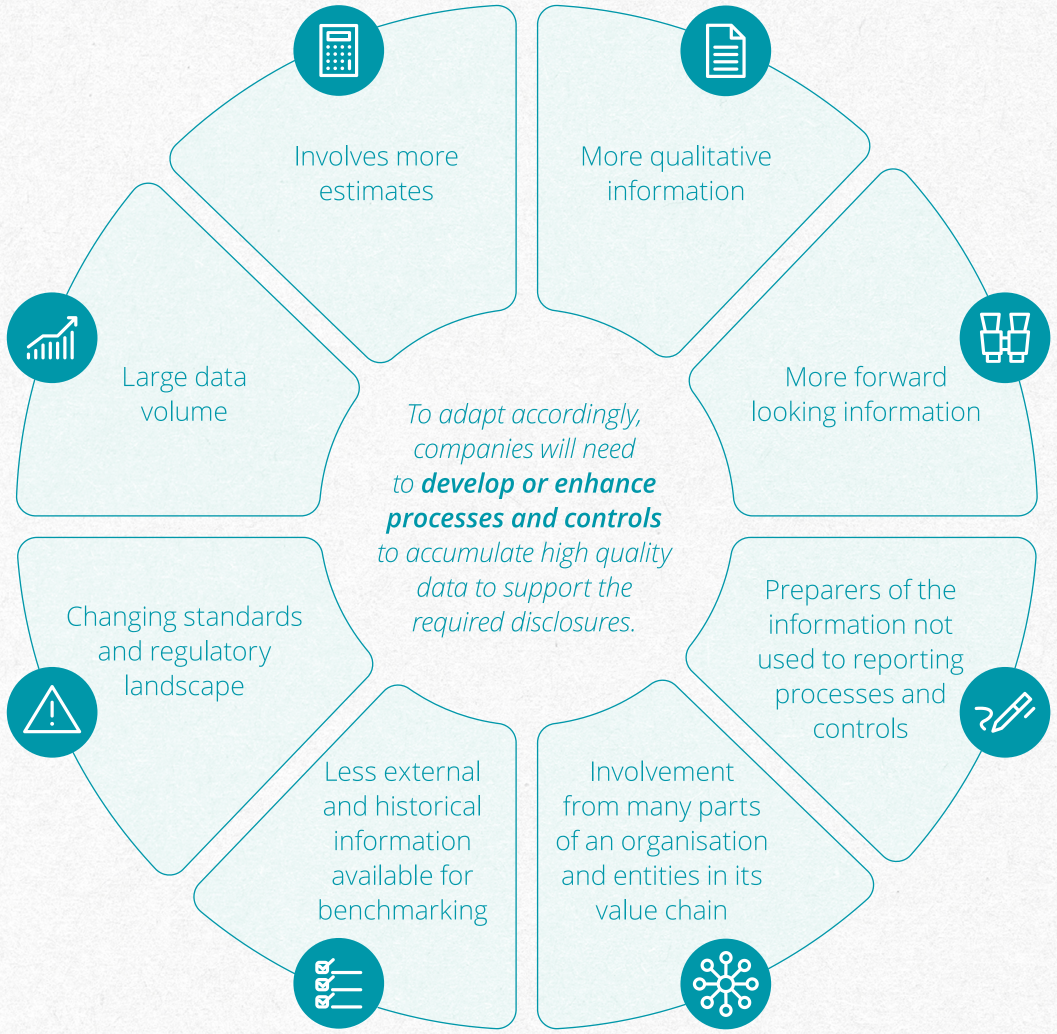
Reporting teams must work with new data with varying levels of quality and new models of analysis, ranging from carbon emissions to physical risk modelling. Much of the required data is sourced from different business units or external sources, often without robust standards or established controls. In many cases, those responsible lack experience with sustainability or reporting governance.

Disclosure standards are expected to mature to match the rigor of financial reporting. Initial standards focus on limited assurance, where auditors confirm there is no evidence of material misstatement. However, locations including Australia, New Zealand, Singapore and Taiwan are moving towards reasonable assurance – requiring auditors to positively affirm accuracy through testing and evidence. While these higher standards may be several years away, strengthening internal controls is a multi-year effort that must begin now.

As a result, boards and leadership are increasingly looking for their CFOs to lead. With their expertise in financial reporting, assurance and controls, as well as their experience working with external auditors, CFOs are increasingly accountable for meeting the sustainability disclosure requirements (see Paper 2 in this series: *The CFO's building blocks for success*).

i. Deloitte ESG Reporting Benchmark, 2024

Figure 1. Challenges in sustainability reporting



Source: Deloitte analysis

What should CFOs consider?

Tight deadlines, rising expectations and complex execution often push organisations towards a compliance-first mindset. This can result in reactive controls, siloed governance processes and sustainability reporting that is disconnected from strategy and financial reporting.

Leading firms are aiming higher. Strong reporting controls and governance offer more than efficient compliance practices – they enable better risk oversight and more informed strategic decision-making. As CFOs develop their sustainability reporting plans, they should focus on the critical decisions that will shape their approach to controls and risk management.

Understand assurance readiness

Finance leaders understand controls, and many of the practices developed for financial and regulatory reporting can be extended to sustainability disclosures. The complexity lies in extending these practices to new data sources, unfamiliar subject areas and a broad set of reporting partners, while integrating new insights into broader business processes. This starts with a clear understanding of the current state:

- Assess existing controls against sustainability reporting requirements, with an end-to-end view from data collection to final disclosure, to determine if controls are fit for purpose (see Figure 2).
- Adapt or extend current risk and control frameworks, aligning with existing, proven financial reporting methods (see Figure 3).
- Prioritise updating process-based controls, risk registers and reporting oversight, while planning to embed sustainability considerations into core management and governance systems over time.

Figure 2. Understanding assurance readiness

Design	Capture	Record	Calculate	Compile	Report
How is the overall reporting program set up to meet management and stakeholder reporting requirements?	How is all relevant data captured timely and accurately?	How is source data recorded and documented enabling traceability of the data?	How is source data being utilised to calculate the impact measures?	How is data compiled and prepared for reporting by the data owner(s)?	How is information reviewed, disclosed and presented; how often and for what purpose(s)?

Source: Deloitte analysis

You cannot control everything: focus on what is important

Sustainability reporting expands the scope of data organisations must collect and manage and introduces new risks to reporting and assurance. Where data management and reporting capabilities are still developing, the effort to meet requirements and uplift controls can be substantial. Organisations should prioritise by clearly defining reporting requirements, stakeholder expectations and material issues. These factors determine the scope of data and analysis – and help focus control efforts where they are most needed. Not everything can be controlled at once, so start with a clear risk assessment and focus resources on what matters most:

- Identify the main risks of misstatement and their sources, and establish clear control objectives and targeted, risk-based controls.
- Map the end-to-end reporting process – from data sourcing to analysis and report generation – to identify quality and control gaps, particularly for new models or underlying systems.
- Acknowledge variability in data quality and completeness and focus on the most material gaps. Use proxy data or third-party standards where appropriate but plan to systematically improve data quality and processes (see Paper 5 in this series: *The CFO's guide to sustainability data*).

Figure 3. Establishing sustainability reporting risk assessment and internal control processes

Sustainability governance

- Establish board oversight and top-down mechanisms to support a robust controls environment
- Clearly define data owners' roles, responsibilities, and competencies
- Build organisation capacity and train Board and Management in sustainability issues
- Include sustainability disclosure considerations into data management policies and procedures

Internal controls over sustainability data and reporting

Define Disclosure Objectives	Assess Disclosure Risks	Identify Controls	Evaluate Effectiveness
· Establish sustainability data timelines aligned with financial reporting · Review current processes and controls for sustainability reporting · Understand data governance structures and gaps to meet disclosure requirements	· Identify risks that could impact sustainability reporting objectives · Determine data sources, systems and process owners · Document sustainability reporting processes · Document data and IT system risks	· Evaluate maturity of existing controls · Define internal process controls and general IT controls (GITCS) to mitigate sustainability reporting risks · Document methodologies for sustainability data collection, measurement and estimation	· Regularly assess design, implementation and effectiveness of controls · Remediate control gaps · Integrate sustainability disclosure controls into ERM and Audit plans · Engage an external assurance provider

Design and implement new controls where needed

Define control objectives › Classify type of control › Control design › Control formalisation › Control implementation › Monitor and continuous improvement

Source: Deloitte analysis

Work with what you have

Sustainability reporting does not typically require an overhaul of controls and risk management. In many cases, existing practices and resources can be adapted to meet the new requirements. With CFOs facing competing priorities and constrained investment, this is often the most practical choice:

- Adapt existing practices from risk, strategy and finance, such as Enterprise Risk Management (ERM), risk registers, control frameworks and documentation to support sustainability reporting.
- Identify where sustainability reporting introduces new demands, such as forward-looking disclosures, scenario analysis, or the use of new models, and update controls and governance accordingly.
- Integrate sustainability into the existing three lines of defence models (operational management, risk and compliance functions, and internal audit), embedding checks and balances across the reporting process.
- Accelerate progress using external standards and emerging tools, including established reporting methodologies, emerging reporting platforms, or generative AI to support data validation, quality controls and audit trails.

Spotlight

Deloitte Sustainability Measurement Controls Methodology

Establishing effective reporting controls over new and wide-ranging sustainability data requires a planned approach. Deloitte applies a Sustainability Measurement Controls Methodology grounded in trusted frameworks like the Committee of Sponsoring Organisations (COSO) Internal Control Integrated Framework, adapted to address the non-financial metrics at the heart of sustainability reporting. The approach customises controls based on an organisation's reporting practices and existing control frameworks.

For organisations seeking more support, Deloitte has market-leading tools and systems to streamline reporting and control management, consolidate data from multiple source systems into a single source of truth for sustainability reporting. By managing reporting workflows, assigning tasks, tracking progress and linking to underlying sources these tools and solutions can automatically capture an audit trail. This accelerates control implementation and helps organisations reach audit-ready reporting.

Integrate sustainability into enterprise risk management

As sustainability reporting matures, new control requirements will emerge. In Deloitte's 2024 ESG reporting benchmark, 58% of respondents identified sustainability as a cross-cutting risk with wide-ranging business impacts[ii]. For example, physical climate risks affect overall business resilience, while transition risks can impact revenues, asset values or market positioning. As CFOs work towards integrating these factors into ERM processes, fully quantifying emerging risks and financial impacts will take time:

- Where necessary, begin with separate processes to identify and assess sustainability risks and opportunities but apply existing ERM and governance best-practices to support future integration.
- Adapt existing ERM frameworks to account for distinct sustainability considerations – recognising that traditional ERM often focuses on downside risk, while sustainability requires attention to both risk and opportunity.
- Align sustainability reporting with financial disclosures, ensuring consistency across risks and opportunities, financial impacts, and forward-looking statements.

Spotlight

Time for a controls office?

For many organisations, it is not just sustainability that is driving a rethink of their approach to controls. Expanding regulatory oversight and increased expectations are driving the evolution of existing controls and creating new demands (including ESG and AI governance). This creates complex challenges.

Core skills and frameworks need to be adapted to these new challenges – but many organisations are struggling with multiple steering committees and working groups with similar objectives. With ongoing change and demands on the same systems of record, the time has come to consider whether a fragmented approach is fit for purpose. Some organisations are creating a controls office – a centre of expertise to ensure the right technical skills, frameworks, processes and automation are applied in a consistent and efficient way across the enterprise.

ii. Deloitte ESG Reporting Benchmark, 2024

Where to begin?

Organisations are at different stages of readiness for sustainability reporting, and control maturity varies even more widely. Some are refining existing processes, others are transitioning from voluntary reporting, and many have yet to begin. Regardless of the starting point, a clear plan is essential:

- ☑ **Start with the right team** – establish the reporting team with experience in controls and governance. Set clear, consistent guidelines upfront and ensure that these are understood and supported by reporting partners across the organisation.
- ☑ **Build controls in stages** – few organisations will be able to achieve full reporting maturity in the first cycle. Develop a control roadmap that defines the end-state and a staged path to get there.
- ☑ **Govern the change** – practical execution means managing trade-offs between completeness and reasonable effort. Be transparent – disclose limitations, assumptions and data gaps to build confidence.

Controlling the outcome

This CFO Sustainability Reporting series has highlighted the growing importance of these disclosures to boards and external stakeholders.

As sustainability reporting moves towards an equal footing with financial reporting, processes and standards need to mature quickly.

Sustainability reporting does not just meet compliance obligations – it can create value. When done well, it deepens operational insight, strengthens resilience and helps drive long-term performance. But this potential can only be realised if the underlying data and insights are trusted and transparent. (To learn more about the value creation opportunities, see Paper 3: *How CFOs drive impact and realise value*).

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Methodology

Deloitte ESG Benchmark

Deloitte ESG Benchmark is based on surveys of 19 clients around the world. The survey focused on experiences, efforts and challenges around ESG reporting to key market trends. This was complemented by interviews with 14 Deloitte project teams to qualitatively understand challenges firms are facing around ESG reporting.

The benchmark is focused on six ESG reporting themes and four priority areas that firms are facing challenges in.

Deloitte 2024 CxO Sustainability Report

The report is based on a survey of 2,103 C-level executives, conducted by KS&R Inc. on behalf of Deloitte, and was administered in a double-blind manner during May and June 2024, ensuring impartiality and confidentiality for both respondents and researchers. The survey polled respondents from 27 countries: 46% from Europe/Middle East/South Africa, 17% from North America, 9% from Latin America, and 28% from Asia-Pacific. All major industry sectors were represented in our sample. Additionally, KS&R and Deloitte conducted select, one-on-one interviews with global industry leaders.

Limitations

While every effort was made to ensure the reliability and validity of the data, it is important to acknowledge some limitations. The selection of clients and executives, while rigorous, may not fully capture the diversity of perspectives within every industry or region. Additionally, while the double-blind process was meticulously followed, there may still be inherent biases that could influence the findings. These limitations are considered in our analysis and interpretation of the data.