Deloitte.

Sustainability Reporting & Assurance - quick guide

MARCH 2023

Introduction

Overview

The global landscape of climate and sustainability reporting and disclosure requirements is complex, presenting a significant challenge to preparing and communicating disclosures across industries, sectors and time horizons.

In Kenya the **Nairobi Securities Exchange (NSE)** and the **Central Bank of Kenya (CBK)** have issued guidelines on non-financial reporting required of the listed entities and Kenyan Banks respectively.

In addition, the **International Sustainability Standards Board (ISSB)** has confirmed that it will issue its first two finalised frameworks by the end of June 2023, with an expectation that the first corporate reports aligned with these frameworks will be issued in 2025.

This guide seeks to provide a high-level breakdown of these requirements and the respective reporting frameworks and how organizations are expected to respond.

Regulatory requirements:

1. The **Central Bank of Kenya (CBK)** has issued guidance on **Climate Related Risk Management** aimed at guiding financial institutions to manage their climate related risks by integrating climate risk management into their business decisions and activities.
2. The NSE published the **ESG Disclosure Guidance Manual (ESG Manual)** in collaboration with the **Global Reporting Initiative (GRI).**
3. The **International Sustainability Standards Board (ISSB)** S1 and S2 standards.

Expectations

Strategy : Organisations are expected to have a comprehensive Climate and sustainability strategy. This requires an aspirational climate and sustainability ambition, clear C-suite ownership, tangible objectives and success measures to indicate what the organisation is doing to ready itself for the new standards in the short, medium and long-term. Importantly, this strategy will need to continually evolve and be revisited every quarter to make sure it remains relevant and responsive to any emerging regulations.

Challenge your strategy and finance teams to make sure you have relevant and reliable data: The data challenge should not be underestimated. To make better holistic decisions and well managed, well controlled disclosures, organisations will need access to quality data assets. Data integrity, transparency and verification are a major challenge, not least when considering value chain and scope 3 reporting.

If organisations don't invest in and implement the right monitoring and reporting systems, along with new models and methods for data sharing, leaders won't have the information they need to manage stakeholder expectations – or to confidently make the right decisions at the right time to lead their organisations in a sustainable manner. Data has proved time and time again to be one of the biggest challenges that come with new financial reporting requirements, and we expect this to amplify with the climate and sustainability standards..

Integration Assessment Connect key business functions to assess the relevance of metrics for decision making, information requirements, processes and resources involved and understand how insights will support material financial outcomes. Create an implementation plan and roadmap to build on your current practices to inform future reporting strategies.

ESG Reporting standard & Framework

Task Forced on Climate Related Financial Disclosures (TCFD)

Introduction

Overview

Climate related physical and transitional risks and opportunities, among other environmental and social issues, are changing the way financial institutions operate and deliver critical functions to a variety of stakeholders.

The Central Bank of Kenya (CBK) has issued guidance on Climate Related Risk Management aimed at guiding financial institutions to manage their climate related risks by integrating climate risk management into their business decisions and activities.

What are the requirements?

The guidance requires Banks to:

i. Embed considerations of the financial risks from climate change in their governance structures.

ii. Incorporate financial risks from climate change into their existing financial risk management practices.

iii. Develop an approach to disclosure on the financial risks from climate change.

TCFD Principles

The CBK guidance is aligned to the Task Force on Climate related Financial Disclosures (TCFD) which addresses **governance**, **strategy, risk management, and metrics and targets,** and are supported by 11 recommended disclosures.

Responsibilities

The guidance requires the **board of directors** and **senior management** of financial institutions to **formulate** and **implement** climate related risk management strategies, policies, procedures and set minimum standards for their institution.

Reporting

Internal Reporting: Financial institutions will be required to **define reporting structures for internal reporting** to the board of directors and senior management to provide status updates on the identification, assessment and management of climate-related risks.

Reporting to CBK: Banks are required to **submit an approved time bound plan** on how they intend to comply with the guidance provided by **30 June 2022**. Thereafter, the institutions will be required to **submit progress reports** on implementation on **a quarterly basis**. Within 10 days after the end of every calendar quarter **from the quarter ending 30 September 2022.**

Reporting of climate related disclosures: Institutions will be required to disclose climate related information between the period **January 2023 and June 2023**. Disclosures can be done through the following channels as appropriate and accessible to stakeholders:

i. Annual reports

ii. Sustainability reports

iii. TCFD reports

iv. Separate climate related risk reports

The Big Picture – key elements of TCFD

Banks will need to focus their Operational Readiness within each of these elements, in order to achieve overall TCFD Disclosure Readiness

Governance

Governance around climate-related risks & opportunities, including **oversight of the Board of Directors** and role of **Management** in risk management

Strategy

Actual and potential impacts of climate-related risks and opportunities on the organization, including:

- Climate-related risks and opportunities over the **short, medium, and long term**
- The impact on the organization's **businesses, strategy, and financial planning**
- The resilience of the organization's strategy, taking into consideration different **climate-related scenarios**, including a 2°C scenario

Operational Elements

TCFD Framework

Risk Management

How the organization **identifies, assesses, and manages climate-related risks**, including:

- Processes for **identifying and assessing** climate-related risks
- Processes for **managing** climate risks
- **Integration of above processes** into the organization's overall risk management framework

Metrics & Targets

The **metrics and targets used to assess and manage relevant climate-related risks and opportunities**, including:

- Metrics used for **strategy and risk management** processes
- **Scope 1, Scope 2, and Scope 3** greenhouse gas (GHG) emissions, and the related risks
- Targets to manage climate-related risks and opportunities, & **performance against targets**

Disclosure Readiness: Ability to report and disclose across all TCFD elements.

Operational Readiness: structures and capabilities to meet expectations and prevailing practices, and consistent with aspirational disclosures.

Source: https://www.fsb-tcfd.org/recommendations/

Key milestones

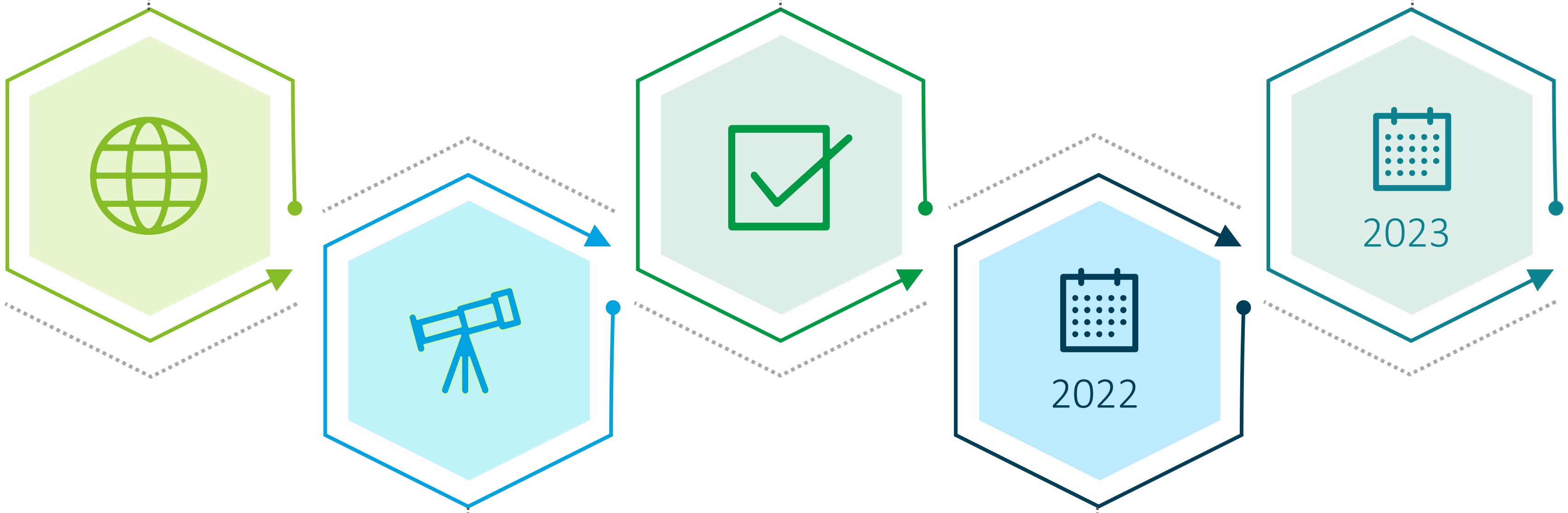
October 2021
Sensitization of Banks CEOs and MDs

January 2022 – March 2022
Sensitization of Bank Staff

June 2022
Submission of Board approved Implementation plans to CBK

September 2022
Quarterly progress updates on implementation

January 2023 – June 2023
Disclosure of climate related information



ESG Reporting standard & Framework

Global Reporting Initiative Reporting (GRI)

Introduction

Overview

On 29 November 2021, the NSE published the ESG Disclosure Guidance Manual (ESG Manual) in collaboration with the Global Reporting Initiative (GRI). The ESG Manual is the culmination of the NSE's observation on the necessity of ESG principles as a benchmark on good governance after carrying out engagement with listed companies in Kenya.

What are the requirements?

The ESG Manual provides a guide to listed companies to collect, analyse, and publicly disclose ESG details about their business activities. The ultimate goal is to encourage Kenyan companies to progressively assimilate ESG strategies in order to improve performance management and meet international best practices.

The ESG Manual is divided into various sections that cover the ESG reporting process and they include:Embed considerations of the financial risks from climate change in their governance structures.

- The ESG reporting principles -
- The ESG reporting boundary
- Key steps in the ESG reporting process
- Publishing the ESG report
- ESG reporting requirements from other organisations

Responsibilities

The guidance requires the **board of directors** and **senior management** of financial institutions to **formulate** and **implement** climate related risk management strategies, policies, procedures and set minimum standards for their institution.

Reporting

Listed companies on the NSE are to report publicly on their ESG performance at least annually. The companies were granted a 1-year grace period and are expected to issue their reports from **2023.**

Companies have the liberty of issuing a separate sustainability report or including the mandatory ESG disclosures provided in the guideline in the integrated report.

Issuers are expected to apply the following reporting principles :

- The Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 (Capital Markets Authority)
- The Global Reporting Initiatives (GRI) Sustainability Reporting Standards. ESG reporting principles

ESG Reporting metrics – GRI

GRI Overview

- The Global Reporting Initiative (GRI) is a **non-profit organization** that provides businesses with a framework for **comprehensive corporate sustainability reporting.**
- GRI has a global presence through Regional Hubs in **Africa, ASEAN, Brazil, Greater China Region, Hispanic America, North America, and South Asia**. All other regions (including Europe) are supported from GRI's global Secretariat in Amsterdam.
- **73% of the world's 250 largest companies** prepare their sustainability reports using the GRI Standards. The GRI reporting framework consists of **universal standards and topic standards** that organizations can use to prepare and report information that showcases significant sustainability impacts.
- The GRI Standards help organizations understand their outward impacts on the **economy, environment, and society**. AS GRI grew, the reporting system was broadened to include social, economic, and governance issues.

5 steps of GRI Reporting

GRI reporting is broken down into a five-step process:

- Step 1: **Prepare**-Organizations define a vision for the report, create a report team, develop a plan of action, and set a kick-off meeting
- Step 2: **Connect**-Companies identify, hold meetings, and set priorities with key stakeholders in order to determine reporting priorities and define scope
- Step 3: **Define**-The reporting team selects issues for action and reporting as well as decides on the report content
- Step 4: **Monitor-**The reporting team monitors activities and records data, checks processes and systems, ensures quality of information, and follows up as needed
- Step 5: **Report-**Companies choose the best way to communicate, write, finalize, and launch the report publicly

GRI Environmental Indicators

The GRI offers 30 environmental performance indicators that should be used as part of your environmental sustainability report. These performance indicators are divided into nine primary categories:

1. **Materials**: Includes raw materials (natural resources, manufactured chemicals, and materials needed for manufacturing) as well as packaging materials and recycled product content.
2. **Energy**: Includes direct and indirect energy consumption, renewable energy amounts used, such as wind, solar, and geothermal, and efforts made to reduce energy requirements through more energy efficient processes.
3. **Water: Covers** the total amount of water withdrawn from water sources and company impact on those water sources, as well as the percentage and total volume of water that is recycled or reused.
4. **Biodiversity:** Provides information regarding company impact on the biodiversity of adjacent/nearby protected areas and/or areas considered to have high biodiversity, as well as company strategies for managing impacts on biodiversity.
5. **Emissions, Effluents, Waste:** Includes total weight of direct and indirect emission of GHGs, ozone-depleting emissions, and NOx, SOx, and other air emissions by type; total water discharge by quality and destination; total weight of waste generated by type and disposal method; total weight of treated, transported, or imported hazardous waste either as well as the percentage of waste shipped internationally; total volume and number of spills on and off-site.
6. **Products and Services**: Provides the percentage of products sold and packaging materials that are reclaimed/recycled.
7. **Compliance:** Provides the total monetary value of noncompliance fines and number of noncompliance sanctions.
8. **Transport**: Describes the impact of transporting your materials and finished products.
9. **Overall**: Provides the total values of environmental protection expenses and investments.

ESG Reporting metrics – GRI

GRI Standards

- GRI reporting protocols aim to cover a **wide range of ESG issues**, from employee safety and human rights to environmental management.
- The GRI Standards are **aligned with widely recognized international instruments** for responsible business behavior. These include instruments such as the **UN Guiding Principles** on Business and Human Rights, **the ILO conventions**, and the **OECD Guidelines** for Multinational Enterprises.
- The GRI Standards are structured as a set of **interrelated standards**. There are **three universal Standards** that apply to every organization preparing a sustainability report.
- An organization then selects from the set of topic-specific GRI Standards for reporting on its material topics.
- The topic-specific GRI Standards are organized into **three series**: 200 (Economic topics), 300 (Environmental topics), and 400 (Social topics).

1000 series – Universal Standards

The universal Standards support the organization in identifying its material topics and lay out important principles to use when preparing a report.

They also contain disclosures on the organization's specific context, such as its size, activities, governance, and stakeholder engagement, all of which help to better understand its approach towards the different topics it reports

3000 series – Environmental

In the context of the GRI Standards, the environmental dimension of sustainability concerns an organization's impacts on living and non-living natural systems, including land, air, water and ecosystems.

2000 series – Universal Standards

200 series Economic In the context of the GRI Standards, the economic dimension of sustainability concerns an organization's impacts on the economic conditions of its stakeholders, and on economic systems at local, national, and global levels.

It does not focus on the financial condition of an organization.

4000 series – Environmental

In the context of the GRI Standards, the social dimension of sustainability concerns an organization's impacts on the social systems within which it operates.

Sector Standards

A comprehensive Sector Program is implemented to complete the set of GRI Standards. The purpose of the GRI Sector Program is to develop Sector Standards that will provide authoritative information on the topics that constitute a sector's most significant impacts from a sustainable development perspective, reflecting stakeholder expectations for a sector's sustainability reporting and focusing reporting on the impacts that matter most

Used in conjunction with the existing suite of GRI Standards, Sector Standards aim to enhance transparency and accountability, as well as support organizational and stakeholder decision-making, by helping organizations prepare and report information on their material topics and increase consistency of reporting within a sector.

ESG Reporting metrics – GRI

GRI standards structure

Universal Standards

Consists of three standards which are necessarily applied to reporting

GRI 101 – Foundation

Information about how to use the GRI standards. This Standard applies to all organizations using the Standards, whether reporting in accordance with or with reference to the Standards.

GRI 102 – General Disclosures

Disclosures about the reporting the organization. These include disclosures that provide details about the organization and its reporting practices, activities, governance, responsible business conduct policies and practices, and stakeholder engagement

GRI 103 – Management Approach

To identify and report general information on the organization's material topics. Material topics are those topics that reflects the organization's most significant impacts on the economy, environment, and people, including impacts on human rights

Topic Standards

Include disclosures that provide information on particular topics. The organization selects and uses the Standards that correspond to the material topics it has identified

GRI 200 – Economic

GRI 300 – Environmental

GRI 400 – Social

Sector Standards

Provide information on the most likely material topics for organizations in a given sector. The organization uses the applicable Sector Standard(s) to identify its material topics and what to report for each material topic.

Priority group 1 – Basic materials and needs

Priority group 1 – Industrial

Priority group 1 – Transport, infrastructure and tourism

Priority group 1 – Other services and light manufacturing

ESG Reporting standard & Framework

International Sustainability Standards Board (ISSB)

ESG Reporting metrics – ISSB

ISSB Overview

- The **International Sustainability Standards Board (ISSB)** was set up by the **International Financial Reporting Standards (IFRS) Board** of Trustees to develop a **consistent global baseline** for sustainability-related financial disclosures and their potential financial impacts.
- ISSB integrates a number of **sustainability framework**s including TCFD, SASB and is part of the global convergence of frameworks.
- The International Sustainability Standards Board (ISSB) has confirmed that it will issue its first two finalised frameworks by the end of June 2023, with an expectation that the first corporate reports aligned with these frameworks will be issued in 2025.
- The two frameworks will comprise of a base standard **IFRS S1** which **covers general requirements for disclosure of sustainability related financial information** and a 'thematic standard with **IFRS S2 – focused on climate-related disclosure.**
- The two frameworks are designed to be applied together alongside future Industry –specific standards. They both propose reporting across four content areas – **governance, strategy, risk management, and metrics & targets** – which are consistent with the TCFD framework.

Core Content

Unless another IFRS Sustainability Disclosure Standard permits or requires otherwise, an entity would provide disclosures about:

- Governance—the governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities. The standard requires extensive detail about:
  a. Exactly who (or which body) in an organisation will be responsible for managing climate-related risks and opportunities;
  b. How the organisation ensures this individual (or group) has the right skills and is subject to appropriate senior oversight and checks and balances (including in relation to the setting and monitoring of targets); and
  c. How the organisation incorporates the thinking of this individual (or group) into its broader strategic decision making.
- Strategy—the approach for addressing sustainability-related risks and opportunities that could affect the entity's business model and strategy over the short, medium and long term, including:
  - Identifying sustainability-related risks and opportunities.
  - Strategy and decision-making.
  - Financial position, financial performance and cash flows.
  - Resilience
- Risk management - disclosures related to 'understanding the process, or processes, by which climate-related risks and opportunities are identified, assessed and managed.'

  Unlike TCFD, the standard is explicit about the methodology used for outlining how climate-related opportunities have been prioritised, what inputs are used when thinking about climate-related risk, how this methodology is applied and reviewed and an obligation to disclose if there are any changes to the application of this methodology between reporting periods.
- Metrics and Targets : disclosures related to 'understanding how an organisation, measures, monitors and manages its significant climate-related risks and opportunities. These disclosures shall enable users to understand how the organisation assesses its performance, including progress, towards the target it has set.'

  The proposed standard expects:

  i. Most notably, a requirement of separate disclosures of Scope 1 and 26 carbon emissions and the addition of Scope 3 carbon emissions (emissions from an organisation's supply and value chains). Scope 3 is recognised as one of the most challenging areas in this domain and it is likely that additional guidance and phase-in provisions will be incorporated to support organisations to meet this potential Scope 3 disclosure requirement; and

  ii. That an organisation contextualises its disclosures using appropriate industry-based metrics (drawing from SASB).

ESG Reporting metrics – ISSB

The table below is a summary of the current draft climate related disclosures IFRS2.

		Standards (EDs)
		IFRS
Guiding requirements	Type	Standards to be jurisdictionally regulated, developed by ISSB
	Scope	Sustainability (S1) and climate-related (S2) disclosures (industry-specific)
	Materiality	Investor-focused: Omitting, misstating, or obscuring information could be reasonably expected to influence decisions that primary users make on an entity's enterprise value
	Assurance	Subject to jurisdictional requirements.
Climate-related disclosure	Governance	• Review risks and opportunities within board mandates and policies. • Climate-related remuneration policies
	Strategy (climate risks, opportunities)	• Direct and indirect responses to climate risk. • Changes to financial position and resourcing impacts. • Assets aligned with risks and opportunities. • Resiliency of strategy informed by scenario analysis.
	Risk management	• Processes to identify, assess and manage climate-related risks • Extent of integration into overall risk management processes
Climate-related metrics	Financial	Impact of climate-related risks and opportunities on financial position, performance and cash flows for reporting period and anticipated impacts over short, medium and long term.
	GHG emissions	Scope 1, Scope 2 and Scope 3 GHG emissions required
	Targets and other metrics	• Metrics used to assess climate risks and opportunities • Targets, performance and approach to target setting • Industry-based metrics

Deloitte Sustainability & Climate Services

How Deloitte can work with you

Deloitte Reporting & Assurance Services

Leveraging our extensive capabilities and experience, we assist our clients in embedding ESG and climate risks into every aspect of business strategy, day-to-day management and financial reporting. Below we highlight the various ways in which we work with our clients in their reporting journey.

ESG Readiness & Assurance

- We perform a gap analysis between your current reporting and local regulatory and/or global standards, the Integrated Reporting Framework, and global best practices.
- Based on the results of this analysis, recommendations and a roadmap for implementation are formulated and supported by our advisory team.

Implementation

- We provide guidance on developing a reporting strategy around your core business strategy including materiality assessments, KPI determination and linking aligned with internal / external reporting objectives.

Improve & enhance

- Through our reporting refresh solution, we analyse your current internal and external reporting against your reporting objectives, relevant frameworks, and global best practices. The results of this analysis are formulated into a program to streamline and enhance your reporting including developing an improved reporting structure and content.
- We will also walk through your reporting processes and controls and provide recommendations to enhance and streamline these capabilities.

Report automation

- Once your reporting strategy, structure, processes, controls, and content are well defined we will work with you to platform this blueprint onto the Workiva (or similar) connected reporting platform to automate and enhance your last mile external and internal reporting in a seamless, collaborative, automated and well-controlled ecosystem.

Audit & Assurance

- We will work with you in developing a robust and risk-based combined assurance approach to your external / internal reporting processes including assessment of governance, oversight, controls, and internal assurance.
- We can complement your internal combined assurance with independent ISAE 3000 limited/reasonable external assurance on your Integrated and/or ESG Reports.
- Furthermore, we can provide assurance over specific subject matters such as Green Bonds, Sustainable Financing instruments, and Responsible Sourcing disclosures.

Deloitte Sustainability & Climate Services - supporting clients through our end-to-end approach

Delivering for our clients across sustainability strategy, implementation, and disclosure provides a cohesive view of the sustainable transformation journey.

Strategy: Align Profit to Purpose → **Operations & Finance: Transform Operations** → **Reporting: Disclose Progress and Improve**

1. **Understand needs and risks**
2. **Establish a climate risk strategy as a part of the corporate strategy**
3. **Establish climate risk corporate governance**
4. **Develop roadmap and clear ownership**
5. **Refine operations and processes**
6. **Measure and improve**
7. **Conduct internal audit and external assurance**
8. **Tell your story**

Deloitte works with clients to implement these steps through a continuous learning process and an agile approach

Giving you greater insight through our eminence

Working with Deloitte, you'll gain access and information into industry setting standards. We have a seat at the table with multiple Climate and Environmental, Social and Governance ("ESG") standard setting and reporting initiatives, to help influence and advance greater standardization and transparency in disclosure, allowing you to think ahead.

1. **GRI**
Deloitte involved since inception; organizational stakeholder since June 2004.

2. **SASB**
Assurance Advisory Task Force: Deloitte Americas Sustainability Services Leader; SASB Foundation Board Member

3. **TCFD**
Task force member

4. **Sustainable Stock Exchange (SSE)**
Corporate Working Group member

5. **Carbon Disclosure Standards Board (CDSB)**
Member of the Task Force: DTTL Global Sustainability Services Leader

6. **WBCSD**
Founding member, Council Member and DTTL Chairman

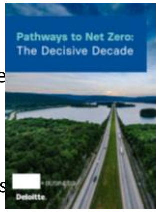
7. **International Integrated Reporting Council (IIRC)**
Council Member and DTTL Chairman, DT member firms have participated in IIRC Pilot Program to test IIRC approach

8. **United Nations Global Compact (UNGC)**
Global founding signatory, actively involved in several high-impact pro bono projects and secondments

9. **AICPA**
Chair of Sustainability Task Force

Our thought leadership keeps you aware of the latest developments related to climate change reporting and ESG.
The links below includes select examples of our broad experience with ESG topics:

Leading in a low-carbon future—A "system of systems" approach to addressing climate change



Pathways to Net Zero: The Decisive Decade

The atmosphere for climate-change disclosure

Climate Change 101 for business leaders—Key questions and essential knowledge

Climate scenarios and consumer business Four futures for a changing sector

Building credible climate commitments

Building a more sustainable insurance industry: How carriers can empower CSOs to tackle climate risk, diversity and inclusion, and governance transformation

- January 2022: Navigating The ESG Journey In 2022 And Beyond | Deloitte US.
- November 2021: On the board's agenda | Considerations and priorities for boards in governing, monitoring, and measuring sustainability
- November 2021: The Audit Committee Frontier – addressing climate change
- November 2021: #DeloitteESGNow Setting the Standard: When ESG and Climate Reporting Meets Financial Reporting
- November 2021: Accounting Considerations for Environmental Objectives
- September 2021: SEC Publishes Sample Comments on Climate-Change Disclosures
- June 2021: #DeloitteESGnow – The ESG Regulatory Whirlwind: Accountability on the Horizon
- February 2021: The future of the Chief Sustainability Officer

Contacts

Akinyemi Awodumila

Partner – Assurance

Mobile: +254 701849233

Mail: aawodumila@deloitte.co.ke

Winnie Bunei

Senior Manager – Risk Advisory

Mobile: +254 722 576 519

Mail: wbunei@deloitte.co.ke

Edna Kimenju

Manager – Assurance

Mobile: +254 738148021

Mail: ekimenju@deloitte.co.ke

Tony Kinyua

Manager – Assurance

Mobile: +254710497649

Mail: tkinyua@deloitte.co.ke

Act Responsible. Think Sustainable.