

TOOLING TO SUPPORT THE ESG REPORTING PROCESS

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comply with the CSRD from January 1, 2025.

Large companies will need to comply with the CSRD from 2024, with their first CSRD-compliant annual report published in 2025. Smaller companies will have one additional year to prepare.

The CSRD prescribes that companies must account for their impact and contribution to the climate, social aspects and governance.

This means that companies must set themselves ESG goals, track progress and embed ESG performance in business operations.

Challenges implementing the CSRD reporting process

To provide insight into ESG performance, data is needed from multiple sources from both inside and outside the organization. This often concerns new (non-financial) data that is often not recorded in a structured manner.

The CSRD disclosures will become subject to audit. This means that the data value chain and the reporting process must become auditable.

Availability of data, quality of ESG data and the ability to demonstrate data quality become important challenges in the preparations for the CSRD.

Along the way, companies will encounter the following questions:

- » How accurately must KPIs, for example for carbon and greenhouse emission be calculated?
- » To which extent are estimations allowed?
- » What are consequences for data lineage?
- » Which are the sources for the non-financial data?
- » How to prevent reconciliation differences at the end of the process when aggregating data?
- » How to deal with regular taxonomy changes?
- » Which are the critical data-elements? Which controls are needed?
- » How to gain insight into and resolve data gaps?
- » How to gain control over the entire data collection and reporting process?

The increased amount of data in combination with auditability requirements leads to a strong need for a streamlined and reliable reporting process and, especially in larger organizations, the need for tooling to support this process.

Tooling to support the ESG-reporting process

There are several vendors on the market that offer functionality to support the ESG reporting process. When selecting a vendor, it will be important to think about the requirements specifically for your organization.

The contents of the CSRD disclosures will show similarities for many organizations. There are standard KPIs and the ESRS reports have a standard format. Ideally, the tooling contains a number of building blocks so companies do not have to set up and maintain these standard components. Example of standard components include for instance the ESRS tables, KPI calculations, workflow functionality to support the data collection process and functionality to check and demonstrate dataquality.

On top of this, the system must be flexible and capable to deal with situations where, for example, certain calculations have to take place outside the system or data has to be processed at different granularity levels.

In addition to the CSRD, there are other frameworks such as the EU taxonomy and the NFRD. For companies that have to comply, it is important that the supplier supports these frameworks or even better already contains pre-configured functionality.

The tooling must support integration with various source systems and be able to perform various calculations (for example for carbon emissions and double materiality assessment) and to support (graphic) analyzes in addition to generating the mandatory reports.

The CSRD prescribes that companies must anchor the strategic management of ESG in business operations. This means that ESG must become an integral part of the planning and control cycle. The tooling ideally supports these management control processes.

In addition to these requirements, there are quite a few other requirements in terms of architecture, user-friendliness, reporting and analyses.

Conclusion

There is a lot to do to comply with the CSRD. Major challenges can be expected especially in the area of data, controls and the reporting process. Selecting the right tooling can be of great added value, especially if a supplier is selected who already has a solution with pre-configured functionality. When selecting the tooling, it is important to determine in advance the requirements specifically for your organization.

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Auke Jan Hulsker is partner at Sofia Consulting and supports companies implementing reporting processes to comply with new regulations. He has a strong vision how companies can organize processes in a practical way to comply with new regulations. Auke Jan shares his knowledge by writing articles, organizing knowledge sessions and through daily collaboration during projects.

About Sofia Consulting

At Sofia Consulting we help companies comply with CSRD reporting requirements. Implementing data- and reporting systems is one of our key services.

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