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Dear Professor Adams

Recommendations for SDG Disclosures – A consultation paper

Deloitte Touche Tohmatsu Limited is pleased to respond to the Consultation Paper *Recommendations for SDG Disclosures* issued by ACCA, ICAS and ICAANZ in August 2019.

The Consultation Paper (CP) is a timely thought piece, offering innovation in this area of corporate thinking and disclosures. There is little guidance on how to embed the UN Sustainable Development Goals (SDGs) within integrated thinking or mainstream corporate reporting, especially approaches that extend beyond metrics or indicators. Your paper is therefore welcome given that the SDGs themselves are high-level goals. Therefore, providing specific guidance to companies will help those that wish to embed the SDGs in their corporate thinking and reporting.

We think that the guidance is equally applicable to state-owned and other public-sector entities, publicly listed, public interest and private entities, and non-governmental organisations. The SDGs call on various actors, and all types of entities in a jurisdiction should be encouraged to embed the SDGs in their corporate thinking and reporting to the extent appropriate, given the scale of their operations.

It is especially important, as you set out in the paper, that companies embed SDGs in their purpose, strategy and business models in order to be a genuine response. This is consistent with our own thinking as set out in our report '[2030 Purpose: Good business and a better future](https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-2030-purpose-report.pdf)'¹ (2017), in which we advocate that a company's purpose should be compatible with the SDGs and integrated with its strategy and operating model, culture and values and wider strategy to have regard to stakeholders. This, and the emphasis on assurance in your report, are important to reduce the risk of 'SDG washing' whereby companies set out how they align with the SDGs but do not embed the goals in their business more comprehensively.

We think that framing the disclosure principles as a 'conceptual framework' is appropriate. Rather than adding to disclosure requirements, we support providing a framework for consistent decisions that allow SDG reporting matters to be embedded into the organisation, its systems and its overall reporting practices. As a result, we welcome the emphasis on using other relevant standards and frameworks, for example, for disclosures on governance, strategy and business model, risks, metrics, and targets. In this regard, we

¹ <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-2030-purpose-report.pdf>

suggest you consider incorporating the Sustainability Accounting Standards Board (SASB) into the paper in addition to the other standards referenced, as set out in our detailed comments.

We support the focus in the guidance on SDG disclosures that align to material sustainable development issues, i.e., material both to the organisation and to the world. As a result, this should help companies that are integrating (or wish to integrate) relevant SDGs into their purpose, strategy and business models to communicate with more credibility and better transparency how their value creation process leads to particular impacts (positive and negative), based on material factors that are relevant to their purpose and strategy.

To achieve this, we agree with your point that board ownership of SDG disclosures is essential. We also endorse your point that it is critical to involve finance and accounting teams in this process, alongside other professionals, to support integrated thinking in the company and to ensure these issues are managed with the same rigour as other management information systems and support. This is critical to the credibility of the narrative, targets and metrics reported, as well as making the information more amenable to assurance.

The corporate response to the SDGs will include considerations on capital expenditure and R&D, which strengthens the case for involving finance and accounting teams. In fact, a recent [report](#) supported by Deloitte for the Global Enabling Sustainability Initiative (GeSI)² highlighted that achievement of 103 of the 169 SDG targets will be directly impacted by deployment of technology. To achieve the benefits associated with this will require connectivity and aligned financial management.

Finally, we emphasise the issue of climate change, given its over-arching impact on business generally and on the achievement of many of the SDGs in particular. We recommend considering further how climate change is incorporated in the paper. Corporate action to tackle climate change is inextricably linked to progress towards the goals. Therefore, emphasising this more in the paper could help companies to align strategic thinking. We also note that the approach you set out in the paper has much in common with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and you might wish to highlight alignment at this level.

Our detailed responses to the Consultation Questions are in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884 or Sam Baker in London at +44 (0) 20 7303 7016.

Yours sincerely



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² https://gesi.org/storage/files/___DIGITAL WITH PURPOSE_Summary_A4-WEB.pdf

Appendix

Q1: Are the disclosure principles selected appropriate to encourage both the integration of SDGs into the strategy and transparency in relation to risks, opportunities and impacts?

The disclosure principles are appropriate and align well to other key frameworks.

We suggest expanding the scope of reporting organisations (p6) to clarify that they include state-owned and other public-sector entities, publicly listed, public interest and private entities, and non-governmental organisations. The SDGs are national commitments, and all types of entities in a jurisdiction should be encouraged to embed the SDGs in their corporate thinking and reporting to the extent appropriate, given the scale of their operations and impacts on the goals.

It is particularly appropriate that the CP calls for a focus on sustainable development issues that are relevant to value creation (i.e., relevant context) – in this way, they become integrated into the company's business model, strategy, risk and performance management (as the CP says). Moving beyond how the business *relates* to the SDGs to how the business *responds* to the SDGs is the right focus. The approach should also be proportionate to the nature of an entity's impact on the SDGs, and recognise that some smaller private companies can have disproportionately large impacts (e.g., energy or heavy manufacturing).

The principles are also correct, in our view, to include connectivity (integrated thinking). This recognises that the SDGs themselves are inter-related and, as a result, there will be inter-dependent factors for companies in relation to value creation.

However, we do not think that the principles capture fully the aim to address issues that affect the company's ability both to create value and to prevent value destruction (as referenced on p8). Following from this, we encourage further consideration on whether the principles should also include a further point on connectivity: disclosures on trade-offs and the balance between value creation and value destruction. Examples might include where the company cannot both enhance value creation in relation to a particular SDG and reduce a negative impact on another; or where they have prioritised one SDG over another that they also impact.³

Consequently, we would question whether the materiality lens has been sufficiently well described (p8). The principles do not really address the point that *impacts* can become (or are) *dependencies* for companies – that is to say, the company's impacts on society and the environment can lead to consequences for value creation: availability of resources, social license to operate, access to talent and human resources, wider trust and reputational issues. A better formulation of materiality in this context might be information that is relevant to the decision-making of users that includes impacts that can become material dependencies in the short or long term, quantitatively or qualitatively. This is especially important if the focus is on the material sustainable development issues that are relevant to an organisation's ability to create value, or prevent value destruction (and a recognition that relevant issues to the company will also present risks to providers of financial capital, stakeholders and society).

We think that the work of the Sustainability Accounting Standards Board (SASB) in this area could be helpful as its standards are based on a materiality lens that considers the impact of wider ESG factors on the company's ability to create value over a longer term.

Although less critical, another way of approaching and refining the concept of materiality is to ask whether the disclosures envisaged are primarily for 'reasonably informed' stakeholders generally, or for those stakeholders who are interested primarily in the long-term success of the organisation.

³ An example of this might be automation of a process leading to reduced GHG emissions but employing fewer people, and the resulting positive and negative impacts on specific goals flowing from this.

Q2a: Are the recommended disclosures appropriate and complete?

Overall, the disclosures are appropriate and complete. We think that it is also appropriate that the envisaged disclosures are incorporated into the mainstream report (integrated or similar corporate report) given that the SDGs should align to material sustainable development issues relevant to the company, and therefore be embedded in the purpose, strategy, business model, and performance management of the organisation.

We encourage consideration of the following additional points in the disclosures:

STEPS 1-2:

- Include identification of stakeholders.
- Increase the emphasis on evaluating where companies have the greatest positive and negative impacts.
- Consider the impacts that could become dependencies by 2030 (for example, access to and availability of resources, social license to operate, impact of climate change and other related factors).
- Consider also potential limits on the use of capitals (e.g., arising from resources becoming scarce or too expensive to access and/or consume, or government/regulator action to restrict activities to preserve sustainable supply or arrest related negative impacts - biodiversity, deforestation, land and water use etc.).

STEP 3:

- Include more emphasis on selecting appropriate metrics and targets, how these link to the underlying activities of the organisation, and align to desired impact on the relevant SDGs.

STEP 4:

- Consider incentives and how SDG metrics and targets translate to remuneration policy.
- Include more on how the directors have considered and made decisions on any trade-offs between contributions (positive or negative) to various SDGs.

STEP 5:

- Consider connectivity of information provided in the mainstream corporate report on the SDGs with other areas of reporting. This might include other information within the corporate report itself, or other reports – for example, remuneration or corporate governance.

Q2b: Are you aware of additional good practice examples?

The SDGs provide an excellent opportunity for companies to re-examine their purpose and their business models. Many companies are now highlighting in their annual reports how SDGs are relevant to their business models and strategies. However, few are likely to be reporting along the lines set out in the proposals specifically in relation to the SDGs. In our 2019 UK [Annual Report Insights](http://www.deloitte.co.uk/annualreportinsights)⁴ report, we note that 24 companies in our sample refer to the SDGs in their annual reports - just under one quarter of our sample (pp38-40).

Practices in this area are evolving, and we welcome this: our goal is to achieve integrity of purpose and authentic reporting, not idealised reports that effectively amount to 'SDG washing'. In our experience, ESG/ Impact/ SDG reporting lacks both rigorous systems and controls. We encourage you to consider whether there is a way that companies can explain where they are on the journey in relation to the disclosures you have in mind, including purpose, strategy, governance, business model, controls and metrics. We think that,

⁴ <http://www.deloitte.co.uk/annualreportinsights>

at this stage, a level of self-evaluation of where a company is on the adoption curve could be helpful for preparers and users of reports.

Looking more widely, there are good examples of reporting practices that are aligned to the ideas you have set out in the report, especially those companies that have put purpose at the core of their strategy and business models (such as those preparing integrated reports and similar), and those who are leading in TCFD disclosures⁵. Many of the disclosure elements used by these companies are likely to be similar to the model you set out, and they are therefore likely to be leading in terms of the necessary integrated thinking to achieve the outcomes desired in this report.

There are specific reports and initiatives that offer good examples that might be relevant to this project:

- Deloitte *Annual Report Insights*
- The finalists and winners of the Finance for the Future Awards⁶
- The *TCFD Status Report 2019*⁷, which includes a number of examples of good practice on TCFD disclosures
- The CDSB-SASB publication, *TCFD Good Practice Handbook*
- [The forthcoming revised edition of SASB Implementation Guide for Companies \(2019\)](#)⁸, which helps entities to identify sustainability-related issues that are most likely to affect business outcomes for entities in the same industry, facilitating enhanced intra-industry comparability.

In addition, the work of the [World Benchmarking Alliance](#)⁹ may also be relevant in terms of their goal to develop benchmarks of company performance against the SDGs – this should increase the potential to identify companies whose reporting is consistent with their impact in this area.

⁵ See, for example, CDSB/ SASB: *TCFD Good Practice Handbook* (2019), available at: <https://www.sasb.org/wp-content/uploads/2019/09/TCFD-GoodPracticeHandbook-sm.pdf>

⁶ See <https://www.financeforthefuture.org/>

⁷ <https://www.fsb.org/wp-content/uploads/P050619.pdf>

⁸ For information, see <https://www.sasb.org/company-use/key-resources-for-companies/>

⁹ <https://www.worldbenchmarkingalliance.org/>

Q3a: Are there additional sources of assurance evidence that could be included?

Management is responsible for setting their business objectives and supporting model to achieve relevant SDGs and to define any key performance indicators (KPIs) that they wish to use to monitor progress towards those objectives. We believe that all aspects of the reporting ecosystem need to be engaged: from management's strategy setting and external narrative, to the board oversight, internal audit, independent panels and external assurance. Each of these parts of the ecosystem play an important role.

Management is responsible for establishing systems, processes and internal controls to enable them to capture and document the evidence supporting the SDG disclosures and metrics, process the resulting information, and report it in a consistent and reliable fashion.

Assurance should focus on the progress of the entity in meeting the business objectives relating to SDGs that management has set. It is not the responsibility of assurance providers to say whether management's objectives are sufficient, or the outputs from the business model are sufficient to meet the goals: these are both subjective in nature. There are inherent limitations in providing assurance on forward-looking information, not least because any assurance cannot reduce the risk that events will not turn out as planned. However, meaningful assurance can be given on controls and governance procedures that support the preparation of forecasts, controls over underlying data, etc.

In the absence of a standard for the preparation of disclosures, the SDG objectives set by management provide the framework against which assurance can be provided (see 3b on risk). Assurance would include assessing the controls and processes the entity has in place in setting and managing the business strategy and principal risks, and in verifying the KPIs the entity has defined. Assurance of this nature gives authenticity to the business model and the activities of management to achieve their business objectives. It also helps drive better reporting of the business model and progress made in achieving business objectives in the financial statements.

The CP suggests the idea of a 'panel of independent experts and representatives of key stakeholders' to enhance credibility. There are already some examples of stakeholder councils and other forms of stakeholder representation that are aimed to increase transparency around ESG impacts and performance. This is worth exploring further to enhance engagement and accountability, and to increase trust with stakeholders. However, we do not see these as alternatives to assurance. Scrutiny from an independent panel provides a formal channel for challenge and may validate or benchmark the approach a company has adopted. Panels may also review judgements and the like around issues and materiality. However, such panels are unlikely to review the underlying data sources and related processes that support KPIs. In our experience, the review of underlying data and processes does enhance the credibility of the information produced by the company to investors and stakeholders.

The financial statement auditor will also read information in the annual report that contains references to the SDGs, although the scope of that is typically limited to requirements under ISA 720 or the local equivalent. With the exception of certain specific portions of narrative reporting, auditors typically only read the other information for apparent misstatement or inconsistency based solely on the information obtained during their audit of the financial statements. This means that whilst, for example, the auditor may have sought a higher level understanding of the overall business model, their more detailed knowledge and understanding will have focused on those areas which could lead to a material misstatement of the financial statements. Therefore, unless the numbers in the financial statements depend in turn on non-financial performance, the auditor may not have a deep understanding of that non-financial performance and therefore may not be in a position to identify an apparent misstatement.

In the U.S., Deloitte & Touche LLP performed an examination (reasonable assurance) of ESG disclosures prepared in accordance with SASB standards and a review (limited assurance) of an ESG report prepared in accordance with GRI Core. The report as a whole was furnished to the Securities and Exchange Commission (SEC) through a Form 8K filing¹⁰. According to the Harvard Law School *Forum on Corporate Governance and*

¹⁰ <http://books.vno.com>

*Financial Regulation*¹¹, 'To our knowledge, this is the first time that a company has included an examination report of ESG topics in an SEC filing'.

We note that the International Audit and Assurance Standards Board's project on extended external reporting assurance is directly relevant¹².

We also think that the role of internal audit merits further consideration, especially providing additional assurance over the areas of evidence set out in the CP on pp 16-17. This would need to incorporate additional expertise in specific SDG-related areas, both internally and externally.

Q3b: Do you foresee issues in the supply of assurance? Why?

In terms of an assurance assignment relating to an annual report aimed at investors and other long-term stakeholders, we have the capability to do this today and there are no fundamental obstacles to carrying out such assignments, using ISAE 3000.

In our experience, demand for assurance over broader information is likely to continue to grow, in particular in response to the needs of investors and other long-term stakeholders in the light of ESG integration. Indeed, companies are increasing their disclosures of ESG-related risks, metrics and targets in their annual reports. This reflects in part additional mandatory disclosures in this area (for example, the EU Non-Financial Reporting Directive), but it is also an active response to the interests of investors. These disclosures reflect an increasing understanding that ESG factors can lead to principal risks to the company, and to align corporate performance and reporting to the overall purpose of the company in a broader context.

However, there are some risks to assurance providers in absence of a regulated standard in this area. In particular, the issue of liability can be a risk in any assurance assignment leading to public reporting on matters beyond the boundary of ISA 720. We also note that this risk will need to be considered even further in relation to a report aimed at broader stakeholders; in particular, it is not necessarily an issue that can be addressed by those setting standards for the preparation of, or auditing or assurance of, annual reports. The issue of liability can impact the level of assurance providers are likely to consider, or the price of such an assignment, or both. This consideration is also likely to be related to the level of confidence providers have in the governance, risk management and controls that management have put in place in relation to the SDGs and related areas.

The goal of assurance of information provided to investors and other long-term stakeholders generally is to enhance the credibility of such information. In our view and experience, this goal is achieved best when the assurance practitioner fulfils certain criteria: (i) independence; (ii) compliance with a professional ethical framework; (iii) having robust firm-level quality control procedures and external quality assurance (i.e., independent inspection); and (iv) adherence to generally accepted and transparent assurance standards. These criteria might be reflected in the final recommendations.

Assurance on sustainable development issues generally and the SDGs as part of the organisation's strategy, risk and performance in particular could actually increase the attractiveness of audit and assurance as a career, especially to millennials and Gen-Z.

It could also enhance the relevance and scope of audit and assurance, given the increasing proportion of companies value represented by intangible and ESG factors. The ongoing discussions about the future of audit notes a need to provide assurance over more information than financial statements alone, and SDG-related information is such an emerging area.

¹¹ <https://corpgov.law.harvard.edu/2019/06/05/sustainability-accounting-standards-and-sec-filings/>

¹² <https://www.iaasb.org/consultations-projects/extended-external-reporting-eer-assurance>

Finally, assurance on SDG disclosures would likely continue a general trend in assurance – the increasing need for assurance assignments to include expertise in specific subject areas – sustainability, engineers, scientists, data analysts etc.

Q3c: Are there alternatives to assurance that could be included to enhance credibility of reporting?

Advances in technology, including emerging developments in AI and blockchain etc., could lead to new opportunities – especially in relation to SDG impacts and dependencies in the supply chain. However, we see these as a mechanism to strengthen the system of quality control and, consequently, the level of external assurance possible. In our view, without external assurance, ‘alternatives to enhance the credibility of reporting’ would not satisfy the needs of investors and long-term stakeholders.

Other ideas might include the following:

- Management assertion – a statement from management saying that they have applied appropriate processes and controls in relation to the disclosures set out in the paper, including that their SDG commitments are embedded in the organisation’s business model and operations, and that related KPIs are appropriate, robust and consistent over time.
- Live data feeds of SDG-related information, automated and available digitally to stakeholders. Examples that could be considered include satellite data and layered geographic information system (GIS) data. Such information will be critical because the SDGs require information about the implications of the intervention of the reporting organisation.
- Open feedback loops to management from stakeholders (such as panels of independent experts suggested in Q 3a), again using technology, to enhance responsiveness and accountability.

Q4: Are there further opportunities for aligning existing frameworks?

Overall, the alignment in this CP with other frameworks is clear – for example, the statement of alignment on p6 and the table on p10. We recommend including SASB in addition to other frameworks/standards by reference and comparison (for example on p10) – as noted above, their approach to materiality could be helpful in connection with your thinking.

Moreover, it is appropriate that the SDG disclosures in this paper are envisaged to be incorporated within the mainstream annual report, as sustainable development issues that are material to value creation over time – in other words, it is important that these disclosures are embedded in existing corporate reporting and do not attempt to create a parallel reporting regime.

In terms of wider alignment, there is an opportunity for further reference to corporate governance codes and laws that relate to the duties of directors. Codes are increasingly incorporating principles around having regard to wider factors – stakeholders, environment, long-term horizons – which are relevant to the SDGs. Section 172 of the Companies Act in the UK offers an example in law that could be referenced.

In relation to further alignment, the Corporate Reporting Dialogue (CRD) has made progress through the alignment project around climate change. There are principles of alignment in their most recent project, and other papers that they have published, that could lead to closer alignment over time.

Overall, the CP makes a further case for the need for a formal, global and connected approach to standard setting, to include non-financial information (ESG), to enhance the consistency, quality, integrity and comparability of information in this area.

Q5: Are there additional matters that should be addressed prior to finalisation?

Climate change

Given the wide impact climate change can have on achievement of the SDGs (and indeed the importance of achieving certain goals to addressing climate change – for example, sustainable energy, cities and consumption), closer alignment with TCFD could be addressed in this report. SDG disclosures should be consistent with the company's TCFD disclosures in terms of the impact climate change might have on value creation in relation to other SDGs.

Financial statements

As we are concentrating on sustainable development issues that relate to the ability of the organisation to create value over time, consideration should be given to implications for financial statements.

Particular attention might be given to matters such as assumptions used in future cash flows, asset valuations and useful lives and other financial matters such as cost of insurance.

Resources and systems

The introduction sets out the need for companies to work across teams to make a necessary shift towards the SDGs. This approach will require management commitment and resources/systems to make it part of the business's strategy, and how the business operates. Consideration could be given to this in the document, including presenting the business case that investing in the right approach across the organisation can bring benefits such as more resilient management, measurement and controls, and a focus on longer-term strategy and outcomes that enables purpose to be truly embedded in the organisation.