Spotlight on sustainability:

Gaps in sustainability reporting

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The state of sustainability reporting in Malaysia

Industry observers are closely following developments in the sustainability reporting landscape, demanding better transparency and insights.

Bursa Malaysia has mandated enhanced sustainability reporting requirements for listed companies on both Main and ACE Markets starting from the fiscal year ending 31 December 2023 to ensure their continued relevance and to propel listed issuers to adopt international best practices.

As sustainability and climate targets gain importance, there is a growing call for trust and assurance over these non-financial data. As of May 2024, our analysis indicates that 38% of the Top 100 listed companies on Bursa Malaysia have subjected their recent sustainability reports or statements to independent assurance, a significant increase from 21% in the previous year.

Regulation over this information is continuously increasing, with the adoption of the following ‘Big 3’ sustainability reporting frameworks:

- European Sustainability Reporting Standards, as part of the Corporate Sustainability Reporting Directive (CSRD) by the European Union
- IFRS Sustainability Disclosure Standards across various regions, including Malaysia
- U.S. Securities and Exchange Commission (SEC) climate reporting requirement, in addition to California's climate disclosure laws

This publication aims to highlight common challenges in sustainability reporting and provide some insights on how to mitigate these gaps for better reporting.

Common challenges when preparing sustainability reports

People

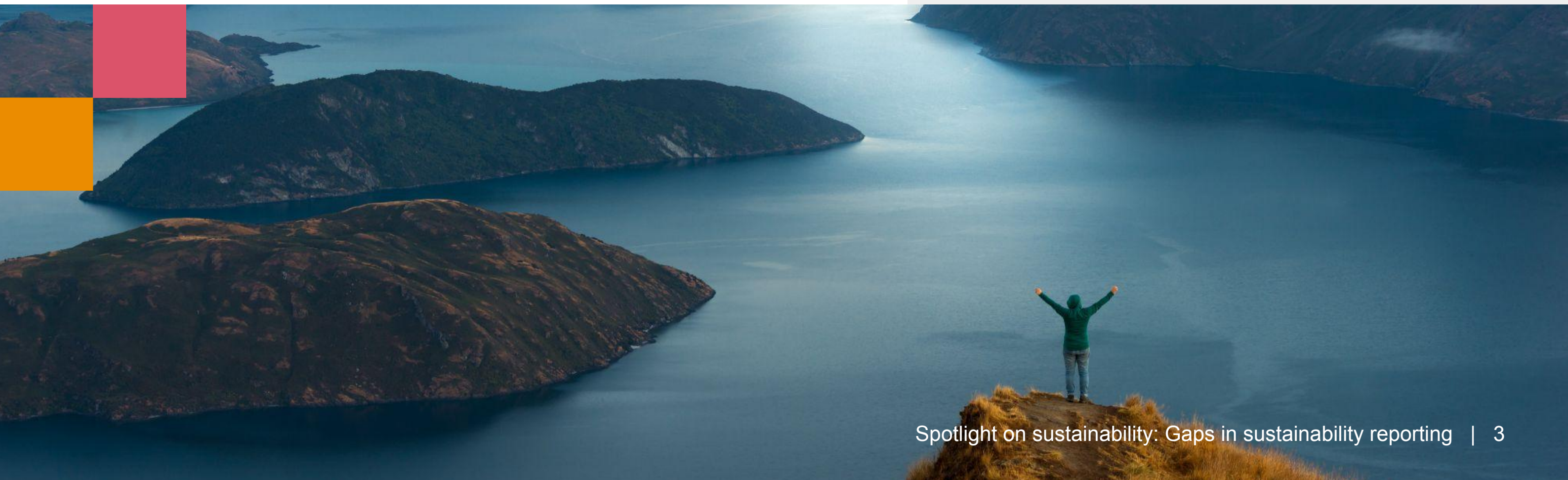
- Lack of buy-in on the importance of sustainability data reporting
- Lack of clarity on roles and responsibilities in preparing sustainability reports
- Insufficient ownership and accountability at the business unit level
- Inconsistent data entry by different data owners

Process

- Absence of Standard Operating Procedures (SOPs) for data collection
- Lack of clear communication regarding timelines and expectations.
- Supporting evidence is often unavailable because it is not typically compiled
- Data is only compiled annually, often lacking periodic audits and reviews
- Discovery of errors from previous years after reporting

Technology

- Data that are not readily available to examine
- Manual spreadsheets are prone to human errors
- Absence of a centralised ‘source of truth’ for sustainability data



Common pitfalls in sustainability reporting

As organisations mature in their sustainability journey, they need to weave sustainability practices within their operations purposefully - integrating them into their core strategies, decision-making processes and subsequently, reporting procedures.

Hence, sustainability reporting needs to go beyond mere compliance in order for Malaysian businesses to be able to capture the full scope and impact of their sustainability initiatives. Drawing from our experience in reviewing and assuring sustainability reports, we identify where gaps in sustainability reporting may lie, before diving deeper into the issues behind these challenges.

1 Organisations often lack clarity on methodology and data quality when reporting sustainability indicators

In September 2022, Bursa Malaysia issued its Sustainability Reporting Guide (3rd Edition) which mandates the reporting of 22 common sustainability indicators across 11 sustainability matters.

Reporting of the sustainability indicators has often been conducted under various frameworks, such as the Global Reporting Initiative (GRI) Standards; Sustainability Accounting Standards Board (SASB) Standards; and Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

The challenge: companies have had the flexibility to use the reporting framework of their choice ever since sustainability reporting was made compulsory for listed companies in 2016. Each of these frameworks come with its own practices and methodologies. This would make it difficult to compare one company's sustainability indicators to another, if the two businesses did not specify the basis of reporting used.

Hence, organisations should formalise how data will be collected and reported on sustainability indicators. This clarity of methodology is crucial to ensure reporting consistency across organisations.

What are examples of common material matters that require reporting by Bursa Malaysia?

Emissions management

- Scope 1 emissions in tonnes of CO_2e
- Scope 2 emissions in tonnes of CO_2e
- Scope 3 emissions in tonnes of CO_2e (at least for the categories of business travel and employee commuting)

Health and safety

- Number of work-related fatalities
- Lost time incident rate
- Number of employees trained on health and safety standards

Anti-corruption

- Percentage of employees who have received training on anti-corruption by employee category
- Percentage of operations assessed for corruption-related risks
- Confirmed incidents of corruption and action taken

What should be considered when reporting these indicators?

Input

- What is the source data required for reporting?
- Are the data sources readily available?
- Can the data be traced to supporting documents?

Process

- How should the information be computed?
- Is the basis of computation consistent across the organisation/group of companies?
- Is the basis of computation consistent with market practice?

Output

- How should these indicator be presented in the sustainability report?
- Are narrative explanations required to explain the sustainability performance?
- Could the presentation and disclosure potentially be misleading, contribute to greenwashing?

Note: This list is non-exhaustive and additional requirements and considerations may apply.

2 Insufficient accountability of the performance and the reporting of sustainability targets is a missed opportunity for value creation

Today, stakeholders have higher expectations of sustainability practices - they want to see measurable outcomes and constant improvements. This sets a higher bar for organisations to reach towards when disclosing net zero and sustainability targets.

However, having supported many Malaysian organisations with their sustainability reporting efforts, we have observed that clear accountability on sustainability performance remains a common challenge. This is because monitoring and reporting sustainability performance is often done sporadically and informally.

Incorporating sustainability key performance indicators (KPIs) into performance management presents significant opportunities for value creation. By integrating these KPIs into organisational frameworks, companies can better align their operations with sustainability objectives, enhance accountability and cultivate a culture of continuous improvement.

Similar to financial reporting, tracking and reporting on these non-financial metrics should be aligned with the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Internal Control Integrated Framework, as outlined below.

45%

of FTSE 100 companies now have an **ESG measure in executive pay**

78%

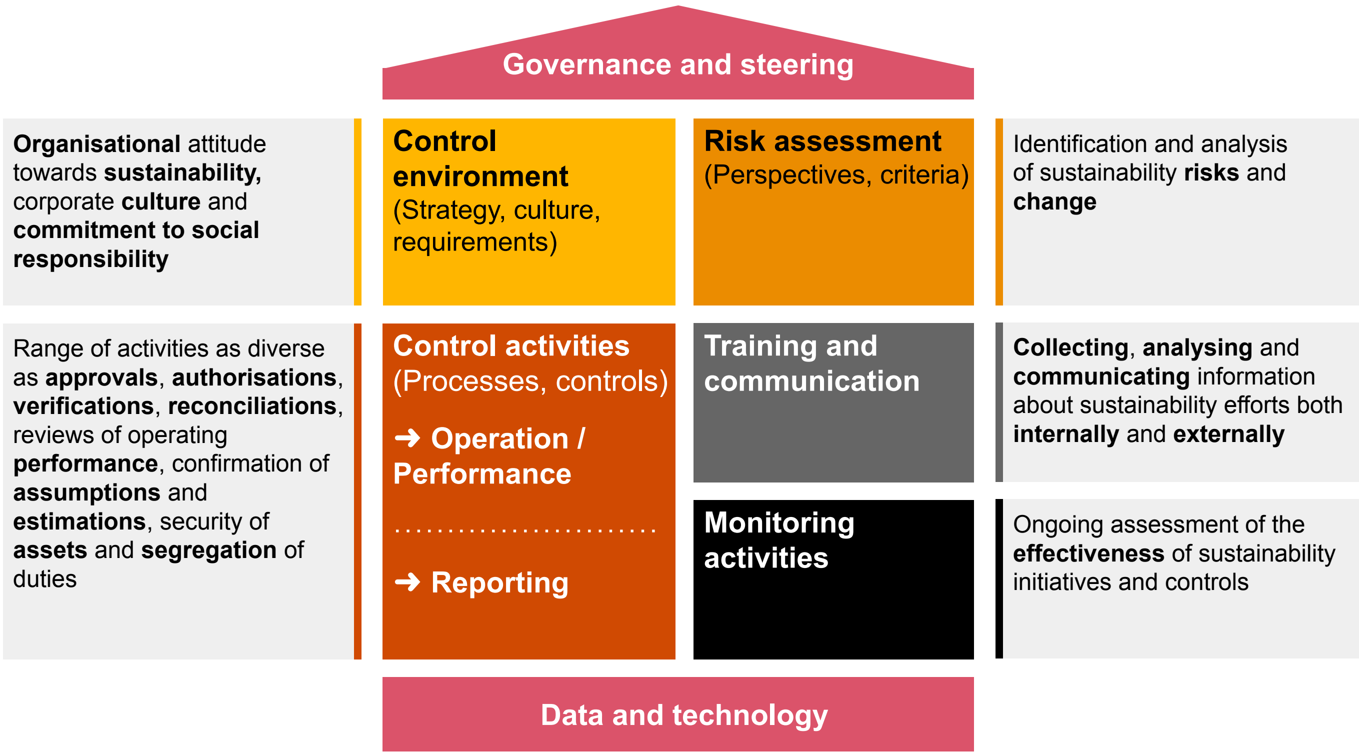
of board members and senior executives agree that **strong ESG performance** contributes to organisational value and/or financial performance

94%

of investors believe corporate reporting on sustainability performance contains unsupported claims

Source: PwC Global Investor Survey 2023

COSO Integrated Framework can provide a holistic approach to non-financial controls



3 Manual reporting processes highlight the urgent need for technology investment

Findings from our 2023 Finance Function Survey Report show that only 10% of respondents indicated that their existing ESG data is integrated within the organisation's Enterprise Resource Planning (ERP). This highlights a notable technology and controls gap in managing ESG data.

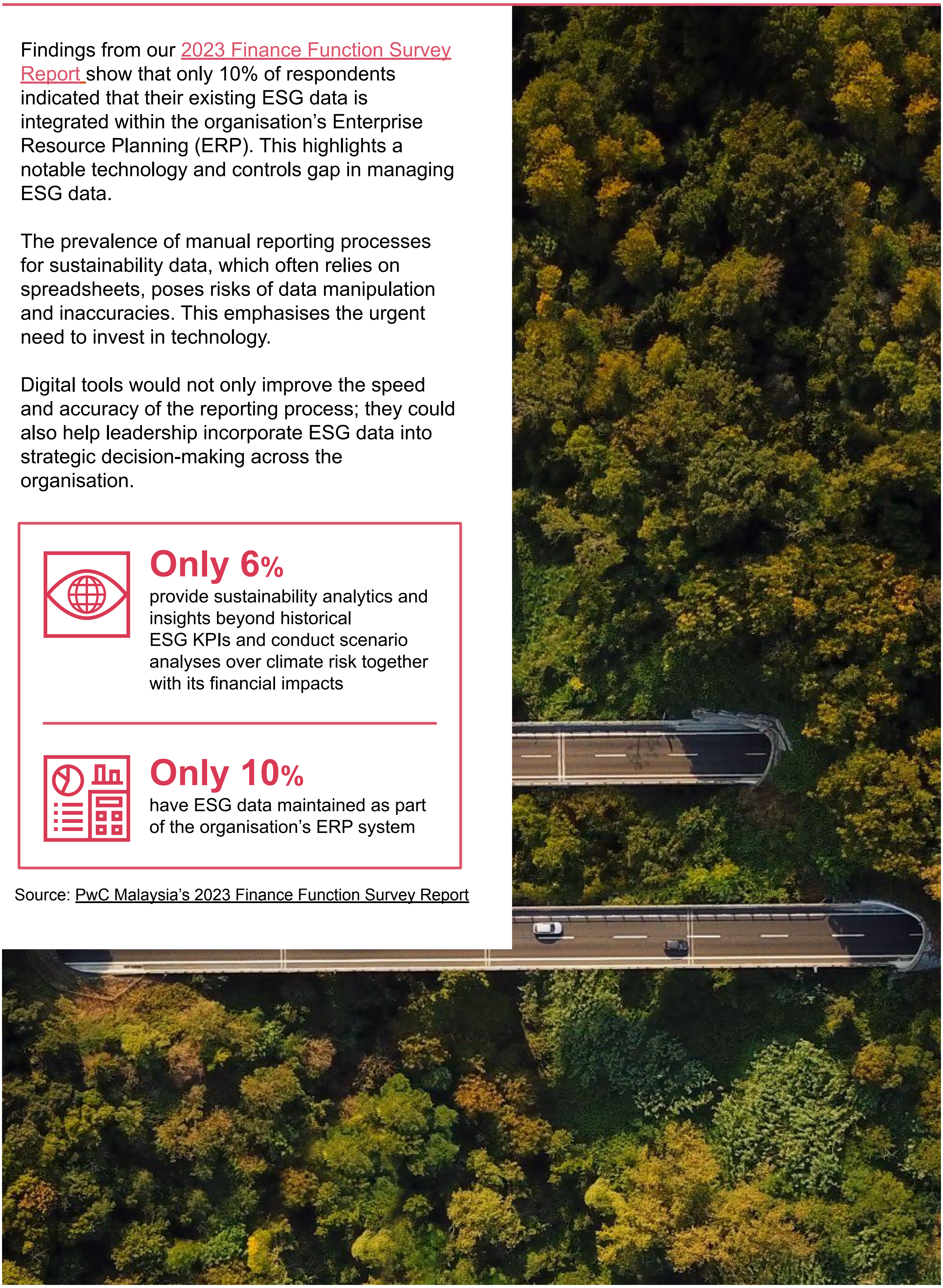
The prevalence of manual reporting processes for sustainability data, which often relies on spreadsheets, poses risks of data manipulation and inaccuracies. This emphasises the urgent need to invest in technology.

Digital tools would not only improve the speed and accuracy of the reporting process; they could also help leadership incorporate ESG data into strategic decision-making across the organisation.

Only 6%
provide sustainability analytics and insights beyond historical ESG KPIs and conduct scenario analyses over climate risk together with its financial impacts

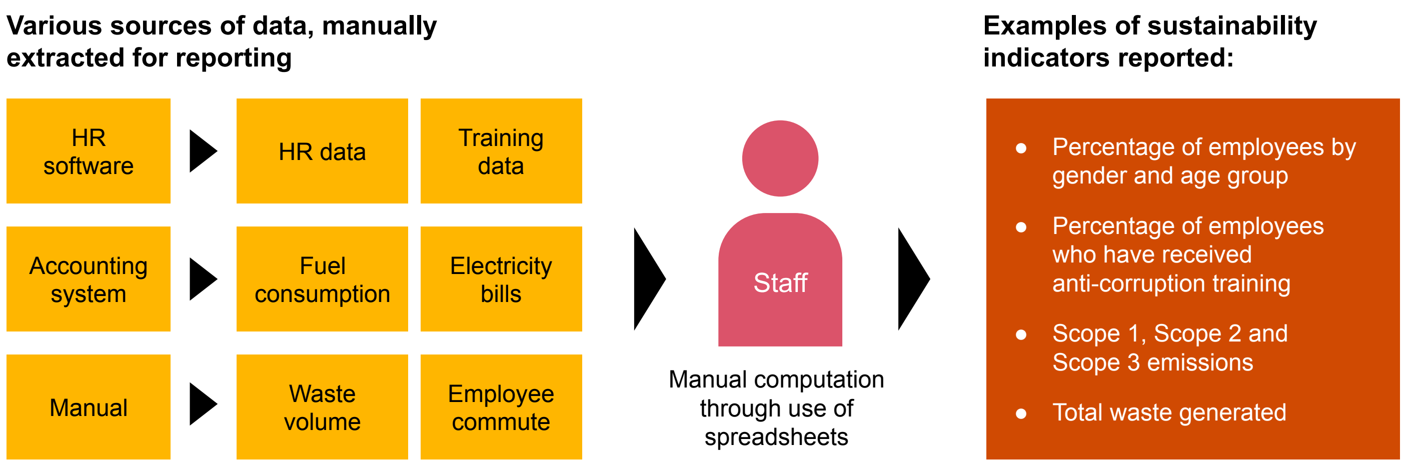
Only 10%
have ESG data maintained as part of the organisation's ERP system

Source: PwC Malaysia's 2023 Finance Function Survey Report

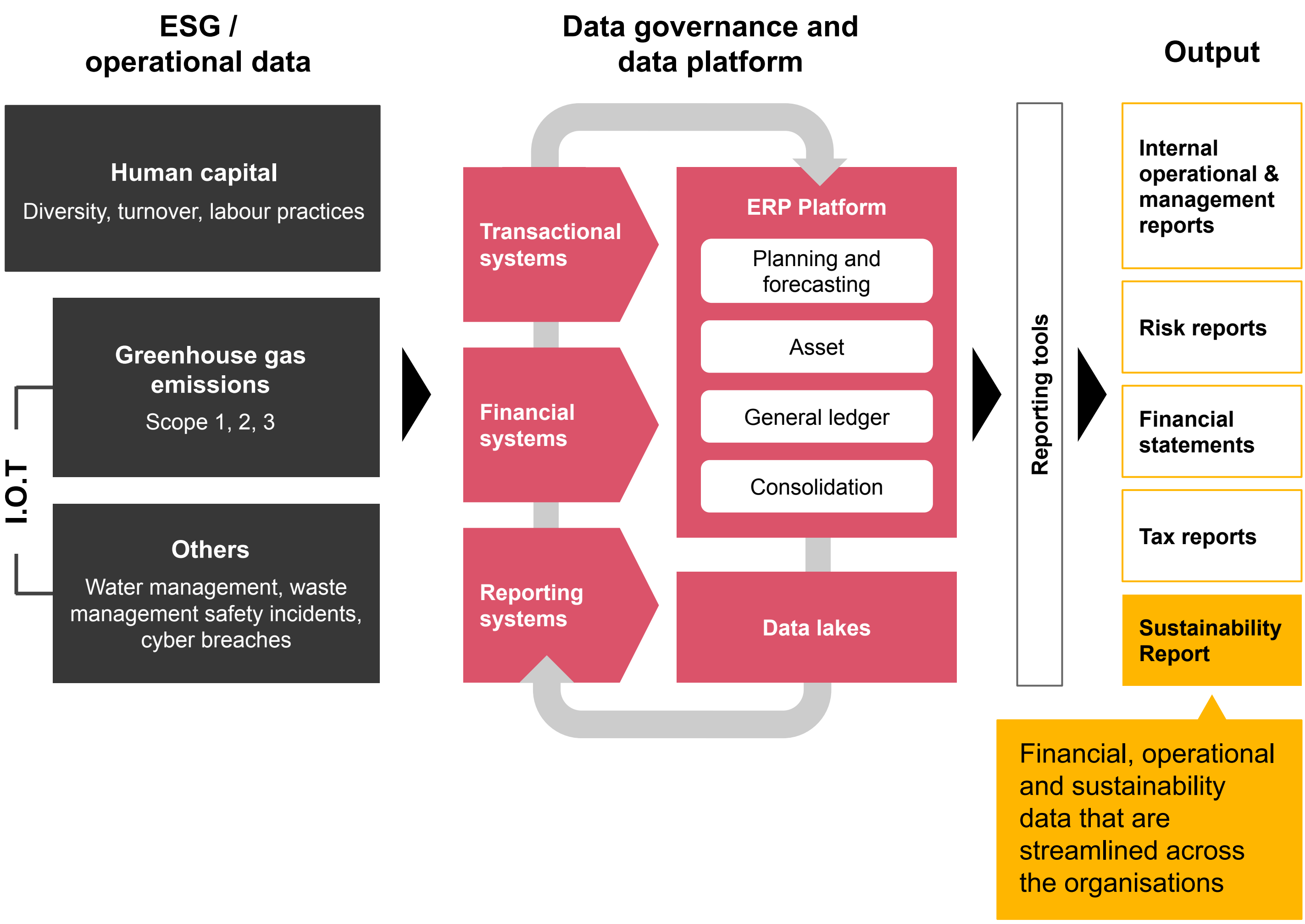


3 Manual reporting processes highlight the urgent need for technology investment (cont'd)

Where do most organisations stand with their sustainability reporting?



Where should organisations aspire to be?



Taking the lead on sustainability reporting

1 Set a clear reporting methodology

A formal reporting methodology should be adopted within an organisation, which will form the basis of how the data should be collected and reported.

As reporting matures, these data will be subject to various estimates and judgements made by management, which will need to be documented as part of the governance process.

An effective sustainability reporting methodology should include the following considerations:

- Completeness of reporting boundaries (geographical vs operational) and consistencies with financial reporting to maintain coherence and comparability
- Frameworks used to prepare sustainability reports including stakeholder expectations
- Sources and data points for specific indicators, including computation formulas and acceptable sources

2 Establish a clear line of responsibility and accountability

This could be implemented by formalising SOPs for data collection and the reporting of sustainability indicators.

A clear SOP will ensure that there is accountability over ownership, with designated roles for collecting, analysing and reporting sustainability data.

This will drive better performance and adherence to the organisation's sustainability goals and targets.

An accountable sustainability reporting process should include:

- a standardised process of data collection that includes the necessary evidence
- review and validation processes, including reconciliation of activity data with the financial ledger to ensure accuracy and consistency
- consolidation of various data sources and operating units into a cohesive and comprehensive dataset
- generation of reports and disclosures, including preparation of qualitative narrative disclosures

3 Unlock value with human-led, tech-enabled sustainability reporting

With growing stakeholder and regulatory expectations for comprehensive sustainability data and reporting, it is crucial for organisations to invest in technology solutions to enhance data accuracy, integrity and ease of reporting. Robotic Process Automation (RPA) and analytics are key to realising the full value of investor-grade ESG data.

How can we help?

Sustainability risks and governance

Dominic Chegne
Partner, Sustainability Assurance Lead
PwC Malaysia

dominic.hk.chegne@pwc.com

Sustainability assurance

Kwai Fong Soo
Partner, Assurance
PwC Malaysia

kwai.fong.soo@pwc.com

Sustainability reporting

Nik Shahrizal
Partner, Sustainability & Climate Change
PwC Malaysia

nik.shahrizal.sulaiman@pwc.com

Sustainability data governance

Khai Chiat Ong
Partner, Risk Services
PwC Malaysia

khaichiat.ong@pwc.com

Sustainability reporting and assurance

Farhana Jabir
Director, Sustainability & Climate Change
PwC Malaysia

farhana.jabir@pwc.com

Sustainability upskilling

Hsern Wei Ling
Partner, Head of PwC's Academy
PwC Malaysia

hsern.wei.ling@pwc.com

Explore our sustainability report

PwC Network Environment Report 2023

PwC Malaysia Annual Report 2022 - 2023