



How to Audit Climate Risk Management

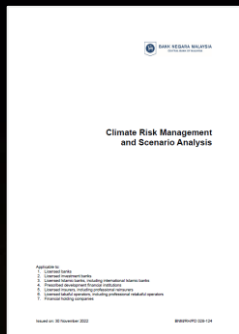
Key considerations for developing climate-related risk and reporting audit strategy



Overview of the climate risk landscape

Malaysia's Regulatory Landscape on Climate Risk

In response to this increased financial impact of climate on companies, financial reporting and accounting standard setters have made significant changes to their organisations to support the need for better reporting of both financial and operational metrics such as climate risk. Climate risk is a significant driver of business performance now and into the future.



Bank Negara Malaysia
Climate Risk Management and Scenario Analysis Policy Document

Para 13.3: “Financial institutions shall **make annual climate-related disclosures** that are aligned with the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) and shall be published together with **annual financial reports** for financial years beginning on or after **1 January 2024.**”



Bursa Malaysia
Bursa Malaysia Enhances Sustainability Reporting Framework with New Climate Change Reporting

Bursa recognises that listed companies require time to assess and respond to climate change-related risks and opportunities including putting in place the necessary policies, processes and practices. After a round of deliberations, the Exchange is now requiring **TCFD Aligned Disclosures** for companies starting from FYE on or after **31 December 2025.**

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Advisory Committee on Sustainability Reporting Proposed National Sustainability Reporting Framework

Para 6.3: “Building on the existing sustainability reporting requirements, the potential approach for **adoption of IFRS S1 and IFRS S2 is for it to be made mandatory** for Main Market listed issuers. In addition, the reporting requirements may potentially be extended to include ACE Market listed issuers and large non-listed companies with annual revenue of RM2 billion and above. This position may be expanded to other non-listed companies in the future.”

For Main Market listed issuers,

- * IFRS S2 Reliefs shall be issued together with annual reports for FYE on or after **31 December 2025**.
- * IFRS S1 Reliefs shall be issued together with annual reports for FYE on or after **31 December 2026**.
- * Both standards shall be issued together with annual reports for FYE on or after **31 December 2027**.

Employees Provident Fund

Priority Issue Policy: Climate Change

Core Requirement 11: “Companies should seek to **align their disclosures and reporting practices** relating to climate risks and opportunities with TCFD.”

- * Core requirements are expected to be met by companies **by 2024** and will follow a “**comply or explain**” approach in the case that companies require more time to comply with some of them.



3LOD: Climate-Integrated Risk and Reporting Responsibilities

Different roles work together in an integrated fashion, amounting to three different lines of defense supporting value creation from climate-related efforts

Board of Directors
(oversight function)

Climate/Sustainability Committee
(oversight and advisory function)

Other Sub-Committees – e.g. Remuneration, Risk, Audit
(oversight and advisory function)

First Line of defense
(risk ownership)

Business Units

Risk Owners

Responsible for owning, analysing, managing, monitoring, and reporting climate risks.

Second Line of defense
(risk enablement)

Chief Sustainability Officer

Sustainability
Management

Risk Management

Responsible for maintaining oversight of the first line, establishing and monitoring the climate management framework, enabling the third line and governance bodies, and providing climate-related guidance, advice, and support.

Third Line of defense
(climate-related assurance)

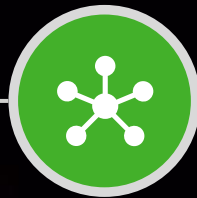
Internal Audit

External Audit

Responsible for providing assurance that internal controls are working effectively and play a part in informing on climate management.

Common challenges for Internal Audit functions beginning their journey with climate risk

Key Challenges



Lack of a uniform framework can be challenge to internal auditors on how to check and report the results of their climate risk management strategies.



Climate-related topics have not been a part of audit plans earlier and can be a challenge to review.



Data required to review climate-related reporting are often minimal, unavailable, or scattered across multiple departments and its collection can be a challenge for auditors.

How do you plan the audit on climate risk?

Internal audit should ensure that climate risk is part of the risk conversation, incorporate climate risk into the internal audit plan, and perform audits to provide assurance that the control environment is sound.

A Risk-Based Approach to Auditing Climate Risk and Reporting

Limited resources and accelerated reporting timelines require a tailored risk assessment grounded in meaningful criteria. Taking a risk-based approach helps to drive the selection and prioritization of climate focus areas. It's helpful to begin by filtering climate topics through a lens of stakeholder engagement, industry trends, and benchmarking. From there, the higher-risk areas for your audit response are those where:

- Impacts are the most significant if climate objectives are not achieved.
- Influence on stakeholder assessments is highest.

Once these material topics are identified, there are additional considerations to a risk-based approach to auditing climate.

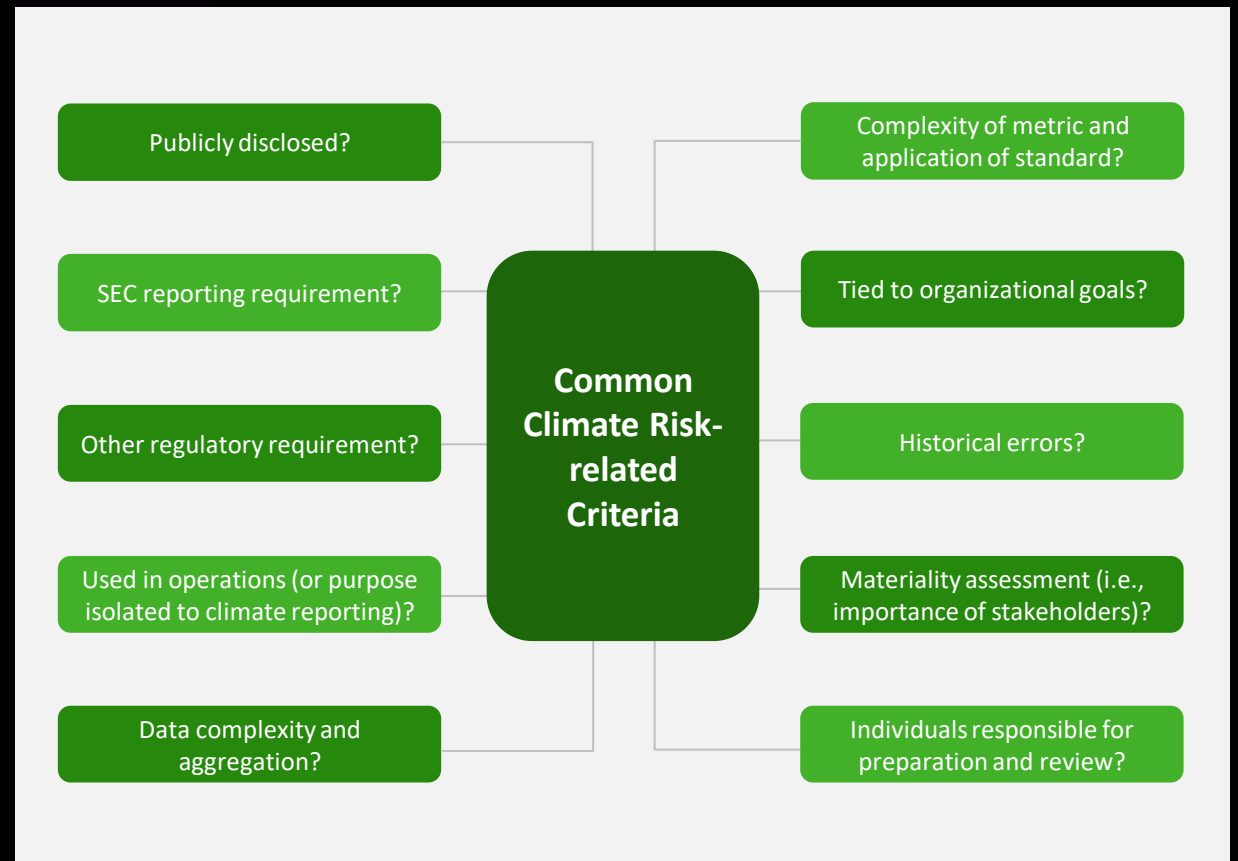


Illustration based on the COSO Framework

Climate Risk Internal Controls: Leveraging the COSO Framework

Understanding that climate risk will be implemented throughout the entire internal audit life cycle, from annual and ongoing risk assessments, audit planning, and audit execution through reporting and ongoing monitoring.

COSO Element	Relevance for Climate-related Internal Audit Approach
Control Environment	<ul style="list-style-type: none"> Setting a “control” consciousness (typically from management and the board) that guides climate-related reporting objectives while setting the stage for the processes and discipline needed to govern controls. Establishing the organisation’s commitment to creating structures that provide ethical, independent, sustainable, and accountable oversight of internal controls development and performance.
Risk Assessment	<ul style="list-style-type: none"> Guiding with clear objectives that support the identification and analysis of specific climate risks to the achievement of organisational objectives. Considering both internal and external stakeholder needs. Identifying and assessing changes impacting internal controls (e.g., regulatory changes, M&A, geographical exposures, tech rollouts).
Control Activities	<ul style="list-style-type: none"> Establishing policies and procedures to create activities that effectively mitigate or manage identified climate risks. Tailoring all activity types appropriately when practical.
Information and Communication	<ul style="list-style-type: none"> Gathering or generating timely, relevant, and reliable climate data to support effective functioning of internal controls. Verifying that appropriate performance measures (e.g., Key Performance Indicators, or KPIs) and communication processes are in place to describe and share climate information both internally and externally. Using risk assessments to guide selection of the most important climate factors to monitor and disclose.
Monitoring	<ul style="list-style-type: none"> Using review activities (separate from reviews performed as control activities) to support the organization in assessing whether all COSO components are present and functioning. Employing ongoing evaluations built into business processes, periodic separate evaluations (e.g., conducted by internal audit), or independent third-party reviews. Communicating deficiencies in a timely manner to those responsible for corrective action.

Getting started: Questions for assessing climate risk

Ready to take action to better understand your organisation’s climate risks and opportunities? The questions below offer a starting point for your internal audit function to assess risk across the enterprise.

Key questions for a risk-based approach to auditing climate risk

Governance and policy	<ul style="list-style-type: none"> • Has the organisation created a governance structure and culture that supports effective climate risk management? • Has the organisation defined a strategy to strengthen internal awareness and commitment, emanating from top management (setting the “tone at the top”)? • Is information on climate risk being reported to the board?
Risk strategy and appetite	<ul style="list-style-type: none"> • Are climate strategy and risk appetite consistently cascaded through the organisation, including limits and metrics? • Are climate-related risks being considered in new products and services? • How has climate and the changing external business environment affected the resilience of the business model and hence the risk strategy?
Risk assessment, measurement, and analytics	<ul style="list-style-type: none"> • Has the organisation defined a consistent, comprehensive methodology for GHG quantification? • Has stress testing been adapted to reflect the long-term horizon of climate risk?
Monitoring and reporting	<ul style="list-style-type: none"> • What climate-related disclosures around governance, strategy, risk management, KPIs, and KRIs are being published? • How is climate risk monitoring and reporting being aggregated into existing risk practices?
Portfolio and capital management	<ul style="list-style-type: none"> • Are there potential capital add-ons that are associated with integrating climate risk into existing risk management frameworks? • Are there portfolios of climate risk-related products and services to manage?
Risk data and systems	<ul style="list-style-type: none"> • Is there readily available, consistent, credible, and sufficiently meaningful data? • What are the “new” data elements that will be required for the organisation, as well as for its suppliers, borrowers, and other third parties?
Risk operating model, people, and culture	<ul style="list-style-type: none"> • Has ownership and accountability for climate risks been determined, and is it linked with other risk types? • How is the organisation monitoring and understanding the complex and evolving regulatory landscape? • How is the organisation attracting and retaining resources with climate-related skill sets?

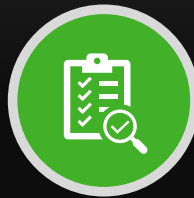
Let's Talk

How we can help

Planning a more effective internal audit strategy that incorporates climate risk and reporting is an important step towards moving down the appropriate path — **but your organisation must also prepare to go a significant step further, directly connecting climate-related efforts with value creation.** That means not only embedding climate risk into ongoing risk and reporting activities, but also committing to a bigger vision that incentivizes true transformation — helping you become a more sustainable, resilient organisation capable of delivering lasting financial and business value.



Training



Co-sourcing audit



Competencies and Capabilities Building



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