



The Audit Committee Frontier –
addressing climate change



Contents

Foreword	3
Audit Committee survey	5
Survey highlights	5
Audit committee preparedness	6
Challenges for audit committees in overseeing climate change	10
Responsibilities for climate change	13
Climate assessment and reporting	15
Advice for other audit committees	19
Climate and the audit committee	21
Background on climate and sustainability reporting: Toward more globally consistent reporting	28
Questions to ask	30
About the Audit Committee frontier	32
Contacts	33
References	34

Foreword

The climate crisis is one of the most urgent societal issues of our time. As temperatures rise, we face a cascade of dire consequences – from increasingly catastrophic weather events to disrupted ecosystems to extreme socio-economic burden. For the sake of the generations still to come, addressing this crisis must be a top priority on the corporate agenda.

The pandemic was a wake-up call in this regard. With business travel largely halted and fewer commuters on the road, we saw cleaner air and waterways around the world. In fact, the lockdowns led to the sharpest reduction in emissions on record (nearly 8% compared with 2019). The message is clear: change is not only possible but probable if we act now. And investors and other key stakeholders are prepared to hold business accountable for doing their part. But what exactly does that look like?

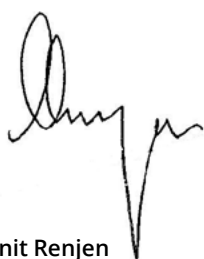
As a start, businesses should be assessing their own environmental risk profiles, establishing mitigation plans to reduce their carbon footprints, and accurately reporting on their progress. With this in mind, audit committees are beginning to address how assumptions about the future should be reflected in financial statements and risk assessments. However, for many, incorporating assumptions about our changing climate into both financial reporting and the data and narrative of non-financial reporting is a daunting task. Among the survey results described below, nearly 60% of all audit committee members surveyed indicate that they do not discuss climate on a regular basis, and over half do not consider themselves “climate literate.”

Informative climate reporting requires a complex transformation of reporting processes, of data collection, education of the finance function, and in many cases, of the audit committee itself. Yet, despite the urgency and magnitude of the task, many boards are hesitating in the face of inconsistent standards, fragmented global standard-setting, and myriad expectations from investors. The good news is that the World Economic Forum has identified a set of global ESG reporting standards which businesses around the world, including Deloitte, are increasingly adopting as part of their own reporting processes.

Deloitte is committed to improving clarity and transparency of reporting to elevate the trust and expectations placed in us to create an impact that goes beyond the expected.

In the meantime, what would be good practices for the audit committee? This report aims to answer that question by bringing together insights from Deloitte climate and sustainability specialists, the results of a global survey of over 350 audit committee members and chairs, and a collection of interviews with regulators, investors, and audit committee members.

We hope you will find the information provided here useful, but more importantly, that it will encourage you to act. There really isn't a choice. The transition to a low-carbon economy has begun and we all have a part to play.



Punit Renjen
CEO, Deloitte Global



Jean-Marc Mickeler
Deloitte Global Audit and
Assurance Leader





Stakeholder interview: Robin Stalker

Robin Stalker is Chair of the Audit Committee of Hugo Boss AG. Robin is also a member of the Audit Committee and Deputy Chairman of the Supervisory Board of Schmitz Cargobull AG, a member of the Audit Committee of Commerzbank AG, and a member of the Supervisory Board of Schaeffler AG.

Climate change is an existential threat for our world and to the society in which our businesses operate. Thankfully today, companies are expected to do more with respect to climate, not only prompted by investors and regulators, but also by their customers and suppliers. All these stakeholders require some form of additional transparency, some information. For those of us in audit committees, this has meant understanding and critiquing such information but, at the beginning of this journey, companies often just didn't have good non-financial data. I believe we have played a role in helping management address this and identify KPIs relevant and appropriate both to their business decision-making and their reporting obligations. It has helped that the awareness of the climate challenge has increased considerably throughout our organizations and through all levels of management and into the Executive and Supervisory Boards. Here in Europe, it is also relevant that the role of the Supervisory Board and of the Audit Committee has been enhanced by the formal EU non-financial reporting requirements.

My personal view is that if we agree that we have an obligation as the Audit Committee to oversee management and to ensure good governance, then it is fundamental that we understand the strategy of the company. And fundamental to any strategy are the questions: Are we sustainable? Do we understand the risks, the obligations, and the opportunities that climate change brings? What does this mean for our business? Every audit committee must understand and see how these risks, obligations, and opportunities are clearly embedded in the strategy of the organization.

We also need to review and critique how decisions are made, what the processes are behind them, and the degree of transparency of those processes. Therefore, once a company understands that combating climate change is an obligation of the business, then this whole discussion is not simply an "add-on" — it is part and parcel of the whole strategy. In this sense, the audit committee has to not just obtain the right information, it needs to satisfy itself with the integrity of the financial and non-financial data, where is it coming from, and so on. That it is transparent, and that it is not just seen as a reporting task and delegated to a part of the organization that puts statistics or reports together – but that this information is used by management for decision-making.

We also need to be satisfied with the reasonableness of target-setting and management incentivization. Of course, target-setting should be ambitious, but it must also be reasonable, measurable, and reportable.

In terms of climate-relevant skills for the audit committee, I don't really think we need different skillsets. What we need is to ensure the mindset of audit committee members is one that understands this debate for what it is: a fundamental part of how we make decisions in the business.

Lastly, we must remember that this is an area that is still developing. We are all learning right now, and things are not perfect at the moment — on any board. There is no perfect set of standards. But this is no excuse for not embarking on the journey in the first place. We can't let trying to be perfect get in the way of getting better!



Audit Committee survey

Survey highlights

The headlines indicate there is much more for directors and audit committees to do

- Forty-two percent of audit committee respondents said that their organization’s climate response is not as swift and robust as they would like.
- Nearly half of all audit committee members indicated they do not believe that they are well-equipped to fulfil their climate regulatory responsibilities.
- According to survey respondents, the main internal challenges in overseeing climate change within the organisation was the lack of clear strategy in relation to climate for the organisation (65%), followed by poor quality of data (46%). This is despite the fact that 70% said the CEO is responsible for climate strategy, as indeed the CEO is responsible for overall strategy.

How often does the audit committee have informed discussions about climate and are climate impacts reflected in financial statements?

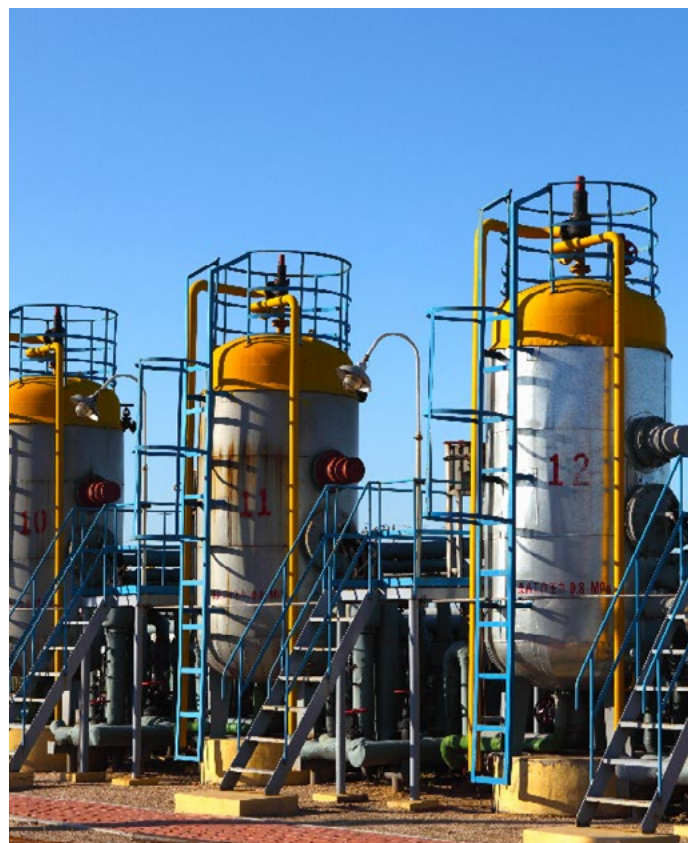
- Overall, nearly 60% of respondents say that their audit committees do not discuss climate change at all or as a fixed agenda item.
 - Among respondents in APAC, this is even higher, at 69%.
 - Only 6% of respondents say that they discuss the topic at every meeting (Americas 8%, APAC 3%, EMEA 7%).
 - On the other hand, the region responding most positively was EMEA, where 55% of respondents said the topic is on the audit committee agenda at least once a year.
- Nearly half of audit committee members surveyed do not consider their committees “climate literate.” Only in EMEA do the majority of respondents say that some or all of their audit committee members are climate literate.
 - Fifty-two percent of respondents said that some or all of their audit committee members are “climate literate” (Americas 51%, APAC 41%, EMEA 62%)
 - Forty-eight percent of respondents said their committees were not climate literate or relied on just one committee member.
- Seventy percent of respondents said that their organization have

not completed a comprehensive climate change assessment, and 52% of them believe the issue has no material impact on the organisation (Americas 62%, APAC 49%, EMEA 46%).

- Just 18% of respondents said that their climate impact assessment is reflected in the financial statements. Twelve percent have completed an assessment, but impacts are not yet reflected in the financial statements.

Advice for audit committee members

When asked what advice committee members might offer to other audit committees to get to grips with the climate challenge, education came out on top (87% of all respondents mentioned education), followed by good management information (79%), and making sure there is alignment of the climate challenge with corporate strategy (78%).

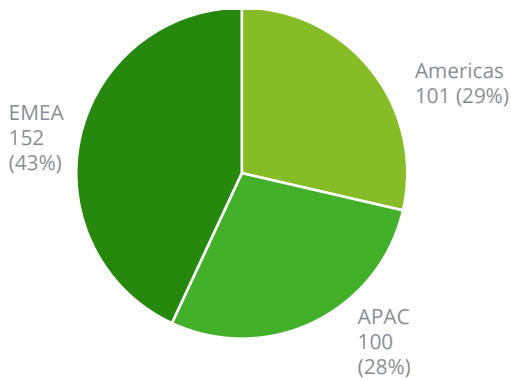


Survey methodology

The following analysis is based on a survey of audit committee members globally, conducted in September 2021. The survey questionnaire was sent via email and responses were received online.

A total of 353 responses were received from over 40 geographies, of which the majority (56%) serve as audit committee chairs. Responses were distributed across the Americas, Asia-Pacific (APAC), and Europe, Middle East, and Africa (EMEA) as shown in the chart.¹

Where the companies are registered



© Deloitte Global

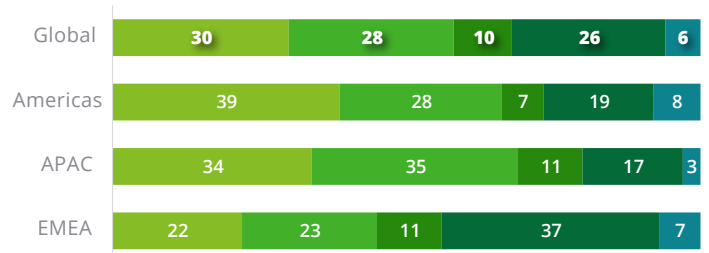
With respect to company type, 67% of respondents serve on audit committees at publicly listed companies, while 17% serve at privately owned companies, including family businesses.² There is considerable industry spread: The largest group of respondents is from financial services (27%), followed by energy and manufacturing (15%) and energy and resources (14%).

Audit committee preparedness

a. Discussion within audit committees

How often do audit committees place climate on their agendas — is it a standing agenda item, raised only occasionally or in an ad-hoc manner? How many audit committees today never have climate change on their agenda?

Is climate a specific topic on the audit committee agenda, and how regularly?



- No
- No fixed cadence at present, still developing
- Once per year
- More than once per year
- Every meeting

© Deloitte Global

This survey indicates that, globally, nearly 60% of audit committee members say that their committees do not discuss climate change on a regular basis.

Audit committees in EMEA lead in terms of frequency of climate change-related discussions, where 55% include the topic on their agendas at least once a year, compared to only 34% of audit committees in the Americas and 31% of those in APAC.



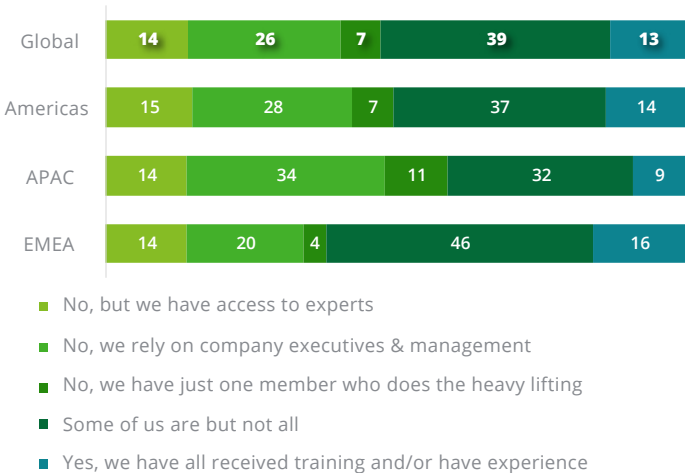
We need committee members who have an open eye for what is happening around us and in society.



b. Knowledge and understanding of climate change

Being “climate literate” may mean different things to different people. This question attempts to unpack the current situation within audit committees.

Is the audit committee “climate literate”?



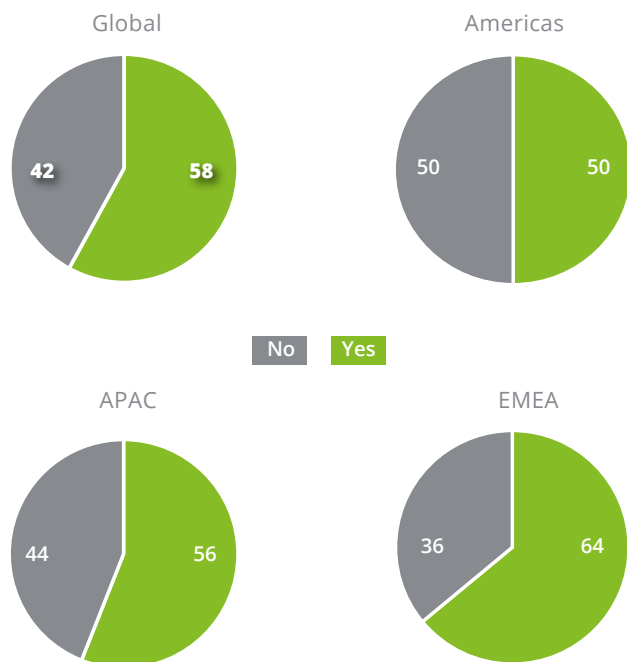
© Deloitte Global

Nearly half of audit committee members around the world have responded negatively to the question whether they have the resources and background needed to address the issue effectively to be considered “climate literate.” The EMEA region leads where 62% of respondents said that some or all audit committee members are climate literate. This compares to 51% in the Americas and just 41% in APAC.

c. Overall preparedness of the organization and the audit committee

The survey also asked about speed and efficacy of their company’s progress on addressing the climate challenge in their organization and that of the audit committee.

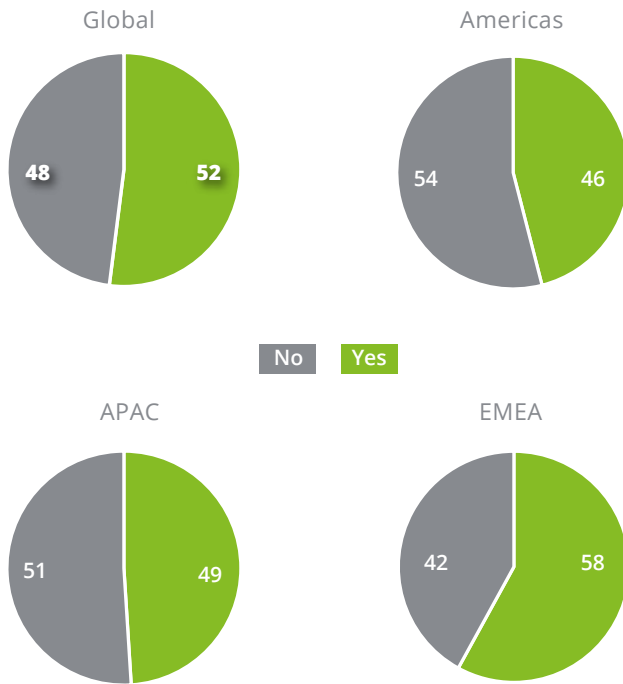
Overall, do you believe your organization is addressing the climate challenge as swiftly and robustly as you would like?



42% say that their organization's climate response is not as swift and robust as they would like.



Overall, do you believe the audit committee has the information, capabilities, and mandate to fulfill its regulatory responsibilities in relation to climate risks and carbon reduction targets at your company?



© Deloitte Global

As many as 42% of respondents feel that their organization's climate response is not as swift and robust as they would like. This finding is highest among respondents in the Americas where half of audit committee members responded in this way, and lowest in EMEA at 36%—but this still represents over one-third of respondents.

When asked about whether the audit committee has the information, the capabilities, and the mandate to fulfill its regulatory responsibilities in relation to climate risks and carbon reduction targets at their companies, nearly half of all audit committee members reply that they do not believe that they are well-equipped. This is again highest among respondents in the Americas and lowest among respondents in EMEA.

Commentary

These responses are sobering and indicate that much work remains to be done in many of today's boardrooms in order to come to grips with the climate challenge. Climate literacy in the boardroom is patchy and there appears to be a significant reliance on management or outside parties. In some ways, this is unsurprising, as the world is learning together on this topic, but the pace of change needs to increase. As shown later in this survey, the overwhelming majority (87%) of committee members indicated there is a need for boards to get educated on the topic.

The frustration of some committee members comes across clearly in the survey results: Only 58% say that their organization is moving as quickly as they would like, leaving 42% who wish to see their organization move faster.





Stakeholder interview: René Hooft Graafland

Chair of the Audit, Finance & Risk Committee, and member of the Sustainability Committee of Ahold Delhaize. René is a member of the Supervisory Board and Audit Committee of Koninklijke FrieslandCampina N.V. and Chair of the Supervisory Board of Lucas Bols N.V. He is Chair of the boards of the Royal Theatre Carré Fund and the Stichting African Parks Foundation. René is also a member of the Monitoring Committee Corporate Governance Code in the Netherlands.

Corporate reporting on climate and sustainability is increasingly integrated with financial reporting, not only the reports themselves but the reporting process is becoming integrated. The audit committee is taking more and more responsibility for non-financial information. This follows, of course, the evolution of corporate reporting, but is also helped by the availability of frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD) framework,³ which incorporates governance, strategy, risk management, metrics, and targets. At Ahold Delhaize we have the Sustainability Committee, which focuses on governance, strategy, metrics, and targets, while the Audit Committee focuses on risk management and the process and quality of the reporting of non-financial information.

There has been great development in how we approach climate change and report about it. In the past, we had primarily focused on the environmental footprint of the company and its operations. This is clearly the interest of NGOs and society, and companies need to respond. However, today, we also look at what the impact of climate change could be on the company. This approach is to a great extent influenced by the financial markets, which of course have concerns about the value of businesses. So, it is clear we must consider how the company itself affects the climate, and how climate affects the company as well.

On the other hand, we should not underestimate the complexity of climate change. For boards, addressing this complexity can be daunting, but I do not believe that it is simply a matter of placing specialists in the audit committee. Instead, we need to have committee members who have an open eye for what is happening around us and in society. You need people who are open to learning. If technical knowledge is required, we organize educational sessions on climate change and measurement. We also invite specialists to present at committee meetings.

For us, we have a triangular structure: We have the Audit Committee, a Sustainability Committee, and we have the Supervisory Board. As the Chairman of the Audit Committee, I am also a member of the Sustainability Committee, precisely to make sure that there is a good link between the committees. As the Audit Committee, we report to the Supervisory Board — not just on the outcome of what we have discussed but also about considerations of different scenarios. For example: What are the implications on our operations from different, incremental increases in global temperatures? Risk metrics are prepared and discussed in the Audit Committee in advance but, ultimately, the broad topic of climate is an agenda item for the board as a whole. In my view, the Supervisory Board is collectively responsible for environmental, social, and governance (ESG) matters.

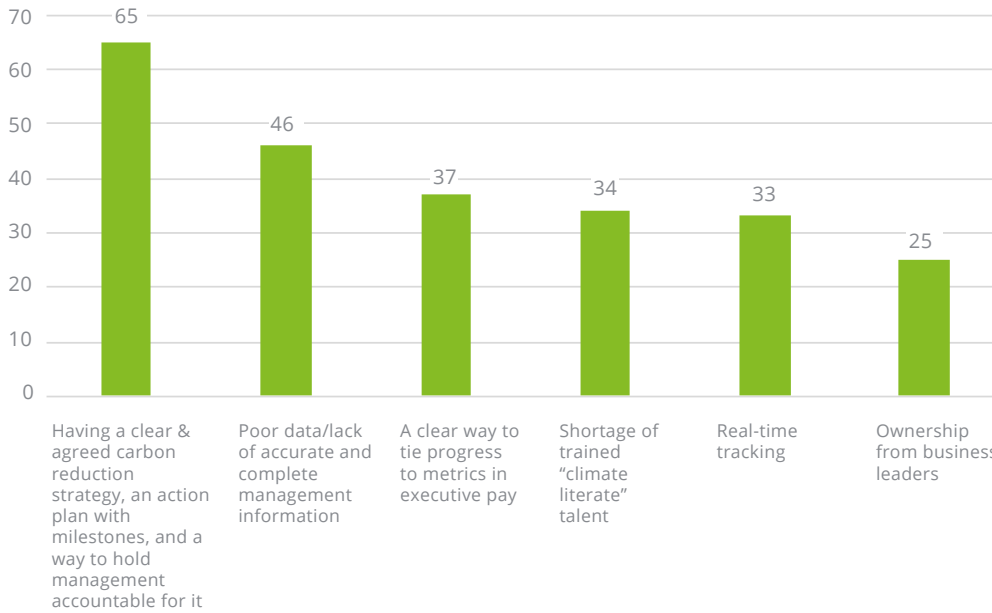
Of course, there are many challenges, too. We are addressing how different physical events can impact our businesses and which mitigating actions are required. We are addressing transition risks as well. What will be the impact of all kinds of regulations and taxes governments may put in place to achieve their CO2 reduction goals? How will consumer behavior change? And many other questions. And there will be debate about how we respond to climate change in terms of the investments we make and adaptations we pursue. At the end of the day, all of these matters touch the core of our business, and there are no easy answers. But one thing is for sure, we have to act now — doing nothing is not an option.



Challenges for audit committees in overseeing climate change

What is standing in the way of change? This section reviews audit committee members' views on their organizations' own and external challenges in overseeing climate change.

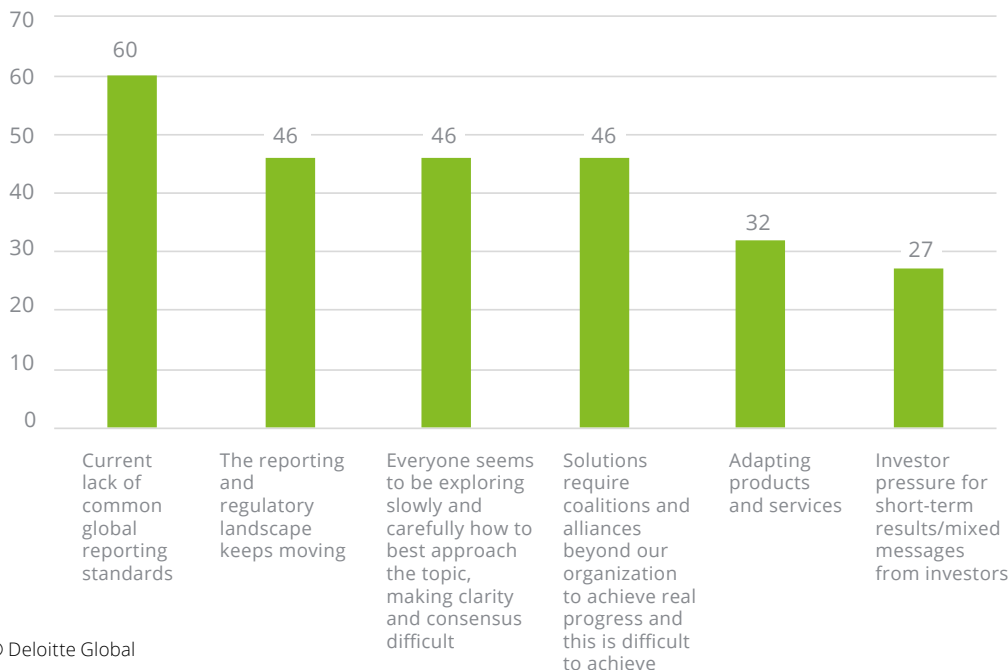
What is the biggest challenge in overseeing climate change in relation to your organization? Please select all that apply.



© Deloitte Global

Poor data and management information quality are also singled out by nearly half of all audit committee members.

What is the biggest challenge in overseeing climate change in relation to the external environment? Please select all that apply.



© Deloitte Global

Sixty-five percent of audit committee members say the biggest challenge is having a clear and agreed carbon reduction strategy, an action plan with milestones, and a way to hold management accountable for it.



Committee members can point to no shortage of external challenges. Key concerns here relate to the lack of common reporting standards (60%) and the moving regulatory landscape (46%). Forty-six percent of respondents also cite that solutions require coalitions and alliances beyond their own organization to achieve real progress, and these are difficult to achieve. One-third also indicated that adaptation of products and services is a challenge.

Commentary

With the establishment of an International Sustainability Standards Board under the IFRS Foundation, there is hope that there will be more certainty for corporate reporting on sustainability information. Yet the survey results seem to indicate an anxiety among a large population of audit committee members about the pace of change within their organizations—regulatory developments may assist by adding urgency to making the changes required.



There will be debate about how we respond to climate change in terms of the investments we make and adaptations we pursue. All of these matters touch the core of our business, and there are no easy answers.



Stakeholder interview: Erik Thedéen

Director General of the Swedish Financial Supervisory Authority and Chair of the IOSCO Board-level Task Force on Sustainable Finance. In this interview, Erik Thedéen, he comments on the latest developments of the international framework of sustainability disclosure standards.

IOSCO is committed to the objective of globally-consistent corporate reporting that meets investors’ information needs and supports transparent markets. High-quality global sustainability reporting standards are essential to underpin sustainability reporting being mainstream in a comparable and rigorous way, and that can withstand audit-level scrutiny. Investors need information on entities’ short, mid and long term performance prospects and how they manage sustainability related risks, including the financial impact of climate risk. Given the urgent climate global challenge, making steady progress is essential, hence climate change should be the initial focus of any framework with the standardization of social and governance related disclosures following shortly thereafter.

For decades, sustainability reporting has rested on a voluntary regime where companies were able to follow different reporting frameworks. Unfortunately, this has led to the proliferation of multiple reporting frameworks, resulting in companies producing inconsistent and incomparable information and, in some cases, applying reporting frameworks selectively. We heard from the investor community and from stakeholders that the current level of climate-related information included in financial reports is insufficient for making informed decisions and allocating capital. Consensus has emerged among securities regulators, investors, and companies that a set of global sustainability reporting standards is required.

Audit committees play a key role ensuring that the quality of information on sustainability factors, including on climate change, is comparable and meets the standards of financial information.

Audit Committee Chairs should promote reporting quality and therefore assess the relevance and reliability of sustainability information for the benefit of shareholders, as well as compliance against applicable regulations and requirements. Furthermore, they should be ready to challenge the ESG metrics and methodologies used, scrutinize gaps in data and ensure the assurance process is of high quality.

Ideally, the Head of Sustainability should regularly interface with senior management to ensure that sustainability related considerations, whether risks or opportunities are integrated within the core of the business. This should be the same for securities regulators – we need to place the topic at the core of our activities.

Going forward, we foresee that there may be a shortage of trained auditors with sufficient skills. IOSCO is engaging with the global audit community, including standard setters, audit networks and professional bodies to ensure these considerations are thought through. Organizations need to produce robust information which is auditable and properly reported in a company’s annual report. Companies need to focus on the elements of ESG which are important and relevant for their business, not just use buzzwords with no substance behind them. The Audit Committee should be calling this out.



Responsibilities for climate change

a. Responsibilities of the audit committee

Audit committees have a very broad remit for corporate reporting, but our survey respondents did not all recognize that their core responsibility in relation to these reporting matters extends to climate-related impacts. When asked which aspects of climate-related matters they do have responsibility for, the following were the top five mentions:

Which aspects of climate related matters does your audit committee have oversight responsibility for? (Top 5 mentions)

	Global	Americas	APAC	EMEA
Risk management – the effectiveness of the processes for identification and assessment of climate-related risks	64%	63%	64%	64%
Corporate reporting – in the front half of the annual report, the integrity of both narrative reporting on climate risks and opportunities, e.g. TCFD disclosures and principal risks & uncertainties	63%	52%	56%	75%
Corporate reporting – reflecting the impact of addressing climate risks and opportunities in the financial statements, including in relation to judgments and estimates in valuations and impairments	60%	54%	56%	66%
External audit – oversight of the approach taken by the external auditor to identifying and responding to climate-change related financial statement risks	56%	53%	51%	62%
Assurance – the effectiveness, independence and objectivity of assurance obtained over climate-related information and disclosure	48%	42%	43%	55%

© Deloitte Global

Broadly the same trend is seen across all regions, but among EMEA-based companies, 75% of respondents recognised their responsibilities for climate reporting in the front half of the annual report and 66% recognised their responsibility for addressing climate risks in the financial statements.



b. Leadership within management and within the board

Which executive has overall responsibility for sustainability and climate?

	Global	Americas	APAC	EMEA
The CEO	70%	68%	75%	68%
The Chief Sustainability Officer	11%	12%	8%	12%
The CFO	5%	6%	7%	3%
The Chief Risk Officer	4%	3%	4%	5%
The Chief Strategy Officer	1%	1%	0%	3%
Other	9%	10%	6%	10%

Which board committee has overall responsibility for sustainability and climate?

	Global	Americas	APAC	EMEA
The board as a whole is responsible	61%	54%	63%	64%
Risk	12%	13%	17%	9%
Audit	8%	9%	8%	7%
Nomination/Governance	6%	10%	5%	5%
Other	13%	14%	7%	16%

© Deloitte Global

When asked which executive at the company has overall responsibility for sustainability and climate, respondents pointed predominantly to the CEO (70%), followed by the Chief Sustainability Officer (11%).

In relation to whether the board or a committee has overall responsibility for sustainability and climate, 61% of all respondents said that the board as a whole bears this responsibility.

Commentary

Perhaps unsurprisingly, overall responsibility for climate appears to be generally centered on the CEO. This provides the board with the opportunity for the alignment of corporate strategy with carbon reduction targets, as well as the alignment of incentives to deliver these: These results might suggest that structural alignment may be in place, and this finding could represent an opportunity to integrate thinking across organizations.

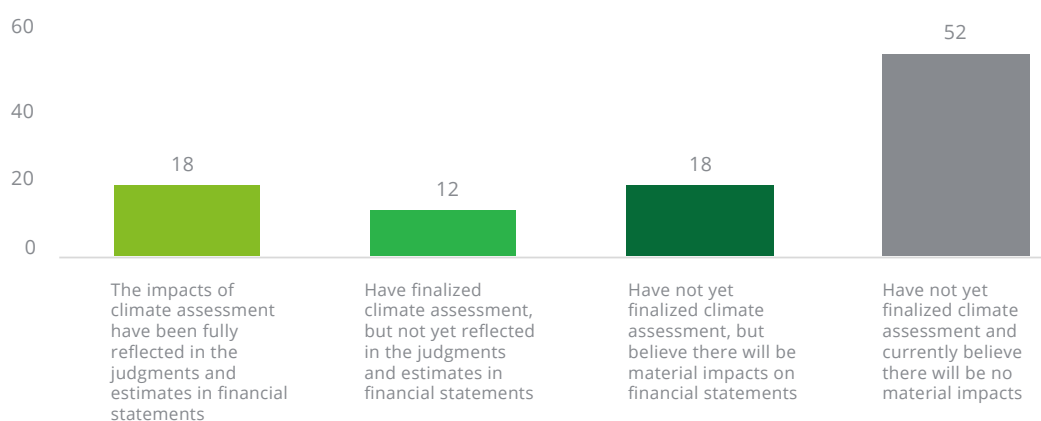


Climate assessment and reporting

a. The status of climate assessment

Coming to grips with climate change for many companies will mean undertaking a comprehensive climate assessment and reflecting the outcomes in the financial statements. This involves companies assessing how the changing climate affect their operations, supply chain, customers, and the wider ecosystem on which they depend to create enterprise value.

Have you fully completed your climate assessment and are the results of this, and related strategies and commitments, fully reflected in your financial statements?



	Global	Americas	APAC	EMEA
The impacts of climate assessment have been fully reflected in the judgments and estimates in financial statements	18%	15%	17%	21%
Have finalized climate assessment, but not yet reflected in the judgments and estimates in financial statements	12%	5%	11%	17%
Have not yet finalized climate assessment, but believe there will be material impacts on financial statements	18%	18%	23%	16%
Have not yet finalized climate assessment and currently believe there will be no material impacts	52%	62%	49%	46%

© Deloitte Global

Seventy percent of global respondents said that they have not completed a comprehensive climate change assessment. Eighteen percent of all respondents that have not done so believe that there will be material impacts on financial statements and 52% of all respondents say that they believe climate will have little to no material impact on the organization.

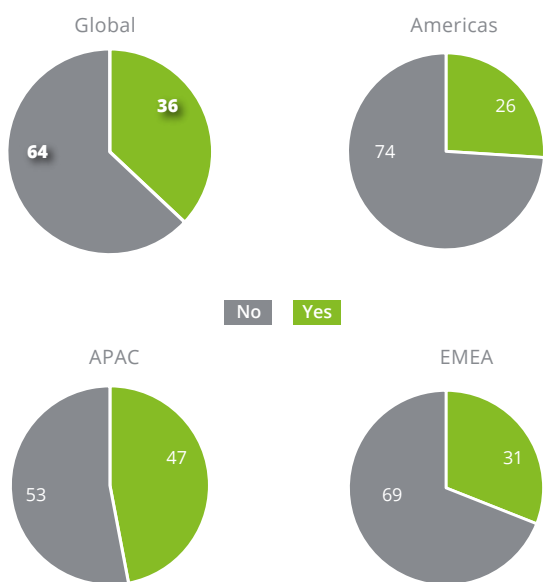
Thirty-eight percent of EMEA respondents said they had completed an assessment, but this falls to just 28% in APAC and just 20% in the Americas. Furthermore, just 18% of respondents say that climate assessments are fully reflected in their financial statements already and 12% say that whilst they have completed their impact assessment, this is not yet reflected in the financial statements.

As more organizations carry out an assessment, it is likely that more financial statement impacts will be understood.

b. Scope 3 Greenhouse Gas emissions

The survey asked respondents if their organizations are reporting on Scope 3 Greenhouse Gas (GHG) emissions as part of their TCFD disclosures. Scope 3 emissions are the emissions which the organization is indirectly responsible for, up and down its value chain.⁴ The TCFD and its recommendations are discussed further in the section: [A view from our subject matter experts: Climate and the audit committee.](#)

Are you reporting/planning to report Scope 3 emissions as part of your TCFD disclosures?



© Deloitte Global

Globally, just over one-third (36%) of respondents say that their organizations are reporting or planning to report Scope 3 emissions as part of their TCFD disclosures

The picture appears to be mixed by region—with 47% in APAC, but just 31% in EMEA, and just over a quarter of companies in the Americas (26%).

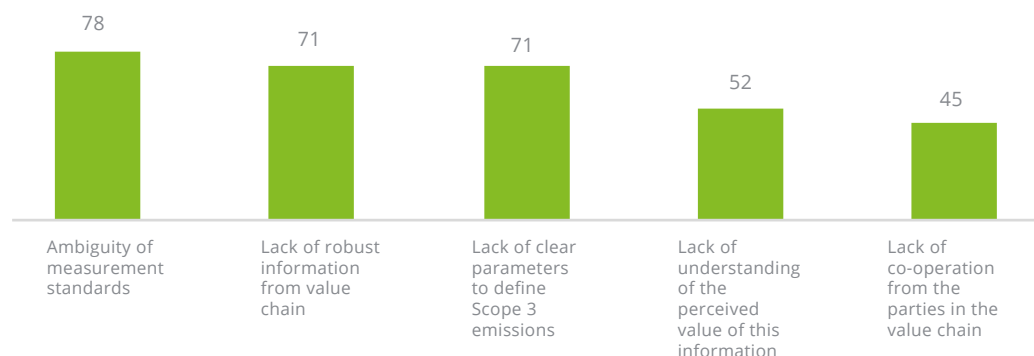


Three out of every four audit committee members (75%) say that their organization has not completed a comprehensive climate change assessment.



Respondents who are reporting or planning to report Scope 3 emissions are asked what the key challenges are in doing so.

If you are reporting or planning to report Scope 3 emissions as part of your TCFD disclosure, what are the key challenges you are facing in doing so? Please select all that apply.



	Global	Americas	APAC	EMEA
Ambiguity of measurement standards	78%	92%	77%	72%
Lack of robust information from value chain	71%	85%	71%	67%
Lack of clear parameters to define Scope 3 emissions	71%	77%	68%	69%
Lack of understanding of the perceived value of this information	52%	62%	58%	46%
Lack of co-operation from the parties in the value chain	45%	46%	58%	39%

© Deloitte Global

Those reporting or planning to report Scope 3 emissions indicated some serious challenges, including the ambiguity of measurement standards (78%), the lack of robust information coming from the value chain (71%), and the lack of clear parameters defining Scope 3 emissions (also 71%).

Commentary

The survey results show the magnitude of the task ahead, as companies accelerate their response to climate change, dedicating more resources, completing assessments, and finalizing carbon reduction plans. Scope 3 GHG emissions are significantly more difficult to quantify than those in Scope 1 or 2 — only 36% of respondents said they are reporting or planning to report these as part of their TCFD reporting.

Considering, however, that Scope 3 emissions are likely to be the most material part of a company's carbon footprint, companies need to get more comfortable with preparing and exchanging information to facilitate greenhouse gas reporting in the value chain.



Stakeholder interview: Sandra Boss

Sandra Boss, Senior Managing Director, is Global Head of Investment Stewardship for BlackRock and a member of BlackRock's Global Executive Committee. Sandra is a former senior partner at McKinsey & Co. and served at the Bank of England as an external member of the Prudential Regulation Committee and the senior independent member and Risk Committee chair of its board. Sandra also has served as non-executive director at Elementis Global and Enstar Group. She was also a Trustee for the McKinsey Master Retirement Trust and Chairman of the Edith Wharton Restoration charity.

We are long-term investors on behalf of millions of clients and, as such, we seek to understand the challenges and risks companies are facing and how they are managing them. To that end, we ask that companies provide comprehensive disclosures on their long-term strategy, the milestones involved to deliver it, and the governance and operational processes that underpin their businesses. In addition to robust financial disclosures, we ask that companies provide the data and narrative that help investors understand how they approach material business-relevant sustainability-related risks and opportunities. Climate risk is one of those risks.

We are greatly encouraged by the progress we have seen, as companies around the world are dramatically improving their sustainability disclosures and taking substantive action to adapt business models to mitigate climate risk and capitalize on new climate-related opportunities. We are also encouraged by global regulatory developments around sustainability disclosures, and we support international efforts toward a single, globally consistent set of baseline standards. Until such a global set of standards is established, we will, in our engagements with companies and the broader stewardship ecosystem, continue to advocate for reporting that aligns with the recommendations of the TCFD, supplemented by industry-specific metrics such as those identified by the Sustainability Accounting Standards Board (SASB).

We expect companies to provide a clear articulation of how they have integrated climate risks and opportunities into their long-term strategy and to detail how their business model is aligned with the global aspiration to reach net-zero GHG emissions by 2050. This should include short, medium, and long-term targets for GHG emissions reductions. We acknowledge that the path toward net-zero may not be linear or streamlined. Our ask is that companies provide adequate disclosure and articulate strategic changes that may impact progress, either negatively or positively. These short, medium, and long-term targets will allow everyone to track progress and identify innovative leaders.

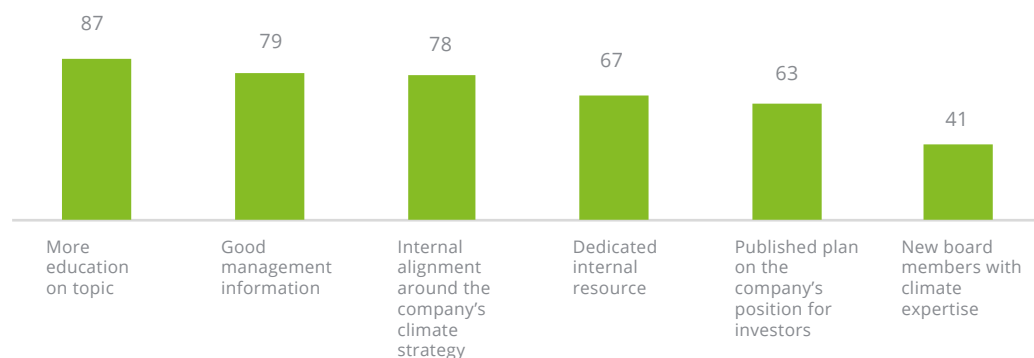
All directors, regardless of committee membership, should have sufficient fluency in climate risk and the energy transition to enable the whole board to provide appropriate oversight of the company's adaptation plan. We look to board directors on committees responsible for climate risk, which may be a dedicated ESG committee — or the risk or audit committee — to ensure appropriate board oversight and careful deliberation of issues.

Voting on the re-election of directors remains one of the most important ways that BlackRock and other investors can signal support for, or concern about, a board's oversight of management. We believe that when a company is not effectively addressing a risk that could impact long-term value, its directors should be held accountable. For example, this past year, we voted against the re-election of the former Chairman of the Audit Committee and the Chairman of the Governance Committee at a large holding company. In our view, a vote against was appropriate over shortfalls in the company's governance practices, climate action planning, and disclosure.



Advice for other audit committees

Audit committees that have invested time and energy getting ahead of the challenge offer good advice to those just starting out.



	Global	Americas	APAC	EMEA
More education on topic	87%	89%	81%	88%
Good management information	79%	75%	79%	81%
Internal alignment around the company's climate strategy	78%	77%	77%	78%
Dedicated internal resource	67%	64%	68%	68%
Published plan on the company's position for investors	63%	68%	58%	61%
New board members with climate expertise	41%	45%	41%	38%

© Deloitte Global

Top tips for audit committees include: more education on the subject (87%), ensuring good management information (79%), and internal alignment around the company's climate strategy (78%). There is a high degree of commonality here across all three regions.



Stakeholder interview: Kerrie Waring

Kerrie is the CEO of the International Corporate Governance Network

As global leaders convene for COP 26 to discuss priorities to tackle climate change, this survey provides useful insights into the role and preparedness of audit committees in meeting company commitments to net-zero transition plans and targets. Disappointingly it seems that this systemic threat barely features on committee meeting agendas and there is little appreciation of the impact climate change will have on the company's business model and long-term strategy. It is time for companies and their audit committees to step up to the plate and publicly commit to science-based targets⁵ that set the goal for how the business will be adapted to meet the needs of a net-zero economy by 2050. This requires regular reporting to shareholders on material climate-related impacts on the company's financial performance and how this translates into broader impacts on society and the environment.



Stakeholder interview: Tommy Millner

Tommy Millner is the Audit Committee Chair of Best Buy. Tommy is a former CEO and director of Cabela's Inc., a leading multi-channel retailer of hunting, fishing, and camping products.

For Best Buy, it was easy. We were leading in ESG before people were even talking about ESG. From the environment to diversity and inclusion to social justice, these issues have simply been a part of what we do at Best Buy; we pride ourselves in being leaders. We adopt a simple methodology: define ESG goals, report on them, measure them, and guess what? They tend to be achieved. At the end of the day, it's more than seeing ESG as a competitive advantage – though it certainly can be that – it is that we want to act as a responsible corporate citizen, and to lead.

Best Buy considers climate and the environment to be an enterprise risk, so all board committees play a part. While the audit committee plays a leading role, all committees own ESG risk, not just the audit committee. Our nomination/governance committee is deeply involved in sustainability initiatives; even the compensation committee is involved - in issues of diversity and inclusion - because if you don't link compensation to this, it may get lost. We have spent a lot of time thinking about how to deal with the challenge of climate change - including increased investment in solar fields to reach our carbon neutrality goals and launching a plan for recycling of electronic waste.

Going forward, I would say we must properly refresh boards and audit committees. We have a five-year rule at Best Buy: when you stop working in the type of role that you had when you joined the board – say, as CEO somewhere else – a five-year shot clock starts, and you must tender your resignation five years later. This acts as an enforcement mechanism that prevents entrenchment of directors. In the area of climate, a refreshed board – with new thought processes, greater sensitivities, and probably younger, too - is important to keep the pressure on these and other issues.



There will likely be gaps to fill on the Audit Committee, through learning and development, and possibly succession planning, too.

Climate and the audit committee

Veronica Poole, Vice Chair of Deloitte UK, and Global IFRS and Corporate Reporting leader



The headlines

Audit committees find themselves in the climate spotlight. They are viewed as responsible for clarity in how companies report climate commitments and measure progress: Countries have made commitments under the Paris Agreement; companies have also made their own commitments and need to measure and communicate progress against these; investors are asking for accurate data to be able to assess opportunities, risks, emissions, and other climate impacts; regulators are seeking higher standards in ESG reporting to eradicate “greenwashing” and “social washing”; and NGOs are increasingly pointing out shortcomings in this high stakes and fast moving area of company reporting.

The crux of the matter is that climate must be integrated with company strategy. From this integration commitments can be made, which, in turn, reorient the whole business with a rearticulated purpose—leading to adjustments to business operations, control processes, metrics, and reporting.

Many directors are now considering climate impacts when reviewing operational performance, budgets, forecasts, capital expenditure, and mergers and acquisitions — and many companies are also now prioritizing climate impacts when reshaping stressed supply chains. Traditional procurement functions, still focused on price and quality, will now include carbon as a decision criterion.

Directors serving on audit committees, viewed by shareholders and others as the “reporting arbiters” at companies, may not be experts in this area — but they rapidly need to become

climate literate. What does this mean? It implies not only a good understanding of their company’s operations and their impact on our planet (including third parties in the value chain) but also a solid understanding of both reporting requirements and emerging standards. The responsibilities of audit committees in relation to risk and internal control, internal and external assurance also need to reflect climate impacts. This entails no small investment of time from the director, and moreover, it requires reliable information flows from management as discussed later. Market scanning of good practices as they emerge will help the pack learn from the pioneers.

Does the audit committee need to shift its focus?

It’s an important question. Independent estimates suggest that over 90% of the value of companies is now represented by intangibles.⁶ The value of business critical assets such as people, technology, know-how, and brand value are all underpinned by trust and confidence, which now requires reliable and informative ESG reporting. Reputations, in turn, can be tarnished — and tarnished quickly — by ESG reporting that turns out not to be true.

The traditional deep focus areas for audit committees is the scrutiny of judgments and estimates in the financial statements — and here audit committees should shift focus to some degree — at the very least to ensure that the potentially significant impact that climate change can have on asset valuations and completeness of liabilities is appropriately reflected in the financial statements that the company discloses.

But the oversight responsibilities of audit committees may need to extend further: All directors should now also embrace how companies describe their business model and its resilience in the face of climate change, including existing and emerging climate-related risks. Some companies may need to change their business models entirely or they may face extinction. Where this is the case, it requires careful consideration as to how the strategy and milestones for this transition should be described to investors.

How does climate affect the audit committee's responsibilities?

The TCFD recommended disclosures, illustrated below, are a useful way of thinking about climate for audit committees. These 11 key disclosures under four areas are explored in more detail in TCFD publications and case studies.

TCFD's 11 recommended disclosures

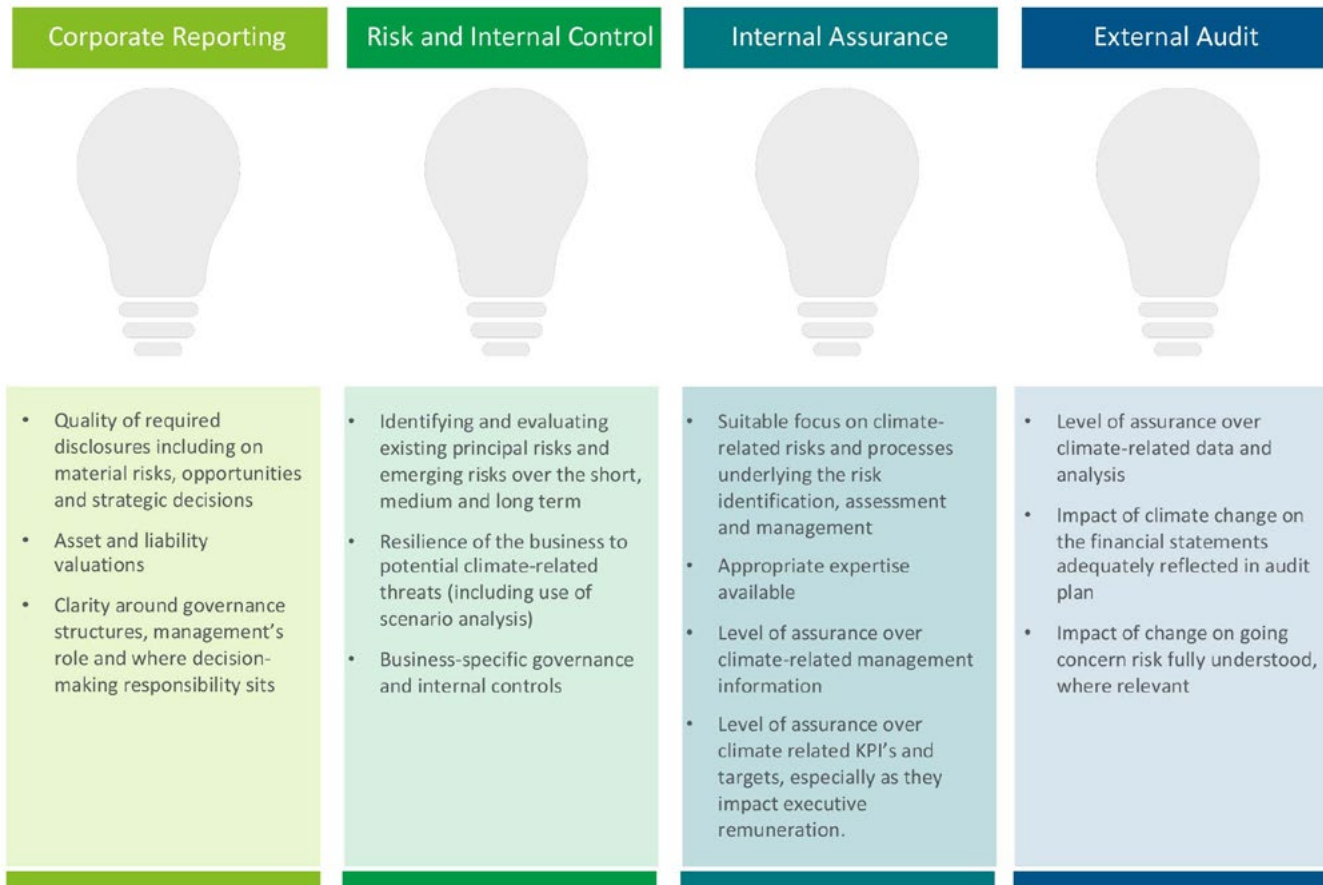
Governance	Strategy	Risk Management	Metrics and Targets
<p>Disclose the organization's governance around climate-related risks and opportunities.</p>	<p>Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.</p>	<p>Disclose how the organization identifies, assesses, and manages climate-related risks.</p>	<p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</p>
<p>Recommended Disclosures</p> <ul style="list-style-type: none"> Describe the board's oversight of climate-related risks and opportunities. Describe management's role in assessing and managing climate-related risks and opportunities 	<p>Recommended Disclosures</p> <ul style="list-style-type: none"> Describe the climate-related risks and opportunities the organization has identifies over the short, medium, and long term. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. 	<p>Recommended Disclosures</p> <ul style="list-style-type: none"> Describe the organization's process for identifying and assessing climate-related risks. Describe the organization's processes for managing climate-related risks. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management. 	<p>Recommended Disclosures</p> <ul style="list-style-type: none"> Describe the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. Describe the great targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Source: Implementing the recommendations of the Task Force on Climate-related Financial Disclosures, TCFD, 2021⁷

The diagram below reflects Deloitte's thinking about the key aspects of the audit committee's remit in relation to climate in reference to the recommendations of the TCFD. It may be a useful starting point and helpful to consider when reviewing your audit committee charter and agendas.

How the audit committee's responsibilities on climate address the TCFD

Key audit committee responsibilities:



(c) Global Boardroom Program
 For more detailed guidance on embedding ESG and TCFD considerations see our report, Living your purpose: A roadmap to integrated thinking and reporting Deloitte, 2021.

Changes in the audit committee's responsibilities: corporate reporting

With its focus on the integrity of corporate reporting, the climate literate audit committee will want to be able to judge for itself that all material climate-related risks, opportunities, and strategic decisions have been clearly incorporated in recognition, measurement, and disclosure. This is no small task in any business, whether in manufacturing, energy and resources, or services.

Audit committees will want to ensure that climate matters have been appropriately reflected in asset and liability measurement where material—this will involve an assessment of whether management's forward-looking assumptions and forecasts in respect of the climate-related risks and opportunities are robust and appropriately reflect the company's climate commitments and strategies. Many leading companies have chosen to disclose a carbon price assumption voluntarily, although not currently

required by reporting standards. Where one is used, disclosure is recommended;⁸ those that do not currently disclose a carbon price should consider the increasing demands to do so. Does the business use a carbon price in its investment appraisal and what carbon price is assumed in future forecasts?

Climate scenarios (e.g., Paris-aligned scenarios)⁹ will need to evaluate the different implications of medium and long-term scenarios across the entire value chain, not just in the operations that the company owns and controls. Audit committees will want to ensure that there is consistency of this scenario planning with the assumptions used in the forecasts which underpin impairment and other balance sheet recognition and measurement decisions.

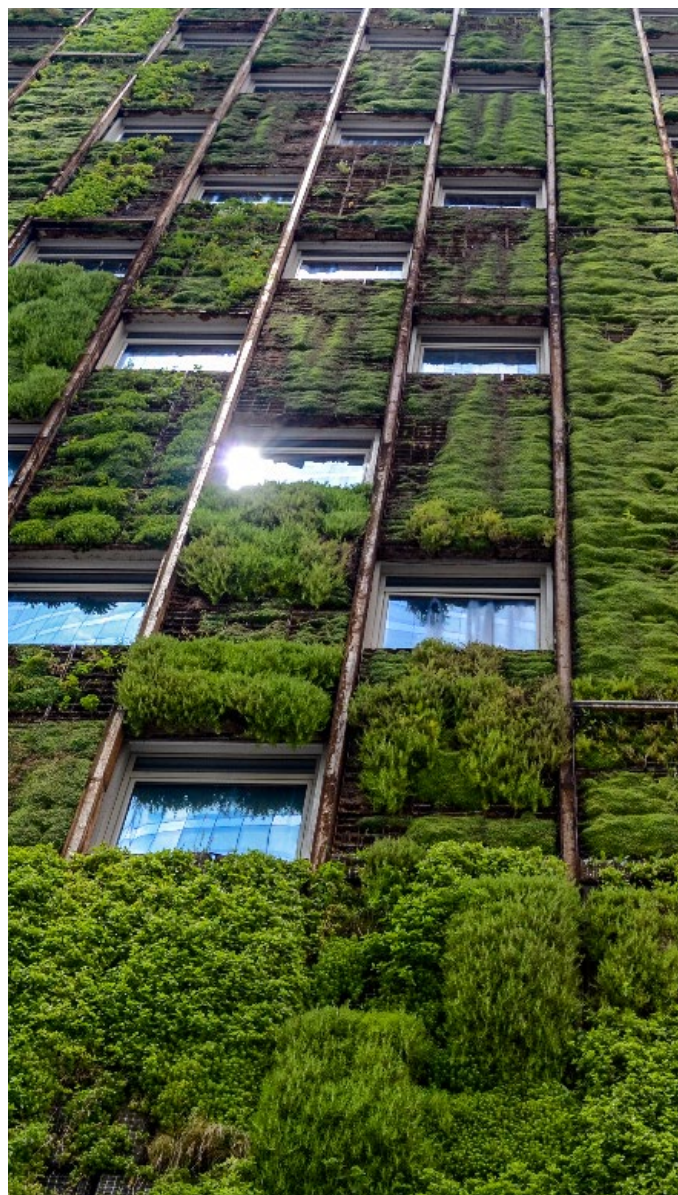
This modelling could prove to be complex and involve a number of hypotheses of future action and variations in carbon price.

The recommendations of the TCFD draw out the importance of the quality of climate governance at companies and place the board at the heart of the review and approval of all the TCFD disclosures. This emphasis on governance includes scenario analysis and ESG reporting. Audit committee members will also want to understand how climate decision-making takes place within the company, and to satisfy themselves that what is reported by the company reflects realities on the ground. This points to responsibilities and accountabilities throughout the organization — and about whether this is clearly described. Disclosures should seek to enhance stakeholders' understanding of the impacts of climate change on the company's performance over time.

In driving clear and robust corporate reporting, the audit committee will need to consider materiality. This is still financial materiality – but audit committees will need to consider longer time horizons and consider the entire value chain in considering materiality. And audit committee members may wish to consider how and whether the company's activities and business practices could exacerbate risks to enterprise value (for example, overuse of a resource that is essential to the ability of the company to generate enterprise value). The audit committee will want to think about areas such as trend information, and whether the key performance indicators (KPIs) presenting trends – in the annual report or elsewhere - are suitable and not misleading, as well as the figures themselves. For example, carbon per employee may be declining while overall carbon emissions might very well be on the rise. The board and committee members will want to have a deep understanding of how impacts can arise in the value chain and affect the business over time.

Another problem is an organizational one. The audit committee is used to dealing primarily with the finance function, but climate-related information often comes from outside the finance function. This means that climate reporting requires integrated thinking. The data involved relates to the organization as a whole — and many organizations are not yet sufficiently "joined up" in terms of thinking to provide audit committees with a clear line of sight. Suitable ownership and reporting structures need to be established; data may need to be scrubbed (data outside finance can be less reliable and may take some time to refine); and established internal control frameworks may need to be adapted to include carbon impacts. The number of companies tracking carbon through a carbon budget and then analyzing performance is currently very small. Yet it is increasingly recognized as important; audit committees should consider how they can judge carbon performance without this tool.

“Our ask is that companies provide adequate disclosure and articulate strategic changes that may impact progress, either negatively or positively. These short, medium, and long-term targets will allow everyone to track progress and identify innovative leaders.”



Changes in the audit committee's responsibilities: risk and internal control

At the heart of the matter is business decision-making. The audit committee will want to be confident that the company identifies and monitors current and emerging material climate-related risks, covering both physical and transition risks, to inform business decisions. Measurement and reporting on progress towards established targets are essential for accountability and addressing any concerns about resilience. This, in turn, requires an appropriate climate governance framework, with clear parameters and appropriate adaptation of the internal controls framework to enable climate vulnerabilities to be uncovered and for timely relevant data to inform the business strategic response.

Changes in the audit committee's responsibilities: internal assurance

The audit committee will want to have confidence regarding the quality of the management information used in the company's climate analysis — both for decision-making but also in corporate reporting for climate and TCFD disclosures. Audit committees will want to hear from executives how managers in the business are being upskilled to deal with climate-related risks and opportunities as part of the core business. They will also want to understand how the Chief Internal Auditor plans to upskill team members to provide appropriate challenge to management and help build confidence in climate-related management information through internal assurance.

"Audit committees play a key role ensuring that the quality of information on sustainability factors, including on climate change, is comparable and meets the standards of financial information."



**Changes in the audit committee's responsibilities:
external audit**

It is not just the audit committee that stands under the climate spotlight; external auditors are in a similar position. The audit committee should evaluate how climate-related matters have been incorporated into the work of the external auditor, along with any planned use of specialists and whether the external auditor has been provided with the information needed to identify and respond to climate-related risks to financial statements, and to assess adequacy and quality of the disclosure.

The auditor's final report to the audit committee should indicate the auditor's conclusions, material observations, and any difficulties encountered in undertaking the work they set out to perform.

It is also worth considering whether climate-related KPIs and disclosures that are outside the scope of the audit are critical to understanding business performance and resilience and should be subject to reasonable or limited scope assurance. Assurance can help build trust in the reported information.

Should the audit committee have this climate knowledge itself or ensure instead that expert advice is available to it on a regular basis?

Boards will reach different judgments on how to bring in expertise across the range of subjects within its remit. Now that climate is integral to the audit committee agenda, the audit committee also needs to ensure that expertise is available and being delivered in an effective way.

It is essential that audit committees understand specifically how climate impacts (or can impact) the company and how that relates to enterprise value.

It is therefore important that they have the knowledge to articulate the financial impacts of climate change, as called for by TCFD.

"We should not underestimate the complexity of climate change. For boards, addressing this complexity can be daunting, but I do not believe that it is simply a matter of placing specialists in the audit committee"

A final word

This area is moving fast: business models, supply chains, company policies, reporting standards, and data availability all need to be on the radar to ensure the audit committee is alive to emerging issues and to enable prompt and informative reporting on the financial impacts of climate change.

In its review of its own effectiveness, the audit committee will want to include assessment of its own climate competence as part of its regular review of skills and knowledge requirements. There will likely be gaps to fill through learning and development, and possibly succession planning, too. This sounds like a lot to consider, and it is. Addressing the climate challenge requires leadership and sustained effort over many years.



We must remember that this is an area that is still developing. We are all learning right now, and things are not perfect at the moment - on any board. There is no perfect set of standards. But this is no excuse for not embarking on the journey in the first place.





Stakeholder interview: Katherine Lee

Katherine is a member of the Audit Committee and Corporate Governance Committee of Bell Canada Enterprises. She is also a member of the Audit Committee and Executive Compensation Committee of Colliers International Group, and a member of Audit Committee, Investment and Risk Committee, and Corporate Governance Committee of Public Sector Pension Investments. Katherine was formerly the President and CEO of GE Capital Canada and CEO of GE Capital Real Estate in Canada

I sit on three company boards, each different by industry and geography – Canada's largest communications company, a leading global real estate services and investment management firm, and one of Canada's largest pension investment managers. Each of their strategies in relation to climate change is different because of their respective industry, geography, and different stakeholders. As we learn more on this topic, the risks and opportunities related to climate change, we're evolving and getting it better each year. My personal view is the climate change strategy should start with company culture, doing what's right, and doing it better each year.

A major change in common is that our response to climate change is now in the 'Take Action' phase. Today we have a framework towards solving climate change: five years ago, it was more of a conversation. The change has been significant over recent years. BCE has significantly accelerated their climate efforts and anchoring their strategy across four pillars, communicating their commitments and leading initiatives with their Bell for Better platform; Colliers is taking on ambitious goals with Elevate the Built Environment strategy; and PSP states their policies in their Responsible Investment Report, all launched this year. As early as 2018, PSP developed a climate change corporate view to guide investment and decision-making in the context of emerging risks and opportunities. Each of the companies has taken on dedicated resources, and Colliers has created a new role and hired a dedicated leader from the energy industry, so ahead in terms of climate change expertise to drive results, implement the necessary governance, and manage all reporting – they will each lead, drive, and monitor the progress. I believe the plan is about making climate pledges judiciously, not promises, defining our ambition with targets, and measuring the progress with accountability.

For most directors and audit committee members, solving for climate change is a work in progress, learn as we go. Navigating uncertainty with transparency and monitoring the new climate change measures will be a new practice.

In terms of skillset, we need the Board to have a sound knowledge of climate change from third party experts, an independent view to assess our actions against the accelerated timeline. In terms of having a climate change expert on the Board – in the past we brought in experts on diversity, technology, and other specialized areas. Perhaps we should consider doing the same for climate — we are not there yet.

In the upcoming AGM season in 2022 and beyond, I expect the number of questions we receive around the topic of climate change will increase. Investors and other stakeholders will have increasingly specific questions around our strategy on climate change. Their questions were previously about our views, pledges, and strategy: going forward I think it'll be around monitoring, metrics, and reporting. Companies will be expected to address their credible climate action plan and how their climate plan is driving towards Net Zero. I believe the plan, both short and long term, should address how companies are developing the right metrics specific for the company and their industry, single out a couple of priorities, and address the risks of going overboard at the expense of financial metrics. The upcoming COP 26 Climate Conference in November will provide new commitments that we'll look out for and digest. We will need to figure out how to monitor, measure the progress, and how the measure needs to be auditable. That's where the audit committee's role comes into play, an essential part of the governance structure. The Board's responsibility is to stay current and manage climate-related risks and opportunities. We're keeping a close eye on new developments to integrate the latest information in our strategy and processes.



Background on climate and sustainability reporting: Toward more globally consistent reporting



What factors drive demand for ESG information today?

Investors and other users of corporate information are increasingly demanding comparable and reliable information because long-term returns are affected by global economic growth and wider societal and environmental issues. In turn, these have a direct impact on the performance and prospects of companies. Much of the value of a business today is non-financial, represented by technology, intellectual capital, human capital, and the social license to operate. Investors and others require insight into these factors in order to understand how value is created and sustained. Many of today's companies see themselves as serving ends that go beyond financial success, and many are adopting a purpose-led approach. However, if companies are going to be "purpose-led", it is important that they measure and report on the results of their efforts to live up to the purpose they define for their enterprise. Doing so enhances integrity and authenticity in the environmental and social strategic goals companies have set out.

Why do we need global sustainability reporting standards?

Simply put, global standards are needed because voluntary sustainability reporting standards and frameworks have proven insufficient to promote consistent and comparable ESG performance information.

There is a lack of consistent and comparable information (including period to period, company to company, and within sectors) and an inconsistent quality in the governance and controls over information, as well as in the type and extent of third-party assurance provided over that information. Selective reporting that does not connect narrative information and financial information can lead to "greenwashing" — a kind of misleading optimism or false impression that things are better and more environmentally friendly than they are in reality.

Consistent global standard-setting is essential to achieve general acceptance (including acceptance from capital markets) of reporting requirements. Such an approach allows for principles of legitimacy, independence, transparency, public accountability and oversight, and a thorough due process. Applying these principles should enable the development of high-quality sustainability reporting standards, which can lead to consistent, comprehensive, and comparable information.

What is the landscape? Who are the standard setters for ESG disclosure?

The landscape is changing fast. We are on a journey to global sustainability reporting standards. At COP 26, we welcomed the announcement of the establishment of the International

Sustainability Standards Board (ISSB) that will sit under the umbrella of the IFRS Foundation, alongside the existing International Accounting Standards Board (IASB). A climate-related financial disclosure standard could be published in June 2022, built on the existing work of leading sustainability standard-setters and framework providers, including the TCFD recommendations.

The intention is that the ISSB sustainability standards should be adopted worldwide to establish a consistent global baseline of requirements that companies will report in their mainstream annual reports. This is an approach that has been recommended by IOSCO, IFAC and others, and is supported by the G7 and G20. Achieving a global baseline will fulfil the need for investors and other users of annual reports to have globally consistent and comparable information on sustainability matters that drive enterprise value.

For further analysis of the journey to globally consistent ESG reporting, please click [here](#).



Questions to ask

The expertise of the audit committee

Does the audit committee chair drive a proactive approach to high-quality climate reporting?

Does the audit committee as a whole have climate competence?

Has the audit committee received relevant training on industry context on climate change, accounting for climate in the financial statements (including forecasting), and disclosure in line with recognized standards such as TCFD and SASB?

Audit committee meetings and terms of reference

Is climate a specific topic on the audit committee agenda? If so, is it given sufficiently frequent attention?

Does the audit committee conduct appropriately detailed “deep dives” into climate, including in relation to the most critical areas and judgments?

Has the audit committee’s role regarding climate-related matters been recognized in its terms of reference, or charter?

Oversight of accounting judgments, business and financial reporting, and other company announcements

Is the audit committee confident that it receives sufficiently robust management information and metrics (both financial and non-financial)?

Does the audit committee consider the level of internal or external assurance on climate-related matters published by the company?

Has the audit committee assessed management forecasting and scenario testing on climate-related risks in light of recognized scenario data, the industry circumstances, and the business model?

Has the audit committee considered disclosure of the carbon price assumption behind financial judgments?

Does the audit committee review all information outside the annual financial statements, for example, TCFD disclosures, to ensure it is both reliable and consistent with information used in preparing the financial statements?

Risk management and internal control

Does the audit committee consider that the company’s procedures for identifying emerging risks can be successful in identifying and assessing material climate-related risks, covering both physical and transition risks?

Has the audit committee ensured that there is an appropriate climate governance framework, with clear parameters and appropriate adaptation of the internal controls framework, so that controls around business decisions support the company’s climate objectives?

In the risk area, has the audit or risk committee confirmed that the business is undertaking a proper inventory of its assets or operations to assess climate vulnerabilities and that the business is addressing any resilience issues identified?



Contents of the annual report

Does the annual report follow the TCFD's fundamental principles for effective disclosure?

Principle 1: Disclosures should present relevant information

Does the annual report:

- Provide information specific to the potential impact of climate-related risks and opportunities on its markets, businesses, corporate or investment strategy, financial statements, and future cash flows?
- Include sufficient detail to enable users to assess the organization's exposure and approach to addressing climate-related issues?
- Provide information from the perspective of the potential impact of climate-related issues on enterprise value, taking into account and addressing the different time frames and types of impacts?
- Explain where necessary that omitted risks or issues are not significant to the annual report?
- Avoid boilerplate disclosures that do not add value to users' understanding of issues?

Principle 2: Disclosures should be specific and complete

Does the annual report:

- Provide a thorough overview of:
 - the organization's exposure to potential climate-related impacts;
 - the potential scale and likelihood of such impacts;
 - the organization's governance, strategy, and processes for managing climate-related risks; and
 - metrics and targets used in relation to managing climate-related risks and opportunities?
- Contain disclosures covering both historical and future-oriented information in order to allow users to evaluate their previous expectations relative to actual performance and assess future prospects?
- Include metrics that adequately describe or serve as a proxy for risk or performance and reflect how the organization manages the climate-related risks and opportunities?
- Clearly explain any definitions used in quantitative disclosures, along with the scope of those disclosures, for example which emissions and, in the case of Scope 3, which emissions categories are included in any emissions targets?
- Is the base year from which such emissions targets are measured clearly indicated, and is absolute and relative information disclosed?
- Make it clear what key assumptions are used, for example relating to forecasting?

- Include a clear explanation of the company's governance structure and oversight of climate matters, linked where appropriate to the TCFD framework – for example, training, processes for receiving climate-related information, board and committee monitoring and oversight activities, executive remuneration linked to the achievement of sustainability and climate change targets?

Principle 3: Disclosures should be clear, balanced and understandable

Does the annual report:

- Provide clear disclosure regarding climate that covers the needs of a variety of users of the report, going beyond compliance with minimum standards where appropriate?
- Enhance narrative disclosure with numerical and graphical presentations, ensuring both quantitative and qualitative information is covered?
- Portray risks as well as opportunities in a balanced manner?

Principle 4: Disclosures should be consistent over time

- Does the annual report provide necessary detail on any changes in metrics, assumptions and types of disclosure to enable them to be compared between periods?

Principle 5: Disclosures should be comparable among organizations within a sector, industry or portfolio

- Does the annual report provide sufficient detail to enhance comparison of risks between organizations, for example by including TCFD recommended metrics categories, or sources such as SASB Standards?

Principle 6: Disclosures should be relevant, verifiable, and objective

Does the annual report:

- Provide disclosure that is reliable, accurate and free from bias, without disproportionate focus on "good news" stories in parts of the business that are not material?
- Explain the judgments that have been taken with regard to methodologies used and assumptions applied?

Principle 7: Disclosures should be provided on a timely basis

- Is relevant and timely information included at least annually and more often in the case of disruptive climate-related events?



About the Audit Committee frontier

The world of the Audit Committee is changing fast, and critical topics move at pace. When on the agenda, these new topics require investment in learning, acquiring experience, and developing judgment both on the part of company management and around the audit committee table.



This series about the Audit Committee Frontier, from the Deloitte Global Boardroom Program aims to address the critical issues on the frontier — a place unfamiliar and challenging. Each report, beginning with the present one about climate change, will address a topic on the audit committee agenda that requires development and greater attention. These reports are intended to help audit committee members with insightful commentary, from both Deloitte subject matter experts and those who deal with the issue in their daily lives — whether company executives, investors, regulators, or audit committee chairs. Each report will also include the results of a survey of audit committee members and chairs, taking the pulse of committees globally.

The word “frontier” for this series is chosen advisedly: Each of the issues in the series sits squarely in a landscape that is, in a sense, difficult and unmapped. There will be obstacles in tackling them, difficulties to overcome, and decisions to take with imperfect information. Travelers in this environment require something different: a thoughtful guide and a level of nuanced thinking that will help them navigate the way through.





Contacts

Deloitte Global Boardroom Program

Dan Konigsburg
dkonigsburg@deloitte.com

William Touche
wtouche@deloitte.co.uk

Global Audit & Assurance Leadership

Jean Marc Mickeler
jmickeler@deloitte.fr

Veronica Poole
vepoole@deloitte.co.uk

Global Business Assurance Leader

Anne Jones
annejones@DELOITTE.no

Global Assurance Accounting & Reporting Leader

John Kent
jkent@deloitte.com.hk

Deloitte Sustainability Leaders

Australia
John O'Brien
johnobrien@deloitte.com.au

Canada
Nura Taef
(also Global Assurance Climate & ESG Specialist)
ntaef@deloitte.ca

Denmark
Helena Barton
hbarton@deloitte.dk

France
Marc Van Caeneghem
mvancaeneghem@deloitte.fr

United Kingdom
Tim Archer
tarcher@deloitte.co.uk

United States
Jen Steinmann
jsteinmann@deloitte.com

Scott Corwin
scottcorwin@deloitte.com

Kristen Sullivan
(also Global Assurance Climate & ESG Leader)
ksullivan@deloitte.com

Deloitte Member Firm Boardroom Program

Leaders
Australia
Paul Rehder
prehder@deloitte.com.au

Belgium
Rik Neckebroeck
rneckebroeck@deloitte.com

Canada
Jonathan Goodman
jwgoodman@deloitte.ca

China
David Wu
davidwjwu@deloitte.com.cn

Denmark
Martin Faarborg
mfaarborg@deloitte.dk

France
Ariane Bucaille
abucaille@deloitte.fr

Germany
Arno Probst
aprobst@deloitte.de

India
Sachin Paranjape
sapananjape@deloitte.com

Italy
Silvia La Fratta
slafratta@deloitte.it

Japan
Kenichi Kimura
kenichi.kimura@tohatsu.co.jp

Netherlands
Liesbeth Mol
EMol@deloitte.nl

Singapore
Gek Choo Seah
gseah@deloitte.com

South Africa
Mark Victor
mvictor@deloitte.co.za

Spain
Xavier Angrill
xangrill@deloitte.es

United Kingdom
William Touche
wtouche@deloitte.co.uk

US
Carey Oven
coven@deloitte.com



References

1. Note that this is based on the location of the company of which the respondent is a member of the audit committee.
2. Other types of entities include state-owned entities and not-for-profit organizations. Respondents generally represent larger companies: 61% of respondents serve at companies with a market capitalization of USD \$700 million or more.
3. See [Task Force on Climate-Related Financial Disclosures | TCFD](https://www.fsb-tcfd.org/) (fsb-tcfd.org).
4. See more on Scope 3 emissions, along with Scope 1 and 2 emissions, for example here: [Explained: What are Scopes 1, 2 and 3 | Deloitte UK](#).
5. See more on Science Based Targets here: [Ambitious corporate climate action - Science Based Targets](#)
6. [Intangible Asset Market Value Study | Ocean Tomo](#)
7. https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf
8. The TCFD recommends disclosing a carbon price where used. See more on the TCFD recommendations at: https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf.
9. https://www2.deloitte.com/content/dam/Deloitte/fr/Documents/sustainability-services/deloitte_climate-risk-assessment.pdf.



Acknowledgments

The Deloitte Global Boardroom Program would like to thank all of its professionals in our Boardroom Programs around the world who assisted with drafting, editing, and reviewing this publication. A special thanks to our data scientist: Krishnendu Bal; UK corporate governance team: Tracy Gordon and Corinne Sheriff; Deloitte UK: Neil Stevenson; our design team, Julia Rutherford and Yolanda Baker; and our editorial team, Dilip Podar and Blythe Hurley from Deloitte Insights. Lead authors of this publication are Aurelien Rocher and Jo Iwasaki at the Global Boardroom Program.

About Deloitte's Global Boardroom Program

The Deloitte Global Boardroom Program brings together the knowledge and experience of Deloitte member firms around the world to address critical topics of universal interest to company boards and the C-suite. Supplementing geography programs, its mission is to promote dialogue among Deloitte practitioners, corporations and their boards and management, investors, the accounting profession, academia, and government. In addition to the publication of thought-pieces on critical topics, the Deloitte Global Boardroom Program hosts a series of must-see webinar discussions with eminent panellists to enable boards and management of global companies to challenge perceived wisdom. For more information about the program contact globalboardroomprogram@deloitte.com.

[Find us online](#)



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte provides industry-leading audit and assurance, tax and legal, consulting, financial advisory, and risk advisory services to nearly 90% of the Fortune Global 500® and thousands of private companies. Our professionals deliver measurable and lasting results that help reinforce public trust in capital markets, enable clients to transform and thrive, and lead the way toward a stronger economy, a more equitable society and a sustainable world. Building on its 175-plus year history, Deloitte spans more than 150 countries and territories. Learn how Deloitte's more than 345,000 people worldwide make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms or their related entities (collectively, the "Deloitte organization") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

The interviewees' participation in this report is based on their knowledge of the subject, and the views expressed by them are solely their own. This article should not be deemed or construed to be for the purpose of soliciting business for any of the organizations mentioned, nor does Deloitte advocate or endorse any services or products provided by these organizations.