

Climate risk in the statutory audit

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Today's presenters



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Financial Reporting Council



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Ask a question



The screenshot shows a mobile application interface for asking questions. At the top, it says 'Q&A'. Below that, there is a section for a question and answer. The question is 'What happens when I raise my hand?' with a timestamp of 18:03. The answer is 'I can take you off of mute.' with a timestamp of 18:04. Below the answer is a large empty text input field with the placeholder text 'Please input your question'. At the bottom left, there is a checkbox labeled 'Send Anonymously'. At the bottom right, there is a blue button labeled 'Send'.

To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type your question and click send

NOTE: If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration.

Contents

FRC's Climate Thematic

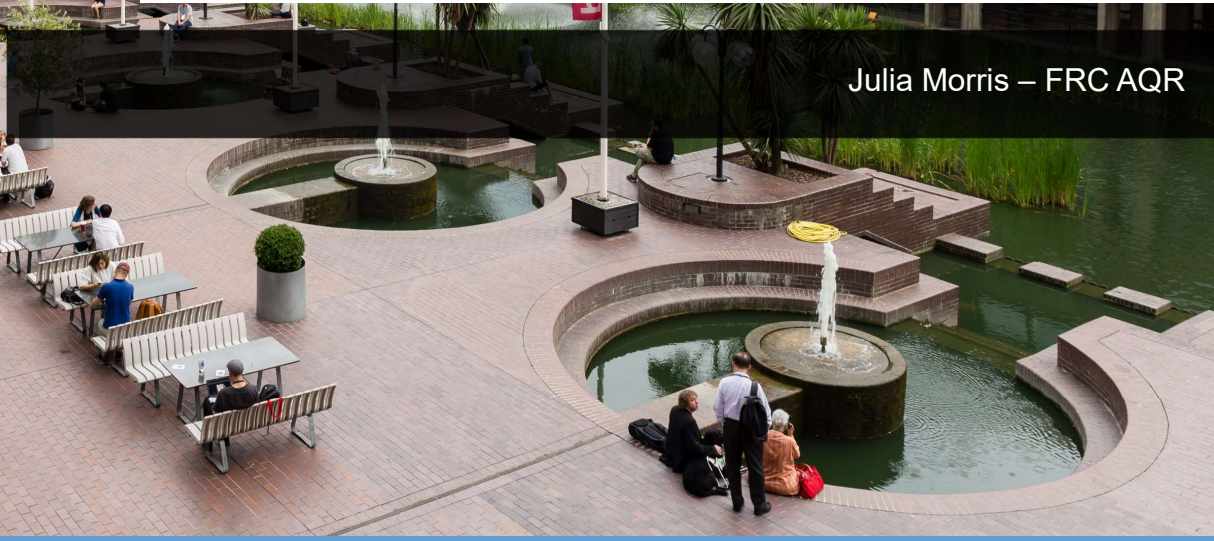
Key findings

Putting it into practice

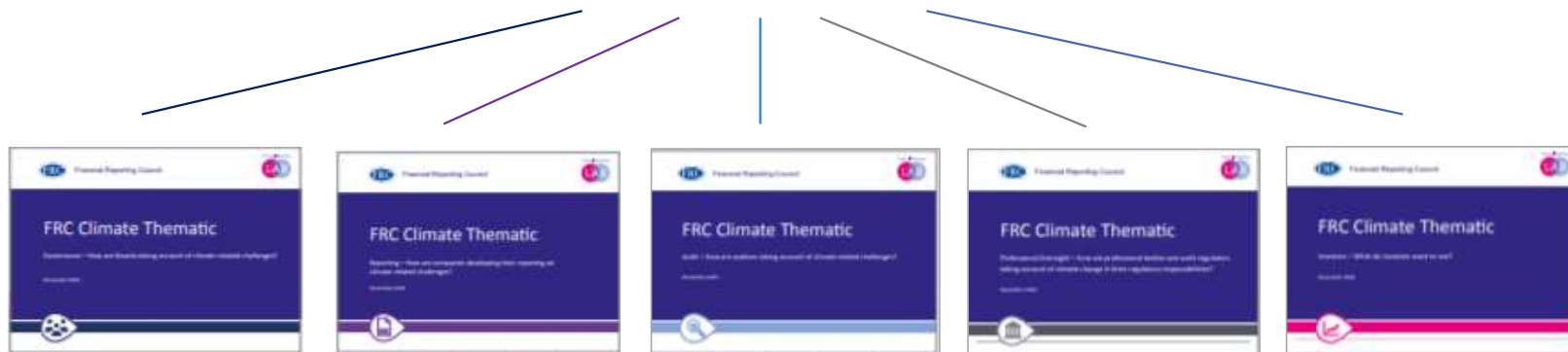
Questions



Climate Change and Audit



Julia Morris – FRC AQR



Find our reports here:

<https://www.frc.org.uk/investors/climate-thematic-review-2020>

Climate Change and Audit

FRC Climate Thematic



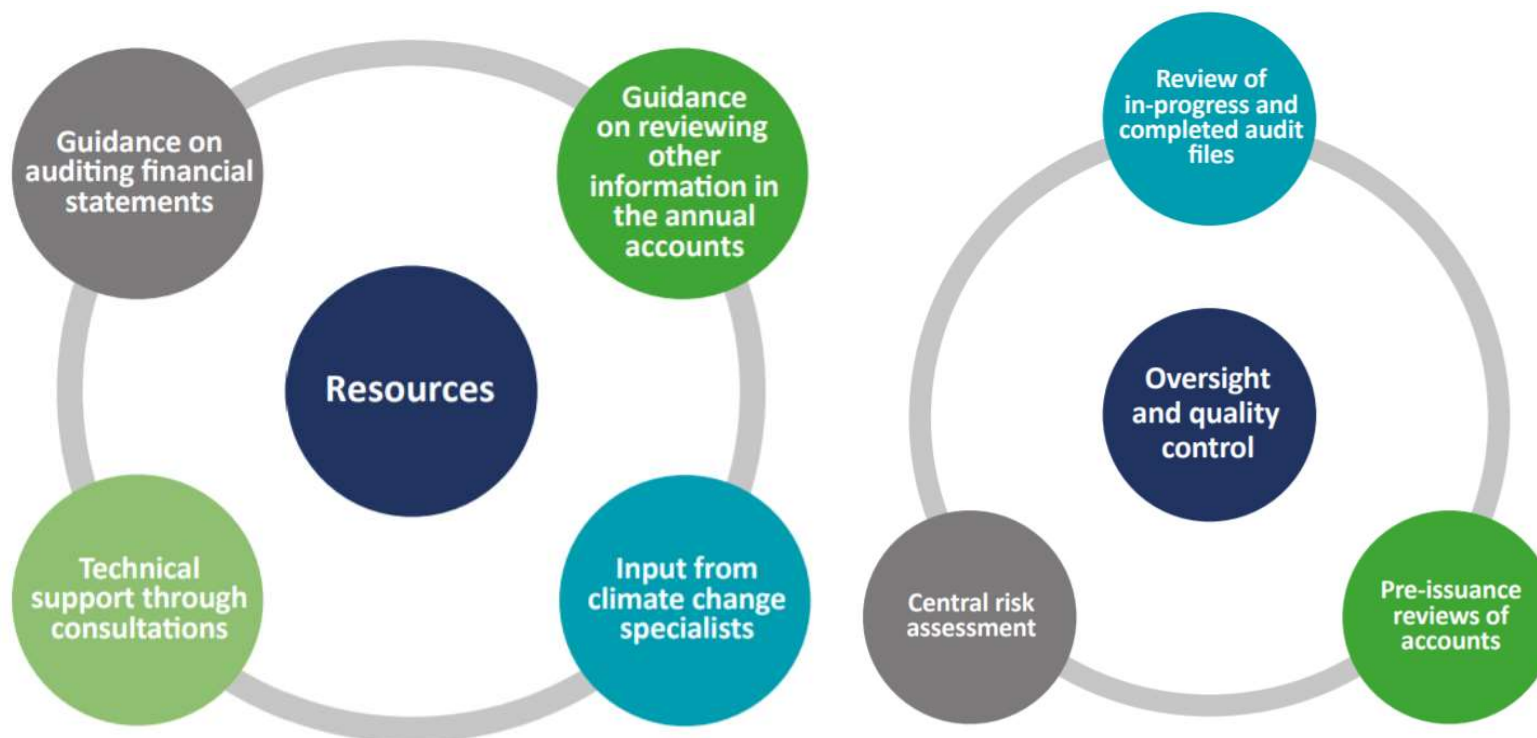
Climate change and audit – why does it matter?

What did our thematic look at?

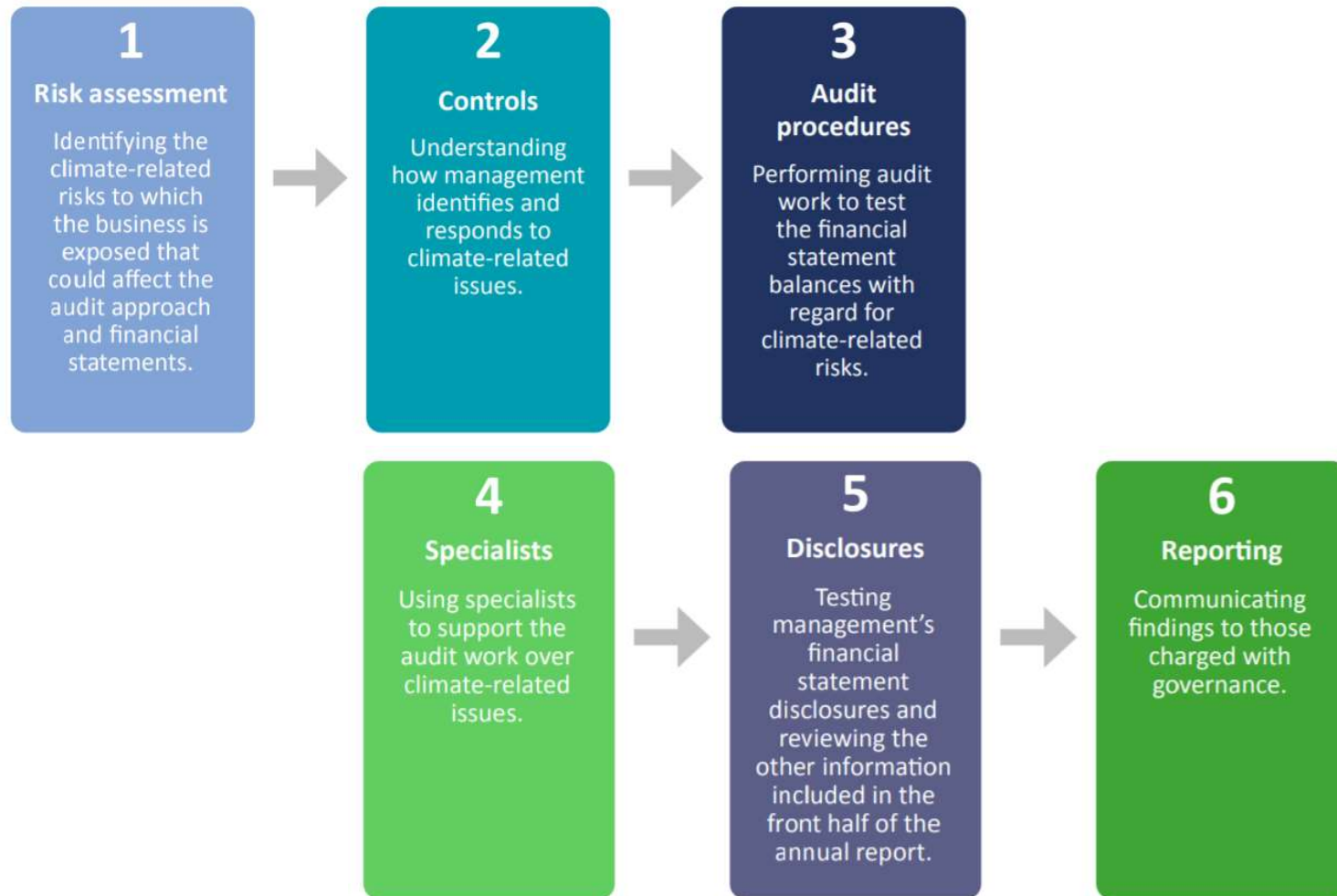
What did we see?

Where are we now?

Firmwide procedures – what did we look at?

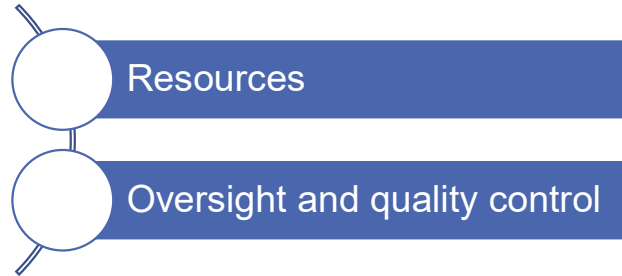


File reviews – what did we look at?



Key findings

Firmwide work



File reviews

| Risk assessment |
|--|
| <ul style="list-style-type: none">• Consideration of principal and emerging risks• Independent analysis• Granular and complete risk analysis• Understanding environmental legislation• Sufficiency of evidence• Use of firms' templates• Good practice |

| Other findings |
|---|
| <ul style="list-style-type: none">• Lack of review of management's processes and controls• Limited audit procedures• Using specialists• Sufficiency of disclosure work• Generic reporting to TCWG |



What next?



Putting it into practice

Do you know enough about climate?

Deloitte.



[Learning](#) | [Interviews](#) | [Resources](#) | [Contact us](#)



What does climate change mean for business?

Understanding the role of finance professionals

Climate change is likely to drive some of the most profound changes to businesses in our lifetimes.

Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events. These effects are now compounded by the accelerating pace of policy and regulatory change as humanity recognises the challenge we face and the drastic and rapid actions we all must take in order to protect our planet and our own livelihoods.

Discover how to think through the challenges and futureproof your business through [learning](#), [interviews](#) and [resources](#).

The time to act is now!

<http://www.deloitte.co.uk/climatechange>

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Learning

Context / Awareness



Why climate change is an issue for humanity



Why climate change is a current issue for business



Why it's time for businesses to adapt

Implementation



Why should businesses think about climate change?



Bringing climate change onto the board agenda



Strategy and risk assessment



Opportunities and scenario analysis



Choosing metrics and targets



Financial statement impact



Narrative reporting in the annual report

“Everything is risk assessment”

- Broader business risks including:
 - Policy/legal
 - Technology
 - Market
 - Reputation
- Identifying and assessing risks of material misstatement is key
- Before we assess risk – have management? TCWG?
- Are there controls? Should there be?
- Evidence...

Standard

FRC

July 2020

ISA (UK) 315 (REVISED JULY 2020):
Identifying and Assessing the Risks of
Material Misstatement

“How might the business be affected?”



Shell: Netherlands court orders oil giant to cut emissions

© 26 May

Climate change



Activists hugged in court after the judge delivered the verdict



SMEs: are you professionally ready for climate change?

Key questions to ask

There are a number of areas where SMEs can see climate risks and opportunities within their business activities including:

- finance and investment;
- insurance and risk management;
- energy use and supply;
- fleet;
- property and estate;
- operations;
- workforce;
- supply chain;
- growth and export; and
- regulation.

What does climate change mean for your business?

Are your operations designed to cope or designed to thrive?

Are specific sectors more at risk?

Can you benchmark existing performance?

What will your business look like in a net zero UK?

“Through a glass darkly” vs “rose-tinted spectacles”

2°?



**UN CLIMATE
CHANGE
CONFERENCE
UK 2021**

IN PARTNERSHIP WITH ITALY

1.5°?

Towards the end...

- ISA (UK) 720 – have you used the broader knowledge from a better understanding of the entity?
 - Principal risks and uncertainties – medium-sized companies and larger
 - S172 statement – large companies
 - Non-financial information – PIEs > 500 employees
 - UK Corporate Governance Code: viability statement, emerging risks
 - Energy and carbon reporting regulations – quoted, large
 - TCFD – increasing range of companies
- Stand back – is everything consistent?
- Have you reported under ISA (UK) 260? 265? Considered 540?
- Have you thought about next year – TCFD? COP26? Energy sources, prices and taxes? Consumer demand?

ICAEW Climate hub

icaew.com/climatechange



Are you professionally ready for climate change?

Climate change, or the climate emergency is an issue that is defining our time. Are you professionally ready to mitigate the risk and maximise the opportunity of climate change? We at ICAEW are committed to enabling our members and the broader profession to respond to these challenges. Find resources, information and inspiration on the ICAEW Climate Hub. The time for business to act is now.

Future events

[icaew.com/aafevents](https://www.icaew.com/aafevents)



2021 Financial Reporting, Audit and Assurance Conference

11-12 October

www.icaew.com/frafconf



Any questions?

Thank you for attending



Please take the time to fill out our short survey:
[Survey link](#)



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