

“Companies Parachute Accountants in to Fix Flawed ESG Data” says Financial Times (1/17/2023)

Tips for a Soft Landing

What are the accountants parachuting into? What will they find?
What are they even looking for?



The SEC proposed rule for climate related disclosures included a requirement to report GHG emissions inventories - and attestation – with a final rule expected shortly. The ISSB is also expected to issue standards for reporting climate risk, including GHG emissions inventories. TCFD includes it. The field of GHG emissions reporting isn't as old as financial reporting, but it isn't brand new either. CDP has encouraged voluntary disclosure of GHG emissions for over 20 years. What is new is the demand from the broad investment community, and their insistence on having accurate, reliable data to make decisions related to capital.

Will accountants see if the Scope 1 GHG emissions are really 1,234 tons of CO₂e, and the Scope 2 inventory is really 56,789 tons, for example? And if the Scope 3 emissions are in the right categories, and are right? Yes, no, and maybe.

Users of non-financial information – especially those providing capital – want accuracy and reliability. They want the same confidence as for financial reporting. Accountants are interested in relevant processes, systems, and internal controls that should yield information to meet stakeholder needs.

GHG emissions reporting is the culmination of efforts that touch many organizational groups, from Accounting, Communications and Compliance to Tax, Transportation and Travel. And a dozen functions in between. What is the governance among these functions? Between facilities, business units, corporate, and the board? What role has internal audit played? Are processes documented and well-designed? Are they implemented as designed? Are the activities suitably documented? Could a reasonably smart team follow the process and get the same result? And is the result correct?

1. Ensure that Accounting and Finance are embedded in your climate cross-functional team.
2. Revisit all processes. Match them with activities and documentation.
3. Be honest about uncertainties. Everyone has them.
4. Begin a list of questions. Accountants (internal and from external firms) really are there to help you.
5. Invest in readiness efforts. This can make everything more effective, efficient, and economical.

You'll see accountants wearing a different kind of “green visor” when they take off their parachutes.

See more at www.douglashileman.com.