

CLIMATE ACTION AND THE ACCOUNTANCY PROFESSION: BUILDING A SUSTAINABLE FUTURE

Belatedly, but with increasing urgency, organisations are finally starting to grasp the scale of the climate emergency that our world is facing. And the challenges we must confront if we are to have any hope of restricting global greenhouse gas (GHG) emissions to 1.5°C – as the latest IPCC report released ahead of the United Nations Climate Change Conference (COP26) makes clear in the starkest terms.

This change is being driven by several factors including government policy, regulation, investor pressure, consumer action and the growing presence within organisations of Gen Z employees – who are particularly aware and vocal about how their futures will be shaped by climate action or inaction. Most recently, the Covid-19 pandemic has further underlined to all generations of employees just how vulnerable their organisations can be to existential risks.

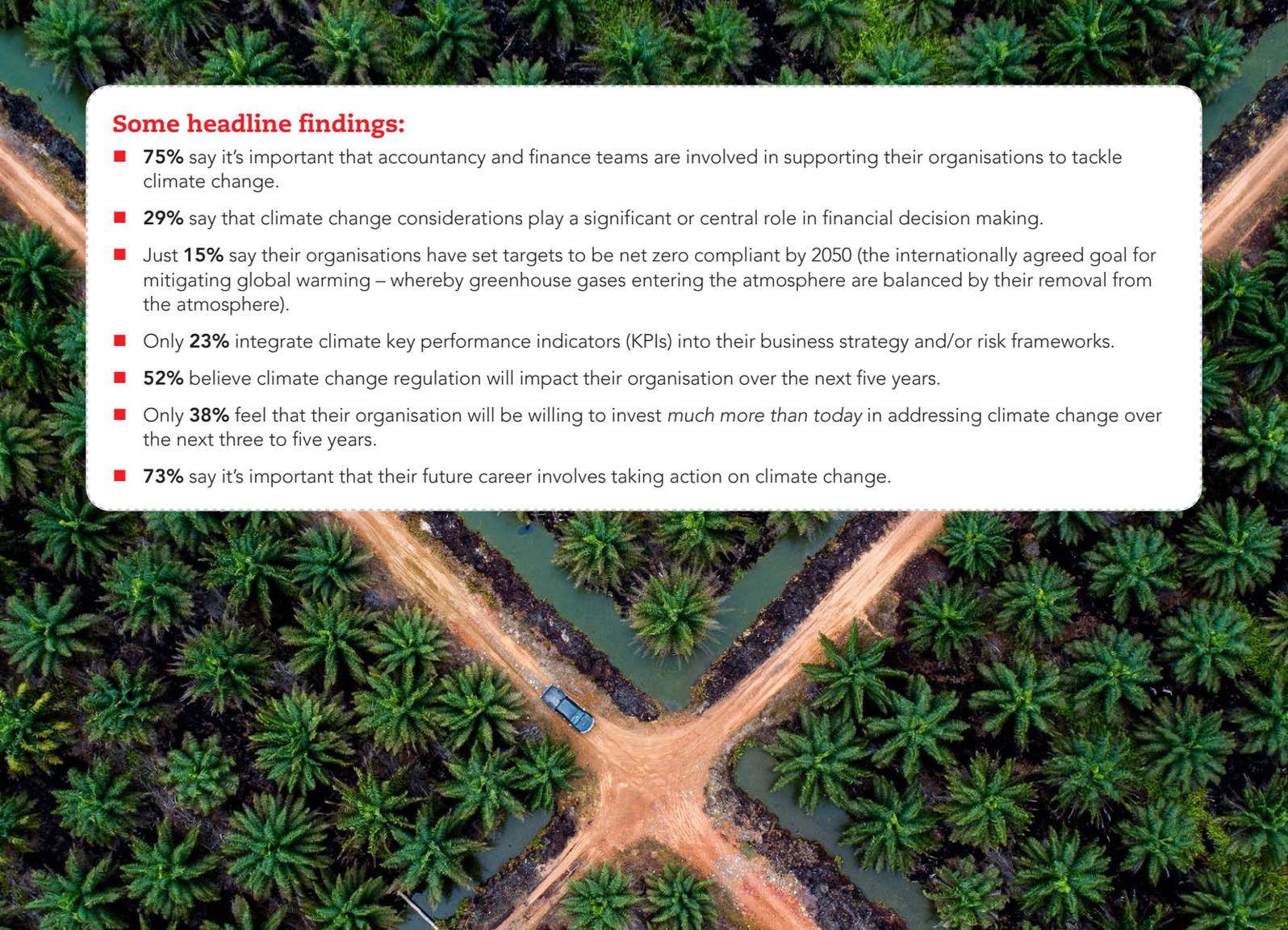
As they do so, these organisations are focusing on the value of their environmental and social impacts – both negative and positive – to their own business and greater society. This is prompting a shift within organisations whereby climate risk is no longer seen as the responsibility of a few specialists. Instead, organisations are looking to accountancy and finance professionals to show leadership; and develop and implement strategy around climate and nature-related impacts on business models.

In this new report, we consider just how accountancy and finance professionals can provide leadership – and what needs

to change within organisations for them to achieve carbon emission reductions at the pace and scale that is required.

To inform our thinking we commissioned a survey of more than 3,000 accountancy and finance professionals from the global ACCA community spread across the corporate, public, financial, and non-profit sectors. We asked small, medium, and large-sized businesses how climate risk is being addressed in their own organisations. We also conducted a series of regional roundtables around the world to provide context on the major climate risk themes being considered globally.

These findings and discussions emphasise an appetite for fully embracing climate considerations at the very core of business strategy. They also show an understanding and desire among accountancy and finance professionals to play a central role in shaping this strategy and leading organisations into the future. However, the findings and opinions also reveal just how disconnected the good intentions are from the urgency of climate action that is needed.



Some headline findings:

- **75%** say it's important that accountancy and finance teams are involved in supporting their organisations to tackle climate change.
- **29%** say that climate change considerations play a significant or central role in financial decision making.
- Just **15%** say their organisations have set targets to be net zero compliant by 2050 (the internationally agreed goal for mitigating global warming – whereby greenhouse gases entering the atmosphere are balanced by their removal from the atmosphere).
- Only **23%** integrate climate key performance indicators (KPIs) into their business strategy and/or risk frameworks.
- **52%** believe climate change regulation will impact their organisation over the next five years.
- Only **38%** feel that their organisation will be willing to invest *much more than today* in addressing climate change over the next three to five years.
- **73%** say it's important that their future career involves taking action on climate change.

The time to act is now

Very few organisations are progressing at the pace and scale needed to counter the devastating and world-altering threats that climate change is bringing. To meet this challenge, organisations need to put accountancy and finance professionals at the heart of climate action strategy and implementation. They should start by focusing on integrating finance and sustainability expertise in the following areas:

Business strategy

The belief that environmental impacts should be considered separately to business performance is over. The future success for all organisations will be shaped by how they adapt their business to meet the challenge of climate change. This means climate and nature-related considerations must be central to organisations' overall business strategy.

Governance

For climate action strategy to be effective it needs to be embraced at executive board level before being embedded throughout the organisation. Executive buy-in sets the tone for other parts of the organisation to drive climate action.

The road to decarbonisation

Organisations cannot reduce what cannot be measured. Organisations of all sizes will have to reduce their GHG emissions over the next few decades to meet climate change targets set by governments. This will involve measuring, accounting for and reducing emissions generated by the organisation, its suppliers – and, ultimately, the consumers who use its products.

Science based targets to guide decision making

Evaluating the financial value of decarbonisation will play a critical role in overall business strategy in the coming years. The problem at present is that many organisations lack the KPIs needed to reinforce climate strategy and actions. Only 23% integrate climate KPIs into their business strategy and/or risk frameworks, according to our survey. Adhering to established science based targets will help develop KPIs that can guide organisations towards decarbonisation successfully.

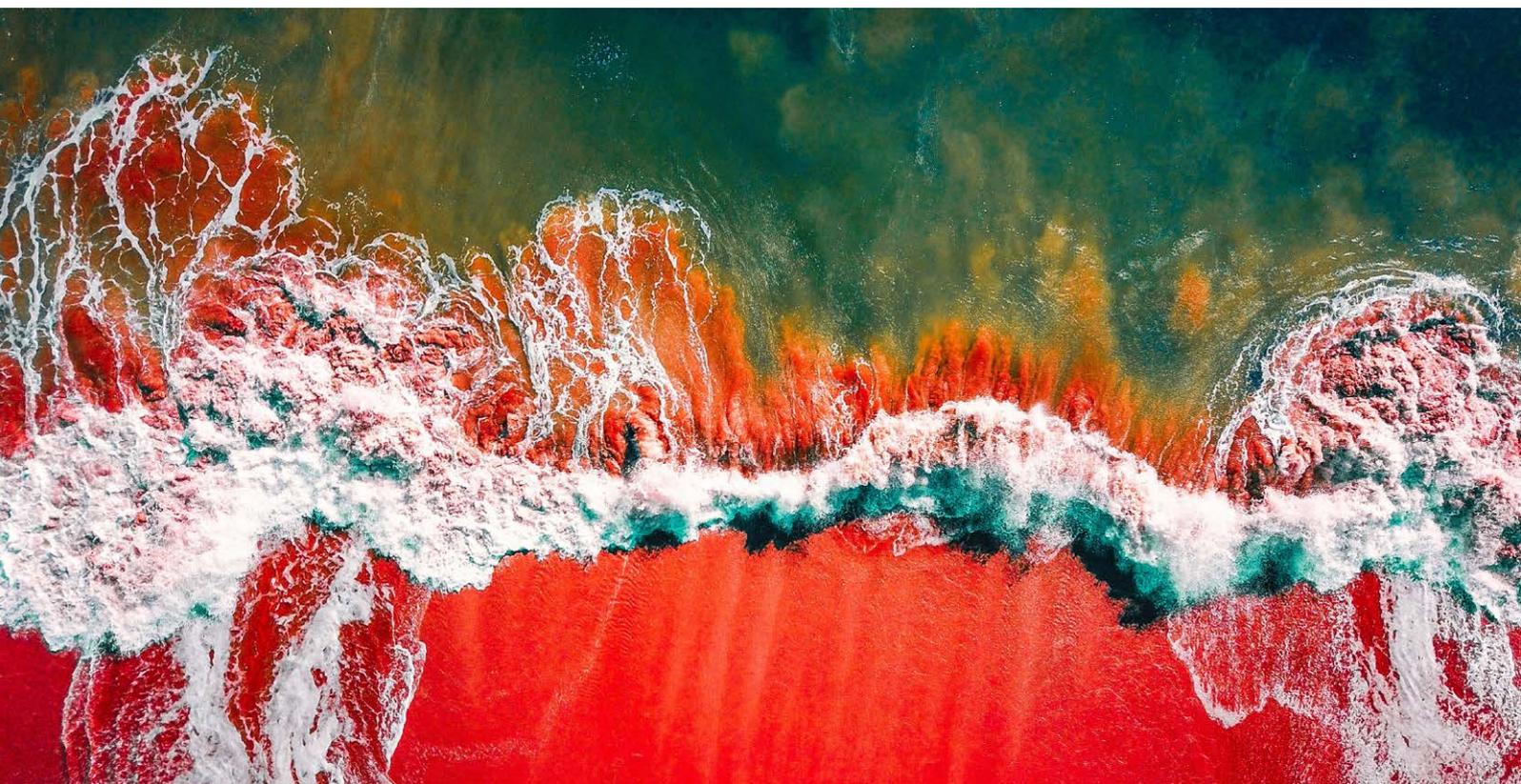
Accounting frameworks and standards

Given the growing influence that climate-related risks are having on business performance, prospects, and viability, it is crucial that organisations manage and report on the value they create, preserve and erode. This now needs to be seen through a different lens – one that reflects and integrates both financial and non-financial considerations. Accountancy and finance professionals within organisations will play a central role in helping to integrate climate and other environmental and social value into traditional reporting – as well as identifying and providing analysis on the interdependencies of these risks.

Next steps for accountancy and finance professionals

The climate agenda will redefine the world of business over the coming decades and meeting this challenge is a long-term process. However, there are certain steps that need to be taken right now to accelerate the transition. These include:

- **Get executive level buy-in for climate action:** the tone set by organisation leaders plays an important role in influencing climate action. **The impact of climate risks should be on the agenda of board meetings** – both in terms of how climate and natural capital risks impact the organisation and, conversely, how its operations affect climate and natural capital.
- Play a **lead role in supporting boards and executive leadership in net zero transition plans** which cover strategies the organisation will undertake to achieve net zero status by 2050 – or preferably earlier. These plans should include key targets that need to be achieved by 2030.
- **Place climate risk, environmental, social and governance (ESG) and net zero at the heart of organisational strategy:** the days of treating sustainability and strategy as two separate priorities are over. **Expand strategic considerations beyond financial returns and competitive advantage.** The long-term impact of climate change means that these risks need to be fully integrated, and 'priced into' the strategy.
- **Take a holistic approach to decision making:** focus on integrating ESG, climate KPIs and risk considerations into decision making, from strategic to operational levels. Adopt a holistic view of the entire value chain that should play a lead role in **identifying and sourcing what constitutes 'decision relevant' data.** This needs to involve leveraging science-based targets across the organisation's entire value chain and the use of its products to inform decision making. Where possible, the financial impact of climate issues should be quantified to support such decision making.
- **Report meaningfully on non-financial information:** while norms for financial reporting are well established, those belonging to wider non-financial considerations need strengthening. This includes global initiatives to enhance climate and broader sustainability-related reporting through standards set by a new International Sustainability Standards Board (ISSB) that will address material impacts on an organisation's enterprise value. And guiding this still evolving approach to **ensure that financial and non-financial reporting are connected and integrated within a clear narrative** – so that organisations can account for their real value to society.
- **Foster integrity and trust:** there is a need for transparency and reliability in the sustainability-related information that is presented and used. Leverage the robust, transparent and trustworthy methods of assurance that exist for financial information. And apply this rigour to non-financial impacts such as climate action, nature and biodiversity as they become central to strategy, performance and reporting. Assurance will increasingly cover not just reporting but processes, risk management and controls. Achieving this will play a key role in **minimising greenwashing, which misrepresents the true performance of sustainability indicators.**
- **Increase awareness and education:** there is a pressing need to raise the level of knowledge and understanding, both to recognise climate change as an urgent 'burning platform' – and to respond accordingly. **Expand understanding of 'in-scope' issues to get involved with.** In too many organisations, expertise in climate risk and ESG still resides in a small group of sustainability experts; this must change rapidly and become embedded in organisations' culture. Gen Z professionals will help lead this development. Also, small businesses need particular attention and support here, having been heavily impacted by the pandemic.





Call to action to governments

- Governments must raise their efforts in not just setting net zero targets by a specified year, but also **intermittent targets for the end of each decade leading up to 2050**. More importantly, they need to outline strategies and plans to realise the achievement of those targets. This should cover key industries, energy sources, mandates for business and society – as well as including policy interventions that both incentivise and disincentivise required outcomes for the wellbeing of future generations.
- Most organisations are being reactive by awaiting government direction. As a result many, especially those without the necessary human or financial resource, are woefully unprepared to meet net zero targets. Governments must help business through practical guidance and support if net zero goals are to be achieved, including through the **involvement of local and regional authorities**. This includes supporting them to:
 - transform to more environmentally friendly ways of operating.
 - deliver business changes that reduce carbon emissions.
 - design ways of tracking progress on carbon reduction and net zero targets.
- Governments must help organisations gain access to the expertise required to meet net zero, whether that is through up/re-skilling employees, or providing free or cost-effective external support. Governments must step in to provide organisations of all sizes access to this guidance, support, and the tools they will need to meet carbon reduction and net zero. Here, there is a role for **knowledge hubs** where governments and those organisations leading the way in carbon reduction and net zero can provide expertise and support tools, which can be adopted by the wider business community.
- **Governments need to work together**. The climate crisis does not recognise borders and many businesses and organisations operate internationally, if not directly then often indirectly via supply chains. It is therefore vital that governments work together to create a collaborative and symbiotic approach to supporting businesses and organisations, particularly SMEs, in preparing for and delivering carbon reduction and net zero targets.