IN ASSOCIATION WITH

THE ROLE OF THE CFO AND FINANCE FUNCTION IN THE CLIMATE TRANSITION:
DRIVING VALUE AND SUSTAINABILITY

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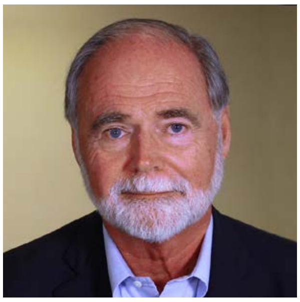
THE ROLE OF THE CFO AND FINANCE FUNCTION IN THE CLIMATE TRANSITION:

DRIVING VALUE AND SUSTAINABILITY

This report considers the role of finance in the transition to a lower-emission world. While many organisations have made public emission reduction commitments, not all have a plan as to how they will deliver on their promises or a roadmap to show how they will chart their progress against any plans they have developed. The report assesses progress being made on emission plans and examines the role of finance functions in assisting their organisations in defining a pathway to a low-carbon future.

Foreword

Helen Brand OBE
chief executive, ACCA



Kevin Dancey
chief executive officer, IFAC

Brian Furness
partner – head of finance consulting, PwC UK

One of the greatest challenges of our age is to deliver a sustainable future based upon a 'just transition' where no one is left behind. With the signs of the climate emergency and the need for sustainable development continuing to grab headlines around the world within a rapidly changing geopolitical and social landscape, time is of the essence.

However, the journey to a just transition is a complex multi-dimensional problem, it involves balancing the interests of many stakeholder groups and managing different resources while continuing to deliver business value.

This report examines how CFOs and finance teams are adapting their role, using their professional skills, and acquiring new areas of knowledge and capability needed to enable a transition. The accountancy profession must continue to step up to ensure that it plays its part in delivering this objective, both in terms of reporting on progress made to date and in helping organisations make the strategic decisions needed to deliver the dual goals of a transition and continued business performance.

The results of a stakeholder survey conducted as part of our research for this report suggest that while in some areas there is progress being made, many organisations appear not to be on the critical path or are not as far along the journey as perhaps they need to be. With increased requirement to report on progress, organisations must develop strategies and plans to remain successful in times of changing business models and stakeholder expectations.

Accountancy and finance professionals need to make sure that they have enhanced their existing skillsets with relevant sustainability-related capabilities. They then need to apply them in their work related to risk management, data, technology, scenario modelling and reporting in the context of the organisation's purpose and business objectives. This will enable them to lead and be effective in delivering this strategic imperative and ensuring the organisation they work for has a business model that is fit for the future.

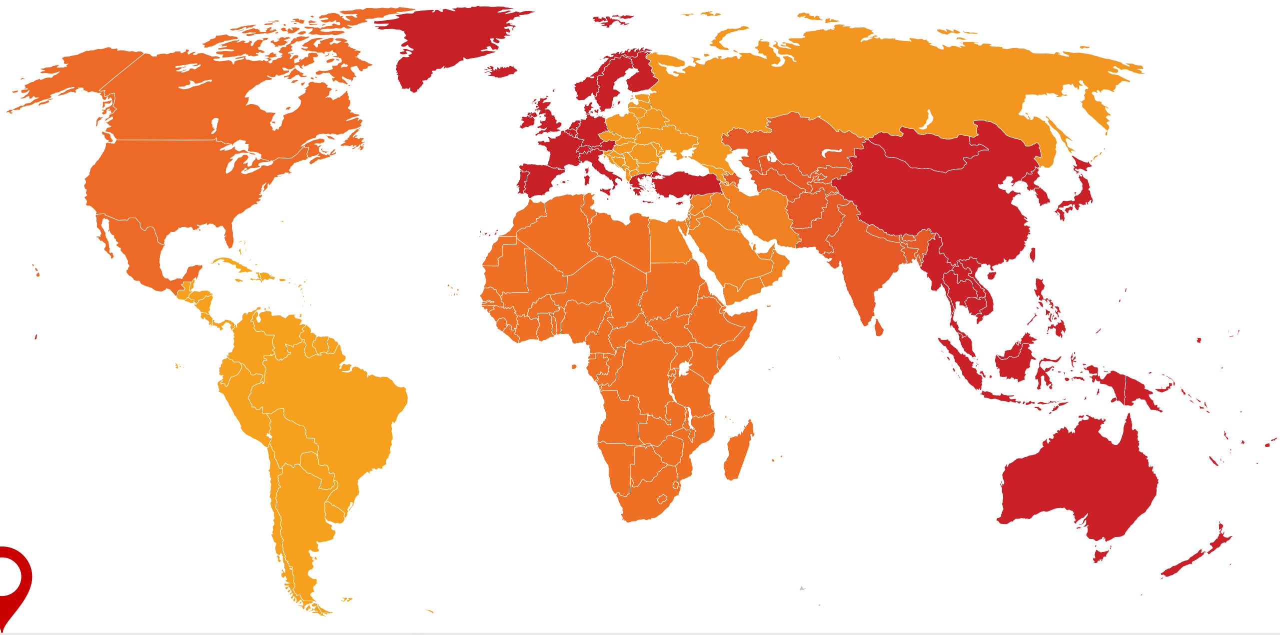
In their drive to gain the necessary skills and knowledge, accounting and finance professionals need to take advantage of the learning opportunities available to them in the form of certifications and other continuous learning, particularly from the professional accountancy organisations to which they belong.

Contents

Survey **demographics**

ACCA would like to express our deepest thanks to all members who participated in the survey and the roundtables in support of this research.

Just under 1,000 finance professionals from around the world responded to our survey, in addition to eight regional roundtables and a number of interviews with CFOs and members of the ACCA Global Forum for Sustainability and ACCA Accountants for Business Global forum adding qualitative insights to the survey data.



Location of respondents:

Western Europe	24%
Asia Pacific	23%
South Asia	15%
North America	12%
Africa	11%
Middle East	8%
Central & Eastern Europe	4%
Central & South America	2%
Caribbean	1%

Position of respondents:

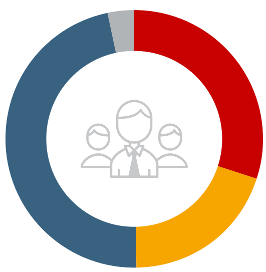
Executives	62%
Managers	22%
Employees	14%

Type of organisations:

For-profit companies	57%
Audit firms	24%
Other organisations	19%

Size of organisation *(employees)*:

Large companies	30%
Medium companies	20%
Small companies	47%
Not disclosed	3%



Size of organisation *(revenue)*:

Large companies	27%
Medium companies	14%
Small companies	45%
Not disclosed	14%

Executive **summary**

#1 Emissions planning is a start point for wider transition planning

Many countries and trans-national organisations across the world continue to pledge commitments to the achievement of net-zero goals, and coupled with fast-evolving regulations, scrutiny over transition plans is at an all-time high. This is also coming at a time when we are seeing a significant increase in the publication of transition plans by organisations across the world. Whilst these plans encompass much more than simply the management of organisation emissions, emission plans are typically the "go-to" starting point for organisations as they embark on their transition plan journey. Emerging regulation is naturally a factor in encouraging organisations to develop plans, but our survey suggests it is not the primary driver – public reputation, alignment to the organisation purpose and opportunities to create competitive advantage are all high on the agenda.

#2 Emissions planning activities are falling short for some

The good news is that half of our respondents to our survey say their organisations have started the emission planning process, yet a sizeable minority (46%) suggest they are yet to produce an emissions plan. Even for those who do have a plan underway, almost half don't expect to develop and approve an initial plan in the next 12 months, seeing it as a longer-term initiative. This is an acute problem given the interdependencies of emission plans across both upstream and downstream value chains. Even for those organisations that are progressing emission plans, a number of challenges are evident. Concerns are expressed on poor alignment to organisation strategy and objectives and a lack of clarity as to which functions have primary accountability for the emissions reduction agenda.

#3 Organisation size and location matter when it comes to emissions planning

The data is clear when it comes to emissions planning – size does in fact matter. Smaller organisations were much less likely to have an emissions plan in place, and nearly 70% of respondents without a plan currently had no intention of developing one in the future. Larger organisations are more likely to be undertaking emissions planning and to be assessing the impact of regulations and compliance on their businesses, and there are likely a number of explanations for this; typically, larger listed businesses are first in line in terms of regulatory compliance, and usually have the required level of resources, and access to the necessary emerging skills and capabilities to respond appropriately. Another key factor here could be the need to scale their transition and emission planning activities across different jurisdictions. The survey also suggests geographic location of the organisation is a determining factor on the likelihood of emissions plan adoption, with US respondents leading the way.

#4 Not everyone is clear on the benefits of emissions planning

Whilst many respondents cite clear benefits to their organisation from the transition to net-zero, a minority of respondents to our survey are less convinced. Some respondents are unsure on the business benefits for developing plans, whilst there is also a sense from the data of a general lack of awareness of emissions planning and what emissions planning entails for some respondents. This may also be causing concern for some organisations where it isn't a priority , or that they don't have the necessary skills and capabilities to address the issue effectively.

#5 Good governance matters for planning success

Good governance is an essential component of successfully managing the transition process and delivering effective emissions planning, requiring actions from all levels of the organisation. It starts with leadership and ownership at board level, and here there is a critical role for Non-Executive Directors to play. Boards have a key role in articulating the broader business case for sustainability and as a component of this the transition to net-zero, as well as establishing the right organisational incentives for delivering the enterprise sustainability strategy and linked to this transition plans, targets and necessary communication protocols so that plans can be implemented successfully. In our survey two-thirds had a sustainability committee, and as compared to organisations without, these organisations were much more proactive in implementing their emissions plan:

- **57%** were reviewing their emissions plans quarterly, compared to **22%** without.
- **48%** had implemented non-financial internal controls to better support the achievement of the plan, compared with **7%** without.
- **63%** had grown their finance function to support the setting, achievement and reporting of their emissions plans, compared with **11%** without.

#6 The transition to a low-emissions economy is a complex challenge, and organisations need to plan properly for it

Every function across the organisation has a role in transition, from finance, risk management, human resources, technology, sales and marketing and legal to facilities management. Finance has the opportunity and skill set to take the lead in this complex challenge. Therefore, it's critical that transition ambition must match operational reality, and that the transition to net-zero is supported by an effective plan covering all of those involved to galvanise and coordinate action. Effective transition plans must be embedded within the strategy of the organisation and be managed as an integral part of the enterprise performance management framework, as well as externally in alignment with relevant standards and disclosures. A strong transition plan starts with an alignment to the organisation strategy and a materiality assessment of the impact and extent of the transition journey. This must then be translated to detailed roadmaps and plans and aligned to key performance metrics and indicators which need to be reported on effectively as part of regular internal and external reporting cycles.

#7 Transition to a low-carbon economy is seen as a major business opportunity by many

As organisations transition to operating in a low-emissions global economy, our survey suggests many respondents see obvious business benefits from the journey. The goal of a low-emissions economy is a catalyst for business transformation and business model change, demanding organisations approach sustainability holistically as a source of value creation and competitive advantage. This, in turn, supports enhanced business reputation, which is cited by respondents to our survey as the key benefit from transitioning the organisation to net-zero, closely followed by improved customer perception. Many respondents also see transition requiring a review of their business models to ensure they are fit for a sustainable future, with 41% seeing the path to transition in turn creating long-term value for the organisation.

#8 Opportunities currently prevail for finance teams to better support emissions planning

Some finance teams are increasingly involved with planning for climate change and many CFOs are playing a critical role in helping the organisation manage climate related data as part of their emissions planning. The finance team is in a unique position to bring an end-to-end view across the organisation through its traditional performance management and reporting activities, as well as building on its traditional skills in areas such as data analysis, scenario modeling and forecasting. Our analysis also suggests many organisations need greater clarity on "who does what" when it comes to transition and emissions planning activities, a potential vacuum that finance can step into. To be clear this isn't about finance taking sole leadership for the emissions planning agenda, rather about its future influential role, working collaboratively across the business to drive enhanced measurement, management, control and reporting around the emissions agenda.

#9 Finance teams are increasingly looking to create new ESG related roles

The increasing opportunities for finance teams are indicative of a broader trend where finance organisations are creating more specific ESG (environmental, social, governance) related roles in recognition of the growing criticality of the broader ESG agenda to organisations, part of which will include emissions planning activities and responding to mandatory disclosure requirements. Almost half of the respondents (46%) to our survey suggested new positions had been created in their finance teams to address these issues, with North American respondents most likely to suggest this was the case. New roles for finance professionals arise in all areas of finance from reporting and controllership to FP&A, business modelling, corporate finance and M&A analysis.

#10 Finance must overcome key challenges to fully play their part in delivering net zero ambitions

The ambition of CFOs in supporting organisations to achieve their net zero goals must be matched with an appropriate level of resources and capabilities for the finance team to call on. A number of key challenges facing CFOs have emerged in this study, including a general lack of resources to support emissions planning activities as well as a lack of clarity and understanding as to what an emissions plan should include and the contribution of the finance team therein. The appropriate level of technical skills and capabilities is also cited by a quarter of respondents as a top three challenge, and access to the right data to support effective performance management and reporting activities across the net zero agenda is also crucial. Good progress is, however, being made in terms of the establishment of internal controls over emissions planning processes and data quality. For CFOs themselves, balancing the short-term operational priorities of the finance team whilst simultaneously upskilling and equipping the team to support the wider organisation net zero initiatives longer term must now be a critical imperative.

FOR CFOs THEMSELVES, BALANCING THE SHORT-TERM OPERATIONAL PRIORITIES OF THE FINANCE TEAM WHILST SIMULTANEOUSLY UPSKILLING AND EQUIPPING THE TEAM TO SUPPORT THE WIDER ORGANISATION NET ZERO INITIATIVES LONGER TERM MUST NOW BE A CRITICAL IMPERATIVE.

TO BE CLEAR THIS ISN'T ABOUT FINANCE TAKING SOLE LEADERSHIP FOR THE EMISSIONS PLANNING AGENDA, RATHER ABOUT ITS FUTURE INFLUENTIAL ROLE, WORKING COLLABORATIVELY ACROSS THE BUSINESS TO DRIVE ENHANCED MEASUREMENT, MANAGEMENT, CONTROL AND REPORTING AROUND THE EMISSIONS AGENDA.

VIEWPOINT: Opportunities for finance to "lean in"

Brian Furness, Partner, PwC UK and Global Head of Finance Consulting

'Finance teams that can lean in and drive the agenda will find they are operating in successful organisations with a role that remains relevant and valued.'

Recent global events including wildfires, floods, unusually hot weather and destructive storms have brought climate change into even sharper focus for us all. Businesses have a critical part to play in slowing the progress of climate change and supporting the transition to net zero, and we have seen from our research and the roundtables that we conducted that the topic is high on the agenda for many.

Organisations are increasingly required to report their position with regard to climate change and to develop strategies for improvement. The same is true in many other areas of environmental, social and governance (ESG), such as nature, diversity, inclusion and employee rights and wellbeing. Given that much of this reporting has a place in the financial statements and contains details of financial implications and projections, it often falls within the remit of the finance team. All of these areas represent both a challenge and an opportunity to finance, as evidenced by our survey and roundtable discussions with chief financial officers (CFOs).

Among other things, the challenges are around how to deal with complex and evolving reporting requirements, where to find reliable data, and how to develop the newly emerging skills required to fulfil finance's expanding role – not to mention where to find the time to meet these new responsibilities amid all the other activities being undertaken by finance. However, the role finance can play is critical to demonstrating progress on all elements of ESG, and from the perspective of sustainability reporting it is vital in establishing a credible transition plan and delivering against it.

Finance's input in developing the initial plans and reporting progress against them is probably the first thing people think of when they consider climate change obligations. However, perhaps a more important role is in advising the business on its strategy for navigating the transition and continuing to deliver sustainable value to stakeholders on a long-term basis.

Reporting the current position is important but finance has a key role in shaping business decisions that impact areas such as greenhouse gas emissions. These decisions need to be taken and leverage capabilities and skills across the organisation including facilities management, operations, supply chain managers, research and development departments and risk. The skills that finance possesses around producing information with integrity that can be used to drive insight and decision-making means there is a good argument for finance to take the lead. However, in our survey we found organisations are often lacking in leadership around this topic, and there is no one functional area consistently stepping up to drive the agenda.

We also noticed that it seems to be the larger, multinational organisations who are taking the lead on transition planning. Partly this could be because the smaller organisations, rightly or wrongly, do not believe the regulations apply to them, or perhaps their finance teams do not possess the skills, data and bandwidth to get involved. However, even if requirements are less on these organisations, they should be taking this opportunity to get ahead and begin aligning their businesses to the transition journey. Regardless of their own reporting requirements, all organisations will very soon be asked for data by others they deal with – by their customers and by wider society, who will be pushing to

understand if they are dealing with green organisations and will be looking for greener products and services. Falling behind now on the transition journey could mean losing business going forward and may even be a threat to the existence of your organisation, as mentioned by a number of CEOs in PwC's most recent CEO Survey.

For me, there are a number of clear actions that came from our roundtable discussions and research if finance is going to play a role in driving a more sustainable model for business:

- **Continue to upskill.** Finance professionals do not need to become sustainability experts, but they do need to understand the topic and how their role changes as a result of new reporting requirements and evolving business models.
- **Focus on driving value.** As organisations transition to operating in a low-carbon economy, business models will change. New ones will emerge and some will die away, but all will change. Finance professionals need to remain forward-looking, identifying opportunity and helping drive strategic decision-making to deliver value.
- **Leverage data to drive insight.** Finance will need to adapt and broaden the data sets used to drive insight. New data sets will need to be considered, some of which are outside of 'traditional' finance data, and perhaps even outside of your organisation completely. Data and analytics capabilities need to develop, as does the tooling used by finance to drive insight.
- **Develop new performance management frameworks.** To make the transition to a low-carbon organisation, new performance management frameworks and metrics are needed. The new metrics need to incorporate a more balanced view of performance in addition to the traditional focus on financial performance. Finance should be at the heart of defining these metrics and ensuring they align with the organisation's ESG goals and strategy, and drive the right individual and organisational behaviours.
- **Bridge the language barrier.** Finance professionals and sustainability experts need to work together with others across the organisation to deliver transition, but they speak different languages and operate differently. Invest time with others across the organisation to bridge the gap – it comes together through data, reporting and the common goal of driving business value.
- **Leverage your core finance skills.** The role of finance in connecting the organisation, acting as an enabler and communicating across the organisation hasn't changed. Nor have the dual roles of ensuring the transparency and integrity of reporting and supporting business strategy. However, existing skills, behaviours and ways of working now need to be extended into new areas and applied across stakeholder groups. This requires confidence and leadership from the top of the finance organisation.

In conclusion, finance has a central role to play in driving a transition and creating sustainable, successful business models for the future. Yes, there is a cost and a huge amount of effort associated with developing transition plans and new performance management systems, and navigating the journey, but the value you can drive for the business, and society as a whole, far outweighs it. Somehow, busy finance teams need to find the time to lean in and drive the agenda. Those that do will find they are operating in successful organisations, where others may fail, and that their role remains relevant and valued.

Brian Furness, partner, PwC UK and
global head of finance consulting

Introduction

A just transition is a process that seeks to ensure that no-one is left behind as the world moves to a net-zero economy, and that the benefits are maximised in a way that is fair and inclusive for all. Achieving these outcomes requires the astute management of financial, political and social risks, as well as reconciling complex trade-offs between social, economic and business issues on the one hand and emissions reduction goals on the other.

Any transition should, among other things, consider future generations, all social dimensions, the development needs of emerging economies, and take into account long-term financial and non-financial interests. The transition to de-carbonisation could result in growth opportunities for some business sectors and a decline for others. By their very nature, being aligned with sustainability goals and a reduced carbon footprint, 'sunrise' industries are likely to include renewable energy, carbon capture and storage, and electric vehicle production. 'Sunset' industries, whose business models are likely to be challenged throughout the transition journey will include coal mining, oil and gas exploration, single-use plastics production and fossil-fuel car manufacturing. Consequently, reskilling, retraining and investment in new opportunities will be key in protecting and advancing workers and communities, and those organisations heavily reliant on industries negatively impacted by the transition will need to reconsider their business models and pivot in order to take advantage of the opportunities available to them in these emerging growth sectors.

This all has to be seen in the context of the 2023 global economy. Organisations continue to be challenged across many dimensions. From economic uncertainties, labour shortages and supply chain vulnerabilities to biodiversity and human crises, there are many variables and risks.

Despite these challenges, and short term operational priorities, organisations must still become more sustainable – holding the rise in temperature to 1.5°C while not losing sight of the social impact of the carbon transition actions on everyone, including employees, and suppliers, and consumers in the value chain. An equitable transition is one that supports the growth of all stakeholders while maintaining sustainable businesses. Meaningful emissions reduction must address three core components that need to be considered when developing a transition plan: economic, environmental, and social components. In so doing, it is important to find a balance that strives to leave no one behind in the journey.

MEANINGFUL EMISSIONS REDUCTION MUST ADDRESS THREE CORE COMPONENTS THAT NEED TO BE CONSIDERED WHEN DEVELOPING A TRANSITION PLAN: ECONOMIC, ENVIRONMENTAL, AND SOCIAL COMPONENTS. IN SO DOING, IT IS IMPORTANT TO FIND A BALANCE THAT STRIVES TO LEAVE NO ONE BEHIND IN THE JOURNEY.

1. **Transition** and **emissions plans** – where are we?

1.1 What is a transition plan?

Simply put a transition plan is the approach to change in order to deliver your objective, for instance an emissions reduction.

The transition planning challenge for organisations is to deliver a transition to a more sustainable business model which is just – that is, it ensures that no one stakeholder group is left disadvantaged from the transition. The 'just transition' term itself derives from the North American trade union movement (and is discussed in ACCA's *Accounting for Society's Values* report). The imperative is clear: organisations need to transition, and to do so they need to develop and enact plans. A net-zero transition plan is a roadmap for stopping the release of greenhouse gases into the atmosphere. It includes goals such as using clean energy, reducing emissions and ensuring a system is in place to track progress. The collective plan aims to fight climate change and keep global warming in check. It is a long-term effort that involves many people and organisations – from governments to businesses. Ultimately the goal is to create a more sustainable and climate-friendly world.

Sustainability v ESG – familiar terms in the transition dialogue

The terms 'environmental, social and governance' (ESG) and 'sustainability' are often used interchangeably. But while, in broad terms, both are concerned with environmental, social and governance factors, ESG focuses on evaluating the performance of companies based on these factors, whereas sustainability is a broader principle that encompasses responsible and ethical business practices in a holistic manner. For this reason, ESG is sometimes considered to be a subset of sustainability. In a sustainability conversation we are looking towards a longer-term future which balances environmental, economic and social elements in a progression to a sustainable future where nobody is left behind. Sustainability has a longer-term view and, according to the Brundtland Commission, which originally defined it, is about meeting the needs of the present generation without compromising the ability of future generations to meet their own needs.

1.2 Transition planning frameworks

In the wake of COP26, the United Nations Climate Change Conference held in 2021, the UK government set up a Transition Plan Taskforce (TPT). In October 2023, the TPT published a final framework and guidance document, laying down the fundamental elements that an organisation's transition plan should encompass. TPT also published documents which reconcile its work to both the IFRS S2 standard and to the CSRD disclosure requirements. Publications such as this framework can add clarity for organisations in terms of helping them begin the journey to developing a plan. They can also point to who in the organisation should be involved in developing and monitoring the plan.

The climate emergency and transition plans

Scientists at Goddard Institute for Space Studies in New York recently reported that July 2023 was the hottest month ever in the global temperature record. It is now 46 years since Earth has had a colder than average year.

If global warming is to be limited to no more than 1.5°C above pre-industrial levels by the end of this century, greenhouse gas emissions must peak before 2025 at the latest, and fall 43% by 2030, as laid down by the 2015 Paris Climate Agreement. The UN's Intergovernmental Panel on Climate Change has warned that exceeding the 1.5°C threshold risks unleashing ever more severe climate change impacts, including more frequent and severe droughts, heatwaves and rainfall.

A climate transition plan is a key mechanism in tackling climate change. It outlines how an organisation will pivot its assets, operations and business model so that it halves its greenhouse gas emissions by 2030 and reaches net zero by 2050 at the latest. The plan is key to catalysing the action needed to achieve a sustainable economy, and offers a pathway for a business to remain profitable as it moves towards operating as a net-zero organisation.

The importance of transition planning

With the plethora of commitments made to achieve net zero across the economy as well as the ever-evolving regulations and guidance towards this goal, scrutiny over transition plans is at an all-time high. This is coming at a time when we are seeing a significant increase in the publication of transition plans from organisations across the world.

To fulfil both regulatory obligations as well as their own commitments, organisations will need to develop transition plans. This is partly for disclosure reasons but also to ensure accountability, signalling to both internal and external stakeholders that their steps towards net zero are deliberate, transparent and open to monitoring. A transition plan therefore is both a strategic planning tool and a practical action plan; it should translate the organisation's net-zero commitment into specific actions they are taking, or will take, that are aimed at reducing real-economy greenhouse gas (GHG) emissions, and illustrate that they are taking mitigating measures where possible to reduce transition risks.

To translate net-zero commitments into action, organisations will need to start creating and disclosing their transition plans. The Glasgow Financial Alliance for Net Zero (GFANZ) recommends financial institutions develop a 'net-zero transition plan' that articulates their commitment, transition targets and objectives, the specific actions they will take, and the accountability mechanisms they will implement to ensure their plans are credible. Therefore a good transition plan, as outlined by the Institutional Investors Group on Climate Change (IIGCC), should include:

- comprehensive, net-zero-aligned emissions targets
- a credible strategy to deliver those targets
- demonstrable engagement to support the achievement of targets
- the contribution to 'climate solutions'
- supporting emissions and accounting disclosure.

GFANZ's guidance is complemented further by the Transition Plan Taskforce's (TPT) disclosure framework. The TPT framework guides businesses to take a strategic and rounded approach to the design, development and disclosure of their transition plans. Businesses may do this by determining the actions they can take now to capture opportunities, minimise future risks, and protect and enhance long-term value. In doing so, businesses should consider the three interrelated channels for transition plans outlined in the framework:

1. decarbonising
2. responding to climate-related risks and opportunities
3. contributing to an economy-wide transition.

The TPT provides five pillars around which a business should create its transition plans using these interrelated channels, namely:

- strategy
- implementation strategy
- engagement strategy
- metrics and targets
- governance.

Different businesses will have different levels of maturity in relation to the commitments they have made as well as how will they will be able to articulate their transition to achieving net zero. However, all organisations should ensure that they take into account key considerations such as to avoid exclusively focusing on achieving GHG emissions reduction or adaptation targets within their own operations and value chain, which can lead to 'paper decarbonisation' (i.e. greening an entity's own balance sheet in a way that does not contribute to greening the economy).

Businesses that do not avoid this pitfall risk increasing, rather than reducing, their vulnerability to climate change and broader sustainability factors.

One of the key outputs of a transition plan is that it ought to be robust, actionable and achievable. Following the guidance set out by the TPT as an example provides a framework for achieving just that.

Charles Kennedy, senior manager – sustainability, PwC UK, and **Hassaan Khan**, senior manager, FS – sustainability, PwC UK

1.3 Transition as a major business opportunity

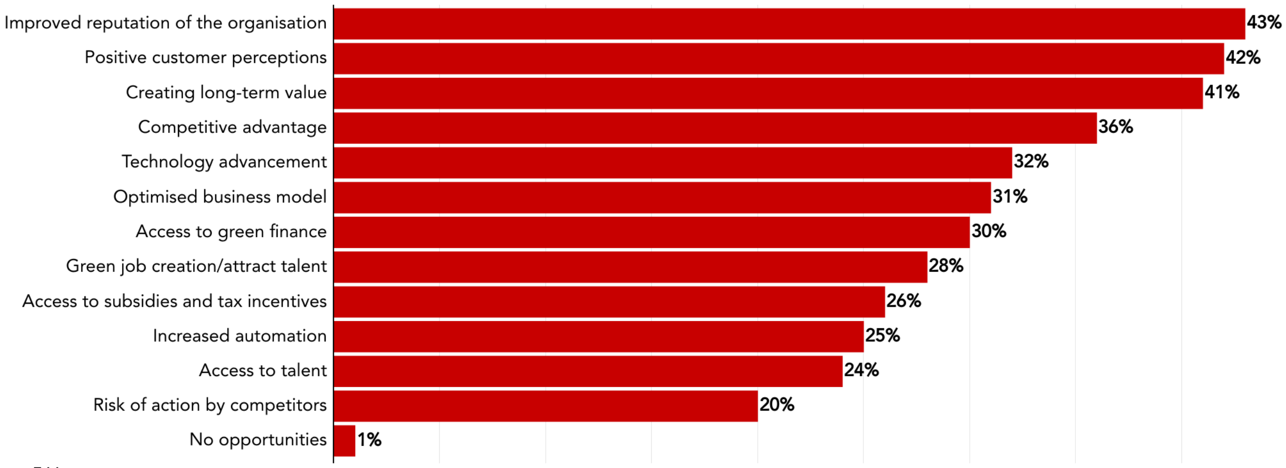
As organisations transition to operating in a low-emissions economy, there is an inevitable impact on the business model. New business models are likely to emerge while some may become obsolete. As business models change, organisations must approach sustainability holistically as a source of value creation, competitive advantage and resilience. According to our survey, many respondents see transition as an opportunity to review their business models and ensure that they are fit for a sustainable future, with 41% seeing the transformation as creating long-term value for the organisation. The primary business opportunities cited were around long-term value creation and competitive advantage for profit-driven companies, and preserving or enhancing reputation for not-profit and public sector organisations.

1.4 The emissions plan as a core component of transition

The emissions plan details the emissions goal, supported by a management approach. A key component of any transition plan is how it addresses the management of emissions in the context of climate targets. This research explored the concept of emissions, as it reflects a critical starting point for most organisations in developing an overall transition plan. It should be noted that a transition plan includes more elements than simply the management of emissions. But the consideration typically starts with the emissions plan.

> **'DESPITE ALL THE SHORT-TERM STRUGGLES ORGANISATIONS ARE FACING, SUCH AS INFLATION, THERE IS A STILL AN URGENCY THAT CLIMATE CHANGE IS HAPPENING. ORGANISATIONS NEED TO ADDRESS THIS.'**
> UK ROUNDTABLE PARTICIPANT

FIGURE 1: The business opportunities organisations see in transitioning to a low carbon economy.



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Emissions reduction plans

In the last few years emissions reduction planning has risen in importance on the agenda of CEOs and their organisations, mainly driven by intrinsic motivation or long-term value.

In the next years, emissions reduction plans will be stimulated by the European Corporate Sustainable Reporting Directive (CSRD) regulation, which promotes transparency. As a result of this move, multiple departments within an organisation with operations covered by the requirements of the CSRD will be involved in the development and execution of the emissions reduction plans. The finance division also has a significant role to play in defining the emissions reduction strategy and plan, and charting progress towards the organisation's goals.

Key drivers for emission reduction plans

The primary key driver for emissions reduction plans is the intrinsic motivation for reducing greenhouse gas emissions.

Actionable emissions reduction plans allowing the formation of time-bound interventions with measurable impacts are an essential instrument for reducing emissions. As the number of companies that do have an emissions plan is growing, stakeholders clearly have been successful in putting emissions plans on the agenda. There are two key drivers for companies preparing emissions reduction plans. The first driver is the acknowledgement of a company of the importance of reducing greenhouse gas emissions. This could come, for example, from management but can also come from NGOs. The Dutch NGO Milieudefensie (Friends of the Earth Netherlands), for example, has played a significant role in pushing for more ambitious emissions reduction goals and holding companies accountable for its actions.

Another key driver for emissions reduction plans is around driving long-term value and opportunities for the organisation. Improved reputation, attracting new customers, access to capital and competitive advantages are all examples of long-term value creation. Most of these may also offer short-term opportunities. The anticipation of further regulations and mitigation of climate risks can be long-term value creating as well. In general, the number of small companies with emissions reduction plans falls behind when compared with large and medium companies. They are less affected by the pressure of external stakeholders and see fewer opportunities in value creation by emissions reduction. In PwC's most recent CEO Survey, many business leaders said they believed their current business model was not fit for the future – this relates to all businesses, and sustainability is a major driver of this sentiment given the predicted changes in consumer demand, access to funding and capital, and production costs in many industries.

In the coming years, the CSRD will be a driver for emissions reduction plans.

CSRD requires disclosures of mitigation efforts to ensure that strategy and business models are compatible with the Paris Agreement.

For large enterprises in the European Union, the CSRD is a game changer. The CSRD enables companies to be transparent beside other requirements on their sustainability strategy and the execution of that strategy. This can be beneficial if the sustainability strategy is on par but can be challenging when it is still under development. As part of the ESRS (European Sustainability Reporting Standards), companies are required to disclose the past, current and future mitigation efforts to ensure that their strategies and business models are compatible with the Paris Agreement and objective of achieving climate neutrality by 2050.

Additionally, the CSRD requires limited assurance (and later, reasonable assurance) over the disclosures made by organisations.

Limited assurance is a level of assurance provided by auditors or other professionals when examining or reviewing financial statements or other information. The objective is to obtain a moderate level of assurance that no material misstatements or errors are present in the information being examined. To pass this test, organisations must provide clear, transparent disclosure based on data that has a high degree of integrity and reliability.

The increased importance of emissions reduction plans will require the involvement of more departments across the organisation including finance.

Due to more pressure on emissions reduction plans, more internal departments will be involved in the execution of these plans. One of these departments is finance. The CSRD, including the limited assurance requirements, requires a more mature process for the sustainability information in most companies. Simply put, non-financial reporting must quickly step up to the same level of accuracy as financial reporting. Finance is well placed to lead this improvement given its expertise in data, reporting and controls.

As mentioned, finance has a key role in the reporting of emissions reductions. An important change for achieving emissions reduction is to steer on these targets. As with any other performance information, finance plays a role in recording and reporting this information in a compliant and transparent manner, but just as importantly it is also the 'business navigator' guiding the business and contributing to its change. To chart progress against their plans, organisations need to factor sustainability into their decision-making process and understand the impacts (financial and non-financial) of their key decisions. Finance has a significant role to play, particularly given its business partnering role, which includes forecasting, scenario analysis, business case drafting, and appraisal of the impact decisions have on emissions, which are essential to achieving the reduction targets.

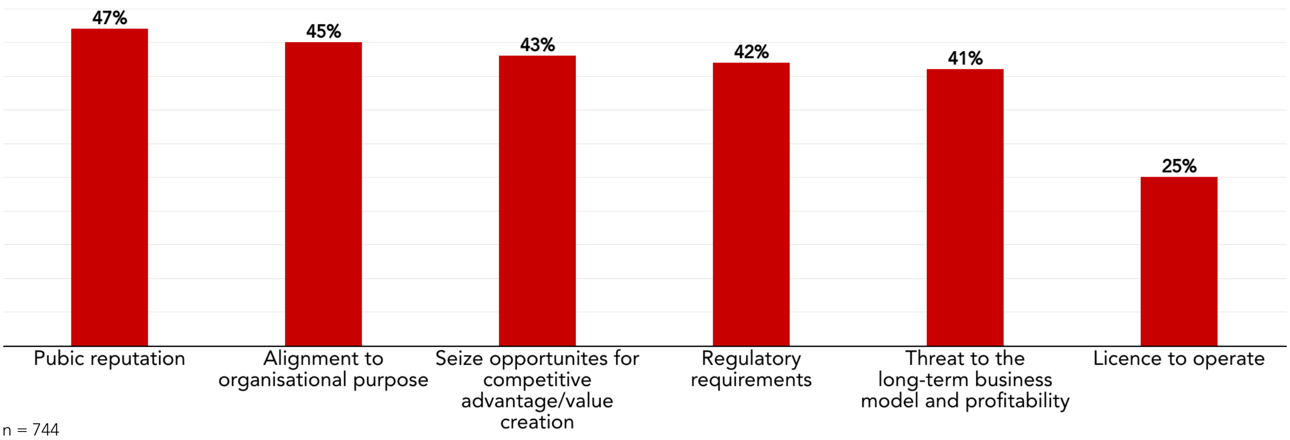
Sophie de Vries, partner, PwC Netherlands, and **David Heppes**, EMEA driver – finance transformation, PwC Netherlands

1.5 Why have an emissions plan as part of a transition plan?

Respondents to our survey who have developed an emissions plan, or who intend to, cited many reasons for doing so (Figure 2). The world's climate emergency dictates an urgent need for transition planning to a low-emissions economy. Regulation is a factor in encouraging organisations to develop emissions plan, but perhaps surprisingly it is not the primary reason for adoption, according to our survey results. Whilst the EU's CSRD has been recently introduced, survey respondents (most notably in Europe) don't see this as the most important reason driving emissions planning processes.

> 'IF YOU DON'T RISK-MANAGE SUSTAINABILITY OR ESG WELL ENOUGH, YOU COULD END UP WITH STRANDED ASSETS OR LOSE YOUR LICENCE TO OPERATE. WITHOUT A WATERTIGHT ESG STRATEGY IN PLACE, THE COST OF RAISING FINANCING IS GOING TO BE PROHIBITIVE.'
> AFRICA ROUNDTABLE PARTICIPANT

FIGURE 2: Key drivers for emissions planning



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> 'BEING NON-COMPLIANT WOULD HAVE HUGE IMPACT ON OUR PERCEPTION WITHIN THE MARKET. AND THERE'S A GENUINE SENSE THAT IT IS CULTURALLY THE RIGHT THING TO DO. WE'VE GOT A REASONABLY YOUNG WORKFORCE; THEY ARE VERY ACTIVE IN THIS AREA AND FEEL VERY STRONGLY ABOUT IT, WHICH PUTS PRESSURE ON US TO ACT. BUT IF I PUT MY FINANCE DIRECTOR HAT ON, IT'S A COST, AND THE BENEFIT IS AVOIDING PROBLEMS OR PENALTIES.'
> IRELAND ROUNDTABLE PARTICIPANT

> 'CSRD IS HANGING OVER US, BUT WE DON'T KNOW WHAT WE'RE SUPPOSED TO DO. IT'S ANOTHER COST AND ANOTHER TO-DO IN THE ORGANISATION THAT NO ONE PARTICULARLY WANTS TO TAKE OWNERSHIP OF. WE ARE WAITING FOR OTHER COMPANIES TO TAKE THE LEAD.'
> IRELAND ROUNDTABLE PARTICIPANT

> 'THERE ARE MANY DATA POINTS REQUIRED, AND IT WILL TAKE A WHILE TO GET THROUGH THEM, BUT THEY ARE NOT AS COMPLEX AS ONE MIGHT THINK. REGULATION MAKES TRANSITION PLANNING A BENEFIT, BECAUSE IT LEADS TO FUNDING.'
> IRELAND ROUNDTABLE PARTICIPANT

The current state of play in getting to net zero, *part of the IFAC State of Play series*

As a global systemic risk, climate change has come into sharper focus for many, but not all companies.

2020 financial reports were a turning point in the wake of Carbon Tracker's publication of *Flying Blind: The Glaring Absence of Climate Risks in Financial Reporting*. As a result, IFAC took a broader look at 2020 corporate disclosures on emissions targets and plans for achieving them in *Getting to Net Zero: A Global Review of Corporate Disclosures* by examining 600 of the largest stock exchange-listed companies (by market capitalisation) from the 15 most industrialised jurisdictions.

Our goal was to identify:

i. the extent to which consistent terminology is used by companies across jurisdictions,
ii. whether or not Scope 3 emissions are included,
iii. the extent of standardisation among transition plan disclosures, and
iv. the extent to which the cost of transition is clearly presented.

Our research found that fewer companies (66%) disclosed emissions targets than disclosed other sustainability-related information (92%) in 2020.

Similar results were obtained in *The State of Play: Sustainability Disclosure & Assurance 2019–2021*, where we examined 2021 corporate sustainability disclosures from 1,350 companies in the G20 nations plus Singapore and Hong Kong SAR (ie 67% emissions reduction disclosures vs 95% other sustainability-related information).

Our *Getting to Net Zero* research also found that the nature and scope of company targets and plans – in terms of emissions covered, timeframes and use of carbon offsets – varied widely in 2020 reporting. Importantly, only 24% of companies that reported a target and transition plan also quantified the past or future cost associated with implementing their disclosed plan.

Our review of company disclosures raised important questions about the consistency, reliability and decision-usefulness of the information about emissions targets and plans we reviewed. This new survey-based research, conducted in partnership with ACCA and PwC, complements IFAC and other desktop research initiatives by providing insights into not only the frequency of targets and plans, but also the drivers and barriers companies identify and the internal processes supporting corporate disclosure of targets and plans.

Stathis Gould, director, IFAC

Establishing a global baseline for sustainability reporting and assurance

How international sustainability reporting and assurance standards can promote consistent, comparable and reliable sustainability disclosures.

The International Sustainability Standards Board (ISSB) finalised two standards – IFRS S1 and IFRS S2 – in June 2023. These standards established *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and *Climate-related Disclosures* (IFRS S2). Their issuance was the first step in the development of a comprehensive global baseline for corporate sustainability reporting.

This emerging global baseline will enable the delivery of consistent, comparable, reliable and assurable sustainability disclosures that can credibly redirect capital flows towards the most resilient and sustainable businesses with the potential to create long-term value. It will also ensure investors and other capital providers receive sustainability information that is material to assessing a company's governance, strategy, risks and opportunities, and performance.

IFRS S1 'requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term', and 'prescribes how an entity prepares and reports its sustainability-related financial disclosures'.

IFRS S2 'requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term'.

In the European Union, European Sustainability Reporting Standards (ESRS) have been finalised and will be required, taking a phased approach, starting in fiscal year 2024. Mandatory assurance will also apply. The ESRS cover a broad range of disclosure topics and employ a 'double materiality' lens to what companies must report – addressing financial as well as broader impacts of sustainability factors. The ISSB and EFRAG (the ESRS standard-setter) continue to work towards aligning their requirements.

Meanwhile, the International Auditing and Assurance Standards Board (IAASB) is in the process of developing International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, for providers of sustainability assurance engagements. The new assurance standard will replace ISAE 3000 (revised) for sustainability-related disclosures and will be the first assurance standard issued by the IAASB that deals specifically with sustainability topics.

ISSA 5000 will be profession-agnostic. This will allow professionals outside of the accountancy profession to use the IAASB standard. But the standard will necessitate assurance providers to comply with competence, quality management, and ethics and independence requirements.

Finally, the International Ethics Standards Board for Accountants (IESBA) is developing ethics and independence standards for assurance of sustainability-related information, which will create a new section of the code that applies to both professional accountants and other service providers (eg consultancy firms, engineering firms).

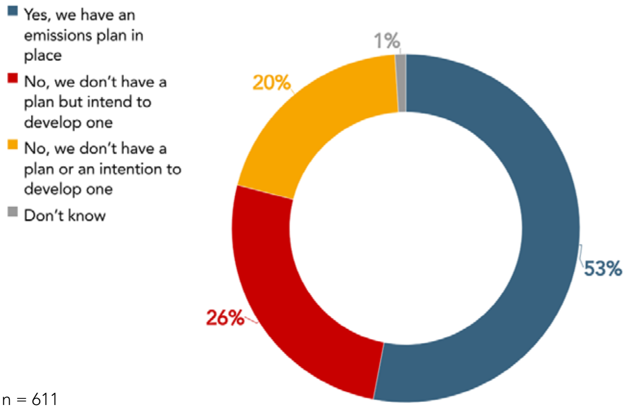
Through the efforts of the ISSB, IAASB and IESBA, global standard-setters are working in a collaborative manner to deliver to regulators and policymakers worldwide a suite of standards to support high-quality, decision-useful sustainability disclosure.

David Madon, director public policy & regulation, IFAC

1.6 Emissions plans are falling short for some

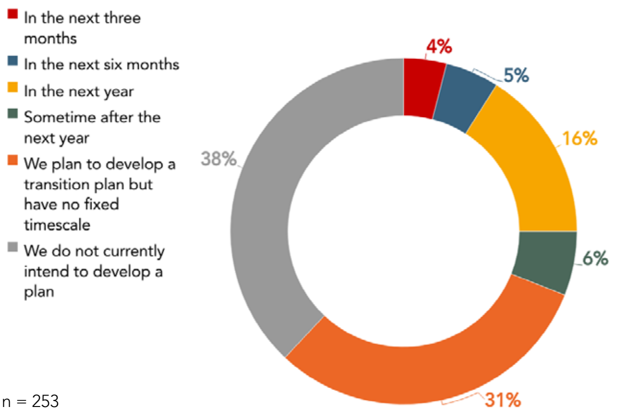
Successful enterprise-wide transition planning to a low carbon business starts with the development of a robust emissions plan, yet our survey suggests almost half of respondents (46%) have yet to produce a plan (Figure 3), and nearly 70% of those respondents without an emissions plan suggested they currently have no intention of developing one. Even for those who do have a plan underway, almost half don't expect to develop and approve an initial plan in the next 12 months (Figure 4). This is an acute problem given the interdependencies of emissions plans across both upstream and downstream value chains.

FIGURE 3: Do you have an emissions plan in place?



n = 611

FIGURE 4: Does your organisation have a timescale for developing and approving an initial emissions plan?



n = 253

1.7 Organisation size and location matter when it comes to transition planning

According to our survey, and perhaps unsurprisingly, larger organisations are more likely to be undertaking emissions planning and to be assessing the impact of regulations and compliance on their businesses. One additional factor driving this may be the resources available to apply to the task, with many having in-house functions and professionals dedicated to driving sustainability initiatives. Larger organisations too likely operate more globally than some of our smaller survey respondents, bringing together the requirements of many different geographies and stakeholders around the transition planning agenda, and driving a more coordinated and focused response. Our survey also showed that the location of the organisation has an influence on how developed sustainability processes are, and the perceived reliability and maturity of the data used in planning and reporting, with US respondents more likely to cite more advanced plans in place.

US leads the way in emissions planning according to our survey

As far as having an emissions plan in place is concerned, the US was the leader, with 74% or respondents there saying their organisation had a plan. South Asia, Asia Pacific, Western Europe and the Middle East form a mid-tier where just over half (54%–58%) of respondents said they had a plan.), Survey respondents from Africa had the least organisational preparedness, with just over a quarter saying they had a plan in place. The finding that the related data and processes of US-based organisations are more comprehensive may be skewed by the presence of larger US-based organisations in the survey. European organisations by contrast were more varied in size and show a mix of maturity around these processes and data, while African organisations currently appear to be lagging in terms of data quality.

> **'SUPPLIERS THAT ARE NOT ESG-COMPLIANT WILL DROP FROM THE VALUE CHAIN. THEY WILL HAVE NO CHOICE BUT TO REPORT ON THESE AREAS.'**
> ASIA ROUNDTABLE PARTICIPANT

SMEs adopt a "wait and see" approach?

Some of our roundtable respondents suggested a number of smaller organisations are waiting for more clarity around the regulatory requirements and positioning themselves to be 'fast followers' of the direction set by their larger counterparts. They have difficulty in gathering ESG data generally, particularly emissions data, and their constrained ability to then leverage this data in scenario planning was also given as a reason for their slower response to developing plans.

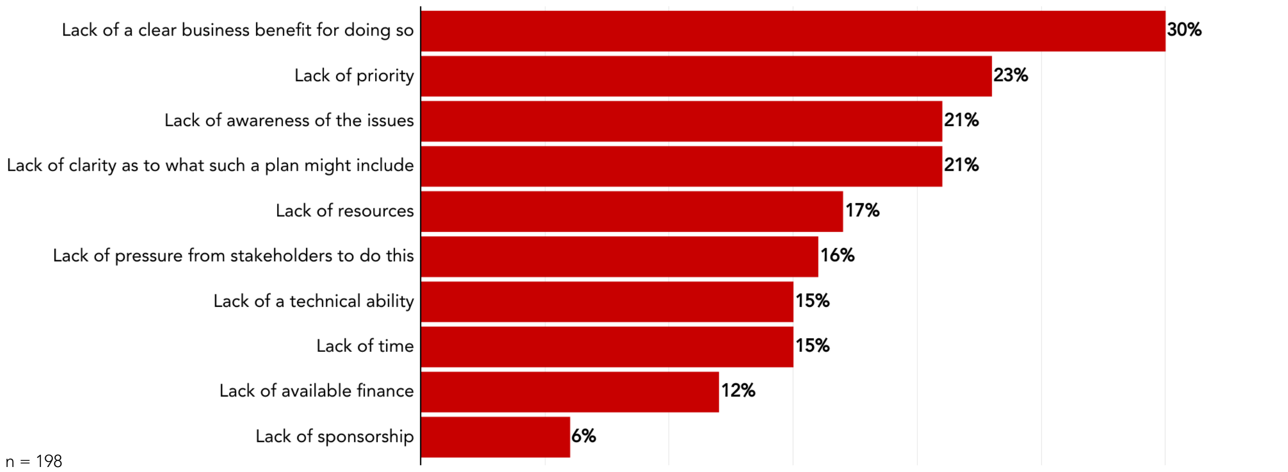
There are other challenges facing smaller companies too, including the perceived cost of developing plans (to fund training, external support or technology spend), as well as bandwidth and capabilities across their teams given that this is a new area of focus for many. They may also be less focused on assessing the likely impact on themselves of ESG more broadly, but this simply ratchets up the risk that smaller businesses in the supply chain will be replaced by competitors who are able to provide more comprehensive and reliable ESG data, especially to larger organisations. Disclosure requirements tend to trickle down, with the first to be captured being larger companies and those sectors of the economy perceived as having the greatest impact. Smaller companies may be waiting to see the impact or hoping they'll be carved out from the requirements.

1.8 Not everyone is clear on the benefits of emissions planning

Whilst there are many positives from our survey data, as noted a significant minority of respondents suggested their organisations presently do not intend to develop an emissions plan. Here a number of different reasons were cited (Figure 5), with a lack of clear business benefits identified as a key reason. But other indicators point to a broader lack of awareness around emissions planning, and a lack of understanding around what a comprehensive plan should contain. Knowledge, skills and capabilities are also key concerns, and there is a sense from the data too that the issue for many organisations is that emissions planning remains too little a priority, particularly with competing demands placed on organisations.

KNOWLEDGE, SKILLS AND CAPABILITIES ARE ALSO KEY CONCERNS, AND THERE IS A SENSE FROM THE DATA TOO THAT THE ISSUE FOR MANY ORGANISATIONS IS THAT EMISSIONS PLANNING REMAINS TOO LITTLE A PRIORITY, PARTICULARLY WITH COMPETING DEMANDS PLACED ON ORGANISATIONS.

FIGURE 5: Barriers to developing an emissions plan



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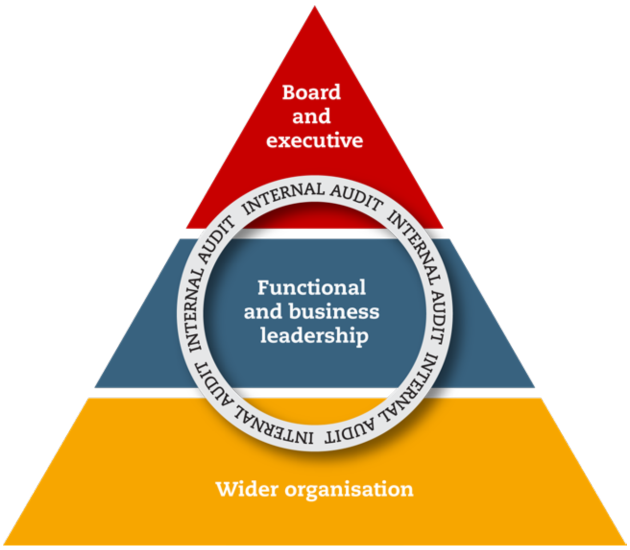
NEW BUSINESS MODELS ARE LIKELY TO EMERGE WHILE SOME MAY BECOME OBSOLETE. AS BUSINESS MODELS CHANGE, ORGANISATIONS MUST APPROACH SUSTAINABILITY HOLISTICALLY AS A SOURCE OF VALUE CREATION, COMPETITIVE ADVANTAGE AND RESILIENCE.

2. Driving a robust emissions plan

2.1 Governance

Establishing effective governance is an important aspect of managing transition planning. An organisational commitment to addressing emissions reduction as part of the overall sustainability action plan requires action from all levels of the organisation, from the Board and executive team through to the wider organisation at all levels (Figure 6).

FIGURE 6: Who needs to be involved in delivering the emissions plan?



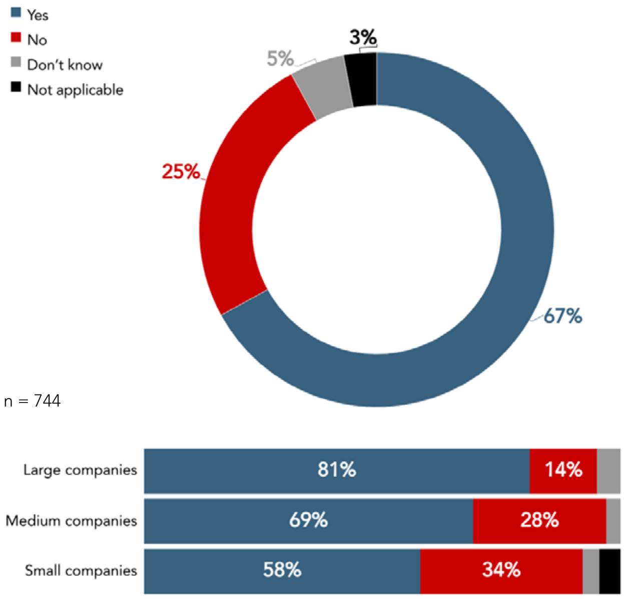
2.1.1 Board and executive team

The transition planning agenda must be initially set at the board level. A critical role for the board is to take oversight responsibility for delivery, to be clear on the alignment of plans to the strategic objectives of the organisation, and to continually assess the progress being made. Whether the operational accountability for the broader sustainability agenda sits at the board level is often dependent on the level of risk and impact the issue has for the organisation. Sometimes the agenda is absorbed into the CFO's remit but irrespective of the particular approach adopted, there is a need for clear governance, accountability and oversight right at the top of the organisation.

To gather a perspective on the extent to which the board and executive were considering transition planning, survey respondents were asked whether a specific emissions planning committee had been formed. Two-thirds of the respondents indicated that a specific board or committee had been formed, and those respondents from larger organisations were more likely to state this was the case. On a deeper analysis of this two-thirds, we found strong evidence exists for these committees leading to positive business action as compared to those organisations without a committee:

- **57%** were reviewing their emissions plans quarterly, compared to **22%** without.
- **48%** had implemented non-financial internal controls to better support the achievement of the plan, compared with **7%** without.
- **63%** had grown their finance function to support the setting, achievement and reporting of their emissions plans.

FIGURE 7: Is there a specific board or committee level of governance for emissions planning?



2.1.2 Role of non-executive directors (NEDs)

Board-level engagement is a key driver in embedding transition planning into an organisation, and non-executive directors have a key role to play, working with the management team to provide the necessary oversight. Specifically there are a number of key responsibilities that NEDs, working as part of the board structure, should be focused on:

- **Showing leadership on sustainability.** Boards should establish alignment on what sustainability means for the organisation and what the organisation's business case for sustainability is.
- **Establishing the right incentives.** The right incentive structures are essential to the success of a sustainable strategy. Boards should incorporate sustainability priorities into both the recruitment and remuneration of executives.
- **Overseeing implementation and communication.** Boards should oversee the implementation of the sustainability strategy and ensure that key targets are being set. They should also take responsibility and accountability for the organisation's communication on sustainability issues to stakeholders.
- **Staying informed.** It is essential to be aware of changes in the regulatory landscape, keep up to date with best practice, and understand what peers are doing. Listening to key stakeholders is also key.

NEDs need to provide governance support and ensure that the risks are properly addressed. However, to do that, they need to be properly skilled and experienced in understanding the risks themselves, otherwise the organisation runs the risk of there being no check and balance on its transition plans.

> *'Organisations are facing high levels of complexity and uncertainty. Whether it is from the effects of accelerating technological and digital change, climate change, environment impacts, political change, the number of ways in which organisations can trip up only seems to increase. In the face of this increased complexity and uncertainty, the temptation for boards is to become more conservative and risk-averse in an attempt to create certainty. But boards that choose to do this, risk missing opportunities for their organisations and stakeholders. Worse still, they risk losing ground to entities with more innovative and entrepreneurial boards that are better able to steer their organisations towards opportunities on offer. Choosing the "safe" option can be a risky strategy in itself. CFOs, NEDs and others have an important role to play in ensuring these topics are an area of focus in their organisation.'*
>
> **John Lelliott OBE, NED Environmental Agency and Chair of ACCA's Global Forum for Sustainability**

2.1.3 Functional and business leadership

The functional leadership (including CFOs, chief risk officers, heads of procurement and supply chain) and business leaders (of business units, products, channels, locations and so on) need to take the day-to-day operational responsibility for delivering the strategic goals, including those related to sustainability and emissions reduction. The exact nature of the organisational structure through which this is delivered will depend on the unique circumstances of the organisation. The interlock between the role that business leaders need to play and that of the functional leadership teams supporting the business is critical to successful transition. Ultimately, the functional teams enable the change, and the business leaders are responsible for the outcomes across the organisation – hopefully resulting in sustainable, profitable growth for the business and investment in building a business model fit for the future. One of the key responsibilities of functional leadership is to ensure the wider organisation has a belief in the commitment to emissions reduction, and that an appropriate culture across the organisation is in place to make this happen.

> *'Our sustainability programme is driven across four departments – sustainability, finance, business units and IT – each with their own unique contribution to sustainability reporting and decarbonisation. We see finance as playing a key strategic role in not only driving the sustainability reporting through quality data, processes and controls, but also enabling the future transformation through informed decision-making on sustainability impacts, risks and opportunities.'*
>
> **Europe based international telecoms provider**

2.1.4 Internal audit

The role of internal audit is fundamental in providing assurance over the data flows, processes and controls. It needs to challenge progress and the basis of the assumptions which underpin the transition plan. As regulators look for assurance over sustainability-related data, it is important to ensure an appropriate control environment is in place. Internal audit teams and external auditors provide independent assurance and evaluation of sustainability objectives and the internal control system, helping to ensure accountability, transparency and compliance with objectives and standards.

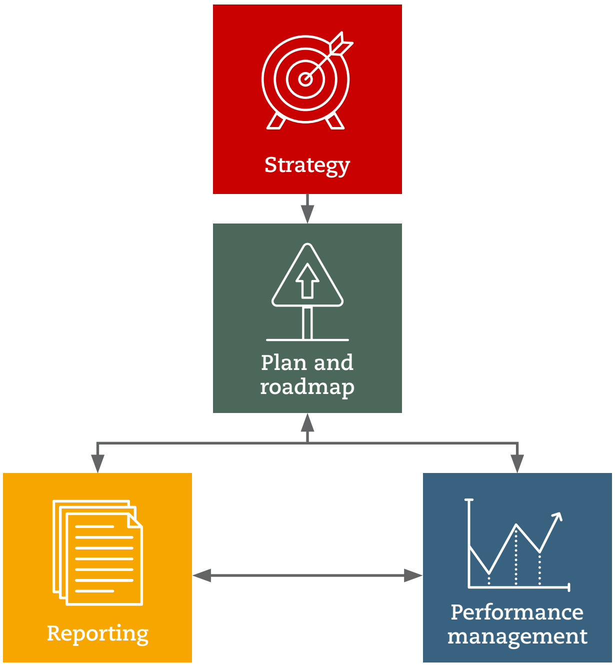
> **AS REGULATORS LOOK FOR ASSURANCE OVER SUSTAINABILITY-RELATED DATA, IT IS IMPORTANT TO ENSURE AN APPROPRIATE CONTROL ENVIRONMENT IS IN PLACE.**

2.2 Delivering the plan

The transition to a low-emissions economy is a complex challenge, and organisations need to plan properly for it. Organisations with a transition ambition do not necessarily have a plan and roadmap for delivering it. Transition needs integrating into the organisation's performance management framework so that it becomes part of 'business as usual' as a corporate goal, rather than a sidelined activity which is managed in a silo. Progress must be reported on continually.

For any transition to be effective it needs to be a core component of the organisation's strategic goals and objectives. In turn, this has to be translated into a plan and detailed roadmaps. It is against these that performance must be measured. The initial step is to measure internal performance, as with any strategic objective, through a series of key performance indicators, and then externally in alignment with relevant standards and disclosure requirements. Establishing an effective reporting process is the critical fourth element of delivering the transition plan.

FIGURE 8: Four component parts to delivering the transition plan



2.2.1 Key activity 1: Strategy development

If a sustainability strategy, as a key component of the overall organisation strategy, is not in place, then sustainability commitments are unlikely to be met. By delivering on their sustainability commitments and reporting transparently, companies can earn greater trust and loyalty among investors, employees and customers while enhancing value. Establishing governance is the first line of defence for a sustainability strategy, yet a third of our survey respondents did not have such governance in place.

While over 80% of larger companies had an emissions plan in place in our survey, only just over half of respondents thought those plans were reviewed more frequently than once a year. The emissions agenda continues to evolve, and organisations cannot contemplate this as part of their annual planning cycle and declare 'job done'. Frequent review and action are needed to secure sufficient progress in the timescales involved.

As a first step in the transition planning strategy, a board needs to undertake a materiality assessment which considers the impact and extent of the transition. Identifying the impacts of the transition in the short, medium and longer term is essential. There is a tendency for the targets themselves to seem remote, with the result that action may be postponed to a later date, to somebody else's tenure. Focusing on a transition will also force businesses to make difficult but necessary decisions.

> 'FOR GOVERNANCE TO WORK, THERE NEEDS TO BE OPEN OWNERSHIP RIGHT FROM THE TOP, FROM THE CHAIRMAN. WHAT REALLY UNLOCKED IT FOR US WAS WHEN IT WAS LINKED WITH THE MANAGING DIRECTOR'S KEY PERFORMANCE INDICATORS AND RENUMERATION. SO THEY'RE THE ONE WE'RE RUNNING TO NOW AND SAYING, "WHERE ARE WE ON THIS?"'
>
> AFRICA ROUNDTABLE PARTICIPANT

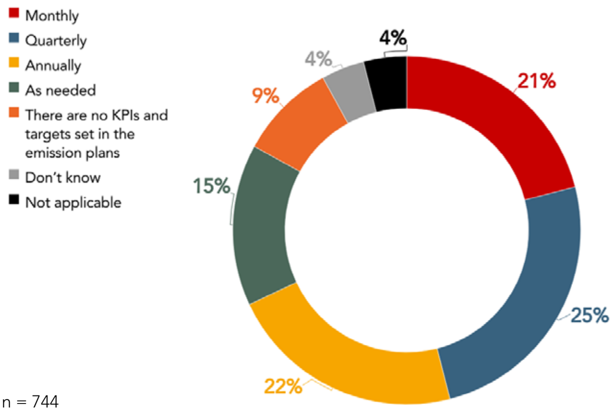
2.2.2 Key activity 2: Plan and roadmap

While a strategy can be set and approved at a board level, integrating that into the detailed plans and roadmaps of the organisation can often be missed. Progress (and performance) can only be measured if strategies are translated into detailed plans. The strategy must be deconstructed into a series of detailed plans and roadmaps which the organisation executes to deliver on the strategy. These can also be monitored against planned progress and then reviewed and amended as required.

Our survey respondents were asked whether their emissions plans were reviewed and updated, and if so what the frequency of this activity was (Figure 9).

Given the dynamic nature of the transition challenge, 46% of respondents who indicated plans were reviewed and updated at least quarterly suggests that the importance of monitoring is understood, although this proportion declined for smaller organisations by revenue. The drive towards the achievement of emissions targets for many organisations has to be a core part of their overall transformation activities, and their plans should be treated as such.

FIGURE 9: How frequently are emissions plans reviewed and updated?



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2.2.3 Key activity 3: Performance management

Organisations need to focus on identifying and managing sustainability-related financial and operational risks for the transition, as well as ensuring there are sufficient financial resources to support sustainability goals. The performance management processes in an organisation must take a holistic approach to performance, bringing together both operational and financial key performance indicators and making them available to key stakeholders as required. A combined view of the strategic objectives of the organisation is required. As explained in *Planning and performance management paradigm* report (from the ACCA, Chartered Accountants Australia and New Zealand, and PwC), this has to be based on effective realisation of data. Performance management includes not only a view of the recent activities, but also an analysis of the potential future trends which utilises predictive analytics – which can equally be applied to the monitoring of performance in relation to transition planning. Increasingly this is an on-demand activity, allowing organisational leaders to take a holistic view as frequently as the risks that the organisation face develop.

2.2.4 Key activity 4: Reporting

The demands of stakeholders, particularly investors, are becoming more tangible, with high-level commitments requiring clear action plans and targets. The final and fourth part of delivering the emissions plan is a focus on effective reporting – environmental and other elements of sustainability-related performance is becoming increasingly relevant for organisations, with many large companies facing increased reporting requirements as well as focusing on the information they gather from their supply chains. Several of these standards require a level of third-party assurance to be provided which is leading many to question the quality of the data flows used for both internal and external reporting.

ORGANISATIONS NEED TO FOCUS ON IDENTIFYING AND MANAGING SUSTAINABILITY-RELATED FINANCIAL AND OPERATIONAL RISKS FOR THE TRANSITION, AS WELL AS ENSURING THERE ARE SUFFICIENT FINANCIAL RESOURCES TO SUPPORT SUSTAINABILITY GOALS.

Assurance and ESG data quality

As the business world continues to address wide-ranging environmental, social and governance (ESG) issues, the debate around what businesses should report on, and to whom, around their transitions to net zero has become not only a boardroom topic but one that society is also asking. So how should finance approach this new area?

It is clear that there is a growing risk that multiple jurisdictions will develop their own sets of reporting standards – some more focused on information useful to investors (the enterprise value), and others focused on information useful to a wider group of stakeholders (the impact value). The former primarily focuses on the impact of ESG issues on the intrinsic value of the business, the latter more on the impact of the business on the world around it. Both areas of focus give their respective audiences information that helps them hold companies accountable for their actions – and how the organisation is progressing on its transition to net zero. In doing this, stakeholders will be able to see if an organisation is managing to maintain or create value, and, more critically, how it is minimising negative impacts on the planet and on society.

High-quality reporting by organisations about their net-zero transition plans brings increased transparency, which is needed to help build trust with different types of stakeholders. But that transparency needs to focus on what investors and key stakeholders need to know to critically assess both a company's performance and its progress (or maybe lack thereof) towards a net-zero transition. Finance plays a crucial role here. If this transparency exists, then it can help to empower investors to allocate capital to businesses that manage risk effectively and are working to create sustainable value. In addition, it can empower other stakeholders to decide whether to buy from, sell to or work for a company. In this way, what finance does and how accountants help in reporting has a critical role in facilitating how a business can drive the transformation needed to address the climate change challenge facing the world today.

Forward-thinking executives and senior management are starting to integrate sustainability topics within their core strategies, but the practice has not yet gone mainstream. The majority of management teams still base their strategy on more traditional concerns – customer needs, competitive dynamics, economic trends, technology advances and so forth – while handling sustainability topics such as climate change and transition plans through legal or regulatory compliance.

As society pivots towards linking sustainability with value creation, these traditional management teams will fail to compete successfully in the markets in the future. Finance teams are pivotal in these organisations to catalyse the shift towards net zero by showing how they have assessed business opportunities and risks related to a net-zero transition. That assessment can include the companies' impacts on the environment and society, as well as the possible effects on financial outcomes. Faced with additional scrutiny, executives will benefit from explicitly aligning business strategies, plans and processes with net-zero transition plans.

The expanding requirements for transition and sustainability reporting, and the increasing stakeholder pressure on organisations to gain external assurance on sustainability data, mean organisations must improve the quality, accuracy and reliability of their sustainability information. Companies subject to recent EU changes under the Corporate Sustainability Reporting Directive (CSRD) now must have their sustainability disclosures assured by an outside party, first at the limited level, and eventually at the reasonable level of assurance required for financial reports. The resulting improvement in credibility should help executives, boards and investors engage in more meaningful discussions not only about transition plans but also the broader sustainability agenda in order to reach more confident decisions. Finance needs to step up to this challenge and will play a crucial role in helping to facilitate the new information needed about the business. Finance must also ensure that this high-quality data improves year on year, and continues to withstand the ever-growing scrutiny of an external third-party audit.

In conclusion, any organisation planning its successful transition to a net-zero economy should start with its finance division. By involving them early, the business can develop its transition plans and focus on high-quality data reporting and transparency to build further enterprise value and empower the organisation to stand up to the scrutiny of external auditors, in turn demonstrating its commitment to becoming a net-zero organisation.

Alan McGill, partner, PwC UK and global lead for sustainability reporting, measurement and assurance

THE DEMANDS OF STAKEHOLDERS, PARTICULARLY INVESTORS, ARE BECOMING MORE TANGIBLE, WITH HIGH-LEVEL COMMITMENTS REQUIRING CLEAR ACTION PLANS AND TARGETS.

3. **The role** of the **finance team**

3.1 The finance team and the broader sustainability agenda

The role of the finance team itself is changing, with more focus on insight and forward-looking decision support, rather than just on reporting the events of the past (as discussed in ACCA and PwC's report *Finance insights – reimagined*). The finance function is well placed to address the increasing sustainability demands placed on the organisation and to play a key role in driving sustainable value creation. As sustainability becomes integrated into the whole business, every business function is likely to play some part in the sustainability transformation journey.

In some organisations, the corporate sustainability function orchestrates the sustainability strategy and execution, and the finance function then embeds that in ongoing corporate planning, budgeting and internal and external reporting, which brings transparency as well as insights to guide the business through key decisions factoring in all considerations. In other organisations, the CFO and the finance functions they lead may play an even more enhanced role in relation to sustainability strategy and risk management.

3.2 Opportunities prevail for finance in emissions planning

Finance is in a unique position among these enabling functions to drive the change required to deliver effective emissions planning. It can bring an end-to-end view across the enterprise, as well as traditional skills around facilitation, data quality, reporting, scenario modelling, and financial planning and analysis (FP&A), all of which are highly useful as part of emissions planning activities. Transition planning, and emissions planning specifically as a subset of this, is a complex activity that involves many different functions of an organisation. Survey respondents were asked to consider a RACI assessment – to identify where the responsibility, accountability, consulted and informed roles lie in relation to transition planning within organisations. This gave a mixed picture of where responsibility and accountability for transition planning currently exists. (Figure 10).

The results suggest that there is a unique opportunity for a single function to act as the connector across the organisation to align all relevant groups and ensure that they play their part in a holistic way to deliver the necessary change. Given finance's traditional role around reporting, planning and forecasting, and the relationships this brings with all levels of the organisation, finance teams are well placed to bring a high degree of influence and coordination to the transition planning process.

FIGURE 10: Which areas of the organisation are actively involved in developing/implementing emissions plans?

	Finance and accounting	Human resources	Information technology	Operations / Production	Sales and marketing	Project management	Legal and compliance	Supply chain / procurement and logistics	Research and development	Governance and risk	Strategy	Facilities management
Responsible	31%	29%	27%	38%	27%	36%	32%	33%	29%	36%	40%	37%
Accountable	35%	27%	26%	35%	25%	31%	29%	30%	28%	32%	34%	30%
Consulted	33%	28%	30%	24%	28%	25%	32%	24%	26%	28%	27%	24%
Informed	23%	29%	27%	21%	25%	19%	21%	23%	19%	22%	19%	20%
None of the above	3%	5%	6%	4%	6%	5%	4%	5%	4%	4%	3%	5%
Don't know	4%	6%	6%	6%	7%	7%	7%	7%	8%	6%	6%	7%
Not applicable	5%	7%	7%	7%	10%	9%	6%	8%	13%	8%	6%	8%

Colour scale: 40%, 35%, 30%, 25%, 20%, 15%, 10%, 5%

Sustainability and the role of the finance function

Sustainability factors present both risks and opportunities to global businesses. How businesses define and meet their goals for environmental, social and governance impact and performance has significant and growing consequences for their value and, in some cases, for the continued success of their business model.

The finance function has a clear and important role to play in sustainability. CFOs are already seeing their role evolve, as value stewardship extends beyond the purely financial to also include sustainability dimensions. But how will this impact the finance functions that CFOs lead? How will their role change to support the new requirements arising in a world that not only holds businesses to account for their sustainability performance, but also increasingly rewards them for the positive impact they can make?

Integrating sustainability into daily activities and decision-making is no longer just about satisfying regulatory requirements; it is essential to establish and improve a company's future. Companies must therefore approach sustainability holistically as a source of value creation, competitive advantage and resilience, and not just review the latest developments as a burden of regulation and disclosure.

The role of finance in driving the sustainability agenda

By executing on their sustainability commitment and reporting transparently, companies can earn greater trust and loyalty among investors, employees and customers, while also enhancing value. The demands of stakeholders, particularly investors, are becoming more tangible, with high-level commitments around net-zero transition timelines requiring clear action plans and targets. CFOs need to help translate those commitments into transition plans with mechanisms to measure, monitor, forecast and, ultimately, communicate progress. These, in turn, need to be based upon robust and verifiable data to support sound decision-making and reporting and ultimately pass the assurance test.

As sustainability becomes integrated into performance management frameworks and business strategy, every business function must be part of the transformation. The corporate sustainability function may orchestrate the sustainability strategy and execution activities but it is then the finance function that needs to embed this into ongoing corporate planning, budgeting and reporting which brings transparency, drives insight and guides the business through key decisions.

Driving sustainable value through business partnering

Every business is exposed to sustainability factors that can influence their performance. There are both negative and positive impacts to contend with. The finance function can help the business uncover strategic insights that will help it achieve its targeted results, manage the risks it faces and utilise the opportunities presented to it.

1. **Financial planning and analysis (FP&A).** The finance function can help define and manage a convincing long-term path to create value and deliver sustainability goals through rigorous target setting (key performance indicators), integrated business planning/forecasting, performance measurement/monitoring, and analysis.

2. **Scenarios and forecasts.** Scenario analysis can help identify the sustainability factors with the greatest likely material impact on the business, and then assess their financial implications. Quantifying the effect of sustainability factors on a business case can support integrated decisions that take a holistic account of profit, employees, customers and society.
3. **Driving the conversation.** The role of a finance business partner is to ensure that the potential financial impact of business decisions is understood and accurately reported. This means ensuring that sustainability considerations are tabled at all key points in the debate and their financial impact is understood. Finance teams should push for this discussion to be held across the business.

The importance of data in driving activities

While sustainability data has to date often been the responsibility of the corporate sustainability function in many businesses, the rapid evolution of sustainability reporting frameworks means the baton is now passing to the finance function. Investors want greater insight into the data behind sustainability risk assessments. Annual reports must increasingly include sustainability data, and company boards and auditors expect the finance function to take ownership of that data. While sustainability data sourcing and calculation has yet to achieve the degree of standardisation that financial accounting took many years to develop, it is progressing fast.

Robust processes and controls for collecting financial data across the business are already in place, as are the mechanisms for consolidating and disclosing financial information. These competencies now need to be extended to the data required for sustainability reporting and ensuring there is adequate evidence for assurance.

While other parts of the organisation may lead when it comes to setting sustainability targets and goals, the finance function is essential when it comes to reporting on the impact and progress of sustainability actions.

Preparing your finance function

Beyond process, data and system changes, finance functions must also consider changes to organisational design, governance structure and how to equip finance professionals with new skills. These will apply whether a function is adopting a minimum compliance approach or taking a more ambitious route in the area of transition planning.

Governance structures need to reflect the finance organisation's expanding sustainability roles and responsibilities. This will include the role of committees and whether new ones are required or if sustainability responsibilities can be absorbed into the remit of existing committees. The organisational structure of the finance function will also have to be updated for sustainability activities. Organisations must consider how new sustainability reporting activities will be integrated in the finance structure. This can be either by establishing a sub-team for sustainability reporting or by creating a separate team and defining a new role (eg sustainability CFO).

New skills and knowledge are essential for finance professionals to start adding value to sustainability activities and achieve the right quality of finance sustainability deliverables. Most finance professionals do not possess huge experience in the area of sustainability. So to really understand the new sustainability activities, they will need to become knowledgeable about each of the E, S and G topics.

Karan Mathur, senior manager, PwC UK

3.3 The challenges finance must overcome

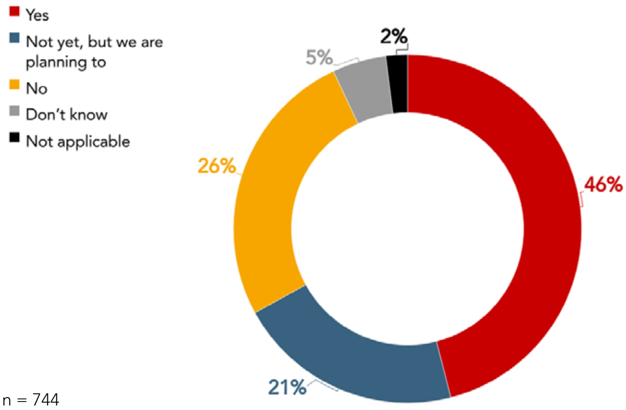
In recent years the finance team has become much more involved with planning for climate change and "leaning in" to be the custodian of performance management processes that help organisations manage and report on their climate change activities. The continued evolution of regulation will further strengthen this role. Yet for finance to truly capitalize on the opportunities ahead, there are challenges it must overcome (Figure 11).

> 'A LOT OF CLIMATE-BASED ROLES ARE COMING UP AROUND THE FINANCE SPACE. EVERY KENYAN BANK NOW HAS TO REPORT ON CLIMATE RISK, SO OUR FINANCE PERSON WILL HAVE AN OPPORTUNITY TO UPSKILL, IN COLLABORATION WITH THE SUSTAINABILITY TEAM.'
> AFRICAN ROUNDTABLE MEMBER

There is clearly a pressing need for finance teams to invest in their capabilities if they are to support their organisations in achieving their climate reduction targets. Here CFOs face a typical dilemma, working through how to allocate finance resources between core day to day finance operational responsibilities, as well as being able to meet the emerging demands placed on it by the organisation across the sustainability agenda. As part of the development of the finance function role in this area, it is likely that new roles and skills will continue to have to be developed in finance teams (Figure 12).

Nearly half the respondents (46%) in our survey said their organisations had created new positions within finance, while another 21% said their organisation was planning to do so. New ESG-focused roles could include everything from chief sustainability finance officers to extended FP&A teams, external liaisons with suppliers, sustainability business partners, ESG controllers, sustainability data stewards, and so on.

FIGURE 12: Have new roles been created within finance teams?



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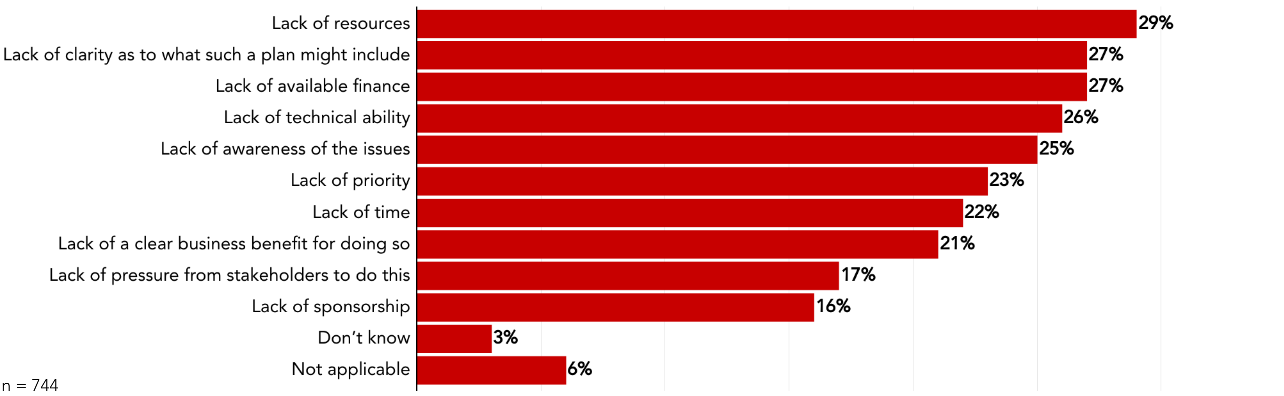
> 'WITHIN THE COMPANY NOW THERE ARE SOME NEW ROLES SUCH AS CHIEF SUSTAINABILITY OFFICERS TO ACHIEVE THIS TRANSITION. LAST WEEK, ONE OF MY CLIENTS CREATED A NEW ROLE OF CRSO – CHIEF RISK AND SUSTAINABILITY OFFICER. RISK AND SUSTAINABILITY ARE SO RELATED TO EACH OTHER.'
> TURKEY ROUNDTABLE MEMBER

While some CFOs, especially in small and medium-sized organisations, may have sustainability leaders reporting to them, it is clear that many finance teams have a responsibility for reporting and performance management aspects. This means, at a minimum, a requirement to work integrally with those working more directly in the sustainability strategy across the enterprise.

> 'I AM AN ESG CONTROLLER AND SIT IN FINANCE BUT WORK ACROSS DEPARTMENTS. IN THIS LAST YEAR I HAVE RECRUITED AN ESG FINANCE MANAGER THAT LEADS INTERNALLY ALL OF THE REGULATION REQUIREMENTS FROM CSRD TO ISSB. WE BOTH SIT IN THE FINANCE DEPARTMENT.'
> IRELAND ROUNDTABLE PARTICIPANT

FIGURE 11: Top three challenges your finance team faces in delivering on your organisation's climate goals?



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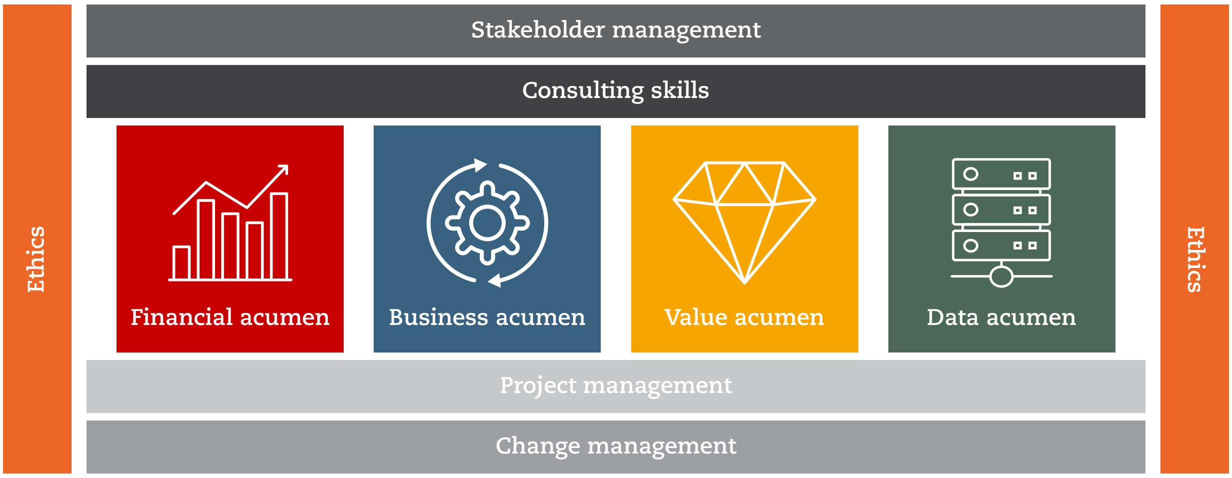
The role of the CFO today

As with any other key process in the organisation, it is important that the finance team has an individual with responsibility (and with the relevant level of technical skills) for interfacing with those who have operational responsibility for the transition approach. In planning, recording and evaluating performance, CFOs – the ultimate business partner at the C-suite level – need to take a value-centric perspective and act more like "chief value officers" than chief financial officers.

The CFO role continues to evolve. It is no longer just the scorekeeper for the organisation rather it is one of a strategic advisor who works closely with the chief executive officer to deliver on the goals of the organisation and to create value for its stakeholders. As such it is a role that looks to a broader view of performance, including sustainability aspects and long term value creation, but at its core retains a strong technical and ethical backbone which facilitates trust.

FIGURE 13: The reality of the CFO role

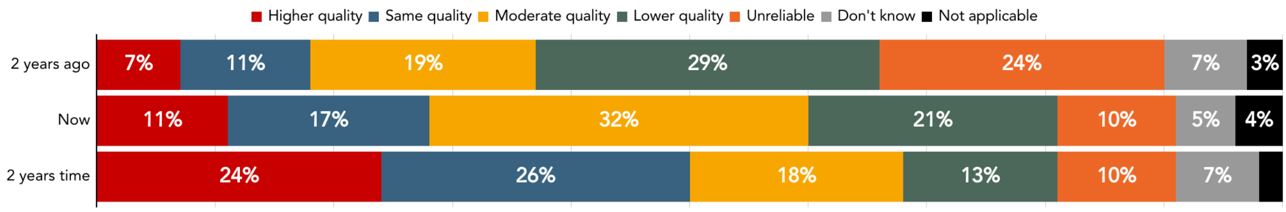


3.4 Why good data matters when it comes to the sustainability agenda and emissions planning and reporting

The governance requirements for sustainability data are complex and constantly evolving. Organisations must stay abreast of developments and their impact on their sustainability reporting and disclosures. Inevitably, the monitoring of performance in achieving transition and emissions targets requires the inclusion of non-financial data in the performance management processes. In many cases the data sources involved have not evolved to the same level of quality and integrity as financial data. Technology here must also play a critical role in helping finance teams gather sustainability data and report this in a meaningful way.

To assess the extent of the data challenge, survey respondents were asked to consider the extent to which the quality of this data was expected to improve over a four-year period starting from two years before the date of the survey (June 2023) (Figure 14). It's clear that more respondents expect the quality of non-financial data to improve over the next two years. As the certainty of the data required to be collected, analysed and disclosed increases with the advent of regulation over time, so the level of confidence increases. However, this confidence has to be based upon the governance and internal control established over the data, together with progress in the digital landscape for the collection and analysis for the underpinning data. That said, there is considerable room for improvement to ensure quality in data sources and analysis for setting and assessment of organisation strategy, implementation through to reporting internally and externally.

FIGURE 14: The quality of non-financial data compared to that of financial data



The data platform approach

A recent global ESG investor survey conducted by PwC shows that only around one-third of investors considered the quality of ESG (environmental, social and governance) reporting to be satisfactory. When considering the perspective of the general public, this number might even be lower.

As the world grapples with the escalating challenge of climate change, the urgency for organisations to transition towards a net-zero economy has never been more pronounced. Finance professionals play a pivotal role in steering this transition, and their ability to effectively harness data for actionable insights holds the key to achieving both sustainability commitments and profitable growth.

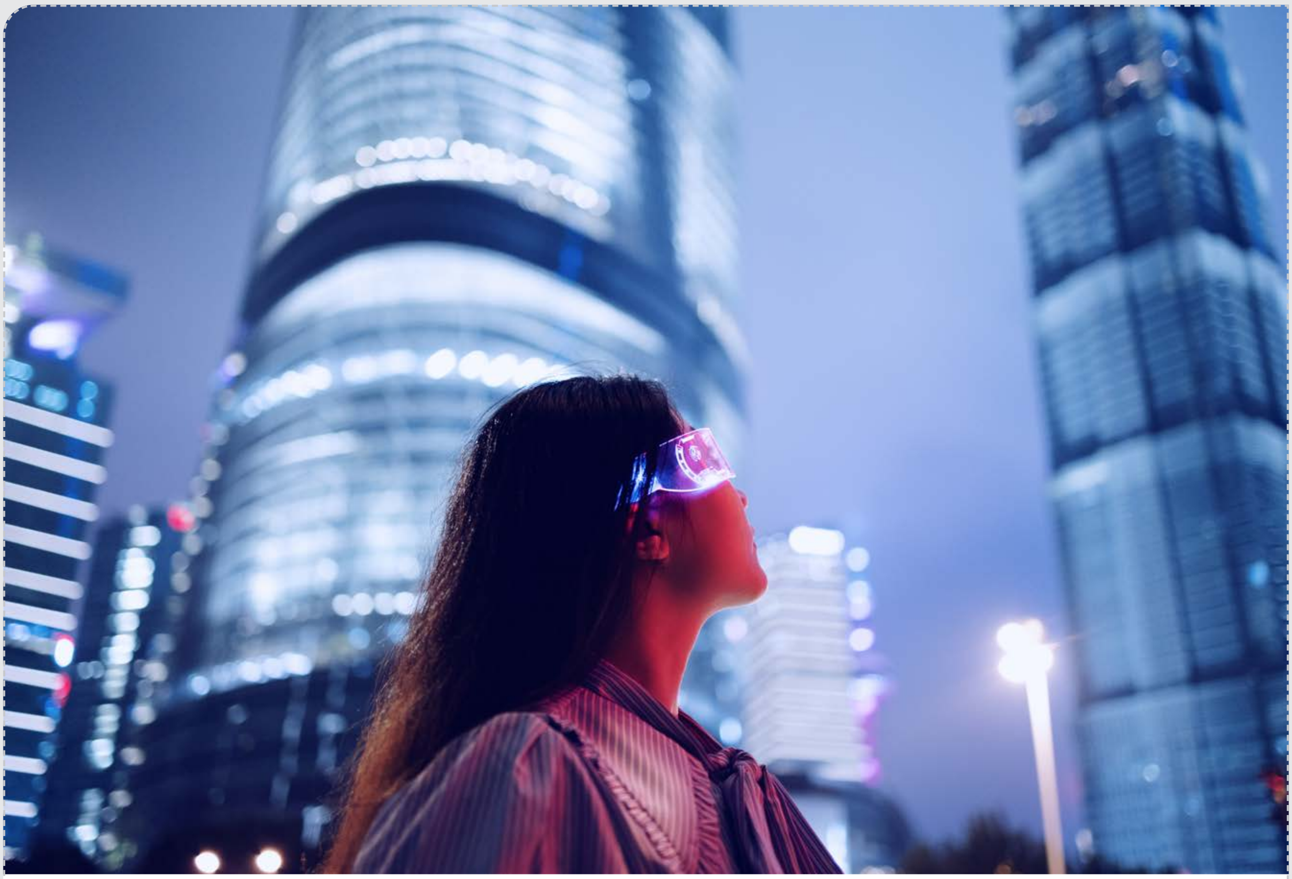
In this article, we will explain the significance of data and a well-defined data strategy for finance professionals within the context of sustainability. It will explore essential components to get right, approaches to data management, and methods to ensure data quality and assurance. Furthermore, it will address the establishment of governance and control over data across the organisation, emphasising how this can accelerate the journey towards net zero.

To effectively manage data and transform it into actionable insights, finance professionals should engage closely with their chief data officers (CDOs) and chief technology officers (CTOs) to shape their organisation's data strategy, as finance is a key data producer and data consumer.

A well-defined data strategy is key for a cost-effective delivery of reporting and analytics projects required for a net-zero transition and aligning with evolving sustainability reporting regulations, as required by both regulators and investors. Too often, principles of data quality, data governance and data lineage are confined to core systems managed by IT. Nevertheless, once data is extracted from these core systems for reporting purposes, processes and controls should be in place to maintain data quality in terms of accuracy, timeliness, completeness and consistency. This aspect is indispensable in mitigating errors in sustainability reporting due to the substantial data volume involved, and is critical for firms aiming to obtain assurance for their sustainability reports.

The Greenhouse Gas Protocol's data management plan guidance offers a useful starting point. While it pertains to greenhouse gas data, it provides insight into how firms should approach the management of sustainability data in a manner accessible to non-data professionals. Depending on the organisation's size, it often makes sense to establish a central data repository or an analytics layer across multiple reporting systems, as seen in the increasingly popular data mesh model for data governance. In the context of emissions, data quality standards are meticulously defined. The GHG Protocol, for instance, furnishes data quality indicators based on representativeness and specificity, while the Partnership for Carbon Accounting Financials (PCAF) standard for financed emissions specifies data quality scores by assets, ranging from the most certain to the least certain approach.

While data governance relies on people and processes, firms with the capability should also explore technology innovation. Finance professionals are encouraged to gain a better understanding of enterprise-wide data capabilities, if available, and not restrict themselves to end-user computing tools to produce sustainability reports. Often, these capabilities already exist within the firm, albeit for different purposes, such as research.



Another avenue worth exploring is technology proof of value (PoV), whereby an organisation's management may consider evaluating new technology such as generative AI. Finance professionals should explore the art of the possible when presenting sustainability use cases as candidates for a PoV and not be dissuaded based on current data challenges.

Advanced analytics are now being used in sustainability reporting and decision-making, such as determining historical calculation methods by correlating structured financial data with unstructured data from policy documents or identifying gaps in sustainability policies. The adoption of knowledge graphs are allowing firms to produce metrics and KPIs for ESG reporting while providing full visibility into the lineage of the data back to the source records, which is key to ensure transparency in the data for decision-makers.

Sustainability reporting presents one of the most demanding data challenges facing finance professionals. For the first time, investors, the public, regulators and competitors will have the ability to compare similar data points across corporates, exposing any discrepancies. The transition from estimates to primary data is a significant consideration. Finance professionals need to be aware of the risks of reporting based on estimates rather than primary data sources, and to be transparent in disclosing how they achieve their figures. For example the risk of under-reporting emissions is high when relying on complex model estimates for Scope 3. Finance professionals should be driving demand for actuals data to improve reporting across the market.

Relying on alternative data sources and methods for emissions estimation and data compilation results in non-standardisation, inaccuracy and inconsistency in emissions reporting across firms, raising concerns regarding comparability for investors, customers and regulators. As investors and customers demand increased transparency regarding net-zero commitments, the necessity to rely on primary data is rapidly becoming a reality. New forms of geospatial data and analysis, including the introduction of 'spatial finance' and 'asset-level data', that improve the theory and practice of measuring environmental risks and impacts are examples of best practice we have come across. In cases where estimates are necessary, incorporating an error coefficient and gradually phasing out the use of estimates over time can help manage this risk and ensure a smoother transition to primary data.

In conclusion, finance professionals should seize the rising demand for enhanced sustainability reporting as an opportunity to enhance efficiency through improved information management. As custodians of critical data sets, finance has an instrumental role to play in supporting sustainability requirements and net-zero commitments.

Hong-Lan Doan, director in sustainability technology, data & analytics, PwC, and **Alex Rockcliffe**, senior manager, PwC

Using technology to enable business ESG strategies

ESG, net zero, science-based targets. This can be a confusing space for business leaders to step into. Many leaders are unclear how to go about delivering a sustainability reporting framework, and then unlock additional value from that investment.

So can technology help ease the pathway to efficient sustainability reporting? Technology shouldn't bring additional complexity – it can be the enabler that brings the opportunities associated with sustainability reporting into reach for all businesses.

Utilise what you know – the power of ERPMs

Fortunately, there is now a vast ecosystem of technology providers who have stepped up to the challenge. Complemented by some of the best-known legacy financial reporting technology players and ERPM (enterprise resource planning and management) systems, the ecosystem is bringing best practice solutions that deliver the functionality that is needed while mitigating the risk of deploying new technologies.

Those capabilities to measure performance through data governance, controls and audit traceability processes already exist within a business. It makes sense then that there are synergies in aligning with that muscle memory in the business, both in terms of process and the enabling technology.

Major players in the ERPM space now offer a range of solutions that can help companies manage their ESG reporting and compliance obligations. Those synergies come through utilising a business's existing ERPM tech stack, where the process knowledge is already embedded in the organisation.

For example, one leading Cloud EPM solution enables companies to collect and report on ESG data, while also providing analytics and benchmarking capabilities. Another provider offers a similar solution through its sustainability performance management platform, which allows companies to track and report on their sustainability performance in real time. A third provider offers an ESG reporting and compliance solution that integrates with its financial management and human capital management systems.

Similar developments are emerging amongst the mid-market providers. One, which provides an accounting platform with over six million customers worldwide, is starting this process for smaller businesses by layering its sustainability management product directly into its existing platform offering. It provides an organisation with an emissions baseline calculation by accessing spend data that is already stored, managed and governed within the standard platform. In doing so, it leverages its existing business integration to enable highly automated and low-cost implementation rollout.

Enable sustainability reporting – harnessing data

While the wider terminology and acronym soup associated with ESG reporting is still relatively new to many boardrooms, the process of being able to accurately and efficiently measure and report performance is as critical in financial reporting as it is in the ESG space.

Most of the data that will populate sustainability reports usually already exists within a business. Emissions will be calculated via operations activity, utility billing etc, while gender and ethnicity equality measures will come from payroll, for example. One way companies can tap into this data is through the utilisation of their ERPM systems, which manage and host a company's financial and operational processes, where most of this data already sits, including procurement, inventory management and accounting.

By integrating ESG reporting and compliance into their ERPM systems, companies can leverage that existing infrastructure to streamline reporting and compliance processes.

AI for sustainability – transforming impact

What about large language models (LLMs) and artificial intelligence (AI) applications? How will AI-augmented technology impact on sustainability reporting? Initial deployments will likely be focused on small targeted rollouts that help automate, expedite and replicate repeatable processes within wider workflows.

For example, one global financial reporting, compliance and risk management platform provider recently launched its first integrated AI offering. Launch capabilities include test steps for internal auditors, SOX results summary, risk mitigation steps, policies for accounting, finance, IT, HR, and key considerations for disclosing ESG Scope 1 and Scope 2 emissions, among others. These are targeted pain points that AI can quickly augment. Directly integrated into client workflows, the platform scales AI impact throughout document curation, and spreadsheet and presentation preparation. Other technology providers in this space are sure to follow this example and look to focus on ESG and sustainability as a key area for investment going forward.

But where could AI potentially have a wider role in sustainability transformation beyond augmentation and automation roles? AI-powered tools have the ability to process large volumes of data and provide more accurate and timely analysis. There are several use cases in the area of sustainability that AI is well placed to address.

Carbon pricing and valuation has traditionally involved a complex analysis process, requiring a thorough understanding of a range of factors and data points, including carbon emissions, carbon credits and market prices, which help investors make informed decisions about which projects to invest in. AI has the ability to help identify and prioritise trends in these large disparate data sets, highlighting risks or spotlighting value and ESG investment opportunities.

So do we have a clear outline of technology-enabled sustainability reporting? Well, there is no single gold-standard technology architecture that applies in all cases. As with all business transformation, the right approach to sustainability reporting is going to require fully aligned business strategy and goals.

What is clear is that the technology capabilities needed to properly support businesses on their sustainability transformation journeys are being developed very rapidly, and businesses can now lean in to take full advantage. As a finance professional in an organisation, now is the time to begin a dialogue both internally and externally to understand how your existing and potential technology providers can assist you in transition planning and reporting.

Chris Wilson, ESG technology, data & analytics, PwC UK, and **Matt Bess**, FS finance consulting, PwC UK

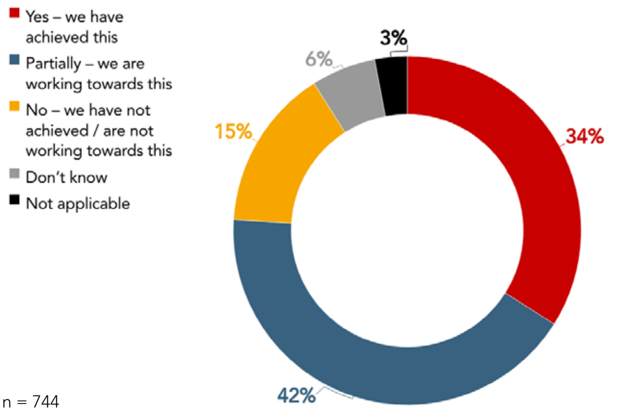
3.5 Internal controls and sustainability-related data

In conjunction with the organisation's other functions, finance must also develop appropriate processes and controls to address any data quality issues around sustainability and emissions planning.

Over three-quarters (77%) of our survey respondents said their organisations had either established or were in the process of developing internal controls for their emissions plans.

The development of internal controls for emissions plans is more evident at medium and large companies, and respondents from organisations in North America were the only group where a majority said their organisations had developed such controls.

FIGURE 15: Is your organisation working towards establishing internal controls for your emissions plans?



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> **'WHEN IT COMES TO ESG DATA, WE ALL KNOW WHAT HAPPENED WITH CERTAIN CAR MANUFACTURERS AND THEIR EMISSIONS, AND THERE HAVE BEEN OTHER GREENWASHING EXAMPLES. AS SUSTAINABILITY BECOMES SOMETHING MORE OF A REPUTATIONAL ISSUE, AND MAYBE EVEN A BIT OF A REVENUE DRIVER, THE POTENTIAL FOR FRAUD GOES WAY UP.'**
> ACCA ACCOUNTANTS FOR BUSINESS GLOBAL FORUM MEMBER

Navigating the emissions reduction landscape: transition plans and the role of the accountancy profession

Applying the COSO Internal Control – Integrated Framework to enhance the reliability of sustainability information.

Trust in the quality of information is the lifeblood of capital markets and drives business resilience.

Regulators, investors and others are looking to the accountancy profession to drive integrity and information quality for sustainability-related information. High-quality information about sustainability risks and opportunities is important for asset owners and managers to drive capital allocation in support of sustainability and climate transitions.

Bringing about more trusted and reliable corporate reporting requires an effective integrated internal control environment over financial and sustainability information and disclosures.

To this end, in March 2023, the Committee of Sponsoring Organizations (COSO) released *Achieving Effective Internal Control Over Sustainability Reporting (ICSR): Building Trust and Confidence through the COSO Internal Control – Integrated Framework*. This guidance is founded on COSO's 2013 framework for evaluating and improving internal control systems over all types of business information used for external reporting and enterprise decision-making. This framework has been used internationally to provide internal control over financial reporting (ICFR), as required by the Sarbanes-Oxley legislation in the United States, for example.

The ICSR guidance applies COSO's five internal control components and 17 principles to sustainability and ESG reporting to enhance the effectiveness, efficiency and accuracy of the underlying processes and internal controls as well as the reporting reliability, allowing the delivery of more reliable and decision-useful data for use by multiple stakeholders.

An integrated control environment involves management, the CFO and finance function, internal audit and external assurance all supporting the board's oversight to ensure data supports decisions on strategy, risk and opportunity management, and governance, so the company has the information to support management decisions to achieve its sustainability objectives and to enhance the reliability of external disclosure.

As the survey results in this report highlight, accounting and finance professionals are increasingly using their expertise in ICFR to establish internal systems and controls for collecting, measuring, aggregating and validating material sustainability data and information. This requires an integrated mindset to connect functions, processes and systems and provide the foundation for building trust in sustainability information (see *Championing an Integrated Mindset to Drive Sustainable Value Creation*). Professional accountants as independent external assurance practitioners are best placed to evaluate a company's internal control system and the evidence that such a system is in place.

An integrated mindset is also important in dealing with the differences in collecting, processing and analysing sustainability information. An effective control system for sustainability information needs to take into account that sustainability information can be more estimated, qualitative, unstructured, forward-looking and sourced from many departments and entities in the organisation's value chain.

Accounting and finance professionals are also well positioned to ensure the internal control environment incorporates the connectivity between financial and sustainability information. This helps ensure sustainability-related disclosures are consistent with corresponding financial information in the financial statements and that there is connectivity between sustainability risks and opportunities and their financial impacts over the short, medium and long term.

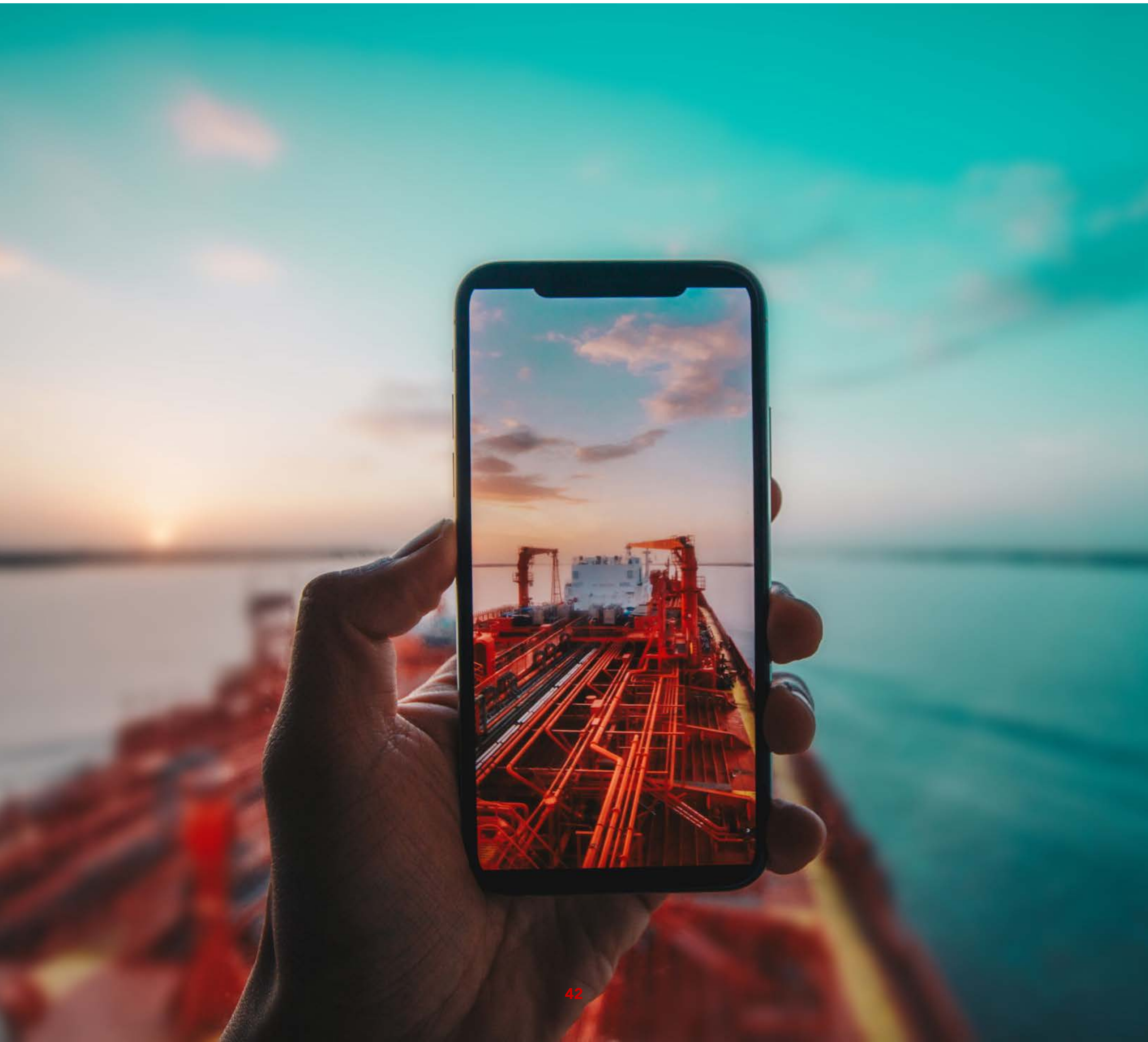
Stathis Gould, director, IFAC

3.6 Developing the relevant skills in finance teams

Finance teams of tomorrow needs to develop a transition skillset through a range of interventions and experiences that are beyond the traditional career path (as discussed in ACCA's *Chief Value Officer* report). Mentoring, networking, continuous learning and a broad range of workplace experiences are all essential tools for tomorrow's CFOs and their teams in developing the requisite skill sets. Building specific knowledge in areas such as sustainability, as well as data analysis and use of emerging technologies tools will also be key to bringing the necessary capabilities. It is also the context which is changing in which the skills are required to be used.

As organisations increasingly integrate both financial and operational performance measures into one overall narrative, so the ability to convey that narrative and facilitate decision-making based on it becomes essential. Finance should therefore look to act as the unifying force across the organisation, telling the complete story of enterprise performance.

> **'THE ACCOUNTS TELL YOU A STORY OF HOW THE BUSINESS IS RUNNING, BUT YOU NEED TO GET TO KNOW THE BUSINESS RIGHT DOWN TO THE VALUE CHAIN, BECAUSE THE ACCOUNTS ARE JUST A SNAPSHOT.'**
> ASIA ROUNDTABLE PARTICIPANT



Building on our core competence to meet the needs of the sustainable transition

Professional accountants will play a critical role in integrating sustainability topics into decision-making, strategy development, risk and opportunity assessments, and external reporting to investors and other stakeholders.

They will be enablers of the sustainable transition by transforming high-quality standards for reporting on sustainability-related matters into high-quality information, and also provide assurance over company disclosures in accordance with standards developed by the International Auditing and Assurance Standards Board (IAASB), in an independent and ethical manner.

To meet this new public interest responsibility, we must build sustainability capacity within our profession by marrying our existing professional skills and competencies with new subject matter knowledge. The goal is not to make all accountancy and finance professionals into ESG experts, but to raise our general knowledge level so that we can effectively work with others in organisations, and with experts in advising clients and in performing assurance engagements that reach both limited and reasonable assurance conclusions.

To help meet this goal, IFAC's International Panel on Accountancy Education (IPAE) has identified four key focus areas – business acumen, behavioural competence, technical expertise and ethical behaviour – that describe existing competencies and provide the starting point for assessing how these competencies are transferrable to sustainability-related work, as well as how they may need to be enhanced in new ways. For example, the technical training and expertise of professional accountants equips them to review disclosures addressing near-term business and financial risks (ie climate or otherwise). However, what will change is applying this expertise to assess longer-term sustainability-specific risks, including scientific and estimation uncertainties.

FOCUS AREA	WHAT HAS NOT CHANGED	WHAT HAS CHANGED
Business acumen	• We understand and evaluate business models • We evaluate the impact of strategic business decisions • We understand regulatory, industry and other factors • We develop or evaluate an entity's response to risk	• Breadth and depth of understanding governance, strategy and risk • Adequacy of governance and related disclosures • Strategic measurement and evaluation of progress towards short- and long-term climate-based targets
Behavioural competence	• Analytical thinking • Resilience, flexibility and agility • Curiosity and lifelong learnings • Intellectual agility	• Greater emphasis on self-learning • Applying professional scepticism and judgment to a new subject matter • Applying analytical thinking and judgment to sustainability topics to drive decisions and high-quality information
Technical expertise	• We can analogise to existing financial statement concepts (eg assertions) • We understand processes and controls • We write, review or evaluate policies and procedures • Reviewing disclosure showing greater near-term financial risk	• Reviewing sustainability risk and opportunity and related disclosure • Different ways to measure • Science-based metrics • Physical and transition risks • Energy flows and emissions sources • Scientific and estimation uncertainties
Ethical behaviours	• Professional competence and due care	• Possible increased risk of management bias: - new pressure to achieve climate and financial commitments - concerns about greenwashing erode trust - managing trade-offs between different sustainability and financial dimensions

Further, the IPAE is taking steps to assess whether revisions are needed to the International Education Standards (IESs). The IESs provide a global baseline for accountancy education for all IFAC member organisations. The IPAE is also considering developing other guidance or thought leadership to best support professional accountancy organisations and accountancy educators to build the capacity of professional accountants to competently implement sustainability reporting standards and provide sustainability-related assurance services.

In those companies and jurisdictions that choose to implement sustainability disclosure standards of the International Sustainability Standards Board (ISSB), IFAC, through the IPAE and other networks, is supporting the development of materials and curriculum for the ISSB's Knowledge Hub – an online resource designed for preparers of sustainability disclosures to help understand and prepare to apply IFRS S1 and IFRS S2.

Finally, we must all do our part. IFAC encourages well-resourced professional accountancy organisations and global network accountancy partnerships to lead on education and upskilling in a collaborative way. The need is too great for our profession to reinvent the education wheel one organisation at a time around the world.

To meet the expectations of investors and other stakeholders for consistent, comparable, reliable and decision-useful sustainability information, the accountancy profession must ensure professional accountants complement their existing foundation of competence with targeted professional development that enables them to bridge into this new area of work.

Stathis Gould, director, IFAC

Conclusion

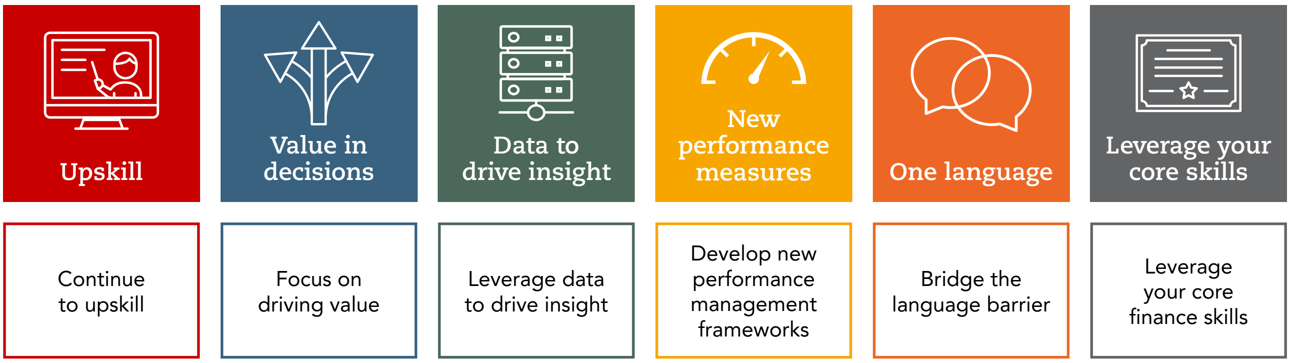
The visibility of the impact of climate change is increasing. Weather events are becoming more extreme and creating physical risks. The ambition to limit the increase in temperatures to 1.5°C, which was set as part of the Paris Agreement in 2015, remains an imperative and is driving transition risk. De-carbonisation and the climate transition requires definitive action by organisations.

Therefore, it is imperative that organisations develop and implement transition plans. Our survey suggests that while larger organisations in certain locations are making progress, many others are not. Where plans are in place, they are often supported by board-level accountability, but at a more detailed level, where strategies become plans and roadmaps, there seems to be a level of confusion as to the leadership of these activities. Transition plans represent a strategic opportunity, as the reputation and competitive advantage associated with progression in this area is fundamental for all organisations. An organisation's attractiveness to current and potential customers and employees relies on it.

Organisations are increasingly being asked to report on these activities. Standards such as IFRS S2 and the ESRS E1 require disclosure of the progress being made. These disclosures are subject to external assurance and therefore require a level of data quality that approaches that of reported financial information. But that is only part of the story. External reporting has to be matched by internal performance management aligned to the organisation's strategic goals.

Finance functions must embrace this broader view of performance. While in some organisations they may not be the 'owner' of the sustainability agenda, in many medium and smaller organisations it is a role that is increasingly falling to the CFO. Finance teams need to develop the appropriate level of skills and expertise in this area. It cannot be ignored in decision-making and business partnering activities. Nor can it be ignored in external reporting, which is crucial to transparency in the capital markets.

FIGURE 16: Call to action for finance teams



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