

Annual audit 2022/23

Wider audit scope

**National risk assessment:
climate change**

- For the 2022/23 audits, auditors are required to provide answers to the six questions set out in paragraph 80 of the [audit planning guidance](#) on arrangements for responding to climate change (see slide 3).
- Auditors are required to:
 - Capture this information in an [MS Forms survey](#) by the target submission date set out in paragraph 212 of the audit planning guidance.
 - Record responses in the audit programme. There is the option to email a completed MS Forms survey direct to an Outlook inbox (**you need to select this option at the end of the survey**) or to save a PDF version of the completed survey. A Word version of the survey has also been supplied. These options will allow responses to be uploaded to audit files.
 - Report on climate change arrangements in their Annual Audit Reports based on the factual evidence gathered for the survey. No judgements on progress or quality of strategies are required at this stage.
- This guidance has been prepared to support auditors in considering how audited bodies (except for Less Complex Bodies) are responding to climate change. It is aligned with the sections of the MS Forms survey.
- For further information and assistance, please contact TechnicalQueries@audit-scotland.gov.uk

1. What targets has the body set for reducing emissions in its own organisation or in its local area?
2. Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?
3. How does the body monitor and report progress towards meeting its emissions targets internally and publicly?
4. Has the body considered the impact of climate change on its financial statements?
5. What are the areas of the financial statements where climate change has, or is expected to have, a material impact?
6. Does the body include climate change in its narrative reporting which accompanies the financial statements and is it consistent with those financial statements?

- The United Nations has warned that climate change is the defining issue of our time. Climate change is increasingly influencing how public bodies operate. Action to reduce emissions and adapt to climate change may impact on an audited body's financial statements.
- Public bodies have statutory duties to act on climate change, including helping to deliver Scotland's net zero emissions target by 2045 (see slide 5 for information on statutory duties).
- Auditors need to be aware of how audited bodies are planning and responding to climate change. Our audit approach towards climate change will continue to evolve and align with future auditing standards.
- This guidance is intended to complement other documentation, including:
 - [IFRS Standards and Climate Related Matters](#) (Nov 2019)
 - [FRS 102 Factsheet 8 Climate-related Matters](#) (Nov 2021)
 - [Scotland's councils' approach to addressing climate change](#) (Sept 2022)
 - [Net Zero Disclosures](#) (Oct 2022)
 - [Auditing climate change: Our Strategy](#) (Dec 2022)

Key public sector climate change duties applicable to councils and other listed publicly funded bodies



Climate Change (Scotland) Act 2009

The body must act:

- in the way best calculated to contribute to the delivery of Scotland's national emissions reduction targets (known as 'mitigation')
- in the way best calculated to help deliver Scotland's statutory climate change adaptation programme
- in a way that it considers is most sustainable.



Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015

- Over 180 listed public bodies are required to report annually on compliance with the public duties.



The Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Amendment Order 2020

By November 2022, they must provide in their statutory annual climate change reports:

- where applicable, the body's target date for achieving zero direct emissions of greenhouse gases, (or such other targets that demonstrate how the body is contributing to Scotland achieving its emissions reduction targets)
- where applicable, the body's targets for reducing indirect emissions of greenhouse gases
- how the body will align its spending plans and use of resources to contribute to reducing emissions and delivering its emissions reduction targets
- how the body will publish, or otherwise make available, its progress to achieving its emissions reduction targets
- where applicable, what contribution the body has made to helping deliver Scotland's Climate Change Adaptation Programme.

A list of the 180 public bodies required to report annually on climate change can be found [here](#) and [here](#).

Section 1:

What targets has the body set for reducing emissions in its own organisation or in its local area?

What targets has the body set for reducing emissions in its own organisation or in its local area?

Corporate emissions reduction or net zero target

- Corporate emissions arise because of an organisation's own activities, including electricity and gas used in buildings and fuel used in vehicles.
- Public bodies will take a range of actions to reduce their corporate emission levels, including **setting a target date for achieving zero direct emissions of greenhouse gases** (commonly referred to as the date when their corporate emissions will reach net zero). This date is likely to be 2045 or earlier.
- Audited bodies should be able to provide the target date for achieving zero direct emissions or such other targets that demonstrate how they are contributing to national emissions reduction targets.

Net zero means achieving a balance between the greenhouse gases put into the atmosphere and those taken out.

Auditors could check the submitted [PBCCD report](#) to identify corporate emissions targets (*Emissions and Projects tab - section 3d*). This will need to be verified with the public body to get the most up-to-date information .

Does the audited body have an interim target(s) to measure progress towards its overall corporate emissions reduction target?

- Audited bodies might have interim corporate emission reduction targets that outline how much emissions will reduce over time. This will be the pathway to the date of achieving net zero. For example, the audited body might have an interim target for a 75% reduction in emissions by 2030, on a pathway to net zero by 2045.
- **Interim emission targets are important, particularly when the final net zero target date is far into the future.** Interim targets help to track progress and ensure that achieving the final net zero target remains a priority.
- The [Financial Reporting Council](#) outlines the importance of interim targets being in place.
- Audited bodies would be showing good practice if they have interim corporate emission targets.

Auditors could check the submitted [PBCCD report](#) to identify any interim corporate emission targets (Emissions and Projects tab - section 3d). This will need to be verified with the audited body.

Does the audited body have an area-wide emission target in place? (Local government only)

- Some audited bodies (specifically councils) will be showing strong leadership by setting area-wide emission reduction targets. This is not a specific legal requirement. Often councils will develop area-wide targets in partnership with other important stakeholders, such as local businesses.
- Audit Scotland previously collated information on councils' corporate and area-wide emissions targets ([Scotland's councils' approach to addressing climate change, page 4](#)). This information might now be out of date and auditors should confirm the accuracy of it with the audited body.
- If applicable, audited bodies (mainly councils) will be evidencing good practice if they are collaborating with local partners in reducing emissions on an area-wide basis.

Section 2:

Does the audited body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?

Does the audited body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?

- Scottish Government [guidance](#) (2011) suggests that public bodies might **develop a strategy that embeds climate change across the organisation.**
- Information that is likely to be included in a climate change strategy or action plan includes:
 - Interim targets to track progress in reducing corporate emissions.
 - How and to what extent individual actions contribute to emission reductions.
 - Cost and budgets for the intended actions, gaps in financing and intended actions to secure sufficient funds.
 - How actions to reduce emissions might have co-benefits for, or impact on, adaptation actions.
 - A clear timetable for reviewing actions and publishing update reports on progress.
- Auditors could check if the audited body has submitted a [PBCCD report](#) to identify if a climate change plan or strategy exists (Governance tab - section 2d). This will need to be verified with the audited body.

Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?

- In assessing whether the audited body has a strategy or action plan, auditors may want to consider the following:
 - The strategy or action plan must be current and cover future years.
 - It should contain one or more actions for reducing corporate emissions.
 - It should be published in a format that would be recognisable as a strategy or plan to a member of the public.
 - The strategy or action plan should be publicly available, for example easily accessible on the body's website.
- Audited bodies should be able to produce a climate change action plan or strategy that sets out how they will deliver on net zero goals.

Section 3:

How does the body monitor and report progress towards meeting its emission targets internally and publicly?

How does the body monitor and report progress towards meeting its emission targets internally and publicly?

- Regular **internal** performance monitoring against emission targets is vital in ensuring the audited body is making sufficient progress.
- Scottish Government [guidance](#) (2021) says that **climate change governance must be integrated into the public bodies existing governance structure**. There are several ways in which the audited body might monitor climate change performance:
 - Climate change performance is included in public bodies' key performance indicators (KPIs).
 - Regular performance reporting to a committee such as the Audit Committee, Executive Team or a specific climate change committee.
 - Producing progress reports on climate change plans and delivery of interim targets.
 - Annual performance reporting (i.e. taking the annual PBCCD report to a committee).
- Auditors could check if the audited body has submitted a [PBCCD report](#) that explains how they govern climate change (Governance tab - section 2a). This will need to be verified with the audited body.

How does the body monitor and report progress towards meeting its emission targets internally and publicly?

- Regular **external** reporting is vital in showing what progress the audited body is achieving against wider climate change goals.
- The audited body should be externally reporting on its climate change performance. This might include:
 - Submitting its PBCCD annual report. Slide 5 explains what information public bodies should be reporting.
 - Regularly publishing climate change performance information on its website.
 - Including climate change information in annual reports.
 - Reporting to relevant external groups (for example, councils may have local climate change community groups that provide additional scrutiny).
- Auditors can confirm if their audited body, if applicable, has completed their PBCCD report by visiting the [SSN website](#).

Section 4:

Has the body considered the impact of climate change on its financial statements?

What are the areas of the financial statements where climate change has, or is expected to have, a material impact?

Has the body considered the impact of climate change on its financial statements? What are the areas of the financial statements where climate change has, or is expected to have, a material impact?

- Climate-related risks are predominantly discussed outside the financial statements. However qualitative external factors, such as the sector in which the public body operates, may make some risks material and may warrant disclosures in financial statements, regardless of their numerical impact.
- Audited bodies should be considering whether **climate change is likely to have an impact on their financial statements**.
- Examples of areas where climate-related matters may impact on the financial statements include financial instruments; property, plant and equipment; and provisions and contingencies.
- The financial implications of climate change are often discussed within climate change strategies and plans of audited bodies.
- Further information and guidance can be found in [Technical Guidance Note 2022/8\(LG\)](#) and [2023/1](#).

Section 5:

Does the body include climate change in its narrative reporting which accompanies the financial statements and is it consistent with those financial statements?

Does the body include climate change in its narrative reporting which accompanies the financial statements and is it consistent with those financial statements?

- Financial statements cannot provide all the information that users need. [Narrative reporting can help to fill some information gaps, complementing the financial statements.](#) The need to focus disclosures on material issues is a critical consideration in the preparation of narrative information.
- The information within the narrative report could include details on:
 - How the organisation is adapting its operations to deliver on net zero (e.g. future infrastructure investment plans).
 - Analysis undertaken on the resources required to deliver on net zero, and where potential gaps exist (e.g. specific climate change workforce plans).
 - Identification of new policies that the audited body plans to introduce to deliver on net zero goals (e.g. policies which encourage wider behavioural change to aid the transition to net zero).
- Additional information on climate-related disclosures can be found in [Technical Guidance Note 2022/8\(LG\)](#) and [2023/1](#).
- Audited bodies should, where relevant, include climate change in their narrative reporting, ensuring it is consistent with their financial statements.