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# TCFD reporting requirements and assurance considerations:

## A guide for audit committees

For accounting periods beginning on or after 1 January 2021, all UK premium listed companies are required to state, in their Annual Report, whether their disclosures are consistent with the Task Force on Climate-Related Financial Disclosures ("TCFD") recommendations, or to explain why not.

Audit committees therefore need to take action now, not only in considering these reporting requirements carefully, but critically, in determining the robustness of the assurance needed to support them, in a rapidly developing regulatory landscape.

### What are the requirements?

The UK Financial Conduct Authority (FCA) listing rule[1] requires Boards to include a statement in the Annual Report setting out:

- whether **disclosures are consistent with** the TCFD's recommendations;
- where any disclosures are not consistent with some or all of the TCFD's recommendations, **provide an explanation as to why**, and a description of any **steps the Board are taking to rectify** this;
- where any disclosures have been **included in a document other than the Annual Report**, an explanation of why; and
- **where** in the Annual Report (or other relevant document) the various disclosures can be found.

The TCFD recommendations address **governance, strategy, risk management, and metrics and targets,** and are supported by **11 recommended disclosures**.

In order to make these statements, management will need to ensure it is embedding the recommendations of TCFD across the organisation and describe the activities the organisation is undertaking.

***In discharging their responsibility for the integrity of corporate reporting, audit committees have a key role in ensuring that the disclosures represent a fair, balanced and understandable assessment of progress and that the impact of climate change has been adequately reflected in the financial statements. The time to take action is now.***

### What are the recommended disclosures?[2]

**Governance:** governance around climate-related risks and opportunities.

**Strategy:** actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

**Risk management:** how the organisation identifies, assesses, and manages climate-related risks.

**Metrics and targets:** metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.


### What questions should audit committees ask?

1. Has management undertaken a **gap analysis** of current disclosures against the TCFD requirements and **is there a plan in place** to remediate any gaps?
2. Are we satisfied with the **quality of reporting from management on the effectiveness of systems of internal control and risk management** for climate-related risks and how climate change issues are considered when reviewing the company's financial performance, strategy and business plans?
3. Has management **appropriately defined and considered any material climate-related risks** in preparing the financial statements?
4. Is **non-financial information used in the TCFD disclosures reliable and fit for purpose**, and is it produced with the same **rigour** as financial information?
5. What **assurance do we require** to support TCFD disclosures and/or the adequacy of systems and controls to comply with the TCFD recommendations? **Is this assurance sufficiently robust and independent**?

### Why ask questions now?

The extent of effort needed to sufficiently embed TCFD recommendations within an organisation is not to be under-estimated. Many businesses have a lot to do. The time to take action is now.

[1] FCA introduces rule to enhance climate-related disclosures | FCA

[2] Recommendations | Task Force on Climate-Related Financial Disclosures (fsb-tcfd.org)

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## The value of assurance to support TCFD disclosures

It is likely that in the near future, the requirement for external assurance over TCFD disclosures will be mandatory. It is critical that businesses understand the value they seek from such assurance, and importantly the robustness of approach and reporting being taken by your assurance provider.

- **Supporting audit committees:** assurance enables audit committees to assess the quality of TCFD disclosures and provides a mechanism to improve and instil market confidence in climate-related disclosures.
- **Stakeholder engagement and confidence:** investors, regulators, customers and employees are increasingly making decisions that factor in climate related pledges. TCFD assurance provides a clear message of intent, commitment and confidence to these stakeholders. Notably, the FCA set out that they also see significant value in external assurance of listed companies' TCFD disclosures.
- **Strategic and competitive considerations:** in a marketplace inundated with unchecked environmental, social and governance ("ESG") claims and "greenwashing", TCFD assurance can provide differentiation, and in the case of sustainable finance, can help with access to broader, economically viable finance options.
- **Future proofing against the Audit and Assurance Policy ("AAP"):** it is well recognised that financial markets need clear, comprehensive, high-quality information on the impacts of climate change and therefore we expect that the AAP will cover TCFD disclosures, including what level of assurance is obtained and from who.

## TCFD assurance and the Audit and Assurance Policy

In Sir Donald Brydon's review into the quality and effectiveness of audit, he recommended that directors present an Audit and Assurance Policy ("AAP") to shareholders at the AGM. The AAP, owned by the audit committee, provides the opportunity for companies to show how they are **assuring the integrity of reporting**, and handling of risk, whether required to do so by law or not.

The AAP will extend beyond the assurance required for the financial statements. It will set out the wide range of information that directors communicate externally and what assurance is obtained. In developing their policy, the directors will consider **who should provide the assurance** - the external auditor, the internal audit function or other third parties providing assurance, taking into account factors such as **credibility, independence and competence**. Brydon recommends the AAP is published for shareholder consultation annually.

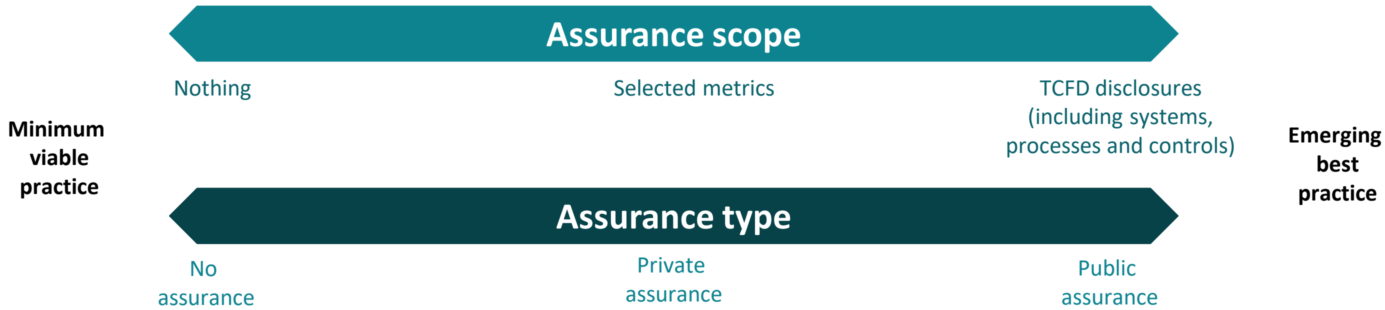
It is well recognised that financial markets need clear, comprehensive, high-quality information on the impacts of climate change and therefore we expect that the AAP will cover TCFD disclosures, including what level of assurance is obtained and from who.

It is expected that some firms will not wait for the AAP to become mandatory prior to publication, and therefore it is important for these firms to consider TCFD assurance in their AAP.

## What are the TCFD assurance options?

At present, the range of assurance options available to firms is considerable, from minimum viable practice (companies not seeking any assurance) to emerging best practice (those seeking public assurance on not only their metrics but also their underlying systems, processes and controls). There are many permutations in between with private and public assurance options over a range of metrics, disclosures and processes and controls, making comparability and therefore usability all the more challenging for stakeholders.

For audit committees, it's important to determine where you ultimately want to be on this range, understanding that there might be a number of intermediate steps, and establishing a clear path to get there.

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### The use of International Standards on Assurance Engagements (e.g. ISAE 3000)

Investors and regulators are looking for clarity on the level of assurance obtained. Where data in the front half of the Annual Report is described as being "assured" or "reviewed", the description must be accurate and must avoid being misleading or implying a greater level of assurance than was provided.

Audit committees should critically assess assurance reporting that is "aligned to" or "similar to" but crucially, not in accordance with a recognised standard such as ISAE 3000. There are considerable risks in such reporting, notably in relation to quality and exposure to potential litigation and conduct risks in the use and reliance on such reporting. It is vital that audit committees therefore understand exactly what "assurance" is being provided.

## How can Deloitte help?

We have designed a framework for the provision of assurance over your TCFD disclosures and can support audit committees in their journey towards compliance with TCFD disclosure requirements.

### Benchmarking and gap analysis

**What is it:**
Independent benchmarking of your current disclosures against TCFD recommendations and/or identifying gaps in your disclosures, processes or controls and reporting privately to management and those charged with governance.

**What is it used for:**
Benchmarking and gap analysis provides the basis of a roadmap to public assurance over TCFD disclosures.

### Assurance over selected ESG metrics

**What is it:**
Private or public independent ISAE 3000 assurance over your TCFD metrics or wider ESG metrics.

**What is it used for:**
Assurance over ESG metrics, rather than full TCFD disclosures, can be a useful starting point on a path to TCFD disclosure compliance.

### Assurance over TCFD disclosures

**What is it:**
Private or pubic independent ISAE 3000 assurance over your TCFD disclosures.

**What is it used for:**
Independent assurance reporting provides a clear commitment by management to instilling confidence in the processes and controls supporting TCFD disclosures.

### If Deloitte are your external auditors, can we provide this assurance?

Yes, TCFD assurance is a permissible service.

### Should your external auditors perform this assurance work?

There is a strong argument to support this assurance being performed by your external auditor. As your audit firm, we are independent and appropriately qualified to understand your business and to apply a healthy degree of professional scepticism in challenging management judgements, estimates and disclosures. The TCFD disclosures in the front half of your Annual Report are also required to link to the impacts of climate change on measurement and recognition in the financial statements that we audit. In time, we expect that non-financial information such as climate change disclosures may become audited information.

### For further information on TCFD disclosures and assurance please speak to your lead audit partner or contact one of the individuals below.

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