

Demystifying Emissions Reporting

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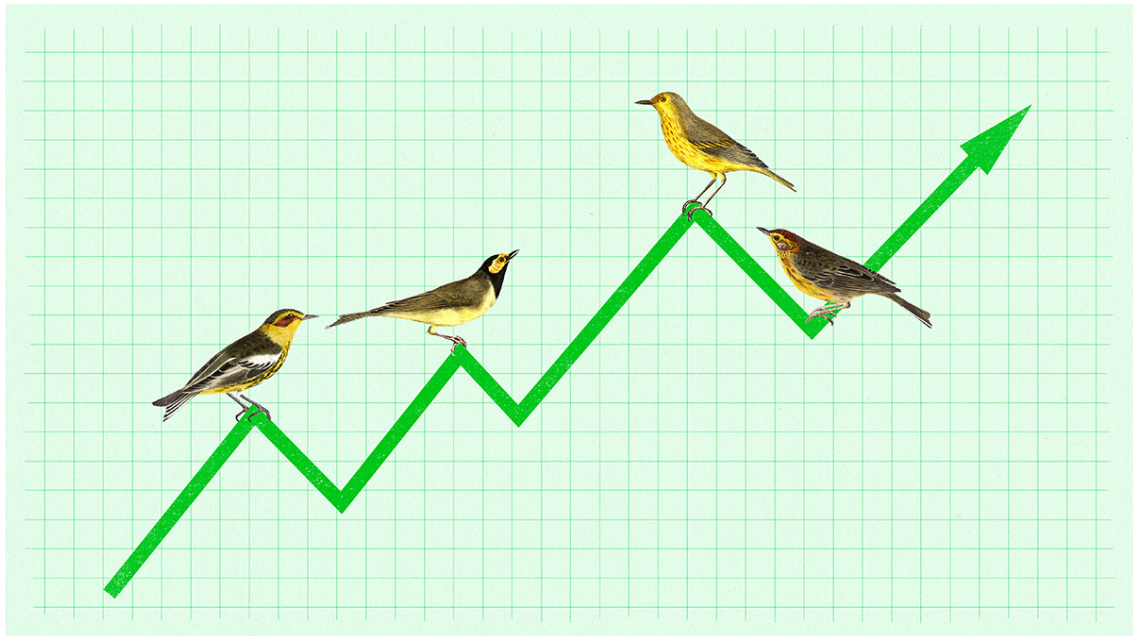


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Summary. The International Sustainability Standards Board and the European Commission are implementing new mandatory non-financial reporting requirements, with the former releasing its inaugural standards for global capital markets and the latter developing standards as part of the EU's Corporate Sustainability Reporting Directive. These standards will take effect from 2024, but may not be as costly or difficult to meet as businesses fear. With robust GHG reporting, businesses can integrate sustainability measures into existing financial systems and processes, and this can be achieved effectively through collaboration between finance and sustainability professionals. The article provides an eight-step roadmap to achieve investor-grade GHG reporting. [close](#)

Many businesses are now tracking their greenhouse gas (GHG) emissions and taking steps to curb them. However, the effort has not been coordinated or comprehensive. While data from recent research indicates most companies report some emissions data, only one in 10 companies in 2022 fully measured GHG emissions including Scope 3 emissions related to their business and value chain, according to the Boston Consulting Group.

Opting out of GHG emissions reporting across the value chain won't be an option for much longer, with an increasing number of mandatory reporting requirements on the way from various regions and jurisdictions. Most recently, The International Sustainability Standards Board (ISSB) issued its inaugural standards — IFRS S1 and IFRS S2 — ushering in a new era of sustainability-related disclosures in capital markets worldwide for annual reporting periods beginning as early as January 1st, 2024. The European Commission's European Sustainability Reporting Standards developed as part of the EU's Corporate Sustainability Reporting Directive will also come into play in 2024.

Companies new to GHG accounting and reporting may be daunted by setting emissions reduction targets, key performance indicators (KPIs), and budgets as they develop effective decarbonization plans. Common challenges include lack of access to data and insufficient internal reporting infrastructure, particularly for Scope 3 emissions across the value chain, which for several industries account for most emissions. Small and mid-sized enterprises, in particular, may not have dedicated resources to oversee their efforts.

Fortunately, meeting the evolving GHG reporting standards may not be as expensive or difficult as some companies fear — even small and medium-sized enterprises can be successful. It's important to understand that sustainability reporting can function as an extension of existing financial reporting especially

when it comes to GHG emissions accounting. With that mindset, companies of any size can take immediate steps to ensure their data is in order and that they're reporting accurate figures when the new standards and rules go into effect. In fact, robust GHG reporting can be incorporated cost-effectively into existing systems and processes, with collaboration between finance and sustainability professionals.

Working in tandem with their sustainability and operational colleagues, finance and accounting professionals within any company can follow an eight-step roadmap — building on existing systems and processes — to enhance investor-grade GHG reporting:

Ensure the CFO/controller works with sustainability leaders and drives collaboration.

Because they oversee all parts of the business, CFOs are uniquely positioned to eliminate data silos and establish collaboration among teams, ensuring material information is collected and made available to leadership. Cross-functional collaboration involves:

- Working closely with the Head of Sustainability or Environmental, Social, & Governance, or in a smaller organization, relevant operational colleagues, or external advisors
- Collaborating with operations, procurement, risk, and business units to secure relevant and reliable data collection and provide integrated financial (and other) information to inform business planning, set KPIs and incentives to meet business and climate targets, and manage variances and trade-offs.

Undertake a risk and materiality assessment together.

Risk and materiality assessments are crucial for GHG emissions accounting and reporting given they determine which issues to address, measure, and track across GHG emissions Scope 1, Scope 2, and Scope 3 and inform assessments of climate risk and opportunity. It's important for financial and sustainability professionals to share a common understanding and application of the different requirements set by different sustainability disclosure standards to ensure the application of the GHG Protocol enables consistent reporting with financial reporting. Accountants play a crucial role in the materiality assessment by identifying, quantifying, and valuing risks and documenting the process including methods and assumptions used in data collection, thereby providing a robust basis for assurance procedures.

Report to the audit committee and receive approval.

Integrating GHG emissions data into existing financial accounting processes, systems, and rules is one of the most efficient ways to ensure effective GHG reporting. Approval of the material GHG emissions sources is critical because the outcome of these assessments will determine future activities and investments to change and decarbonize the business model and will be the basis of reporting GHG emissions information to investors and others.

Develop a new internal manual with definitions of roles, KPIs, units, and evidence.

Written policies and procedures help keep the GHG reporting process uniform across the organization. This is essential to obtain homogenous and repeatable GHG emissions data on the same cycle as financial data, which the organization at the group and entity level — as well as external stakeholders — can use, trust, and understand. Such documentation will support

disclosure of how and why the organization has used the specific inputs, assumptions, and estimation techniques to measure its GHG emissions.

Expand the chart of accounts in financial/ERP and consolidation systems.

Extending existing financial systems to collect sustainability data can be more efficient than adding new standalone systems.

Collecting the GHG emissions data together with the financial data, and incorporating automated controls, provides the most efficient way to ensure good quality data in organizations of all sizes. For example, accounting systems utilize scanned invoices from which both the cost and quantities can be captured. Data collection for direct Scope 1 and 2 emissions can be automated with existing tools and automated internal controls that deal with common errors at the time of data entry, such as with the use of measurement units.

Accountants also have an important role in consolidating consumption data in the financial consolidation system, helping to ensure the necessary controls are in place and ensure comparability to financial information. In relation to the consolidation of Scope 3 data, avoiding double counting within the group also requires special attention.

Train financial and sustainability colleagues in data collection methods and evidence requirements.

Finance and accounting professionals' knowledge of systems and processes can help sustainability experts determine the best framework to apply for collecting GHG emissions data. For example, sustainability colleagues are likely to be subject matter experts across the organization's GHG emissions data sets and typically understand the GHG accounting concepts (e.g., the scopes of GHG emissions and related methodologies), but may not necessarily appreciate the corporate reporting process and how tools such as COSO's Internal Control-Integrated Framework can be applied to GHG emissions data.

Expand the existing internal control environment to cover emissions data.

Extending financial reporting processes helps enhance the robustness and reliability of data, giving management greater confidence in using data to inform decisions and making it easier to engage with external auditors. For example, comparing data collected from financial and operational sources helps to validate information such as electricity expense compared to kWh of electricity used or upstream Scope 3 emissions for capital goods compared to the value for tangible fixed assets in the financial statements. Group level controls also help to ensure complete data is received from individual legal entities in the group.

Share knowledge and experiences for continual improvement in data collection and reporting.

Internal follow-up can help mitigate issues and improve the process, making it more efficient and effective every year. It is also necessary to undertake risk and materiality assessments every year and review estimates, unit conversions, and emissions factors to improve data collection and traceability in relation to Scope 3 emissions.

Extending the existing framework and processes all companies have for financial reporting can make the development of a robust GHG reporting structure easier and more efficient. With finance and sustainability professionals working in tandem, organizations will be better able to set effective targets and develop credible decarbonization plans. In turn, those efforts can advance broader societal decarbonization efforts while also attracting investment from capital providers increasingly seeking out the most sustainable companies.

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