This review is focused on one dimension of issuer preparedness for the energy transition—the audited financial statements. Current and ongoing actions to reduce emissions, whether by governments, society, or corporations themselves, can impact assets, liabilities and profitability as presented in today’s accounts. This work analyses the extent to which companies and their auditors are addressing these items.

BACKGROUND

In 2022, the Climate Action100+ added a provisional Climate Accounting and Audit Alignment Assessment (CAAA) to its Net Zero Benchmark. CRH’s FY2020 and FY2021 financial statements and auditor’s reports were assessed under the CAAA. The 2020 assessment results were translated from a prior analysis to assessment results under the new CA100+ methodology.

SUMMARY OF ASSESSMENT

Overall, CRH’s reporting has made only modest progress in 2021 compared to 2020 with disclosures still not sufficient to be assessed as Yes across any of the Metrics. Likewise, although the Irish Audit Report (but notably not the US Audit Report) has expanded discussion of climate considerations, this is still not sufficient to be assessed as Yes. The overall assessment, therefore, remains ‘No’ despite some improvements made year-on-year.

While the company – and the auditor – have stated that climate has been considered in the 2021 financial statements and the audit of those financial statements, this has not been backed up with significantly expanded disclosures to demonstrate this (Metrics 1a and 2a). Moreover, there remains significant concern over disclosure of key assumptions related to climate (Metric 1b). CRH does not appear to have what would be considered a commitment to net zero by 2050 and there is no suggestion that the financial statements are aligned with such a target (Metrics 3a and 3c).

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1 Further information can be found in the CAAA methodology. The financial statement and audit report assessments are grounded in the existing requirements of the relevant accounting and audit standard setters, with Paris-alignment being requested by investor groups. The CAAA uses a binary Yes/No approach indicating whether requirements of the methodology for each Metric have been met. Metric scores are combined at the Sub-indicator and overall level, with a "Partial" score indicated where there is a mixture of Yes/No assessments.

2 The company’s prior year reporting was initially assessed based on a four-level rating system (significant concerns, some concerns, few concerns and good practice), which in part used the IIGCC Investor Expectations for Paris-aligned Accounting as a framework. Under this approach, there was no attempt to aggregate the seven scores in any way.
**COMPANY CONTEXT**

**Company profile:** CRH is a materials company that operates three key divisions: Americas Materials, Europe Materials and Building Products. It provides a variety of construction products and services, including: Infrastructural Concrete, Cement, Ready mixed Concrete, Aggregates, Asphalt, Paving & Construction Services, Infrastructure Products, Architectural Products, Building Envelope and Construction Accessories. In 2021, CRH produced 33.4m tonnes of Scope 1 emissions (of which, 82% are from the production of cement), 2.6m tonnes Scope 2 and 12.0m tonnes Scope 3. 60% of the Scope 1 emissions are from decarbonization in the production process.

**Emissions targets:** CRH has three stated climate-related targets:

- A carbon emissions intensity target of 520kg net CO2 per tonne of cementitious product by 2025 (a 33% reduction compared to 1990). This target was brought forward from 2030 in August 2021. Carbon intensity for 2020 and 2021 was stable at 586kg, suggesting some significant progress will need to be made in the coming few years.
- A sales target of 50% of revenue from products with sustainability attributes by 2025 defined as, “products that incorporate recycled materials, products for which alternative energy/fuel sources are used in production, products which have a lower carbon footprint, and products that address sustainability challenges in the built environment”.
- In early 2022 (i.e., outside of the reporting period), CRH added an absolute carbon emissions reduction target of 25% (scopes 1 and 2) by 2030 against a 2020 baseline.

CRH also has “... an ambition to become a net-zero business by 2050”. Although this does not appear to amount a “commitment” to net zero, the narrative reporting in the annual report states that “The Group is working towards delivery of its ambition for carbon neutrality along the cement and concrete value chain by 2050”, which may imply that it already is – or should be – reflected in strategic planning.

CRH’s strategy to reduce emissions, which is discussed at greater length in the Sustainability Report 2021, appears to revolve a number of broad areas, rather than tightly defined goals. These areas include the increased use of alternative fuel sources (including waste materials), carbon capture, “advancing innovative solutions”, and the use of their products for climate adaptation and mitigation.

**Climate scenario analysis:** As part of CRH’s reporting following the recommendations of TCFD, the 2021 Annual Report outlines the qualitative assessment undertaken by the company to identify climate risks, opportunities and potential impacts on financial position. In line with TCFD guidance, two global warming scenarios were considered: (a) a well below 2C world, with greater transition risks; and (b) a 4C world, with greater physical risks. However, it is not clear to what extent, if any, these two scenarios are used for wider strategic planning by the Group, and they do not appear to be considered in the financials.

**UPDATED ANALYSIS**

**Financial Statements (Sub-Indicator 1, result: No)**

For the 2021 audited financial statements, CRH has introduced references to the consideration of climate change risks - including the impact of the company’s own carbon emissions reduction targets - under four topics in the Accounting Policies:

- Impairment testing of goodwill and plant, property and equipment;
- Provisions for liabilities;
- Inventories;
- Retirement Benefit Obligations.

This suggests an increase in the consideration given to climate-related risks in producing the company’s accounts – which matches the identification of climate risk as a key area of focus in the Audit Committee Report – but there is little discussion of exactly what issues were considered for the 2021 reporting period.

As context, by far the asset type on the balance sheet is Property, plant and equipment, which accounted for $19,502m out of total assets of $44,670m, at year-end 2021. Of this PP&E, half is Plant and machinery, which may suggest exposure to shifts in policy or technology although no further breakdown appears to be disclosed (for example, the proportion of PP&E attributable to cement production). The remainder is Land and buildings and Mineral-bearing land.

Intangible assets are also material at $9,848m at year-end 2021, which is almost entirely Goodwill. This Goodwill is spread across the three key divisions, with 22% of the total from the Americas Cement CGU and
30% from the Building Materials CGU. In both cases, the Excess of value-in-use over carrying amount is over 50% of the Value-in-use.

**Stating that climate is considered but not demonstrating how (Metric 1a: No):** While the identification of the areas where climate change and related policy risks risk is most likely to have an impact is helpful, in each case, the resulting conclusion is that there has been no impact on the financial statements, with no apparent additional disclosures to illustrate this. For Provisions for liabilities, Property, plant and equipment and Inventories, respectively, the notes to the financial statements report that: there is no significant risk of resulting in a material adjustment to the carrying value of the provisions; no significant changes in the estimates of useful lives; and no material write-downs of inventories. (While for Retirement benefit obligations, it is simply highlighted that climate change and associated risks and uncertainties could be one source of asset volatility impacting the retirement schemes.)

However, the impact of climate change on assumptions and estimates used is not described nor disclosed (although the company's own 2025 carbon intensity target is referenced) and, therefore, it is not demonstrated how the company concluded, in each case, that there was no material effect on the financials. Consequently, these statements that climate has been considered in the 2021 financial statements do not provide the user of the financial statements with additional information on which to analyse these material risks - beyond simply accepting the company's declaration that the risks have been considered.

- **Assumptions lacking (Metric 1b: No):** There appears to have been little improvement in quantitative disclosure of assumptions related to climate in 2021. For example, there does not appear to be any disclosure of carbon price assumptions despite the significant carbon footprint of many business areas of the Group (and a reference in the narrative reporting to the use of “... an internal carbon price in relevant capital expenditure approval and strategic planning processes, with the aim of directing investments towards efficiency, optimisation and lower-carbon solutions”). Given the identification of property, plant and equipment as a potential area that could be impacted by climate considerations, the apparent absence of a disclosure of remaining useful lives is notable. Indeed, the financial statements even note that “... consideration is given to climate change and policy risks and uncertainties ... when determining the useful lives of assets”.

- **Consistency remains a concern (Metric 1c: No):** Under the Methodology, Metric 1c is scored as No given that Metric 1a received a No. More positively, for the four areas where climate has been considered in the accounts, it is stated that “climate change and policy risks and uncertainties” as described elsewhere in the annual report (in the narrative reporting) have been considered. The introduction to the Accounting Policies emphasizes that the carbon emissions reduction target of 520kg of CO2 per tonne of cementitious material (brought forward to 2025 from 2030 in August 2021) has also been considered and assessed in the preparation of the financial statements.

However, the lack of quantitative disclosure on assumptions makes it difficult to assess whether there are direct inconsistencies between the financials and climate risks and the company’s own targets and strategy. The absence of any adjustment to assumptions or accounting amounts in 2021 highlights the need for better explanation, especially given the relatively short time horizon to the 2025 target.

**Audit Report (Sub-Indicator 2, result: No)**

CRH's auditor, Deloitte Ireland LLP, produces both an Irish Audit Report, under ISAs, and a US Audit Report, under PCAOB standards. The consideration of climate change and related risks in the audit reports has changed year-on-year, including the emergence of a significant difference in treatment between the Irish and US reports.

In 2020, both audit reports included the same three Key Audit Matters/Critical Audit Matters (KAMs/CAMs) concerning: Intangible Assets; Property, Plant and Equipment; and Revenue Recognition for Long-term Contracts. The first two of these KAMs/CAMs (intangible assets and PP&E) included a final bullet point stating that climate change, including the company’s own emissions reduction target, had been considered by the auditor in response to the audit matter, and with input from climate specialists.
In contrast, in 2021, there is a notable gap between the Irish Audit Report and the US Audit Report. Both audit reports have dropped the KAM/CAM concerning PP&E (due to the more stable macroeconomic outlook and business performance), while retaining the KAMs/CAMs on Intangible assets and Revenue recognition of long-term contracts. However, the bullet point noting consideration of climate has been dropped from the KAM/CAM on Intangible Assets. Instead, in the Irish Audit Report - but not in the US Audit Report - there is now a dedicated section on climate risk.

• **Climate discussion – but not a Key Audit Matter (KAM) (Metric 2a: No):** A section on climate is included in the 2021 report, under its own heading ‘Our consideration of climate-related risks’. Compared to the one sentence bullet point under two of the KAMs in the previous year’s audit report, this new section gives more information on what tasks the auditor undertook. It outlines that the auditor has "obtained management's climate-related risk assessment and made inquiries of management". The auditor further states that the main implication considered was the "... impact of climate change on cash flow projections underlying intangible assets", with these projections including carbon costs and capex to meet the 2025 targets. (Which does raise the question of why this was not also referenced under the KAM concerning intangible assets.) This dedicated climate consideration section goes on to state that the auditor has assessed whether the assumptions used by management in the financial statements are consistent with their 2025 emissions target. While this additional colour on the tasks undertaken by the auditor is an improvement on the brief reference in 2020, it still largely amounts to an assertion that climate has been considered rather than a demonstration of how it was considered in 2021, for example, what material assumptions have been assessed, how the sustainability and valuation specialists were used, why they agreed that there were no material impacts on the financials.

Furthermore, this new section on climate sits outside both the ‘Key Audit Matters’ and the overview of the scope of the audit, leaving no mention of climate risk consideration under the KAMs. This separation could be viewed as helpful in giving prominence to climate, but it may also be potentially confusing as it is unclear what the status is of this new climate section given that it is not a KAM.

• **Consistency remains a concern (Metric 2b: No):** Positively, in the climate discussion in the Irish audit report, the auditor states that they have, “... considered the potential impacts of the climate-related risks identified by management on the Group’s business and its financial statements” and that they have read the climate-related information in the front half of the annual report.

However, given the concerns over consistency between the financial statements and the company’s other reporting (Metric 1c), which stem largely from the lack of demonstration of how climate was considered and the limited disclosures of quantitative assumptions, it is hard to substantiate that the auditor has performed an effective consistency check. For example, a reader of the audit report cannot assess why the impact on cash flow projections underlying intangible assets – rather than any other assumptions – is sufficiently material to be highlighted in the climate discussion yet is not considered under the KAM concerning intangible assets. It is also surprising that assessment of the carrying value of PP&E has been dropped as a KAM for 2021 due to the improved outlook, even though climate risk concerns have surely increased.

• **US PCAOB Audit Report:** The 2021 US audit report appears to give no consideration climate, whereas in 2020 the same bullet point on climate risk was included under the same two CAMs as the two KAMs in the Irish audit report. We have only assessed the Irish audit report for the purpose of Sub-indicator 2, however, it is not clear why climate-related accounting topics are treated differently in the PCAOB version nor why this treatment differs from 2020 to 2021.

**Alignment with net zero by 2050 (or sooner) (Sub-Indicator 3, result: No)**

Although CRH declares “an ambition to become a net-zero business by 2050” and, in at least one quote, refers to “working towards delivery” of this ambition, this does not appear to amount to a firm commitment to the Paris Agreement goal of net zero by 2050.

• **Accounting not aligned (Metric 3a: No):** CRH does not appear to make any claim that the financial statements are Paris-aligned but only that the financial statements have considered the 2025 carbon emissions reduction target of 520kg of CO2 per tonne of cementitious material. No consideration of a climate sensitivity analysis is disclosed in the financial statements and, in any case, the two climate scenarios considered in the narrative reporting do not include a 1.5°C pathway.
• **Auditor does not address alignment (Metric 3b: No):** The Audit Reports do not consider a Paris-aligned scenario, with the Irish Audit Report only referring to the 2025 and 2030 carbon emissions reduction targets.

**Audit Committee Report (not a sub-indicator)**

Given the key role of the audit committee in overseeing both the audit function and the Group’s risk assessment processes (including climate risk), it is positive to see the attention given to climate in the Audit Committee Report in the Annual Report. For 2021, the Audit Committee Report describes climate change as a key area of focus including “…the impact on the Group’s accounting judgements, disclosures and financial statements, including their alignment with CRH’s carbon reduction targets, and its approach with regards to compliance with the recommendations of various regulatory bodies (International Accounting Standards Board, International Audit and Assurance Standards Board, Financial Reporting Council, European Securities and Markets Authority) …”. Furthermore, in their Report, the Audit Committee states that the assumptions used in the financial statements are consistent with CRH’s climate disclosures including the TCFD disclosures. However, as with the references to climate in the financial statements, the Audit Committee Report essentially states that climate risk has been considered but does not articulate exactly what issues were considered and how.

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The Climate Accounting & Audit Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.

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