Key Findings
Our reviews of 134 highly carbon-exposed companies provided little evidence that they had considered the impacts of material climate-related matters in preparing their financial statements.¹

- 98% of these companies did not provide sufficient information to demonstrate how their financial statements include consideration of the financial impacts of material climate matters.
- This raised questions about the quality of the financial statements and governance over their preparation, including the accompanying note disclosures.²

In general, companies failed to disclose the relevant quantitative climate-related assumptions and estimates used to prepare the financial statements, even when they indicated that climate risks may impact these assumptions.

- 99% of companies did not comprehensively disclose the relevant assumptions and estimates that we looked for as part of our assessments.
- This is concerning since companies and their auditors often identified these same assumptions and estimates as both significant to the preparation of the financials and subject to considerable judgement and estimation uncertainty.

Companies did not present consistent climate narratives. Their financial statements failed to fully reflect climate considerations included in their other reporting.

- All 134 companies had some level of inconsistency. While many recognised that climate-related risks are material and indicated that they are taking steps to set and meet emissions targets, they failed to reveal the relevance in the financial statements. These differences could be evidence of greenwashing.
- Nearly all auditors refrained from commenting on the inconsistencies that fell within their checks of the financial statements and companies’ ‘other information’.

There was little evidence that auditors considered the impact of material climate-related matters.

- 96% of auditors did not sufficiently address how they considered the impact of climate. Overall, Deloitte provided the most comprehensive information and evidence, compared to other firms whose reports were subject to our review.³
- We observed differences in discussions of climate matters between audit reports of the same global firm networks. Notably, none of the auditors of the 46 US companies⁴ provided evidence that they considered the impacts of climate matters in such audits.

¹ See the list of companies that were subject to our review, and their relevant scores, in Appendix 5.
² Climate-related matters can include the impacts of physical or transition risks or a company’s own targets.
³ Namely Deloitte, Ernst & Young (EY), KPMG and PricewaterhouseCoopers (PwC).
⁴ This includes Trane Technologies plc and LyondellBasell Industries N.V. which are treated as US domestic companies for their SEC filings.
No company used assumptions and estimates that were aligned with achieving net zero by 2050 or sooner. This was despite a significant majority of companies having targets or ambitions to achieve this drive.

- Although only three companies provided sensitivities to net zero-aligned inputs, this was still an improvement from the prior year. The importance of providing this information was best illustrated by Glencore, which indicated a nearly full write-down of thermal-coal-related assets when using net zero assumptions.

- None of the auditors indicated whether the inputs that the companies used were reasonable in the face of a drive to net zero by 2050 or sooner (and no more than 1.5 degrees warming).

These findings are despite the fact that the IASB, FASB and IAASB, the standard-setters for global company reporting and auditing, have made clear that material climate change issues should be considered in the preparation and audit of financial statements. The US PCAOB’s focus team is now also looking into these issues.

Although scores were generally poor, some progress has been made by select companies, which demonstrated how climate-related matters can be taken into account and adequate disclosures provided. We have included examples to illustrate this herein.

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5 And no more than 1.5 °C warming.
6 International Accounting Standards Board, Financial Accounting Standards Board, International Auditing and Assurance Standards Board, and the US Public Company Accounting Oversight Board, respectively.
Executive Summary

Still flying blind: The absence of climate risk in financial reporting
In 2021 we published our first report about the degree to which companies had disclosed taking climate risks into account within financial statements, and auditors in their audits thereof. That report included whether the assumptions and estimates that companies used were transparent and consistent with other aspects of reporting. See “Flying Blind: The glaring absence of climate risks in financial reporting” (FB 1.0).

Since then, we have seen a growth in net zero pledges and other climate-related commitments and increased reporting on climate risks ‘outside’ the financial statements. Yet, most companies still do not appear to be including the financial impacts of such commitments, or indeed climate change risks, in their financial statements. It remains unclear whether auditors are considering these when auditing these financials. This is despite existing accounting and audit requirements to do so, and ongoing investor demands for more transparency.

The failure to demonstrate how such climate-related matters are considered in the financial statements leaves investors in the dark as to whether and how financial statements already include the impacts of such matters. This absence deprives investors of an understanding of the extent to which there is risk hidden in the accounts and incentivises firms to trade on unsustainable assumptions. Without this information, markets are unable to function efficiently ensuring that risks are properly priced, and capital allocated accordingly. This benefits neither investors nor the global effort to decarbonise the global economy.

To help investors, regulators, policymakers, auditors, and companies understand the extent of these shortcomings, in this sequel to FB 1.0 we looked at 134 carbon-exposed companies that sit within the total Climate Action100+ focus company universe. The Climate Action100+ focus companies are key to “driving the global net zero emissions transition” and include those that contribute to up to 80% of global industrial greenhouse gas (GHG) emissions. Given that Climate Action 100+ focus companies were selected for engagement by investors because of their exposure to climate issues, it is difficult to argue that climate is not material to them.

Most of the companies that we reviewed did not provide sufficient evidence that their financial statements included the impacts of material climate-related matters. The failure to provide this information raises questions about whether companies are reflecting the financial consequences of climate risk and the energy transition within their financial statements.

The seeming reluctance of the management of these companies to consider and/or disclose climate-related information in financial reporting may also be an indication of auditors’ failures to challenge management and demand it. More generally, the low company scores raise questions about the quality of their corporate governance over these matters. For example, boards typically have an audit committee of independent directors having oversight responsibilities both for the financial statements and for the external audit of those financial statements. In this respect, the relative absence of climate-related information in financial statements and audit reports raises questions whether boards and their audit committees are providing adequate oversight over these matters.

Our work further suggests that auditors are still not comprehensively considering the impacts of these matters in their audits, notably in their risk assessments and testing. It also remains unclear whether market and audit regulators are sufficiently communicating and enforcing extant requirements for both companies and auditors to consider and disclose this information.

7 Given the importance of this there have also been several new proposals internationally for enhanced reporting outside of the financials (so-called ‘narrative reporting’).
8 See https://www.climateaction100.org/whos-involved/companies/.
Despite the overall poor results, there are several examples of what appears to be company and/or auditor progress on disclosing the extent to which they considered the impact that material climate-related matters have on the financial statements. These examples offer ‘proof of concept’ that climate-related risks can be accounted for and properly disclosed. We also note that, where sensitivities to net zero by 2050 or sooner and no more than 1.5 °C warming have been provided, those sensitivities demonstrate that the impacts of the energy transition are or will be material, reinforcing the urgent need to take climate into account.

**Scope and approach**

When evaluating companies’ financial statements (and audit reports thereon), we followed the new (provisional) *Climate Action 100+ Climate Accounting and Audit Assessment* (CAAA) methodology. To perform these assessments, we looked for evidence that the following seven metrics had been addressed in line with the methodology. We note that the first five asks are required by accounting and auditing standards today; the last two cover additional items that investors have sought.

- The financial statements demonstrate how material climate-related matters are incorporated (Metric 1a).
- The financial statements disclose the quantitative climate-related assumptions and estimates (Metric 1b).
- The financial statements are consistent with the company’s other reporting (Metric 1c).
- The audit report identifies how the auditor has assessed the material impacts of climate-related matters (Metric 2a).
- The audit report identifies inconsistencies between the financial statements and ‘other information’ (Metric 2b).
- The financial statements use or disclose a sensitivity to, assumptions and estimates that are aligned with achieving net zero GHG emissions by 2050 (or sooner) (Metric 3a).
- The audit report identifies that the assumptions and estimates that the company used were aligned with achieving net zero GHG emissions by 2050 (or sooner) or provides a sensitivity analysis on the potential implications (Metric 3b).

These metrics under the CAAA methodology formed the foundation for our work and the results reported herein. The scores for each metric are based on a binary yes/no system, indicating that the criteria included in the methodology have, or have not been met.

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9 Which has been integrated into the Climate Action 100+ Net Zero Company Benchmark since March 2022.
10 And no more than 1.5 °C warming.
11 And no more than 1.5 °C warming.
Results

Our findings suggest that, despite the existence of requirements and investors’ requests for transparency, most companies and their auditors are still failing to consider the impacts of material climate matters in financial statements and audits thereof.

None of the companies met all the CAAA metric requirements and achieved an overall “Yes” score. See Figure 1.

Figure 1: Results of the metric assessments

- Financial statements - Consideration of climate (Metric 1a)
- Financial statements - Disclosure of climate inputs (Metric 1b)
- Financial statements - Consistency w/ other reporting (Metric 1c)
- Audit reports - Consideration of climate (Metric 2a)
- Audit reports - Consistency check (Metric 2b)
- Alignment with drive to net zero - Financial statements (Metric 3a)
- Alignment with drive to net zero - Audit reports (Metric 3b)

Source: Carbon Tracker and CAAP team analyses
Only eight, or 6%, received “Partial” scores by providing all the information required by the CAAA methodology for at least one of the seven metrics that we used to assess them. See Figure 2.

**Figure 2: Companies and auditors that achieved an overall partial score for the CAAA assessment**

<table>
<thead>
<tr>
<th>Company</th>
<th>Auditor</th>
<th>Sector</th>
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<tbody>
<tr>
<td>bp</td>
<td>Deloitte</td>
<td>Oil &amp; Gas</td>
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<tr>
<td>Eni</td>
<td>PwC</td>
<td>Oil &amp; Gas</td>
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<tr>
<td>Equinor</td>
<td>EY</td>
<td>Oil &amp; Gas</td>
</tr>
<tr>
<td>Glencore</td>
<td>Deloitte</td>
<td>Diversified Mining</td>
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<tr>
<td>National Grid</td>
<td>Deloitte</td>
<td>Electric Utilities</td>
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<tr>
<td>Rio Tinto</td>
<td>KPMG</td>
<td>Diversified Mining</td>
</tr>
<tr>
<td>Rolls-Royce</td>
<td>PwC</td>
<td>Other Transport</td>
</tr>
<tr>
<td>Shell</td>
<td>EY</td>
<td>Oil &amp; Gas</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall score</th>
<th>Financial statements</th>
<th>Audit reports</th>
<th>Alignment with drive to net zero</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Metric 1a</td>
<td>Metric 1b</td>
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<tr>
<td>Company</td>
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<td>Shell</td>
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</table>

**Key to scores**

- Criteria for assessment met
- Criteria for assessment partially met
- Criteria for assessment not met

Source: Carbon Tracker and CAAP analyses.

The remaining 126 companies and their auditors did not meet any of the metric requirements.

We did observe some overall sectoral and regional differences. Companies operating in the Energy sector continue to score the highest. Of the eight companies that avoided overall red scores, five are oil and gas or utilities companies. Additionally, all eight are based in Europe/UK.

We also identified stark differences between audit reports of the same global firm network issued in relation to different companies and countries. This suggests a lack of network policies and/or practices to address climate matters in financial statement audits. Notably, none of the auditors of the 46 US companies provided evidence that they comprehensively considered the impacts of climate matters in such audits. While there are some differences between accounting and audit requirements in the US versus elsewhere, they do not explain the discrepancies that we observed.

At the metric level, 98% of companies did not provide sufficient information to demonstrate how their financial statements include consideration of the financial impacts of material climate matters. Additionally, 99% did not disclose the quantitative climate-related assumptions and estimates that they used to prepare the financial statements, despite most auditors identifying the same types of inputs as subject to significant judgement and estimation uncertainty.

Further, we found that 96% of the audit reports reviewed did not sufficiently indicate whether and how the auditors considered the impact of climate issues (such as emissions reduction targets, changes to regulations, or declining demand for company products) when auditing these companies.

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12 All are located in Europe/UK.
13 See full methodology and scoring system in Appendix 1.
Of the 134 audit reports assessed, only one auditor (Deloitte, for its audit report on bp’s FY2021 financials) provided comprehensive evidence of consideration of climate change and explained inconsistencies in bp’s reporting. Five auditors partially met the requirements for this sub-indicator for their audits of Glencore and National Grid (Deloitte), Rio Tinto (KPMG), Rolls-Royce (PwC) and Shell (EY) by disclosing how they comprehensively considered climate when auditing relevant key audit matters for these companies.

A significant majority of companies indicated that they had targets, goals, or ambitions to achieve net zero/carbon neutrality by 2050 or sooner. But when it came to preparing financial statements, none appeared to align the information that they used to prepare their financial statements with achieving these reductions. Only three companies disclosed sensitivities of financial statement items to achieving the drive to net zero by 2050 or sooner and no more than 1.5 °C warming; the financial importance of which was best illustrated by Glencore’s disclosure, which showed a nearly full write-down of thermal-coal related assets in the event of alignment with this drive.

Note: the CAAA methodology that we used to assess FY2021 financial reporting using a stricter scoring system than we used in last year’s FB 1.0. Companies (and their auditors) only avoided a red score if they disclosed all relevant climate-related information. See Appendix 1 for more information.
Recommendations

The following recommendations reflect the view that companies, auditors, market regulators, policymakers and investors all have roles to play in improving the content and quality of financial reporting of climate matters:

- **Companies** should disclose whether and how they incorporated material climate-related matters into their financial statements and ensure appropriate governance and board oversight thereof.

- **Auditors** must provide full transparency around whether and how they addressed climate-related matters in their audits and investor requests to assess company alignment with achieving the drive to net zero, especially considering their commitments as signatories to the Net Zero Financial Service Providers Alliance.

- **Market regulators** should identify whether companies have incorporated material climate-related matters in their financial statements (and provided adequate disclosure thereof). They should look for reporting inconsistencies, identify audit failures, and take action to enforce financial reporting and audit standards.

- **Governments and policymakers** must prioritise climate accounting matters and ensure that information in the financial statements is consistent with other sustainability information that companies report.

- **Investors** should use the results of this study to help inform engagement, voting and investment decisions.