

Finance and the journey to climate-related reporting

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Mandatory climate reporting poses significant challenges as well as opportunities for reporting entities.

The finance function has a key role to play in ensuring connectivity between the financial statements and the sustainability report, as well as helping to build a high-quality, audit-ready reporting process that informs management decision-making.

Introduction

With the issuance of the Australian Sustainability Reporting Standards (ASRSs), including AASB S2 *Climate-related Disclosures* (AASB S2), and the amendments to the Corporations Act 2001, climate-related reporting in Australia is rapidly moving from its largely voluntary origins to a new space. This new space is one more familiar to finance professionals - one of mandatory reporting and assurance for meeting the needs of investors, lenders and creditors.¹ At the same time, climate-related reporting will need to demonstrate greater connectivity with the general-purpose financial statements.²

Given their skills, knowledge, experience and familiarity with the process of preparing financial statements and navigating assurance, it is no surprise that we are seeing finance professionals increasingly involved in climate-related reporting. Finance can and should be playing a key role in the setup and ongoing reporting of information about climate-related risks and opportunities (CRROs), and in bringing connectivity with the financial statements and underlying reporting processes.

However, for many finance professionals, notwithstanding climate-related reporting's foundations in financial reporting principles, it may still feel like unfamiliar territory. In this publication, we share our observations of how the finance function can bring its unique skills and experience, helping make the journey to climate-related reporting as smooth as possible whilst demonstrating its value in a new space.

What finance can bring

Many organisations have been engaged in some form of sustainability reporting - including around climate change - for many years. However, much of this has been on a voluntary basis, and at times in standalone documents with little explicit connection to financial statements. Focus on assurance is sometimes limited.

Mandatory climate-related reporting represents a step change, even for organisations already preparing climate and other sustainability disclosures. Investors and regulators expect that, over time, the preparation of external climate-related reporting will involve the same level of rigour as financial reporting, with clear and easily understandable connections between the financial statements and sustainability reports.

In addition, the transition to reasonable assurance will require a significant uplift in internal controls, governance, policies and processes across the end-to-end climate reporting process. They expect too that, like financial data, relevant climate-related information will flow back into management decision-making.

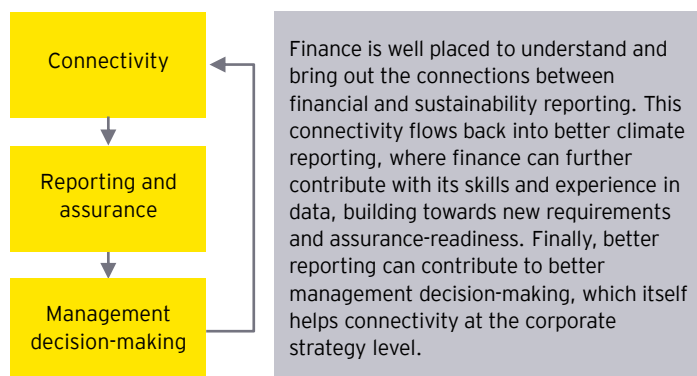
¹ See the EY publication [Regulatory updates on assurance of climate disclosures in Australia](#) publication.

² For more guidance and insights around the effects of climate change for accounting purposes see the EY publication [Applying IFRS - Connected Financial Reporting: Accounting for Climate Change](#)



Three broad areas

The visual to the right highlights three broad areas where the finance function is well placed to contribute to this evolution. The main body of this publication then explores these areas in more detail. The areas are interconnected, with evolutions in each area positively contributing to the others via a feedback loop.



1 Connectivity between financial statements and sustainability reports

Unlike some other climate-related reporting standards, AASB S2 is explicitly aimed at providing material information to primary users - investors, lenders and other creditors - rather than to other users. One of the explicit goals of the AASB S2 is clearer connections between climate-related reporting and the financial statements. This connectivity between climate-related reporting and financial reporting provides a holistic view of performance and the organisation's risk profile, informing decision-making by investors, regulators, and other stakeholders who increasingly demand transparency in this area.

So where does finance fit in?

Familiarity with the financial statements

Connectivity with financial statements requires an understanding of both financial accounting (standards, interpretations, judgement) and the specific consequential considerations of a reporting entity's assets, liabilities, income and expenses.

AASB S2 for example requires entities to disclose information allowing users to understand the effects - current and anticipated - of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows. This requires an understanding of the accounting concepts underlying each item, how they interconnect, and the reporting experience sufficient to generate reasonable, evidenced assumptions around how they might react to climate-related risks and opportunities. Experience in approaching some of the risk disclosures for financial instruments could be useful. For example, organisations need to describe the exposure derivatives can have on the entity's future financial position, financial performance and cash flows.

Equally, and more easily missed, is the fact that risks and opportunities described in the climate-related report can be expected to impact the financial statements, including those in future periods. For example, they may inform impairment assessments of assets reliant on fossil fuels in a jurisdiction with plans to introduce carbon pricing. Finance professionals are well placed to understand and react to these expected connections.

Materiality

AASB S2 - similar to many standards - is built around the overarching requirement to disclose material information about climate-related risks and opportunities. Climate-related financial information is often forward-looking and more varied in its nature (e.g. GHG emissions, financial estimates, narrative disclosures) in comparison to financial reporting. However, the underlying definition of materiality in AASB S2 is the same as that under Australian Accounting Standards (AAS) in focussing on whether information could be reasonably expected to influence decisions of primary users.

Application of materiality, as in financial reporting, requires an understanding of the primary users and their expectations for decision-making, and then a practical application to present this information. Finance here can leverage its experience, for example its experience working with investor relations to prepare for analyst calls, AGMs and other investor events, or its regular meetings with lenders. This experience can help them ensure that climate-related reports meet the needs of primary users without being obscured by information immaterial to them, which may be included in voluntary sustainability reports. It can also help frame the disclosures into a clear narrative aligned both to investor needs and to other investor communications.



2 Reporting and assurance expertise

Experience adopting and implementing new standards and reporting requirements

Adopting new standards and their associated reporting requirements is not easy. Finance is well placed to support or lead this process, having dealt with multiple changes to financial reporting standards over recent years.

New standards and changes to existing standards must be understood and interpreted. A plan must be built and executed to source the data needed, draft compliant disclosures, and gain acceptance by stakeholders. Governance is needed over the new disclosures to understand segregation of duties and responsibilities, and risk and controls frameworks need to be built or expanded. The needs of multiple stakeholders will need to be considered, weighted against each other and prioritised into disclosures and processes that balance potentially conflicting perspectives. All this needs to be integrated into existing processes to ensure the new requirements are met alongside existing ones, particularly if sharing resources. External auditors will need to be engaged throughout the journey to ensure they are comfortable with the direction the organisation is taking.

Reporting and data skills and experience

Reporting the quantitative elements found in AASB S2 - such as GHG emissions and other defined metrics and targets - is another area where finance brings skills and experience. For example, reporting will almost certainly involve the use of estimates that will change over time, and need to be appropriately evidenced and controlled. In the context of evolving calculation methodologies and improvements to underlying data quality, restatements are likely to be common in earlier years.

At a more operational level, finance professionals bring data management skills that many parts of an organisation may not have developed to the same depth.

Underlying data used to calculate carbon emissions is often sourced using Excel from departments not typically involved in external reporting, for example logistics, manufacturing or procurement. These departments can benefit from finance's experience in efficient data gathering, manipulation and calculation models as well as embedding controls into spreadsheets. Where appropriate, financial reporting systems may accommodate some of the new data points, boosting efficiency and control, and benefiting from enhanced functionality. For example, one solution might be cloud-based software, in which case consideration is to be given to the accounting.³

Assurance readiness

Assurance will provide insights regarding the quality of reporting but also brings the rigour of an external audit process. This can challenge an organisation's readiness and capability to meet the requirements of climate-related reporting.

Organisations will benefit from the experience that finance brings in maintaining its internal controls framework and governance processes. A strong internal control environment leads to a more efficient and cost-effective audit process.

Finance can also inform climate-related reporting teams on the audit process, including the understanding of interim visits/reviews, controls and substantive testing, adequate documentation to support estimates etc. Finance's experience in organising resources over the audit period and preparing themselves for the audit will be invaluable. This may include preparing and storing documentation and records that will meet audit and record-keeping requirements.

Finance with its experience in external reporting audits is well placed to help. Internal audit can also play a role by extending their scope of work to non-financial reporting in preparation for an external audit.

3 Informing management decision-making

Financial data is not only a record of past performance - it is a guide for management decision-making. Similarly, organisations should look to the data collected for climate-related reporting to provide actionable insights that can also help guide decision-making. Underlying data used to calculate carbon emissions for example can highlight opportunities for energy efficiency savings, and information surrounding

climate-related risks and opportunities can inform decisions on where and how (or how not) to invest. Finance brings experience and skills in converting such raw data into decision-relevant information, helping the organisation leverage the insights generated from these new reporting requirements.

³ For more guidance and insights please refer to [Applying IFRS - Accounting for cloud computing costs](#).

In conclusion

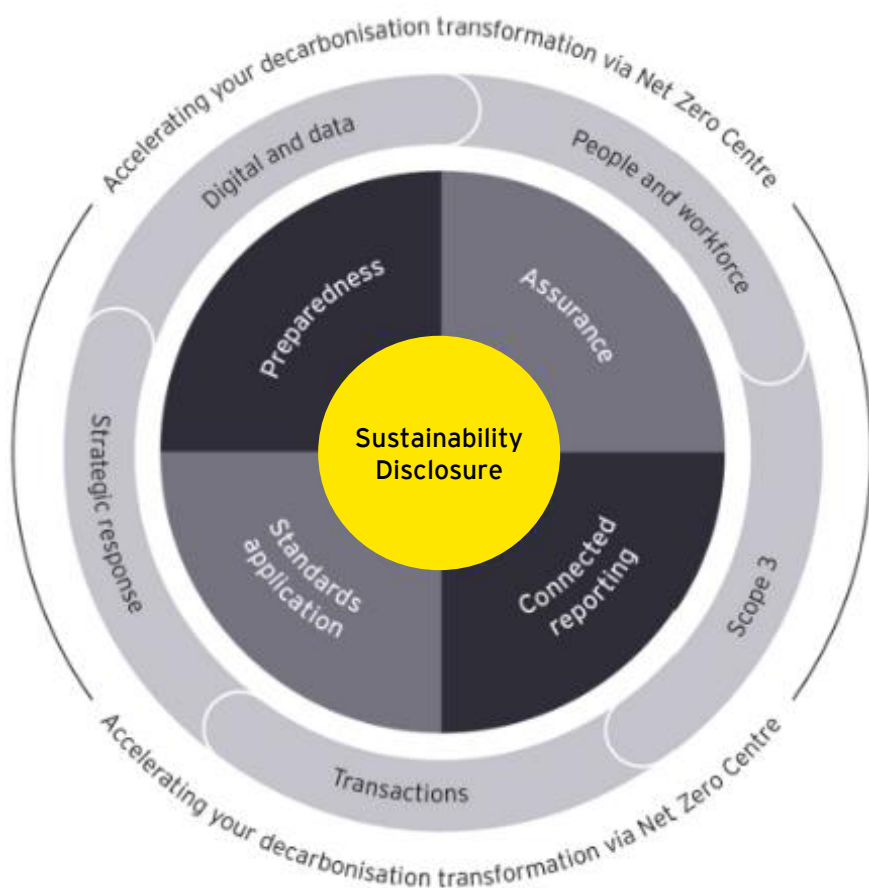
The journey towards mandatory climate-related reporting in Australia is a significant step for organisations. Finance is uniquely positioned to help support this transformation due to its expertise in financial statements, reporting, and assurance. By leveraging its skills, climate-related information can be coherently connected to the financial statements, enhancing the overall quality and reliability of the reports. Its experience in data management and decision-making processes can provide valuable insights and drive informed management decisions to help organisations prepare for climate-related changes. As organisations continue to adapt to new standards and reporting requirements, the role of finance will be crucial in achieving comprehensive and credible climate-related disclosures.

With mandatory reporting beginning for reporting years commencing as early as 1 January 2025, timelines are tight and early engagement will be crucial. To help teams get started, here are three areas where finance teams might want to begin:

1. Enhance understanding of AASB S2: Familiarise key members of the finance function with the requirements and implications of AASB S2 for your organisation.
2. Establish a cross-functional team: Help your organisation form a team that includes finance, sustainability and operational stakeholders to collaborate on the integration of climate-related data into financial reporting.
3. Engage with external auditors: Initiate discussions with external auditors to understand their expectations regarding climate-related disclosures and ensure readiness for future audits.



Sustainability Disclosure Hub



The EY Sustainability Disclosure Hub offers practical guidance to assist companies across the region prepare for mandatory reporting of climate and sustainability-related reporting.

Headed by Oceania market-leading financial and non-financial reporting professionals, the Sustainability Disclosure Hub brings together EY capability locally and across the globe - coupling financial and non-financial reporting strategy, readiness and assurance capabilities that have intimate knowledge of the work of the ISSB and local market insights, including the development of the climate-related disclosure requirements by the AASB.

The Sustainability Disclosure Hub collaborates closely with the EY Net Zero Centre, which helps EY clients to make the right decisions at the right times and set themselves on a pathway for success in a net zero economy.

Please reach out to our Sustainability Disclosure Hub team to discuss what the requirements mean to you.

Contact us

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