

Auditing climate change

Our strategy



 AUDIT SCOTLAND

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Why is climate change an audit priority?

- 1.** In August 2021, the Intergovernmental Panel on Climate Change (IPCC) reported that there are record levels of greenhouse gases in the atmosphere. The IPCC warned that the world is fast approaching the 1.5 °C of warming threshold that we must not pass if we are to avoid the worst impacts of climate change. The UN Secretary-General declared it a 'code red for humanity' and warned that urgent action is required to place the world on the right trajectory. Urgent action is also required to adapt to the impacts of climate change that are now unavoidable. Every country has a part to play.
- 2.** In 2019, Scotland became one of the first nations in the world to declare a climate emergency. Scotland has set a legally binding target of becoming net zero by 2045, five years earlier than the UK, with an interim target to reduce greenhouse gas emissions by 75 per cent by 2030. The public sector in Scotland has a key role to play in ensuring a pathway to net zero by 2045 and supporting activity to adapt to the current and potential future impacts of climate change.
- 3.** Addressing climate change is a colossal challenge. It is an area of significant public interest that directly impacts people's lives. It spans most areas of public policy and huge amounts of public money will be invested in activity to tackle climate change. Climate change considerations need to be central to public bodies' decision-making and financial planning. Consequently, it is an audit priority for both the Auditor General for Scotland and the Accounts Commission.

What is the role of public audit?

- 4.** Independent public audit and scrutiny has an important role to play in supporting the Scottish public sector to respond effectively to the climate emergency and contribute fully to Scotland's climate change ambitions.
- 5.** Our aim is to hold public bodies to account and help drive change and improvement in how public bodies respond to the twin challenges of achieving net zero emissions and adapting our environment to build resilience against climate change.
- 6.** We recognise that this is a complex landscape, where several organisations have a role in monitoring and reporting on progress towards national climate change targets and objectives. We will therefore work inclusively and regularly engage with stakeholders in Scotland and colleagues in other auditing bodies in the UK as we develop and deliver our programme of work. We will complement the work of other public bodies and parliamentary committees and use and add value to existing tools and evidence wherever possible.

7. We will focus our attention on the areas where we can uniquely add the greatest value. This includes using our auditing skills to hold public bodies to account for their actions and spend on climate change, to consider issues of governance, risk and accountability and to look across the public sector at financial planning, collaboration and value for money. We will not verify emissions' data as others have expert knowledge in this area. We will evolve our approach to align with updates to auditing standards issued by the Financial Reporting Council (FRC). Identifying opportunities to collaborate with other interested parties will be a key tenet of our methodology.

What is our approach?

8. Our approach focuses on:

- raising public sector awareness of the importance and relevance of climate change, to support positive outcomes through public sector delivery and enabling activity
- holding audited bodies to account for their actions and spend on climate change and offering constructive challenge
- identifying and sharing learning, including good practice and areas for improvement.

9. We will take an integrated approach to embedding consideration of climate change into all our audit work to:

- influence practice by highlighting the role of public bodies in contributing to climate change mitigation and adaptation and the importance of aligning strategic plans across/between sectors
- report on the actions the public sector is taking to support the achievement of net zero and highlighting any risks or issues
- assess whether bodies' financial reporting of climate change risks and opportunities meets applicable accounting standards.

10. As public sector auditors, we recognise the importance of us leading by example. Integral to our work on climate change is focusing on our own organisational activity to reduce our emissions and carbon footprint. Learning from this activity also supports development of our audit approach.

11. We are supporting our colleagues by developing tools, guidance and training on auditing climate change, establishing internal and external networks to provide challenge and share expertise, and developing systems for capturing and sharing learning from our work.

12. We will continue to refine our audit methodology in response to our learning and external developments – including updates to the reporting standards for financial statement audits set by FRC – and will monitor and assess the impact of our work in this area. As our approach evolves, we will keep resourcing and skills requirements under review.

What work are we doing?

Audit work and reporting at a national level

13. We will publish regular performance audits on climate change specific areas until at least 2025. Our plans for climate specific outputs – including briefings, blogs, and roundtables – will develop and adapt over time but are likely to include consideration of:

- the climate change landscape – roles and responsibilities, governance arrangements, key risks and risk management
- net zero targets – definitions, the development and implementation of current plans and strategies
- adaptation – progress and response in integrating adaptation into policies, strategies and implementation plans
- the costs of climate change – investment, value for money of ‘green’ spend and alignment of spend across policy areas
- partnership working and collaborative leadership – good practice, barriers and challenges
- individual sector analysis.

Audit work and reporting at a local level

14. Auditors have a key role in evaluating the effectiveness and appropriateness of the arrangements in place in individual public bodies for responding to climate change risks and opportunities. We will also assess how public bodies are reflecting climate change in their financial statements and related reporting.

15. We recognise that management of a body have primary responsibility to consider climate-related issues, however we will challenge, test and improve the accounting for, and disclosure of, climate-related issues.

16. As this area develops, we will continue to monitor the thematic work that the FRC and other parties are carrying out to identify learning points for public bodies. Adapting our methodology to respond to developments in standards for financial statement audits set by FRC will also be core to our approach.

How will we report on progress?

17. We will regularly publish information on our performance with capturing climate change considerations across our audit work. This will include reporting progress against our climate change ambitions outlined earlier in this strategy, to set out the extent of our activity in this area and associated impacts. It will also provide a valuable source of information and learning for public bodies and organisations in other sectors.

18. We will review this strategy on an annual basis so that it continues to reflect our ambitions and approach. A full-scale refresh will take place at least every three years – or sooner, if our annual review highlights significant developments requiring change – to ensure that we maintain pace with the fast-moving climate change context.

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