

ACCOUNTING AND AUDIT ASSUMPTIONS CLIMATE CHANGE RISK



The impacts of climate change on an entity's financial position, performance and prospects should be viewed as decision-useful to a reasonable investor (and therefore material in a disclosure context).

Climate-related assumptions on which an entity's calculations and disclosures are based are likely to be material, given the range of variables and uncertainty associated with climate change.

Auditors should test the reasonableness of material climate-related assumptions within the scope of a financial audit.

Australia's Nationally Determined Contribution (NDC) will be a relevant assumption regarding an entity's exposure to climate-related risks. However, the NDC is unlikely to be the only climate-related variable that may materially impact certain accounting estimates, or financial prospects. (see Figure 1)

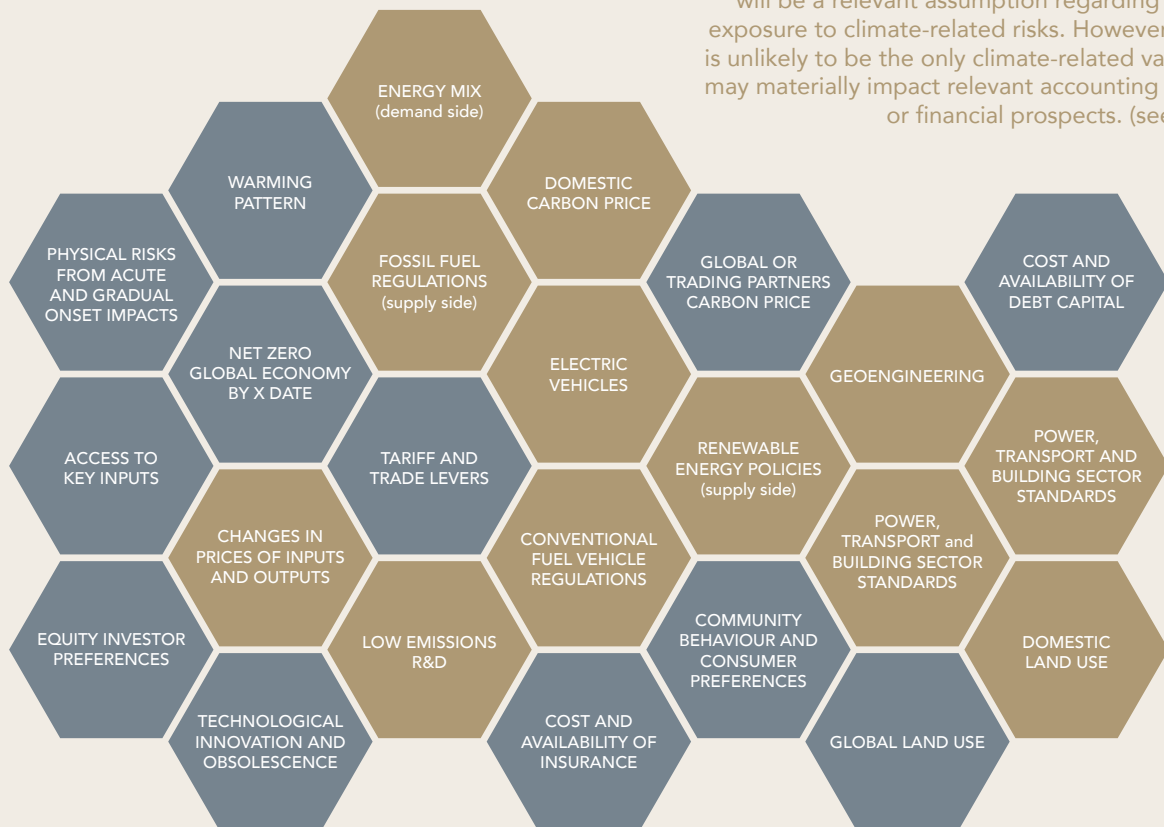


FIGURE 1. Climate risk and opportunity variables that may be relevant in determining the trajectory of the climate-related impact and their consequences for an entity's financial position, performance or prospects.

Australia's NDC is likely to be a relevant (but not the only) driver of the variables in ■ gold.

Australia's NDC is unlikely to have a significant impact on the variables in ■ blue.



SNAPSHOT: AUSTRALIA'S NDC

Nationally Determined Contributions (NDCs) = primary mechanism by which parties respond to climate change under the international 2015 Paris Agreement. Australia's NDC emissions reduction target of 26-28% by 2030 vs a 2005 baseline, is relatively low by international standards.

NDCs are subject to a five year review cycle and intended to increase in ambition. It is likely Australia will face international and domestic pressure to increase the ambition of its NDCs.

KEY TAKEAWAY

Accountants, auditors, managers and directors must develop the skills and expertise to integrate climate change assumptions into accounting estimates and disclosures. This includes assumptions related to Australia's NDC and economic transition risk. Variables and assumptions will need to be entity-specific as it is difficult to capture assumptions that will or will not apply to all.

For guidance on how to approach integration of climate change assumptions into accounting, reporting and disclosure activities, please see the report *Australia's international climate change commitments – Associated accounting assumptions and auditing of climate risk disclosures*.