



KUTHUMI

SUSTAINABILITY LEARNING & DUE DILIGENCE

Implementing AASB Climate-Related Disclosures

Issue 1

Governance – Skills & Capabilities



Background

If you work in a large Australian corporate, you will have noticed the board and senior management increasing its focus on sustainability and climate related issues. This is because the Australian Government recently brought into law mandatory climate reporting, which will have a staged implementation commencing from 1 January 2025.

The Australian Accounting Standards Board (AASB) also finalised its voluntary (AASB S1 – *General Requirements for Sustainability-related Financial Disclosures*), and mandatory (AASB S2 – *Climate-related Disclosures*) Accounting Standards to support companies with making their disclosures.

This series of whitepapers looks at some of the requirements and provides insight into what better practice implementation of sustainability and climate practices might include.

Issue 1: Governance – Skills and Competencies

Paragraph 6 (a) (ii) of AASB S2 states that the reporting entity shall disclose *“how the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee strategies designed to respond to climate-related risks and opportunities.”*

This requirement means that the company must establish a means through which relevant climate related skills and competencies are identified, assessed, and developed.

So, what are climate related skills and competencies?

Here are 5 skills and capabilities that may provide a reasonable starting point for organisations to assess their skills and competencies:

Carbon Accounting skills – Calculation and reporting of greenhouse gas emissions is expected within the mandatory reporting regime. Having appropriately skilled individuals that can assess or analyse carbon accounting information (prepared inhouse or outsourced) is an essential skill.

Analytical skills – In particular, having the ability to develop and undertake climate scenario analysis. Blending an understanding of how the business operates with specific changes (transition and physical related) to understand and assess climate-related risks and opportunities.

Critical Thinking and Strategy skills – Being able to consider a long-term planning horizon and consider what actions should be taken to consider the ongoing viability and prosperity of the business. Because of the speed at which the transition occurs, or the pace of the environmental change, having the ability to see changes occurring and knowing when to pivot the business to provide protection will be critical.

Procurement capabilities – So much of the transition may be outside the control of the business. Having a clear procurement and supply chain management strategy and process will be essential to setting and achieving emission reduction targets. Examples of emission reductions through purchasing and buying should include waste management, fleet vehicles, packaging, operational processing, and energy procurement.

Risk Management skills – Embedding sustainability and climate considerations into a business of any size, is about understanding, and managing long-term risk. This is not about creating checklists and ticking boxes, it's about seeing the potential changes in the operating environment and seeking to

build resilience measures and contingency plans into how the business operates, should something not go according to plan.

Once you've identified the skills and capabilities needed, how do you go about acquiring them?

There are three ways in which a company can acquire different skills and capabilities. Often some combination of the three is the path companies take depending on budget, and capacity.

1. **Outsource** – This involves paying someone else to do what's needed to support your business. Getting third party providers, contractors, and consultants in to do the work is useful up to a point, but it can be expensive, or the increased risk outsourcing to other countries means that further assessments and capabilities need to be developed onshore to manage the relationships and the activities.
2. **Recruit** – Increasing headcount is a long-term solution that builds and retains skills and capabilities within a company. It also helps to create a single point of accountability for sustainable and climate activities. However, the skills and capabilities needed for climate-related activities can be quite diverse and nuanced, and there are not many people that can meet all the skills and capability requirements. Avoiding key person risk is important, but building a team of skilled and capable people can be expensive.
3. **Educate** – Upskilling individuals across the business topics is important to achieving sustainability and climate related goals. Having a core group of adequately skilled and capable individuals is critical to successfully meeting the requirements of the accounting standard and market expectations, but there is also a minimum expectation that whole business should have a sufficient level of sustainability and climate-related understanding to properly meet expectations.

What to do...

Acting doesn't have to mean getting a consultant in to provide you advice on what you need to do.

EDUCATE. The first step should be to build a level of understanding and awareness of sustainability and climate issues within the business to properly consider what's needed.

ASSESS. The second step is to consider what skills and capabilities are available today.

PLAN. The third step is to develop a plan to acquire skills and capabilities to meet the expectations in the best possible way for your business. This could be a combination of Outsourcing, Recruiting, and Educating.

DELIVER. The final step is following through on the plan. The expectations for meeting the reporting requirements will increase over the next few years, so no one is expected to have everything perfect on day one. Developing a staged approach can be cost effective and constructive.

Being comfortable and confident with the sustainability and climate-related agenda can at times be tricky. If you're still feeling like you need some support to develop the relevant practices within your business to meet the evolving reporting requirements, then feel free to get in touch.

