



Financial Reporting Council

# **FRC Staff Guidance**

**Auditor responsibilities under ISA (UK) 720 in respect of climate-related reporting by companies required by the Financial Conduct Authority**

February 2022

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## Introduction and purpose of this guidance

This staff guidance note sets out information for auditors that may assist them in determining their responsibilities under ISA (UK) 720<sup>1</sup> in their audits of financial statements of companies that are required to include climate-related disclosures consistent with the Taskforce on Climate-related Financial Disclosures (TCFD) Recommendations and Recommended Disclosures.

This staff guidance also includes a brief reminder of auditor's responsibilities under ISA (UK) 720 in respect of the company's Streamlined Energy and Carbon Reporting (SECR) disclosures.

Increasingly auditors have requested guidance from the FRC, in respect of their specific responsibilities under ISA (UK) 720, following the introduction of TCFD aligned climate-related disclosure requirements for listed companies by the Financial Conduct Authority (FCA). [The ESG Statement of Intent](#), published by the FRC in July 2021, stated that the FRC will monitor the need for guidance on ESG-related audit and assurance and issue audit and assurance guidance at the national level as appropriate. This guidance note is designed to address this commitment.

This staff guidance note does not deal with the other auditor's responsibilities in respect of the auditor's consideration of climate-related risks or climate-related disclosures in an audit of financial statements. For guidance on such matters, the auditor may refer to the [FRC Climate Thematic - Audit – How are auditors taking account of climate-related challenges?](#) (November 2020) and the [IAASB's Staff Audit Practice Alert The Consideration of Climate-Related Risks in an Audit of Financial Statement](#) (October 2020).

Other entities may also be subject to legal and regulatory requirements that require climate-related disclosures; however, such entities are outside the scope of this staff guidance note.

It is the auditor's responsibility to ensure that the auditor obtains an understanding of whether any climate-related disclosures are required by law or regulation to be included in the annual report, and to determine the extent of the auditor's responsibilities under the ISAs (UK) in respect of those disclosures.

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<sup>1</sup> [ISA \(UK\) 720 \(Revised November 2019\) The Auditor's Responsibilities Relating To Other Information](#)

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# FCA TCFD aligned climate-related disclosure requirements for listed companies

For accounting periods beginning on or after 1 January 2021, all UK premium listed companies<sup>2</sup> are required to state, in their annual financial report, whether their climate-related disclosures are consistent with the Task Force on Climate-Related Financial Disclosures (“TCFD”) recommendations, or to explain why not. For periods beginning on or after 1 January 2022 a similar requirement will apply to standard listed companies.<sup>3</sup>

## What are the FCA requirements for UK premium listed companies (‘companies’)?

The FCA’s listing rule LR 9.8.6R(8)<sup>4</sup> requires a statement (‘TCFD Compliance Statement’) to be included in its annual financial report setting out, in summary:

- (a) whether the [listed company](#) has included in its annual financial report climate-related financial disclosures consistent with the [TCFD Recommendations and Recommended Disclosures](#); (‘TCFD aligned disclosures’)
- (b) in cases where the [listed company](#) has:
  - (i) made TCFD aligned disclosures, but has included some or all of these disclosures in a document other than the annual financial report:
    - (A) the TCFD aligned disclosures which it has included in that other document;
    - (B) a description of that document and where it can be found; and
    - (C) the reasons for including the relevant disclosures in that document and not in the annual financial report;
  - (ii) not included TCFD aligned disclosures in either its annual financial report or other document:
    - (A) the TCFD aligned disclosures that it has not included;
    - (B) the reasons for not including such disclosures; and
    - (C) any steps it is taking or plans to take in order to be able to make those disclosures in the future, and the timeframe within which it expects to be able to make those disclosures; and
- (c) where in its annual financial report or (where appropriate) other document the TCFD aligned disclosures can be found.

This ‘comply or explain’ rule applies to both UK incorporated and overseas companies with a premium listing on the London Stock Exchange and will need to be disclosed in annual reports for years ending on or after 31 December 2021.

The FCA expects in-scope companies to be able to make TCFD aligned disclosures, except where they face transitional challenges in obtaining relevant data or embedding relevant modelling or analytical capabilities.

<sup>2</sup> As of the end of December 2021, the following regulated firms have climate-related disclosure requirements aligned with the TCFD’s recommendations:

- Commercial companies with a UK premium listing (including sovereign-controlled commercial companies)
- Issuers of standard listed shares and global depository receipts (GDRs)
- Asset managers
- Life insurers
- FCA-regulated pension providers

<sup>3</sup> <https://www.fca.org.uk/publications/policy-statements/ps-21-23-enhancing-climate-related-disclosures-standard-listed-companies>

<sup>4</sup> [LR 9.8 Annual financial report](#)

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In summary, the FCA listing rule requires the TCFD Compliance Statement to be included in the annual financial report, but it does not mandate TCFD aligned disclosures nor where they should be reported. However, companies that do not report TCFD aligned disclosures will have to explain why this is the case.

## **What are the auditor’s responsibilities under ISA (UK) 720 in respect of a company’s TCFD Compliance Statement and TCFD aligned disclosures?**

ISA (UK) 720 deals with the auditor’s responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor’s report thereon), included in an entity’s annual report.

**Other information** – Financial or non-financial information (other than financial statements and the auditor’s report thereon) included in an entity’s annual report.

**The TCFD Compliance Statement** is **other information** for the auditor’s purpose as the listing rule requires the TCFD Compliance Statement to be included in the company’s annual report.

Whether the **TCFD aligned disclosures** constitute other information in accordance with ISA (UK) 720 will depend on the placement of that material, and/or the integration of that material with other climate-related material in the company’s annual report.

ISA (UK) 720 also includes additional requirements and guidance for auditors in respect of their audits of financial statements for companies that are required to prepare statutory other information. In certain circumstances, the **additional requirements and guidance** for auditors in respect of their audits of financial statements for companies that are required to prepare statutory other information **will also apply**.

In particular, companies in scope of the FCA requirements will be subject to existing climate-related disclosure requirements. Given complementary and, in some cases, overlapping requirements under existing climate-related disclosure rules and recommendations, companies may integrate TCFD aligned disclosures into their statutory other information.

In our [Thematic Review: SECR \(September 2021\)](#), we encouraged preparers to integrate and streamline climate-related material wherever possible.

## Summary of circumstances when requirements and guidance for auditors in respect of other information and statutory other information apply to the TCFD Compliance Statement

<b>Where is the TCFD Compliance Statement?</b>	In the annual report, and not included in the following: <ul style="list-style-type: none"> <li>• Directors' Report;</li> <li>• Strategic Report; or</li> <li>• The Corporate Governance Statement</li> </ul>	In the annual report, and a reference to the TCFD Compliance Statement is cross-referenced <i>from</i> the following: <ul style="list-style-type: none"> <li>• Directors' Report;</li> <li>• Strategic Report; or</li> <li>• The Corporate Governance Statement</li> </ul>	Included in the following: <ul style="list-style-type: none"> <li>• Directors' Report;</li> <li>• Strategic Report; or</li> <li>• The Corporate Governance Statement</li> </ul>
<b>Is the information other information?</b>	Yes	Yes	Yes
<b>Is the information statutory other information?</b>	No	No	Yes

## Summary of circumstances when requirements and guidance for auditors in respect of other information and statutory other information apply to TCFD aligned disclosures

<b>Where are the TCFD aligned disclosures?</b>	All, or any part, included in a document other than the annual report	In the annual report, and not included in the following: <ul style="list-style-type: none"> <li>• Directors' Report;</li> <li>• Strategic Report; or</li> <li>• The Corporate Governance Statement</li> </ul>	All, or any part, included in the following: <ul style="list-style-type: none"> <li>• Directors' Report;</li> <li>• Strategic Report; or</li> <li>• The Corporate Governance Statement</li> </ul>
<b>Is the information other information?</b>	No	Yes	Yes
<b>Is the information statutory other information?</b>	No	No	Yes

### Example: The Strategic Report and TCFD aligned disclosures

Under UK law, all companies that are not small are required to provide an overview of their business, including a description of the principal risks and uncertainties facing the company, in a Strategic Report<sup>5</sup>.

The Strategic Report should contain information that is material to users enabling them to assess whether the directors have performed their duty to promote the success of the company. When the directors of a company consider climate change to be a principal risk or uncertainty facing the company, this would be disclosed in the Strategic Report.

Similarly, the TCFD includes a recommendation to describe the climate-related risks and opportunities the company has identified over the short, medium, and long term, and the impact of those risks and opportunities on the business, strategy, and financial planning. Where climate-related risk is determined to be a principal risk, TCFD aligned disclosures may be sufficient to meet the Strategic Report requirements, or vice-versa.

Accordingly, the company may integrate TCFD content within the relevant part of the Strategic Report where it is strategically significant and meets the legislative requirements, and may also provide further TCFD aligned disclosures, as complementary information, in other reports outside the Strategic Report or annual report.

That part which is integrated into the Strategic Report is statutory other information.

### Mandatory TCFD aligned disclosures

The Government has committed to work towards mandatory TCFD aligned disclosure obligations across the UK economy by 2025. Building on this, in October 2021, the Government announced that certain public companies, large private companies and LLPs will be required to disclose climate-related financial information in line with the four overarching pillars of the TCFD recommendations on a mandatory basis<sup>6</sup>.

In particular, companies **will be required to disclose their climate-related financial information in the non-financial information statement which forms part of the Strategic Report**. This statement will also be renamed as the “non-financial and sustainability information statement”.

The new requirements will come into force on **6 April 2022** and will apply to accounting periods starting on or after that date.

As the disclosures will be required, through legislation, to be included in the Strategic Report and the auditor is required to report on the Strategic Report, the disclosures will form statutory other information in accordance with ISA (UK) 720.

<sup>5</sup> Section 414C(2)(b)(ii) of the Companies Act 2006

<sup>6</sup> The requirements form part of both the Chancellor's November 2020 [Roadmap towards mandatory climate related disclosures](#) and the [Roadmap on new Sustainability Disclosure Requirements](#), published in October 2021

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# SECR requirements for Quoted Companies and Large Unquoted Companies

The UK government's SECR policy was implemented on 1 April 2019, when the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 came into force. The SECR rules set out the required statutory disclosures about emissions and energy use for quoted companies and large unquoted companies with financial years beginning on or after 1 April 2019. The SECR rules require that the qualifying entities report publicly on their UK energy use and carbon emissions within their Directors' Report or cross reference to the Strategic Report.

## What are the auditor's responsibilities under ISA (UK) 720 in respect of the company's SECR disclosures?

SECR disclosures are **other information** and **statutory other information** for the **purpose of applying ISA (UK) 720**.

### Where must the SECR information be reported?

The information should be reported in the Directors' Report, or if the information is of strategic importance, it can be moved to the Strategic Report and cross-referred from the Directors' Report to the Strategic Report where it is of strategic importance.

### Why is the information deemed to be other information?

The disclosures about emissions and energy use are non-financial information and do not form part of the audited financial statements; and

The directors of the company are required by legislation<sup>7</sup> to prepare the Directors' Report and Strategic Report and include the reports in the entity's annual report, Companies Act 2006 sections 415 and 414A respectively.

### Why is the information deemed to be statutory other information?

The auditor is required to report on the Directors' Report and Strategic Report by legislation, under Companies Act 2006 section 496.

## Other reference material

- [Guidance on the Strategic Report](#)
- [Recommendations of the Task Force on Climate-related Financial Disclosures](#)
- [FRC Climate Thematic - Audit – How are auditors taking account of climate-related challenges?](#)
- [Annual Review of Corporate Reporting: 2020/2021](#)
- [Staff Guidance Note 03/2017 The auditor's consideration of materiality relating to other information](#)

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<sup>7</sup> Companies Act 2006, section 415 and section 414A respectively



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