FINANSTILSYNET
THE FINANCIAL SUPERVISORY AUTHORITY OF NORWAY

Report

Information on climate-related matters in annual financial reports

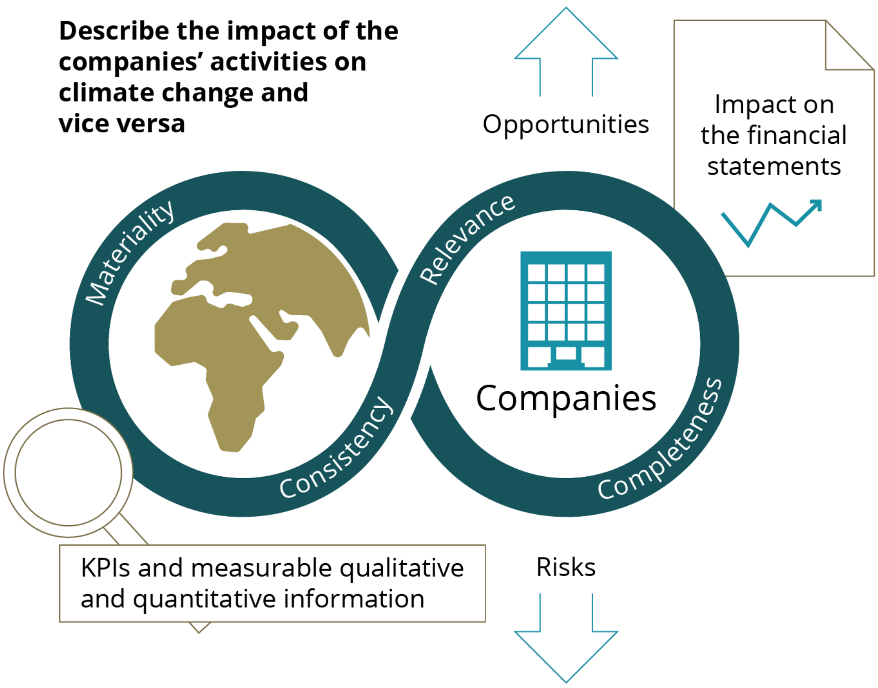
Contents

Introduction

Climate change poses a significant risk to companies, markets and society as a whole.

Costs related to climate change are associated with the effects of rising temperatures and measures to mitigate these effects. It is therefore customary to distinguish between costs related to physical climate changes and costs related to the transition to a low-carbon society. Climate risk thus refers to the uncertainty posed both by physical climate changes (physical risk) and by countermeasures and technological developments (transition risk).

There is strong focus on the need for good reporting of climate-related information. Reporting of climate-related information enables the company's stakeholders[1] to understand the risks and opportunities facing the company. A stated goal to reduce the company's carbon imprint and to report this in a good way may contribute to lowering the company's cost of capital and to attracting a more diversified investor base. As climate change is receiving increasing attention, good reporting in this area will be essential for succeeding in the transition to a low-carbon society.



Specific and measurable qualitative and quantitative information and key performance indicators (KPIs) help stakeholders assess whether the company is managing climate-related matters and climate risk in a good way. The information should be presented in a consistent and logical manner, with a clear link to financial information wherever relevant. The information provided should be relevant and material and give a balanced and complete description of the impact of the company's activities on climate change, and vice versa.

[1] By 'stakeholders' is meant all parties that have an interest in the company, for example investors, customers, suppliers, employees, authorities, consumers, special interest organisations, local communities and others.

Climate-related matters are also of relevance for companies' financial statements. The risks and opportunities may affect the value of assets and liabilities, as well as companies' financial performance, and be relevant when estimating future cash flows. The information provided in the financial statements must be based on users' need to understand the relevance and impact of climate-related matters on the financial statements.

As part of the audit, the auditor must assess the extent to which the company is exposed to climate risk and how climate risk affects financial reporting. Auditors and audit firms play a key role in assessing whether climate risk and climate-related matters are adequately taken into account when preparing the annual financial statements.

Finanstilsynet has assessed the information on climate-related matters provided in a selection of annual financial reports for 2021 and the auditors' work in this field.

Sample and implementation of the thematic review

The thematic review comprises eleven companies with shares listed on Oslo Børs. The companies operate in the energy, manufacturing, materials, consumer discretionary and real estate sectors.[2]

The sample includes companies for which climate-related matters are assumed to be material. When selecting companies, Finanstilsynet has also focused on their size and has ensured that several audit firms are included. In the sample, four of the large audit firms are auditors for one or more of the companies.

The thematic review is based on a review of the companies' annual financial reports for 2021:

- Climate-related information provided outside the annual financial statements is assessed in relation to the requirements of Section 3-3 c of the Norwegian Accounting Act, which following the legislative amendments on 1 July 2021 has been aligned with EU Directive 2014/95/EU[3] concerning disclosure of non-financial information (NFRD). The NFRD was not fully applicable in Norway for the 2021 reporting year.
- Climate-related information in the annual financial statements is assessed in relation to the international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB).

The information in the annual financial reports is assessed from a user point of view, focusing on whether the information provided is relevant, consistent, complete and material. Finanstilsynet's thematic review does not verify the information on climate-related matters provided in the companies' annual financial reports.

The thematic review also covers how auditors address climate-related matters as part of their statutory audit of the annual financial statements, certain aspects of the

[2] The classification into sectors corresponds to the one used at Oslo Børs.
[3] Directive 2014/95 EU (NFRD)

assurance of sustainability information and the audit firm’s policies and procedures. The assessment of the auditor's work is based on the requirements set out in the Auditors Act and auditing standards.

Finanstilsynet prepared questionnaires that were completed by the audit firms and audit teams. In addition, audit files were obtained, and relevant areas were reviewed. Finanstilsynet has held meetings with some of the audit teams and with all four audit firms.

Finanstilsynet’s observations

Finanstilsynet expects the increased focus on climate-related matters in regulations currently under development and among stakeholders to be reflected in the companies' reporting and in the auditors' work.

The report from the thematic review is divided into three sections. The first section deals with climate-related information provided outside the annual financial statements in the companies' annual financial reports, while the second section deals with climate-related information provided in the companies' annual financial statements. The third section deals with the work of the auditors.

Factors that Finanstilsynet considers to be of significance to the companies’ reporting of climate-related information are described below. Finanstilsynet's observations are also summarised. This may be useful for companies and their auditors in their further efforts to ensure that future reporting on climate-related matters provides relevant, consistent, complete and material information.

Climate-related information provided outside the financial statements

> The discussion of climate risk should be company-specific with a clear link to financial information wherever relevant. A general discussion of climate risk that is not linked to the company's activities should be avoided. If climate risk is not considered to be a material risk for the company, this should be clearly explained.

All the companies have discussed climate risk, but the information provided is often too general and not related to the company's activities. The companies have provided little information about financial consequences, and this can make it challenging for users of the reporting to understand how the risk affects the company's development, performance and position.

> The description of climate opportunities should be specific and extensive enough for the user to understand the opportunities and their impact on companies' operations. Companies should be transparent when reporting the scope of climate opportunities available to them.

Most of the companies have described climate opportunities, but it is often difficult to understand the opportunities and their impact on the companies' operations. Several of the companies have provided a comprehensive description of climate opportunities and green business in their reporting, without clearly stating that this activity currently constitutes a small part of their total operations. This can be misleading for users of the information.

> The company's overall climate-related targets should be divided into sub-targets with clear time horizons. The targets should be supported by a description of what they are based on and how they can be achieved and followed up.

All the companies have set overall strategic climate-related targets, such as net zero emissions by 2050 and a 50 per cent reduction in emissions by 2030, but most of them fail to provide clear information on how the targets can be achieved. Furthermore, several of the companies have not specified the emission scopes the targets are linked to (scope 1, 2 or 3[4]), and few of the companies have divided their overall targets into sub-targets. Several of the companies have linked their strategic targets to scope 2, despite the fact that the major part of their emissions is scope 3 emissions. This was under-communicated by several of the companies.

> Climate-related KPIs should be presented in a table in the same section and should be integrated with other information on climate-related matters. KPIs should be linked to the company's overall climate-related targets.

All the companies have included a table presenting climate-related KPIs in their reporting. The companies generally do not supplement the KPIs with qualitative analyses of developments in the KPIs. Few of the companies have a clear link between the KPIs and their climate-related targets.

Climate-related information in the financial statements

> Companies must assess the need to provide information on climate-related matters in their financial statements. This is particularly relevant for companies with significant climate exposures and companies that provide extensive descriptions of climate-related matters outside their financial statements.

More companies than before have provided information about climate-related matters. Nevertheless, some companies with significant climate exposure have not provided information on climate-related matters in their annual financial statements.

[4] The Green House Gas Protocol (GHG Protocol) has divided greenhouse gas emissions into three scopes, which are referred to as scopes 1, 2 and 3 in the thematic review. See also section 1 'Climate-related targets and KPIs'.

> Information provided on climate-related matters in the financial statements must be company-specific, relevant and complete. Companies must ensure that the information enables users to understand and assess the impact of climate-related matters on their financial statements.

Several of the companies have provided incomplete information about climate-related matters in their annual financial statements.

- Four of the companies consider climate-related matters to be a source of estimation uncertainty, but only one of these fully complies with the disclosure requirements in IAS 1.125 and IAS 1.129.
- The companies have generally not found it necessary to provide information on climate-related matters pursuant to IAS 1.122 and/or IAS 1.112 (c).
- Disclosures on impairment testing in accordance with IAS 36 was the most frequent and extensive information provided in the companies' financial statements but was incomplete for several of the companies.
- Few of the companies have provided disclosures on climate-related matters when reviewing assets' useful life.
- There is reason to question whether more companies should have provided disclosures on research and development in accordance with IAS 38.126, IAS 1.112 (c) and/or IAS 1.31.
- There is reason to question some of the companies' compliance with the requirements for information on operating segments pursuant to IFRS 8 and the disaggregation of revenue pursuant to IFRS 15.114.

> Companies must ensure that there is sufficient consistency and coherence between the financial statements and the information provided on climate-related matters outside the financial statements.

Several of the companies have given extensive descriptions of climate-related matters outside their annual financial statements, while only general or no information is included in their annual financial statements. Finanstilsynet also observes several cases where specific information provided outside the annual financial statements can be assumed to affect the annual financial statements, but where the companies have not provided relevant information in the annual financial statements.

Auditing and assurance of climate-related information

> The auditor must have sufficient knowledge of climate risk to have clear expectations as to which climate risks the company should have assessed. The auditor must be aware of factors that may indicate possible misstatement as a result of climate risk that the company has failed to identify or to assess properly.

In several of the audit engagements, there is no clear conclusion in the audit plan as to whether climate risk may or may not constitute a risk of material misstatement. The consequence may be that a risk that should have been part of the evaluation of an asset or liability is not taken into consideration in the audit. In Finanstilsynet's opinion, significant improvements are required in the auditor's assessment and documentation of how climate risk affects financial reporting.

> Climate-related information in the annual financial statements is material if the information, including the omission of relevant information, can be expected to influence the financial decisions made by users of the annual financial statements. If the company is affected by climate change, the auditor must consider whether this should be reflected in the financial statements.

The thematic review shows that the auditors have made few specific assessments of whether the notes contain sufficient information to enable users of the financial statements to understand the assumptions concerning climate risk that form the basis for value measurement in the financial statements.

> The statutory auditor must have sufficient competence in the underlying subject matter to be able to assume responsibility for assurance conclusions in the sustainability area and must ensure that the persons who are to perform the engagement collectively have the appropriate competence.

The thematic review shows that specialists have been used to varying degrees as members of the audit team. The review also shows that the competence of the persons performing the assignment, including the statutory auditor, is rarely documented. The audit firms have varying internal competence requirements for the assurance of sustainability information.

Outcome of the thematic review

Section 1 – climate-related matters – outside the annual financial statements

Reporting of climate-related matters in the annual financial report is regulated by the Norwegian Accounting Act, Section 3-3 c, which implements the NFRD. This means, among other things, that all listed companies are required to report in accordance with the requirements of the NFRD for the 2022 reporting year. In 2017, the European Commission published non-binding guidelines for reporting according to the NFRD[5], which were supplemented by non-binding guidelines for reporting climate-related information in 2019[6]. The guidelines are intended to guide companies in their reporting of climate-related information in accordance with the requirements of the NFRD.

However, the regulatory climate is changing. In April 2021, the European Commission presented a proposal for a new amending directive on companies' sustainability reporting (Corporate Sustainability Reporting Directive, CSRD)[7], amending the EU Accounting Directive, Reporting Directive, Audit Directive and Audit Regulation. On behalf of the European Commission, the European Financial Reporting Advisory Group (EFRAG) was asked to prepare a proposal for mandatory sustainability standards. The standards will be tailored to the EU regulation, while being based on and contributing to international standardisation initiatives. The CSRD was recently finally adopted in the EU but will not enter into force in the EU until the 2024 reporting year, with a gradual extension of its scope to include more reporting entities. The Securities Law Committee has been mandated to assess how the directive can be implemented in Norway.

In December 2021, the Storting (Norwegian parliament) adopted a new Act on sustainable finance that implements the Taxonomy Regulation[8] and the Sustainable Finance Disclosure Regulation[9] in Norwegian law. The taxonomy is a classification system enabling financial markets to channel capital into profitable sustainable activities and projects. In Norway, the Act will not enter into force until the two regulations have been incorporated in the EEA Agreement. The Act is not expected to enter into force until 2023.[10]

In this section of the report, Finanstilsynet summarises its assessments of climate-related information provided outside the financial statements in the companies' annual financial reports. Finanstilsynet has assessed the information in the annual reports in relation to the new requirements in Section 3-3 c of the Accounting Act / NFRD and appurtenant non-binding guidelines for reporting climate-related information. This approach has been chosen even though the NFRD was not fully applicable in Norway for the reporting year 2021. The NFRD has been in force in

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[5] European Commission – Guidelines on non-financial reporting
[6] European Commission – Guidelines on non-financial reporting: Supplement on reporting climate-related information
[7] European Commission – Corporate sustainability reporting
[8] Regulation 2020/852 EU (Taxonomy Regulation)
[9] Regulation 2019/2088 EU (Sustainable Finance Disclosure Regulation)
[10] Government.no – Sustainable Finance Act (in Norwegian only)

the EU since 2014, with effect from the 2018 reporting year. Finanstilsynet expects companies to take this into account and to be prepared to report in accordance with the new requirements. In this thematic review, Finanstilsynet has taken into consideration that companies' stakeholders increasingly request information on climate-related matters, and that good reporting is necessary to understand the risks and opportunities faced by the company.

Finanstilsynet has assessed all the information provided by the company on climate-related matters throughout its annual financial report, excluding the financial statements, in relation to the new requirements. For companies that have included the information in another publicly available document, cf. Section 3-3 c, eighth subsection of the Accounting Act, this document is also part of the assessed information.

Section 3-3 c of the Accounting Act / NFRD requires companies covered by the provision to provide information on environmental matters, social and employee-related matters, gender equality and non-discrimination, respect for human rights, anti-corruption and bribery matters to the extent necessary for an understanding of the company's development, performance, position and impact of its activities. Climate-related information is included in the 'environmental matters' category.

General information about the annual financial reports

Pursuant to Section 3-3c of the Accounting Act / NFRD, information on climate-related matters shall be provided in the management report or in another publicly available document. If the information is provided in a separate report and the company is required to submit a management report, the management report shall specify where the document is publicly available. Seven of the eleven companies in the thematic review provided such information in their annual report, while four companies provided the information in another publicly available document. All the companies that provided the information in another publicly available document referred to the document as 'sustainability reporting'. The introduction of the CSRD will entail a change as the information can only be provided in the management report, and it will no longer be allowed to provide the information in another publicly available document.

In the annual financial reports reviewed by Finanstilsynet, it is sometimes unclear what constitutes the management report. In several cases, it is also unclear what constitutes a corporate social responsibility statement. The companies often presented information on climate-related matters elsewhere than in the management report, and several of them presented this information in various places in the report. When the companies have provided climate-related information elsewhere in the annual report than in the management report, they have to varying degrees specified in the management report where the information can be found. The companies must be aware of the requirements set out in Section 3-3 c, subsection 8 of the Accounting Act with respect to where the information is to be provided.

If the companies present the information in another publicly available document, this must be published no later than at the time the management report is published. All the companies that have provided the information in another publicly available document have published the information at the same time as the annual financial report.

The extent of information provided by companies on climate-related matters has increased considerably in recent years. On average, the companies in the thematic review used the word ‘climate’ 127 times in their annual financial reports, while the median is 112 times. The fact that the extent of information is increasing does not necessarily indicate that it is of higher quality. Finanstilsynet often observes that general information on climate-related matters that is not company-specific is repeated several times in the reporting.

Companies covered by Section 3-3 c of the Accounting Act may provide information on reportable matters on the basis of national, EU-based or international reporting frameworks. If the company has relied upon a framework, it should be specified. All the companies in the thematic review use such frameworks. Most of the companies use more than one framework or elements from several frameworks in their reporting. The Global Reporting Initiative (GRI) was used by all the companies included in the thematic review, and the TCFD (Task Force on Climate-Related Financial Disclosures) was used by ten of the companies.

Five of the eleven companies in the thematic review reported information on a voluntary basis in accordance with Article 8 of the Taxonomy Regulation. These represent approximately 45 per cent of the companies in the thematic review, which is a higher share than for all listed companies, where approximately 22 per cent reported such information.[11]

Materiality and companies’ internal processes

A thorough materiality assessment is necessary to ensure that climate-related information provided in the reporting is relevant to the company and its stakeholders. The materiality assessment should be transparent and rank the climate-related matters identified by the company in a systematic manner. Efforts to identify material climate-related matters should be endorsed by the company's board of directors and management.

When assessing climate-related and other sustainability matters, the materiality perspective is twofold (double materiality). The company must consider both financial materiality and the company's environmental and societal footprint. Materiality with respect to climate-related matters thus has a broader scope than the financial materiality we are familiar with from financial statements. The two materiality perspectives will increasingly overlap, as positive or negative impacts in the long run could result in business opportunities or risks that are of financial significance to the company.

[11] Information from the Altinn form ‘Reporting from entities subject to financial reporting supervision’ (KRT-1003)

Requirements in the Accounting Act, Section 3-3 c / NFRD	Recommendations in the European Commission's non-binding guidelines
Information shall be provided to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activities.	- A key principle for good reporting is that the information provided by the company is material. - The NFRD introduces a new element in the materiality assessment, i.e. the impact of the company's activities (double materiality). - If climate-related matters are material from one of the perspectives in a double materiality analysis, the company should report the information proposed in the guidelines. - When assessing materiality, companies should consider to use a longer time horizon than traditionally used for financial information. - When assessing materiality, companies should consider their whole value chain, both upstream in the supply chain and downstream.
The non-financial statement shall contain a description of the policies pursued by the undertaking in relation to environmental matters, including due diligence processes implemented.	The companies should describe: - the company's climate-related policies, including any plans to mitigate climate change and adapt its activities. - the board of directors' oversight of climate-related risks and opportunities. - management's role in assessing and managing climate-related matters and explain the rationale for the approach.

Ten of the eleven companies in the thematic review have described the company's processes for identifying, assessing and managing material climate-related matters. The descriptions vary in scope. The only company that has not described its processes only states that it has a process for identifying climate-related matters but does not provide further information about the process. This is not considered sufficient based on the requirement in Section 3-3 c b) of the Accounting Act.

Several of the companies that have provided such descriptions stated that the process is integrated in the company's other risk management processes and has been endorsed by the company's board of directors. Some of the companies also stated that the process of identifying material climate-related matters is based on close dialogue with the company's stakeholders.

All the companies have carried out materiality assessments of climate-related matters. The companies have presented the materiality assessments by either using materiality matrices (five companies) combined with qualitative descriptions and/or by presenting material topics (nine companies), including climate-related matters. The use of tables and charts can be useful, giving users a well-structured presentation.

All the companies have concluded that climate-related matters are material to the company, and ten of the eleven companies have provided qualitative information to support this. When climate-related matters are defined to be material, companies must provide information that is relevant, consistent, complete and in accordance with the disclosure requirements in Section 3-3 c of the Accounting Act / NFRD.

Climate-related risks and opportunities

Costs related to climate change are associated with the effects of global warming and with measures to mitigate the changes. Climate risk refers to the uncertainty posed both by physical climate changes (physical risk) and by the transition to a low-carbon society in the form of measures and technological developments (transition risk).

Climate change is relevant for companies in all industries and is thus also relevant for the companies' reporting. In order to achieve the targets of the Paris Agreement, a significant reallocation of resources is required, which means that companies may face a wide range of risks and opportunities. Companies whose activities contribute negatively to climate change are more exposed to transition risk than other companies, while exposure to physical risk is not directly related to whether the company's activities have a negative climate impact.

Requirements in the Accounting Act, Section 3-3 c / NFRD	Recommendations in the European Commission's non-binding guidelines
The statement shall include the principal risks related to environmental matters linked to the undertaking's operations. Where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts on the environment, and how the undertaking manages those risks, shall be disclosed.	The companies should describe: - the company's processes for identifying and assessing climate-related risks in the short, medium and long term, and how the company defines the time horizons. - the principal climate-related risks the company has identified over the short, medium and long term throughout the value chain, and any assumptions that have been made when identifying these risks. - processes for managing climate-related risks, and how the company is managing the particular climate-related risks that it has identified. - how processes for identifying, assessing and managing climate-related risks are integrated into the company's overall risk management. An important aspect of this description is how the company determines the relative significance of climate-related risks in relation to other risks. - the link between the principal climate-related risks and financial KPIs.
The non-financial statement shall include a brief description of the undertaking's business model.	The companies should describe: - the impact of climate-related risks and opportunities on the company's business model, strategy and financial planning.

Description of climate-related risks

Once the companies assess that climate-related matters are material to them, they are expected to discuss climate-related risks in their reporting. If climate-related matters have been identified as a material topic but are not considered to pose a material risk, the company should explain this.

All the companies in the thematic review have discussed climate risk, but there are wide variations in the extent and relevance of the information provided.

Five of the companies have presented climate risks in a well-structured manner under the same heading in their description of the company's principal risks, and two companies have presented the risks in tables. However, the way the risks are presented has no significant bearing on whether the information is relevant and sufficient. Several of the eleven companies have provided limited and non-company-specific information on climate risk, despite the fact that the companies have considered climate-related matters to be material to the company and have given an extensive general description of the topic in their reporting.

Only six companies have categorised identified climate risks into physical risk and transition risk in their discussions of principal risks.

Only three companies have specified and defined the time horizons used for climate risks. Only one of the three companies has linked the time horizons to specific risks. Information about time horizons that have not been linked to identified risks is of limited value to users of the information.

Other examples of inadequate descriptions:

- In their discussion of climate risk, several of the companies have only explained what climate risk is, without saying anything about its relevance to the company and its operations.
- One of the companies has referred to a chapter in its annual financial report for a discussion of climate risk, but this chapter contains no information on climate risk.
- One company has mentioned ‘flooding’ and ‘extreme weather’ in a list of examples of various risks, without elaborating on how this may affect the company's operations.
- One company has written that ‘climate change entails transition risks such as changes in market preferences, legislation and technology’, without specifying the consequences this may have for the company's operations.
- Few of the companies have linked relevant KPIs to identified climate risks.
- The companies have provided little information about the financial consequences of identified climate risks.
- Few of the companies have provided an assessment of the probability of climate risk materialising.
- Few of the companies have described the relative importance of identified climate risks compared with other risks.
- One company with operations only in carbon-intensive industries, without restructuring plans, has provided little information about the risks associated with continuing its operations well into the future.

With respect to the companies' management of identified climate risks, nine of them have provided information on this, while two have provided no information. Several of the companies have provided inadequate information:

- One company has mentioned 'competence building' and 'technological development' as measures to mitigate risk without providing further details and how it will help the company mitigate risk.
- One company has provided some general information about its priority areas but has provided little information about the specific measures taken by the company. In addition, the company has provided no information about parts of the identified climate risks.
- One company has stated that it identifies and manages climate risk, and that this is part of its overall risk management, without saying more about what it entails. The same company has concluded that its risk assessment shows that its systems are sound but says nothing more about the assessment made, or what forms the basis for its conclusion.

On the whole, the information on risk management provided by the companies is inadequate, too general and rarely linked to the individual identified climate risk.

Some companies have published CDP (Carbon Disclosure Project) reports. These are not included in the companies' annual financial reports but are separate reports that the companies have published on their websites. The information in the CDP reports relating to the identification, management and monitoring of climate risks is more detailed and company-specific than the information provided by the companies in their annual financial reports. In the CDP reports, climate risk is also more often divided into specific risks, with clear time horizons, assessments of probability and information on financial consequences. The contents of the CDP reports show that companies possess more detailed and relevant information on climate risks than they present in their annual financial report. One of the companies has also provided a far more detailed and company-specific description of climate risk on its website than in its annual financial report.

> All the companies in the thematic review have discussed climate risk, but the information provided is often too general and not related to the company's activities. The companies have provided little information about financial consequences, and this can make it challenging for users of the reporting to understand how the risk affects the company's development, performance and position.

Description of climate-related opportunities

All the companies in the thematic review have described climate-related opportunities and green business areas. Companies operating in carbon-intensive industries that are not planning to change their business model to greener business areas have also identified and discussed climate-related opportunities. Several of the companies have described large ambitions, including their plans to help facilitate the transition to a low-carbon economy, but often have not provided sufficient information about how the company will do this and what consequences it will have for the company's performance, development and position.

Several of the companies have described the climate-related opportunities that arise if large parts of their operations are restructured to include more green business. A common denominator is that few of the companies have stated that there may also be risks associated with the restructuring of their operations.

Few of the companies have provided qualitative and quantitative information on, for example, the need for investments in connection with restructuring and climate opportunities. One company has stated that it has no great need for new technology and facilities to adapt its activities but has provided no further information on the basis for this conclusion, which would be relevant information for users.

Several of the companies have provided a comprehensive description of climate-related opportunities in their reporting, without clearly stating that such activity currently constitutes a small part of their total operations. This can be misleading for users of the information. As an example, one company has provided extensive information about the planned restructuring of its business model to include more green activities, stating that this business area will shortly account for a significant share of its total operations. The fact that such activities currently account for a negligible share of its total operations is not evident from the company's reporting. The company has given its green business area a name that can easily be confused with the name of one of the company's segments that includes non-green activities. This may mislead users to believe that the company has a far larger share of green activities than is actually the case.

The companies' descriptions of climate-related opportunities in their CDP reports are also more specific than in their annual financial reports. This also applies to the quantification of the opportunities.

> Most of the companies in the thematic review have described climate opportunities, but it is often difficult to understand the opportunities and their impact on the companies' operations. Several of the companies have provided a comprehensive description of climate opportunities and green business in their reporting, without clearly stating that this activity currently constitutes a small part of their total operations. This can be misleading for users of the information.

Climate-related targets and KPIs

A stated goal to reduce the company's carbon imprint and to report this in a good way may contribute to lowering the company's cost of capital and to attracting a more diversified investor base. Significant combined efforts to achieve the overall climate targets of the Paris Agreement are required to ensure the transition to a low-carbon society. As part of their efforts to fight climate change, companies are increasingly committing to setting overarching strategic climate-related targets, such as net zero emissions by 2050. The World Resource Institute (WRI) has developed a Greenhouse Gas Protocol which categorises greenhouse gas emissions into three scopes.

Scope 1

Direct greenhouse gas emissions from sources owned or controlled by the company

Scope 2

Energy-related, indirect greenhouse gas emissions from sources of energy purchased and used by the company

Scope 3

All other indirect emissions that occur in the company’s value chain, including both upstream and downstream emissions. Such emissions are a consequence of the company's activities, but stem from sources that are not owned or controlled by the company

The use of KPIs can be an effective way of communicating and can help quantify overall climate-related targets and to link the targets to financial performance. KPIs can also be tested and verified as data points and are thus suitable for measuring performance over time. In order to enable the company's stakeholders to put the KPIs in context, they should be linked to the company's targets and compared with previous years' financial performance. It is also important that the KPIs are transparent, so that it is clear to stakeholders how they are arrived at. This can be achieved by providing a good definition of the KPIs, explaining why the selected KPIs are relevant for the company, show the calculation method and underlying assumptions and describe which part of operations is covered by the KPIs.

Requirements in the Accounting Act, Section 3-3 c / NFRD	Recommendations in the European Commission's non-binding guidelines
The statement shall include the outcome of the company's policies in relation to environmental matters.	The companies should describe: - the outcomes of the company's' policy on climate change, including the performance of the company against the indicators used and targets set to manage climate-related risks and opportunities. - the development of greenhouse gas emissions against the targets set and the related risk over time. - how the performance of the company with regard to climate influences its financial performance, where possible with reference to financial KPIs.
The statement shall contain non-financial key performance indicators relevant to the particular business.	The companies should: - disclose key performance indicators relevant to their particular business. The European Commission's guidelines provide examples of indicators of greenhouse gas emissions that the companies should consider presenting. - integrate indicators with other disclosures. However, it is also considered good practice to publish a table that presents all indicators in one place.

The non-financial statement shall contain a description of the policies pursued by the undertaking in relation to environmental matters, including due diligence processes implemented.	The companies should describe: - any climate-related targets the company has set as part of its policies, especially any greenhouse gas emission targets, and how company targets relate to national and international targets and to the Paris Agreement in particular.

Description of overall climate-related targets

All the companies in the thematic review have committed to reducing their greenhouse gas emissions, and all have set overall targets such as a 50 per cent reduction by 2030 and/or net zero emissions by 2050.

The targets were often highlighted and repeated in several places in the reports. However, the companies have provided limited information about how the targets affect the company's operations and about their financial consequences. The companies have also provided limited information on how the targets can be achieved and what measures are planned. For example, while some companies' emissions are largely in scope 3, they have net zero emissions (including scope 3) as their overall target for 2050. However, the specific measures presented by the companies to achieve the targets mainly represent reductions in scope 1 and 2 emissions. The lack of information makes it difficult for stakeholders to assess how realistic the companies targets really are and whether the planned measures will adequately support the set targets.

Although the overall targets were highlighted and repeated in several places in the reports, the underlying assumptions were often less clear.

- Information on the emission scope to which the target was linked was not easy to find in the reporting of several of the companies.
- A number of the companies linked their overall target to scope 1 and/or 2, despite the fact that their emissions are largely in scope 3. The fact that the targets apply to scope 1 and/or 2 emissions was often stated only once and in a footnote, while the target was repeatedly referred to as a net zero target without stating that scope 3 emissions were not included.
- The companies' overall targets may appear uniform as the terms used is the same across companies ('net zero emissions', 'minus 50 per cent by 2030'). On the other hand, the actual targets vary, and it can therefore be difficult for stakeholders both to understand what they actually entail and to make comparisons across companies.

The companies should therefore seek to be transparent and clearly communicate both the emission scope and the other assumptions underlying the targets. The companies should also specify whether their targets are based on scientific models or the company's own models.

Since the overall climate targets have very long time horizons that often extend up to 2030 and 2050, it may be necessary to divide the targets into sub-targets with shorter time horizons. This helps make the targets more tangible, both for the company's management in its efforts to achieve the long-term target and measure progress, and for the company's stakeholders, who will be able to assess progress towards target attainment. Few of the companies have divided the overall targets into sub-targets with a shorter time horizon, and few of the companies have reported on their progress towards target attainment and on whether their progress is in line with its original plans. With respect to the companies that have provided information on progress, it is generally limited to one sentence stating that the company is well on its way to reaching net zero emissions in 2050.

Analyses of progress towards the companies' overall targets should also be given greater weight in the reporting than currently observed by Finanstilsynet, and the analyses should focus on the company’s current emission status. As an example, one of the companies has a sub-target to reduce greenhouse gas emissions by 10 per cent by 2025. The company has provided emission data for the period 2017–2021 in a table. The table showed that emissions in 2021 increased compared with 2020. Intensity data showed that emissions per tonne of production have been stable over the past five years. Based on past history and the fact that the company aims for a 10 per cent reduction over the next four years, the company should have provided more information about its progress towards the target.

A few of the companies showed graphical presentations of a ‘road map towards net zero’. Combined with qualitative descriptions of how this can be achieved, the investments required and quantified sub-targets, this represents a well-structured way of providing information. In Finanstilsynet’s opinion, the companies should specify the emission reductions they aim to achieve by cutting their own emissions and buying carbon offsets, respectively. The companies should also specify which emission reductions are permanent and which emissions are temporary. Few of the companies have provided such information.

All the companies reported their base year for emission data, which varies greatly (2005–2019). The introduction of the CSRD and related standards is expected to entail a change, as specific requirements will be set for the base years that are allowed to be used.

With respect to climate-related targets, the description provided in the companies' CDP reports is also more specific than the description in the annual financial reports in terms of qualitative descriptions of the targets, the division into specific emission targets with clear time horizons, and status reports on the progress towards target attainment.

> All the companies in the thematic review have set overall strategic climate-related targets, such as net zero emissions by 2050 and a 50 per cent reduction in emissions by 2030, but most of them fail to provide clear information on how the targets can be achieved. Furthermore, several of the companies have not specified the emission scopes the targets are linked to (scope 1, 2 or 3), and few of the companies have divided their overall targets into sub-targets. Several of the companies have linked their strategic targets to scope 2, despite the fact that the major part of their emissions is scope 3 emissions. This was under-communicated by several of the companies.

Description of climate-related KPIs

All the companies in the thematic review have accounted for their greenhouse gas emissions. They have all provided scope 1 and 2 emission data. Seven of the eleven companies have also provided complete scope 3 emission data. Three companies have provided data for parts of their scope 3 emissions, and all three have accounted for this in their reports. One company has not provided information on scope 3 emissions, nor any information on why this is so. Finanstilsynet has observed that other companies operating in the same industry have provided such information.

The companies have provided emission data in several places in their reports in connection with the discussion of climate-related matters. All the companies have also included a table that presents all key KPIs for emissions, energy consumption and other climate-related matters. All the companies have presented historical data and comparable figures for the KPIs. Several of the companies have presented both absolute and intensity emission KPIs.[12]

However, few of the companies have linked their KPIs to their targets or to specific measures to achieve the targets. The KPIs were also rarely supplemented by qualitative analyses of developments in the KPIs. Qualitative analyses should be provided, especially in cases where the KPIs show a negative trend, and/or do not develop as required for the company to reach its overall targets. Finanstilsynet has observed the following examples of emission data where the companies have failed to provide such analyses:

- One company's emission data showed stable emissions over the last five years, while the company's target is a significant reduction by 2030.
- One company has presented carbon capture as a priority area and provided data for this five years back. While carbon capture was (fairly) constant up to and including 2020, the figure for 2021 was significantly lower than in the preceding years.
- One company claimed to be an industry leader when it comes to low emissions through its production, highlighting low carbon intensity to support this. Carbon intensity was shown in a table with historical data, which showed that the company's carbon intensity increased in 2021.

By not explaining the reasons behind developments in the KPIs and the measures needed to ensure that they develop as required, it becomes difficult for the company's stakeholders to assess whether the company's overall targets and any sub-targets are realistic.

There is also variation in the extent to which the companies have provided sufficient information about how the KPIs are calculated and about the assumptions and any limitations that have been applied. Few of the companies have presented emission data broken down by business area or geographical area.

[12] An absolute emission KPI refers to the total amount of emissions emitted, while an intensity emission KPI is a normalised metric that sets a company's KPI relative to some sort of economic output (e.g. number of employees, income, production volume, etc.).

> All the companies in the thematic review have included a table presenting climate-related KPIs in their reporting. The companies generally do not supplement the KPIs with qualitative analyses of developments in the KPIs. Few of the companies have a clear link between the KPIs and their climate-related targets.

Section 2 – climate-related matters – annual financial statements

The annual financial statements shall provide users with relevant information on the material impacts of climate-related matters on the company's business model, cash flows, financial position and financial performance. There is no separate IFRS standard that covers climate-related matters in the financial statements, but existing IFRS standards provide a framework for incorporating climate-related matters in companies' financial reporting when such matters are material.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by primary users on the basis of the annual financial statements. In the article 'IFRS Standards and climate-related disclosures'[13], IASB board member Nick Anderson elaborates on how companies should apply the guidance on how to make materiality judgements in 'IFRS Practice Statement 2 – Making Materiality Judgements' to climate-related matters. The importance of climate risk to investors' decision-making processes is highlighted. Information on such risk may be considered material, also based on qualitative factors and regardless of whether the amount of the effect on financial reporting is limited.

In this regard, it should be noted that it may be necessary for a company to specify that it is not exposed to climate risk. Example K in Practice Statement 2 illustrates a scenario where information on a bank's very limited exposure to a particular lending risk is assessed to be material. The example can be transposed to a company's exposure to climate risk and the need to disclose that the company is not exposed to climate risk.

The IASB has published educational material which[14] provides a number of examples illustrating that current IFRS standards may require companies to consider the effects of climate-related matters when applying the principles and providing disclosures in accordance with these standards.

When reviewing the companies' annual financial statements, Finanstilsynet has assessed disclosures and the accounting treatment of climate-related matters in relation to a number of IFRS standards.

[13] Nick Anderson – IFRS Standards and climate-related disclosures
[14] IASB – Effects of climate-related matters on financial statements

General information about the annual financial statements

All companies in the thematic review operate in industries that, in Finanstilsynet's view, are exposed to climate risk. The degree of exposure varies, partly based on industry affiliation and company-specific aspects. As indicated in section 1 of the report, all the companies in the thematic review defined climate-related matters to be material in the information provided outside the financial statements.

Information on climate-related matters in the annual financial statements

Eight of the eleven companies in the thematic review have provided information on climate-related matters in their annual financial statements. The extent and level of detail of the information provided by the companies vary considerably, from one to two pages of information to a general reference to climate-related matters with no further detail.

- One company has stated that climate-related matters are immaterial in the context of the annual financial statements.
- Five companies have provided information on climate-related matters relating to specific assets/liabilities.
- Two companies have provided both information on climate-related matters relating to specific assets/liabilities and more general information relating to the financial statements.

With respect to specific assets/liabilities, the most frequent and extensive information provided by the companies concerned assessments pursuant to IAS 36 *Impairment of Assets* (impairment assessment).

With respect to general information on climate-related matters in the context of the financial statements, one company stated that its climate strategy and climate targets were taken into consideration when preparing the annual financial statements. The information was provided in the note which describes the basis for preparing the annual financial statements. Such information can help highlight the consistency between the annual financial statements and the information provided outside the annual financial statements.

The extent and nature of the information companies are required to provide on climate-related matters in the financial statements will vary and must be considered by the individual company when preparing the financial statements. Relevant assessment factors may be industry-specific conditions, type of business, identified climate risks and opportunities, restructuring needs, the company's strategy and emission targets, technological developments and future investments.

Half of the eight companies that disclosed information on climate-related matters in their annual financial statements provided very limited information. Moreover, it was not company-specific enough. The information was insufficient to enable users to understand the company's climate exposure, including that relating to a particular accounting item, and how climate-related matters were assessed and taken into account. Based on the companies' climate exposure and the information about climate-related matters provided outside the financial statements, the information in their financial statements is deemed to be incomplete.

The remaining four companies that disclosed information on climate-related matters in their annual financial statements provided company-specific and relevant information. The annual financial statements of these companies also have some shortcomings, but the information provided gives users a better basis for understanding and assessing the significance of climate-related matters for the annual financial statements.

Consistency and coherence

The companies must ensure that there is sufficient consistency and coherence between the financial statements and the information provided on climate-related matters outside the financial statements. This applies to:

- the information provided
- the extent of the information
- the assumptions used in accounting assessments

To ensure consistency, the companies should consider the prominence and extent of the information provided outside the financial statements. If a company provides an extensive description of climate-related matters outside the financial statements, it is reasonable to assume that such matters are also material in the context of the financial statements and thus described there as well. Several of the companies in the thematic review have given extensive descriptions of climate-related matters outside their annual financial statements, while only general or no information on such matters is included in their annual financial statements.

> More companies than previously have provided information on climate-related matters, but observations from the thematic review nevertheless show that
>
> - some companies with significant climate exposure have not provided information on climate-related matters in their annual financial statements.
> - several of the companies have provided incomplete information on climate-related matters in their annual financial statements.
> - several of the companies have given extensive descriptions of climate-related matters outside their annual financial statements, while only general or no information is included in their annual financial statements.

Disclosures according to IAS 1 Presentation of Financial Statements

For many companies, assessments concerning climate-related matters will be based on judgement, complicated and associated with a high degree of uncertainty. IAS 1 requires, among other things, information about important assessments and sources of estimation uncertainty.

Sources of estimation uncertainty

IAS 1.125 and IAS 1.129

IAS 1.125 requires that an entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The notes shall include details of the assets and liabilities' nature and their carrying amount. This means that there may be a need for information on assumptions related to climate-related matters.

According to IAS 1.129, the disclosures required in paragraph 125 shall be presented in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. Examples of the types of disclosures made:

- the nature of the assumption or other estimation uncertainty
- sensitivity information, including the reasons for the sensitivity
- the expected resolution of an uncertainty
- an explanation of changes made to past assumptions

Four of the eleven companies in the thematic review have considered assumptions about the future related to climate-related matters as a source of estimation uncertainty according to IAS 1.125. These represent approximately 36 per cent of the companies in the thematic review, which is a higher share than for all listed companies, where this share is approximately 5 per cent.[15] Below, Finanstilsynet discusses its observations concerning these four companies.

All four companies have provided information that clearly shows users that there is significant estimation uncertainty related to climate-related matters. All four companies have also provided information on which accounting items were affected by the estimation uncertainty. Some of the companies have stated that several accounting items were affected by the estimation uncertainty, and the areas that are most frequently mentioned are:

- impairment assessments of fixed assets, intangible assets and goodwill
- obligations related to decommissioning / asset retirement, clean-up and remediate environmental damage
- assessment of the useful life of fixed and intangible assets

The four companies have primarily provided information on estimation uncertainty related to impairment assessment according to IAS 36 but have stated that other accounting items are also affected by estimation uncertainty. With respect to other accounting items, the companies have provided significantly less, and in some cases no information apart from stating that climate-related matters have an impact on the item. In Finanstilsynet's view, such information is not sufficient, and it provides limited insight into the assumptions used by the company, how the company has taken the

[15] Information from the Altinn form 'Reporting from entities subject to financial reporting supervision' (KRT-1003)

estimation uncertainty into account, its impact on the annual financial statements and sensitivities.

When a company considers climate-related matters to be a source of estimation uncertainty and links the estimation uncertainty to various accounting items, Finanstilsynet expects the company to provide information in line with the disclosure requirements for all accounting items. Accounting items for which climate-related matters are relevant, but where the company has concluded that they do not fall in under the disclosure requirements set out in IAS 1.125 and 1.129, must be clearly distinguished from items where climate-related matters are considered to be a source of estimation uncertainty according to IAS 1.125.

It is highly uncertain how climate change will develop and how it will affect companies. Considerable judgement is required by the companies when assessing future prospects and estimates. For some of the four companies, it is, in Finanstilsynet's view, challenging for users to understand the assumptions used by the companies for climate-related matters.

IAS 1.125 (b) requires disclosure of the carrying amount of specific assets or liabilities where, as a result of climate-related matters, there is a significant risk of a material adjustment within the next financial year. The four companies have often referred to complete balance sheet items. As an example, one of the companies states that the estimation uncertainty relates to all fixed assets in the balance sheet. Finanstilsynet finds that for some of the companies, there is reason to question whether all assets/liabilities included in the accounting items referred to are subject to the estimation uncertainty, or whether the uncertainty applies only to a smaller group of assets/liabilities.

None of the four companies have provided information on changes to past assumptions, cf. IAS 1.129 (d). However, the reason for this may be that none of the companies have changed their assumptions. Only two of the four companies have presented sensitivities in accordance with IAS 1.129 (b).

> Four companies have assessed climate-related matters to be a source of estimation uncertainty. These four companies provide considerably more information than the other companies in the thematic review. However, in Finanstilsynet’s view, only one of the four companies fully complies with the disclosure requirements set out in IAS 1.125 and IAS 1.129.

Disclosures according to IAS 1.112 (c) and IAS 1.122

IAS 1.122 and IAS 1.112 (c)

IAS 1.122 requires disclosure of the judgements, apart from those involving estimations (cf. discussion of sources of estimation uncertainty above), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The companies must also consider the requirements in IAS 1.112(c), according to which the notes shall provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them. Information is relevant if it can reasonably be expected to influence decisions made by users. As discussed earlier, the materiality guidance in 'IFRS Practice Statement 2 – Making Materiality Judgements' should also be taken into account for climate-related matters.

One of the eleven companies in the thematic review has stated that climate-related matters are immaterial in the context of the annual financial statements. The information may have been provided voluntarily, but the company may also have concluded that it is necessary to provide such information in accordance with IAS 1.112(c) or IAS 1.122.

Users of the annual financial statements are increasingly requesting information from companies concerning climate-related matters. This, combined with the fact that assessments made by companies are often challenging and involve considerable judgement, is relevant for the companies' assessment of what information should be provided in the financial statements. An assessment that leads to companies concluding that climate-related matters are immaterial can also be challenging, require judgement and have a significant impact on the financial statements. When assessing climate-related matters, companies should be aware of:

- material impact with a longer time frame than within the next financial year.
- cases where users expect climate exposure, but where the company has concluded that there is no material exposure.
- Whether information about lack of exposure is considered to represent material information.

Three of the eleven companies in the thematic review have provided no information on climate-related matters in their annual financial statements. These three companies operate in industries and engage in activities that Finanstilsynet considers to be exposed to climate risk. The companies have also identified climate-related matters as material in the information provided outside the annual financial statements. If a company has stated, outside its financial statements, that climate-related matters are material to the company but has nevertheless concluded that climate-related matters are immaterial in the context of the annual financial statements, it may be useful for users if the company discloses this in the financial statements (negative confirmation) and justifies its conclusion.

Observations from the thematic review show that the companies have generally not found it necessary to provide information on climate-related matters pursuant to IAS 1.122 and/or IAS 1.112 (c).

IAS 36 Impairment of assets

Climate change is long term by nature. Although climate-related matters may also be relevant for assessments with a short time horizon, such matters are particularly relevant for long-term assessments. Assessments according to IAS 36 often entail estimation of future cash flows with a long or infinite time horizon, and are therefore an area where climate-related matters are expected to be of relevance to a number of companies.

IAS 36 Impairment of Assets

IAS 36 sets out requirements for when a company must estimate the recoverable amount of an asset to assess the need for impairment and what information must be provided in this context. According to IAS 36.9, an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. Climate-related matters may give rise to such indications.

If a company uses value in use to estimate the recoverable amount, IAS 36 requires, inter alia, that expectations about possible variations in the amount or timing of those future cash flows shall be reflected in the calculation (IAS 36.30(b)), and that the company shall base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions (IAS 36.33(a)). Companies must therefore consider whether climate-related matters may have an impact on these assumptions. IAS 36.44 also requires that in calculations of value in use, future cash flows shall be estimated for the asset in its current condition.

IAS 36.130 requires companies to disclose the events and circumstances that led to the recognition or reversal of the impairment loss, e.g. climate-related matters. In addition, companies are encouraged to disclose assumptions used to determine the recoverable amount of assets (cash-generating units) during the period (IAS 36.132). However, IAS 36.134 requires companies to disclose information for each cash-generating unit for which goodwill or intangible assets with indefinite useful lives are included in the unit's carrying amount.

This information includes but is not limited to:

- key assumptions to which the recoverable amount is most sensitive.
- a description of management's approach to determining the value(s) assigned to each key assumption, whether those values reflect past experience or are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.
- the period over which management has projected cash flows based on financial budgets/forecasts approved by management.
- the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts.
- the discount rate(s).
- sensitivity information – if a reasonably possible change in an assumption would cause the carrying amount to exceed the recoverable amount of the cash-generating unit.

Six of the eleven companies in the thematic review have provided information on climate-related matters in connection with impairment testing. The discussion in this section concerns these six companies. Five of the companies have provided information in connection with the mandatory testing of intangible assets with an indefinite useful life and/or goodwill. One company has provided information in connection with the testing of assets with a definite useful life. This company has regarded climate-related matters as a source of estimation uncertainty according to IAS 1.125, and the uncertainty is linked to the impairment assessment of the assets.

All six companies have calculated and used value in use in connection with the impairment testing.

In Finanstilsynet’s view, three of the six companies have provided incomplete information that is not in accordance with the disclosure requirements set out in IAS 36, paragraphs 134–135 and other relevant disclosure requirements. The following are examples of this:

- One company has stated that it is affected to varying degrees by climate-related matters which could have negative effects in some areas but positive effects in other areas. The company did not disclose which parts of the business may be negatively/positively affected.
- One company has provided information giving a general explanation of what transition risk and physical risk are but has provided no company-specific information on climate risk and its significance for the company's impairment assessment.
- One company pointed out that it is concerned about climate change without specifying how or why climate-related matters are relevant to the company's impairment assessment.

In addition to providing users with little information, such general information may also contribute to creating uncertainty as to whether climate-related matters are of relevance to the company. The extent and nature of the information provided by the individual companies on climate-related matters will vary, but they need to ensure that the information is company-specific, relevant and complete.

With respect to the other three companies, Finanstilsynet finds that the information provided gives users a more appropriate basis for understanding the significance of climate-related matters for the company’s impairment assessment. These companies provided information that was more company-specific and relevant and of appropriate extent based on the degree of exposure. There were also some shortcomings in these companies’ information on assumptions, scenario analysis and expenses for maintaining and improving the assets.

Disclosures on assumptions

The companies have provided little information about specific climate-related assumptions in connection with their impairment assessment. The companies have, in general, reported financial assumptions such as price/margins, discount factor, exchange rates and growth factor. They have also stated that climate risks have been incorporated in these assumptions. Such information shows that climate-related matters have been taken into account in the impairment assessments. However, the companies have provided little specific information on how climate-related matters have been reflected in the financial assumptions reported by the companies.

Scenario analysis and sensitivities
The companies have provided little information on climate scenarios. Only two of six companies have stated that they have used scenario analyses in connection with the impairment assessment. It is unclear to Finanstilsynet how the companies that have not provided such information have complied with the requirement that the calculation should reflect expectations about possible variations in the amount or timing of future cash flows, cf. IAS 36.30 (b). Nor have these companies disclosed that possible variations have been taken into account in the discount requirement.

The companies have had different approaches to showing sensitivities. Most of the companies have provided information on sensitivities related to financial assumptions such as price/margins, discount factor, exchange rates and growth factor. Some companies in the energy sector have provided information on both sensitivities related to such financial assumptions and sensitivities related to the use of different climate scenarios.

Two of the six companies have shown no sensitivities. However, these two companies stated that no reasonably possible change in key assumptions will cause the carrying amount to exceed the recoverable amount. The same two companies have regarded climate-related matters as a source of estimation uncertainty according to IAS 1.125, and explicitly linked the uncertainty to the companies' impairment tests. IAS 1.125 refers to estimation uncertainty that has a significant risk of resulting in a material adjustment to carrying amounts within the next financial year, which indicates that the two companies should have shown sensitivities.

Maintenance and improvement expenses
The companies have provided no or only general information about assessments related to future investments in assets that are tested for impairment. IAS 36.44 states that 'future cash flows shall be estimated for the asset in its current condition...'.

Assessments of whether future investments to adapt the company's activities to a low-carbon economy and whether such investments should be included when determining the assets' value in use may be complex and require judgement. The companies must therefore assess whether there is a need to provide information about this.

Outside the financial statements, several of the companies have discussed the need to restructure their operations, including the need for future investments to reduce emissions. Future investments often involve upgrades to existing facilities, such as replacing energy sources and changing production processes. The companies have provided limited information in their annual financial statements that shows a correlation between the information provided outside the annual financial statements and the companies' assessment and treatment of cash outflows for such investments in the impairment assessment. In view of the information provided outside the annual financial statements, Finanstilsynet considers this to be a key issue in the impairment assessment of several of the companies.

Consistency and coherence

The companies must ensure that there is sufficient consistency and coherence between the financial statements and the information provided on climate-related matters outside the financial statements. The companies in the thematic review have provided limited information that shows consistency and coherence between the impairment assessment and the information on climate-related matters provided outside the annual financial statements.

For some companies, certain conditions may also indicate inconsistency between the impairment assessment and the information provided on climate-related matters outside the financial statements. As an example, one of the companies has disclosed, outside its annual financial statements, that one of its segments is significantly exposed to climate risk because its customers are carbon-intensive companies operating in an industry with significant transition risk. The company has identified a risk with a high probability of a significant loss of revenue within the segment. When testing for impairment of goodwill allocated to the segment, the company used a positive growth rate when extrapolating the cash flows at the end of the five-year period to which its budgets/forecasts apply.

> Disclosures on impairment testing in accordance with IAS 36 were the most frequent and extensive information provided in the companies' annual financial statements. Nevertheless, observations from the thematic review show that several of the companies have provided incomplete disclosures on climate-related matters in connection with impairment assessments.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

Climate-related matters may be relevant to the assessment of useful life, depreciation method and the residual value of assets. Changes in external factors may cause reductions in assets' useful lives and residual values. This includes changes in technology, regulations, markets or social habits.

Assets' useful life

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
IAS 16 and IAS 38 require the company to review an asset's useful life and residual value at least at each financial year-end. The company must disclose the useful lives or depreciation rates used for these assets. Information must also be provided on the nature and effect of changes in estimates for residual values and useful lives. With respect to intangible assets, it must be stated whether the useful life is indefinite or finite. If it is indefinite, the reasons supporting the conclusion that the asset has an indefinite useful life must also be disclosed. There is also a requirement for systematic allocation of the depreciable amount of an asset over its useful life.

Half of the companies in the thematic review have material intangible assets with a finite useful life. Only one company has provided information on climate-related matters relating to the review of useful life. The only information provided in this respect is that the company has experienced no changes in the useful lives of such assets as a result of climate change. Finanstilsynet considers the information to be inadequate, as the company has determined climate-related matters to be a source of estimation uncertainty according to IAS 1.125, and has linked the uncertainty to the useful life of intangible assets. For example, the company has provided no information about the assumptions used in the assessment, nor about sensitivities (IAS 1.129 (a) and IAS 1.129 (b)).

Ten of the eleven companies have material assets that are accounted for in accordance with IAS 16. Only three of these companies have provided information on climate-related matters relating to the review of the assets’ useful life. The extent of the disclosures provided by the companies varied. Two of the companies have only provided some kind of conclusion that the useful life does not need to be changed. In Finanstilsynet’s view, one of these companies has provided particularly inadequate information, as the company has assessed climate-related matters as a source of estimation uncertainty according to IAS 1.125 and has linked the uncertainty to useful life. The third company has provided somewhat more specific information on assumptions and sensitivities.

None of the eleven companies have made changes to the intervals they have used for the various subcategories of assets in the period 2018–2021. This may indicate that climate-related matters have not led to changes in the assets’ useful lives.

Companies must be aware that the useful life of intangible assets that are not being amortised shall also be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment (IAS 38.109).

With respect to the companies that have a large number of assets with a finite useful life but have provided no information on climate-related matters in their annual financial statements in connection with an assessment of useful life, Finanstilsynet observes that the following information has been provided outside the financial statements:

- All the companies have defined climate-related matters to be material.
- Several of the companies have operations in which they act as a subcontractor to carbon-intensive industries. These companies often have a stated aim to implement a major restructuring of their operations, which means that a large part of their business is intended to come in the near future from new, green areas that currently constitute a small part of the companies' total activities.
- Several of the companies have discussed the planned/approved replacement of essential components in their production facilities in the near future, which they believe is necessary to adapt to a low-carbon economy.
- Several of the companies have stated that there will be rapid technological developments contributing to low-emission solutions, and that there is a need for increased investments in technological development.
- One company has stated that it intends to electrify its vehicles and machinery.
- One company has all its operations in carbon-intensive industries.
- One company has identified a specific risk associated with the government's climate action plan, which will gradually, up to 2030, introduce requirements for low or zero emissions from the type of assets used by the company. Investments

must thus be made to comply with the requirements that are expected to be introduced.

In Finanstilsynet's view, the factors discussed above are relevant when reviewing useful lives. The information provided by the companies outside the financial statements on the level of risk exposure and specific matters that may lead to a reduction in assets' useful lives, indicates that a larger number of companies should have provided information on climate-related matters when reviewing useful lives.

The companies must ensure that there is sufficient consistency and coherence between the financial statements and the information provided on climate-related matters outside the financial statements. The companies in the thematic review have provided limited information that shows consistency and coherence between the review of useful lives and the information on climate-related matters provided outside the annual financial statements.

> Observations from the thematic review show that few of the companies have provided disclosures on climate-related matters when reviewing assets' useful life. The information provided by the companies outside the annual financial statements indicates that more companies should have provided disclosures in their annual financial statements.

Disclosures about research and development

Climate-related matters may affect companies' research and development costs. In the transition to a low-carbon society, technological development is one of several key factors. For the individual company, technological development may represent both an opportunity and a risk.

IAS 38.126, IAS 1.112 (c) and IAS 1.31
IAS 38 contains rules for the recognition and measurement of research and development activities, and IAS 38.126 stipulates requirements for disclosures on research and development expenditure recognised as an expense during the period. With respect to companies that, outside the financial statements, have identified research and development activities as material to future activities, it may be necessary to provide information in the annual financial statements in excess of the requirements in IAS 38.126. Requirements for such information may, for example, follow from IAS 1.112 (c) and/or IAS 1.31, as it may be relevant to understand the financial statements.

Several of the eleven companies in the thematic review have, outside the annual financial statements, provided a description of technological developments that may contribute to reducing the companies' emissions. Reduced emissions are often dependent on research and development activity and technological breakthroughs.

Only five of the eleven companies in the thematic review have disclosed the aggregate amount of research and development expenditure recognised as an expense during the period, cf. IAS 38.126.

One of the companies has provided more information on research and development than required by IAS 38.126. This company has discussed the significance of technology for the company's competitiveness, and has provided information on the expected level of investment over the coming years.

> Given the companies' description outside the financial statements of the significance of research and development in the transition to a low-carbon society, Finanstilsynet finds reason to question whether more companies should have provided disclosures on research and development in accordance with IAS 38.126, IAS 1.112 (c) and/or IAS 1.31.

IFRS 15 Revenue from Contracts with Customers / IFRS 8 Operating Segments

A company’s revenue and profits may stem from different business areas. Their business areas may have different levels of exposure to climate risks and opportunities. Disclosures may be required concerning the impact of climate-related matters on the company's business areas, revenue and profits.

IFRS 15 Revenue from Contracts with Customers and IFRS 8 Operating Segments

IFRS 15.114 requires an entity to disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Furthermore, IFRS 15.B88 requires that when selecting the type of category to use to disaggregate revenue, an entity shall consider how information about the entity's revenue has been presented for other purposes, including information presented outside the annual financial statements (for example in management reports).

IFRS 8 requires information on operating segments based on the entity's management reporting according to specific criteria. Information for operating segments may only be presented in aggregate for two or more operating segments if the segments have similar economic characteristics and are similar in a number of other respects.

Outside their financial statements, the companies in the thematic review have given extensive descriptions of low-emission products and stated targets for the transition from unsustainable to sustainable activities. Several of the companies offer both a ‘traditional’ and a ‘low emission’ version of the same product, for example by using recycled materials or different production processes. Some of the companies have provided information that clearly shows major differences in climate exposure and future prospects for various parts of their operations. In some cases, companies have disaggregated total revenue into ‘green’ and ‘non-green’ revenues.

In their annual financial statements, none of the companies have presented a disaggregation of revenue in accordance with IFRS 15.114 based on climate-related categories, for example by presenting revenue from low-emission activities separately from other activities. Climate-related information on revenue presented by the companies outside the financial statements may indicate that it could be relevant for the companies to report the disaggregation of revenue according to IFRS 15.114, cf. B88, based on climate-related categories. Finanstilsynet's assessment is that there is reason to question whether certain companies have categories of revenue that are affected in different ways by economic factors relating to climate-related matters, and whether they should therefore have provided such information according to IFRS 15.114. A lack of reporting of disaggregated revenue can result in the relative amounts of revenue from categories with different climate exposures and different future prospects not being clearly specified in the annual financial statements. Such information may be material, both to understand the future prospects of the business and to estimate future cash flows.

One of the companies in the thematic review has made changes to its reporting of operating segments as a result of climate-related matters. As a consequence of this, a business area with a different exposure to climate risk than the company's other activities was presented as a separate segment in the segment reporting. The company explained that the change had been implemented due to the increased strategic importance of the business area and that it is useful for users that the business area is shown separately.

Some companies have provided information on specific targets related to the restructuring of operations, where green business areas are described outside the financial statements without being presented as a separate segment in the annual financial statements. One example is a company whose target is that a certain proportion of its activities shall be generated by green business areas within a given time. Outside the financial statements, there was an extensive description of the restructuring. The restructuring is of great strategic importance, has high priority and has been endorsed by the board of directors and management. The company’s operations mainly comprise deliveries to carbon-intensive industries, and the green business area currently accounts for a small share of its total business. The green business area has not been presented as a separate segment in the company's annual financial statements. Given the company's description outside the financial statements, Finanstilsynet assumes that the company’s management reporting includes information on financial performance and the progress towards target attainment. The company’s sustainable/unsustainable activities do not necessarily have similar characteristics, as there may be differences in both legal frameworks and financial key figures, such as profit margins. There are similar examples for some of the other companies, and in Finanstilsynet's view, there is reason to question whether these companies have complied with the requirements for disclosure of information on operating segments pursuant to IFRS 8.

> Given the fact that the companies, outside the financial statements, have stated that there are major differences between the various business areas with respect to climate exposure, future prospects and other characteristics, Finanstilsynet finds reason to question certain companies’ compliance with the requirements for information on operating segments pursuant to IFRS 8 and the disaggregation of revenue pursuant to IFRS 15.114.

Green financing

Six of the eleven companies in the thematic review have obtained green financing and have provided some information about this financing outside their financial statements. In most cases, the terms and conditions for the financing are either linked to the company's set climate targets or to how the financing is used. Finanstilsynet assumes that the companies that have provided information on green financing outside their financial statements consider the information to be relevant and material. Only two of the companies have disclosed in their annual financial statements that they have obtained green financing and that such financing is subject to conditions. These two companies have provided no further information concerning, for example, the effect of the conditions on measurement, whether there is an embedded derivative and how the liability is classified.

Other areas

Other areas within the IFRS standards were also considered in the thematic review. Finanstilsynet has observed fewer shortcomings and issues in these areas but points out that climate-related matters may be relevant for a number of companies in areas other than those discussed in this report. Other areas assessed by Finanstilsynet include:

- Going concern (IAS 1)
- Inventories (IAS 2)
- Fair value (IFRS 13)
- Residual value (IAS 16)
- Provisions and contingent liabilities (IAS 37)
- Deferred tax assets (IAS 12)

Section 3 – climate-related matters – auditing

Climate change and climate targets will lead to changes for most industries. The transition to a low-carbon society will require changes in business models, and companies will face new risks and opportunities. There will be changes in demand, and regulations will be amended. Auditors must familiarise themselves with the consequences of the changes faced by companies in order to assess the risks and provide an assurance statement in the companies ' annual financial reports.

Auditor's assessment of climate risk

When climate risk affects or may affect financial reporting, the auditor must assess whether the audit is adapted to the risk in accordance with prevailing legal requirements and good auditing practices. There are currently no separate standards for assessing climate risk in an audit, but existing audit standards nevertheless play a key role in the assessment of climate risk as a financial risk. Both the Norwegian Institute of Public Accountants[16] and the IAASB[17] (International Accounting and Auditing Standards Board) have published information on how climate risk should be taken into consideration in an audit.

[16] The Norwegian Institute of Public Accountants – Sustainability for auditors (in Norwegian only)
[17] IAASB – Climate Audit Practice Alert

When planning the audit, the auditor shall obtain an understanding of risks that may lead to material misstatement.[18] The auditor must decide whether the audited company is exposed to climate risk, assess the company's own follow-up and control processes related to the risk, assess how the risk may affect the financial statements and assess the likelihood of misstatement. The chart shows examples of relevant issues that auditors need to familiarise themselves with.

In cases where the auditor finds that one or more items in the financial statements may contain material misstatement as a result of climate risk, the auditor must consider whether the risk should be regarded as a separate risk. The auditor must also assess how the risk may impact the audit plan and the audit strategy.

The thematic review shows:

- In the planning of six of the eleven audit engagements, the auditor has not considered whether the company is exposed to climate risk, despite the fact that all the companies have identified climate-related matters as material in their annual financial statements.

[18] ISA 315

- In three of the audit engagements, the auditor describes how climate risk may affect the value of assets or liabilities. In one of the audit engagements, climate risk is considered to pose a risk of material misstatement and is regarded as a separate risk.
- In one audit engagement, the auditor's risk assessment has taken account of future climate-related regulations in countries where the company has major subsidiaries, and assessed whether the regulations will have an impact on the company's future cash flows.
- In four of the audit engagements, climate risk was on the agenda at the audit team's start-up meeting, and in six of the audit engagements, climate risk was on the agenda in the meeting with management or the audit committee.
- For three of the audit engagements, the auditor's assessment of climate risk is related to specific balance sheet items, even though the risk was not considered to affect their value.
- In three of the audit engagements, the auditor has assessed the company's processes for risk assessment, follow-up and adoption of measures to manage climate risk and climate-related matters.

In Finanstilsynet's view, climate risk has not been properly assessed by the auditor in more than half of the engagements included in the thematic review. In several of the engagements, assessments of climate risk are either non-existent or of such a general nature that Finanstilsynet cannot see how climate risk has been included in the auditor's assessment, despite the fact that all the companies have identified climate-related matters as material in their annual financial statements. In several of the engagements where the auditor concludes that climate risk cannot result in material misstatement in the annual financial statements, the documentation and the assessments do not adequately support such a conclusion. In several of the audit engagements, there is no clear conclusion in the audit plan as to whether climate risk may or may not constitute a risk of material misstatement. Since all the companies have identified climate-related matters as material in their annual financial report, Finanstilsynet is of the opinion that the auditors should document their assessment of whether the said climate risk may entail a risk of material misstatement in the annual financial statements. The consequence of an inadequate assessment could be that a material risk that should have been part of the evaluation of an asset or liability is not taken into consideration in the audit.

	Steps in the auditor's risk assessment		
No assessment	**1. Risk identification**	**2. Insight and assessment**	**3. Conclusion**
The auditor has made no independent assessment of whether the company may be exposed to climate risk.	The auditor has identified that climate risk may be relevant and has made an overall assessment of how the company is affected by climate risk. The auditor has assessed whether climate-related matters are material to the users of the financial statements.	The auditor has a documented understanding of upcoming industry regulations that could affect the company. The auditor has assessed how the company's customers and suppliers are affected and how demand for the product may be affected. The auditor has an understanding of the type of climate-related information that is material to users.	The auditor has drawn a reasonable conclusion as to whether climate risk could constitute a material risk of misstatement. The auditor has made an assessment of how climate risk may affect specific accounting figures and the rest of the annual financial report.

Auditor's management of identified climate risks

The auditor shall design and perform substantive procedures in response to the assessed risks of material misstatement at the financial statement level.[19] For a number of companies, assessments of climate risk represent something new. Reporting of climate risk must be established as an internal process in the company, just as for other risk areas. If the company itself does not have a satisfactory process for identifying material climate-related risks, the audit risk will increase. The auditor must have sufficient knowledge of climate risk in order to have clear expectations as to which climate risks the company should have assessed. In addition, the auditor must be aware of factors that may indicate a risk of misstatement as a result of the company's failure to identify or properly assess climate risk. In cases where assessments of the effect of climate risk on an asset or liability are subject to estimation uncertainty, the auditor shall comply with the requirements of ISA 540 to the extent to which the risk may result in material misstatement in the financial statements.

There are several estimates that may be affected by climate risk, such as impairment assessments, assets' useful lives and provisions for decommissioning / asset retirement costs. Future cash flows may also be affected by higher climate duties, changes in demand for the company's products or the need for new, environmentally friendly investments. Assessments of climate risk often require judgement concerning future conditions. The auditor must assess the company's underlying assumptions about the future.

The exercise of professional scepticism in relation to accounting estimates is affected by the auditor's consideration of inherent risk factors. Requirements for professional scepticism increase when accounting estimates are subject to a great degree of estimation uncertainty or are affected to a great degree by complexity, subjectivity or other inherent risk factors.[20]

[19] ISA 330
[20] ISA 540 section 8

The thematic review shows:

- In two of the audit engagements, the auditor has verified that the impact which climate risk may have on financial figures has been quantified in valuations. An example of this is that carbon taxes are reflected in cash flows when making impairment assessments.
- In six of the audit engagements, the audited company had received so-called green financing. In several cases, the auditor did not consider the terms and conditions associated with such financing and whether these have an impact on the annual financial statements.

Finanstilsynet observes that there are great variations in the quality of the auditors' work related to climate risk in the audit engagements included in the thematic review. Some engagements include extensive risk assessments and specific audit procedures addressing the effect of climate change on the company's assets and liabilities. In one of the engagements reviewed by Finanstilsynet, the auditor had made no specific assessments of climate-related matters, even though the company considered such matters to be a source of estimation uncertainty. In Finanstilsynet's opinion, significant improvements are required in the auditors' assessments and documentation of how climate risk affects financial reporting.

Auditors' assessment of climate-related information in the annual financial report

The annual financial report comprises the annual financial statements with notes, the management report and 'other information'.[21] In the auditor's report, the auditor shall express an opinion on whether the annual financial statements provide a true and fair view in accordance with the accounting regulations used, and whether they comply with applicable statutory requirements.[22] The auditor's assessment of the information provided in the annual financial statements must take into account the users' need for information. Both investors and other users have an increased focus on climate-related matters.

Climate-related information in the annual financial statements is material if the information, including the omission of relevant information, can be expected to influence the financial decisions made by users of the annual financial statements. If climate change has an impact on the company, the auditor must assess whether the annual financial statements reflect this in accordance with the accounting regulations used.

[21] 'Other information' – financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report, cf. ISA 720 section 12 c
[22] Section 9-7, second paragraph (c) of the Auditors Act

Climate-related information in the notes	Climate-related information in the management report and the 'corporate social responsibility statement'	Climate-related information in 'other information'
• Shall provide a true and fair view in accordance with the accounting regulations used. • The auditor must assess the users' need for information. • The omission of information may also represent material misstatement.	• The information shall be consistent with the information in the annual financial statements.* • When climate risk is one of the key risks, the management report shall include a description of the risk.**	• The auditor must assess whether there are material discrepancies.***

If information is provided on other types of climate risk than those identified by the auditor, the auditor must assess their impact on the audit.

** Auditors Act Section 9-4 second subsection and Section 9-7 third subsection*
*** Accounting Act Sections 3-3a and 3-3c*
**** ISA 720 section 14*

The thematic review shows:

- In only three of the audit engagements has the auditor assessed the need of users of the annual financial statements for information on climate risk or climate-related matters. This is despite the fact that:
    - all the companies have identified climate-related matters as material in their annual financial statements.
    - eight companies provide information on climate-related matters in the annual financial statements.
    - four companies have assessed climate-related matters to be a source of estimation uncertainty in accordance with IAS 1.125.
- In the audit of two of the companies, the auditor has included one or more of the key performance indicators (KPIs) on specific reductions in greenhouse gas emissions in its assessment of climate risk.
- In their annual financial reports, several of the companies report other types of climate risk than those assessed by the auditor. However, the auditor has not considered whether these are material to the audit of the annual financial statements. As an example, the company refers to the need for a significant restructuring of its activities.
- All the companies have identified climate-related matters as material in their annual financial reports. In most of the audit engagements, the auditor has not assessed whether the risk referred to by the company is relevant to the financial reporting or whether there are material discrepancies in the information.

- Some of the companies provided sustainability information in different reports. In several cases, it is not clear which reports constitute the company's ‘corporate social responsibility statement‘ in accordance with Section 3-3 c of the Accounting Act. When the auditor refers to the ‘corporate social responsibility statement’ in the auditor's report, it is therefore unclear which report(s) the auditor has assessed.

Several of the companies provide incomplete information about climate-related matters in their annual financial statements. Also, some companies with significant climate exposure fail to provide information on climate-related matters in their annual financial statements. See discussion in section 2 of this report.

Finanstilsynet has observed few specific assessments of whether the auditor believes that the notes contain sufficient information to enable users of the annual financial statements to understand the assumptions concerning climate risk that form the basis for the values in the financial statements. Examples of this are disclosures related to whether or how climate risk is reflected in the valuation of assets, to what extent climate risk has affected the assessments, or whether climate risk has had an impact on their value. In cases where the auditor concludes that climate-related information is material to users, or that climate risk is a separate risk, the auditor must assess whether the notes provide the necessary information to assess the company's position.[23]

Even if the auditor has reviewed checklists to ensure that the notes meet the statutory requirements, it is Finanstilsynet’s view that the auditor should make a greater effort to assess the users' need for information in the notes. For several of the companies, the auditor's assessment of whether the information in the management report is consistent with that in the annual financial statements, and whether ‘other information’ contains material discrepancies, is only documented by the auditor ticking a box to confirm that the matter has been assessed. In Finanstilsynet’s view, it is necessary to document these assessments when climate-related matters that may be relevant to the annual financial statements are referred to elsewhere in the reporting.

Auditor’s assurance of sustainability information

An increasing number of companies want third-party assurance of sustainability information, in addition to the assurance made by the company's statutory auditor in the auditor's report relating to the company’s corporate social responsibility statement in accordance with Section 3-3 c of the Accounting Act, cf. Section 9-7 third subsection of the Auditors Act. Such third-party assurance is currently voluntary.

In recent years, the audit firms in the sample have increased their recruitment and expertise within a number of sustainability topics in order to handle the complexity of the assurance engagements and offer the required expertise. The need for reliable sustainability information is increasing. The sustainability information of eight of the eleven companies in the thematic review has been subject to external assurance. Assurance is given in accordance with ISAE 3000 in the form of limited assurance

[23] Section 7-1 of the Norwegian Accounting Act

engagements. For some of the eight companies, reasonable assurance engagements have also been performed. ISAE 3000 is the standard used for assurance engagements other than audits or reviews of historical financial information. The standard sets requirements for both planning and performing the engagement, whether it is performed with limited or reasonable assurance. In general, it is the company's statutory auditor who has provided an assurance conclusion, but there is also one example where another audit firm has been used to express an assurance conclusion on sustainability information.

Finanstilsynet has obtained information concerning, among other things, the audit team's assessment of competence, use of specialists, time spent and any advisory services provided in the sustainability area.

There was no statutory requirement for assurance of sustainability information for the 2021 financial year. The introduction of the CSRD will require assurance of such information. The IAASB is working on a plan to develop a new international framework for auditing/assurance of sustainability reporting. This plan has not yet been adopted.

ISAE 3000 requires that those performing the engagement have sufficient competence. The statutory auditor must have sufficient competence in the underlying subject matter to be able to assume responsibility for assurance conclusions, and must ensure that the persons who are to perform the engagement collectively have the appropriate competence. When using the work of an expert, the auditor must evaluate the expert's competence and obtain a sufficient understanding of the expert's field of expertise. Assessments of competence must be documented.
In addition, the audit firm must comply with requirements for acceptance of the engagements in accordance with ISQC1.[24]

The large audit firms have worked with assurance of sustainability information for several years, but this work has, in the past, normally been carried out by other staff than members of the client audit team. This is therefore a relatively new field for several auditors, and the number of auditors involved in this work is increasing considerably. This requires significant competence enhancement in the sustainability area among the audit firm’s employees.

The thematic review shows:

- There are weaknesses in the auditors’ assessments of the competence required to perform assurance engagements. In several of the engagements covered by the thematic review, there is no description of the competence of the auditors performing the audit, including the experts. In many cases, the auditor has merely ticked a box to confirm that the statutory auditor, the audit team and any experts used have sufficient competence, without further specification.
- In three of the assurance engagements, in-house specialists/experts are members of the audit team working on the engagement. There are large variations in the time spent by the experts on the assurance engagements. In addition,

[24] International Standard on Quality Control, ‘Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements’

informal consultations with internal specialists have been made in connection with several engagements.

The thematic review shows that the audit firms use professional resources in a wide range of areas related to sustainability to assist with the assurance engagements. The audit firms use, among others, engineers, biologists, chemists and social scientists. In Finanstilsynet's view, the assessments of competence have not been adequately documented in several of the engagements, e.g. the statutory auditor's competence and the competence of the audit team and any specialists.

The audit firms' policies and procedures

Auditors’ policies and procedures for assessing climate risk

Audit firms must establish policies and procedures to ensure that climate risk and climate-related matters are adequately reflected in the audit. Climate risk assessments may be complex with wide variations between industries. There will consequently be a need for training to address the climate risks faced by the various industries, and for measures related to quality assurance and consultations.

The thematic review shows:

- All four audit firms have arranged mandatory training on the topic ‘climate risk assessment in the audit’. In one of the audit firms, training was mandatory only for the employees auditing listed companies.
- All four audit firms have prepared a guidance or work programmes on how climate risk should be assessed in the audit. One of the audit firms has also prepared an industry-specific guidance.
- In two of the audit firms, climate risk is a separate step in the audit programme that must be assessed for all the companies being audited.
- In four of the eleven engagements in the thematic review, a separate work programme for climate risk assessments has been used. In Finanstilsynet's view, the quality of the assessments is better in cases where such a work programme has been used.
- Two of the audit firms have increased their monitoring of some of the audit engagements as a result of high levels of climate risk. Several of the audit firms are considering using a central unit in the audit firm to perform analyses in order to identify companies that are heavily exposed to climate risk.
- One audit firm has climate risk as a separate assessment factor in its internal quality control.
- No formal consultations related to climate risk have been carried out by any of the audit firms over the past year, but all the audit firms report that several informal consultations related to climate risk have taken place.

Finanstilsynet observes that all the audit firms are in the process of implementing additional policies in this area. This includes guidelines as to which employees should receive mandatory training, and for which audit engagements work programmes should be made mandatory. Several of the audit firms are also drawing up guidelines specifying the requirements that must be met by their own employees in order to qualify as specialists and when the specialists should be used. Finanstilsynet has, in general, observed that there has been some progress in this area over the past year, which is expected to continue.

Policies and procedures for assurance of sustainability information

The demand for assurance services for sustainability information will increase as more companies are required to seek assurance of such information. The audit firms must ensure that they have the required expertise in relevant areas to be able to provide such assurance. Finanstilsynet's observation is that the audit firms in the thematic review use considerable resources on competence development within sustainability, and that they are planning to cope with the increased demand for sustainability assurance by hiring people with relevant education.

Finanstilsynet also observes that the Norwegian Institute of Public Accountants, together with the major audit firms, has established a training programme for sustainability reporting that is offered to the entire industry.

The four audit firms completed a total of around 60 assurance engagements on sustainability information in 2022, prepared by 40 different statutory auditors. All the audit firms state that they largely use internal specialists in their assurance engagement work.

The thematic review shows:

- All four audit firms have strengthened their specialist departments by employing specialists in the sustainability field.
- All four audit firms have guidelines and/or work programmes for assurance of sustainability information. Two of the audit firms have made the programme mandatory.
- Three of the audit firms require their employees to complete training programmes or a number of course hours to be qualified to perform assurance engagements on sustainability information. The requirement varies, ranging from one to ten relevant course hours.
- One audit firm appoints a quality review partner in connection with all assurance engagements on sustainability information.

Finanstilsynet's general observation is that all the audit firms are in the process of developing policies and procedures for the implementation of assurance engagements. Several of the audit firms are working on guidelines for the use of specialists in assurance engagements.

Although the audit firms have employees with competence in sustainability-related matters, the statutory auditor must also have a basic understanding of the issues covered by the assurance. If the audit firms do not establish competence requirements for the statutory auditors and the auditors' assessment of their own and the team's competence is insufficiently documented, this may pose a risk to the audit firms.

Independence when providing assurance for sustainability reports

In cases where the statutory auditor provides assurance conclusions for the company's sustainability report, the independence provisions in Chapter 8 of the Auditors Act apply. Eight of the eleven companies in the thematic review have obtained an assurance conclusion on their sustainability report. For seven of these sustainability reports, the assurance conclusion was obtained from the audit firm that acts as the statutory auditor. For remaining one, the assurance engagement was performed by another audit firm.

Sustainability assurance pursuant to ISAE 3000 is covered by Section 9-10 of the Auditors Act. The requirements regarding independence in Section 8-1 first and second subsections and Section 8-5 first subsection apply correspondingly to assurance engagements, cf. the second subsection of Section 8-5. This means, among other things, that the auditor must assess his or her independence before accepting the engagement. If any circumstances exist that may raise doubts about the auditor's independence, the auditor shall take the necessary measures to ensure its independence.

Finanstilsynet emphasises the importance of the auditor assessing his or her independence prior to accepting assurance engagements. According to the requirements expected to be set out in the CSRD, the statutory auditor shall carry out the assurance of the audit client's sustainability reporting. However, the CSDR allows for audit firms other than the statutory auditor or an authorised third-party provider to give assurance conclusions provided that the requirements for independence are met.

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