

ESG in accounting: Building your firm's ESG offering

ESG has been a popular topic recently, with policies developed around more of a qualitative focus. With the introduction of global standards on reporting, the focus is shifting to a quantitative approach as shareholders, investors, consumers, and governing bodies are looking closely at ESG policy implementations and effects. Accounting firms should be looking to expand their service offerings to provide more support for their clients by preparing ESG offerings that provide clients with data, assurance, and ESG-related tax optimization strategies to help them stay competitive and compliant.

Statistics on global ESG practices

- **97%** of businesses said it was important to have accurate information from suppliers to understand related ESG risk
Report: How to Mitigate ESG Risk in Supply Chains | Coupa
- **92%** of global companies provide at least some data related to sustainability (research conducted by IFAC)
Your Firm Should Be Exploring ESG | Professional Insights | AICPA (aicpa-cima.com)
- **90%** of institutional investors say they are paying more attention to companies' ESG performance when making investment decisions
Three-quarters of institutional investors say they may divest from companies with poor environmental track records | EY - Global
- **74%** of investors were more likely to divest from companies with poor ESG performance records than they were before the COVID-19 pandemic
EY survey
- **76%** of consumers said they would "discontinue my relationship with companies that treat the environment, employees, or the community in which they operate poorly"
PwC survey

Insights on U.S. ESG practices

84%

In a recent AICPA & CIMA survey of 27 of the top 100 U.S. accounting firms, 84% of firms not currently providing ESG assurance services said they're very likely or likely to do so in the next one to three years
Opportunity knocks for firms as ESG reporting, assurance levels rise - Journal of Accountancy

464

S&P 500 companies issue a standalone ESG report, 43 obtained assurance from a public company auditor
thecaq.org/sp-500-and-esg-reporting

75%

Under the new rules that will be published by the IRS in 2023, corporations can offset up to 75% of their federal income tax liability, which may result in a rebate of taxes already paid to reinvest in ESG-positive opportunities
thomsonreuters.com/en-us/posts/esg/tax-credits-green-transition/

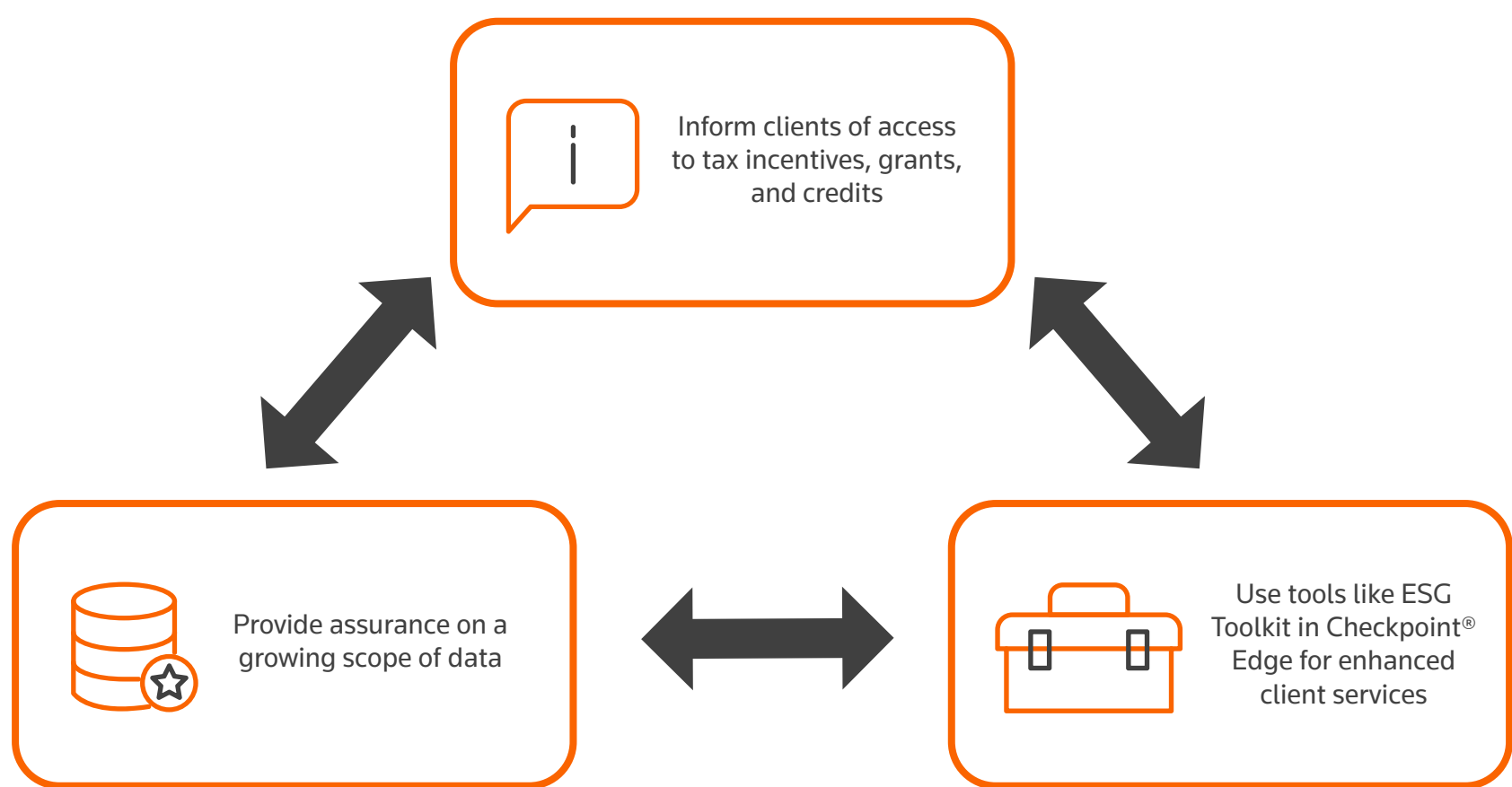
68%

of CEOs see stakeholder demand up significantly (from 58% in 2021)
ESG scrutiny shines spotlight on tax transparency | International Tax Review

72%

of CEOs believe ESG scrutiny will continue to accelerate
ESG scrutiny shines spotlight on tax transparency | International Tax Review

Accounting for ESG



Key elements of an effective ESG offering

- **ESG strategy development** – Using a narrative and storyline to frame ESG initiatives and relate them to financial results.
How tax professionals can develop an ESG narrative (thomsonreuters.com)
- **Materiality assessment** – Here is our **5 step process** companies can take.
- **Data collection and analysis** – Ensure your **ESG accounting framework** is clearly established and makes effective use of internal and external data.
- **Reporting and disclosure** – With ESG practices under increasing scrutiny, **compliance** is becoming a key factor in managing ESG reporting.
- **Assurance** – Third-party assurance has been shifting from engineering firms to accounting firms providing **ESG audits**.

Incorporating ESG into tax planning

Tax credit investments and renewable energy credits are set to drive ESG development across the United States. **The Inflation Reduction Act (IRA)** targets clean energy and climate drive through an incentivized approach for corporations. The IRA offers:

24+
tax credits

\$370 billion
in investments to lower energy costs and increase investment in the clean energy sector

ESG offering best practices

- ✓ Establishing clear and measurable goals – Apply the SMART approach to ESG accounting and reports.
- ✓ Ensuring stakeholder engagement – Engage all key stakeholders including partners, associates, members of the business and professional staff, clients, critical suppliers, as well as engagement with local communities.
- ✓ Maintaining transparency and credibility – This is a great way to build trust with stakeholders and investors.
- ✓ Adhering to industry standards and frameworks – This includes the **Global Reporting Initiative (GRI), SASB Standards, U.S. Securities and Exchange Commission's proposed climate rule, and International Sustainability Standards Board (ISSB/IFRS)**.

Emphasis on investment in ESG from a corporate perspective will continue to extend to incorporate more accounting, tax planning, reporting, and assurance practices. Developing an ESG offering allows accounting firms to grow their lines of business and expand their customer base. Helping companies improve their reporting and transparency through a well-rounded ESG offering that addresses key elements and offers best practices builds trust and the bottom line with the added benefit of supporting a greener globe.