HE Briefing Note

# Internal Audit and Climate Change

March 2022

## Introduction

In April 2021, we published a briefing on ‘Sustainability in Higher Education’. The paper called for the education sector to take further action on the threats and risks posed by climate and sustainability related issues.

Since then, we have seen fairly limited action from the sector, and the case for change from a scientific and evidence led background continues to grow. It’s now likely that we will reach temperatures 1.5C over pre-industrial levels within the next five years, causing irreversible consequences for the global environment.

## Talking about risk

There is an increasing drive to talk about sustainability in risk terms. We’ve seen this with the latest IPCC report[1], and the recommendations from the TCFD[2]. Experts in the field are recognising that the effects of climate change are now inescapable and are looking to see what the likelihood and impacts of resulting risks are, and how these might be mitigated.

For the sector, we can view these under three key risk headings:

**Reputational**
Risks that employees / students / the general public do not perceive a provider’s actions to be sufficient, and consequently damage is caused to investment / recruitment / retention. This is the risk theme that is most commonly acknowledged by the sector, though we would argue is potentially the least damaging, and over focus on this may detract from management of other, more pertinent risks.

**Physical**
Risks that the effects of climate change will trigger physical damage to the estate / staff / students / visitors. Specifically for the UK, reaching global warming of 1.5C over pre-industrial levels will trigger increased volatility in weather events, which may lead to increased flooding / heatwaves (in a positive scenario), and subsequently pose difficulties for estates departments. The latest IPCC report suggests that we are already experiencing moderate to high risks of extreme weather events.

**Market risks**
Further afield, the increased danger associated with using finite resources and fossil fuels will place strain on international and national markets (e.g., energy and utility markets), and may cause significant price rises or resource scarcity. We anticipate that this will be met with increased legislation that providers will have to navigate (e.g., energy usage cap and trade systems). The latest IPCC report suggests that we

[1] This refers to the paper produced by the second working group for the sixth assessment report to the International Panel for Climate Change. The paper details the work done to date on analysis of climate related impacts, adaptation and vulnerability.

[2] The TCFD (Task Force for Climate Related Disclosures) is an industry-led group which aims to create recommendations for policy makers on how to create effective legislation on climate reporting.

are already experiencing moderate risk of water scarcity in Southern Europe, with this anticipated to rise in Norther Europe in the foreseeable future.

The HE sector needs to mature its approach to climate and sustainability risk in line with evidence based projects and action.

## Opportunities

There is an opening to balance these risks with significant opportunities, which could protect providers, and even increase reputation and standing.

- Early adoption of leading low carbon tech may lead to increased investment and research credibility
- Low carbon tech may lead to future cost efficiencies in strained markets
- Early adoption and engagement with key initiatives may help providers shape emerging policy to ensure mutual benefit
- Climate resilience planning may not only protect assets but increase valuation if physical risks develop sooner

## Legislating for change

We anticipate that to meet the UK's 2038 target for net zero, new legislation will have to be enacted, and soon. We're starting to see early indications of this, such as the introduction of Climate Related Financial Disclosures, which will affect some UK providers (including UK public interest entities – which means it could be applicable for some HEIs in the sector). The regulations are due to come in for financial reports produced after 6th April 2022. Notably, these will include mandatory reporting of:

- Company governance arrangements for assessing and managing climate related risks and opportunities
- A description of how risks and opportunities are identified
- A description of how these are integrated into overall risk management processes
- A description of these risks and opportunities and the time periods by which they are assessed
- A description of the actual and potential impacts of these risks on company operations
- An analysis of the company resilience relating to these risks
- A description of the associated targets and performance measuring
- A description of supported KPIs, and how these are calculated

We note that scope 3 disclosures[3] are bizarrely not mandatory for reporting within the new framework. While these regulations might not extend to all providers, we would recommend reviewing and adopting some principles on a good practice basis.

[3] Scope 3 refers to Carbon emissions that occur in business chains but are not directly produced by day-to-day operations (e.g., staff travel, procurement, investments).

This legislation is similar to other regulatory drivers relating to sustainability in that there is a distinct focus on reporting, without any framework for legislative or financial intervention if targets are not met / climate action is not achieved. We anticipate more interventionist measures being developed as the associated risks become more likely - this may start with the regulator recognising the risk to the sector and highlighting statements of expectation or codes of practice that could spark regulatory intervention.

## Barriers

As with all strategic change, there are key barriers to providers achieving an ideal sustainable end state. Most of these stem from culture issues, from executives and management teams that through no fault of their own, may not understand the nature of the risks, or how to deal with the issues. This often results in sustainability being siloed, or driven purely by estates functions, when a more cross working, whole provider approach would be more appropriate. Similarly, there is sometimes an over-keenness to be seen to be taking action - this results in ill thought-out plans, such as commitment to net zero goals, without consideration of key steps to achieve this, or of wider impacts and risks.

## Internal audit's role

To date (and from our experience), sustainability rarely appears in annual sector audit programmes. Where it is captured, the scope is often limited to reviews of carbon zero targets / projects, and sponsored by estates departments. We believe there is potential to further the use of audit as a tool to assist with sustainable aims. The audit function is placed in a unique position, having easy access to teams across the range of the provider's operations, and also to senior management and non-executives. This enables us to provide holistic assurance on sustainable aims and the supporting projects, and communicate key messages across the institution. This position also allows the audit function to review climate strategy integration across key business areas, verifying existing processes and controls, and bringing in best practice for a rapidly changing risk environment. The role of the audit function does not, however, need to be limited to providing assurance. Relevant expertise can assist senior executives in understanding the key risks, and the threat posed to the provider – for example, through digesting recent policy briefings and communicating key messages. If however, providers fail to acknowledge wider sustainability risks and continue to only view the risk through the prospect of reputational damage, the audit function can still provide a sense of objectivity to key stakeholders that appropriate action is being taken surrounding this risk.

## We can help

We can provide bespoke sustainability audit and consultancy, dependent on the needs of the institution. We could help with:

- Monitoring of progress towards frameworks / accreditation
- Advisory work on action to take and next steps to create sustainable approaches
- Creation and implementation of sustainability strategies / policies
- Systems and process reviews to assess sustainability in practice
- Sustainability data collection and business intelligence
- Benchmarking institutional approaches against sector and non-sector approaches
- Assessing sustainable cultures across institutions, including both Senior Management and wider staff buy in.

For further information on how we can help, or for any other aspect of Uniac's internal audit and assurance service, please do get in touch.

Paddy Marshall
Audit and Assurance Consultant
t: 07796 180 139
e: pmarshall@uniac.co.uk
www.uniac.co.uk