

The government's audit reform proposals fail to address...

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The government's announcement on audit and accounting reform, [out this morning](#), refer to the significance of climate reporting. As they note:

The Government agrees with the Brydon Review recommendation and proposes to introduce a statutory requirement on public interest entities to publish an annual Resilience Statement, consolidating and building on the existing going concern and viability statements.

Included in this, they argue, is a requirement to consider climate change issues, saying:

[T]he Government would welcome views on whether the Resilience Statement as a whole, including the long-term section, should specifically address the impact of climate change on the company's business model and financial planning.

They do, however, immediately close down debate on this issue by saying:

In this respect, views are invited on whether the Resilience Statement could provide a means for companies in future to provide disclosures consistent with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), in whole or part.

So the actual choices on offer are:

- * TCFD, or nothing.
- * Audit the TCFD data, or not.

This is wholly inadequate. The Task Force on Climate-related Financial Disclosures are not fit for purpose when it comes to financial reporting. That is because as a result of the work I have been doing on [sustainable cost accounting](#) I have become pretty familiar with this thin,



The greenhouse gas protocol splits greenhouse gas emissions into three categories. Thankfully, [they're pretty easy to define](#):

I've reproduced the Protocol's own description just to make clear that they really do think there's not much to this. Except that there is. And that's because right now business has decided for reasons all of its own that only Scope 1 and 2 emissions are of importance. Mark Carney's [Task Force on Climate-related Financial Disclosures summarises its reporting requirements pretty succinctly as follows](#):

Note that category (b). It says that Scope 3 need only be disclosed 'if appropriate'. And what defines 'appropriate'? Nip up to the top of the column and you will find it is when management think that it is 'where such information is material'.

And as it turns out, almost no one does seem to think Scope 3 is material. So we end up with the absurd situation where airports claim they are carbon-neutral because they ignore the emissions from the planes that fly from them and coal mines can make the same claim because they say someone else burns the coal that they mine, and they claim that's got nothing to do with them when glaringly obviously that's untrue.

My points then are very simple ones.

First, any accounting standard for greenhouse gas emissions that does not require Scope 3 disclosure is incomplete. In fact, it's not a standard worth calling by that name because it ignores a crucial issue.

And second, anyone who claims they are carbon-neutral and ignores their Scope 3 emissions is making a claim that is simply not true.

But now the government is saying that financial support should be linked to this wholly inappropriate standard. And that's wrong.

Thankfully there is a better option. [That is sustainable cost accounting](#). That will work. And that's what financial support has to be linked to because it makes Scope 3 disclosure mandatory.

The government's proposals do not do that. And for that reason they fail to address the issue of climate change and accounting, whatever other failings there might be in the Task Force on Climate-related Financial Disclosures.