



2023

NZFSPA progress report



Charting a path to Net-Zero

MILESTONES AND PROGRESS



This year's submission to the NZFSPA, in which we report on progress made against our commitment to achieve net-zero carbon emissions by 2050 or sooner, including the release of our first global carbon footprint, represents a significant milestone for BDO. It demonstrates our collective commitment to working together for the best interests of our global organisation, and the planet, and leading the way for other organisations to follow.

It also demonstrates that, through the audit work that BDO undertakes for its clients, it aims to fulfil its obligations under professional standards as external auditors, with quality, integrity and independence, including consideration of the impact of climate change on our clients' businesses, and the extent to which this may affect amounts and disclosures reported in the financial statements.

In an era where environmental stewardship has become an imperative, our first global carbon footprint marks a further commitment to transparency and dedicated, tangible action in reducing our environmental impact. Our global organisation must take a leadership role in combating climate change – not only can we make a difference through reducing our carbon emissions, but as one of the leading global auditing and accounting organisations, we can inspire others to follow.

The journey towards a sustainable future is a difficult and complex one for organisations and individuals. We're proud to have made a start and understand that the course ahead will require changes and sacrifices which may be uncomfortable – but our promise to achieving our commitment to net-zero carbon emissions is unwavering. As each BDO member firm embarks on its individual net-zero journey, we know that it will require effort and commitment. It is encouraging that we are not alone in this endeavour, as we learn from the experiences of organisations that have already walked this path.

Together, as one BDO, we will help pave the way for a more sustainable, equitable, and resilient future.



PAT KRAMER
CEO, BDO



Reporting progress

We have set out below the progress against the commitments made as a member of the NZFSPA, firstly as they relate to how our member firms plan and perform audits and then as they relate to the wider international BDO network.

THE REPORTING FRAMEWORK – FINANCIAL STATEMENT AUDITS

The reporting framework below measures progress against the commitments that relate to the financial statement audits BDO member firms performed for the annual period ended 31 December 2022.

The reporting framework uses an 'inputs'-based approach to measure progress against the commitments that relate to products and services, i.e. the financial statement audit. The inputs show BDO's commitment to the NZFSPA objectives and helps explain to a wider audience the various elements of audits that incorporate consideration of climate-related risk.

In comparison, if the reporting framework were to take an outputs-based approach for products and services, it would simply be measuring the degree to which audits comply with generally accepted auditing standards (GAAS). For certain stakeholders, confirming that audits are GAAS compliant may not adequately illustrate consideration of climate-related risks under professional standards and related guidance issued by standard setters. As the regulatory environment around sustainability reporting and the Race to Zero criteria evolves, this reporting framework and associated targets will be re-examined, to see if there is an opportunity to incorporate output based or other metrics to demonstrate progress against the commitments and, if so, what those metrics might be.

The reporting framework includes four categories of metrics and targets which apply to the financial statement audits performed by BDO (the 'audit metrics and targets'). They represent a selection of the 'inputs' which contribute to delivering high quality audits which comply with standards, including as they relate to climate.

1. Application of audit methodology
2. Training
3. Communications
4. Reporting

The audit metrics and targets cover 40 audit engagements at several of the largest member firms in the international BDO network, with those audits being selected on the basis that these companies and groups were more likely to be significantly affected by climate change, and the associated risks and opportunities.



THE REPORTING FRAMEWORK – THE WIDER INTERNATIONAL BDO NETWORK

Our reporting highlights and illustrates the wider BDO network's progress on our net-zero journey. The reporting framework below includes two categories of operational targets and metrics which extend to the wider international BDO network (the 'operational metrics and targets') and cover the 2022 carbon reporting year:

1. Setting science based GHG emissions reduction targets across all operational emissions
2. Engaging with stakeholders and policymakers on corporate and industry action, as well as public policies, that support a net zero transition of economic sectors in line with science and with regard to social impacts

During 2023 a representative sample of 19 of our member firms (as well as the BDO Global Office) measured their carbon footprints for the first time, across scopes 1, 2 and 3. Using this data we have extrapolated the results to calculate a global carbon footprint for our network, for 2022 as a baseline year. We used the best available science and standards, including third party expertise, to co-develop and validate our global carbon footprint, and we intend to use the same method going forward. As we evolve our approach to include all the member firms in our network, and benefit from improved data collection and updated standards and methodologies, we will take more data points into consideration and the results of our future carbon footprint calculations will reflect this.

We believe the calculation reflects the key areas in our network that are carbon emissions 'hotspots' for us and which will require focus and dedication in years to come to substantially reduce them.

Audit metrics and targets

Framework category	Scope	Measurement criteria and target	Target	Result	Additional information
Application of audit methodology	Audits of the selected companies/groups for the year ended 31 December 2022	% of engagement teams including specific audit procedures to determine whether climate risks are material to the audit	100%	100%	-
Training	Partners, directors and managers on the engagement teams for the audits of the selected companies/groups for the year ended 31 December 2022	% of engagement team personnel (managers and above) who have received specific training on assessing and responding to climate risks in the audit	100%	99%	For one audit, the audit engagement manager changed when the audit was not complete. The new audit engagement manager had not completed the training.
Communications	Audits of the selected companies/groups for the year ended 31 December 2022	% of engagement teams who discussed the relevance of climate risk to the financial statements and the audit with those charged with governance (listed companies only), and management	100%	98%	For one audit, consideration of the relevance of climate risk to the financial statements was included in documents provided to management and those charged with governance, but the issue was not discussed during the related meeting.
Reporting	Audits of the selected companies/groups for the year ended 31 December 2022	% of engagement teams that specifically considered whether climate risk(s) needed to be explicitly mentioned in the audit report	100%	100%	This metric relates to whether consideration had been given, where applicable, to the inclusion of climate risk in a Key Audit Matter (KAM) or Critical Audit Matter (CAM), whether as a stand-alone C/ KAM or by inclusion in a non-climate risk related C/KAM.

Operational metrics and targets

Framework category	Scope	Measurement criteria and target	Result	Additional information
<p>Science-based GHG emissions reduction targets across all operational emissions</p> <p>Set interim science-based reduction targets</p>	<p>BDO operates as a global network of independent member firms. Whilst the scope of our commitment covers the entire network, the approach we are following takes into consideration the independent legal, financial and operational nature of each of the member firms in the network.</p>	<p>In 2022/2023 we developed a Global Net-Zero Methodology that draws from the latest Greenhouse Gas Protocol (GHGP) and SBTi standards.</p> <p>It is based on a clear set of criteria for how the progress towards the commitment is going to be measured and managed across the network which include:</p> <ol style="list-style-type: none"> 1. calculation of carbon footprint based on GHGP standards and guidance 2. development of carbon reduction roadmaps to 2050 or sooner in accordance with SBTi requirements 3. carbon impact reporting in alignment with the TCFD framework 	<p>In 2022/2023 the first 19 BDO member firms, as well as the BDO Global Office, collectively representing 58% of full-time employees (FTE) and 76% of global revenue, recorded progress against steps 1 of the Global Methodology, measuring their GHG emissions across Scope 1, 2 and 3.</p> <p>Global carbon footprint</p> <p>The available GHG inventory data from the 20 BDO firms was used to calculate BDO's first global footprint using an aggregation and extrapolation methodology.</p> <p>The global carbon footprint for the 2022 carbon year* is 394,146 tCO₂e, of which:</p> <p>Scope 1 = 18,714 tCO₂e Scope 2 = 29,220 tCO₂e Scope 3 = 336,212 tCO₂e</p> <p>Science-based targets</p> <p>During the carbon year 2022 our focus has been on our first cohort to establish their individual carbon baselines, as well as the global carbon footprint. Two firms have formally committed to the SBTi and one of these has had their targets verified by the SBTi. During 2024 we expect this number to increase significantly.</p>	<p>A Net-Zero Policy that fully aligns with the Global Net-Zero Methodology, was approved by the Global Board in April 2023 and made mandatory from October 2023.</p> <p>In accordance with the requirements of the BDO Net-Zero policy:</p> <ol style="list-style-type: none"> 1. in 2024 all firms in the BDO network will be required to measure their carbon footprint 2. in 2025 all firms will be required to submit their targets to SBTi 3. in 2026 all firms will be required to start reporting in accordance with TCFD recommendations
<p>Proactively engage with stakeholders and policy-makers on corporate and industry action, as well as public policies, that support a net-zero transition of economic sectors in line with science and with regard to social impacts</p>	<p>Entire BDO network</p>	<p>BDO strongly supported the creation of the International Sustainability Standards Board (ISSB) with its objective of developing a global 'baseline' of IFRS Sustainability Reporting Standards (IFRS SDS), and regularly engages with the network through meetings and written communication. BDO is also supportive of regional developments, including the EFRAG Sustainability Reporting Board and the European Sustainability Reporting Standards (ESRS) that have now been published by the European Commission.</p> <p>BDO consistently advocates an approach which maximises the interoperability of regionally developed standards with the global baseline.</p>	<p>Sustainability reporting standards that have been published by the ISSB and by the European Commission require significant reporting of climate-related risks and opportunities, including quantitative greenhouse gas (GHG) emissions data. The ISSB, in its first topical standard, took a 'climate first' approach. On publication of the ESRS, the European Commission, EFRAG and the ISSB issued a joint statement which noted the high degree of alignment of the ESRS and the IFRS SDS, resulting in reduced complexity and duplication for entities wishing to apply both the IFRS SDS and ESRS.</p>	

* The global carbon reporting baseline year for the BDO network is 2022. Each firm has the authority to define the 12-month reporting period for their entity. The global carbon footprint was consolidated in accordance with data reported in the January - December reporting period.



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