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CFO JOURNAL

Audit and Consulting Firms at Odds Over Who Should Verify Climate Data

The SEC's proposal to require new environmental disclosures from businesses has prompted some firms to claim they are more qualified to sign off on the information



Storage tanks at a Kinder Morgan facility. The energy infrastructure company paid PwC last year for assurance services.

PHOTO: BING GUAN/REUTERS

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July 5, 2022 7:30 am ET

Firms that verify businesses' climate data are at odds over who is qualified to perform the work, a pivotal and potentially lucrative task under a proposal from the Securities and Exchange Commission that would require new disclosures on the topic.

The U.S. securities regulator in March said it wants companies to seek independent certification of certain new disclosures, including estimates of greenhouse-gas emissions from their operations and from the energy they consume. The assurance requirement would apply to companies with at least \$250 million in publicly traded shares.

Only certified public accountants can audit public companies' financial statements, per U.S. securities laws. But, under the SEC's proposal, the attestation report could be

prepared not only by external auditors but also by other service providers, such as an engineering, consulting or certification firm. The Big Four accounting firms—Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers—are pushing for narrower criteria on who can perform this duty, according to letters sent to the SEC as part of a public consultation that ended last month. Meanwhile, some non-accounting firms say technical expertise is important, and other observers say the market is big enough for both types of firms.

If the SEC proposal is adopted, assurers of environmental, social and governance details would likely see greater demand for their services. At the moment, U.S. companies often voluntarily ask an engineering or consulting firm to verify their data rather than a traditional accounting firm. Many businesses disclose some climate data on their own, but the SEC wants to make it easier for investors to compare that information.

About 6% of S&P 500 companies last year used an accounting firm to verify at least some of their ESG information, compared with 47% who hired a non-accounting firm, according to the latest available data from the Center for Audit Quality, an accounting-industry group.

Most active in the space of assuring ESG information are consulting firms, including Apex Companies LLC, WSP Global Inc., Lloyd's Register Group Ltd. and ERM International Group Ltd., alongside certification firms Bureau Veritas SA and SGS SA, based on research by Audit Analytics, which reviewed the largest U.S. companies by market capitalization.

That is in part because these providers often charge less, said Derryck Coleman, director of research analytics at Audit Analytics.

The Big Four recommended requiring firms to demonstrate they have the necessary expertise to provide this type of assurance. PwC said the SEC should consider whether U.S. state licensure laws would exclude professionals other than CPAs from performing attestation services. PwC also advised the regulator to weigh requiring attestation providers to register with the Public Company Accounting Oversight Board, the U.S. audit watchdog, to better protect investors. Under the Sarbanes-Oxley Act of 2002, public accounting firms must register with the PCAOB. If attestation providers aren't registered with the PCAOB, they should be forced to comply with requirements related to conduct, ethics and engagement performance, PwC said.

KPMG said the SEC should clarify whether all practitioners would be required to consider certain supplementary information as CPAs do. Accountants have to identify inconsistencies between so-called other information and audited financial statements. Auditors' "role is to serve the capital markets using professional skepticism and systems of quality control, along with experience in evaluating internal systems for processing data," said Scott Flynn, KPMG's vice chair of audit.

PwC and the SEC declined to comment, while EY and Deloitte didn't respond. Deloitte is a sponsor of CFO Journal.

The Big Four stand to gain higher revenues from providing these services to more companies. The firms don't break out the revenue they generate from ESG-related work, and there are no external estimates.

Engineering, certification and consulting firms are defending their expertise. French certification firm Bureau Veritas is qualified to handle the task because of its employees' engineering backgrounds, which means it can attest to the validity of the data and weigh in on companies' plans to reduce carbon emissions, said Marc Boissonnet, executive vice president of corporate and external affairs.

"You need much more than audit tools," Mr. Boissonnet said, referring to providing ESG assurance. "You need people who are qualified in technical aspects and need to know the sector they are assessing."

Other firms said the attestation market is likely big enough for both audit and nonaudit firms. "When the demand for attestation is so high, it is important that we give companies as many options as possible to meet both the voluntary and regulatory disclosure requirements," said Beth Wyke, global head of corporate assurance at London-based ERM.

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Rockville, Md.-based Apex said the notion that only a financial accountant can do this work ignores the need for expertise in environmental science and engineering systems. “The market doesn’t have enough expertise if you use only accountants and the market doesn’t have enough expertise if you use only scientists,” said Nicole Bouquet, executive director of ESG.

Few companies disclose how much they spend on climate assurance. Oil and gas firm Diamondback Energy Inc. and communications infrastructure provider Crown Castle International Corp. in 2021 paid \$31,500 and \$40,000 to Grant Thornton and PwC, respectively, for limited assurance services, regulatory filings showed. Energy infrastructure business Kinder Morgan Inc. in a filing said it paid \$375,000 to PwC for limited assurance services last year, up 15% from the previous year.

Investors likely won’t care which type of firm verifies companies’ climate data, as long as the SEC requires them to meet the same level of professional and attestation standards that public accounting firms are required to meet, said Sandy Peters, senior head of financial reporting advocacy at the CFA Institute, which represents investment professionals.

The SEC proposal has faced resistance from companies that say it would be too costly to comply and from Republican lawmakers and law professors who question whether the regulator has the legal authority to set such a rule. The regulator plans to review feedback to the proposal and determine whether to make changes.

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