A QUICK GUIDE TO CARBON ACCOUNTING

HLB MANN JUDD
ADVISORY AND ACCOUNTING

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TOGETHER WE MAKE IT HAPPEN

Carbon accounting is a quickly evolving area and over the next few years it will affect businesses of all sizes. The purpose of this document is to address some of the frequently asked questions (FAQs) for any business taking their first steps towards carbon emissions measurement and reporting.

WHAT IS CARBON ACCOUNTING?

Carbon accounting is the measurement of an organisation's greenhouse gas (GHG) emissions within a set of boundaries. Emissions come from activities such as using fuel and electricity, purchasing goods and services, generating waste, and employees travelling and commuting.

WHAT IS THE GHG PROTOCOL?

The GHG Protocol is a globally recognised standard that provides a comprehensive framework for quantifying, measuring and reporting GHG emissions.

The GHG Protocol defines three scopes of emissions which categorise emissions sources across an organisation's value chain and form the basis for carbon accounting.

- **Scope 1:** Direct GHG emissions from sources owned or controlled by an organisation. For example, emissions from burning fuel in entity-owned vehicles or equipment.
- **Scope 2:** Indirect GHG emissions from the consumption of energy used to power operations (i.e., electricity, steam, heat and cooling). These emissions are considered indirect since an organisation does not directly control the emissions created by the generation of the energy.
- **Scope 3:** Other indirect GHG emissions, not included in Scope 2, that occur in the value chain of an organisation, including both upstream and downstream emissions.

WHY SHOULD BUSINESSES START MEASURING EMISSIONS?

Governments and regulators around the globe are increasingly requiring businesses to disclose their carbon emissions. In Australia, such mandatory requirements are expected to commence from 1 January 2025, starting with the largest entities and extending to progressively smaller large entities over the following few years.

Even where an organisation is not subject to these mandatory requirements, the reality is no business today operates in isolation. As more organisations begin reporting their emissions and setting reduction targets, they will look to suppliers in their value chain for their emissions data.

Consequently, regardless of a business's reporting requirements and size within a supply chain, it may be asked to provide emissions data.

Already, there are many entities that require their suppliers to measure their GHG emissions and / or set net zero targets in order to be eligible to do business with them.

Understanding your business's carbon footprint allows for the identification of opportunities for reducing emissions and can form part of a long- term strategy for growing a sustainable business. It may also become necessary to continue dealing with certain customers and / or funding providers.

WHAT ARE THE BENEFITS FOR BUSINESSES?

There are several benefits for businesses of all sizes to start quantifying their carbon emissions. Key stakeholders, including customers, suppliers and talent, are increasingly expecting organisations to understand and manage their climate impact.

Other key benefits include:

- Staying at the forefront of evolving regulatory requirements
- Prioritising actions required to reduce emissions, particularly as countries adopt net zero commitments
- Potential energy and cost savings by optimizing resource efficiency
- Satisfying emissions data requests from customers and other stakeholders
- Communicating your business's sustainability story to stakeholders

Carbon accounting helps you stay ahead of the curve while allowing you to demonstrate your commitment to understanding and reducing emissions.

WHAT DATA DO I NEED TO START?

Like financial accounting, carbon accounting requires comprehensive business data and a sound processing methodology.

Some of the business data required includes:

- Financial transactions for the reporting period
- Activity data for key sources of emissions
- Fuel usage
- Electricity consumption.

HOW HLB MANN JUDD CAN HELP

We are supporting our clients to make carbon accounting an extension of their existing financial accounting and reporting.

For existing clients of the firm, we may already have a significant amount of the data required and an existing understanding of the business.

For new or existing clients, our process follows global standards and can leverage your accounting data to prepare your baseline emissions assessment, fill in data gaps and increase the accuracy of your footprint. We can set up the processes required to streamline data collection for carbon reporting moving forward.

We partner with Sumday, our preferred carbon accounting platform – which integrates with Xero, but can use data from any accounting software. As Sumday certified advisers, we can set up your business and help up-skill your team in carbon accounting too.

We, too, are committed to measuring and reducing our impact on the climate and intend to share updates and information as we progress on our journey.

SERVICES WE PROVIDE

Carbon accounting readiness assessment: We will confirm the data you need and the data you have, identifying ways to fill in the gaps.

Carbon accounting and baseline emissions assessment: We will process your business data to quantify your emissions across scope 1, scope 2 and scope 3, including determining your baseline to serve as a reference point for future years, allowing you to track your progress in reducing emissions.

Emissions reduction opportunities: We will walk you through a summary report, of your major emissions sources and identify projects that may reduce emissions.

Process improvement: We can support the initiatives that will streamline carbon accounting going forward where relevant.

GLOSSARY OF TERMS

WHAT ARE GREENHOUSE GASES (GHGs)?

GHGs are gases in the Earth's atmosphere that trap heat and contribute to climate change. Reducing GHG emissions is a key goal to achieving net zero targets.

The main greenhouse gases include:

- Carbon dioxide (CO_2)
- Methane (CH_4)
- Nitrous oxide (N_2O)
- Fluorinated gases
- Water vapour

WHAT IS THE PARIS AGREEMENT?

The Paris agreement is an international treaty on climate change adopted in December 2015 at the UN Climate Change Conference (COP21) in Paris, France. Its main objective is to limit the global average temperature increase to well below 2°C above pre-industrial levels, with efforts to limit the increase to 1.5°C. The Paris Agreement represents a global consensus on the importance of climate action, and has been adopted by 193 countries, including Australia and New Zealand.

WHAT IS NET ZERO?

Net zero involves abating the vast majority of an organisation's GHG emissions through efficiency, electrification, renewables and other means, and reducing the remaining unavoided emissions through permanent removals. Net zero targets are often set for achievement by 2050.

Examples of net zero practices include using renewable energy on-site, transitioning to electric vehicles, undertaking waste management initiatives and green infrastructure construction or development.

WHAT IS CARBON NEUTRAL?

Carbon neutral refers to the concept of balancing the amount of carbon dioxide emitted into the atmosphere with an equivalent amount of carbon dioxide removed or offset (e.g., through purchasing carbon credits).

Examples of carbon neutral practices include purchasing renewable energy certificates and funding external carbon projects that remove, reduce or avoid GHG emissions.

WHAT ARE CARBON CREDITS?

A carbon credit is a verified permit that allows an oganisation to emit one ton of carbon dioxide, or an equivalent amount of another GHG. Carbon credits are generated by carbon projects that avoid or remove carbon dioxide emissions from the atmosphere. They are used as a strategy to help organisations meet their emissions reduction targets and combat climate change.

WHAT IS GREENWASHING?

Greenwashing is the practice of making misleading claims that a product or service is environmentally friendly, sustainable or ethical. Examples of greenwashing include using false or misleading certifications or making token environmental efforts while ignoring other harmful practices within the business or organisation.

ABOUT HLB MANN JUDD

The HLB Mann Judd Australasian Association consists of nine member firms and three representative firms across Australia, New Zealand and Fiji. It represents a group of specialists providing business advice and services to a wide range of business organisations and private clients.

HLB Mann Judd is a member of HLB International, the global advisory and accounting network. HLB has a history of innovation, collaboration and is dedicated to helping clients grow across borders. Through the power of 46,755 professionals across 157 countries, HLB combines local expertise and global capabilities to service clients' needs.

ESG & SUSTAINABILITY

Our ESG specialists help clients to develop and implement sustainability strategies that align with their short, medium and long-term goals and values.

Some of the ways we assist organisations in improving their ESG credentials include:

- ESG assessments and roadmaps, including baseline measurements, goal setting and ongoing monitoring
- GHG emissions measurement, including ongoing monitoring, setting of targets, engaging suppliers and implementing decarbonisation strategies
- Sustainability reporting, disclosure and associated assurance
- ESG advisory services, including supply chain reviews, evaluating investments or partnerships and integration of ESG into financial reporting and planning
- Corporate governance, risk management and board advisory services.

Learn more about HLB Mann Judd and our services: hlb.com.au/services/advisory/esg-sustainability

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