

Accounting for Sustainability

Stathis Gould, IFAC, calls on the accountancy profession to step up and do its part to address the sustainability crisis.



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Introduction

"The grim reality is that our planet has reached a point of crisis, with the time for us to act rapidly running out. We are confronting what could be described as a Doomsday Triumvirate: pollution and over-consumption of finite natural resources, coupled with the very real risk of catastrophic climate change, unprecedented levels of financial indebtedness and alarmingly unsustainable rates of population growth. If we are to tackle these problems it is vital that we have better information... about the sustainability of the organisations we work for, invest in and depend on, and about the products and services we buy and use."

HRH The Prince of Wales, [World Congress of Accountants, 9 November, 2010, Malaysia]

These words from The Prince of Wales's keynote address at the 2010 World Congress of Accountants are a rallying call to the accountancy profession to step up and do its part to address the sustainability crisis.

IFAC Sustainability Framework

Through its updated Sustainability Framework (March 2011), IFAC is helping to position professional accountants, in their capacity as employees or external advisers, as part of the solution to the crisis. This article provides insights into what organisations and their accountants can do to help foster long-term sustainable value creation.

Accountants are already doing much to help organisations minimise waste, create efficiencies, and cut costs in their organisations, which is undoubtedly the biggest driver for embracing sustainability. However, accountants also need to take on new and expanded roles, activities, and skills; there is much more to be done in both large, and small- and medium-sized, entities, which comprise a large part of most, if not all, economies.

Sustainability – 3 Important Dimensions

Sustainability has three important dimensions: (a) economic viability, (b) social responsibility, and (c) environmental responsibility. While trade-offs can occur between them, these dimensions are interconnected in various ways. For example, being socially and environmentally responsible (towards employees, communities, and other stakeholders), leads to enhanced trust, and, therefore, makes good business sense. Social and environmental responsibility cannot stand in isolation from economic viability. Organisations must continue to provide products and services that people want in order to generate profits, growth, and new jobs. While pursuing a commercial imperative, organisations must also take into account their social and environmental impact as part of generating sustainable value.

Sustainability – 3 Perspectives

The Sustainability Framework consolidates the important aspects of integrating sustainability into the DNA of an organisation, and is applicable to entities of all sizes and complexities. The second edition of the Framework addresses sustainability from three perspectives: business strategy, operations, and reporting.

Each perspective is designed to be of interest to a different group of accountants. For example, accountants working at senior management levels might be more focused on the business strategy perspective. Those working in performance management-related roles (including planning, budgeting, costing, and performance measurement) may direct their attention to the operational perspective, and those preparing business, financial, sustainability, or integrated reports, or involved in

providing audit and assurance, might find the reporting perspective of most use.

Business Strategy

From the business strategy perspective, the framework emphasises the importance of adopting a strategic approach, so that sustainability is integrated into vision and leadership, strategic planning, objectives, goals, and targets, as well as incorporated into governance, accountability arrangements, and risk management.

Thinking about sustainability issues strategically is an opportunity for organisations to establish or re-establish *why* sustainability matters to them in the context of its organisational activities. This calls for the board and management to articulate and promote the benefits of that strategy, ideally using a language that will resonate with the organisation.

Terms like *sustainability*, *corporate social responsibility*, and *climate change* can be interpreted in various ways, and be seen as representing additional costs. By clearly defining what they mean by sustainability, how it relates to the organisation and its key stakeholders, and how it can drive long-term organisational success, organisations may find it easier to introduce new sustainability goals and initiatives, particularly those related to carbon reduction programmes to meet mandated or self-imposed carbon reduction commitments.

► Continued on Page 20

► Continued from Page 19

Accountants can play a leading role in establishing the business case for sustainability by ensuring that appropriate governance structures are in place to strengthen implementation, monitoring, and accountability and to effectively engage stakeholders and suppliers. Accountants can also lead the way in setting goals and targets and integrating risk management and assessment.

Organisations that have successfully embedded sustainability from a strategic perspective tend to be those that also convert increased sustainability performance into commercial advantage. They can do so in many ways: achieving first mover advantage in the market with a new product or service; collaborating with others, such as supply chain partners, or even competitors, to enhance sustainable performance; and responding to emerging sustainability trends and legislation, including the development of market mechanisms, such as emissions trading schemes or carbon taxes. Ultimately, these organisations are changing risk to opportunity.

Operations

The second part of the Sustainability Framework examines sustainability through the lens of Operations. It presents a full spectrum of management and management accounting activities to support higher-quality information, which leads to more informed decision making and can help support the choices an organisation needs to make to chart a more sustainable path.

The complexity of approach will depend on the maturity of an organisation. Quick wins can be achieved by waste minimisation, including improving energy efficiency and reducing waste and water consumption. Organisations can do much to improve their environmental performance with simple and inexpensive measures, by applying simple controls based on a better understanding of their patterns of consumption.

A more sophisticated approach to carbon accounting can be used to calculate an organisational or product carbon footprint, better manage greenhouse emissions, make reductions over time, and report this information to external stakeholders. The quality of carbon accounting will depend on the strength of an organisation's data collection processes and systems. Accountants are well placed to help develop carbon management plans, and to prioritise carbon reduction projects, quantify them, and place numbers

on implementation costs and carbon savings. For the more advanced, implementing sustainability and environmental accounting can help to provide the environmental, social, and financial information needed to support decisions—whether at a strategic level (including investment appraisal) or at a product or process level. Environmental accounting ranges from relatively simple adjustments to existing cost models and accounting systems to more integrated environmental management accounting practices that link physical and monetary information, such as material flow cost accounting. For guidelines that can help identify hidden environmental-related costs, see IFAC's *Environmental Management Accounting* (2005) at www.ifac.org.

In addition to identifying, defining, and classifying costs in a useful way, accountants can ensure the alignment of sustainability performance with organisational objectives, and help integrate sustainability objectives and measures of performance with the overall internal control and management system. Accountants are also ideally positioned to incorporate sustainability performance measures and KPIs into strategic performance managements systems.

Reporting

From the reporting perspective, the Framework considers how organisations can improve the usefulness of their external communications and reporting. Accountants can lead the way in developing a reporting and disclosure strategy that will yield high-quality reports that provide a more complete picture of an organisation's performance. This will involve reflecting sustainability impacts in financial statements, such as environmental impacts on assets, liabilities, income, and expenditure. In addition, narrative reporting could be improved to fill the reporting gap that occurs when certain information that is important in running an organisation is not captured in financial statements (e.g., climate change risks).

Other improvements that accountants can spearhead include reconciling approaches to applying materiality to multi-stakeholder sustainability reporting; and establishing an approach to external assurance and review that adds credibility to an organisation's disclosure and can also help to improve an organisation's reporting processes.

The Framework will help accountants to familiarise themselves with *integrated reporting*, a new term that has emerged as possibly presenting a new reporting paradigm. Integrated reporting is a consolidated representation of an organisation's social, environmental, and economic performance—whether in a single integrated report or in the annual report. Integrated reporting involves presenting and clearly explaining the connections between the various social, environmental, and financial aspects of organisational performance.

Therefore, the quality of integrated reporting hinges on the level of integration of sustainability within management and operational processes. Accountants will need to consider how they can foster greater collaboration and coordination within an organisation to ensure that sustainability and financial reporting processes are better aligned, and that the data collection and reporting processes for non-financial information aspire to match that of financial information.

Conclusion – Accountants Contributing

As we've seen, accountants can contribute in a plethora of ways to initiating, improving, and reporting on sustainability efforts in their organisations. In all the areas mentioned above, their professional background and orientation equip them with the necessary skills—namely, wide business understanding, numeracy, knowledge of measurement, objectivity, and integrity. However, this challenge also requires accountants to build upon and further develop their skills by utilising the continuing professional development resources available from CPA Ireland, IFAC, and other sources. This applies equally well to small- and medium-sized practitioners (SMPs) as it does professional accountants in business: SMPs have an important role in articulating and communicating to SMEs the benefits of accounting for sustainability and reporting on sustainability matters.

The IFAC Sustainability Framework provides many examples of good practice that professional accountants can use to learn more and apply to their own organisations. It is available at www.ifac.org/PAIB. Information on the recently formed International Integrated Reporting Committee is at www.integratedreporting.org.