

REPORT CARD: Accounting

Introduction

The accounting sector has a critical role to play in helping to achieve a sustainable world, not least because economic decisions are made largely on the basis of accounting information. This Report Card intends to demonstrate the priority that the accounting sector accords the achievement of sustainable development, a priority which manifests itself in the considerable progress the sector has made in the past few years as well as the activities it has planned for the future.

Work in progress

What we said in 2002: development of international financial reporting or auditing standards dealing with sustainability issues; mostly multinationals and few smaller companies dealing with non-financial accounting, reporting and auditing issues; role of the profession in promoting SD as strategic issue in financial community...

Progress 2002–2005

Since the Enron, WorldCom and Parmalat scandals of 2001–2003, the agendas of accounting standard-setters have—not surprisingly—largely focussed on restoring confidence in the global capital markets through enhancing financial reporting. Against such a backdrop, the progress made on sustainability issues has been significant.

The International Accounting Standards Board (IASB) has issued guidance on accounting for liabilities for waste management costs (IFRIC 6). The IASB also has an active agenda project that will address the main accounting issues raised by emission trading schemes.¹ Also, the IASB has a research project that is examining the benefits of issuing a new standard or guidance for the disclosure of a “Management Commentary” to accompany financial statements. The Discussion Paper² builds on requirements in Canada, the U.S., the U.K. and Germany, and sug-

gests ways that public disclosure of sustainability risks and drivers to the extent relevant to investors’ information needs could be improved. IFAC responded to this Discussion Paper in April 2006. More information can be seen online at <http://www.ifac.org/paib>.

The International Federation of Accountants (IFAC) has also made considerable progress since 2002. It has created a “Sustainability Experts Advisory Panel” (SEAP) to advise its public interest and other committees. The International Auditing and Assurance Standards Board (IAASB), one of IFAC’s “public interest” committees, recently released a comprehensive revision of its Assurance Framework and a related standard (International Standard on Assurance Engagements (ISAE) 3000)³, which cover a wide range of assurance engagements, including those on sustainability reports. IFAC is monitoring work done on assuring sustainability reports at the national level by accountancy bodies in countries including Germany, the Netherlands and Sweden, and by the European Federation of Accountants (FEE). IFAC is also liaising with the Global Reporting Initiative (GRI) about improving the suitability of future iterations of the GRI Sustainability Reporting Guidelines as criteria for assurance engagements and recently issued a Consultation Paper⁴ on this topic.

IFAC’s Professional Accountants in Business (PAIB) Committee⁵ is also active in the area of sustainability. The PAIB Committee develops publications, including “good practice guidance,” for accountants working in business and the public and not for profit sectors. It recently approved a three-year sustainability work plan covering education and awareness building, the development of good practice guidance, research and liaison/partnership activities.

IFAC itself has recently published guidance on environmental management accounting (EMA)⁶ authored for IFAC by the Division of Sustainable

1 http://www.iasb.org/current/active_projects.asp?showPageContent=no&xml=16_178_116_02112005.htm

2 http://www.iasb.org/uploaded_files/documents/8_891_DPMComm.pdf

3 <http://ifac.org/Store/Details.tmp?SID=1141163071358587>

4 <http://www.ifac.org/Store/Details.tmp?SID=11394984882244172>

5 <http://www.ifac.org/paib/>

Development of the United Nations Department of Economic and Social Affairs (UNDESA/DSD). Another joint publication project might follow.

FEE has produced a number of publications and studies on various sustainability related topics since 2002 including sustainability assurance, greenhouse gases, emissions trading and the supply chain.⁷

National accountancy bodies are increasing their sustainability profiles. As noted above, many have either developed or are developing standards for assurance on corporate sustainability reports. A joint project of the American Institute of Certified Public Accountants (AICPA) and the Canadian Institute of Chartered Accountants (CICA) resulted in guidance on assurance regarding emissions information.⁸ In 2004 the Institute of Chartered Accountants in England and Wales (ICAEW) published *Sustainability: The role of accountants*⁹ as part of its "Information for Better Markets" project. CPA Australia (CPAA) maintains a database of sustainability assurance reports¹⁰ and, in conjunction with the University of Sydney, has recently announced a major project to improve the effectiveness of internal mechanisms for gathering data for inclusion in sustainability reports.¹¹

The Association of Chartered Certified Accountants' (ACCA) sustainability reporting award scheme¹² now runs in many countries including developing ones like Indonesia, Pakistan and Sri Lanka. In Europe, an increasing number of national accountancy bodies run domestic sustainability reporting award schemes and 15 countries participate in the European Sustainability Reporting Award programme.¹³ In 2002, the Dutch Royal Institute for Registered Accountants (NIVRA) published an international survey on "Sustainability Reporting and Assurance Engagements." Certified General Accountants (CGA) Canada has recently launched a major study of the sustainability reporting experience in Canada¹⁴ and the CICA has recently issued draft guidance about the public company disclosure of the financial impact of climate change and other environmental issues.¹⁵

Much of the activity described above is directed at listed companies and is being undertaken either by the larger accounting firms or the larger, better resourced accounting institutes. Smaller accounting practices also need to enhance their sustainability competencies. The recent award by the EU Small Facility Project to ACCA Pakistan to run a programme on communicating sustainable business practices is a rare example of the profession engaging directly with the SME community on sustainability.¹⁶

With respect to the profession playing a more prominent role in emphasising the strategic value of sustainability data, this is evident in the ICAEW and CPAA initiatives referenced above, and in publications such as the ACCA's *The Big Picture – How the envi-*

*ronment influences corporate profit*¹⁷ and FEE's *Supply Chain Key Element in the Management of Business Risk*.¹⁸

Accounting firms are also undertaking significant initiatives that establish them as key players in sustainability related services, e.g. the triennial KPMG *International Survey of Corporate Responsibility Reporting*,¹⁹ published most recently in 2005, the Deloitte *Sustainability Reporting Scorecard*²⁰ and PwC's *Sustainability Yearbook*.²¹ In 2002 Ernst & Young published a survey on corporate social responsibility within global companies and continues to do national level surveys.

Future challenges

What we said in 2002: promote introduction of sustainability issues into educational curriculum; international accounting and auditing standard setters putting sustainable development on the agenda; work with academic community to develop standardised techniques of full cost accounting and mechanisms for environmental financing...

6 <http://www.ifac.org/Store/Details.tmp?SID=1123595939318284>

7 http://www.fee.be/currentissues/default.asp?events=True&library_ref=5&category_ref=139&private=False

8 <https://www.cpa2biz.com/CS2000/Products/CPA2BIZ/Publications/Sub+4/Attest+Engagements+on+Greenhouse+Gas+Emissions+Information++SOP+No.+03-2.htm>

9 http://www.icaew.co.uk/policy/index.cfm?AUB=TB2I_71159IMNXI_71159

10 http://www.cpaustralia.com.au/cps/rde/xchg/SID-3F57FEDF-421D8CF2/cpa/hs.xsl/14131_8144_ENA_HTML.htm

11 http://www.cpaustralia.com.au/cps/rde/xchg/SID-3F57FEDF-8C1A839C/cpa/hs.xsl/1019_14967_ENA_HTML.htm

12 <http://www.accaglobal.com/sustainability/awards/>

13 <http://www.acca.co.uk/sustainability/awards/esra/>

14 http://www.cga-canada.org/web/ca_rep_2005-06_sustainability_overview.htm

15 http://www.cica.ca/multimedia/Download_Library/Research_Guidance/MDandA_Business_Reporting/English/E_CPRB_Discussion_Brief_2005.pdf

16 <http://www.euspf.org/projects.html>

17 <http://www.accaglobal.com/pdfs/environment/bigpicture.pdf>

18 http://www.fee.be/publications/default.asp?content_ref=389&library_ref=4

19 [http://www.kpmg.com/Rut2000_Prod/Documents/7/KPMG%20Intl%20CR%20Survey%202005%20\(web%20version\).pdf](http://www.kpmg.com/Rut2000_Prod/Documents/7/KPMG%20Intl%20CR%20Survey%202005%20(web%20version).pdf)

20 <http://www.deloitte.com/dtt/research/0,1015,sid%253D1084%2526cid%253D4065,00.html>

21 [http://www.pwcglobal.com/extweb/pwcpublishations.nsf/docid/2EA22C0D60C21546852570980070390E/\\$file/Sustainability_Yearbook_2005_short_version.pdf](http://www.pwcglobal.com/extweb/pwcpublishations.nsf/docid/2EA22C0D60C21546852570980070390E/$file/Sustainability_Yearbook_2005_short_version.pdf)

Progress 2002–2005

The modern accounting curriculum is crowded with many different disciplines and issues competing for attention. The International Education Standards (IES)²² issued by IFAC's International Accounting Education Standards Board (IAESB) now address sustainability issues. IES 2 prescribes the accounting and finance knowledge, plus business knowledge required of professional accountants, and now includes "the use of non-financial performance measures in business" and "an understanding of environmental issues and sustainable development." Some national accounting bodies have gone further and introduced more precise requirements identifying issues such as environmental accounting and sustainability assurance. FEE has recently conducted a survey among its members addressing environmental/sustainability issues in the curriculum.

Since 2002, emissions and futures trading schemes have been set up and pro-sustainability initiatives like the Equator (project finance) Principles launched. In this area, the accounting profession is largely represented by the "Big Four" accounting firms which all provide highly specialised advice on environmental finance issues.

Progress on developing worked-through schemes of full-cost accounting (FCA) has been slower than expected. Detailed guidance on the environmental aspects of FCA was published by the Chartered Institute of Management Accountants (CIMA) in 2002. A group of professionally qualified accountants working for the Sustainable Economy Programme of the U.K. think-tank Forum for the Future are building upon this to explore the societal dimensions of FCA.²³

A number of other relationships have been developed, for example: the aforementioned IFAC/GRI and IFAC/UNDESA partnerships; representatives from the U.K. accounting profession sit on the recently established Governmental Sustainable Procurement Task Force; and the CICA participates in Canada's National Round Table on the Environment and the Economy.

The three-year sustainability work programme announced by IFAC's PAIB Committee, mentioned above, sets out an ambitious set of partnership/liason plans, including the GRI, UNDESA/DSD, and the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting of the United Nations Conference for Trade and Development (UNCTAD/ISAR).²⁴

Finally, IFAC's Developing Nations Committee, in partnership with UNCTAD/ISAR, is assisting in the achievement of *Goal 8 of the Millennium Development Goals—develop a global partnership for development*—through its work programme aimed at fostering the accountancy profession in developing nations.²⁵

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Partnership opportunities

Formal partnerships in the accounting sector most often take the form of research activity—like the recently announced CPAA/University of Sydney initiative noted above. Many accountancy bodies have sponsored research into sustainability issues with an academic partner.

²² <http://www.ifac.org/Store/Details.tmp?SID=106636862293984&Cart=1141591592343405>

²³ http://www.forumforthefuture.org.uk/aboutus/SustainabilityAccounting_page1352.aspx

²⁴ <http://www.unctad.org/Templates/StartPage.asp?intItemID=2531&lang=1>

²⁵ <http://www.unctad.org/templates/webflyer.asp?docid=4907&intItemID=2807&lang=1>