

• Accounting

Advertising

Aluminium

Automotive

Aviation

Chemicals

Coal

Construction

Consulting Engineering

Electricity

Fertilizer

Finance and Insurance

Food and Drink

Information and
Communications Technology

Iron and Steel

Oil and Gas

Railways

Refrigeration

Road Transport

Tourism

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Water Management

Industry as a partner for sustainable development

Accounting

Association of Chartered Certified
Accountants (ACCA)



*Developed through a multi-stakeholder process
facilitated by:*



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Industry as a partner for sustainable development

Accounting

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Disclaimer

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Foreword

The global accountancy profession occupies an important position in world trade – providing the universal ‘language of business’ (the language of bottom lines, gearing and payback) and at the same time acting as an independent referee as to the truth and fairness of published financial statements and the impartiality of public offer documents.

But many people, including many in the profession itself, still see accounting and accountants as remote from any possible contact with the notions of corporate social responsibility and sustainable development. At a recent ceremony in London, where my own body, the Association of Chartered Certified Accountants (ACCA), was presented with the prestigious Queen’s Award for Enterprise, the presenting official, the Lord Lieutenant of London, when told I was leading ACCA’s social and environmental initiatives asked in surprise ‘what has the accounting profession got to do with the environment?’ He was serious.

In reading this report it is important to note that it has not been endorsed by either the International Federation of Accountants (IFAC) or the International Accounting Standards Board (IASB), the major representative and standard setting bodies for the profession. Nevertheless it has been written by an accounting insider; someone who has been intimately involved with the development of ‘green accounting’, and the review process the report has undergone indicates broad support from other involved organisations for the conclusions reached.

The report tries to throw a new light on the accounting profession and on accounting professionals, by detailing the work that has been done since the early-1990s in terms of identifying the roles and responsibilities of the profession, in terms firstly of environmental issues and latterly in response to the broader sustainability imperative

In common, I suspect, with other reports in this series, the results are neither half as bad as we feared, nor half as good as we had originally hoped. And even if we had done all we had been implored to do we would still not be in a position to say ‘that’s it, job done’ because sustainability doesn’t work like that. In the course of researching this report I came across the quote below which perfectly exemplifies the intangible and frustrating nature of the sustainability debate.

For those involved with environmental accounting from the inside, the path from 1992 to 2002 has been an interesting one. It is like a track that started out from well outside the conventional City of Accounting, but eventually it became a road leading to the City’s main gates. In the next few years, we shall see if the City fathers have the courage to open up those gates and embrace the sustainability debate in the fullest sense.

‘Sustainability is an ideal end-state. Like democracy, it is a lofty ideal whose perfect realisation eludes us. For this reason, there will always be competing definitions of sustainability. We know these definitions will always include the well-being of people, nature, our economy and our social institutions, working together effectively over the long-term. But as the process of attempting to achieve sustainability will continuously reveal new challenges and questions – pushing back the horizons as it were – a definitive definition is impossible.’⁽¹⁾

(1) Atkinson A. (1998) *The compass of sustainability: framework for a comprehensive information system*

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All these people have, over the last decade or more, given generously of their time and resource, believing that the accounting profession had a contribution make. My gratitude to them does not excuse me for any remaining faults in this paper.

Roger Adams, Executive Director – Technical, Association of Chartered Certified Accountants (ACCA)

Executive summary

Introduction

Accountants occupy various roles in world commerce. Many accountants (of varying descriptions – financial accountants, management accountants, internal auditors, etc.) occupy vital – and often highly placed – positions in industry and commerce and in the public sector. Others work in professional firms of auditors. These firms provide auditing, taxation, accounting and a range of consultancy services to every conceivable branch of society – from multinationals to governments, from small and medium-sized enterprises (SMEs) to international charities and local non-governmental organisations.

Although the accounting sector itself might be considered a relatively low-impact sector in terms of direct environmental and social impacts, it is the accountant's involvement in the twin issues of organisational decision-making and external reporting that imposes on the accounting profession the responsibility for understanding, absorbing and articulating the implications of the sustainable development debate. The importance of the role of the accounting profession should not be under-stated. Global capital markets are heavily dependent on the intermediary/assurance role that accountants occupy – whether as auditors of listed company financial statements or as reporting accountants in initial public offerings. The continuing reverberations from the collapse of United States energy trader Enron demonstrate the intimacy of the relationship between the profession and the market.

This sectoral report presents a description of the global profession in early 2002, and examines the steps that the various strata of the profession – the (several million) individual accountants working in industry or the public sector; the 150 or so professional institutes

that comprise the International Federation of Accountants, the major transnational accounting firms (the 'Big 5'), and the many small and medium sized practices, have taken in response to the emerging sustainable development debate.

As will be explored in more detail below, the accounting profession first addressed environmental issues directly in 1990⁽²⁾ and, since then, progress has been achieved on many fronts.

Progress is, however, contingent on the availability of an appropriate mix of resources and concern on the one hand, and the pressure from competing issues on the other. There is little doubt that the accounting profession has, at some levels, a sufficiency of tangible and intellectual resources and concern to be able – theoretically – to address social, environmental and sustainable development issues with the appropriate degree of urgency. It is perhaps the competing issues of the 1990s that have meant that progress in engaging with the sustainable development debate has not been as rapid as some would have hoped. These competing issues are ongoing and include:

- the technological revolution that has occurred in the last decade. Accountants have been deeply impacted by the internet revolution, touching as it does every aspect of their work including such issues as e-commerce, real-time reporting, Web-based reporting and new reporting languages (e.g. XBRL);
- the emergence of global and regional quality control issues – culminating for the accounting profession in the Far East financial crisis (1997 to 1998) which has, following pressure from the World Bank and others, led to a subsequent high-level focus on professional restructuring and monitoring issues. The Enron collapse,

(2) The choice of 1990 as a launch date for the profession's interest in sustainability issues is deliberate as explained below. Nevertheless we should not ignore important earlier contributions such as "Accounting and Society" (Ralph W Estes 1973) and "Corporate Social Reporting" (Gray R, Owen D and Maunders K 1987), nor the public reporting activities of a number of forward looking United States and German companies.

referred to above, looks set to prolong the debate over auditor independence and quality control;

- the convergence of global capital markets – which has led international (and national) accounting standard setters in both the financial reporting and auditing fields, to concentrate their resources on capital market focused convergence issues, often to the exclusion from explicit consideration of social, environmental and sustainable development issues.

Given the magnitude of the challenges posed by the above issues, it seems fair to acknowledge, as the Institute of Chartered Accountants in England & Wales (ICAEW) comments on the first draft of this report point out, that ‘it [the sustainability debate] is prone to inclusive political correctness and the accounting profession should not attempt to respond to all the different agendas and expectations’.

An alternative (and more challenging) view was expressed by Professor Rob Gray, director of the Centre for Social and Environmental Accounting Research at the University of Glasgow: *‘Throughout the report (it first appears in the executive summary) I would have liked to have seen more recognition that there are conflicts between good business practice and social, environmental and sustainability issues. If the new agenda can be driven entirely by what makes good business sense then the only reason we have not made more progress is because business people are stupid or otherwise distracted. This is not an entirely plausible explanation. There are issues of a social, environmental and sustainability nature for which no business case can exist – I would like us all to recognise this more often and more explicitly. While the report does recognise some of the limits to voluntary action (for example in environmental reporting) I do think that this needs to be extended. This theme appears in a number of my other comments.’*

Balancing these two views of the profession’s responsibilities is a difficult task. This report tries to present an objective view of the many areas where the profession has indeed made progress, and the equally numerous opportunities where more (sometimes much more) could be done.

One important point that needs to be stressed in the executive summary is that this report does not recommend that existing financial reporting standards be merged with sustainability reporting standards. That does not mean, however, that the annual report package as a whole should not be enlarged to recognise the new realities of the information demands of the market place. The recent reported growth in socially responsible investment indicates that such investors will in all probability have information needs that are not properly satisfied by current financial GAAP.

Positive aspects of the profession’s ten year progress since Rio:

- **Developing the conceptual underpinnings for environmental and sustainability reporting.** Drawing upon nearly half a century’s thinking on the conceptual framework underpinning financial reporting, the accounting profession has been able to contribute significantly to the environmental and sustainability reporting frameworks developed by FEE and GRI respectively. The conceptual frameworks and related statements developed by accounting standard setters (such as IASC and FASB) have proved very adaptable to an alternative reporting scenario – whether environmental, social or sustainability focused.
- **Encouraging environmental, social and sustainability reporting.** The national and regional environmental and sustainability reporting award schemes established by almost 20 of the world’s leading accounting

bodies have had a significant influence on the take-up of environmental and related forms of reporting and, due to the inclusive nature of the award procedures, have established a consistent benchmark for the quality of wider public reporting.

- **Exploring corporate governance and accountability issues.** Probably the first principles – based code of corporate governance to emerge after the excesses of the 1980s was the United Kingdom's 'Cadbury Code' in 1992. Adopted by many countries, this code has been revisited and expanded in subsequent studies, culminating in the recent Turnbull (1999 – United Kingdom) and King (2001 – South Africa) reports, both of which embrace issues such as non-financial reporting (including social and environmental issues) and reputational risk management processes (covering ethical, environmental and social risk issues). The accounting profession has been deeply involved in the development of these governance codes.
- **Expanding the boundaries of accounting.** The accounting profession has been centrally involved – as one would expect – in the development of new areas of accounting, areas that are increasingly seen to be important tools in the drive for sustainability at the corporate level. A subsequent section of this report will deal with this issue in more depth, but particular issues where progress has been made include:
 - environmental financial accounting (for external reporting to financial stakeholders),
 - environmental management accounting (for internal decision-making and reporting purposes),
 - sustainability accounting (accounting for the social, economic and environmental aspects of decision-making).
- **Developing appropriate verification methodologies.** The major internationally-based accounting firms have moved swiftly to develop verification methodologies appropriate to the new forms of corporate reporting. Shell, for example, might have found it more difficult to recoup its reputation subsequent to Brent Spar and Nigeria, had it not been for the global coverage and global reputation of PricewaterhouseCoopers and KPMG, the joint verifiers of Shell's annual Report to Society. That said, the verification approaches developed by the accounting firms and their non-accounting profession rivals have been criticised for saying too little about real performance.
- **Influencing corporate behaviour.** A significant part of the sustainable development role that the accounting profession plays reflects the consulting and advisory roles of the professional firms – especially the so-called 'Big 5'. Despite the business risks involved, these large accounting firms have recognised the need to create multi-disciplinary teams and contribute financial and intellectual resources commensurate with the need of the multi-national companies they service.
- **Contributions outside.** The accounting profession has contributed significantly to initiatives originating from outside the profession. Examples include:
 - the UNCTAD/ISAR environmental accounting programme, which has undertaken training in a dozen developing or transitional economies;
 - the sustainability reporting guidelines of the Global Reporting Initiative (GRI)

– covering both the conceptual framework, boundary issues and verification aspects of sustainability reporting - where both the Canadian Institute of Chartered Accountants (CICA) and the Association of Chartered Certified Accountants (ACCA) have provided substantial long-term financial resources.

Negative issues – issues requiring more positive thought.

Despite the very specific positives reported above (and developed in subsequent sections) there remain some concerns regarding the profession's contribution to the post-Rio agenda. These include:

- **Lack of global standard setter involvement.** To date, with the exception of IAS 37 which uses a few environmental scenarios to illustrate the practical accounting for liabilities and provisions, there are no international financial reporting or auditing standards dealing explicitly with social, environmental or sustainability accounting, reporting or auditing issues. An International Auditing Practice Statement (not quite as authoritative as a standard) *The consideration of environmental matters in the audit of financial statements* was issued by the International Auditing Practices Committee in 1998, and a potential standard for the verification of environmental reports is under review by the International Audit and Assurance Standards Board (IAASB) at present.
- **Failure to sell environmental issues down below the Big 5 – to small practitioners and SMEs.** At the multinational level of engagement, the accounting profession – largely represented by the Big 5 accounting firms – has a good record of working with corporate clients on social, environmental and sustainable development issues.

Further down the size scale, however, as we approach smaller and medium-sized entities, there is less evidence that accounting firms – or institutes – are taking these issues sufficiently seriously. As CICA has noted, however, even within the Big 5 firms, real engagement with sustainability-related issues may be limited to relatively small specialist groups.

- **Accountants fail to join up with other groups – such as environmental economists – to develop appropriate environmental costing techniques.** It is noticeable that many of the advances in environmental accounting – particularly at the management accounting and strategic sustainability accounting levels – are being carried out by non-accounting based organisations. These include the United States Environmental Protection Agency (EPA – United States) and the Tellus Institute (also United States), Forum for the Future (FoF – United Kingdom), the Japanese Environmental Protection Agency and the World Resources Institute (WRI – United States).
- **A new expectation gap on assurance issues.** The experience of developing an assurance framework for sustainability reporting (through both GRI and FEE) has demonstrated that – despite the very positive contributions the profession has to make on both the technical and conceptual aspects of assurance provision – there is a danger of a new expectation gap related to independence and competence issues. The accounting profession should not assume that its statutory monopoly of the financial statement audit and attest function can be extended unopposed into the area of assurance provision for environmental, social and sustainability reporting purposes. In such areas, the stakeholders' groups are different – and possibly more vocal – and have different expectations regarding consultation and involvement when contrasted with traditional shareholder groups.

- **Failure to recognise environmental sustainability issues as major strategic/ financial issue that should engage capital market participants.** Despite its intimate involvement with private sector reporting entities and its upfront acknowledgement of the importance of environmental issues, the accounting profession itself has failed to make a significant impact on the views of the financial community – especially the investment analysts and fund managers
- **Failure to advance the business case for environmental and sustainability management.** One result of the failure to sell environmental issues throughout the firm/profession, is that accountants are all too infrequently involved in making the business case for environmental or sustainability management initiatives.
- **Lack of close relationship between accounting function and environmental function.** Despite an improving sustainability reporting track record, industry itself still fails to convince when it comes to integrating and reconciling the roles of the internal sustainability team on the one hand and financial/managerial accounting function on the other.
- **Little involvement at in-house level**
Based on the survey outcomes reported in Part 3, accounting firms and institutes have generally proved poor at implementing the sort of environmental procedures and controls that they themselves often recommend to client organisations.

Future potentials/ headline issues

The section below summarises the main conclusions of the report under a series of functional headings. Because of the timescale involved in implementing the majority of the recommendations made below, the

conclusions amount, in effect, to a long-term roadmap directed at taking the profession forward to Johannesburg + 10 – or Earth Summit 3 in 2012.

The recommendations are directed at every aspect of the profession – from the global representative bodies to individual accountants in industry and commerce, to partners in trans-national accounting firms; from financial reporting to sustainability accounting; from corporate governance to accounting education. In other words, there is something for everyone.

It is the hope of the author that the 'future potentials' outlined below can form a central part of a future debate within the profession as to their respective importance and priority.

- 1) Environmental cost and liability disclosures in the annual report and accounts of public companies (environmental financial accounting).
- Despite a great deal of grassroots activity in the environmental accounting area, private sector accounting standards setters at the international (IASB) and national levels have generally chosen to avoid dealing directly with the topic of environmental issues in financial reporting. The recommendations of the UN ISAR group and the EC represent worthy attempts by non-accounting organisations to fill the gap and should be taken forward by IASB and national standard letter.
 - Concerned professional bodies and the regional accounting organisations should put pressure on the IASB to add the issue of environmental financial accounting and reporting to its agenda. In particular, the 1998 FEE memorandum, to the (then) IASC, demonstrating how environmental issues could be integrated into individually

relevant financial reporting standards, should be re-assessed. A free-standing advisory document – based upon the FEE memorandum – would probably satisfy many of those currently calling for greater IASB involvement.

- When reviewing potential environmental disclosures, standard setters should consider the applicability and widespread use of the financial materiality concept. In view of the wider stakeholder group now interested in corporate annual report disclosures, the information content of disclosures of environmental expenditures, fines, penalties and benefits may override conventional notions of materiality.
- 2) Environmental risk management and strategic issues disclosed in the annual report and accounts of public companies (environmental financial accounting/ corporate governance).
- In view of recent (CSR/SRI) developments in the financial marketplace, accounting standard setters should take a broader review of their remit vis à vis financial statements, and require an explicit consideration of social and environmental issues as part of management's regular overview of the business.
 - Accountants generally need to become more aware of the impact that social and environmental issues can have on their risk assessment exercises – this awareness gap needs to be dealt with through the educational and continuing professional development processes.
 - The accounting profession – which has been centrally involved in the development of contemporary attitudes towards corporate governance – should seek to understand and incorporate social, environmental and sustainability related issues into national codes of corporate governance.
- 3) Identification and allocation of environmental costs (and cost drivers) and benefits within internal accounting systems (environmental management accounting).
- Significant advances in our understanding of environmental costs and strategic cost management have been made, but unless environmental management accounting is addressed at the global level by the International Federation of Accountants, or by the regional accountancy groups such as FEE, the accounting profession is in danger of relinquishing responsibility for environmental management accounting issues to non-accounting groups.
 - More needs to be done to convert the environmental management accounting experiences of the last decade into formal education and training materials for the next generation of management accountants. Similarly, there is a need to provide continuing education to already qualified accountants in industry and commerce who fall outside the mandatory continuing professional education requirements of the mainstream accountancy bodies.
- 4) Emissions trading regimes and economic environmental instruments such as land-fill taxes (environmental finance/financial management).
- The financial accounting and reporting steps under-pinning the emergence of emissions trading regimes should be thought through in the form of an accounting standard at the international level as an adjunct to (or integral part of) a revised IAS 39 (in the same way that environmental issues are explicitly dealt with – through the medium of practical examples – in IAS 37).

- The accounting profession generally is well-placed to commission research to explore the impacts of environmental taxation regimes.
- 5) Accounting for stocks of flora and fauna (accounting for bio-diversity) and accounting for the quantity (and quality?) of so-called 'natural capital' (environmental accounting)
- Although bio-diversity, and the impact of corporate activity on bio-diversity, is a subject of increasing interest, there is probably no need for any formal accounting standard or guidance in this area as yet. For relevant industry sectors – for example farming, forestry and the extractive industries – companies will respond appropriately to the disclosure demands of an increasingly alert investor community.
 - At the research level, however, as an essential under-pinning for the sustainability reporting exercises with which it is increasingly becoming involved, the accounting profession should become involved in the development of inventories for bio-diversity and natural capital.
- 6) Identifying, measuring and reporting on the environmental impacts of organisational activity (environmental reporting).
- Environmental reporting is still practised by only a tiny minority of the world's companies. Proponents of greater corporate accountability should not assume that environmental reporting is a 'done deal'.
 - Accountants provide a wide range of services to industry and are well-placed to encourage and assist non-reporting employers and clients to enter the environmental reporting process.
- For non-listed and smaller companies a simpler environmental reporting framework – perhaps focusing on energy, water, waste and CO₂ emissions – could be linked to the taxation system to reward more efficient companies. Accountants as business advisers are well placed to assist on the reporting under these headings.
 - The accounting profession has a role to play in developing a more integrated form of reporting – in which key environmental, social and sustainability indicators are presented to shareholders and other stakeholders within the statutory annual report and accounts package. This does not mean, however, that the conventional financial reporting standards framework has to change its base set of rules.
- 7) Identifying, measuring and reporting the social impacts of organisations (social accounting and reporting).
- The investor community is increasingly demanding CSR-based performance/ impact data. The accounting profession should not be deterred from addressing social and sustainability related issues simply because of the overtly political nature of some of the issues involved.
 - Experience has already shown that some social issues are susceptible to management processes – for example, the environment, health and safety management systems. Both GRI and CSR Europe have set out relatively straightforward examples of CSR disclosures.
 - Care will need to be taken in determining and prioritising appropriate items for financial disclosure purposes – reporters themselves may still wish to distinguish between reports directed at capital market participants and others.

- 8) Measuring and costing physical emissions and social externalities so as to compute sustainable levels of profit (full cost – sustainability – accounting).
- The accounting profession should continue to work with the corporate sector and researchers from disciplines outside the accounting field to construct a fully fledged and robust FCA investment appraisal methodology.
 - The accounting profession, industry and government should consult on the extent to which sustainable cost measurement calculations and provisions could (eventually) become acceptable for corporate taxation purposes.
- 9) Reporting on the economic, environmental and social aspects of organisational activity (sustainability reporting).
- The major global standard setting bodies such as IASB and IFAC need to extend their respective agendas to incorporate partnership arrangements with bodies such as GRI – especially when public reporting and corresponding assurance provision provide such obvious examples of overlapping interests.
 - The major global international standard setting bodies such as IASB and IFAC need to embark on an internal educational process to properly deal with emerging issues such as sustainability reporting and related assurance issues: this may entail revisiting and expanding their existing financial reporting and assurance provision frameworks.
- 10) Verification of environment/sustainability reports (assurance provision).
- The accounting profession should continue to use its expertise and resource to develop verification standards for social and sustainability reporting but should be seen to be as inclusive as possible in the developmental process.
 - Verification partnerships marrying the resources of the Big 5 with the reputation and knowledge of relevant NGOs represent a potential model for future verification activity.
 - The profession generally could become more obviously involved in management systems certification (e.g. ISO 14001 etc.).
 - All the above points argue for a substantial revision to the way in which auditors are educated and trained.
- 11) Providing consulting services in the area of environment, sustainability or reputation issues (consulting).
- The accounting profession has tremendous potential to support industry in developing environmental and sustainability solutions. In order to remain credible in the marketplace – and in the eyes of the wider stakeholder circle – accounting firms need to ensure that they maintain their independence and objectivity at all times.
 - Accounting firms could do more to internalise and publicise the work they carry out and the solutions they provide. There is a need to create a learning profession, and the major firms are an integral part of the learning and dissemination process.
- 12) Creating internal environmental management systems and initiating external triple bottom line reporting.
- Both at the firm level and at the institute level more could be done to both manage and report on environmental, social and sustainability issues.

- There needs to be some work on sector specific indicators for the profession.

13) Accounting education.

- The education and training regimes of prospective accountants should be modernised to reflect the importance and ubiquitousness of social, environmental and sustainable development related issues. It would be best if these issues were fully integrated into the normal accounting, auditing and taxation syllabi in much the same way as IT issues are now treated. This recommendation applies as much to university programmes as to the professional syllabi of the accounting bodies.
- The continuing professional development programmes (CPD) run for accountants by their professional bodies should also reflect the growing strategic importance of social, environmental and sustainable development related issues.
- The Education Committee of the International Federation of Accountants should add this issue to its agenda – especially as it is currently considering the development of a global benchmark accounting curriculum. For IFAC this is an opportunity to lead that should not be overlooked.

Conclusion

Accountants operate globally and across all industry sectors – they are thus well placed to argue the business case for sustainable development – once they have the tools to do so!

As of end 2001, a great deal of developmental work has already been done, and many of the requisite skills are generally available – even though considerable amounts of profession-wide training are still required. Nevertheless, only a tiny handful of professional bodies are

currently using (or even anticipating using) their syllabi as a means of promoting environmental or sustainable development issues. To date, almost all the responsibility for engaging in the sustainability debate has been absorbed by a small number of professional institutes, the Big 5 firms and a number of forward-looking accounting academics.

A key issue in determining whether or not the profession can progress and take up the responsibilities for which it is well equipped, is the extent to which the key global representative bodies – the International Federation of Accountants (IFAC) and the International Accounting Standards Board (IASB) – are prepared to take a broader view of their public interest roles. The major representatives bodies of the accounting profession – the IFAC and the IASB – should add social, environmental and sustainable development issues to their core agendas as a matter of urgency.

The main areas of concern at the global level are:

- The failure to explore how environmental and social issues (and related risk issues) might be integrated into financial reporting standards generally
- The deferral of a standard on verification of environmental reports (currently on the agenda of the International Auditing Practices Committee – now renamed the International Audit and Assurance Standards Board)
- The absence of any strategic plan at the IFAC level for dealing with social, environmental or sustainable development related issues. This is probably of greatest concern in the areas of accountancy education and financial management.

Part 2: The accounting profession and sustainable development aspects (facts and figures)

2.1 Introduction

The structure of the global accounting profession. The International Federation of Accountants (IFAC) is the global representative body for the accountancy profession. It currently represents over 150 member bodies in over 110 countries and represents approximately two million accountants worldwide. IFAC's objective is to develop the profession and harmonise its standards world-wide to enable accountants to provide services of consistently high quality in the public interest.

IFAC issues guidance in six areas: auditing and related services; education; ethics; financial and management accounting; information technology; and public sector accounting. International standards for private sector financial reporting purposes are issued by the International Accounting Standards Board (IASB), once a sub-committee of IFAC, but now an independent and unrelated organisation.

Standards (such as international standards on auditing – ISAs) and related guidance are developed centrally by committees and working parties drawn from the worldwide profession. International standards are not always mandatory in the local national context however. In the United Kingdom for example, the financial reporting standards issued by the United Kingdom Accounting Standards Board (ASB) take precedence over the international financial reporting standards (IFRSs) issued by the IASB. This situation is mirrored across Europe – except where local legislation allows the use of either local or international standards. From 2005, all listed companies within the European Union will be required to use IFRS's.

Many developing countries adopt international standards because such standards provide better access to international capital markets and are simultaneously less expensive to develop. Via its Web site, IFAC makes guidance materials available to all national accounting bodies⁽³⁾. It is these national bodies that exercise the governance function within IFAC. Day to day functions such as education and training, service provision and regulation are generally provided on a national basis.

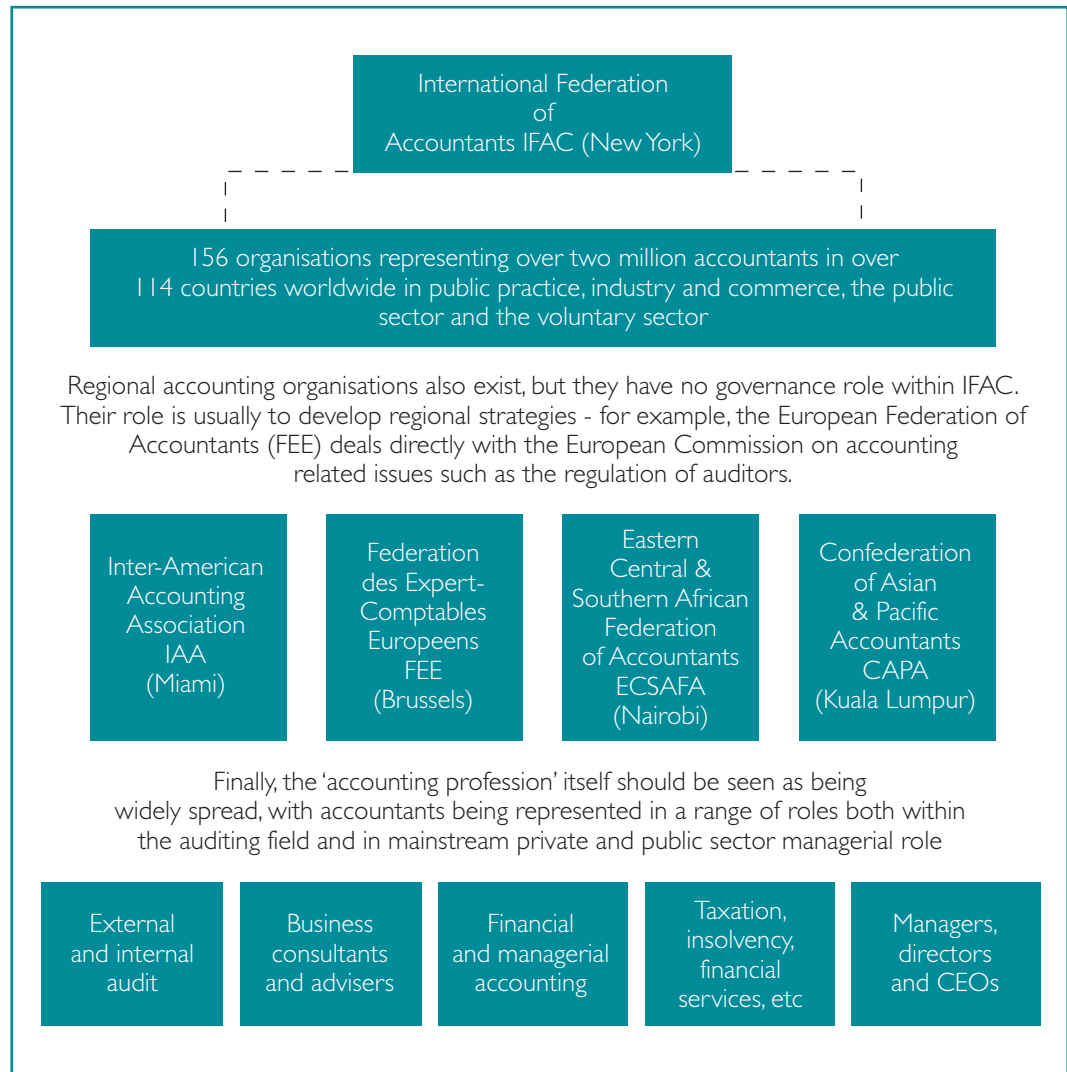
The member bodies of IFAC range from large international and national bodies (often with combined student and membership numbers exceeding 200,000 – in China, the United Kingdom and the United States for example) to much smaller national bodies covering developed European countries and developing and transitional economies with only a few hundred members and students.

As indicated above, the membership of IFAC member bodies may be characterised as follows:

- those working as financial statement auditors in practising firms or as internal auditors in both the private and public sectors,
- those working as financial or managerial accountants in industry and commerce,
- those working in the public sector (including those working in health, education and research),
- those working in the voluntary sector,
- those working in general management roles including finance directors and CEOs.

No accurate figures exist to flesh out the above analysis. Indeed, attempts to estimate the actual size of the profession are complicated by the fact that in some countries,

(3) Note: there may be more than one national accounting organisation: in the United Kingdom and the Republic of Ireland, for example, there are no less than six distinct accountancy bodies, each of which is a member of IFAC.



accountants who leave practising firms to move across into industry and commerce are sometimes deemed to have left the profession and may no longer be included in the statistics. At the same time there are many bodies of book-keepers and accountants that, for historical reasons often connected with their lack of rights to audit public companies, have not been admitted to the membership of IFAC.

There will also be a number of people working in both the private and the public sector who occupy accounting roles, but who are never accounted for as accountants in the

IFAC sense. This group includes many of those termed 'accounting technicians'. A similar fate awaits non-accountants who work in the field of internal audit, often alongside or in charge of professionally qualified accountants.

The economics of the global accounting profession. The partnership ownership structure of accounting firms means that few useful financial statistics are available for the accounting sector. The only area where financial statistics are regularly monitored is in respect of the fee income of the larger national and trans-national accounting firms. Although there are many thousands of individual

practices, the public practice strata of the profession is usually dominated at both the national and transnational level by five major accounting firms:

- Andersen (formerly Arthur Andersen),
- Deloitte & Touche,
- Ernst & Young,
- KPMG,
- PwC (PricewaterhouseCoopers).

The so-called 'Big 5' accountancy firms continue to dominate the parallel fields of audit, consultancy and tax advice. Whittled down from the Big 8 of some 20 years ago, further voluntary concentration in the professional firm market seems unlikely given the competition concerns of the United States and EU.

The influence of the Big 5 is highly significant. With offices or partner firms in almost every country in the world, it is to the Big 5 that multinational companies turn when seeking annual assurance statements, global consulting advice or assistance in accessing new finance. The gross revenues of the Big 5 in 2000 amounted to approximately USD63.2 billion⁽⁴⁾. In the United Kingdom they are responsible for the audits of 100% of the FTSE 100, while in the United States they account for the audits of almost all (95% +) of the Fortune 500. A similar pattern is repeated in most developed economies.

2.2 Environmental, social and sustainability accounting and reporting and other activities of the global accountancy profession

The key contributions of the accounting profession towards furthering the objectives of Rio will be to:

- work with industry to develop innovative accounting and audit – based solutions to challenges facing industry,
- develop in-house environmental management and reporting systems,
- to energise its members to become more engaged with sustainable development issues,
- to educate future members so that sustainable development is seen as a central tenet of business and professional activity.

It is fair to say that it is only since 1990 that the accounting profession generally has recognised any direct obligation to enter into the debate over environmental and sustainable development issues. The year 1990 is selected because that year marked the publication of *The Greening of Accountancy: the profession after Pearce*⁽⁵⁾ by Professor Rob Gray (ACCA 1990), the first major study to focus on the link between the accounting profession and the rapidly escalating environmental debate.

This short section highlights the principal areas of accounting profession activity since 1990 under the following four headings:

- environmental, social and sustainability accounting and reporting;
- sustainability advisory and assurance services;
- internal environmental management systems development and triple bottom line reporting;
- educational activities.

Environmental, social and sustainability accounting and reporting. There is no singular definition of environmental, social and sustainability accounting and reporting that will satisfy all-comers. It is a large field and has no real fixed boundaries.

⁽⁴⁾ International Accounting Bulletin 23/12/00).

⁽⁵⁾ Blueprint for a Green Economy (The Pearce Report) Professor David Pearce et al – Earthscan, London 1989)

An indication of the breadth of the field is given in the list of issues below:

- environmental cost and liability disclosures in the annual report and accounts of public companies (environmental financial accounting);
- environmental risk management and strategic issues disclosed in the annual report and accounts of public companies (environmental financial accounting/corporate governance);
- identification and allocation of environmental costs (and cost drivers) within internal accounting systems (environmental management accounting);
- emissions trading regimes and economic environmental instruments such as land-fill taxes (environmental finance/financial management);
- accounting for the quantity (and quality?) of so-called 'natural capital' (environmental accounting);
- identifying, measuring and reporting on the environmental impacts of organisational activity (environmental reporting);
- accounting for stocks of flora and fauna (accounting for bio-diversity);
- identifying, measuring and reporting the social impacts of organisations (social accounting and reporting);
- measuring and costing physical emissions and social externalities so as to compute sustainable levels of profit (full cost – sustainability – accounting);
- reporting on the economic, environmental and social aspects of organisational activity (sustainability reporting).

One of the surprising findings of any review of environmental accounting is that if you try to superimpose a detailed schematic of environmental accounting – as it stands at end-2001 – onto a detailed map of what is normally recognised as the 'global accounting profession', there is no complete contiguity. Certainly there are areas of overlap, where the accounting profession can be rightly credited

with certain very positive contributions, but there will also be areas where social and

environmental accounting seems to exist in the absence of any obvious contribution from the recognised profession. Some examples:

- the United States Environmental Protection Agency's environmental accounting project, now a decade old;
- the sustainability cost computations of the United Kingdom's Forum for the Future;
- the environmental accounting blueprint programme of the United Nations ISAR group;
- the environmental management accounting work fostered by the European Commission and latterly pursued by the UN Commission on Sustainable Development.

More will be said about this breakdown in traditional expertise boundaries later in this paper:

Sustainability advisory and assurance services. In addition to the core accounting reporting activities identified above, the accounting profession (mainly at the Big 5 level) is also involved in the provision of environmental, social and sustainability advisory (consultancy), due diligence and assurance services. These will be described in more detail later in this paper:

Internal environmental management systems development and triple bottom line reporting. The spread of ISO 14000 type environmental management systems and triple bottom line reporting will no doubt be commented on in all of the other sectoral companion volumes to this piece. To the extent that EMS developments in the industry and commerce area are likely to be covered by other chapters, this report will limit its discussion to the extent to which professional accountancy bodies and their member firms have made

progress in this area. Given the relatively low environmental impact of most professional bodies it is not surprising that reported examples are few and far between. The reporting activities of the profession itself, such as they are, will also be discussed under this heading. The activities of professional firms as management systems certifiers should also not be overlooked.

Educational activities

One element of the licence to operate granted by regulatory authorities to professional accountancy bodies involves developing an appropriate education and training regime. This ensures the competence of newly qualified accountants and the continued competence of older accountants. Environmental and sustainable development issues have yet to make a major inroad on schemes of professional training and continuing professional development. This paper reviews some isolated examples and makes some specific recommendations in this regard.

2.3 The impact of the accountancy profession: Direct vs indirect

As already indicated, the accounting profession operates at various different levels of national economies – at the accounting firm level and at the level of the individual accountant working within industry and commerce or the public/NGO sectors. For convenience, the following discussion of direct/indirect effects assumes that:

- direct effects = the direct effects of professional accounting firms,
- indirect effects = the upstream and downstream impacts of accountants working either within professional accounting firms or in industry and commerce or in the public/NGO sector.

2.3.1 Economic aspects: direct/indirect

The accountancy profession is essentially a service industry. There are both direct and indirect aspects to this:

- Direct: As noted above, gross revenues of the Big 5 accounting firms amounted to \$63.2 billion in the year 2000. Although no accurate statistics are available, it would not be unreasonable to suggest that gross revenues for the public practice part of the accounting profession might amount to something in excess of \$100 billion per year worldwide. Accountancy firms for the most part are structured as partnerships and are therefore not required to publish annual accounts. It is therefore difficult to be much more precise concerning the direct wealth creation impact of the profession. Likewise it is hard to identify the direct economic impacts of accountants working in industry or the public sector.
- Indirect: The profession makes significant indirect economic contributions in various ways, including:
 - determining the financial strategies (including investment appraisal) of all companies – worldwide – ranging from SME to MNC in scale,
 - providing a level of independent assurance on annual report and accounts packages (as well as IPO & M&A prospectus) that represents a major under-pinning for overall capital market efficiency and confidence,
 - providing business consultancy advice to organisations in both the public and private sector,
 - acting in a business and financial mentor capacity to small and medium sized enterprises (SMEs),
 - providing personal finance and taxation services and advice to individuals.

Certainly the first of these roles is crucial to our aspirations to achieve a sustainable society.

2.3.2 Environmental impacts: Direct/indirect

For the purposes of this section, to avoid the possibility of double counting, this discussion focuses on direct impacts of the professional institute and public practice part of the profession only, but does take a wider view on possible indirect environmental impacts. At the direct level the most significant impacts are:

- energy use in buildings,
- paper use,
- transport (including commuting) related emissions.

Energy and paper are issues that, given the will, are usually amenable to local management and reduction. With regard to transport, however, accounting institutes and professional firms will need to take strategic decisions relating to (a) the dispersal or concentration of competencies and (b) the assumed value of face to face meetings as compared with the use of interactive video or telephone conferencing technology.

With few exceptions (ACCA, KPMG, the New Zealand Institute of Chartered Accountants and Royal NIVRA), there is little evidence that the direct environmental impacts are being addressed by either professional institutes or their member firms. The Association of Chartered Certified Accountants (United Kingdom) is the only professional institute so far to publish data on its direct environmental impact.

At the indirect level the main environmental impacts are:

- upstream energy use (office/transportation etc);
- involvement in the development of environmental accounting systems and

decision making processes (e.g. capital investment appraisal) either at the industry level or via the academic research process;

- the marginal impact of environmental advice – which could be either negative or positive. Most large accounting firms now have environmental units providing consulting advice. Hopefully the result of their endeavours is positive!
- the provision of education and training opportunities in the environmental area – or published research reflecting trends in best practice. Once again, one hopes that this results in a positive outcome.

2.3.3 Social aspects: Direct/indirect

At the social level the profession can also have direct and indirect impacts.

At the direct level, the profession needs to consider issues such as:

- health and safety;
- employee issues including: work/life balance, ethnicity, disablement, gender, ageism;
- training and development.

Less obvious, but still nevertheless of direct importance to global accounting firms and international accounting institutes, are issues relating to human rights and relationships with oppressive regimes.

At the indirect level, accountants need to consider issues such as:

- the social impact of economic decisions such as restructuring and down-sizing, consulting advice. In his comments on the first draft of this paper, Professor Rob Gray reminded us once again of the likely tension that may arise between good bottom line business decisions on the one hand and decisions that favour sustainability on the other;

- Their competence to assess social aspects of organisational performance – is the involvement of accountants in this area helpful or not?
- Reputational issues – especially the perception of the accounting profession by non-governmental organisations in terms of its legitimacy to provide verification statements on social or sustainability reports.

By championing better reporting through the creation of social and sustainability reporting awards, the profession is already affecting the attitude towards, and the quality of, enhanced public reporting in all sectors of the economy.

2.4 Assessment

This section has addressed the actual and potential interface between the global accounting profession and the sustainability debate at a fairly high level of generality. The point is made that it is necessary to distinguish between the roles of accountants as individuals on the one hand, and accounting organisations, such as practising firms or accountancy institutes, on the other. Many possible roles for accountants have been hypothesised, but few specific examples of success demonstrated.

The next main chapter of this report deals with some subject-specific examples of how the accounting profession, in all of its many guises, has responded to the challenges of Rio and the late-1990s.

Part 3: Processes for improvement: Industry strategies, approaches and measures taken to achieve progress

3.1 Overview at the global standard setting level. To what extent has the accounting profession addressed the environmental/social aspects of sustainable development?

Q1. Have national or international accounting standard setters addressed this issue?

A. Not directly, although the International Accounting Standard IAS 37 and its United Kingdom equivalent FRS 12 both use environmental issues to address the general treatment of liabilities and provisions in the annual report and accounts. There is, however, no general statement available which addresses any of the environmental or social aspects of sustainable development directly nor does the subject feature on the agenda of the International Accounting Standards Board (IASB). See 3.3.1 for more detail on financial accounting related issues.

Q2. Have national or international auditing standard setters addressed this issue?

A. Not directly, although the IFAC via its International Auditing Practices Committee (IAPC – now IAASB) has provided general guidance on environmental issues for auditors of financial statements. The European Federation of Accountants (FEE) is developing a guidance paper dealing with the verification of sustainability reports (although FEE is neither a standard setter nor a regulator, rather it is a regional representative body). See 3.3.10 for more detail on verification related issues.

Q3. Has the international profession addressed the broader issues of sustainable development from an accounting perspective?

A. Yes – individual accounting bodies have been involved in the development of the sustainability reporting guidelines of the Global Reporting Initiative (GRI) and the social accountability process standard AA1000. And a significant number of individual accountants and accounting bodies have contributed to thinking on issues such as:

- environmental management accounting;
- sustainability accounting;
- accounting for externalities;
- accounting for bio-diversity;
- social reporting;
- assurance and verification of published environmental, social or sustainability reports;
- the implications for business and society of the sustainability agenda.

3.2 The questionnaire survey

For the purposes of this report a short questionnaire was sent (July 2001) to the 153 members bodies of IFAC. A follow up e-mail was sent in late August 2001.

Summarised findings are presented on the following pages:

Q1: Publications: Has your organisation published guidance/research materials in any of the following areas? Please supply title, author, date of publication, ISBN etc

27 IFAC member bodies made reference to articles or reference publications in the areas of social and environmental aspects of sustainable development. 12 of the respondents had publications in at least half the topic areas listed below.

1. Environmental financial accounting.
2. Environmental management accounting.
3. Environmental performance indicators.
4. The role of the financial statement auditor in respect of environmental issues.
5. The role of the accountant (or the accounting profession) generally in respect of environmental, social or sustainability issues.
6. Environmental, social or sustainability reporting.
7. Environmental, social or sustainability auditing or verification.
8. Other: please specify (such as environmental economic instruments).

Q2: Has your organisation created a specialist environmental/sustainability working party?

19 IFAC member bodies confirmed that they have (or have had) a specialist environmental/sustainability working party. A further three indicated that they were considering doing so at the present time.

If yes – please provide the name of the group, the date of its establishment and a summary of its activities	
If no – please give an indication as to why this has not yet been done	Generally – not considered relevant/not requested by members

Q3: Has your organisation become involved in presenting annual environmental, social or sustainability reporting awards?

At least 24 IFAC member bodies are already involved in promoting such awards schemes – these include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Luxembourg, Malaysia, the Netherlands, New Zealand, Norway, Pakistan, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland – there are probably some more. There is currently some discussion regarding the initiation of a sustainability reporting award in the United States.

Q4: Do staff of your organisation sit on professional or public committees or working parties dealing with environmental, social or sustainability issues?

At least 21 respondent bodies are members of external working parties or committees dealing with environmental, social or sustainability issues.

If yes, please provide details

FEE Sustainability Working Party; the Global Reporting Initiative; the United Kingdom SIGMA initiative; the United Kingdom 100 Group of FDs Environment Committee; various ISO TC 207 national groups plus the main ISO 14000 working group

Q5: Has your organisation been involved in responding to consultative documents on environmental, social or sustainability issues?

23 IFAC member bodies have engaged in consultative responses with external bodies dealing with social, environmental or sustainable development issues

Q6: Has your organisation begun the process of integrating environmental, social or sustainability issues into the syllabus or programmes of continuing professional development?

The pace of progress appears to be very slow – even within organisations that score strongly on other related issues.

(a) the syllabus?

15 IFAC member bodies indicate that they have begun the process of integrating social, environmental or sustainable development principles into the academic syllabus – though no details were provided to back up these claims

(b) the CPD programme for qualified members?

12 IFAC member bodies acknowledge that they are including social, environmental(s) within their CPD programmes for 2002 – again, no details were volunteered

Q7: Has your organisation committed to reporting on environment, social or sustainable development issues in its own annual report and accounts or annual review document?

Self disclosure and internal commitment to environmental improvement are both very low. Only the United Kingdom's ACCA has made significant progress in this area.

If yes, please provide details

Nine respondents indicated that some reference to their activities in the areas of social, environmental and sustainable development would be made in the annual report and accounts or the annual review

Q8: Please supply a brief statement below outlining your organisation's attitude towards environmental, social and sustainability issues

On a scale of one (weak) to five (strong) only four of the 60 respondents managed to say anything strongly positive regarding their organisational approach towards social, environmental and sustainable development issues. Those organisations were: ACCA (United Kingdom), CICA (Canada), Royal NIVRA (The Netherlands) and ICANZ (New Zealand)

Summary

Taken as a whole the results are not particularly encouraging – at most only 20% of IFAC's member bodies seem to have engaged in the environmental/sustainable development debate to date. But it needs to be acknowledged that the low level of response disguises the relatively high level of engagement of just a few IFAC member bodies, regional organisations and global accounting firms⁽⁶⁾, notably:

- the Kammer der Wirtschaftstreuhänder – Austria,
- the Canadian Institute of Chartered Accountants (CICA) – Canada,
- the European Federation of Accountants (FEE) – Europe,
- the Institute der Wirtschaftsprüfer (IDW) – Germany,
- Royal NIVRA (NIVRA) – the Netherlands,
- the Association of Chartered Certified Accountants (ACCA) – United Kingdom,
- the Institute of Chartered Accountants in England & Wales (ICAEW) – United Kingdom,

- the Institute of Chartered Accountants in Scotland (ICAS) – Scotland,
- at least four of the Big Five accounting firms: Deloitte & Touche, Ernst & Young, KPMG and PwC.

In defence of the low level of awareness of, or concern for, environmental and sustainable development issues, it should be acknowledged that in excess of 50% of IFAC's members bodies represent developing or transitional economies and have extremely small secretariats whose current priorities may not (for some time) reflect issues inherent within Agenda 21.

3.3 Developments on specific issues

The next – and main – section of this report focuses on the various different aspects of the environmental/sustainability debate and details the work that the global accounting profession has contributed to date. The list of issues immediately below builds upon the list

(6) The organisations highlighted in the box are among those that responded to the survey instrument OR are known to the author through his previous work. There may be other accounting organisations equally deserving but they either did not respond to the survey instrument or they have failed to adequately publicise their work. At this stage of the paper the author has decided not to integrate the work of academic institutes and non-accounting bodies. Some excellent examples of environmental accounting in action stemming from such organisations will be discussed below.

presented in Part 2. Each topic is dealt with separately under the general headings:

- an overview of the specific topic area.
 - a review of current disclosure or global standards (or the lack of them),
 - the role and input of the accounting profession in this area to date,
 - a commentary on the current state of the topic area,
 - headline messages for the profession (which are presented again in summary form in the executive summary).
- 1) Environmental cost and liability disclosures in the annual report and accounts of public companies (environmental financial accounting).
 - 2) Environmental risk management and strategic issues disclosed in the annual report and accounts of public companies (environmental financial accounting/corporate governance).
 - 3) Identification and allocation of environmental costs (and cost drivers) and benefits within internal accounting systems (environmental management accounting).
 - 4) Emissions trading regimes and economic environmental instruments such as land-fill taxes (environmental finance/financial management).
 - 5) Accounting for stocks of flora and fauna (accounting for bio-diversity) and accounting for the quantity (and quality?) of so-called 'natural capital' (environmental accounting).
 - 6) Identifying, measuring and reporting on the environmental impacts of organisational activity (environmental reporting).
 - 7) Identifying, measuring and reporting the social impacts of organisations (social accounting and reporting).
 - 8) Measuring and costing physical emissions and social externalities so as to compute sustainable levels of profit (full cost or sustainability accounting).
 - 9) Reporting on the economic, environmental and social aspects of organisational activity (sustainability reporting).
 - 10) Verification of environment/sustainability reports (assurance provision).
 - 11) Providing consulting services in the area of environment, sustainability or reputation issues (consulting).
 - 12) Creating internal environmental management systems and initiating external triple bottom line reporting

Note: educational issues are dealt with in a separate section in Part 4 of this report.

3.3.1 Environmental financial accounting

Overview

According to the International Accounting Standards Board (IASB) the objective of financial statements (and hence financial accounting) 'is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions'.⁽⁷⁾

Environmental issues can affect a set of financial statements in various ways:

- actual liabilities may exist in respect of past environmental damage caused by the reporting entity;
- financial provisions may need to be made to reflect the costs of repairing future environmental damage or de-commissioning significant assets such as oil rigs or nuclear power stations;
- contingent (potential) liabilities may exist in respect of ongoing legal actions;
- some users of financial statements may wish to see environmental expenditures disclosed and broken down as between revenue costs, capital costs and fines and penalties;

(7) IASB Framework for the Preparation and Presentation of Financial Statements 1989

- other users may wish to understand the likely financial impact of forthcoming environmental legislation (for example product take-back legislation) or the strategic importance of new technological developments (for example renewable energy sources).

Current disclosure requirements regarding environmental issues

As of end-2001 there are presently no international accounting standards requiring the automatic disclosure of any of the items described above. In the absence of a mandatory reporting requirement, the recognition, measurement and separate disclosure of environmental expenditures and liabilities is governed by the accounting concept of materiality. A crude explanation of the materiality concept might be as follows: if, in the opinion of the financial statement auditor, a failure to separately disclose an item – or the failure to correct an error (for example in valuation) – would affect the decision of a user of the financial statements then that non-disclosure/non-correction is likely to be 'material' to a proper understanding of the financial statements.

The nearest the International Accounting Standards Board (IASB) has come to dealing directly with environmental issues is in International Accounting Standard (IAS) 37 *Provisions, Contingent Liabilities and Contingent Assets* (IASB 1998). In this document, environment-related issues such as de-commissioning costs are used as particular examples to demonstrate the general treatment of provisions and contingent liabilities. Issues thrown up for individual reporting entities by IAS 37 will be subject to the application of the materiality concept.

In mid-2000 the European Commission issued a voluntary recommendation dealing with the treatment of environmental costs and liabilities in the annual report and accounts of companies in the EU⁽⁸⁾. The financial accounting aspects of this recommendation were heavily

influenced by earlier pronouncements from the Canadian Institute of Chartered Accountants, the Institute of Chartered Accountants in England & Wales and the United Nations ISAR group⁽⁹⁾.

Some EU member states (Denmark, the Netherlands and Norway) have recently introduced mandatory disclosure requirements in respect of some aspects of environmental performance. France has recently announced its intention to introduce mandatory environmental reporting through the annual report and accounts. But these requirements are generally non-financial in nature and therefore do not directly affect the financial reporting process. In the United States, the Securities and Exchanges Commission (SEC) has issued a range of disclosure requirements relating to environmental provisions, liabilities and expenditures.⁽¹⁰⁾ Similar extensions to reporting guidelines also exist in the Netherlands.

The role of the international accounting profession in mandating environmental disclosures in financial reporting

International Accounting Standards – now International Financial Reporting Standards (IFRS) – are issued by the International Accounting Standards Board (IASB). With the exception of IAS 37 (see above) environmental issues achieve few mentions elsewhere in the full range of IFRS. Nor are social or environmental issues included on the working agenda of the newly constituted IASB. This author is not aware that any accounting standard setter anywhere in the world is currently proposing to address either social or environmental issues via the mechanism of a financial reporting/accounting standard.

This is not to say, however that the accounting profession itself has not been involved in the production of such guidance as is currently available. The United Nations ISAR guidance was largely authored by the Canadian Institute of Chartered Accountants (CICA) with substantial input from an expert group

(8) European Commission Recommendation on the recognition, measurement and disclosure of environmental issues in the annual accounts and annual reports of companies (June 2001)

(9) UN "Accounting and financial reporting for environmental costs and liabilities" 1998

(10) Summarised at <<http://es.epa.gov/oeca/ore/w hatnew.html>> a new (Oct 2001) Enforcement Alert from the United States Environmental Protection Agency

of professional accountants from around the world. The recent (2001) voluntary recommendation from the European Commission was derived almost wholly from the ISAR paper:

Commentary

It is disappointing that in the very area where the accounting profession is supposed to be pre-eminent – financial reporting and accounting – it has the least to show after a decade or more of activity at the individual accountant or professional accounting body level. As early as 1998, the chairman of the (then) International Accounting Standards Committee (IASC) stated publicly that he wished to see environmental accounting issues added to the IASC's agenda.

The European Federation of Accountants responded to this by producing a memorandum⁽¹¹⁾ detailing the various ways in which environmental issues might be incorporated into extant international standards. Although the IASC response to this initiative was positive, no action has been taken as a result of this contribution (or its subsequent update).

The Far East financial crisis and the current need to prioritise global harmonisation issues have conspired to take environmental issues off the agenda of the international standard setters. Depending on your point of view, this is either 'okay' or a disaster. If you subscribe to the school of thought that says all material issues will be reported, you may be able to draw comfort from the current situation – since virtually nothing of an environmental nature is disclosed, the implication must be that, by and large, environmental issues are not material in a financial reporting context. If, however, you believe that environmental issues are worthy of disclosure in their own right and that disclosure should not be dependent upon the application of a (potentially irrelevant) materiality test, then the current disclosure position is far from satisfactory.

Headline messages:

- despite a great deal of grassroots activity in the environmental accounting area, private sector accounting standards setters at the international (IASB) and national levels have generally chosen to avoid dealing directly with the topic of environmental issues in financial reporting. The recommendations of the United Nations ISAR group and the EC represent worthy attempts by non-accounting organisations to fill the gap and should be reviewed and adopted by the accounting standard setters;
- concerned professional bodies and the regional accounting organisations should put pressure on the International Accounting Standards Board (IASB) to add the issue of environmental financial accounting and reporting to its agenda. In particular, the 1998 FEE memorandum, to the (then) IASC, demonstrating how environmental issues could be integrated into individually relevant financial reporting standards, should be re-assessed. A freestanding advisory document – based upon the FEE memorandum – would probably satisfy many of those currently calling for greater IASB involvement;
- when reviewing potential environmental disclosures, standard setters should consider the applicability and widespread use of the financial materiality concept. In view of the wider stakeholder group now interested in corporate annual report disclosures, the information content of disclosures of environmental expenditures, fines, penalties and benefits may override conventional notions of materiality.

3.3.2 Corporate governance and risk management

Overview

Despite their ostensible usefulness, disclosures relating to environmental risk management and strategic environmental issues are rarely made

(11) Update Review of IASs for Environmental Issues (Robert Langford/FEE 1999) available from the FEE website <http://www.fee.be>,

in the annual report and accounts of public companies. One consequence of this is that the environmental debate has largely failed to engage the interest of the financial community – especially at the investment analyst/fund manager level. Once again, the accounting profession, in its chosen role of ‘guardian’ of the form and content of annual reports, has done little at the institutional level to change or challenge this state of affairs.

Current disclosure requirements regarding corporate governance and risk management

International accounting standards contain no requirements relating to corporate governance or risk management. Although national accountancy bodies are normally centrally involved in developing corporate governance codes, specific corporate governance disclosures are normally mandated by the relevant listing authority. Corporate governance disclosures are relatively new (about ten years old) and it is only recently that some countries – the United Kingdom and South Africa in particular – have extended the disclosure requirements to embrace social and environmental risk management issues.

In the United Kingdom, the recommendations of the Turnbull Committee on Internal Control explicitly require companies to disclose the measures they have in place to minimise social/environmental/reputational risk. In South Africa, the recent report of the King Committee on Corporate Governance also recommends risk related disclosures as well as a range of non-financial information relating to social and environmental performance. The OECD corporate governance guidelines represent the only available set of international governance guidelines, but although issued only in 1999, they have been somewhat overtaken by recent events in the area of risk related and sustainability related disclosures.

Some countries have begun to require listed companies to provide an additional overview statement – usually called either a

management discussion and analysis (MD&A – in the United States) or an operating and financial review (OFR – in the United Kingdom). A partial objective of the MD&A/OFR is to provide readers with contextual information – often non-financial in nature – enabling a better understanding of the financial statements themselves and of the dynamics of the business.

The United Kingdom Accounting Standards Board (ASB) in 1993 issued a guidance statement on how companies should prepare an OFR. In the absence of any international standard on the subject, the forthcoming (2002) revision of the United Kingdom guidance – which looks likely to request management to include social and environmental considerations in their discussion of performance – could become a benchmark for other standard setters internationally.

The role of the international accounting profession in mandating disclosures regarding environmental and broader reputational risk

Neither the International Accounting Standards Board nor the International Federation of Accountants have considered adding these governance related issues to their respective work agendas. In the United Kingdom both the ICAEW (2001) and the ACCA (2000) have issued briefings papers dealing with reputational risk and related transparency issues.

Commentary

Corporate governance and risk management are important issues for global investors. Although numerous national accountancy bodies have been involved in developing codes of corporate governance, the emphasis has usually been on strictly financial/shareholder related issues. Recent research suggests that investment analysts and fund managers, on the whole, remain relatively unconcerned about social/environmental/sustainable development issues.

Headline messages:

- in view of recent (CSR/SRI) developments in the financial marketplace, accounting standard setters should take a broader review of their remit vis à vis financial statements, and require an explicit consideration of social and environmental issues as part of management's regular overview of the business;
- accountants generally need to become more aware of the impact that social and environmental issues can have on their risk assessment exercises. This awareness gap needs to be dealt with through the educational and continuing professional development processes;
- The accounting profession – which has been centrally involved in the development of contemporary attitudes towards corporate governance – should seek to understand and incorporate social, environmental and sustainability related issues into national codes of corporate governance.

3.3.3 Environmental management accounting (EMA)

Overview

Management accounting differs from financial accounting in various respects:

- 1) its focus is on internal accounting processes and decision-making techniques rather than on communicating overall performance to an external audience;
- 2) it is frequently an inter-disciplinary area, involving production staff, technicians and HR personnel alongside traditionally trained management accountants.

Management accountants have been concerned with environmental issues for some time. The main areas of concern relate to the definition and allocation of environment related costs, the integration of environmental issues into activity-based costing systems, and the integration of environmental issues into

the capital investment appraisal and product design/life cycle processes.

CPA Australia, in 1994, produced a guidance document *Environmental issues: a challenge for management accountants* in which a number of key roles were identified:

- participation in strategy formulation,
- investment/project appraisal,
- business planning processes,
- managing change,
- organisation design,
- performance measures and control systems,
- managing the management accounting function.

Environmental management accounting is an area where non-accountants appear to have had as much influence as the accounting profession itself. Probably this is because environmental management personnel have – of necessity – had to acquire some core management accounting skills in order to be able to perform their tasks. Possibly also it is because environmental regulators perceive management accounting and management accountants as important elements in embedding environmentally beneficial programmes and activities at the corporate level.

It may also be the case that the accounting profession itself – because of its traditional focus on audit practice – has not been sufficiently pro-active in this important area. This has enabled bodies such as the United Nations and national regulatory agencies to determine the management accounting agenda. It is interesting to note that even an environmentally active organisation such as the European Federation of Accountants Sustainability Working Group spends virtually none of its time discussing environmental management accounting issues.

Current disclosure requirements or international standards in the management accounting area

Because of the largely internal focus of management accounting, there are no international standards dealing with management accounting and thus there is no consistent guidance for companies on how to deal with the various issues raised above. Those few professional accounting bodies dedicated to management accounting issues (such as CMA – Canada and CIMA – United Kingdom) have issued informal guidance materials for their members on a range of topics such as benchmarking⁽¹²⁾ and tools and techniques for integrating environmental issues into business decisions⁽¹³⁾, but nothing approaching a global standard exists in this area.

In 1998, the Financial and Management Accounting Committee (FMAC) of the International Federation of Accountants published a study *Environmental Management in Organisations: the Role of Management Accounting*. The conclusion of this study was that 'while every accountant will be involved in environmental accounting, management accountants (in particular) will play a key role in assessing environmental costs, liabilities and risk, and in developing the information infrastructure to support an effective environmental management system'.

As well as national accountancy bodies, national regulatory agencies are playing a leading role in the environmental management accounting area:

- as noted above, the United States EPA has devoted a huge amount of time to its Environmental Accounting Project;
- the Japanese Environment Agency has emerged as a leader in respect of defining environmental costs and setting out an accounting /reporting framework;
- the United Kingdom EA has also become heavily involved in environmental management accounting issues.

In an effort to bring some rigour to what is clearly a vital area, the United Nations has convened an expert working group of regulators, corporates and accountants to produce guidance on environmental management accounting issues. This working group⁽¹⁴⁾ is now approaching three years old and has recently developed a number of workbooks on environmental management accounting authored by respected accounting practitioners and academics from Austria, Australia and Germany.

Commentary

There seems to be no doubt that environmental management accounting is a key tool in embedding environmental concerns into corporate financial consciousness. There has been a huge number of individual corporate experiments in the EMAN area, as well as the emergence of a number of important linking networks. Principal among these are:

- 1) the United States EPA's environmental accounting project (now managed by the Tellus Institute in Boston),
- 2) the World Resource Institute's work on environmental costing case studies⁽¹⁵⁾,
- 3) the recent EU sponsored Environmental Management Accounting Network (EMAN)⁽¹⁶⁾,
- 4) the United Nations Commission on Sustainable Development's Expert Working Group on Environmental Management Accounting.

A profession driven example of an environmental management accounting project is the United Kingdom's EMA Project for accountants. The aim of this project is to encourage and support financial accountants to assist the organisations they serve to gain business benefits from using environmental management accounting tools. The project is supported by ACCA, ICAEW, CIMA and also involves the Environment Agency, DEFRA, an academic and Envirowise, an environmental

(13) Environmental Issues: a challenge for Management Accountants CPA Australia 1994

(14) UN CSD Expert Working Group on Environmental Management Accounting @ <http://www.un.org/esa/sustdev/estemal.htm> - this group has published two significant workbooks on environmental management accounting
(15) Green ledgers: case studies in corporate environmental accounting World Resources Institute 1995

(16) for details see the EMAN-EU Web site <http://online.chelt.ac.uk/eman>

consulting firm. The project will focus on piloting and delivering a series of EMA workshops at regional and area meetings of ACCA, ICAEW and CIMA members. The workshop materials will be summarised in a workbook that will guide accountants through the process of EMA.

The guide will help accountants to:

- identify materials, utilities and waste costs and ensure that these are allocated to products, processes and services rather than being treated as overheads;
- produce and analyse environmental management information. By making environmental costs more visible, managers can be made accountable for the costs they generate and environmental performance can be incorporated into management incentives;
- incorporate environmental considerations into capital budgeting decisions and selection of capital equipment.

Headline messages:

- significant advances in our understanding of environmental costs and strategic cost management have been made;
- unless environmental management accounting is addressed at the global level by the International Federation of Accountants, or by the regional accountancy groups such as FEE, the accounting profession is in danger of relinquishing responsibility for environmental management accounting issues to non-accounting groups;
- more needs to be done to convert the environmental management accounting experiences of the last decade into formal education and training materials for the next generation of management accountants. Similarly, there is a need to provide continuing education to already

qualified accountants in industry and commerce who fall outside the mandatory continuing professional education requirements of the mainstream accountancy bodies.

3.3.4 Environmental finance/financial management

Overview

The field of environmental finance is relatively new. Leaving aside capital investment appraisal type decisions referred to in 2.3.3, the environmental finance/financial management field seems to be focusing strongly on issues such as:

- emissions trading schemes;
- the impact of environment related economic instruments such as energy and landfill taxes;
- the development of market-driven investment vehicles – funds and/or indices – designed to capitalise on the perceived investment potential of socially or environmentally superior performers;
- the financing strategies of financial services organisations including banks and mortgage lenders and their ability to construct financial products that reward savers or investors for making environmentally beneficial choices.

The accounting profession is directly involved in these issues at several levels, notably via :

- 1) the professional accounting firms – as providers of consulting, financial or taxation advice to individuals clients and corporate customers;
- 2) individuals working as finance directors seeking to develop internal financial management strategies appropriate to the challenges raised by the bullet points immediately above.

Global standards?

The issues raised in the bullet points in the preceding section are not necessarily those

issues that demand responses framed as global standards. To a large extent any accounting issues posed by environmental taxation instruments are already covered by existing international standards such as IAS 12 Income Taxes. It is debatable whether or not IAS 39 – Financial Instruments – Recognition and Measurement – was written with the idea of tradable pollution permits in mind. The recent EC voluntary recommendation dealing with environmental costs and liabilities did not cover the issue of tradable permits at all.

Commentary

As noted above, the accountancy profession cannot be said to be directly involved in or responsible for progress in the areas set out above. These are largely areas of corporate strategy or where the regulators and the regulated determine the eventual outcome. Nevertheless, there are steps that the profession could take to improve on the current fragmented situation. Thoughts on some possible steps are set out below.

Headline messages:

- the financial accounting and reporting steps underpinning the emergence of emissions trading regimes should be thought through in the form of an accounting standard at the international level as an adjunct to (or integral part of) a revised IAS 39 (in the same way that environmental issues are explicitly dealt with – through the medium of practical examples – in IAS 37);
- the accounting profession generally is well-placed to commission research to explore the impacts of environmental taxation regimes.

3.3.5 Accounting for bio-diversity and environmental accounting

Overview

While a considerable amount of work has been directed at accounting for so-called 'natural capital' and bio-diversity by public sector organisations such as the World Bank,

relatively little attention has been paid to these issues by the established accounting profession. Whereas this was once a largely peripheral area, developments such as the ISO 14031 standard on performance measurement, and the performance reporting aspects of the sustainability reporting guidelines of the Global Reporting Initiative (GRI) have meant that accountants in industry and commerce and accounting firms in their consulting capacity now have a greater interest in bio-diversity and natural capital measurement.

The 'eco-balance' (input/output) approach to environmental management employed by many companies requires an almost ledger-like approach to recording ownership of, and transactions involving, elements of natural capital.

Global standards

The accounting profession has developed no standards in respect of these issues, nor does it seem likely to in the foreseeable future.

Commentary

Research into accounting for bio-diversity is thin on the ground – ACCA in the United Kingdom is the only accounting body to commission work in this area⁽¹⁷⁾.

As noted above, it is possible that organisations planning to issue 'triple bottom line' or sustainability reports will feel it necessary to report on their actions in the twin areas of bio-diversity and natural capital. It seems likely, however, that any such reporting will be in non-financial terms only since the question of which valuation model to use for environmental capital is still hotly disputed.

A related area of research – ecological footprinting – is now coming under serious scrutiny at the corporate level. Measuring the ecological footprint of an individual or a corporate entity demands a full understanding of that person or that entity's consumption characteristics – and, in the case of a corporation, the efficiency with which it

(17) Accounting for Bio-diversity: a natural inventory of the Elan Valley nature Reserve (Jones M & Matthews) ACCA 2000

(18) See Ecological Footprinting Analysis: towards a sustainability indicator for business (Chambers N & Lewis) ACCA 2001

converts inputs into outputs. Once again this is an under-researched area, but one worthy of attention from the accounting profession⁽¹⁸⁾.

Headline messages:

- although bio-diversity, and the impact of corporate activity on bio-diversity, is a subject of increasing interest, there is probably no need for any formal accounting standard or guidance in this area as yet. For relevant industry sectors – for example farming, forestry and the extractive industries – companies will respond appropriately to the disclosure demands of an increasingly alert investor community;
- at the research level, however, as an essential under-pinning for the sustainability reporting exercises with which it is increasingly becoming involved, the accounting profession should become involved in the development of inventories for bio-diversity and natural capital.

3.3.6 Environmental reporting

Overview

According to the European Federation of Accountants⁽¹⁹⁾, an environmental report is 'the information provided by an entity in respect of, the environmental issues associated with its operations' and the objective of such a report is the 'provision of information about the environmental impact and performance of an entity that is useful to stakeholders in assessing their relationship with the reporting entity.'

Although some interesting examples of corporate environmental reporting can be traced back to the 1970s⁽²⁰⁾, environmental reporting really only took off in the early-1990s, possibly in response to the greater levels of interest being shown by government and by NGOs in broader aspects of corporate accountability. Drawing upon its own lengthy experience in external reporting, the accounting profession has been centrally involved in the development of external corporate environmental reporting.

Environmental reporting and the annual financial report

Because of the lack of formal financial environmental disclosure requirements (see 3.3.1), with a few notable exceptions⁽²¹⁾ there is relatively little disclosure of environmental issues through the annual report and accounts package. Most companies seem to want to keep the environmental performance and the financial performance message separate. Consequently there has been little in the way of guidance on annual report disclosures, the 1997 report of the United Kingdom government's Advisory Committee on Business and the Environment (ACBE) *Environmental Reporting and the Financial Sector*⁽²²⁾ and the EC's voluntary recommendation (see 3.3.1) being the main exceptions.

Accountants from the main European accounting institutes have been directly involved in the development of both the above papers. The term 'integrated reporting' is normally applied to a reporting process in which financial, environmental and social data is reported in parallel streams. Proponents of integrated reporting argue that this reporting approach provides additional value for conventional stakeholders while avoiding some of the 'softness' attributed to fully fledged sustainability reporting. Opponents of integrated reporting argue that the core financial statement message should not be diluted or undermined by the inclusion in the annual reporting package of what could be considered irrelevant material.

Environmental reporting as a stand-alone exercise

Most environmental reporting takes place outside the annual report and accounts and consists of stand-alone hard copy reports, CD-Roms or corporate Web sites. It is estimated that some 2,000+ companies worldwide now issue regular environmental reports. The involvement of the accounting profession in the development of

(19) See *Towards a Generally Accepted Framework for Environmental Reporting FEE 2000*

(20) See Proctor & Gamble United Kingdom annual report and accounts 1970 for example

(21) In the United Kingdom both BAA Plc and Carillion Plc are good examples

(22) See *Environmental Reporting and the Financial Sector: Guidelines on Good Practice United Kingdom government's Advisory Committee on Business and the Environment (ACBE 1997)*

environmental reporting has been and continues to be considerable. A number of selected examples are set out below:

- the European Environmental Reporting Award scheme draws on the results of 15 European national award schemes to identify the best examples of environmental reporting. Each of these schemes was initiated by the national accounting body. National accounting bodies or accounting firms administer similar schemes in Canada, New Zealand and South Africa. The European schemes, in particular, encourage first time reporting and reporting by small and medium-sized enterprises (SMEs);
- the conceptual underpinning for environmental reporting: the FEE paper *Towards a generally accepted framework for environmental reporting* attempts to add rigour to the environmental reporting process by providing reporters with a formal conceptual framework including objectives and reporting characteristics. The FEE framework has been adopted by the Global Reporting Initiative (GRI) and adapted by the GRI for sustainability reporting purposes;
- verification of environmental reports (see also 3.3.10): according to a recent KPMG survey⁽²³⁾, accounting firms undertake in excess of 50% of all verification exercises.

In general, governments have supported voluntary environmental reporting and encouraged its wider take-up. We are currently beginning to see a growing interest in environmental reporting in developing and emerging markets. Once again, the accounting profession is closely involved with many of these developments.

Standards for environmental reporting

There are many different sets of reporting guidelines available to an aspiring reporter. Mandatory guidelines exist for large (more polluting) companies in both Denmark and the

Netherlands. Although not responsible for the detailed disclosure requirements, the accounting profession in both countries has been influential in shaping the reporting requirements.

In the voluntary domain, companies can currently choose between reporting guidance issued by professional accounting bodies or firms, and guidance issued by formal agencies. Examples of the former include the Deloitte & Touche score card and ACCA environmental reporting award criteria⁽²⁴⁾. Examples of the latter include the environmental reporting guidelines of the Japanese Environment Agency, the DEFRA/CBI general reporting guidance⁽²⁵⁾ and the United Kingdom government's own environmental reporting guidance dealing with the specific issues of energy, waste and water⁽²⁶⁾. One problem with all of these frameworks is that they cater primarily for larger enterprises and may not be attractive to SMEs.

In the absence of a global environmental regulator, no global environmental reporting standards exist. It was partly for this reason that the Global Sustainability Reporting Initiative (GRI) was created in late-1997. The original intention of the GRI sponsors was to create a generally accepted framework for environmental reporting. Subsequent to the foundation of the GRI in early 1998, the scope of the reporting guidance expanded to encompass economic and social issues, as well as environmental. Part of the June 2000 GRI guidelines focuses on environmental performance and accountability. The accounting profession represented by ACCA from the United Kingdom and CICA from Canada, together with substantial input from the European Federation of Accountants, has contributed substantially to the development of the GRI guidelines.

Commentary

The accounting profession has contributed fully to the development of environmental reporting as a separate reporting and

(23) See "KPMG's International Survey of Environmental Reporting 2000. Note: KPMG's international surveys are conducted bi-annually. A regular progress report on South African developments is published annually.

(24) See <http://www.accaglobal.com>

(25) See Environmental Reporting: General Guidelines Confederation of British Industry 2001

(26) See <http://www.defra.gov.uk/environment/envrp/index.htm>

accountability exercise. As will become clear, environmental reporting is being overtaken as the latest thing by social and sustainability reporting. Nevertheless it is important to remember that probably less than 1% of companies are actively engaged in environmental reporting even now – and most of them are in the developed OECD type economies.

Governments around the world have given their support and encouragement to environmental reporting practices. But only in a few countries – most notably Denmark, the Netherlands and in the Hong Kong public sector – has environmental reporting been made mandatory for certain subsets of organisations. Given the reluctance of most governments to implement statutory measures except as a measure of last resort it is important that the accounting profession continues to encourage environmental reporting. In this respect the profession still has an important role to play in quantifying the business benefits of improved environmental performance.

Headline messages:

- environmental reporting is still practised by only a tiny minority of the world's companies. Proponents of greater corporate accountability should not assume that environmental reporting is a 'done deal';
- accountants provide a wide range of services to industry and are well-placed to encourage and assist non-reporting employers and clients to enter the environmental reporting process;
- for non-listed and smaller companies, a simpler environmental reporting framework – perhaps focusing on energy, water, waste and CO₂ emissions – could be linked to the taxation system to reward more efficient companies. Accountants as business advisers are well placed to assist on the reporting under these headings;
- the accounting profession has a role to play in developing a more integrated form of reporting – in which key financial, environmental and social indicators are presented to shareholders and other stakeholders alike within the statutory annual report and accounts package. This does not mean, however, that the conventional financial reporting standards framework has to change its base set of rules.

3.3.7 Social accounting and reporting

Overview

Social accounting and reporting have been around even longer than environmental reporting, but the take-up by large private sector entities has been slow and patchy. Some countries (France, for example) have required companies to produce social reports for the last 20 or 30 years (the bilans sociale) but, rather like the highly regimented French financial accounting approach (the Plan Comptable), the essentially statistical approach of the bilans sociale has never taken off elsewhere.

In the late-1990s, social accounting and reporting have emerged as separate disciplines, quite distinct from environmental accounting and reporting. Social reporting focuses on the information needs of stakeholders of the reporting entity – employees, customers, suppliers, etc. – and the quality of the dialogue or relationship between the stakeholder group and the reporting entity. Social accounting, within a social reporting context, addresses performance issues – accepting that in some instances the targets will be determined either by the stakeholder or as a result of the engagement process.

Today, social reporting (in a standalone sense) is frequently practised in Europe. In South Africa, the political situation has imposed a particular imperative on South African companies to report on their performance as good 'corporate citizens'. Social reporting is

also frequently undertaken by small, not for profit or community based organisations as a way of determining whether or not their essentially non-financial objectives are being achieved.

Developments in social accounting and social auditing have largely been initiated from outside the accountancy profession and the engagement of the global accounting profession with social issues has been relatively slow. Some good recent examples of engagement are:

- the establishment of the KPMG Sustainability Advisory Services division in the mid-1990s, drawing in staff from the ethical audit group of the Bodyshop International and the New Economics Foundation. KPMG has also been a long-term supporter of AccountAbility (see below) and the process standard on social accounting, AA 1000;
- the joint publication by ACCA and AccountAbility of the report *Making Values Count: contemporary experience in social and ethical accounting, auditing and reporting*. (ACCA 1998);
- the United Kingdom Social Reporting Awards jointly sponsored by AccountAbility and ACCA.

Global and regional standards

The nearest thing to a global standard in this area is AA1000 (AccountAbility 1000) *A foundation standard in social and ethical accounting, auditing and reporting* – published in 1999 by the Institute of Social and Ethical AccountAbility (AccountAbility), an international professional organisation based in the United Kingdom. AA 1000 is what is often termed a 'process standard' rather than an auditing or reporting or accounting standard. This means that it focuses upon the internal processes that need to be implemented in order that the quality of social accounting, auditing and reporting can be assured.

AA 1000 is a good example of one aspect of sustainable development where the standard setting part of the accounting profession has had little or no involvement or impact. Social accounting, reporting and auditing issues have never appeared on the agendas of the IASB or the IAPC, although AccountAbility itself benefits from the support of several of the Big 5 accounting firms and several of the United Kingdom professional accounting bodies.

The Brussels-based organisation CSR-Europe has recently issued a set of reporting guidelines that mirror the social and economic elements of the sustainability reporting guidelines issued by the Global Reporting Initiative in June 2000.

Commentary

Social accounting, reporting and auditing might be argued to act as a half-way house between environmental reporting and sustainability (or triple bottom line reporting). Yet there is no doubt that both companies and politicians see corporate social responsibility as a major policy issue – possibly because Corporate Social Responsibility (CSR) represents a potential achievable, whereas sustainable development is likely to remain forever an aspiration.

At the European level, the European Commission has recently adopted the theme of CSR and has even issued a 'green paper' on how it should approach CSR-related issues. We may expect to see tentative legislative proposals from the Commission in the not too distant future. The United Kingdom has become possibly the first country in the world to appoint a Minister for Corporate Social Responsibility.

Headline messages:

- the investor community is increasingly demanding CSR-based performance/impact data. The accounting profession should not be deterred from addressing social and

sustainability related issues simply because of the overtly political nature of some of the issues involved;

- experience has already shown that some social issues are susceptible to management processes – for example, the environment, health and safety management systems. Both GRI and CSR Europe have set out relatively straightforward examples of CSR disclosures;
- care will need to be taken in determining and prioritising appropriate items for financial disclosure purposes – reporters themselves may still wish to distinguish between reports directed at capital market participants and others.

3.3.8 Full cost (sustainability) accounting

Overview

Of all the issues dealt with in this section, full cost accounting (FCA) is the newest and least developed. At the core of full cost accounting lies the notion that one should not proceed with a given project if the aggregate financially quantified externalities – social, economic and environmental – are negative. FCA requires the recognition of various forms of capital – economic, social and environmental – and, in a strict form of FCA, there would be no possibility of substituting between the various capitals. Thus, a project that had positive economic externalities (say from the creation of employment perspective) should not proceed if at the same time it could be demonstrated that it would also produce negative environmental or social externalities.

To date, it is the environmental externalities that have received the greatest attention from researchers and from the accounting profession. The emergence of recognised emissions trading markets means it is possible for companies to estimate with increasing degrees of certainty the costs of avoiding or remediating their environmental emissions. Social and economic externalities are less well

observed and understood at present, although it is accepted that the social impacts of corporate decisions are both real and significant.

The input of the global accounting profession (and others)

The complexities of full-cost accounting are enormous – ranging from the difficulty of recognising the impact to the choice of valuation method to apply to that impact. Unsurprisingly therefore, FCA is not an issue that falls for consideration by global accounting standard setters. It could be argued that it is relevant to the agenda of the Financial and Management Accounting Committee (FMAC) of the International Federation of Accountants, but FMAC has not yet taken up this particular challenge.

Instead, FCA has been addressed through a variety of accounting profession related channels including:

- the UN ISAR group, via Dan Rubenstein's (1997) paper on sustainable forestry costing⁽²⁷⁾;
- the Canadian Institute of Chartered Accountants (CICA) in its 1997 paper⁽²⁸⁾;
- the ACCA's 2001 paper by Jan Bebbington and Rob Gray dealing with full-cost accounting experiments⁽²⁹⁾;
- the ongoing work programme of the United Kingdom's Forum for the Future. This work, which has involved a number of major United Kingdom listed companies, has benefited from strong professional accounting input;
- ongoing site-based research work ('sustainability assessment methodology') between BP and the Accounting & Finance group at the University of Aberdeen.

Commentary

FCA is very much a question of 'work in progress' or 'watch this space'. In an ideal world, proper application of FCA techniques

(27) See Accounting for Sustainable Forestry Management UN 1994

(28) See Full Cost Accounting: from an Environmental Perspective CICA 1997

(29) See Full Cost Accounting - an agenda for action (Bebbington J., Gray R, Hibbitt C & Kirk E) ACCA 2001

to every major investment decision would obviate the need for corrective patches in the shape of environmental or social taxation instruments. While the European Commission and others argue that prices should reflect the full cost of delivery, it is perhaps too early to believe that this can happen in every situation where negative social, environmental or economic externalities occur.

Headline messages:

- the accounting profession should continue to work with the corporate sector and researchers from disciplines outside the accounting field to construct a fully fledged and robust FCA investment appraisal methodology;
- the accounting profession, industry and government should consult on the extent to which sustainable cost measurement calculations and provisions could (eventually) become acceptable for corporate taxation purposes.

3.3.9 Sustainability reporting

Overview

According to the Global Reporting Initiative (June 2000), sustainability reporting involves reporting on the economic, the environmental, and the social aspects of organisational performance. For obvious reasons, sustainability reporting is also known as 'triple bottom line reporting'.

In the world of sustainability reporting, economic aspects of organisational performance do not equate with financial aspects of organisational performance – generally, economic aspects have a much wider purview, taking in issues such as regional employment influence, value created and distributed, and real tax rates.

Global standards

Sections 3.3.6 and 3.3.7 referred to environmental and social reporting respectively. In neither area has there emerged a fully

articulated set of reporting standards or guidelines able to achieve the accolade of being 'generally accepted' at the global level.

The Global Reporting Initiative (GRI) was created in late-1997 with the objective of creating just such a set of generally accepted sustainability reporting guidelines. An initial exposure draft published in 1999 was followed by a fuller set of reporting guidelines in June 2000. A further revision will occur in mid-2002, strengthening the June 2000 social and economic indicators. As of end 2001, somewhere in the region of 100 large multinational companies have voluntarily published GRI /triple bottom line/sustainability reports.

Input from the global accounting profession

Because of their deep prior involvement in environment-related issues, the United Kingdom's Association of Chartered Certified Accountants (ACCA) and Canada's Institute of Chartered Accountants (CICA) have been involved with GRI since its inception, at steering committee level. Among their major inputs to GRI are:

- an adaptation of the FEE environmental reporting conceptual framework (see 3.3.6),
- an overarching framework for adding assurance to published sustainability reports (see 3.3.10),
- a model for determining entity reporting boundaries.

Each of the above contributions draws to a greater or lesser extent on work previously conducted for the International Accounting Standards Board or the International Auditing Practices Committee, or for similar regional or national standard setting bodies – in particular FEE.

Commentary

The sustainability reporting guidelines of the GRI are the result of a multi-party coalition of interests. While acknowledging the debt that

ACCA and CICA owe to earlier work carried out by IASB and IFAC (via IAPC), it perhaps needs to be stated that neither of these global standard setters has directly contributed to the work of the GRI. On the other hand, FEE – the European Federation of Accountants – has provided considerable and continuing input to GRI at all phases of its existence.

Headline messages:

- the major global standard setting bodies such as IASB and IFAC need to extend their respective agendas to incorporate partnership arrangements with bodies such as the GRI – especially when public reporting and corresponding assurance provision provide such obvious examples of overlapping interests;
- the major global international standard setting bodies such as IASB and IFAC need to embark on an internal educational process to properly deal with emerging issues such as sustainability reporting and related assurance issues. This may entail revisiting and expanding their existing financial reporting and assurance provision frameworks.

3.3.10 Verification of environmental, social and sustainability and reports

Overview

For any type of communication of performance and mission, questions arise concerning the credibility of the communication and the means via which assurance is delivered to the reader that the report can be relied up and is not simply the selective offerings of a management team for whom self-interest is the driving factor. The provision of independent assurance has long been an issue with the annual financial statements, and a complex set of auditing standards and regulatory mechanisms has evolved to deal with financial statement audits and related assurance services.

In the fields of environmental, social and sustainability reporting, the need for independent assurance is no less, but the voluntary nature of the reporting activity itself and the variety of potential assurance providers has meant that it has proved difficult to construct a generally agreed framework within which verification of environmental, social and sustainability reports takes place. Cost issues arise as well – corporate management appears reluctant to pay as much for (say) an environmental verification as it does for its annual financial audit.

The emergence of a range of management systems covering areas such as environment (EMAS and ISO 14000), social accountability (AA 1000), labour practices (SA 8000) and sustainability (SIGMA) have introduced a range of certification opportunities that the profession generally has been poor in accessing, although some of the larger firms have developed active certification practices.

Global standards and input from the accounting profession

Currently no global standards exist for the verification of either environment, social or sustainability reports. The accountancy profession has taken the following steps:

- 1) the European Federation of Accountants (FEE) has issued several discussion papers dealing with the verification of stand-alone environmental reports⁽³⁰⁾ and is currently close to finalising a similar paper dealing with the verification of sustainability reports;
- 2) the German IDW has issued an auditing standard on the same subject⁽³¹⁾;
- 3) the IAPC issued a practice statement *The consideration of environmental matters in the audit of financial statements* in 1998. Its successor body, the IAASB, is developing a practice statement on the verification of environmental reports, though this is unlikely to be ready for publication until 2003.

(30) See FEE Research Paper on Expert Statements in Environmental Reports (1996) and FEE Discussion Paper on Providing Assurance on Environmental Reports (October 19)

(31) See Generally Accepted Standards for Audits of Environmental Reports IDW AuS 820 1999

Separate from the accounting profession – but heavily influenced by the profession's thinking – the Verification Working Group of the Global Reporting Initiative has published a consultative document setting out the Over-arching Principles for the Verification of Sustainability Reports. GRI has made it clear that it does not see itself as a standard setter in the area of verification, but nevertheless its views are likely to prove influential.

Commentary

The accounting profession, with its global spread and long experience in standard setting, is well placed to assist in the development of appropriate verification methodologies for environmental, social and sustainability reports. Indeed, it has already made a substantial contribution. Several unresolved problems exist, however, including (i) improving the meaningfulness of the verification statement itself, (ii) ensuring the credibility of the verifiers themselves, especially in sensitive areas such as assessing labour practices in developing countries and (iii) specifying or defining the level of assurance that a reporting engagement is designed to communicate.

Headline messages:

- the accounting profession should continue to use its expertise and resource to develop verification standards for social and sustainability reporting, but should be seen to be as inclusive as possible in the developmental process;
- verification partnerships marrying the resources of the Big 5, with the reputation and knowledge of relevant NGOs represent a potential model for future verification activity;
- the profession generally could become more obviously involved in management systems certification (e.g. ISO 14001; FSC etc.);
- all the above points argue for a substantial revision to the way in which auditors are educated and trained.

3.3.11 Consulting activities

Overview

Each of the Big 5 accounting firms is active in the environmental and sustainability consulting areas though, for reasons of political expediency, several of them have now (or will soon) divorced the consulting and public practice parts of their operations. Following the Enron collapse, this process of divestment may be either speeded up voluntarily or imposed on the profession by external regulators. There are no statistics available to gauge the extent of the Big 5's work in the social, environmental or sustainability areas, but they have certainly been active in all the following areas:

- due diligence for IPO and prospectus purposes,
- environmental taxation,
- carbon/emissions trading,
- insurance/brownfield development advice,
- land remediation advisory work,
- ISO 14000 and EMAS certifications,
- ethical advice,
- social accounting including advice on implementing AA1000, SA 8000 etc,
- energy efficiency and more general eco-efficiency advice,
- risk management including reputational risk,
- social, environmental and sustainability reporting advice – including systems implementation,
- verification (3.3.10 above).

Global standards and input from the accounting profession

Clearly international accounting, reporting or auditing standards are not relevant to many of the activities listed immediately above, although conventional ethical and independence rules should apply. An emerging trend in verifying sustainability reports is for the verifiers to make fully transparent their other financial contacts with the client (if any).

Commentary

In the consulting field there are several issues of importance in determining who will get the job:

- competence and expertise,
- global spread,
- past history with the potential client.

The accounting based consultants are in direct competition with environmental and other consultants (ERM, PA, Arthur D Little etc) in the realm of expertise, but still have considerable competitive advantage because of their global spread and sometimes audit – related prior history with a potential client.

One feature of the consulting part of the profession is that – because of its high value added nature – what is learned or developed flows through only slowly to the wider profession. One influential commentator (CICA) questioned 'how much involvement and understanding really exists within the Big 5 firms beyond their specialised service units'.

Headline messages:

- the accounting profession, through the medium of the Big 5 accounting firms has tremendous potential to support industry in developing environmental and sustainability solutions. In order to remain credible in the marketplace and in the eyes of the wider stakeholder circle, the firms need to ensure that they maintain their independence at all times.
- Accounting firms could do more to internalise and publicise the work they carry out and the solutions they provide. There is a need to create a learning profession and the big firms are an integral part of the learning and dissemination process.

3.3.12 Internal EMS and external reporting by accounting firms and institutes

Overview

The adoption of internal environmental management systems and external reporting is no longer confined to heavy industry and regulated utilities. All sectors of the economy have been urged to review their own environmental impacts and to report on their activities. Particular examples of innovation include public sector environmental reporting and finance sector environmental reporting and environmental management

The accounting profession, however, does not appear to have become heavily involved in reviewing and reporting on its own operations. Despite the fairly obvious direct and indirect impacts described in Part 2 of this report, one reason for the low level of engagement might be a continuing perception that accounting firms and institutes are low impact both in environmental and social terms.

Global standards and input from the accounting profession

Beyond the now standard ISO 14000 for EMS and the sustainability reporting guidelines of the Global Reporting Initiative, there are no sector specific EMS or reporting standards that apply to the accounting profession. The results of the IFAC member bodies questionnaire was disappointing in terms of the practical response from the profession:

- the Dutch accounting body Royal NIVRA has developed a policy on environmental issues, which describes how NIVRA will include environmental issues in its core activities of (a) increasing the quality of services provided by accountants and (b) education. The United Kingdom's ACCA is the only professional body to report in any extended way on actual environmental impacts, and is also in the early stages of developing an internal environmental

KPMG United Kingdom's environmental policy

We are committed to integrating environmental best practice into all of our business activities. We will work towards this through a programme of continuous improvement throughout all of our operations.

This means:

- We will adopt best practice and play a leading role in developing innovative solutions to environmental issues facing our sector.
- We will conduct our activities in full knowledge of and compliance with environmental regulations.
- We will integrate environmental considerations and objectives into all our business decisions.
- We will minimise consumption of natural resources and wastage of materials as far as economically practicable.
- We will establish environmental objectives and targets and measure performance against them.
- We will encourage awareness and commitment to improved environmental performance among our people, our suppliers and our clients.
- We will encourage our clients to think about how their businesses affect the environment and throughout our business, will provide professional advice that is consistent with this aim.
- We will carry out reviews of our environmental performance and publish the results.

Each KPMG employee and each supplier retained by KPMG is responsible for adherence to the principles of this policy. The United Kingdom executive board will regularly review the status of implementation of this policy.

management systems designed around its specific range of professional body activities and impacts;

- among the Big 5 accounting firms, KPMG United Kingdom has developed an environmental policy (see box above) and has committee to reporting on environmental, social and sustainable development issues through its annual report.

Headline messages:

- both at the firm level and at the institute level more could be done to both manage and report on environmental, social and sustainability issues;
- there needs to be some work on sector specific indicators for the profession.

3.4 Conclusions

This section has reported the results of a questionnaire study of the member bodies of the International Federation of Accountants (IFAC) and a desk-based literature and activity study.

The main part of this section (3.3.) has been structured around a dozen functional aspects of the social, environmental and sustainable development debate that are of direct relevance to accountants, accounting firms and professional accounting bodies.

The conclusion drawn is that although a great many positive steps have been taken, the responsibility for progress has been shouldered by a relatively small number of committed activists and there remains much to be done. The recommendations ('headline messages') found throughout 3.3. above are directed at all sectors of the profession.

Part 4: Reflections: Future challenges and targets – Agenda 2010

4.1 In what ways have the strategies and approaches been successful or unsuccessful?

Key contributions of the profession

As noted at 2.2 above, the key contributions of the accounting profession towards furthering the objectives of Rio will be to:

- work with industry to develop innovative accounting and audit-based solutions to challenges facing industry,
- develop in its own in-house environmental management and reporting systems,
- energise its members to become more engaged with sustainable development issues,
- educate future members so that sustainable development is seen as a central tenet of business and professional activity.

The European Federation of Accountants (FEE) has published a detailed statement explaining its response to the sustainable development agenda (see annexe 2). FEE states that its aims are as follows:

‘Consistent with serving the public interest, the working party seeks to promote the role of the accountancy profession in, and stimulate debate on, sustainability accounting, reporting and assurance providing as well as encouraging pan-European research and the dissemination of its results. In addition the Working Party represents the European accountancy profession at an international level on sustainability issues to the extent considered useful by FEE member bodies.’

As a member of FEE’s Sustainability Working Group (FEESWG) the author supports FEE’s objectives in this area and sees FEE’s output over the last ten years as being highly influential in terms of educating the profession as a whole.

A similar achievement has been the European Environmental Reporting Awards (EuroERA) established in 1996 by three leading European professional bodies and now encompassing some 15 European accountancy bodies in a Europe-wide scheme.

Profession-led activities such as the FEESWG and EuroERA have been successful in raising the awareness of accounting bodies and individual accountants.

Successful or unsuccessful strategies?

One conclusion to be drawn from this study, however, based on the results of the questionnaire instrument and the author’s own experience in this area – is that it would be over-stating the case to claim that the accounting profession as a whole had (or has) a strategy relating to Rio and Agenda 21. Some individual accounting bodies and regional organisations (in particular ACCA, CICA, FEE, ICAEW, IDW and NIVRA) have extensive track records in the sustainable development area, but most national bodies, regional or international bodies do not.

Accountants working in industry and commerce or in the public sector are even less likely to have independent strategies because they will be impelled to follow the corporate line and, as we know, the vast majority of corporate bodies are either unengaged or engaged solely from a legal

compliance perspective with any of the issues discussed in this report or of concern to the promoters of the World Summit on Sustainable Development.

The reasons for this failure on the part of the accounting profession and its constituent member bodies to develop a cohesive view of sustainable development issues vary. At the small firm end of the profession there are some fairly prosaic reasons for non-involvement:

- belief that the profession itself is low impact;
- general lack of resource in SMEs, small accounting practices and small accounting bodies;
- absence of even basic levels of education and training in sustainability related issues.

But at the higher levels of the profession such excuses carry little weight – the larger professional bodies are well resourced, the firms' clients are high impact and the accountants concerned are some of the brightest minds that money can buy. Perhaps the best reasons for non-involvement that can be advanced is the emergence of competing concerns. In the 1990s we have seen the emergence of a new agenda for the global accounting profession in the shape of:

- the technological revolution that has occurred in the last decade. Accountants have been deeply impacted by the WWW revolution, touching as it does every aspect of their work including such issues as e-commerce, real-time reporting, Web-based reporting, Internet start-ups (the dot coms) and new reporting languages (such as XBRL);
- the emergence of global and regional quality control issues – culminating for the accounting profession in the Far East financial crisis (1997-98) which has, following pressure from the World Bank and others, led to a subsequent high-level (and some would say all-consuming) focus

on professional restructuring and monitoring issues. The focus on professional regulation and monitoring has extended down to national levels as well, soaking up a tremendous amount of executive time and attention;

- the convergence of global capital markets – which has led international (and national) accounting standard setters in both the financial reporting and auditing fields to focus their resources on capital market convergence issues, often to the exclusion from explicit consideration of social, environmental and sustainable development issues.

In respect of the latter point, it is fair to point out that despite its intense work on capital market regulation and international accounting standards, the European Commission still found the time to develop a recommendation on the treatment of environmental costs and liabilities in the annual reports of companies. And other parts of the Commission have dealt with environmental management issues (via the Eco-Management and Audit Scheme – EMAS) and are even now consulting on corporate social responsibility. Clearly, having a busy agenda does not necessarily mean that sustainable development issues have to be ignored.

The lack of national governmental imperatives should also be highlighted as an issue in the expansion of professional body activity in the sustainable development area. Accounting bodies worldwide are subject to direct control from their respective governments – it is these governments that provide the bodies with their license to practice and the right to give licenses to their members. There have been very few occasions when governments have directly intervened at the legislative level to enforce an accounting, reporting or audit related issue that can be seen as directly related to the sustainability debate. Possible examples – some only indirect – include:

- Denmark and the Netherlands, where mandatory environmental reporting for selected groups of corporates has resulted in voluntary involvement by the professional bodies and accounting firms in terms of consulting advice and verification services;
- the United States, where the Securities and Exchanges Commission has mandated a range of disclosures relating to environmental costs and exposures which, of necessity involve accounting firms acting as financial statement auditors;
- Australia, Norway and Sweden – where changes to company law require reporting of specific environment related issues, once again necessitating accounting profession involvement, either as preparers of financial statement or as financial statement auditors.

The point here is that governments have a role to play too. Accountancy is a service profession and accountants in general rarely aspire to being advocates of anything much more than a free market. If governments are serious about social, environmental and sustainable development issues then they do have the ability to act. And if they do, then the accounting profession has a duty to react appropriately.

4.2 What have been the key areas of progress and where does future progress need to be made?

Key area of progress

To avoid repeating the whole of section 2.3 above this selection of key areas is necessarily subjective and abbreviated.

- 1) Financial reporting
By and large the rules for financial reporting of environmental issues are already written, with key input from accounting professionals – even if the published documents do not themselves emanate from accounting organisations.
- 2) Environmental reporting
The accounting profession has been (and continues to be) at the heart of developments in environmental reporting since the practice first begun. The profession has contributed to the content, the conceptual underpinning, the verification and the communications aspects of environmental reporting.
- 3) Verification of environmental and sustainability reports
Despite the presence of other professional groups in this field, the accounting professional has responded quickly to the need to develop verification processes. The European Federation of Accountants is developing guidance in this area and it is hoped that a formal standard on verification of environmental reports from the IAASB will follow shortly.
- 4) Full cost accounting
Thus far there have been a number of significant accounting-led contributions to the area of accounting for externalities (see 3.3.8 on page 41). The contributions have illustrated the corporate experiments in progress, the methodologies involved and the political context within which full cost accounting is located.

Future challenges and targets: Agenda 2012

Areas where the accounting profession needs to make demonstrated progress over the next ten years.

The executive summary to this report notes that many of the recommendations made – especially in section 2.3 – cannot reasonably be expected to be implemented in the next 12 months and it may take a decade at least until visible progress is made.

In the financial accounting area for example, progress to date is tempered by the following constraints:

- best practice statements have been written in a largely voluntary context: thus their adoption and application by the corporate sector has been minimal;
- definitions of environmental costs are inappropriate: current definitions are often accused of being too 'end of pipe' focused in an age where integrated pollution control technologies are the norm and where it is increasingly difficult to separate out commercial from environmental issues when making a major investment decision;
- the continuing application of the accounting concept of materiality: which results in mass non-disclosure of environmental costs, provisions and liabilities

In an auditing context the profession needs to advance progress on verification of stand-alone environmental, social and sustainability reports in a way that embraces rather than excludes other stakeholder groups.

From an educational perspective, the profession needs to integrate environmental, social and sustainable development concerns into the professional syllabus.

In each of the above areas, more could be done to encourage small practitioners and SMEs to address the impacts of environmental and other sustainability issues. For example, this could be done through training, syllabi and guidance on providing assurance.

At the full-cost and management accounting levels, the profession needs to demonstrate that reliable and relevant measurement both on internal environmental costs and of environmental and social externalities is both feasible and of benefit to business.

At the strategic level, the professional needs to make a commitment to be an active participant in the quest for a more sustainable society.

Areas of disagreement with other stakeholder groups

The accounting profession as previously noted is a service profession. Its members depend on their clients and their employees for their livelihoods. The profession cannot therefore automatically enforce its will on these stakeholder groups – even if it had an internally agreed will to enforce. This need to seek approval has sometimes been used to defer progress on potentially contentious issues such as setting standards for environmental financial accounting and auditing. Nevertheless the profession is free to develop standards of best practice in many of the areas discussed in this report.

What has happened in reality is that individual accountants, firms or professional bodies have taken this step – and have chosen to work – often with external stakeholder groups – to develop best practice guidance. The missing part in this equation is that this work has not been endorsed by global standard setters and regulators such as IFAC or IASB.

In order for best practice to become standard practice, a number of other stakeholder groups need to be brought to the table:

- government bodies that are prepared, if necessary, to make best practice standard practice via the legislative process;
- international standard setters, such as IASB, which are prepared to integrate the best practice environmental financial reporting work of bodies such as the UN ISAR and the EC into international financial reporting standards. IFAC should do similarly with the environmental and sustainability assurance work of FEE;

- international securities markets, which are ready to make social and environmental disclosures a mandatory listing requirement;
- environmental economists who will be able to bring to the asset and externality valuation process a degree of theoretical rigour that is currently lacking within the profession itself;
- non-governmental organisations, including major charities and single interest lobby groups who are prepared to work in partnership with the accounting profession in order to translate nominal best practices (of reporting or assurance) into generally accepted practices. This might involve unlikely alliances. For example, the newly-launched Environmental Reporting awards in Pakistan are a result of direct co-operation between the Association of Chartered Certified Accountants (ACCA) and WWF Pakistan.

Certainly there are areas – particularly verification - where there is an expectation gap that needs to be addressed urgently. The Big 5 accounting firms have the global reach and the competence to conduct verification of environmental, social and labour practices but currently they lack credibility in the eyes of campaigning NGOs.

Specific goals and targets that could be/need to be met by the profession over the next five to 20 years

The list below echoes the forgoing sections in some respects and is limited to international and national accounting bodies. Given the extent of achievement in the last ten years, the list below is certainly not over-ambitious if the political will is there.

The International Federation of Accountants (IFAC)	<ul style="list-style-type: none"> • A policy statement on social, environmental and sustainability issues committing IFAC and its members bodies to co-operation with industry and commerce and governmental organisations. This should include early co-operation with the Global Reporting Initiative (five years). • Inclusion in IFAC's annual report of its own environmental and social impacts and its moves to address these issues (ten years).
The IFAC Education Committee	<ul style="list-style-type: none"> • Formal inclusion of social, environmental and sustainable development issues into all aspects of the professional accountancy curriculum (five years).
The IFAC International Audit and Assurance Standards Board (IAASB)	<ul style="list-style-type: none"> • Assurance standards dealing with social, environmental and sustainability reports (five years).
The IFAC Financial Management and Accounting Committee (FMAC)	<ul style="list-style-type: none"> • Practice statements dealing with environmental management accounting topics and with full-cost accounting (five to ten years: ongoing).

The International Accounting Standards Board (IASB)	<ul style="list-style-type: none"> • An annexe to International Financial Reporting Standards dealing with the various aspects of environmental financial reporting including: expenditures, liabilities and provisions, environmental risks, environment related taxes, financial instruments and the application of the materiality concept (five years).
National accounting bodies	<ul style="list-style-type: none"> • National level implementation of all the various standards and practice statements highlighted above PLUS formal recognition of these issues in the local professional curriculum (ten years). • Annual reporting of their activities in the SEEAR area plus on their own environmental impacts (ten years).

Accounting education is a particular issue that needs to be addressed. The next section focuses purely on issues in environmental, social and sustainable development and the accounting curriculum

4.3 Educational activities

The results of the questionnaire survey reported in section 3.2 above showed that the pace of educational progress appears to be very slow – even within organisations that score strongly on other related issues. Fifteen IFAC members bodies (approximately 10%) indicate that they have begun the process of integrating social, environmental or sustainable development principles into the academic syllabus – though no details were provided to back up these claims. Twelve IFAC member bodies acknowledged that they are including social, environmental(s) within their CPD programmes for 2002 – again, no details were volunteered

Research recently published by the Institute of Chartered Accountants in Scotland (ICAS)⁽³²⁾ concluded that 'changing the present situation will be difficult and, indeed, exceptionally unpopular in the short-term'. The researchers make three broad sets of recommendations:

- 1 - Immediate issues: recent developments at the regulatory level seem to indicate that standards and guidelines are beginning to acknowledge environmental issues. Similarly company law and corporate governance systems are beginning to consider how to respond to environmental and social issues. Professional examination syllabi are now acknowledging these developments and this trend should be encouraged.
- 2 - Client-serving issues: each of the aspects of the accountants' training must have environmental issues woven into them, alongside a recognition of social responsibility issues and a more questioning approach to be taken for granted matters (such as capital expenditure decisions, systems design and audit procedures). As the researchers point out, clients can be helped to exploit energy efficiency opportunities and avoid environmental risks. This argues for a greater focus on both the formal education of accountants and their subsequent continuing professional education.
- 3 - Sustainability issues: pointing to the insufficiency of approaches 1 and 2 above, the researchers argue for 'a fundamental re-appraisal of how accounting – as the language of business – not only

(32) "The Professional Accountancy Bodies and the Provision of Education and Training in Relation to Environmental Issues" (Gray & Collison) ICAS 2001

accommodates social and environmental as well as economic issues but, even perhaps, significantly changes to better reflect the social and environmental exigencies of sustainability’.

Recognising the importance of ingraining environmental and social concerns into the accountants’ training, the European Federation of Accountants (FEE) has recently launched a survey of its member bodies seeking to understand better the nature of the problem and the barriers to making progress.

The box below illustrates exactly why accounting education and sustainable development issues deserve to be treated seriously by the professional bodies.

This 19th century approach to income

definition, when coupled with the pre-World War II Hicksian concept of income (the amount you can spend in a year and still be as well-off at the end as you were at the beginning) show clearly the implications for accountancy education of environmentally (and socially) sustainable business culture.

Several of the European accounting bodies – in particular Royal NIVRA (the Netherlands) and ACCA (United Kingdom) – are taking steps to address the short-term or ‘immediate’ issues raised in the ICAS report. Examples of strategies used already include:

- students: write social and environmental issues directly into the syllabus. An example is given in the box below;

‘This question (‘What is Income?’) arises in some connection with nearly every branch of the profession.....and it is desirable that at all times an answer should be founded upon sound and well thought out principles.

Income may be likened to the fruit which a tree yields periodically, and which may be gathered and used without injury to the tree itself. If [however] when the fruit season arrives we not only pluck the fruit, but break off a large portion of the branches as well and use them, our tree is reduced, and next season bears less fruit, and so on until in the course of time there is no tree left at all.

Capital often undergoes a very similar process, and it should be our care that our clients do not gradually exhaust their capital while under the impression that they are living upon their income only.

Suppose a man owns an orchard and depends upon it for his living. Each season he gathers the fruit, sells it and lives upon the proceeds, and thinks he is living within his means. What is the consequence? The trees languish for lack of manure, and the crops grow smaller. The old trees die, and there are no new ones to replace them, and in the end there is no fruit at all to live on.

It is obvious that if our friend truly wished to live within his means it would imply that, out of the proceeds of that fruit, he would make ample provision for digging about and manuring his orchard, and for buying and planting young trees in place of old ones, and so maintain the fruitfulness of his orchard, and it was only what was left after making this provision which could truly and safely be treated as income.’

‘What is Income?’ Extracts from a speech by Mr M Wade FCA to the Liverpool Chartered Accountants’ Students Association (reported in *The Accountant*, 4 December 1896)

- students: provide regular articles on social, environmental and sustainable development issues in student magazines;
- members: provide regular CPD programmes on social, environmental and sustainable development related topics;
- members: provide fast-track opportunities for members to obtain new qualifications, for example as environmental or social auditors.

In some European countries, notably Austria and Germany, it is argued that environmental education and training is delivered *prior* to the professional accountancy training process beginning. Usually this means within the school

and university systems. This explains the absence of environmental issues from the professional curriculum.

In NIVRA's case, the opportunity to integrate social and environmental issues into its curriculum is slightly limited by the existence of a one year post graduate programme for training as an environmental accountant.

One area where the Education Committee of the International Federation of Accountants could make a useful contribution would be by applying these principles to its current work on defining a benchmark global accounting syllabus.

Integrating social, environmental and sustainable development issues into the accounting syllabus: Basic examples

Corporate reporting	<ul style="list-style-type: none"> • IAS 37 on environmental provisions and liabilities including de-commissioning and related disclosure in the notes to the accounts. • IAS 39 and the relationship between financial instruments and emissions trading regimes. • Management's discussion and analysis of the operating results. • Non-financial performance disclosure as a value driver. • The form and content of social, environmental and sustainability reports.
Auditing and assurance services	<ul style="list-style-type: none"> • The financial statement auditor and core environmental issues such as liabilities and provisions. • Providing assurance on social, environmental and sustainability reports.
Company law	<ul style="list-style-type: none"> • The legal responsibilities of company directors to external stakeholder groups. • The role of corporate governance codes in enforcing internal controls in areas of social and environmental risk exposure.

Taxation	<ul style="list-style-type: none"> • The role of environmental taxation instruments. • Specific treatment of landfill, carbon etc taxes.
Management accounting	<ul style="list-style-type: none"> • The application of activity based costing approaches to the identification and measurement of environmental costs. • The re-design of internal management accounting systems to identify and reflect the financial impact of pro-environmental initiatives.
Strategic management	<ul style="list-style-type: none"> • The identification of social and environment related risks and their implications for future business strategy – including the capital investment appraisal decision. • Methodologies for measuring and interpreting social and environmental externalities.

Professional accountancy bodies are not the only organisations providing education for accountants however. Universities and business schools also need to recognise the importance of providing at least a foundation level training in corporate social responsibility and sustainable development for all students, not just those doing accounting or business studies degrees.

The 1993 Toyne Report⁽³³⁾ contained a series of recommendations suggesting environmental education for all students and professional trainees whatever their specialist subjects of study. Toyne argued that the objective should be to create for the student (and later employee):

- a general awareness of the importance of environmental issues (global and local) and the need for responsible environmental stewardship,
- awareness of the ways in which the activities of an individual's organisation are liable to impact upon the environment,
- an appreciation of the individual's own potential contribution to the environmental performance of his/her organisation.

Research into social, environmental and sustainable development issues
Strong evidence of interest in social, environmental and sustainable development issues is found in the research activities of the accountancy bodies listed below.

- AAP – Poland,
- ACCA – United Kingdom,
- CICA – Canada,
- CIMA – United Kingdom,
- ICAEW – United Kingdom,
- ICAS – United Kingdom,
- Royal NIVRA.

ICAEW has recently established a substantial sustainability resources Web site at <http://www.icaew.co.uk>. Both ICAS and ACCA have funded extensive academic research – often via researchers based at the Centre for Social and Environmental Accounting Research at the University of Glasgow (<http://www.gla.ac.uk/Acad/accounting/csear>). Royal NIVRA has a similar research relationship with the Limpurg Institute in Amsterdam.

(33) See Environmental Responsibility: an agenda for further an higher education (The Toyne Report) United Kingdom Department of Employment, Education and Training 1993.

KPMG has published regular triennial surveys of the state of environmental and sustainability reporting around the world – in 1993, 1996, 1999 and 2002 (forthcoming). KPMG South Africa links with local research organisations to produce annual surveys of sustainability reporting among companies listed on the Johannesburg Stock Exchange (most recent 2001).

4.4 Conclusion

This section has looked forward rather than backwards and has identified a number of areas for future action. Of particular importance are:

- 1) the need to place social, environmental and sustainable development issues firmly on the agendas of the main global accounting standard setters and representative bodies;
- 2) the need to bring other stakeholder groups to the table in order to successfully translate best practice into standard practice;
- 3) the need to further research and refine certain environmental and social accounting and auditing techniques that are currently under development;
- 4) the need to integrate social, environmental and sustainability reporting issues into the professional accounting curriculum.

Final words

The timetable for this set of actions is definitely not short-term. The report suggests that Johannesburg + 10 (2012) – is a reasonable target. To turn this list of needs into action requires:

- a clear statement from governments and securities markets regulators internationally that failure to act on a voluntary basis will inevitably lead to an increasingly onerous legislative framework for reporting and accounting;

- a more flexible agenda on the part of global accounting standard setters and representative bodies. This may come about as a result of pressure from the external stakeholders of the accounting profession itself, or if it can effectively demonstrate that inaction on the part of the profession will leave it economically marginalised as other, well-qualified professional groups step in to create the standards and generally accepted practices that the professional itself refuses to create;
- a continued flow of resources to competent researchers.

Annexe I: FEE's commitment to sustainable development issues

Information sheet
European accountancy profession unites on
sustainability issues
Fédération des Experts Comptables
Européens

Introduction

FEE's Sustainability Working Party was established in December 1993. At the time the Working Party focused very much on EMAS Regulation, but soon after its establishment the Working Party extended its activities to the areas of environmental accounting, environmental reporting and provision of environmental assurance. The Working Party has recently changed its name to Sustainability Working Party to illustrate its close involvement in the last few years in sustainability reporting (including environmental, social and economic aspects of a business) and the assurance providing on sustainability reports. The Working Party has issued several papers, many of which can be downloaded from the FEE Web site <http://www.fee.be>, including:

FEE Study *Environmental Accounting, Reporting and Auditing: Survey of Current Activities and Developments within the Accountancy Profession* (1995)

FEE research paper on Expert Statements in Environmental Reports (1996)

FEE Environmental Lexicon

FEE Update Review of IASs for Environmental Issues (1999)

FEE discussion paper on *Providing Assurance on Environmental Reports* (October 1999)

FEE discussion paper on *Towards a Generally Accepted Framework for Environmental Reporting* (revision July 2000)

Analysis of Responses to FEE discussion paper "Providing Assurance on Environmental Reports" published October 1999 (October 2000).

The Working Party is closely involved in the GRI Verification Working Party through its Sustainability Assurance Subgroup. The Subgroup is active on a project on providing assurance on sustainability reports.

The Working Party has also been active in commenting on and contributing to the development of EMAS, the EC white paper on environmental liability and the DG Internal Market Accounting Advisory Forum paper on environmental issues in financial reporting and the EC recommendation on environmental issues in companies' annual accounts and reports, as well as various IFAC projects

Aim

Consistent with serving the public interest, the Working Party seeks to promote the role of the accountancy profession in, and stimulate debate on, sustainability accounting, reporting and assurance providing as well as encouraging pan-European research and the dissemination of its results. In addition the Working Party represents the European accountancy profession at an international level on sustainability issues to the extent considered useful by FEE Member Bodies.

Involvement in other organisations

FEE co-operates with other organisations both international and European to achieve this aim:

IASB (International Accounting Standards Board): to stimulate IASB to undertake more work in the environmental and sustainability accounting area and to review IASs for environmental and sustainability issues and their impact on financial reporting.

IFAC/IAPC (International Federation of Accountants, International Auditing Practices Committee): FEE comments on IFAC projects relevant to or in the environmental area (e.g.

IFAC Discussion Paper – *The Audit Profession and the Environment*; IFAC/IAPC Statement *The Consideration of Environmental Matters in the Audit of Financial Statements*), but also takes an active role in encouraging IFAC to undertake projects in the environmental and sustainability area, for instance on provision of assurance on environmental reports.

UN/ISAR (United Nations – International Standards of Accounting and Reporting): mainly active in the environmental accounting and reporting area, including management accounting.

ISO (International Organisation for Standardisation): in order to be able to monitor and to influence the activities in the environmental area of ISO 14 000 series FEE has accepted an observer role in ISO TC 207 SC 1, SC 2 and SC4 on environmental management and environmental auditing. The accountancy profession perspective, based on over a century's experience of (financial) auditing, differs from the quality certification concept on which the ISO 14000 series is based. FEE contributes to the ISO work to help to develop workable standards in the environmental area. ISO has started the review process of several of its environmental standards.

GRI (Global Reporting Initiative): GRI's core mission is to establish through a global, voluntary and multi-stakeholder process, the foundation for uniform corporate sustainability reporting worldwide. FEE contributes to this initiative by issuing discussion papers on related topics.

Greening of Industry Network
The Greening of Industry Network is an international partnership, a research and policy institute, focusing on issues of industry, environment and society, and dedicated to building a sustainable future. The network's mission is to stimulate, coordinate and promote dialogue and research of high quality

and relevance to ensure that the activities of industry – including business, labour, consumers, government and others – are consistent with building a sustainable future. FEE has contributed to the Greening of Industry Network conferences.

European Commission DG Internal Market and DG Environment: DG Internal Market addresses environmental accounting and has issued in 2001 a recommendation on Recognition, Measurement and Disclosure of Environmental Issues in the Annual Accounts and Annual Reports of Companies. DG Environment, addresses issues of relevance to FEE including EMAS Regulation, white book on environmental liabilities and activities announced in the area of corporate environmental reporting and sustainable development. The Commission has also published a green paper on Promoting a European Framework for Corporate Social Responsibility.

EA EMS (European Coordination for Accreditation – Environmental Management Systems): The advisory body to the Commission on EMAS. FEE has had an observer role, since its establishment, to monitor and influence the debate around EMAS. FEE is also an observer on FAB (Forum of Accreditation Bodies).

In addition to its work in and with the above organisations FEE will continue to stimulate debate in the environmental and sustainability area by issuing its own discussion papers and research papers on environmental accounting, sustainability reporting and assurance providing on environmental and a sustainability reports.

FEE's Sustainability Strategy:

- the accountancy profession has to be aware of developments in the sustainability field and be prepared to extend its activities, especially with regard to ethical and environmental issues facing companies;

- accountants should be able to evaluate the consequences of sustainability issues in relation to normal accounting and auditing practices. This will require changes in the education and training of accountants, including such areas as the treatment of environmental costs and risks;
- specialised forms of education should be available to members of the accountancy profession in order to have experts available in the area of sustainability accounting and assurance providing. The professional accountancy bodies should set the necessary guidelines to ensure the quality of such education and encourage research in the sustainability field;
- the professional accountancy bodies should encourage the development of appropriate review and reporting standards on sustainability issues.

The accountancy profession should apply its unique expertise to the sustainability aspects of its main roles including:

- corporate sustainability or environmental reporting and other third party information;
 - sustainability management information and related control systems;
 - concepts, principles and practices within sustainability assurance providing, including assurance reporting;
 - knowledge and skills of audit teams, including the education of auditors and the use of other experts;
 - evaluation of risks and liabilities;
 - independence and codes of conduct.
- the accountancy profession co-operates with experts and advisers from other disciplines in the sustainability field, using multidisciplinary teams with a clear distribution of tasks and functions, both at an institutional and engagement level.
 - the accountancy profession should participate actively in the development of sustainability, guidance, legislation and

regulations, including those from IFAC, GRI, EC and ISO;

- the accountancy profession should communicate its position in the sustainability field to government and other policy-makers, and also to industry, the press and other stakeholders.

Further information

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Annexe 2: Selected bibliography

This bibliography has been produced on a chronological basis to illustrate how professional involvement has changed over the time between the two Earth Summits.

The principle criterion for selection is that the publication is sponsored by, published by or written by an accounting body, accounting firm, accounting professional or accounting academic.

The second criterion for inclusion is that the subject matter of the publication deals squarely with accounting related issues. This means that some core publications on (say) environmental reporting may not be listed because they do not meet these two criteria. Where relevant to the core message of this report, however, key publications will also be listed (for example the Sustainability Reporting Guidelines of the Global Reporting Initiative).

Abbreviations used in this bibliography:

AAP	Accountants Association in Poland
ACCA	Association of Chartered Certified Accountants (United Kingdom)
AICPA	American Institute of Certified Public Accountants
CICA	Canadian Institute of Chartered Accountants
CIMA	Chartered Institute of Management Accountants (United Kingdom)
CIPFA	Chartered Institute of Public Finance & Accountancy (United Kingdom)
IDW	Institute Der Wirtschaftsprüfer (Germany)
ICAEW	Institute of Chartered Accountants in England & Wales
ICAS	Institute of Chartered Accountants in Scotland

NIVRA	Royal Dutch NIVRA (the Netherlands)
UN ISAR	United Nations Conference on Trade and Development Inter-Governmental Working Group of Experts on International Standards of Accounting and Reporting
1973	<i>Accounting & Society</i> (Estes R W) Melville, CA. ISBN 0-471-24590-9
1980	<i>Environmental protection expenditures and their classification.</i> (Stepien M) AAP. ISSN 0137 2211
1984	<i>Social accountancy as one of the trends in the development of accountancy.</i> (Jaruga A). AAP. ISSN 0137 2211
1987	<i>Corporate Social Reporting: Accounting & Accountability</i> (Gray R., Owen D., & Maunders K.) Prentice Hall ISBN0-13-175456-4 (2nd ed 1996 <i>Accounting & Accountability: changes and challenges in corporate social and environmental reporting</i> (Gray, Owen & Adams - ISBN 0-13-175860-8))
1989	<i>Environmental Accounting for Sustainable Development</i> (ed: Ahmad Y J., El Serafy S & Lutz E) UNEP/World Bank ISBN 0-8213-1224-3
1990	<i>The Greening of Accountancy: the profession after Pearce</i> (Gray RH) ACCA. ISBN 1-85011-044-1 (translated into Japanese 1996) ISBN 4-561-36056-5
1990	CICA Handbook - Accounting Vol I - <i>recommendations on capital assets, future removal and site restoration costs.</i> CICA
1990	<i>The costs to industry of adopting environmentally friendly practices</i> (Burkitt D) CIMA. ISBN 0948036680

- 1992 *Green Reporting: Accountancy and the challenge of the nineties* (ed: D Owen) Chapman & Hall ISBN 0-412-40130-4 ISBN 0 88800 372 2 Canadian Institute of Chartered Accountants
- 1992 *Business, Accountancy & The Environment: a policy and research agenda* (Macve R., & Carey A) Institute of Chartered Accountants in England & Wales, ISBN 1 85355 288 7
- 1992 *Environmental Auditing and the Role of the Accounting Profession* (CICA) - ISBN 0-08800-281-5
- 1992 *Environmental Costs: Accounting and Disclosure* (Price Waterhouse United States) No ISBN
- 1992 *Accounting for Environmental Compliance: crossroad of GAAP, engineering & government* (Price Waterhouse United States) No ISBN
- 1993 *Accounting for the Environment* (Gray R., Bebbington J. & Walters D) Paul Chapman Publishers (& ACCA) (translated into Spanish 1999) ISBN 1-55876-076-8
- 1993 *Environmental accounting and auditing: survey of current activities and developments* (European Federation of Accountants) No ISBN (survey repeated 1995. Again, no ISBN)
- 1993 *Coming Clean: corporate environmental reporting - opening up for sustainable development* (Deloitte Touche Tohmatsu International, International Institute for Sustainable Development & Sustainability) ISBN 0-942640-03-9
- 1993 *Toward Improved Accounting for the Environment* (ed: E Lutz) UNSTAT/World Bank ISBN 0-8213-2436-5
- 1993 *Environmental costs and liabilities: accounting and financial reporting issues.*
- 1994 *Environmental Accounting for the Sustainable Corporation: strategies and Techniques* (Rubenstein D B) Greenwood Publishers ISBN 0-89930-866-X
- 1994 *Le Reviseur D'Enterprises et L'Environnement* (Institut des Reviseurs D'Enterprises - Belgium) No ISBN
- 1994 *Accounting for Sustainable Forestry development: a case study* (Rubenstein D B) United Nations ISBN 92-1-104438-3
- 1994 *Social & Environmental Accounting Education in British Universities* (Owen D., Humphrey C., & Lewis L) ACCA – ISBN 1 898291 46 2
- 1994 *Reporting on Environmental Performance.* CICA – ISBN 0 88800 397 8
- 1994 *Environmental Reporting in Canada - a survey of 1993 reports.* CICA – ISBN 088800 408 7
- 1994 *Company Environmental Reporting: a measure of the progress of business & industry towards sustainable development* (UNEP/SustainAbility) UNEP Technical Report No. 24 ISBN 92-807-1413-9
- 1994 *Where silence is not golden: towards the strategic use of corporate environmental information for company purposes.* (Spencer-Cooke A). ACCA – ISBN 1 898291 51 9
- 1995 *Miljoledning Miljorevision Miljoredovisning* (Larsson) KPMG Bohlins/Elerlids Forlag (ISBN 981-88594-44-0)
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- 1996 *Corporate Environmental Reporting 1995: a Nordic Survey* (Deloitte & Touche) ISBN 87-89152-11-5
- 1996 *Assessor's Manual - for the Analysis and Evaluation of Corporate Environmental Reporting 1995* (Deloitte & Touche) ISBN 87-89152-09-3
- 1996 *Measuring Corporate Environmental Performance: best practices for costing and managing an effective environmental strategy* (Epstein M J) Irwin Professional Publishing ISBN 0-7863-0230-5
- 1996 *Environmental Issues in Financial Reporting*. ICAEW – No ISBN
- 1996 *The Financial Statement Auditor and the Environment* (Collison D., Gray R., & Innes J) ICAEW – ISBN 1 85355 705 6
- 1996 *Statement of Position 96/1 Environmental Remediation Activities*. AICPA – No ISBN
- 1996 *Expert Statements in Environmental Reports* (European Federation of Accountants) No ISBN
- 1996 *Environmental Accounting in Industry - A Practical Review* (Tuppen C., Bennett M., James P., Lane G) British Telecommunications ISBN NO ISBN
- 1996 *Business conceptions of sustainability and the implications for accountancy* (Bebbington J and Thomson) ACCA ISBN 1 898291 69 1
- 1996 *Tools & Techniques of Environmental Accounting for Business Decisions*. (Epstein M) Certified Management Accountants of Canada. No ISBN
- 1997 *Environmental Reporting* (KPMG Denmark), ISBN 87-89888-30-8

- 1997 *Full Cost Accounting from an Environmental Perspective* CICA – ISBN 0-88800-486-9
- 1997 *Measuring Eco-Efficiency in Business - Backgrounder*. CICA - ISBN 1 895643 64 3
- 1997 *A guide to environment and energy reporting and accounting* (Aspinwall & Co) ACCA – ISBN 1 85908 185 1
- 1997 *Environmental Management: the role of the management accountant*. CIMA – No ISBN.
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- 1999 *International Accounting & Reporting Issues: (1) Position Paper: Accounting and Financial Reporting for Environmental Liabilities and Costs (Moore D); (2) Accounting and Reporting for Environmental Liabilities and Costs Within The Existing Financial Reporting Framework (Moore D) (3) Linking Environmental and Financial Performance: a survey of best practice techniques* (Adams R) United Nations ISBN 92-1-112444-1
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- 1999 *The Copenhagen Charter: a management guide to stakeholder reporting – Ernst & Young, PwC and KPMG*
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- 2001 *Prudently Protecting Profits? The (Mild) Greening of Global Corporate Management* (Hibbitt C. & Kamp-Roelands N) Nederlands Instituut van Registeraccountants – No ISBN

- 2001 *Ecological Footprinting Analysis: towards a sustainability indicator for business* (Chambers N & Lewis) ACCA. ISBN I 85908 338 5
- 2001 *The professional accountancy bodies and the provision of education and training in relation to environmental issues.* (Gray R & Collison D.) ICAS. ISBN I 871250 89 7
- 2001 *An Introduction to environmental reporting.* Association of Chartered Certified Accountants. No ISBN – downloadable pdf from <http://www.accaglobal.com>
- 2001 *Environmental Reporting Guidelines.* Ministry of the Environment – Government of Japan. No ISBN.
- 2001 *Full cost accounting - an agenda for action* (Bebbington, Gray, Hibbitt & Kirk) ACCA – ISBN I 85908 352 8
- 2001 *The State of Environmental Reporting in Ireland.* (O'Dwyer B). ACCA – ISBN I 85908 347 1
- 2001 *An Analysis of European Ethical Funds.* Kreander N. ACCA – ISBN I 85908 357 9
- 2001 *Writing & Evaluating Sustainable Development and Environmental Reports.* (joint w/CMA Canada). ISBN I 876874 24 4
- 2001 *Environmental Performance: measuring and managing what matters.* (Willis A & Dresjardins J). CICA - ISBN 0 88800 604 7
- 2001 *Advances in Environmental Accounting & Management Vol 1* (Freedman M & Jaggi B) JAI ISBN 0 7623 0334 4
- 2001 *Advances in Environmental Accounting* (seminar proceedings) ACCA ISBN I 85908 363 3
- 2001 UN Division of Sustainable Development (UNSD) environmental management accounting workbooks – *Improving Governments' Role in Promoting Environmental Management Accounting (EMA):*
- Workbook 1 – *Environmental management accounting, practices and principles* (Jasch C) ISBN 92 I 104503 - 7
- Workbook 2 – *Government, Management & Stakeholders* (Schaltegger S, Hahn T, & Burritt R)
- Workbook 3 – *Policy pathways for promoting environmental management accounting (EMA)* (Savage D, Ligon P, & Lomsek J)

Selected Web sites

The Web sites listed below provide only a partial picture of the immense amount of work that is being carried out by accountants and accounting related initiatives. Two general sites are listed – The Corporate Register and

Sustainability News Services. These, together with the resources pages at CICA and ICAEW will enable access to almost every current accounting and reporting initiative currently active.

ACCA – the Association of Chartered Certified Accountants	http://www.accaglobal.com	Downloadable copies of research studies and judges' reports
CICA – the Canadian Institute of Chartered Accountants	http://www.cica.ca	On-line environmental resources pages providing many links and up-to-date environmental news; access to CICA's own environmental and sustainable development publications
The Corporate Register	http://www.corporateregister.com	Access to up-to-date data on companies issuing environmental, social and sustainability reports
CSEAR – Centre for Social and Environmental Accounting Research	http://www.gla.ac.uk/Acad/accounting/csear	Details of the Centre, its resources and its newsletter
EMA – the UN Commission for Sustainable Development's environmental management accounting project	http://www.un.org/esa/sustdev/estema1.htm	Details of the UN environmental management accounting project, group meetings
EMAN – the Environmental Management Accounting Network	http://Online.chelt.ac.uk/eman	Details of EMAN conferences and related initiatives
FEE – the European Federation of Accountants (Sustainability Working Group)	http://www.fee.be	Details of FEE environmental/sustainability related publications: some (for example environmental lexicon) freely downloadable

GRI – the Global Reporting Initiative	http://www.globalreporting.com	Downloadable copies of the GRI sustainability reporting guidelines and details of reporting organisations
IASB – the International Accounting Standards Board	http://www.iasb.org.uk	Details of the IASB work programme and official pronouncements.
ICAEW – the Institute of Chartered Accountants in England & Wales Sustainability Resources Centre	http://www.icaew.co.uk	Sustainability resource site with links and bibliographies, news, responses etc
IFAC – the International Federation of Accountants	http://www.ifac.org	Copies of official pronouncements and research studies
KPMG South Africa	http://www.kpmg.co.za	Downloadable copies of sustainability reporting surveys
Sustainability News Services	http://www.enviroreporting.com	Multi-language site of sites: reports, wards, news etc – all in a reporting context

UNEP contribution to the World Summit on Sustainable Development

The mission of the United Nations Environment Programme (UNEP) is to provide leadership and encourage partnerships in caring for the environment by inspiring, informing, and enabling nations and peoples to improve their quality of life without compromising that of future generations. The UNEP Division of Technology, Industry and Economics (DTIE) contributes to the UNEP mission by encouraging decision-makers in government, business, and industry develop and adopt policies, strategies and practices that are cleaner and safer; make efficient use of natural resources, ensure adequate management of chemicals, incorporate environmental costs, and reduce pollution and risks for humans and the environment.

This report is part of a series facilitated by UNEP DTIE as a contribution to the World Summit on Sustainable Development. UNEP DTIE provided a report outline based on Agenda 21 to interested industrial sectors and co-ordinated a consultation process with relevant stakeholders. In turn, participating industry sectors committed themselves to producing an honest account of performance against sustainability goals.

The full set of reports is available from UNEP DTIE's web site (<http://www.uneptie.org/wssd/>), which gives further details on the process and the organisations that made it possible. The following is a list of related outputs from this process, all of which are available from UNEP both in electronic version and hardcopy:

- industry sectoral reports, including
 - accounting
 - advertising
 - aluminium
 - automotive
 - aviation
 - chemicals
 - coal
 - construction
 - consulting engineering
 - electricity
 - fertilizer
 - finance and insurance
 - food and drink
 - information and communications technology
 - iron and steel
 - oil and gas
 - railways
 - refrigeration
 - road transport
 - tourism
 - waste management
 - water management
- a compilation of executive summaries of the industry sectoral reports above;
- an overview report by UNEP DTIE;
- a CD-ROM including all of the above documents.

UNEP DTIE is also contributing the following additional products:

- a joint WBCSD/WRI/UNEP publication entitled *Tomorrow's Markets: Global Trends and Their Implications for Business*, presenting the imperative for sustainable business practices;
- a joint WB/UNEP report on innovative finance for sustainability, which highlights new and effective financial mechanisms to address pressing environmental, social and developmental issues;
- two extraordinary issues of UNEP DTIE's quarterly *Industry and Environment* review, addressing key regional industry issues and the broader sustainable development agenda.

More generally, UNEP will be contributing to the World Summit on Sustainable Development with various other products, including:

- the Global Environmental Outlook 3 (GEO 3), UNEP's third state of the environment assessment report;
- a special issue of UNEP's *Our Planet* magazine for World Environment Day, with a focus on the International Year of Mountains;
- the UNEP photobook *Focus on Your World*, with the best images from the Third International Photographic Competition on the Environment.

Sustainability profile of the Accounting industry

• Achievements

- Drawing on the same conceptual framework that underpins financial reporting, the accounting profession has contributed significantly to all key social, environmental and sustainability reporting initiatives.
- The leading accountancy bodies have established national and regional sustainability reporting award schemes, which have contributed to both improved reporting and the establishment of consistent reporting benchmarks.
- The major trans-national accounting firms have contributed significantly to the development and application of the verification methodologies needed to add credibility to social, environmental and sustainability reporting initiatives.

• Unfinished business

- To date there are no international financial reporting or auditing standards dealing directly with social, environmental or sustainability accounting, reporting or auditing issues.
- Small and medium-sized accounting firms very seldom work with corporate clients on social, environmental and sustainable development issues - to date, only the major transnational accounting firms are involved with this type of activity.
- The accounting profession could play a more prominent role in promoting sustainable development as a major strategic issue for the financial community.

• Future challenges and possible commitments

- The accounting profession should commit to introducing social, environmental and sustainable development issues into the standard educational curriculum.
- International accounting and auditing standard setters should acknowledge the importance of social, environmental and sustainable development issues by putting them on their core work agendas.
- The accounting profession should work with the international academic community to develop standardised techniques of full-cost accounting and to explore the increasingly wide variety of environmental finance opportunities that are being developed.

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