Sustainability and Non-Financial Reporting is the Global Need of the Hour

Prince Charles once referred to accountants as "the engine room of the corporate world and of the government." The 'engine room' of a company or of a government can only be as good as its inner workings, its precision parts and maintenance. The metaphor of precision parts and maintenance of course refers to accountants' training, our skills and our observance of ethics and governance. Accountants are strategic resource managers and are either already directly or indirectly involved in the areas required by integrated reporting directives, such as human resources, energy and water, so it makes sense that we continue the journey to strategically account for non-financial or intangible resources. By measuring the environmental and social impacts of business, a more holistic picture of business value starts to emerge. In this article, the author highlights the need, importance of sustainability and non-financial reporting and related developments from the perspective of CPA Australia.

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As the CEO of the international professional body, CPA Australia, I am honoured to know some of the finest

and most ethical financial, accounting and business advisory professionals who have the highest calibre and training. These people are our members.

I believe it is exactly because of the accountant's role in the engine room that accountants can lead in one of the profession's greatest challenges - to help merge understanding of economic value with environmental and social value. We can transform business and help shape the systems of the future.

CPAs have the leadership capabilities and exemplify the agility required to make the transition to a business model based on both financial and environmental sustainability. By measuring and reporting on non financial data with the same methodology as measurement of financial data, accountants will be able to report more fully on a business's success or value.

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Accountants measure and analyse the impact and value of a range of things on the company. But the meaning of value is changing and it is now being applied in a wider context.

As we move increasingly towards a global economy, we understand more about shared resources and the social reach of the corporation.

Accounting reporting is about to undergo a significant period of change as it moves to a more integrated model of financial and non financial analysis. A rigorous and internationally comparable financial reporting and audit landscape is vital to attract foreign investment and open up international markets for businesses. Non financial reporting, based on long term thinking, is becoming just as important to the company's positioning. These reports help to measure the cost to societies of depletion of the natural environment and its finite resources. They serve not only the needs of investors but also the public interest and provide opportunities for companies to position themselves as long term investment options.

If we measure our impact on non renewable resources, we can decide whether we are contributing to value, or degrading the value. Businesses can create, preserve or erode value over time from environmental, natural, human, intellectual and social capital. And the more information we have at hand about the value of these things, the better we are able to make decisions and account for the problems of waste, pollution, climate change and over-consumption.

By valuing nature in terms of our impacts and stewardship we can move towards sustainable development whereby human development exists within the limits of renewable resources.

It is no longer tenable to deliver short term immediate financial gain, to the detriment of societies and natural environments. We are witnessing demands for a radical economic, social and business shift towards more sustainable practices. And by reporting on our use of all resources, both financial and non financial, companies are enabling investors to make better decisions about long term resource allocation.

This shift in thinking is happening as the world moves toward a global economy and looks at sustainability of resources on a world scale.

A new business model is emerging, requiring leadership from 'the engine room' to drive sustainability through ethical conduct and consideration of impacts on society and the environment on a 'sans frontiers' scale. There's a growing expectation that the accounting profession must be authoritative on matters beyond the immediate balance sheet, that we must be alert to business and economic trends which reverberate beyond sectoral, national or even regional boundaries.

Quality transparent external reporting is becoming even more important as the competition for capital increases in a global economy. And since the Global Financial Crisis (GFC), investors are even more needy of wider ranging research to enable more confidence in their decisions in allocating capital to sustainable investments. The investment community has become increasingly discerning and requires more than a mere set of financial statements.

External reporting is becoming not just a compliance activity but an opportunity to communicate with owners of capital and other stakeholders on their points of difference from other organisations.

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Integrated reporting is aimed at bringing together financial, environmental, social and governance information in a concise, consistent and comparable format.

CPA Australia sees where the future of leadership within our profession lies. To continue our success as the global accountancy designation for strategic business leaders, a thorough understanding of sustainability issues and how they affect the accounting profession must be maintained. Our CPA Program now incorporates sustainability, governance and ethical challenges, to ensure that our members are better placed to advice on wider issues, such as carbon costing and life-cycle analysis.

For CPAs, reporting on environmental, social, governance and financial aspects of business creates opportunities for managers to make good informed decisions about the future of their business, from more than a financial stand point. Human, environmental and intellectual capital are as important as finance is to a business.

We support and lead our members by building the main elements of sustainability into our CPA programme, and have conducted world first research on "Sustainability in capital investment appraisals", working at the highest levels to operate at the global forefront of the International Integrated Reporting Committee, Global Reporting Initiative, Accounting for sustainability, Business Leaders forum, and share our understanding with our members and with the profession.

One initiative I am particularly proud of is that our CPA Programme's structure and syllabus incorporates sustainability to ensure future CPAs are informed and able to adapt to this ever emerging area and its impacts on our profession. We have ensured that our members are able to access knowledge on how sustainability matters, directly influence present and future economic climates; we have held conferences; implemented an environmental, social and governance (ESG) portal on our website; and embedded sustainability education into many of our programs. CPA Australia delivered more than 20 sustainability focussed face-to-face professional development events throughout the year, attracting approximately 3,000 registrations.

Sustainability reporting is the practice of measuring, disclosing and being accountable for organisational performance while working towards the goal of sustainable development. A sustainability report provides a balanced and reasonable representation of the sustainability performance of the reporting organisation, including both positive and negative contributions.

We regularly attend conferences such as Transparency in Amsterdam, the UN Global Compact meeting in New York, the CSR-Asia conference in Hong Kong, the World Congress of Accountants in Kuala Lumpur and Global Reporting Initiative's Conference on Sustainability.

In 2010, the Global Reporting Initiative (GRI) conference in Amsterdam, proposed two groundbreaking resolutions. The first was that all large corporations and small-to-medium enterprises should report their environmental, social and governance material issues on an 'if not/why not' basis by 2015. Accountants will play a role in this and preparation for 2015 will be on strategic radars now.

The second was that an integrated reporting framework will be created so that financial and non-financial reporting can be merged into this single framework by 2020.

Today's financial reporting is predominantly based on past events and is transaction focussed, it does not capture the full dimensions of corporate performance risk and worth. It conveys mainly to shareholders vital information on how directors have discharged their duties and performed in terms of generating wealth. In addition, financial reporting fulfils the vital function of informing securities markets and is thus vital to wider community confidence. Financial reporting for very sound reasons is conducted in a framework which tends towards more prescriptive and mandatory focussed regulation.

The Australian Accounting Standards Board's Framework for the preparation and presentation of financial statements says that:

"The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.

Financial statements prepared for this purpose meet the common needs of most users. However, financial statements do not provide all the information that users may need to make economic decisions since they largely portray the financial effects of past events and

do not necessarily provide non-financial information.

Financial statements also show the results of the stewardship of management or the accountability of management for the resources entrusted to it."

Financial reporting has, over many decades, developed in parallel with the emergence of the corporation as the overwhelmingly dominant mode for transacting commercial activity.

The GRI says sustainability reporting is "The practice of measuring, disclosing and being accountable for organisational performance while working towards the goal of sustainable development. A sustainability report provides a balanced and reasonable representation of the sustainability performance of the reporting organisation, including both positive and negative contributions."

While this definition of sustainability reporting reflects an emphasis on disclosure, it also reflects the establishment of what sustainable development means for an organisation, and how improving sustainability performance can translate into enhanced business performance. This, in turn, contributes to a better understanding of the benefits that might be achieved from embedding sustainability.

The establishment of the International Integrated Reporting Committee (IIRC) under the joint auspices of the GRI and the International Federation of Accountants (IFAC) is aimed at creating a globally accepted integrated reporting framework that brings together the respective strengths of financial and sustainability reporting while addressing their respective weaknesses. They could be summarised like this:

- Financial reporting is transaction based and sector neutral. In contrast, sustainability reporting addresses many sector specific issues and characteristics, and captures a wider array of both quantitative and qualitative information.
- Financial information tends to be historic in nature communicating important attributes of performance and position. In contrast, sustainability reporting seeks to capture aspects of anticipated impact and the preservation of resources on an inter-generational basis.
- Financial reporting has become highly standardised as a consequence of the international integration of capital markets. In contrast, sustainability focusses on a much wider range of corporate attributes and business objectives.
- Financial reporting assumes particular characteristics of the division of corporate powers and thus communicates directors' performance in relation to the financial interests of shareholders. In contrast, sustainability reporting has evolved to communicate information to a wider base of stakeholders and is less entrenched in the ideas of shareholder primacy. Today's reality is that in any medium to large company most shareholders are disengaged, and indeed precluded, from involvement in the management of the companies in which they invest.

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CPA Australia has, through its various networks and global involvements, been very active in advocating for the accounting profession to lead on issues of sustainability, particularly as they pertain to business, how business reports its performance and how this process in turn drives improved performance.

The CPA of today is relied on for corporate reputation, and these days that has taken on multiple facets – those of transparent financial reporting, as well as reporting on impacts on environment and society.

We also realise that transparent reporting of sustainability efforts is a journey. In CPA Australia's case, whilst we have made some notable strides into embedding sustainable practices into our core business operating model, we're not yet ready to declare ourselves a best practice organisation on this front, and we recognise that we have a lot of hard work ahead of us.

For the last three years CPA Australia has produced voluntary, independently assured and GRI compliant sustainability reports and to our knowledge, were the first professional accounting body to have done so. And, in moving our head office to new premises in 2009, a key criterion was the green rating of the alternative buildings on offer.

We are in the process of building into our normal managerial dialogue about volumes and margins, any coverage of – for example – our carbon footprint, or the level of training of our employees in anti-corruption policies and procedures.

It is this fundamental change in behaviour that is perhaps the most difficult element of any change programme, and we are now taking the steps to formalise regular managerial agendas to deal with a number of these issues. The critical issue for the

development of professional skills will be around how existing skills will be adapted and new skills developed – the emphasis will be on dynamic problem solving and capacity to work across traditional organisational boundaries.

Sustainability therefore has the potential to reshape how we as individuals participate and engage in our working lives. What we have found in compiling our sustainability reports, right from the outset, is how much we learned about our organisation and its performance, with the benefits of this knowledge already apparent.

We are now at a stage of embedding these processes into our operations alongside information about sales, margins and a range of other business data. This has ensured a greater focus on key issues like governance and control mechanisms.

We can already see that adherence to sustainability or integrated reporting will drive improved organisational performance across the range of measures but to embed sustainability as an integrated discipline is going to take hard work, a few mistakes no doubt; but ones from which we learn, and importantly, it will take generous helpings of patience.

Throughout our 125 year history we have anticipated and embraced change to better serve our members and their employers as well as the broader community. This legacy of being able to combine adaptability, while maintaining a strong adherence to the highest ethical and technical business standards, is standing us in good stead as we negotiate this important phase.

To try to change behaviour we are building Corporate and Social Responsibility (CSR) systems and processes to try to push for the collective mindset required to make sustainability part of business as usual. Our organisation is trying to embed sustainability by looking at accountability, decision making targets, measures and goals and deciding how to report on them. At a managerial level, we report on things such as electricity consumption, how we engage with our stakeholders, our supply chain, our employees and volunteers, and our community volunteering plans. Once the internal control and reporting mechanisms have become business-as-usual, our CSR Manager's challenge is to try to work herself out of her current job.

Financial reporting compliance with securities regulators and stock exchanges ensures companies have budgeting and internal control mechanisms enmeshed as part of their normal operations.

However, the absence of a compliance obligation to provide sustainability and non-financial reporting explains, to a substantial degree, why the emergence of sustainability reporting amongst leading companies has only been a voluntary initiative. But we believe

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that demand from stakeholders and the wider public, plus the developments that have occurred to meet this demand, mean that all businesses – sooner or later – will be obliged to report integrated financial and non-financial information.

There are clear benefits to business from doing so as CPA Australia has already discovered, and early adopters are likely to have a competitive edge.

Recognition of these benefits, and an eagerness to attain them, would ideally result in business desiring to communicate information willingly, regularly and transparently rather than just with a mindset of obligation to comply.

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Our organisation has managed to achieve sustainable business practices and thrive for over a century and as we celebrate our 125th anniversary this year one of our greatest challenges will be to help lead the merge of understanding of economic value with environmental and social value. ■