



Information for Better Markets

# Sustainability: the role of accountants

A report, *Sustainability: the role of accountants*, published by The Institute of Chartered Accountants in England & Wales (ICAEW) in October 2004, analyses the potential role of accountants in supporting mechanisms to enhance sustainability. The concept of sustainable development involves operating in a way that takes full account of an organisation's impacts on the planet, its people and the future.

The report forms part of the ICAEW's *Information for Better Markets* campaign and considers how information supports mechanisms that direct market activity towards more sustainable and, in that sense, better outcomes.

Copies of the report may be obtained by calling +44 (0) 20 7920 8634 or by visiting [www.icaew.co.uk/bettermarkets](http://www.icaew.co.uk/bettermarkets).

### **Aims of the report**

The report is intended to contribute to thought leadership on sustainability and has three objectives:

- to raise awareness of sustainability issues amongst professionally qualified accountants and to highlight the opportunities available;
- to demonstrate to a wider readership the relevance of accountants' skills to the broad range of initiatives and issues associated with sustainability; and
- to assist public discussion on effective ways of promoting sustainability.

### **The approach adopted**

The report adopts a novel approach by identifying eight mechanisms by which sustainability may be enhanced. In many cases, these involve encouraging or forcing organisations to take a longer term view or to internalise external costs and benefits, or limiting choices so that organisations act as if external costs and benefits had been internalised. Changes in expectations and attitudes towards sustainability are prompting governments, investors and enterprises to use a combination of such mechanisms. The different mechanisms identified are:

#### **1. Corporate policies**

whereby the perceived expectations of society *convince* organisations of the merits of adopting policies on sustainability and publishing information about the policies and their impact.

#### **2. Supply chain pressure**

by which the expectations of society *drive* purchasers to promote a desired standard of sustainable performance and reporting amongst suppliers and others in the supply chain.

#### **3. Stakeholder engagement**

enabling those with a particular interest to *influence* the decisions and behaviour of an organisation to engage an organisation in ongoing dialogue and a process of feedback to and from stakeholders, supported by information flows about sustainable performance.

#### **4. Voluntary codes**

through which society *encourages* organisations to improve particular aspects of their sustainability performance, often requiring a statement for stakeholders regarding compliance or an explanation of non-compliance

#### **5. Rating and benchmarking**

by which investors and others, or agencies working on their behalf, *grade* organisations through the use of benchmarks or ratings on the basis of information on sustainability policies and performance and thus influence the behaviour of organisations and stakeholders.

## 6. Taxes and subsidies

to *incentivise* organisations to operate in ways that contribute to sustainability, requiring information in the form of tax returns and grant claims.

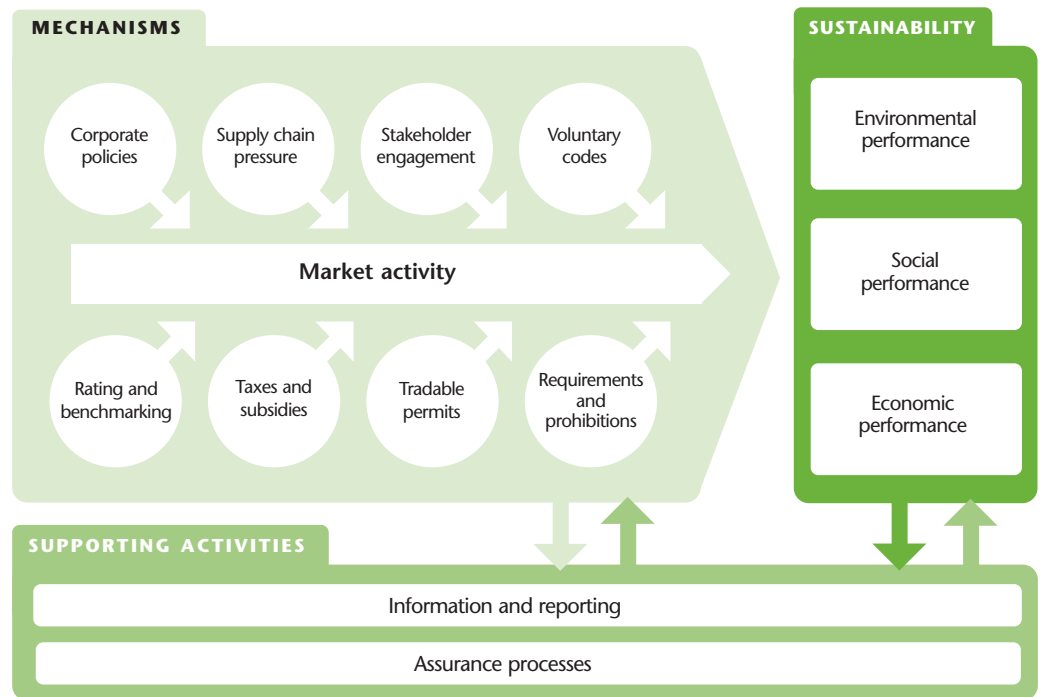
## 7. Tradable permits

whereby governments *ration* allocations of scarce resources or undesirable impacts so as to improve sustainability, requiring information about quota utilisation and prices to support the operation of fair markets.

## 8. Requirements and prohibitions

through which society *mandates* actions that enhance sustainability, requiring relevant information flows to enable enforcement bodies to monitor compliance.

### A market-based approach to sustainability



To support each of the mechanisms, organisations, governments, tax authorities, market regulators and stakeholders need to rely on credible information flows if they are to operate effectively. This is an area where professional accountants can help, working with other experts where necessary. All of the mechanisms, as well as answers to questions about overall progress towards sustainable development and the contributions of individual organisations to sustainability, are dependent on the support provided by reporting and assurance:

### Information and reporting

through which organisations *facilitate*, both internally and externally, the operation of mechanisms to promote sustainable development.

### Assurance processes

through which organisations *underpin* the legitimacy of mechanisms to promote sustainable development.

As well as describing recent developments, the report summarises the involvement of the accountancy profession and points the way forward. Where applicable, the results of an ICAEW survey of practitioner opinions are also included.

## The role of accountants

The report identifies a number of ways in which operation of various mechanisms for enhancing sustainability offers some key challenges and opportunities that are directly relevant to the role of professionally qualified accountants:

- Increased transparency and pressure to extend the boundaries of responsibility are highlighting the importance of clear **corporate policies** to protect corporate reputation and gain competitive advantage. A wide range of environmental, social and economic issues represent both a threat and an opportunity. Accountants have a role in developing policies to address such issues, in their application across the business and in managing the associated business risks.
- Supply chain standards are generally set by the purchasing organisation, to be applied by all its principal suppliers. In this respect, each purchaser normally operates on an individual basis. While this may have advantages for the purchaser, it is often seen by the supplier as inefficient, owing to the need to meet a variety of different standards. As **supply chain pressure** develops, accountants within organisations are likely to be involved with the design and monitoring of purchasing policies, whilst auditors may be required to provide assurance on the application of standards in the supply chain.
- The need to recognise potential stakeholder influence on company value from the perspective of shareholders will place increasing importance on some form of **stakeholder engagement**. Internal accountants will need to support the stakeholder engagement process with readily accessible and reliable information. Professional accountants acting as auditors are likely to find that it is helpful to review the application and results of the engagement process, without necessarily becoming directly involved in such consultation.
- The development of **voluntary codes** has taken place in a largely unstructured way, resulting in a wide range of principles designed to achieve worthy objectives and offering, or appearing to offer, competitive benefits. Accountants may be involved in identifying a code appropriate to the business or in integrating operation of the code with an existing management information system. Where corporate governance includes compliance with a voluntary code, internal and external accountants may need to review the related operating controls.
- Effective **rating and benchmarking** require the timely publication of information. Accountants have a role in supporting benchmarking by providing relevant and reliable information in an accessible, meaningful and comparable way. The continuing use of questionnaires for benchmarking purposes is inevitable but efforts to minimise the associated problems should be supported. Much of the demand for information about environmental, social and economic performance required by rating and benchmarking organisations could be satisfied by the use of a more structured presentation enabling the data to be located more easily. There is also the challenge of increasing the transparency of rating agencies' methodology, to which accountants may be well-positioned to contribute.
- An early understanding of new **requirements and prohibitions** and their implications, including related **taxes and subsidies**, will be necessary to develop appropriate action plans. Professional accountants will need to maintain and expand their knowledge of regulations applicable to the businesses with which they are involved, so as to be able to provide timely information about relevant environmental and social issues, referring to other experts where necessary. With the expansion of taxes and subsidies intended to promote sustainability, accountants will become involved with plans to reduce specific impacts so as to minimise the tax burden.

- The increasing use of **tradable permits** and certificates to achieve a variety of sustainability enhancing objectives will present a major challenge in understanding the schemes, measuring the value of the instruments, trading decisions and associated risk management. Accountants involved with businesses affected by emission trading schemes will need to obtain a working knowledge of the schemes in order to provide effective support in collecting and interpreting information, monitoring and controlling market activities.
- Each of the mechanisms identified in this report requires the preparation of **information and reporting**. To support the mechanisms and contribute to associated interpretation and decision-making, internal and external accountants have a role that will often extend beyond performance measurement and reporting. At the same time, it is important for the accountancy profession to respond to growing interest in whether sustainability is being enhanced and what contribution organisations are making to sustainable development. Progress towards a generally accepted framework for sustainability accounting and reporting will involve working with other experts and providing more specific guidance, where necessary. The goal is for non-financial information to be reported to the same standards as financial information, both internally for management purposes and externally in a way that addresses the valid concerns of multiple stakeholder groups.
- Credibility of information about sustainability is strengthened by **assurance processes**. Despite the paucity of suitable reporting criteria for the preparation of information, the need for such processes is evident and is likely to be filled by other disciplines if the accountancy profession does not rise to the challenge. Accountants in business are already involved in monitoring, checking and interpreting information relating to social, environmental and economic impacts. Providing external assurance reports is a role for which the accountancy profession is pre-eminently qualified, building on initiatives such as the IAASB Framework and ISAE 3000 and working with other disciplines.

### Looking ahead

Sustainability presents a new market focus for the profession. With the increasing importance attached to environmental protection and social responsibility, many of the issues raised by the quest for sustainable development are business risk issues, an area commonly of concern to accountants. Devices such as tradable permits and other mechanisms described in the report will require accounting expertise. Accountants in businesses with significant environmental or social impacts will be involved with the measurement, recording and interpretation of sustainability issues. Future management information systems and controls will need to include environmental and social data, emphasising the benefit of a joined-up approach. Accountants are well placed to provide the necessary coordination and integration.

### Information for better markets

The report is the fourth in the series published as part of this initiative. If you are interested in following the progress of the campaign, or in details of future reports and consultations, please visit the Institute's website at [www.icaew.co.uk/bettermarkets](http://www.icaew.co.uk/bettermarkets).

Anyone wishing to contribute to the ICAEW's work is particularly welcome. Please register via the website or email [bettermarkets@icaew.co.uk](mailto:bettermarkets@icaew.co.uk).



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