

Policy Statement

Standing for trust and integrity

January 2010



Sustainability

Equipping accountants for a sustainable future

FEE (Fédération des Experts comptables Européens - Federation of European Accountants) wishes to share its strategy on sustainability in the form of a series of policy statements' on core issues in relation to sustainability and the accountancy profession. FEE acknowledges that the urgent nature of the challenge of sustainability is becoming widely recognised. At the level of the organisation, accountants, whether in business, the public sector or within the world of professional practice, must rise to the challenge of sustainability which touches on many areas of traditional competencies.

About FEE

FEE represents 43 professional institutes of accountants and auditors from 32 European countries, including all 27 EU Member States. In representing the profession, FEE recognises the public interest. FEE has a combined membership of more than 500.000 professional accountants working in different capacities in public practice, small and larger firms, business, public sector and education, who all contribute to a more efficient, transparent, and sustainable European economy. Based on the practical experience gained in this daily involvement in all aspects of the economy and the set of values underpinning the profession's practice, FEE believes it has a contribution to make in this public policy debate.

FEE believes that a "business as usual" approach to economic activity is unsustainable in our finite biosphere. In this regard, as well as emphasising the need for increased knowledge and understanding we feel it is worth quoting some words from the economist John Maynard Keynes. While his words were applied in a different context they are highly relevant to the challenge of sustainability, he wrote that the "difficulty lies, not in the new ideas, but in escaping from the old ones."

FEE believes that its Member Bodies should review all aspects of the education of their members to ensure that they are aware of the sustainability challenge and can adapt their skills to it.

Accountants and auditors need increased awareness and also specific additional competencies in the area of sustainability. Each accountant should have an understanding of sustainability issues and their implications for business strategy and operations, and for external reporting and related assurance. Accountants' professionalism means that they have a central responsibility for the quality and credibility of information. The profession therefore needs to recognise the wider impact of sustainability which touches on many areas of its competence. These include not only financial reporting and assurance functions but also corporate governance, management

accounting, and the design and implementation of systems and controls. The majority of accounting professionals have not been trained in sustainability issues and will therefore benefit from professional development in these areas; in future a basic coverage of these topics should be part of all accountants' education.

The education of accountants can be addressed by national institutes, universities, IFAC, IAESB, the Common Content Project and other agencies at three levels:

- Education to become an accountant: i.e. the content of the qualifying educational syllabus;
- Continuing professional education of accountants to keep their knowledge up to date: this includes formal courses, conferences and other means;
- Experience gained through the needs and opportunities that arise increasingly in the world of business and practice. Increased awareness of sustainability issues means that such occasions can be readily identified and exploited.



There is a need to identify what each accountant should be aware of, and what the specialist in sustainability related areas should know. These areas can include investment decision making, reporting and assurance. The curriculum for specialists should be additional to core education. A particular issue of immediate and growing importance for many accountants is climate change and the range of policy initiatives which have already been launched and which are in prospect in response to it.

Detailed topics that could be addressed in the basic and continuing education of accountants include:

Policy

- Company and business strategy;
- Business ethics and integrity;

Management (including management accounting)

- Stakeholder engagement, understanding and awareness;
- Internal controls in relation to non-financial information;
- Management accounting techniques on environmentally sensitive and cost effective operations;
- Knowledge about accounting for externalities ("full cost accounting principles");
- Selection and measurement of KPIs;

Reporting

- Accounting for emission rights/trading schemes and financial reporting implications;

Assurance

- Risk approach integrating sustainability issues;
- Sources and techniques of assurance.

Broad areas to which the above areas must be applied are:

Business analysis, risk management and internal control

At a fundamental educational level, the impact of demographic shifts, climate change and other macroeconomic trends and social and environmental factors and other stakeholder expectations and requirements on the strategy of a business needs to be examined. These issues may impact upon corporate objectives and corporate governance in unexpected ways: the economic crisis occurred as a result of a lack of robust governance and transparency and lack of risk identification & management. Lessons that can be learned in that context should be applied to what many believe is the impending, and even more challenging sustainability crisis. But as well as identifying and mitigating risks, organisations should also be identifying opportunities arising as a result of sustainability issues (product identification, innovation, new business, keeping competitive edge, etc).

Management, Environmental and Social Accounting

New work areas for accountants have developed from tools such as material flow cost accounting, environmental management accounting, carbon

emission protocols, social accounting, work life balance indicators, full cost accounting and other measuring of environmental and social impacts. Many of these techniques can be built into syllabi as natural extensions of conventional accounting techniques. Certain techniques should be carefully appraised as to their suitability in a world in which economic activity is likely to be, or perhaps should be, constrained: an obvious example would be discounting.

Financial and Sustainability Reporting

Explicit disclosures on environmental or sustainability issues are still rare in financial statements. Provisions arising from contamination of land, offshore extraction of oil, quarrying of land are examples of disclosures in which such issues are visible through common accounting practices. Arguably more sustainability relevant disclosures will and should appear in financial statements. Putting a cost on carbon and reflecting the financial implications of climate change, including related business opportunities provides such a challenge. Current trends towards integrated financial and sustainability reporting emphasise the need to determine, which sustainability issues have a significant impact on the financial bottom line – a requirement also of the Modernisation Directive, which in addition asks for non performance indicators related to environmental and social issues. Globally the Sustainability Reporting Guidelines by the Global Reporting Initiative and the 10 principles in the areas of human rights, labour, environment and anti-corruption of the United Nations Global Compact have seen increasing support. These issues should be addressed in the basic education in external reporting received by all accountants.

Assurance

An increasing number of sustainability reports world wide are being assured by a financial auditor. In the increased need for transparency and accountability, external assurance increases credibility. The profession also has a role to play with verification of environmental reports, emission permits, environmental and sustainability management systems. The related technical and assurance standards have been, and are being, developed with input from the profession or by the profession. Such important initiatives should be well understood by all accountants as good examples of how the traditional skills and professionalism of the accountant can contribute to the integrity of reporting and improved decision making within and outside organisations.

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Notes:

- ¹ Other Policy Statements issued can be found at the following link:
http://www.fee.be/publications/default.asp?library_ref=4&category_ref=235
 This Policy Statement is issued together with two additional Policy Statements:
- Small and sustainable: opportunities for SMEs, January 2010
 - Accountants driving sustainable changes in the public sector, January 2010