The Role of Accountants in Mainstreaming Sustainability

by Sanjay Rughani

Advancing sustainability is a priority for the International Federation of Accountants (IFAC) and its 180 member organizations including CPA Ireland which was a founding IFAC member in 1977. Sustainability is a critical public interest issue, and as a public interest profession, we have a moral obligation to try to leave the world in a better state than we found it for future generations.

There is significant attention on advancing sustainability from governments, regulators, the capital markets and business community. There is also increasing demand from investors, lenders and asset managers for reliable and decision-useful information on how sustainability factors affect a company and its value creation potential and growth prospects, to drive profit while ensuring a positive contribution to sustainable economies.

With these increasing expectations, accountants have a window to seize the opportunities that the sustainability agenda presents particularly in their roles as trusted business partners. CEOs are turning to CFOs and finance functions to integrate sustainability priorities into strategy and risk management, resource allocation, performance and financial management, and reporting, and enhance the integrity of information for internal decision-making and external reporting.

The IFAC Professional Accountants in Business (PAIB) Advisory Group, a diverse group of international business and finance leaders, which I chair, is exploring how accountants in business mainstream sustainability in their organizations to serve the long-term goals of society rather than narrowly focusing on profit and shareholder value.

Accountants, many of whom are CFOs, finance controllers and audit committee members are also being tasked with overseeing new reporting standards and best practices that are designed to ensure investors and stakeholders get the information needed to ensure capital allocation toward sustainable business models. Key corporate reporting developments include the new International Sustainability Standards Board which is developing standards for investor-focused sustainability disclosure, the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD), and the European Commission's proposal for a Corporate Sustainability Reporting Directive and the development of EU Sustainability reporting standards.

These developments have arisen from insufficient information in corporate reports and disclosures and, to succeed, will require accountants ensuring the delivery of consistent, reliable and decision useful integrated sustainability and financial information subject to internal and external assurance.

Purposeful Business is the Starting Point

When you create value for society, you become valuable. This is true of business, and it is true of accountants as individuals.

Greater trust in business flows from organizations being seen as a force for good. The private sector can accomplish this by helping to solve the most intractable social and economic problems, including inequality, and systemic risks to our economic system such as climate change and biodiversity loss.

Purposeful business involves profitably solving the problems of people and planet by integrating relevant issues into governance and decision-making. Corporate purpose and the outcomes of business activity can be guided by various reference points such as the Sustainable Development Goals more broadly, or more specifically the Net Zero emissions agenda to enable the transition to decarbonized economies which most governments have committed to.

An increasing number of companies have broadened their stated purpose, specifically focusing on delivering value to customers, stakeholders, and society through their products and services. Connecting purpose to stakeholders and their desired outcomes provides a basis for defining stakeholder value, and ultimately, for measuring success beyond financials.

For my bank, Standard Chartered, sustainability is a core priority within the bank's corporate strategy, influencing how it makes decisions, identifies opportunities, and manages risks across its:

- Business – promoting sustainable finance to support sustainable economic growth, expanding renewables financing, and investing in sustainable infrastructure.

- Operations – striving to be a responsible company promoting responsible and sustainable behaviors in its own operations and through its supply chain.
- Communities – promoting inclusive communities to support economic inclusion in its markets and delivering community programs aimed at tackling inequality.

At the PAIB Advisory Group, we have also heard from other companies at the forefront of the sustainability agenda that are connecting their strategies and activities to sustainable development, through business-led solutions to achieve sustainability. For example, OMRON's mission, vision and management philosophy are based on the company creating value for society. This approach has enabled it to achieve its financial goals.

To be resilient and successful, business needs to continue to provide the goods and services that people demand while it meets the needs of employees, suppliers, partners, and environmental protection.

An Integrated Mindset is Needed to Mainstream Sustainability

The credibility of sustainable business practices and reporting to investors can only be achieved by integrating sustainability and financial information. Delivering confidence in this information has become a critical focus of CFOs and finance teams.

Sustainability information is increasingly being coordinated under the stewardship of CFOs to ensure connectivity to financial information, and that sustainability strategies and actions are aligned across the organization from the board to the operating level. CEOs are turning to CFOs and finance functions to

- integrate and connect sustainability and financial information
- enhance trust in sustainability information
- integrate sustainability priorities into decision making
- enable investment that leads to? sustainable business models.

CFOs and finance functions hold significant influence over strategic, risk, and financial management and business decisions. They have a critical role in applying their professional skills as they relate to financial information to enhance trust in sustainability information – data collection, governance and management controls, materiality, measurement, performance reporting, audit and assurance.

There are broadly four areas where CFOs bring about integration and confidence.

1. Governance, strategy and risk management – CFOs prepare the board and executive to oversee and engage in sustainability priorities

Engaging boards is important to bring about a top-down focus on sustainability that leads to a common language and awareness around relevant sustainability issues across an organization.

CFOs focus the board and management on significant and material sustainability topics. This involves identifying risks and opportunities and business priorities in the context of what is important to stakeholders, and articulating how principal risks and opportunities are relevant to the company's resiliency, strategy, business model, financial performance and position, and access to capital.

At our last PAIB Advisory Group meeting, Reliance Industries described this as identifying the most significant areas or "sweet spots" and evaluating the best and most cost-effective choices to achieve sustainability. Finance functions provide decision insights and context through measurement and numbers which are needed to understand and assess the impact of sustainability risks and opportunities in relation to other key enterprise risks, and their potential financial (revenue, cost, assets and liabilities) and value impact.

By linking the assessment of risks to strategic decision making and priorities it becomes possible to turn them into growth opportunities such as through the use of new materials and technologies, or delivering new services. In the case of Reliance Industries, this involves transforming its energy business to tackle decarbonization as a new growth opportunity. For Standard Chartered, it involves new banking services to enable financial inclusion.

2. Planning and financing – CFOs embed sustainability factors into business and financial decision making to operationalise sustainability

As stewards of planning and finance management, CFOs and finance functions ensure sustainability priorities are incorporated into planning discussions and business case evaluations.

Importantly, they hold the key to allocating financial resources towards sustainability objectives, as well as ensuring that adequate investments are made in innovation, technology, talent and partnerships to deliver new practices and processes that allow the use of more sustainable resources and renewable energy.

Securing financing for investment in sustainable practices and solutions is crucial as sustainability initiatives such as decarbonizing future capital expenditures needs money. Mobilizing equity or debt finance to support new technologies and processes is usually critical to changing business models and supply chains.

CFOs and finance and treasury teams will be the first port of call to assess options for green finance such as the green bonds and sukuk issuances we use at Standard Chartered, or sustainability-linked loans that are now offered by many banks.

3.Performance and insights – CFOs present information and insights about all critical business matters relating to financial and sustainability performance and relevant interconnections

CFOs and finance functions deliver performance information and insights that are relevant, reliable and actionable in decision making. To achieve sustainability objectives, they also need to establish an integrated management framework and scorecards that track targets and KPIs to support the delivery of sustainability, financial and operational objectives. All management levels and functions need to be aligned to business priorities and CFOs evaluate this alignment through periodic business reviews.

They will need to show how sustainability priorities create resilience and financial value by connecting sustainability and financial performance with value creation.

4. Corporate Reporting – CFOs ensure information and reporting is trusted and tells the story of value creation to investors and stakeholders

Although reporting on sustainability is gaining momentum, investors and other users often question the credibility, reliability, and balance of information.

CFOs and finance functions enhance confidence in sustainability information through creating an adequate control environment. Incorporating material sustainability disclosures into financial reporting controls and processes enhances reliability, timeliness and comparability of reported information. This can involve educating others in reporting processes, management controls, and data governance.

Sustainability information is also usually siloed and disconnected from financial and operational information. Finance functions typically find themselves modifying business and financial processes to enable integration and connectivity, e.g., manual data extraction, reporting system integration, new workflows with embedded controls, and automation of data extraction.

They can also align financial reporting principles and requirements such as materiality, organizational boundaries, use of estimates and assumptions, to sustainability information.

Incorporating material topics and disclosures into financial reporting processes is the only way to enhance reliability, timeliness and comparability of reported information. Investors will consider information more decision useful where it is linked to financial position and performance.

Finally, the CFO is also typically involved in, or leads, investor engagement. In this role, it is essential to communicate an integrated story that brings together sustainability and financial information to provide a full picture of performance and value creation. For example, in delivering Net Zero emissions reduction targets, CFOs can explain decarbonization opportunities and challenges including which options are economically viable now as well as others that might only be in the future with additional investment and innovation.

Skills and Professional Development

As accountants, we must continue to elevate our focus on higher value activities to take on more strategic and cross-functional roles. Given the need to work ever more closely with other functions and business units, and to create partnerships with customers, suppliers, and experts, there is a premium on business and leadership skills among accountants working in business and in the public sector.

The finance and accounting skillset is critical in ensuring high-quality information and analysis. However, sustainability is a new area for many, so to help our organisations focus on their most significant sustainability impacts and risks and to turn them into opportunities, we need to be familiar and knowledgeable of the megatrends disrupting societies and companies and understand which solutions and technologies are best suited.

For students coming into the profession, it could not be a more exciting and rewarding time.

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