

THE ROLE OF THE ACCOUNTANCY PROFESSIONAL BODIES IN DEVELOPING SOCIAL AND ENVIRONMENTAL REPORTING****

Gîrbină Mădălina

Academy of Economic Studies, Bucharest, România

Albu Nadia

Academy of Economic Studies, Bucharest, România

Albu Cătălin

Academy of Economic Studies, Bucharest, România

In March 2010, the European Commission renewed its strategy to promote Corporate Social Responsibility in order to ensure long term employee and consumer trust. Corporate Social Responsibility is considered more relevant in the context of the economic crisis because it can help to build (and rebuild) trust in business and to identify new forms of value creation based on addressing societal challenges, which may represent a way out of the crisis. A priority area is represented by companies' transparency on environmental and social issues.

This research aims to assess the involvement of the professional accountancy bodies in the development of social and environmental reporting. After a review of research studies on corporate social and environmental disclosure and the role of the accounting profession in this context, the research identifies the strategies, policies and actions taken by the International Federation of Accountants (IFAC) and of the Federation of European Expert Accountants (FEE) based on content analysis of public documents issued by the two bodies. The cases were selected having the influence exerted by the two organisms on other professional bodies and their ability to trace the strategic lines of the accounting profession at the international and European level.

The basis upon which the accounting profession was founded and continues to exist is public trust, which is the degree to which the public has confidence in the services provided by the accounting profession. Society is currently expressing high demands on the discipline of accounting and therefore the profession is under pressure to expand its horizons to better reflect these demands.

The research revealed that both accounting bodies had an intense activity and initiated political actions in the corporate social and environmental reporting field including sustainability in their strategic objectives. The following areas of involvement have been identified: issuance of assurance, education and ethics standards (in the case of IFAC which is also regulator), educational and web materials, participation in working parties, cooperation with other organisations in the development of reporting and assurance standards, research projects to support decision making, encouraging member bodies to develop similar policies, public statements inviting responsible parties to act. Based on its conclusions the study identifies some research directions to be developed. Academic and professional curricula of Romanian accountants could be analysed in order to determine how they could be improved in order to respond better to these societal requirements. This study identifies the political actions of main professional bodies (IFAC and FEE) that might influence the actions of other bodies and future profile of accountants.

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1. INTRODUCTION

Corporate social responsibility becomes more important in the context of the global financial and economic crises because public confidence in the social and environmental responsibility of businesses has been shaken. Accounting has traditionally focused on an organisation's financial aspects, with a particular emphasis on the reporting of this information to shareholders and management. Lately, there has been growing condemnation of the insufficiency of this kind of information. The primacy of shareholders as owners and maximizing wealth creation for this constituency is being challenged, particularly because it has become evident that their short-term financial interests can be incompatible with the long-term viability. Long-term sustainable value creation requires responsible organizations, capable to direct their strategies and operations to achieving sustainable economic, social, and environmental performance. It also requires incorporating wider stakeholder perspectives into decision making. The financial crisis has created widespread scepticism about whether and how business contributes to the wider interests of society. Ensuring that organizations pursue sustainable business models and development practices will require radical changes in the way they do business. Professional accountants need to adapt to a world in which sustainability is the key to long-term business performance, and need to understand how, in their diverse roles in organizations, they play a significant role. The professional accountancy associations are an integral component of the operation of the accounting profession. They represent a link between business enterprise, the state and the (increasingly global) society (Burchell et al. 1980: 5-27). Traditionally, professional accountancy associations have been promoters of regulation and codification of practices. Additionally, the objective which legitimizes them consists in satisfying the 'public interest'. As such, it is justifiable to assume that the professional accountancy associations could have an interest in the social and environmental reporting field. Within this context we purpose identify the challenges raised by social and environmental reporting for the accounting profession and the strategies, policies and actions taken by the International Federation of Accountants (IFAC) and by the Federation of European Expert Accountants (FEE) within social and environmental reporting field based on a content analysis of public documents issued by the two bodies to answer to these challenges. The two cases were selected because of the ability of the two bodies to influence other accountancy bodies and the accounting practice at the international and European level.

2. CORPORATE ENVIRONMENTAL AND SOCIAL DISCLOSURE AND THE ROLE OF ACCOUNTANTS -LITERATURE REVIEW

Corporate environmental and social disclosure practices were explained within the theoretical framework of political economy, legitimacy, institutional and stakeholder theories. The nature and extent of corporate social reporting vary over time and between countries and related to both company size and industry (Adams et al. 1998: 1-21; Cowen et al. 1987: 111-122; Hackston and Milne 1996:77-108; Trotman and Bradley 1981:355-362; Deegan and Gordon, 1996:282-312; Roberts 1991:62-71). Researchers in the voluntary disclosure also reported that corporate governance influences accounting disclosure (Chen and Jaggi 2000:285-312; Eng and Mak, 2003:325-345). Good governance strengthens the quality and comprehensiveness of corporate report. The existence of a specialised committee on the board is also considered important in explaining the quality of this kind of disclosure across countries.

In the last period there has been a proliferation of standards at the global and the european level in the sustainability area. The Global Reporting Initiative (GRI) provides the most recognised global standard with its framework for sustainability reporting.

Within EU were approved Directives requiring social and environmental reporting. The Directive 2003/51 (the 'Modernisation Directive') amended the Accounting Directives and added that European companies are required to include non-financial information in their annual and

consolidated reports if it is necessary for an understanding of the company's development, performance or position. Another amendment of the Accounting Directives (Directive 2006/46) introduced an obligation for listed companies to include a corporate governance statement in their annual report. Both directives were implemented in Romania.

The EU Eco-Management and Audit Scheme (EMAS) is a management tool for companies requiring them to evaluate, report and improve their environmental performance. It states that organisations should make periodic environmental statements publicly available and in order to ensure relevance and comparability of the information, reporting on the organisations' environmental performance should be on the basis of generic and sector specific performance indicators (European Commission)

Recent years have witnessed a continual growth in the number of companies reporting publicly on various aspects of their environmental and social performance. Accountants are now involved in reporting on corporate environmental issues, particularly evaluating contingent liabilities, accounting for emission trading schemes or providing decision-makers with quantitative information on environmental performance (Elkington and Jennings 1991:8-12). Daykin (2006) identifies the role of the internal auditor in corporate responsibility reporting. The objective of the internal auditing function is to improve any process within the organization that will result in improved revenue and reduced risk. Corporate responsibility reporting is varied and has not yet been standardized at the global level. Regardless of the content or format, any company that intends to report on corporate social responsibility issues must first evaluate and determine the values and goals that are to be discussed and reflected in that report. Internal auditors have the responsibility of understanding the stated values and goals of the company. As performance targets and goals are established and distributed among the company and the public execution plans must also be created. The role of internal auditing with respect to corporate governance and their performance goals is to observe and examine the implementation of related execution plans as well as the outcomes of those plans. Corporate management and leadership must be held accountable for all actions within the corporation. Internal auditors must evaluate goals to ensure that reported results are truly accurate as stated and communicated internally as well as externally in either an annual report or separate corporate responsibility report.

An increasing number of sustainability reports worldwide are being assured by a financial auditor. Power (1997:123-146) observes that accountants have begun to compete for work in the environmental auditing field, such as the verification and development of Eco-Management and Audit Scheme (EMAS).

The management accountant has a significant role to play in both the ex-ante area of integrating strategic corporate responsibility thinking in organisations and the ex-post role of generating the corporate responsibility reports. Management accounting professionals are also trained in evaluating investment decisions regarding the future, and thus would be ideal professionals to support the independent assurance process.

3. RESEARCH METHODOLOGY

After a literature review inventorying the challenges raised by social and environmental reporting for the accounting profession our research will concentrate on analysing the policies and actions of main accountancy professional bodies at the international and European level to answer to these challenges.

This research aims to provide insights into the involvement of two leading professional accountancy associations (the International Federation of Accountants and the Federation of Expert Accountants) in the development of corporate social and environmental reporting. The two cases were selected because of the ability of the two bodies to influence other accountancy bodies and the accounting practice at the international and European level. The research design

comprises content analysis of public documents describing actions taken by the two professional bodies and statements of their policies and strategies. The main information source was represented by their web sites.

3. 1. THE INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC)

IFAC is the global organization for the accountancy profession having 159 members and associates in 124 countries and jurisdictions. Its declared mission is to “strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant. IFAC develops reports, policy position papers and comment letters on topics and issues of relevance to the global accountancy profession. IFAC communications activities support IFAC’s overall strategy by increasing awareness of the accountancy profession’s many roles and, particularly, of its contributions to sustained and sustainable economic growth and development.

One initiative in this direction is the development of a web-based tool (IFAC Sustainability Framework) that targets professional accountants who can influence the way organizations integrate sustainability into strategy, planning, enterprise risk management, and operations. It highlights the issues that organizations must address to make sustainability an integral part of their business model. The Framework addresses four perspectives in bringing together all the critical areas required to successfully manage a sustainable organization. These perspectives are: business strategy, internal management, relationship with investors and other stakeholders.

In the same direction IFAC signed a Memorandum of Understanding with the Prince of Wales's Accounting for Sustainability (A4S) Project covering three major initiatives that support the work of professional accountants in embedding sustainable practices in organizations: the creation of a community website to help business leaders, finance professionals, academics, professional accountancy bodies and others exchange ideas and share good practice on how environmental and social performance can be better connected with strategy and financial performance, and embedded into day-to-day operations and decision-making, the establishment of the International Integrated Reporting Committee (IIRC) having as objective the creation of a framework which brings together financial, environmental, social and governance information in a clear, concise, consistent and comparable format, and participating in an Accounting for Sustainability (A4S) Accounting Bodies Network research project in the area of integrating sustainability issues in investment appraisal.

IFAC is represented on the Climate Disclosure Standards Board (CDSB) Technical Working Group which aims to develop standardized reporting guidelines on the inclusion of climate change information in mainstream reports.

IFAC is also standard setter developing auditing and assurance standards, educational ethics standards and standards for the public sector.

Assurance standards evolved as a reflection of the changing landscape and the increasing importance of social and environmental reporting and related assurance services. An increasing number of sustainability reports worldwide are being assured by a financial auditor. International Auditing and Assurance Standards Board (IAASB) of IFAC issued ISAE 3000 “Assurance Engagements”. The importance of reliable data on carbon emissions has also been recognized by the IAASB, which recently set up a working group to look at developing a specialized accounting standard. Due to the increasing need to ensure the reliability of greenhouse gas data in connection with emission trading schemes, the International Auditing and Assurance Standards Board (IAASB) issued a consultation paper “Assurance on a Greenhouse Gas Statement” in October 2009 which may develop into an international standard in this field.

The sustainability aspects need specific competencies in addition to those traditionally acquired by accountants and auditors. The integration of ethical and social aspects in accounting education is very important to the qualification of accountants and auditors who should be able to deal with new professional challenges.

The Professional Accountants in Business (PAIB) Committee of IFAC has as strategic direction to enhance the profile, influence, and relevance of professional accountants in business and issued several research papers related to the role of accountants within sustainability.

The International Federation of Accountants (IFAC) commissioned also a guidance document (*“International Guidance Document: Environmental Management Accounting”*) bringing together some of the best experiences on Environmental Management Accounting (EMA).

3.2. THE FEDERATION OF EUROPEAN EXPERT ACCOUNTANTS (FEE)

Federation of European Expert Accountants (FEE) is a representative organization of the accounting and auditing profession in Europe consisting of 43 institutes from 32 European countries. FEE has released numerous policy statements on sustainability, the most important of which are *“Shaping a sustainable economy”* (July 2009), *“Towards a sustainable economy: the contribution of assurance”* (July 2009), *“Carbon emissions Information”* (July 2009), *“Embedding sustainability into corporate governance”* (July 2009), *“The contribution of the accountancy profession”* (January 2009), *“Cost internalisation”* (January 2009), *“Non-financial information”* (January 2009), *“Multi-Stakeholders: the essence of multidisciplinary teams”* (January 2009).

These policy statements state FEE’s strategy on sustainability issues including the relationship between sustainability and the accounting profession. Each policy statement describes the importance of the issue and its impact on the accounting profession. FEE calls on the International Federation of Accountants (IFAC) to develop a general standard on assurance on sustainability reporting and makes an appeal to regulators to acknowledge that assurance has a role in reinforcing the trust and integrity around sustainability information. According to FEE, the measurement, disclosure and assurance aspects of the carbon emissions will affect the accountants. Carbon emissions data is not yet the subject of formal and generally accepted accounting and reporting standards. Likewise, assurance procedures in respect of carbon disclosures are not yet standardised. FEE stressed the importance of a multi-disciplinary approach in this area and the need for training of accountants in these new techniques.

FEE published also Call for action papers communicating important messages for actions needed to be taken such as: *“Sustainability Disclosures in Financial Information Can Be Improved”*, *“Need to Increase Education in Sustainability for Accountants and Management!”*, *“Enhance Sustainability in the Public Sector”*, *“FEE calls on accountants in organisations of all kinds and sizes to acknowledge their role in embedding sustainability as a core part of strategy and decision-making”*, *“The Federation of European Accountants (FEE) calls for unified global standards to mitigate climate change, integrating sustainability at the heart of policymaking, society and markets”*.

FEE Sustainability Working Party developed Discussion Papers treating technical themes such as: the review of International Accounting Standards for environmental issues, providing assurance on environmental reports, creation of a generally accepted framework for environmental reporting, sustainability information in annual reports - building on implementation of the Modernisation Directive.

CONCLUSIONS

Examination of communication by IFAC and FEE indicates a commitment of the two bodies to the concept of social and environmental reporting. As we could notice the role of the professional accountancy associations is multi-dimensional. The following areas of involvement have been identified: issuance of assurance, education and ethics standards (in the case of IFAC which is also regulator), educational and web materials, participation in working parties, cooperation with other organisations in the development of reporting and assurance standards, research projects to support decision making, encouraging member bodies to develop similar policies, public statements inviting responsible parties to act. Within sustainability reporting, both bodies identify new areas in which accountants should apply their skills to answer societal needs. Accountants are required to understand the regulatory and voluntary reporting environment in which businesses operate and respond to new demands, to advise on risk management and the implications of entering into voluntary reporting mechanisms, to develop frameworks which allow the efficient measurement of financial and non-financial information and either maintain or assure the collection of information, to advise on the development of policies for determining the „necessity to report” decisions (where they exist), to help identify what to include in the report, to provide clear, reliable information and, where required, assurance of it, to advise organisations on the limitations of corporate decisions based on economic grounds, and suggest how externalities can be internalised. Because accountants have a role to play in this field their educational curricula should be developed with environment and sustainability related issues. FEE identified the following themes as necessary to be addressed in the basic and continuing education of accountants: company and business strategy, business ethics and integrity, management (including management accounting), stakeholder awareness, internal controls in relation to non-financial information, management accounting techniques on environmentally sensitive and operations, knowledge about accounting for externalities (“full cost accounting principles”), selection and measurement of KPIs, accounting for emission rights/trading schemes and financial reporting implications, risk approach integrating sustainability issues, sources and techniques of assurance. Future research could test the extent of the integration of these recommendations within the academic and professional curricula of Romanian accountants and establish actions for the Romanian accounting bodies and business universities.

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