The Accounting Profession and Addressing Sustainability Issues

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Abstract

We currently live in a context where environmental, governmental, and social issues demand solutions. In line with these solutions, it is time for the accounting profession to address the issue of sustainability.

The solutions involve moving from traditional accounting to integrated reporting and offering financial and non-financial services, which requires specific skills from the accounting profession.

For this, national and international professional bodies play an essential role, in order to support accounting professionals, concrete measures through qualification programs for members, aware of the fact that they will be the main actors in the development of sustainability reports with a high degree of quality.

The purpose of this study is to show that A new approach to the accounting profession is expected and there is an urgent need to understand that something new is happening and it needs our involvement in setting trends. This study also highlights that the transition stage from traditional accounting to reporting adapted to new trends requires time and resources

Key words: sustainability, integrated reporting, reporting standards, specific competencies, professional accountant
J.E.L. classification: M40, M41

1. Introduction

The context in which we live, the society in perpetual change, globalization, and digitization, has required on the part of the accounting profession a rapid adaptation to reality and progressive thinking toward the future (Ivan, 2009).

In its path to adaptation, the profession has turned every new challenge into an opportunity. There was a need to move from traditional accounting to integrated reporting, with the provision of financial and non-financial services, which requires specific skills from the accounting profession (Patrascu et al., 2017).

The transition stage from traditional accounting to reporting adapted to new trends requires time and resources. For this, national and international professional bodies play an essential role, in order to support accounting professionals, concrete measures through qualification programs for members, aware of the fact that they will be the main actors in the development of sustainability reports with a high degree of quality (Hummel et al. 2019).

A new approach to the accounting profession is expected and there is an urgent need to understand that something new is happening and it needs our involvement in setting trends (Tebergaoui et al., 2022).

"Today, more than ever, there is a need for thinking that encompasses more than the purely financial and accounting elements of an organization to ensure long-term business development and value creation" (Şova and Popa, 2022).

There is an assiduous need for a change in the mentality of the professional accountant, which through the lens of adaptation must make room within his portfolio for the new methods, we are referring here to Sustainability Reporting since ESG (environment, social, governance) is rapidly emerging as the risk reporting standard (Cioca et al., 2022).

Sustainability reporting is not just a new job that accounting professionals can add to their current activity, practically this strengthens their important role, that of advising partners, to help create sustainable businesses, prepared to face the challenges (Radu and Tabirca, 2019).

2. Literature review

One of the first papers dealing with Sustainable Reporting belongs to the researcher Theodore J. Kreps, who in the early 1940s published a first paper based on new methods of measuring how a company contributes to the development of the environment. One of the methods reveals that Financial Performance is not an adequate method, while at the same time he wants to achieve a method by which the impact that companies have on the health of the education system and global peace is also measured (Kreps, 1940).

Another study that analyzed the relationship between Sustainability Reporting and the financial performance of companies was carried out in 2021, by Whelan, Atz, Holt and Clark, a study based on approx. 1000 studies were published between 2015 and 2020. The study demonstrated that financial performance improves due to sustainable reporting over a period of time. Another thing demonstrated by this study was that investing in Sustainability Reporting is a method of protecting companies during periods of economic crisis and that "trying to reduce the carbon footprint leads to better financial performance" (Whelan et al., 2015-2020).

On a national level, Nechita (2021) carried out a study analyzing the extent to which the provision of non-financial information related to sustainable development in the framework of sustainability reports published by companies listed on the Bucharest Stock Exchange, influences the market value of the capital. The study included a sample of 34 companies listed on the Bucharest Stock Exchange in the period 2015-2019. The result of the research highlighted the importance by which "the influence exerted on the market value of the capital increased as a result of the reporting of aspects related to sustainability" (Nechita, 2021).

In 2014, as a result of the influence of the European Directives, an additional obligation to present non-financial information in the financial statements was introduced for large companies (Directive 2014/95/EU). Through this Directive, the first provisions on the Reporting of non-financial information appeared. Subsequently, through the European Green Deal, the European Commission undertook to review these provisions, the final result being the proposal of a Directive to consolidate and expand Sustainability Reporting in the European Union through the reporting of sustainability information by companies.

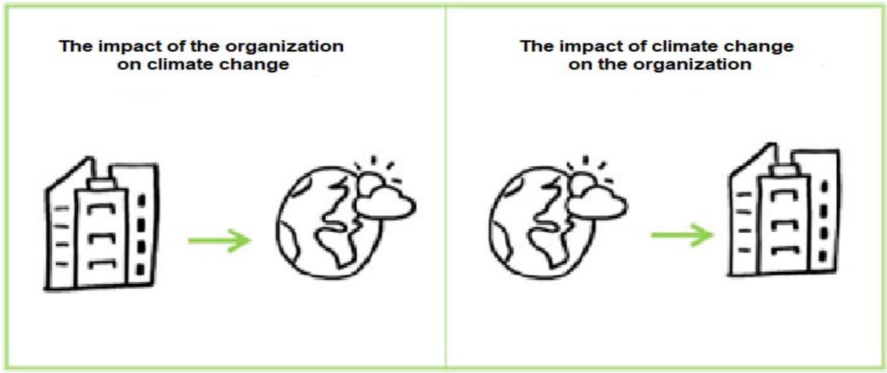
Directive 2014/95/EU introduced the reporting obligation for large companies - public interest entities. About 7,400 listed companies, insurance companies, banking companies, and other entities that generally have more than 500 employees are targeted. After 2017, some European countries lowered the threshold of 500 employees to 250 in Sweden and Denmark, and Luxembourg imposed reporting on the sustainability of Pension Funds and investment management companies (EU Directive, 2014).

3. Research methodology

To substantiate the research, we are conducting research on how professional bodies in Romania support the process of adaptation to sustainability reporting. The methodological approach is based on previous studies carried out at the international level.

Sustainability reporting differs widely in the private sector. There may be reporting on only a specific impact on society, for example in Figure no. 1: energy consumption or water consumption or "how climate change reduces water availability and poses a threat to its business model (WGEA, 2013).

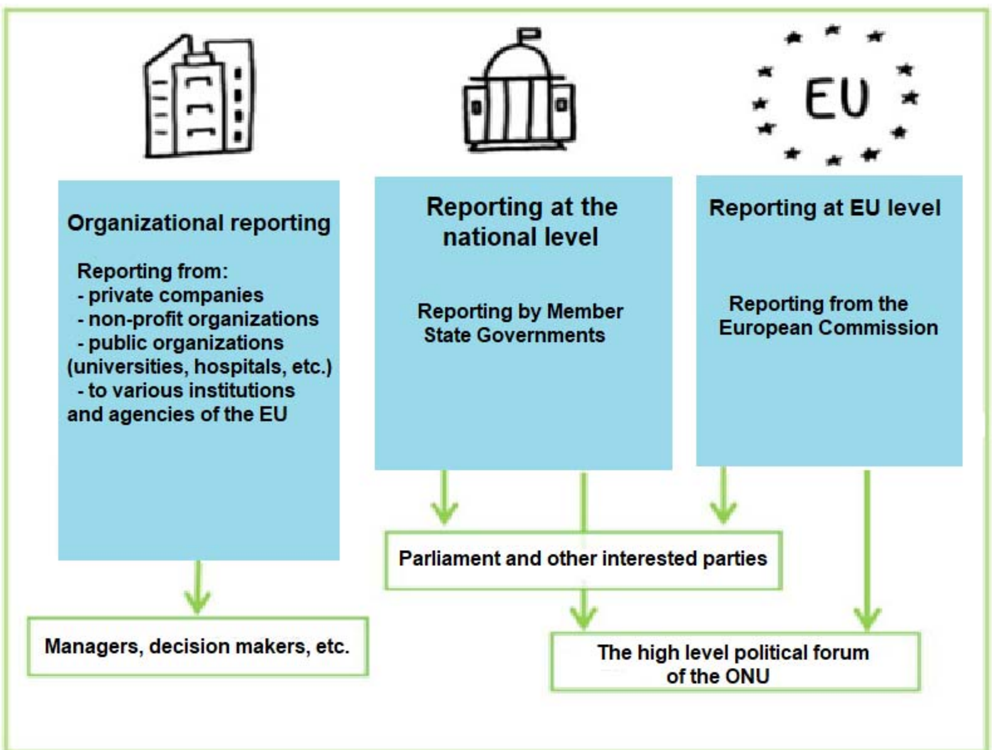
Figure no.1. Sustainability reports from the perspective of the impact of climate change



Source: (European Court of Auditors, 2019)

Entities that can prepare sustainability reports are detailed in Figure number 2 according with the European Court of Auditors (2019) .

Figure no. 2. Types of entities that prepare sustainability reports



Source: (European Court of Auditors, 2019)

Accounting professionals and the business community receive help in adapting to new sustainability requirements from professional bodies. So much so that a knowledge hub dedicated to supporting the business community on reinvention and adaptation has even been established. This information center provides tools and support to businesses in their business continuity efforts, shares practices identified at the national level, and is adapted from international models, in line with the goals of the Paris Agreement on climate change.

The Paris agreement led to the possibility of obtaining concrete, up-to-date information, guaranteed by professionals. At the heart of the Paris Agreement on sustainability was the reality that something new is happening and that all Accounting Professionals need to get involved. (EC, 2022)

It is very important that Professional Bodies establish a series of policies for their members so that they acquire the necessary knowledge in this new field because it must be understood that, only by creating value through integrated thinking and expanding the range of services with new ones, in this case, sustainability reporting, we can survive in the market.

One of the first professional bodies with concerns regarding reporting is the Corps of Accounting Experts and Chartered Accountants from Romania (CECCAR), which has taken a number of measures, namely:

- created an ESG knowledge portal for all interested parties
- organized professional accounting education programs for the initial and continuous professional development of its members
- concluded numerous partnerships with regulatory authorities
- promoted ESG reporting within business networks
- translated publications, articles, and studies
- created an ESG knowledge portal on the body's website

In 2020, CECCAR was the first professional body in Europe to join the Sustainability Accounting Standards Boards, later becoming a Member of the IFRS Sustainability Alliance.

4. Findings

The sustainable reports drawn up on the basis of the GRI Sustainable Reporting Standards (The Global Reporting Initiative Sustainability Reporting Standards, aim to: evaluate the sustainability of the organization from the perspective of compliance with norms, laws, and performance standards, providing information regarding the company's activity over time, observing how it evolves, how the organization influences or is influenced in order to achieve the objectives of sustainable development (EC, 2019).

The GRI reporting framework emerged as an aid to companies that can use it to demonstrate their sustainability efforts. The GRI sustainable reporting framework is dedicated to any company regardless of the field of activity, the country in which it operates, or its size from an economic point of view. These standards consist of certain political principles to ensure the quality of the information provided, they are developed following a dialogue between company owners, employees, and civil society, as well as continuous dialogue with Accounting Professionals.

Integrated reports are addressed especially to the private sector but also to non-profit organizations regardless of their size, their main objective is to provide information regarding the long-term profitability of the company created by this type of reporting but also the added value brought to the organization from both a financial perspective as well as non-financial, by drawing up sustainable reporting documents.

Those who benefit from all this information are the external users (Investors, Creditors, Population, and other interested parties). Integrated reporting has the role of providing an image of the entity's strategy, and how it contributes to the creation of added value in the short, medium, and long term. They can highlight significant opportunities, present the views of those charged with governance about the relationship between how the company has performed in the past and what the company's current performance is, and how it has changed its strategy based on sustainability experiences. In Figure no. 3 is the main role of integrated reporting is to improve the transparency and credibility of the information provided

Figure no. 3. The main role of integrated reporting

	Financial reporting	Sustainable reporting	Integrated reporting
Scope	Presentation of the financial position of the cash flow situation in the reporting period	Presentation of the entity's impact on the social environment as well as the objectives and strategies	It explains to investors how the company creates value over time
External users	Investors, employees, financial creditors, suppliers customers, other stakeholders	Investors, employees, financial creditors, suppliers customers, other stakeholders	Investors and other stakeholders in how the company creates value
Objections	Assets Liabilities Income Expenses Changes in capital Cash flow	Presenting the impact on the environment: Economic Environmental Social labor protection, people's rights Governance	Are shown: Governance model Business model Strategy and how to allocate resources Risks and opportunities Performance Company values

Source: Authors' contribution

If through the lens of the information provided to their partners, accounting professionals achieve their goals and generate healthy and trending business, this means that the objectives set by the Sustainability Reports have been achieved.

Sustainability is more than a need of the present, we can agree with the definition given by the Financial Times publication "a process by which companies manage their financial, social, environmental risks, both in terms of obligations and opportunities. These three impacts are often: profit-people-planet. But this approach is only based on an accounting perspective and does not fully capture the time element inherent in business sustainability. A more robust definition is that business sustainability is resilience over time, companies that can survive shocks because they are connected to healthy economic social, and environmental systems" (Noonan, 2022).

5. Conclusions

Sustainability reporting is a measure of an organization's performance in achieving the UN's Sustainable Development Goals. From this UN perspective, a new environmental approach was needed to develop sustainability.

The time has come for the accounting profession to address sustainability issues, moving from traditional accounting to Integrated Reporting. A shift of the accounting profession to a new approach is thus anticipated, one that creates an interdependence between financial and non-financial objectives. We need to understand that the "new" is happening now and we need to get involved by setting trends.

The role of sustainability is evolving based on investor relations. There is a growing demand from investors for companies to provide information on their sustainability performance. As more and more investors demand this information by which businesses minimize their environmental impact, managing sustainability impacts is imperative to ensure the company's long-term financial performance. The integration and reporting of ESG in the company's activity helps these companies to reduce their risks but also opens their way to new business opportunities.

On the other hand, it is essential that SMEs also become aware of the importance of sustainability reporting and inform themselves about the legislative framework that will regulate all these aspects in the future.

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