

The Pakistan
Accountant
Magazine



CA
PAKISTAN

July - Sept 2023

THE RISE OF **SUSTAINABLE ACCOUNTING**

Integrating Environmental and Social
Impact in Financial Reporting



“In an era marked by heightened awareness of environmental issues and social inequalities, businesses are facing increasing pressure to incorporate sustainable practices into their operations”

“The global discussion around sustainability reporting is evolving and organizations are increasingly reporting on their broader performance and impact. A broad range of stakeholders seek higher quality, increasingly standardized reporting on companies' performance on non-financial measure”



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of Pakistan

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Mr. Husnain R. Badami

Editor

Mr. Tahir Saeed Malik

Team Marcom

Mr. Aamir Malik

Mr. Muhammad Haroon

Email

publications@icap.org.pk



Chartered Accountants Avenue Clifton, Karachi-75600 (Pakistan).

99251648, 99251636-39 publications@icap.org.pk www.icap.org.pk

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Message from President ICAP



Mr. M. Ali Latif, FCA
President, ICAP

I am pleased to present to you the contents of this issue of the Pakistan Accountants magazine, delving into a topic of immense significance in our constantly evolving world: The Rise of Sustainable Accounting: Integrating Environmental and Social Impact in Financial Reporting.

This publication continues to lead our industry, fostering thought leadership and innovation in the dynamic fields of accountancy and finance.

In recent years, our world has witnessed a transformative shift in the way we view businesses and corporate responsibility. The urgency of environmental and social issues has compelled us to rethink the traditional paradigms of financial reporting.

Sustainability is no longer just a buzzword; it has become an imperative in today's world.

As we navigate through an era marked by climate change, social issues and heightened corporate accountability, the role of accountants and financial professionals has evolved beyond the Financial Statements. We are now at the forefront of a movement to integrate environmental, social, and governance (ESG) factors into financial reporting, decision-making, and strategy.

This issue of the magazine delves into the intricate world of sustainable accounting, offering insights into the evolving landscape of ESG reporting, the challenges and opportunities and the pivotal role that accountants play in ensuring transparency and accountability.

It features articles by experts and thought leaders who have shed light on best practices, case studies, and emerging trends that are shaping the future of financial reporting.

I encourage you to explore these thought provoking articles and consider how sustainable accounting can shape the future of your organization.

I extend my heartfelt gratitude to the esteemed editors and dedicated contributors of the Pakistan Accountants magazine for this crucial theme. I wholeheartedly encourage all readers to delve into the articles and engage in meaningful discussions with their professional colleagues.

Message from Chairman MARCOM

As we embark on this new issue of the Pakistan Accountants magazine, I am honored to address you as the Chairman of MARCOM, presenting a compelling topic that aligns with the current strides in our profession: 'The Rise of Sustainable Accounting: Integrating Environmental and Social Impact in Financial Reporting'. This theme encapsulates the limitless potential of sustainable practices in reshaping our financial landscape. It calls upon us to integrate environmental and social considerations into our reporting, ultimately driving positive change for businesses, communities, and the world at large.

The theme, 'The Rise of Sustainable Accounting: Integrating Environmental and Social Impact in Financial Reporting,' holds paramount importance for chartered accountants in today's rapidly evolving business landscape. It underscores the imperative for accountants to go beyond traditional financial metrics and consider the broader environmental and social impacts of an organization. By integrating these factors into financial reporting, accountants play a pivotal role in promoting transparency, accountability, and long-term sustainability. This shift towards sustainable accounting not only aligns businesses with global goals for a more environmentally and socially responsible future but also enhances their reputation, resilience, and value creation potential in an increasingly conscious market.

Within these pages, you will encounter a diverse array of insights, perspectives, and expertise from some of the brightest minds in the field. Our contributors delve into the intricacies of sustainable accounting, offering thought-provoking analyses, and visionary outlooks that shed light on the path forward.

As Chairman Marcom Committee, I am profoundly appreciative of the dedication and knowledge that our contributors bring to the magazine. Their contributions exemplify our commitment to driving innovation and knowledge-sharing within our profession.

I invite you to immerse yourself in the articles, engage with the valuable insights they provide, and contemplate the transformative power of sustainable accounting. The journey toward integrating environmental and social impact in financial reporting is not just a trend; it is a movement that holds the promise of a brighter, more sustainable future.

Thank you for your unwavering support and for being part of our mission to advance financial reporting into an era where sustainability is not just an aspiration but an integral part of our shared journey.



Mr. Husnain R. Badami, FCA
Chairman - Marcom Committee



The rise of sustainable accounting: integrating environmental and social impact in financial reporting

Mr. Masood Zaman, ACA

Introduction

In an era marked by heightened awareness of environmental issues and social inequalities, businesses are facing increasing pressure to incorporate sustainable practices into their operations. The concept of sustainable accounting has emerged as a powerful tool to integrate environmental and social impact into financial reporting. This transformative approach goes beyond traditional profit-centric accounting, providing a comprehensive framework to measure, monitor, and report a company's contributions to environmental preservation and social well-being. This article delves into the significance of sustainable accounting, its growing prominence, and the potential benefits it offers to businesses and society.

The Shift Towards Sustainability

Over the past few decades, the negative consequences of unchecked economic growth on the environment and society have become evident. Climate change, resource depletion, pollution, and social disparities have spurred a global call for responsible business practices. In response, stakeholders, including investors, customers, employees, and regulatory bodies, are demanding more transparency and accountability from businesses.

Sustainable accounting is an extension of the sustainability movement, where companies adopt a triple-bottom-line approach, considering not only financial performance but also social and environmental impacts. By aligning business practices with sustainable development goals, companies can effectively contribute to global efforts aimed at addressing pressing environmental and social challenges.

In an era marked by heightened awareness of environmental issues and social inequalities, businesses are facing increasing pressure to incorporate sustainable practices into their operations

Integrating Environmental Impact

A fundamental aspect of sustainable accounting is the integration of environmental impact metrics into financial reporting. Companies are now measuring and disclosing their environmental footprint, encompassing factors such as greenhouse gas emissions, energy consumption, water usage, waste generation, and biodiversity conservation.

Through this disclosure, companies can evaluate the environmental risks and opportunities associated with their operations, products, and services. This empowers them to identify areas where efficiency can be improved, resource consumption reduced, and eco-friendly alternatives adopted. Consequently, sustainable accounting enables businesses to make informed decisions that not only benefit the planet but also contribute to long-term financial viability.

Embracing Social Responsibility

Beyond environmental impact, sustainable accounting emphasizes social responsibility. Companies are increasingly measuring their social performance by assessing their relationships with employees, communities, suppliers, and other stakeholders. Metrics such as employee well-being, workforce diversity and inclusion, labor practices, community engagement, and supply chain ethics are considered to evaluate a company's social contributions.

By transparently reporting on these social impact indicators, companies can build trust with stakeholders, attract ethically-conscious consumers, and foster positive brand perception. Furthermore, social responsibility is often associated with enhanced employee morale, productivity, and retention, leading to a more sustainable and resilient organization.

Standardization and Reporting Frameworks

For sustainable accounting to be effective and credible, standardization in reporting is crucial. Several organizations have developed guidelines and frameworks to help companies report on their environmental, social, and governance (ESG) performance.

The Global Reporting Initiative (GRI) is one of the most widely used frameworks, offering comprehensive sustainability reporting guidelines. GRI provides a structured approach to

identify, measure, and disclose ESG-related information, ensuring transparency and comparability across industries.

Another influential initiative is the Task Force on Climate-related Financial Disclosures (TCFD), which encourages companies to disclose climate-related financial risks and opportunities. This disclosure aids investors and stakeholders in understanding a company's exposure to climate-related risks and its resilience in a changing environment.

Benefits and Challenges

The adoption of sustainable accounting brings a multitude of benefits to businesses and society. Firstly, it aligns companies with evolving stakeholder expectations, enhancing their reputation and attractiveness to investors seeking sustainable investments. Secondly, it enables companies to gain insights into their environmental and social impacts, leading to cost savings, increased efficiency, and innovation.

Moreover, sustainable accounting empowers companies to contribute to global sustainability goals and fulfill their corporate social responsibilities. By doing so, they can play an active role in addressing pressing societal challenges and fostering positive change.

Despite these benefits, the transition to sustainable accounting can present challenges. Gathering reliable data on environmental and social impacts can be complex, and companies may need to invest in new systems and processes to ensure accurate reporting. Additionally, the cultural shift towards sustainability within organizations may require time and effort to gain full acceptance and commitment from all stakeholders.

Conclusion

Sustainable accounting represents a pivotal shift in the way businesses approach financial reporting. As the urgency to address environmental and social issues intensifies, adopting sustainable practices is no longer an option but a necessity for organizations seeking long-term success. By integrating environmental and social impact metrics into financial reporting, businesses can not only drive positive change but also bolster their financial performance and strengthen stakeholder relationships.

The rise of sustainable accounting signifies a fundamental transformation in the business landscape, where profitability and sustainability go hand in hand. As companies continue to embrace this holistic approach, we move closer to a more equitable, resilient, and sustainable future for businesses and the world at large.



The Writer is a chartered accountant with over 20 years of experience as a consultant & a Chief Financial Officer of both International & Domestic organizations.

Sustainability Reporting



A Paradigm Shift Toward Sustainability Reporting

Mr. Asif Ali, ACA

In the realm of business, stakeholders play a pivotal role. They encompass a diverse array of individuals and entities with significant financial interests, including shareholders, employees, customers, suppliers, government, and competitors. However, it is crucial to acknowledge that in today's world, there are other stakeholders whose priorities extend beyond financial concerns. Local communities, unions, activists, and the world itself have become increasingly concerned about the environmental and social impact of businesses on society. These stakeholders now wield influence in shaping the overall sustainability and reputation of corporations, making corporate social responsibility (CSR) and environmental, social, and governance (ESG) reporting more critical than ever.

“ It is crucial to acknowledge that in today's world, there are other stakeholders whose priorities extend beyond financial concerns. Local communities, unions, activists, and the world itself have become increasingly concerned about the environmental and social impact of businesses on society ”

“ The United Nations has taken a leading role in addressing these global challenges by formulating 17 Sustainable Development Goals (SDGs) to be achieved by 2030. These goals encompass critical objectives such as eliminating poverty and hunger, ensuring good health and well-being, promoting gender equality, and addressing climate action, among others. Companies that align their efforts with these SDGs contribute to a broader, positive impact on the world ”

In recent times, we have witnessed a paradigm shift in the way businesses operate and are perceived by stakeholders.

Environmental and social considerations have emerged as pivotal factors influencing corporate decision-making and financial reporting. Global concerns about climate change, social inequality, and human rights have led stakeholders to demand a broader perspective on corporate performance. As a result, companies are now expected to integrate environmental and social impact in their financial reporting, demonstrating their commitment to sustainability and a better world.

The United Nations has taken a leading role in addressing these global challenges by formulating 17 Sustainable Development Goals (SDGs) to be achieved by 2030. These goals encompass critical objectives such as eliminating poverty and hunger, ensuring good health and well-being, promoting gender equality, and addressing climate action, among others. Companies that align their efforts with these SDGs contribute to a broader, positive impact on the world.

To facilitate this shift towards sustainability, the concept of ESG reporting has gained prominence. Traditionally, financial reporting focused primarily on economic indicators and financial performance. However, ESG reporting now involves a comprehensive assessment of a company's efforts related to environmental sustainability, social responsibility, and ethical governance. By reporting on these factors, businesses

showcase their commitment to mitigating climate change, conserving resources, promoting social inclusivity, and ensuring responsible governance.

Recognizing the growing importance of ESG reporting, international organizations and regulatory bodies have been actively advancing the ESG agenda. In November 2021, the International Financial Reporting Standards (IFRS) Foundation announced the establishment of the International Sustainability Standards Board (ISSB) to develop global sustainability reporting standards. The ISSB aims to provide a comprehensive framework for sustainability disclosures, meeting the information needs of investors, and ensuring interoperability with jurisdiction-specific disclosures.

Countries like Pakistan have also taken significant steps towards embracing ESG reporting and sustainability. The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of Pakistan (ICAP) has formulated a strategy to review and adopt international sustainability standards issued by the ISSB.

The Securities and Exchange Commission of Pakistan (SECP), as a preeminent corporate regulatory body, has acknowledged the significance of ESG considerations in the contemporary corporate landscape. In line with this commitment, the SECP has released a comprehensive position paper on the ESG Regulatory Roadmap. Similarly, the State Bank of Pakistan has launched the Environmental & Social Risk Management (ESRM) manual for banks and DFIs.

Moreover, businesses themselves have recognized the importance of contributing to a better world. Many companies have formulated policies concerning corporate social responsibility (CSR), adhering to international norms and local regulations. These companies consistently provide updates and reports on their CSR endeavors, showcasing their dedication to making a positive impact.

As the global community moves towards a more sustainable future, the integration of ESG reporting and corporate responsibility has become an essential aspect of modern business. By embracing ESG reporting and aligning with the UN's Sustainable Development Goals, businesses can not only enhance their reputation but also contribute to a more sustainable and equitable world for generations to come.



The writer is a chartered accountant working as Senior Quality Assurance Inspector at The Audit Oversight Board.



Global Analysis on Sustainability Reporting and Assurance

Ms. Farheen Mirza, FCA

The global discussion around sustainability reporting is evolving and organizations are increasingly reporting on their broader performance and impact. A broad range of stakeholders seek higher quality, increasingly standardized reporting on companies' performance on non-financial measure. While historically voluntary, this type of reporting and assurance is increasingly mandated by law or regulation.

Issuance of International Sustainability Disclosure Standards

With the establishment of International Sustainability Standards Board (ISSB) of the IFRS Foundation, the ISSB has been mandated to develop global set of standards for corporate sustainability reporting. On 26 June 2023, the ISSB has issued its two global baseline sustainability reporting

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standards IFRS S1, General Requirements for Disclosure of Sustainability-Related Financial Information, and IFRS S2, Climate-Related Disclosures. These standards aim to improve trust and confidence of the company's investor's about sustainability of the company.

IFRS S1 provides a set of disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium and long term. IFRS S2 sets out specific climate-related risks and opportunities. Both the standards fully incorporate the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD).

These standards have ushered in a new era of sustainability-related financial disclosures globally. The endorsement of International Organization of Securities Commissions (IOSCO) on these two standards shows a strong sign to the world that the ISSB Standards are fit for purpose for capital market use, enabling pricing in of sustainability-related risks and opportunities, and facilitate enhanced data collection and analysis.

The ISSB is working to support effective implementation of IFRS S1 and IFRS S2 globally, including improving capacity building and monitoring progress towards the broad use of high-quality disclosures.

Updates on the development of New Sustainability Assurance Standards

As the reporting standards become increasingly refined and enhanced, there is a corresponding increase in demand of stakeholders for assurance engagements on sustainability reporting.

Keeping in view of the stakeholder's need and demand, the International Auditing and Assurance Standards Board's (IAASB) has issued the Exposure Draft of its landmark International Standard Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements, on August 02, 2023, for public comments. Comments are requested by December 01, 2023.

The proposed sustainability assurance standard is a framework-agnostic and principles-based, that is responsive to the public interest need for a timely standard, suitable across all sustainability topics, prepared in accordance with any internal sustainability reporting framework/ standard like, European Union, the International Sustainability Standards Board (ISSB), the Global Reporting Initiative (GRI), and others). The proposed standard can be used by all assurance practitioners (both professional accountant and non-accountant assurance practitioners).

ICAP role in adoption and implementation of IFRS Sustainability Disclosure Standards in Pakistan

In Pakistan, neither sustainability reporting nor assurance thereon, is a mandatory requirement for enterprises. Out of 550 listed companies in Pakistan, around 100 companies are disclosing sustainability related information in their annual reports in accordance with any of the internationally recognized framework like, GRI/IIRC/UN SDGs etc. Very few companies are obtaining assurance from audit or other practitioners on sustainability.

The Institute of Chartered Accountants of Pakistan (ICAP) is cognizant of international developments in sustainability reporting and its significance. ICAP is aware of its role and is also committed to serve the public interest by working collectively with all the relevant stakeholders to enhance awareness and improve capacity building of stakeholders on the emerging topic of sustainability.

The relevant working group of the Accounting Standards Board (ASB) of ICAP is looking into the sustainability reporting matter in Pakistan and has taken various steps to promote awareness, adoption and implementation of aforementioned IFRS Sustainability Disclosure Standards (IFRS S1 and IFRS S2) in Pakistan including organising seminars/ webinars/ consultative sessions with various stakeholders and issuance of resource material for member's reference.

Global Research on Sustainability Reporting and Assurance

The study covers the regions, EU, USA, UK, Australia, China, Hong Kong, Japan, Indonesia and Singapore, Pakistan, India, Bangladesh, Sri Lanka and Nepal.

The study, as given in the table below, shows that the frequency of reporting ESG information is high in regions like, EU countries (like Italy, France, Spain and Germany), USA, UK, Australia, China, Hong Kong, Japan, and Singapore. GRI is the most used reporting framework followed by TCFD and United Nations Sustainable Development Goals (UN SDGs).

The assurance of sustainability reporting is showing increasing trend. In USA, UK, EU countries the rate of assurance is around 80%. In most of the cases, audit firms are providing limited assurance on the sustainability reporting in accordance with ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. However, in some cases, other service providers are also providing assurance on sustainability.

In addition, other assurance frameworks that are being followed are, AA1000 Assurance Standard (AA1000AS) (a leading methodology used for sustainability-related assurance engagements to assess the nature and extent to which an organization adheres to the AA 1000, AccountAbility Principles), ISAE 3410 'Assurance Engagements on Greenhouse Gas Statements' and ISO 14064-3, 'Greenhouse gases - Part 3: Specification with guidance for the verification and validation of greenhouse gas statements'.

Quick Facts:

Out of the companies reviewed - 95% report some level of sustainability information.

64% obtained assurance on sustainability reporting

57% of these assurance engagements are conducted by audit firms

95% audit firms used ISAE 3000 (Revised) for assurance

95% firms applied limited assurance

S. No.	Region	Sustainability Reporting Regulatory Requirements	Assurance on Sustainability Reporting
1.	European Union (EU) countries (Italy, France, Spain and Germany)	<p>In the EU, the Corporate Sustainability Reporting Directive (CSRD) is the new European directive proposal on reporting sustainability performance and will be transposed into local law in each member state from December 2022.</p> <p>CSRD requires companies to report material information on sustainability related risks and opportunities in accordance with the European Sustainability Reporting Standards (ESRS) which will be adopted through specific delegated acts of the European Commission between 2023 and 2024.</p> <p>It requires all large companies (with >250 employees, >€40m net annual revenues or >€20m assets on their balance sheet) and listed SMEs, to publish regular reports on their environmental and social impacts. There will be a phased implementation timeline for reporting as follows:</p> <ul style="list-style-type: none"> From the start of 2025 organizations currently reporting under the Non-Financial Reporting Directive will need to comply and report on their 2024 ESG performance data. From the start of 2026 all large companies will be required to report their 2025 sustainability impacts. From the start of 2027 listed small and medium-sized organizations (SMEs) will have to report 2026 sustainability impact information unless they choose to opt-out for one more year. By 2028 all non-EU companies with significant activities (>€150m revenues within the EU) and remaining listed SMEs will be reporting 2027 impact data. <p>Around 98% EU companies are reporting some ESG information.</p>	<ul style="list-style-type: none"> On average, around 80% EU companies are obtaining assurance. France 98% followed by Spain and Italy around 95-96% and Germany 74% are obtaining assurance. ISAE 3000 (Revised) is majorly being used for the assurance of ESG.
2.	United Kingdom	<ul style="list-style-type: none"> In UK, quoted companies are mandated to provide a report disclosing annual greenhouse gas emissions, diversity, and human rights under the Companies Act 2006 (Strategic and Director's Report) Regulations, 2013. The TCFD recommendations are applicable to UK listed companies in the financial and non-financial sectors from 2022. Large asset owners must also disclose in line with TCFD. Over 99% of top 100 UK companies are reporting on ESG. UK is committed to bring all greenhouse gas emissions to net zero by 2050. Companies are expected to report on their own contribution and progress to net zero. 	<ul style="list-style-type: none"> Of those 99% companies, around 82% are seeking assurance (in most cases limited assurance as per ISAE 3000). Other frameworks are ISO 14064-3 and ISAE 3410.

S. No.	Region	Sustainability Reporting Regulatory Requirements	Assurance on Sustainability Reporting
3.	United States	<ul style="list-style-type: none"> According to the US Securities and Exchange Commission (SEC) Regulation, all listed companies are required to disclose environmental compliance expenses. Companies use a variety of sustainability reporting frameworks/standards, including GRI Standards, SASB and the TCFD recommendations. 99% companies are reporting some ESG data. 	<ul style="list-style-type: none"> 82% companies are receiving assurance on ESG reporting. Third-party assurance from an independent accounting firm is required. The third-party assurance ranged from review or examination level attestation (from an independent accounting firm) to verification or certification services (from engineering and consulting firms).
4.	South Africa	<ul style="list-style-type: none"> 96% are reporting some ESG information, whereas, 90% are using SDG and 52% are using GRI framework. 	<ul style="list-style-type: none"> More than 65% sustainability reports are obtaining assurance in accordance with ISAE 3000 (in most of the cases limited assurance).
5.	Hong Kong	<ul style="list-style-type: none"> Hong Kong Stock Exchange's (HKEX) requires all listed companies to issue an ESG report in accordance with 'Environmental, Social and Governance Reporting Guide' (ESG Reporting Guide), as required under the Listing Rules (Appendix 27 of Main Board Listing Rules and Appendix 20 of the GEM Listing Rules). The ESG Guide comprises two levels of disclosure obligations, mandatory disclosure requirements (part B); and "comply or explain" provisions (part C) 100% are reporting some ESG information. 88% companies issue sustainability report. 	<ul style="list-style-type: none"> ESG assurance is not mandatory for Hong Kong listed companies, however, companies are encouraged. Practically small percentage of the listed companies opt to obtain any form of external assurance. Around 52% listed companies have opted to obtain external assurance, mostly from other service providers.
6.	Japan	<ul style="list-style-type: none"> Almost 99% companies report ESG data; 93% companies use SDGs, 87% TCFD, 62% GRI and 90% multiple frameworks; Japan is making the transition from 'comply or explain' to mandatory reporting. The use of the revised GRI Universal Standards has been mandatory since January 2023; The Financial Services Agency is discussing proposals for mandatory climate reporting and disclosure guidelines on sustainability and 	<ul style="list-style-type: none"> 70% undertaking external assurance of their reports.

S. No.	Region	Sustainability Reporting Regulatory Requirements	Assurance on Sustainability Reporting
3.	United States	governance-related factors; • Companies are required to report on climate-related risks at the financial year ending 31 March 2022.	
4.	Australia	• 100% companies report ESG data. The most used frameworks are GRI, TCFD, SDGs	• Of the companies that disclosed ESG data, 69% obtained assurance with 100% Limited Assurance Report using ISAE 3000/ASAE 3000/ ISAE 3410.
4.	China	• In 2022, 61% of China's N100 companies adopted the ESG reporting guidelines issued by the Hong Kong, Shenzhen and Shanghai stock exchanges; • China aims to become carbon neutral by 2060. The leading listed companies of China has set a trend for adopting the SDG framework.	• Assurance is on increasing trend and more than 50 percent companies who prepare sustainability report also get it assured from the audit firm in accordance with ISAE 3000.
5.	Singapore	• Entities listed on the SGX are required to prepare an annual sustainability report. For this, the SGX has issued Sustainability Reporting listing rules and the Sustainability Reporting Guide (the SGX Guide) in June 2016. • 100% are reporting some ESG information. • With the effects of climate change becoming increasingly pronounced, the SGX has introduced a phased approach to implement 'Singapore Green Plan 2030' to mandatory climate reporting based on the recommendations of the TCFD.	• As per SGX listing rules, independent assurance on sustainability reports of listed entities is not mandatory, however, encouraged. • Entities are encouraged to use SSAE 3000 (as it provides guidance on the conduct of assurance engagements) instead of AA1000 AS (that focuses on the quality of reporting processes). • 38% listed companies have opted to obtain external assurance.
6.	Malaysia and Indonesia	Large listed companies are required to provide mandatory ESG disclosures.	
7.	Pakistan	• SECP's Corporate Social Responsibility Voluntary Guidelines, 2013 is currently being followed by public companies primarily along with other global sustainability reporting frameworks like GRI, SASB Standard UN SDGs etc.	

S. No.	Region	Sustainability Reporting Regulatory Requirements	Assurance on Sustainability Reporting
		<ul style="list-style-type: none"> • The SECP's 'Position Paper on ESG Regulatory Roadmap' shows SECP plan to issue ESG Guide and Disclosure for investors. • SBP has launched 'Environmental & Social Risk Management' (ESRM) manual for banks and DFIs which provides comprehensive Environmental & Social Management System for systematic guidance to banks/DFIs on assessing and managing environmental and social risks. • Pakistan Stock Exchange has joined the Sustainable Stock Exchanges Initiative. • ICAP's Accounting Standards Board has formed a multi-stakeholder working group on sustainability reporting to consider the adoption of ISSB's sustainability reporting disclosure standards (IFRS S1 and S2) in Pakistan and also seeking member's feedback on the adoption. • ICAP is also organizing consultative/ awareness sessions for various stakeholder's awareness, mostly with SECP. • ICAP has also issued few publications to members on Sustainability reporting. • ICAP also regularly coordinate with ISSB's on sustainability reporting and to get hold of ISSB's various initiatives. • ICAP organizes 'Best Corporate and Sustainability Report Awards' each year to promote financial reporting and sustainability reporting in Pakistan. 	<ul style="list-style-type: none"> • Assurance is optional and very few companies are obtaining assurance from audit firms and independent consultant. • ISAE 3000 (Revised) is the most used assurance framework in Pakistan for sustainability reporting.
5.	India	<ul style="list-style-type: none"> • The Securities Exchange Board of India (SEBI) has mandated the filing of Business Responsibility and Sustainability Report (BRSR) for the top 1000 listed companies (by market capitalization). BRSR reporting was voluntary for the year 2021-22 but has become mandatory from 022-23. The BRSR has been developed keeping in mind the global ESG and sustainability frameworks (GRI, IIRF, SASB, the UN SDGs). • 100% companies are reporting some ESG information (GRI, SDGs and multiple frameworks) 	<ul style="list-style-type: none"> • External assurance is not mandatory. • Assurance frameworks used include ISAE 3000 (Revised), ISAE 3410, AA1000AS.
6.	Sri Lanka	<ul style="list-style-type: none"> • There is no statutory requirement for sustainability reporting. • Voluntary Code of Best Practice on Corporate Governance issued jointly by the Securities & Exchange Commission of Sri Lanka and the CA Sri Lanka requires disclosures on sustainability. 	<ul style="list-style-type: none"> • External assurance is not mandatory.
6.	Bangladesh	<ul style="list-style-type: none"> • Listed companies are required to include ESG reporting as per, 'Guidance on Sustainability Reporting for Listed Companies in Bangladesh, 2020' in the annual reports. • Guidelines have been issued by central bank/NBFI regulator like, Guidelines for Environmental and Social Risk Management (ESRM), Green Banking Guidelines 2011, Sustainable Finance Policy 2020, CSR Policy Guidelines 2022. 	<ul style="list-style-type: none"> • Assurance on Sustainability Reports is not mandatory.

Source: The IFAC-AICPA-CIMA study 'The State of Play - Sustainability Disclosure and Assurance' (Feb 2023) <https://www.ifac.org/system/files/publications/files/IFAC-State-of-Play-Sustainability-Assurance-Disclosures.pdf>



The writer is a Deputy Director, Technical Services of ICAP and Committee Secretary of ICAP 'Auditing Standards & Ethics Committee' and SAFA 'Committee on Auditing Standards and Quality Control'.



The rise of Sustainable Accounting: Integrating Environmental and Social Impact in Financial Reporting

Mr. Muhammad Bilal, ACA

As global awareness of climate change, social inequalities, and environmental degradation continues to grow, there has been a significant shift in the business landscape towards sustainability. This change has prompted the emergence of sustainable accounting, a new approach to financial reporting that goes beyond traditional profit-focused metrics.

In this article, we will explore the foundations of Sustainable Accounting, corporate sustainability initiatives, integration challenges, and recent developments.

Foundations of Sustainable Accounting

Traditional accounting practices have historically focused solely on financial performance and shareholder value, often

As global awareness of climate change, social inequalities, and environmental degradation continues to grow, there has been a significant shift in the business landscape towards sustainability. This change has prompted the emergence of sustainable accounting, a new approach to financial reporting that goes beyond traditional profit-focused metrics

Big companies increasingly recognize the importance of sustainable supply chain management to address environmental and social impacts throughout their product lifecycle. They are partnering with suppliers who adhere to eco-friendly practices and responsible sourcing of raw materials. Unilever, Walmart, and IKEA are notable examples of implementing sustainable supply chain initiatives. Unilever, for instance, has set ambitious goals to source 100% of its agricultural raw materials sustainably and eliminate deforestation from its supply chain.

overlooking the broader impact that businesses have on the environment and society. Sustainable accounting departs from this narrow approach by recognizing that businesses' activities have far-reaching consequences beyond the traditional balance sheet. Sustainable accounting expands the scope of financial reporting to include a comprehensive assessment of a company's environmental, social, and governance (ESG) factors.

Several interconnected factors have contributed to the rise of sustainable accounting:

a. Stakeholder Expectations: Consumers, investors, and employees are now more conscious of the environmental and social impacts of their choices. The call for greater transparency from companies and expectations for businesses to be accountable for their actions is gaining significant momentum.

b. Regulation and Reporting Standards: Governments and regulatory bodies worldwide are implementing policies to address environmental and social issues. Recently, the International Sustainability Standards Board (ISSB) issued

two new standards, IFRS S1 and IFRS S2, ushering in a new era of sustainability-related disclosures in capital markets worldwide. This demonstrates the focus on sustainable accounting.

c. Financial Risks and Opportunities: The business community is increasingly recognizing the financial risks associated with environmental and social factors. Climate change, for instance, can lead to supply chain disruptions, increased insurance costs, or regulatory penalties. Conversely, sustainable practices can create new business opportunities and cost efficiencies. Sustainable accounting enables businesses to identify and mitigate these risks while leveraging opportunities for growth.

Corporate Sustainability Initiatives

As investors and stakeholders focus more on sustainability, global corporations have also embraced sustainability. They have adopted voluntary sustainability disclosures, appointed sustainability executives, and set sustainability targets.

For example, companies have taken the following steps to make an impact towards sustainability:

1. Renewable Energy: Many large corporations are decisively shifting towards renewable energy sources as part of their sustainability initiatives. They are embracing solar, wind, and hydroelectric power to reduce their carbon footprint and decrease dependence on fossil fuels. Technology giants like Google and Apple have committed to powering their operations with 100% renewable energy. Apple's data centers, corporate offices, and retail stores are already running on renewable energy, significantly reducing their carbon emissions.

2. Sustainable Supply Chain Management: Big companies increasingly recognize the importance of sustainable supply chain management to address environmental and social impacts throughout their product lifecycle. They are partnering with suppliers who adhere to eco-friendly practices and responsible sourcing of raw materials. Unilever, Walmart, and IKEA are notable examples of implementing sustainable supply chain initiatives. Unilever, for instance, has set ambitious goals to source 100% of its agricultural raw materials sustainably and eliminate deforestation from its supply chain.

3. Water Conservation: Water scarcity is a pressing global issue, and large companies recognize the need to manage this precious resource responsibly. Many are implementing water conservation measures to reduce their water consumption, optimize water usage in production processes, and support communities facing water stress. Nestlé, for instance, has set ambitious targets to improve water efficiency across its operations and supply chain. The company aims to replenish the water it uses in high-water-risk areas, helping restore ecosystems and ensure local communities have access to clean water.

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Integration Challenges

While integrating sustainability accounting with financial reporting is the goal of investors and stakeholders, it is not an easy target, and the integration may pose several challenges.

1. Data Collection and Accuracy: Sustainable accounting requires extensive data collection on various environmental and social indicators. Gathering accurate data can be challenging, especially for multinational corporations with complex supply chains and operations in diverse regions. Ensuring data accuracy and reliability is crucial to avoid greenwashing and maintain stakeholder trust.

2. Complexity and Cost: Integrating sustainable accounting with financial accounting can increase the complexity of reporting processes. Implementing the necessary systems and tools to measure, track, and report sustainability metrics might be expensive, particularly for smaller companies with limited resources.

3. Short-Term vs. Long-Term Focus: Financial accounting typically emphasizes short-term profitability and shareholder value, while sustainable accounting requires a longer time horizon, considering environmental and social impacts in the long run. Balancing short-term financial goals with long-term sustainability objectives can pose a challenge for companies.

4. Organizational Culture and Buy-In: Successfully integrating sustainable accounting requires a shift in organizational culture and a commitment from top management. Achieving buy-in from key stakeholders and departments within the company may be challenging, especially in organizations where sustainability is not yet a core value.

Recent Developments

Recently, the International Sustainability Standards Board (ISSB) issued its inaugural standards—IFRS S1 and IFRS S2—ushering in a new era of sustainability-related disclosures in capital markets worldwide. The Standards aim to improve trust and confidence in disclosures about sustainability to enhance investment decisions.

Though the standards require unified disclosures and present a common language for disclosing the effect of climate-related risks and opportunities on a company's prospects, there is still a challenging path ahead as companies may find the standards difficult to implement.

"IFRS S1 - General Requirements for Disclosure of Sustainability-related Financial Information" requires an entity to disclose information about its sustainability-related risks and opportunities that are useful to users of general-purpose financial reports in making decisions relating to providing resources to the entity.

This standard covers information about an organization's governance, strategy, risk management, and the applicable metrics and targets for its identified material sustainability-related risks and opportunities. While the standard will be effective for annual reporting periods starting on or after January 1, 2024, this will vary based on local legislation.

Conclusion

Integrating sustainable accounting with financial accounting is essential for gaining a comprehensive understanding of a company's overall performance and impact on society and the environment. However, addressing the challenges mentioned above is crucial to ensure the effectiveness and credibility of sustainable accounting practices. As the demand for transparency and responsible corporate practices grows, it is in the best interest of companies to overcome these challenges and embrace sustainable accounting as an integral part of their business strategy. We hope to see common disclosures around sustainability once IFRS S1 and S2 become effective from 2024.



The author is a Chartered Accountant and working as Group Financial Controller, in a diversified local group of business.



ESG & Sustainable Reporting

Mr. Muhammad Asad Ali, FCA

Historically, financial decisions have been made with the goal of generating more benefits. However, in pursuit of these desired outcomes, the non-financial impact on the planet and society was often ignored. For instance, increased carbon emissions, reduced employee safety, and compromised board diversification were overlooked, leading to adverse consequences for communities. In order to make these decisions more prudent, the United Nations enacted the Principles for Responsible Investment (PRI) in April 2006. This international organization is solely dedicated to encouraging the incorporation of ESG (Environmental, Social, and Governance) factors into the mainstream decision-making process.

ESG encompasses three non-financial performance indicators: Environmental, Social, and Governance. It also measures how an entity addresses risks related to these indicators in its operations. With the assistance of other financial institutions, PRI has formulated six key principles. The primary purpose of these principles is to make investors more responsible and ethically aware of their impact on

society and the environment. The core principles require investors to:

- Incorporate ESG issues into their investment analysis and decision-making processes.
- Be active owners and include ESG issues in their ownership policies and practices.
- Seek appropriate disclosure on ESG issues from the entities in which they invest.
- Promote acceptance and implementation of the Principles within the investment industry.
- Collaborate to enhance effectiveness in implementing the Principles.
- Report on their activities and progress in implementing the Principles.

Environmental factors: covers business impact on the environment;

- Energy efficiencies,
- Carbon footprint reduction,
- Greenhouse gas emissions,

- Deforestation,
- Biodiversity loss,
- Climate change and pollution mitigation,
- Waste management and water efficiency.

Social Factors: Focus on Works Force:

- Labor standards (Pay equity and benefits),
- Workplace ethics,
- Community relations and racial justice,
- Equality and diversity,
- Privacy and data protection,
- Access to health and safety,
- Conflict Zones.

Governance Factors: covers how the company formulate policies to govern environmental and social domains;

- Corporate board composition and structure,
- Strategic sustainability oversight and compliance,
- Shareholders rights,
- Executive compensation,
- Political contributions and lobbying
- Bribery and corruption.

An issue requiring immediate attention is the standardization of reporting disclosures, the bridging of data gaps, and the comparability of data across the globe. To address these concerns, the United Nations adopted the Agenda for 2030 for Sustainable Development in 2015. The focus of this agenda is to streamline the entire process, enhance comparability, build data collection capabilities, and establish reporting mechanisms.

Businesses worldwide disclose financial information according to either the generally accepted accounting principles of their nation or the international financial reporting standards. However, integrating non-financial data into the reporting cycle necessitates a framework that enhances the relevance, coherence, and consistency between these two models.

To meet this requirement, the term 'Sustainability Accounting' was coined for the reporting of non-financial indicators. The objective was to assist entities in disclosing risks and opportunities associated with their impact on the environment and society, along with their corresponding responses. To create this framework, the International Sustainability Standards Board (ISSB) was established by the IFRS Foundation on November 3rd, 2021, in response to strong market demand.

On June 26th, 2023, the ISSB issued its first two standards:

IFRS S1: General Requirements for the Disclosure of Sustainability-related Financial Information

IFRS S2: Climate-related Disclosures

These standards were developed in response to requests from primary users of financial statements (capital markets)

for coherent, consistent, complete, comparable, and verifiable sustainability-related information. This information enables them to assess an entity's enterprise value, which is typically based on the entity's future cash flows (including the expected amount, timing, and certainty) over the short to long term. This assessment also considers the entity's risk profile and its ability to secure financing and manage the cost of equity.

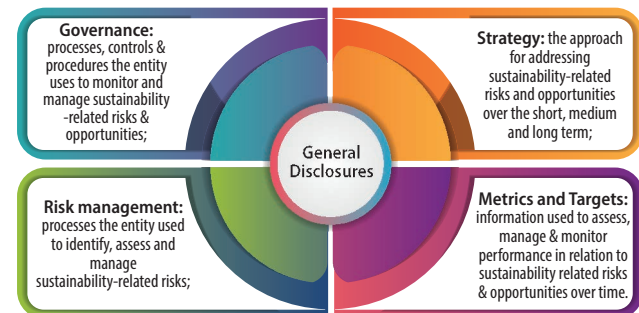
Users seek material information to make informed decisions, which can be evaluated based on the resources and relationships an entity possesses and relies upon. These resources and relationships encompass any specialized knowledge it generates, the natural resources it owns, and its relationships with human resources and local communities. Standards in Brief:

IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information

Objective: To disclose significant sustainability-related risks and opportunities.

Scope: Entities preparing financial statements in accordance with IFRS or other GAAP.

Core Content: Entities should disclose the following;



General Features:

Information will be relevant and faithfully represented to be useful. Usefulness is enhanced if the information is comparable, verifiable, timely, and understandable.

An entity will disclose the financial statements to which the sustainability-related financial disclosures relate, enabling users to assess the connection between the two.

When currency is specified as the unit of measure, the entity will use the presentation currency of its financial statements. Comparative information for the previous period should be disclosed for all metrics and narratives presented in the current period.

Disclosures will pertain to the same reporting period and be

included in general-purpose financial reporting.

Reasonable estimations must be accurately described, explained, and consistent with the financial statements. Material errors from prior periods should be rectified by restating comparative amounts for the prior period, unless impracticable.

IFRS S1 is effective for annual reporting periods beginning on or after January 1st, 2024, with earlier application permitted as long as IFRS S2 Climate-related Disclosures is also applied. Local jurisdictions must endorse the standards for them to become effective, and they may have a later effective date.

IFRS S2: Climate-related Disclosures

IFRS S2 is a specialized standard that addresses an entity's relationship and reliance on its environment. It requires entities to identify, measure, and disclose risks and opportunities associated with their environment. These disclosures will help primary users assess an entity's enterprise value by evaluating its future cash flows, considering amounts, timing, and certainty over a short to long-term horizon.

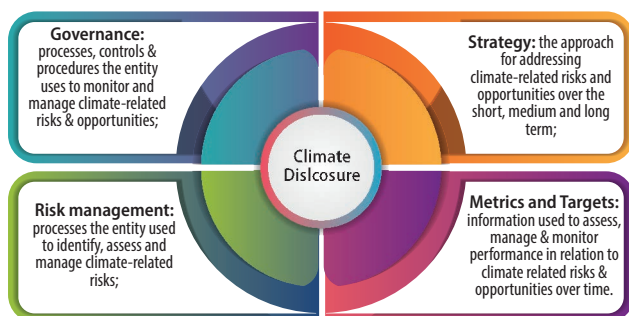
Objective: To disclose significant climate-related risks and opportunities, enabling users to assess enterprise value and understand and evaluate the entity's ability to respond.

Scope:

- Entities exposed to Climate-related risks:
 - Physical Risks:** Climate change-related risks such as floods, droughts, and fires can cause damages to properties and disrupt supply chains.
 - Transition Risks:** Risks associated with transitioning to a lower carbon economy, including legal and regulatory compliance, technological advancements, market responses, and reputational considerations. These risks can disrupt an entity's revenue stream and increase operational costs.
- Entities exposed to Climate-related opportunities:

For instance, a power generation entity might experience a revenue surge due to climate change. Opportunities will vary based on region, market, and industry.

Core Content: Entities should disclose the following;



Specialized Disclosures:

■ Emissions Targets:

- Processes in places to review the targets
- Amount to be achieved
- Intended use of carbon offsets, its extent to the overall target, certification for third party verification, type of carbon offset (natural or technological) and categorization of amount (carbon removal or emission avoidance)

■ Climate Resilience:

- Results of the entity's resilience analysis using climate-related scenario and when it is unable to do so any other method used, how it is conducted, its implications and entity's capacity to adjust over the short, medium and long term.

■ Greenhouse gas (GHG) Emissions:

To measure, monitor and manage the identified climate-related risks and opportunities, Standard recommend following metrics:

a) **Cross industry metrics** comprises greenhouse gas emissions, transition risks, physical risks, climate-related opportunities, capital deployment, internal carbon prices and remuneration

b) **Industry based metrics**

c) **Entity based metrics**

- Cross industry metrics require comprehensive GHG disclosure regarding absolute gas emissions generated during the period and its intensity measured with GHG Protocol Corporate Standard or other standards adopted by local jurisdiction during the reporting period, expressed in metric tons of CO₂ equivalent, classified as:
 - Scope 1 – direct emissions (from sources owned or controlled by the entity)
 - Scope 2 – indirect emissions (emissions at the vendor's facility)
 - Scope 3 – any other indirect emissions (emissions from employee commute)
- Separate emissions disclosure for consolidated group and other investees (associates, joint ventures or affiliates) for Scope 1&2
- Disclose approach (equity share or operational control) to include emissions from other investees and reason(s) for approach selection
- For scope 3: Disclose categories within its measurement, considering both upstream and downstream parts of the value chain as well as explain basis for that measurement



The writer is a chartered accountant working as Deputy Director - Treasury & Investments at PTET.



Sustainability Accounting

Mr. Muhammad Javed, FCA

Sustainability accounting has received continuous attention in academic accounting literature, beginning with the work of Gray in the early 1990s and continuing through the release of the sustainability guidelines at the World Summit on Sustainable Development in Johannesburg in August 2002.

Environmental (E) focuses on a company's impact, e.g., carbon emissions, resource consumption, waste management, and climate change resilience.

Social (S) emphasizes a company's relationship with its stakeholders, including employees, customers, communities, and suppliers, addressing labor practices, human rights, diversity and inclusion, community engagement, and product safety.

Governance (G) focuses on the company's internal systems and processes, such as board composition, executive compensation, transparency, and risk management. It aims to

Sustainable organizations are unable to determine their true profit because they cannot account for the environmental and social impact on their Profit & Loss and Statement of Financial Position. It is, in fact, accounting for the effects of changes in products and organizational processes.

Sustainability accounting provides insights into an organization's performance beyond the traditional focus on profit and loss statements. It establishes parameters for environmental stewardship, social responsibility, and effective governance. By considering these factors, organizations can assess their non-financial performance and its impact on long-term sustainability. This information plays a crucial role in decision-making, risk management, and building trust among stakeholders, including investors, customers, employees, and regulatory bodies.

ensure ethical conduct, accountability, and sound decision-making within companies.

In today's financial environment, sustainability is a hot topic. It is an essential part of today's decision-making processes for organizations. Now, it is crucial to consider the valuable impact of products and organizations on societies. Sustainable organizations are unable to determine their true profit because they cannot account for the environmental and social impact on their Profit & Loss and Statement of Financial Position. It is, in fact, accounting for the effects of changes in products and organizational processes.

Sustainability involves reporting non-financial information as a result of an organization's performance. We focus on the social and environmental impacts and performance of organizations. Sustainability accounting encompasses systems, methods, and processes for creating sustainability information to promote transparency, accountability, and informed decision-making.

The objective of integrated reporting is to disclose to capital providers how an organization creates value over the short, medium, and long term.

There are five forms of Environmental Accounting:

1. Environmental Financial Accounting
2. Environmental Cost Accounting
3. Environmental Management Accounting
4. Ecological Accounting
5. Natural Resource Accounting

Environmental Financial Accounting is defined as the inclusion of true disclosures in organizations' financial statements at the end of the reporting period.

Environmental Management Accounting involves managing environmental and economic performance by developing and implementing reliable environmental accounting systems and practices.

Environmental Cost Accounting is the process of identifying, evaluating, and allocating conventional, environmental, and social costs to processes, products, activities, or budgets.

Ecological Accounting deals only with physical data. It provides a useful tool to identify, evaluate, and manage social and environmental risks, using financial opportunities to improve social and environmental outcomes.

Sustainability accounting demonstrates that your organization is committed to transparency, increasing trust between the organization and its stakeholders, leading to innovative solutions.

Sustainability accounting provides insights into an organization's performance beyond the traditional focus on profit and loss statements. It establishes parameters for environmental stewardship, social responsibility, and effective governance. By considering these factors, organizations can assess their non-financial performance and its impact on long-term sustainability. This information plays a crucial role in decision-making, risk management, and building trust among

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stakeholders, including investors, customers, employees, and regulatory bodies.

Organizations can evaluate their financial and non-financial performance by incorporating sustainability data into their financial statements.

There is no universally accepted reporting standard for ESG Metrics. However, organizations can refer to established frameworks like the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and Task Force on Climate-related Financial Disclosures (TCFD) to guide their reporting practices. Collecting data on sustainability accounting is a complex task due to the involvement of multiple stakeholders.

The Business Benefits of Sustainability Accounting:
Integrating sustainability accounting practices offers several benefits to organizations.

- It helps organizations identify and mitigate ESG risks that could impact their reputation, operations, and financial performance.
- Sustainability reporting enhances the social goodwill of organizations among the public.
- Organizations that prioritize sustainability can improve operational efficiency, reduce costs, and foster innovation by identifying opportunities for sustainable practices throughout their value chains.
- Providing information about its sustainable efforts to its internal and external stakeholders, such as customers, investors, and supply chain partners.
- Measuring the current impact of the organization, such as emission reduction, helps in improving organizational profit and shows that the organization is more agile and competitive in the rapidly changing market.
- It helps in distinguishing your organization from other competitors, attracting and retaining motivated and skilled employees, attracting new and potential consumers, and increasing customer satisfaction and loyalty.

Challenges of Environmental Accounting and Reporting:

- Environmental Accounting and reporting will require extra manpower and cost, and most organizations are not willing to incur such costs.
- Environmental issues are burning issues in the present-day context due to damage caused by natural and human activities.
- The non-availability of educated and skilled workers in different organizations to collect such data and report on it.
- Most organizations in Pakistan have no awareness about environmental accounting.
- Organizations, due to cost constraints, have no policies or

incentive systems in place to motivate their staff and other stakeholders to manage environmental and social accounting issues.

- Such reporting creates challenges for organizations because quantifying environmental and social data is very difficult. Integration requires cost and capital expenditure.
- Failing to implement these standards will decrease organizational revenue, expose them to litigation and regulatory fines, damage their reputation, and result in the loss of their social and environmental license to operate.

Comparison of old and new approaches in ESG Reporting:

Sr. No.	Old Approach	New Approach
1.	Limited disclosure of ESG Information	Greater Transparency and meaningful disclosure of ESG Information
2.	Voluntary Reporting Standard	Adoption of mandatory reporting standard
3.	General Language and content in SG Reports	Specific and financially material content in esg reports
4.	Limited Concern in ESG Issues	Greater focus on ESG Issues as a measure of corporate responsibility and sustainability.
5.	Limited pressure from shareholder for ESG disclosure	Increased pressure from shareholder, Particularly large assets owners, for ESG disclosure

Conclusion:

Organizations should place their ESG data in accounting software where they manage their budgeting, planning, and separate and consolidate financial data to create their financial statements, Profit & Loss statements, and cash flow statements. This is the only way to achieve the desired result of integrating ES impact into reporting. As the demand for sustainability accounting continues to grow, accountants must adapt their skills and knowledge to navigate the evolving landscape of corporate reporting and sustainability standards. By embracing sustainability accounting practices, organizations can enhance their credibility, respond more effectively to stakeholder expectations, and contribute to a more sustainable future. Organizations should not only focus on their governance side but also on their environmental and social aspects when reporting to their stakeholders.



The writer worked as Head of Accounts & Finance at Sohrab Industries. Currently working as Partner at Muhammad Javed & Co/Muhammad Ayub Javed & Co.

The rise of sustainable accounting: integrating environmental and social impact in financial reporting

Mr. Muhammad Farrukh Siddiqui, ACA



In 2009, the SECP issued the Company (Corporate Social Responsibility) Order, which required companies to disclose corporate social responsibility activities in monetary and descriptive terms. Subsequently, in 2013, the SECP issued sustainability accounting Corporate Social Responsibility voluntary guidelines, providing detailed guidance on CSR policies, implementation structures, and resource allocation

Sustainability accounting/reporting is an emerging concept on the horizon, implying a focus on accountability for non-financial aspects in addition to financial aspects. It is essentially a subcategory of financial accounting, and currently, sustainability accounting is a voluntary disclosure requirement.

Sustainability Accounting Involves:

Identifying, evaluating, and measuring the environmental and social risks linked to organizational operations.

Highlighting the financial benefits that could be achieved by overcoming or mitigating the aforementioned risks.

Regulatory framework in Pakistan:

In 2009, the SECP issued the Company (Corporate Social Responsibility) Order, which required companies to disclose corporate social responsibility activities in monetary and descriptive terms. Subsequently, in 2013, the SECP issued sustainability accounting Corporate Social Responsibility voluntary guidelines, providing detailed guidance on CSR policies, implementation structures, and resource allocation. Other related guidelines and instructions have been issued over time, including green banking guidelines in 2017.

However, new standards have been issued by the International Financial Reporting Foundation (IFRS), namely S1 and S2, focusing on clear and transparent disclosure guidelines for sustainability and climate-related risks respectively.

Importance of Sustainable Accounting:

There's an increasing awareness among organizations and countries that shareholders are not the only stakeholders in financial reporting; the information provided needs to cater to other segments of society, such as employees and communities. So, why should organizations pursue sustainable growth, i.e., look beyond immediate returns and consider rewards/values spread over several years while

taking social and environmental factors into account?

The answer to this question depends on several factors:

- Promotion as a socially conscious organization:** This can attract socially motivated individuals and organizations.
- Reduction in operational costs:** Initiatives such as on-site renewable power generation, energy-efficient technologies, and paperless banking can lead to cost reduction.
- Risk mitigation:** Sustainability initiatives protect organizations from sustainability risks, which can take different forms. For instance:

Credit Risk: Failure to consider social and environmental commitments of borrowers during loan approval may lead to increased costs and cash flow issues.

Legal Risk: Holding collaterals causing pollution could lead to legal liabilities.

Reputational Risk: Involvement in environmentally and socially harmful projects can damage reputation.

Measuring Sustainability Costs and Benefits:

Measuring the costs and benefits associated with sustainability initiatives is challenging. Third parties validating sustainability disclosures often rely on data from the organizations themselves, which raises authenticity and independence concerns. Sustainability reporting can be time-consuming, involving data from internal and external sources.

Costs and benefits can be classified into two categories:

Direct Costs/Benefits: Associated with implementing social and environmental initiatives.

Indirect Costs/Benefits: Borne/reaped by stakeholders like suppliers and communities.

In Pakistan, quantitative disclosures for sustainability reporting are rare.

Status of Implementation in Pakistan:

Since disclosure requirements are voluntary, organizations are responsible for making sustainability disclosures. According to a recent survey by KPMG, a significant percentage (91%) of companies are incorporating sustainability reporting into their reports, showing a nearly 30% growth since 2020.

Conclusion:

Sustainability has reached a maturity stage in Pakistan where most companies have adopted reporting requirements. The focus should now shift to improving the quality and standardization of reporting while developing mechanisms to audit and validate such reporting.



The writer worked as Head of Accounts & Finance at Sohrab Industries. Currently working as Partner at Muhammad Javed & Co/Muhammad Ayub Javed & Co.



Sustainability Accounting

Mr. Safdar Ali, ACA

Evolution of Accounting:

Initially, accounting relied on a single-entry system only for recording currency-based transactions. The double-entry system of accounting was first introduced by Luca Pacioli, an Italian mathematician, in 1494 AD (After Departure of Eesa). This introduced a system of checks and balances to the accounting profession. In the United States (US), work on Generally Accepted Accounting Principles (GAAP) began in 1933, leading to the development of the Financial Accounting Standards Board (FASB) under the Securities and Exchange Commission in the US. The Government Accounting Standards Board (GASB) was also established. The FASB and GASB jointly develop the GAAPs, catering to the needs of both commercial and nonprofit entities. On the other hand, the International Accounting Standard Committee (IASC) was founded in 1973 in London to set International Accounting Standards (IASs). The IASC, headed by a former president of the Institute of Chartered Accountants of England & Wales (ICAEW), resonated more with the Chartered Accountancy profession.

Merging GAAP and IAS:

Subsequently, the need arose to merge both GAAPs and IASs, leading to the formation of a new board, the International Accounting Standard Board (IASB), for the development of uniform accounting standards worldwide under the name International Financial Reporting Standards. In IFRS, the requirements of both GAAPs and IASs are merged into single uniform standards. However, many organizations in the US continue to apply GAAPs. In the US and some other places, financial markets and stock exchanges are more developed, involving complex transactions and instruments. Consequently, IFRS introduced the concept of financial instruments to cater to these needs. This concept has evolved over time with increasing recognition, measurement, and reporting requirements, prompting the development and introduction of new standards. These standards are particularly valuable for investors in the stock exchanges of public listed companies,

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enabling more informed decisions. For other users of financial reports, this standardization might have overshadowed the requirement of "Understandability" since a typical user might struggle to draw conclusions from such complex information provided in financial statements.

Social & Environmental Impact on Financial Reporting and Auditing:

Auditing: In the post-modern era, demands in every profession are continually increasing. Quality knows no bounds, and the same goes for needs. Holders' demands are insatiable, with requirements for information and disclosures growing incessantly. The accounting profession faces similar challenges. Financial reporting is primarily for investors and other stakeholders using audited financial statements. The International Auditing and Assurance Standard Board (IAASB) has developed sustainability standards, particularly addressing the critical concern of global warming, a significant threat to humanity. Due to heavy regulations on corporations, governments worldwide have imposed conditions on large corporations to contribute positively to the national and global environment. Globally, there is a standardized expectation for nations to maintain at least 10% forest cover to ensure progress. In Pakistan, an attempt at afforestation was undertaken, albeit under the unfortunate moniker of "Tsunami." While afforestation fosters prosperity, tsunamis bring destruction. Unfortunately, the government failed to finance afforestation efforts through contributions from corporations mandated to offset their carbon emissions. Additionally, the sale of emission reductions in the global market was not executed according to established procedures. Such an endeavor could have generated extra revenue for Pakistan in US Dollars, contributing to a more stable exchange rate and a positive balance of trade. Regrettably, the planted forests were subsequently destroyed – either by TikTokers aiming to increase video views at the nation's expense, others attempting to conceal their corrupt practices, or even alien forces suppressing Pakistan's prosperity and progress by diminishing forested areas. Despite the author's efforts to raise awareness and appeal to various authorities, including the Federal Government, the Khyber Pakhtunkhwa, and Punjab Provincial Governments, through electronic and traditional means, the matter of forest burning went largely unaddressed. The Forest Ordinance 2001 contains strict penalties for forest burning, but authorities and the media turned a blind eye, despite the urgency of managing planned deforestation.

The IAASB has introduced International Standard on Assurance Engagement (ISAE) 3410, titled "Assurance Engagement on Greenhouse Gas Statement," addressing the mandatory reporting of entities' Green House Gas (GHG) Statements in certain developed countries. For such engagements, auditors collaborate with experts. ISAE 3410, developed by the IAASB, has significant social and environmental implications. Trees play a crucial role in converting carbon dioxide (CO₂) into oxygen (O₂) through photosynthesis in their green leaves. Oxygen sustains animal

life, as all animals inhale oxygen and exhale carbon dioxide. The scarcity of oxygen in urban areas is comparable to the scarcity of clean drinking water. In industrial and urban environments, GHG emissions pose a threat to animal life on Earth. A natural equilibrium exists between botanical and zoological life, with emissions and emission reductions interdependent. Entities report their emissions and emission reduction efforts to the environment, which are then subject to assurance by practitioners under ISAE 3410.

Accounting & Reporting vs. Social Responsibility:

In this context, the IFRS foundation faces a significant challenge. A proposed change in November 2021 aimed to accommodate the International Sustainability Standard Board, responsible for setting IFRS Sustainability Standards. However, these standards will require expertise beyond accounting, particularly for the valuation of subject matter assertions. Similar to actuarial valuations performed by experts with specialized knowledge, such positions may necessitate additional qualifications or certifications beyond accounting. Additionally, the scarcity of qualified personnel in this field could pose challenges, especially in underdeveloped countries like Pakistan.

In Pakistan and around the world, there are numerous hurdles to address before implementing sustainability standards for reporting, auditing, and assurance. For instance, many corporations in Pakistan fail to disclose ingredient information, leaving consumers uncertain about their purchases. Globally, companies often use complex chemical names and codes in ingredient lists, making it difficult for consumers to make informed decisions. This lack of transparency is particularly concerning for individuals adhering to dietary restrictions for religious or ethical reasons. Despite the establishment of organizations like the Halal Food Authority in Pakistan, enforcement, coordination, and the scope of their work remain problematic. Enforcement often relies on an overburdened police force lacking expertise, resulting in inadequate action or inaction. This lack of coordination is a pervasive issue in Pakistan, leading to inefficiencies and overlapping jurisdiction among various authorities. An incident involving the export of haram (forbidden) meat to China, disguised as donkey skin exports, highlights the need for better coordination and oversight. This scandal exposed the unethical practices within the business community and the lack of a proper mechanism for addressing such issues. The absence of a functioning board of muftis (Islamic scholars) compounds the problem, delaying legal consequences for these actions.

Ethical dilemmas extend beyond the food industry. Substandard products like the locally known "papar" snacks, popular among children, can lead to health problems due to prolonged consumption. Global challenges, such as the consumption of harmful products like cigarettes and energy drinks, underscore the need for stricter regulations and clearer information dissemination. In Pakistan, television advertisements for medicinal drugs are often rushed, making it nearly impossible for viewers to grasp the conveyed

information. This deficiency is due to inadequate coordination between media channels, authorities, and censor boards. While accounting and auditing professions can play a role in addressing social and environmental concerns, these issues largely transcend their domains. These matters require the collective efforts of various authorities, policies, and international legislation without veto power, as social and environmental issues are immediate and span from harmful to lethal on a global scale.

IFRSs lag behind ISAEs because ISAE 3410 was issued prior to the introduction of any reporting standard on GHG statements. Social and environmental standards might also require a completely new set of definitions compared to the usual IFRSs, with most definitions being adaptations of those found in IFRSs. Therefore, there is a long road ahead in this domain, and it will likely take decades to achieve full impact. Meanwhile, social and environmental issues are urgent, ranging from dangerous to potentially lethal on a global scale. An important question arises: Will the issuance of such standards truly serve the purpose of providing subject matter information to users and any assurance reports associated with it?

Consider the example of global warming, an aspect not comprehensively covered in ISAE 3410. A dire threat to both humanity and the Earth's environment is the depletion of the ozone layer. Carbon dioxide does not contribute to ozone layer depletion; rather, the main culprit is Chlorofluorocarbons (CFCs). Ozone gas, chemically O₃, is an alternate isotopic form of Oxygen Gas. Products and services containing CFCs, such as aerosol propellants (body sprays), air conditioners, refrigerators, and foams used as blowing agents and insulations in packing materials (plastic), contribute to the depletion. The use of such products, including CFCs, tends to increase during the summer months. CFCs are the primary cause of ozone depletion, whereas ISAE 3410 merely mentions ozone-depleting gases in its application guidelines. However, the issue is more severe than carbon emissions, potentially proving lethal once the ozone layer is entirely depleted even from a single location.

Consequently, the incorporation of IFRS standards addressing environmental and social concerns will send a positive message, highlighting the efforts of accounting and auditing bodies worldwide. Nonetheless, achieving this will demand extensive deliberation on a large scale and international legislation involving all stakeholders, without allowing any vetoes. This is essential if the world is genuinely committed to treating social and environmental matters with the gravity they deserve.



The writer is Chartered Accountant serving as a Chief Financial Officer (CFO) at Water & Sanitation Services Company Bannu.



The rise of sustainable accounting: integrating environmental and social impact in financial reporting

Mr. Mubeen Akhtar, ACA

In our rapidly changing world, a new approach to how businesses operate is gaining momentum: sustainable accounting. This method goes beyond merely tracking financial numbers; it also considers a company's effects on the environment and society. This shift reflects the realization that success isn't solely about making money; it's about taking care of our planet and its inhabitants.

Understanding Sustainable Accounting: A Broader Lens on Business

Think of sustainable accounting as looking at the bigger picture. It's like stepping back from a single puzzle piece to see the entire puzzle. This new way of thinking recognizes that businesses are part of a larger system, where actions have ripple effects. It's about acknowledging that a successful business should not only focus on profits but should also

make positive contributions to the environment and society.

Traditionally, businesses focused mainly on their financial gains. However, with sustainable accounting, they also consider other factors. They evaluate their energy consumption, environmental impact, and how they treat their employees and communities.

Measuring Environmental Impact: Beyond the Balance Sheet

Sustainable accounting doesn't merely tally up dollars and cents; it goes further to encompass the environment. This means companies need to consider their ecological footprint – how much they impact the environment. This includes factors like energy usage, waste production, and pollution.

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For instance, imagine a company that used to produce a lot of pollution. With sustainable accounting, they wouldn't only discuss how much money they made; they'd also share how they reduced pollution by adopting cleaner practices. This transparent reporting not only highlights their financial success but also their commitment to environmental responsibility.

Evaluating Social Impact: Being a Responsible Neighbor

Sustainable accounting isn't just about money or the environment; it's also about people. This means businesses need to consider how their actions affect their employees, the communities they're part of, and the world as a whole. It's like being a good neighbor – you're not only concerned about your own house, but you care about the entire neighborhood.

For instance, a company practicing sustainable accounting might discuss how they provide fair wages and good working conditions for their employees. They might share how they support local charities or contribute to community development. This type of reporting goes beyond profits, showing that businesses are actively contributing to the well-being of their surroundings.

Challenges and Opportunities

Of course, making this shift in how businesses report their activities comes with its own set of challenges. One major challenge is collecting accurate information. Measuring things like pollution and social impact can be more complex than counting money.

However, challenges often come with opportunities. Businesses now have the chance to come up with innovative ways to measure their impact. They can develop tools and methods to demonstrate their positive contributions to the environment and society. Additionally, excelling in these areas

can attract investors and customers who value companies that prioritize the planet and people.

Building Trust through Transparency

Sustainable accounting promotes transparency, much like being honest with a friend. By openly sharing their environmental and social impacts, businesses build trust with stakeholders. This transparency shows that they're not just interested in profits; they're actively engaged in ethical practices that benefit both society and the environment.

When companies admit their imperfections and demonstrate a commitment to improvement, it resonates with people who value honesty and social responsibility. This connection between business and values is more crucial today than ever before.

Regulations and Global Standards

Governments and international organizations are recognizing the importance of sustainable accounting. They are implementing regulations to ensure that companies report their impact accurately. For instance, some regions now require companies to include information about their environmental and social impact in their reports.

Entities like the Task Force on Climate-related Financial Disclosures (TCFD) are pushing companies to reveal how they're addressing climate-related challenges. This means businesses can no longer focus solely on profits; they must also demonstrate their efforts to tackle critical global issues.

Embracing the Change

The rise of sustainable accounting is transformative. It signals a shift in the way we view business – from a narrow, profit-focused perspective to a broader, more responsible outlook. The change signifies that success isn't merely about financial gains; it's about creating positive change for the planet and its inhabitants.

Though challenges exist, such as developing accurate measurement methods, the opportunities for businesses to excel, inspire, and drive positive change outweigh the obstacles.

Sustainable accounting is about honesty, responsibility, and impact. As more businesses adopt this approach, they contribute to a brighter, more sustainable future – one report at a time.



The writer is a young qualified chartered accountant working as Senior Manager in Bank Alfalah's Internal Audit Setup.



NAVIGATING SUSTAINABILITY: EMPOWERING CHANGE FOR A BETTER TOMORROW

Mr. Asad Ullah, ACA

Opening Statement

Every single day, we are confronted with a decision: to observe from the sidelines or to actively pursue change. To innovate our thoughts, expressions, and actions. By amalgamating our understanding, empathy, humanity, and technology, we can wield influence to transform our surroundings, society, and the governance of our planet. Through this process, we cultivate stronger trust for the forthcoming generations. This is our unique juncture to seek out solutions, cooperating across enterprises and borders to convert intricacies into clarity, challenges into prospects. Our aim is to target solutions that initiate meaningful alterations today, securing enduring outcomes for a superior future.

This future envisions sustainability at the core of business operations, where achieving net-zero becomes the standard, and transparency becomes an innate attribute. The

discussions we engage in, the connections we forge, and the steps we take— all of these hold reverberations that will shape the trajectory of our world.

"Years ago, Elon Musk, the CEO of Tesla, made the strategic choice to pioneer electric vehicles as a form of environmentally friendly transportation with the potential to curtail carbon emissions, stating, "This supersedes political parties, race, creed, religion; it doesn't matter. If we do not solve the environment, we're all damned." Presently, investors are not solely focused on financial metrics; they also place considerable importance on a company's sustainability disclosures

Divisions of Sustainability

Sustainability can be categorized into three segments: Environment, Social, and Governance (ESG), elaborated as follows:

Environment – This aspect examines how a company acts as a caretaker of the natural world. It is evaluated by looking at how a company uses natural resources and the impact of its activities on the surroundings, both within its immediate operations and throughout its supply chain. The divisions within the environmental dimension encompass climate impact, utilization of natural resources, waste and pollution management, and environmental possibilities.

Social – The social aspect focuses on a company's relationships with workers, suppliers, clients, and local communities. It includes safeguarding rights, data privacy, workplace safety, diversity, fair compensation, eradicating forced labor, human rights, and access to education. Components encompass human resources, product responsibility, stakeholder management, and social opportunities.

Governance – The foundational pillar supporting E and S, governance oversees how a company operates. It involves management protocols, taxes, disclosure, cybersecurity, risk management, crisis handling, policy impact, board diversity, executive pay, anti-corruption measures, and supply chains. Divisions include corporate governance and conduct, guiding ESG efforts.

Establishers of Sustainability Standards

Several organizations are responsible for establishing sustainability norms, namely the Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI). These norms delineate precise, comprehensive, and repeatable prerequisites for documenting each subject, encompassing measurable parameters. Standards translate frameworks into feasible actions, ensuring disclosure that can be equated, sustained, and trusted due to its uniformity and consistency.

The goal of International Financial Reporting Standards (IFRS) is to create accounting and sustainability reporting standards, known as IFRS standards,

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that are of superior quality, easy to comprehend, legally binding, and universally embraced across the globe.

The aim of the International Sustainability Standards Board (ISSB) is to provide a comprehensive set of worldwide foundational standards for disclosing sustainability-related information. These standards offer investors and participants in the capital market details about the risks and opportunities linked to a company's sustainability, assisting them in making informed choices.

Formerly an autonomous organization for setting standards, SASB has amalgamated with the ISSB. However, the standards retain the designation of SASB standards.

GRI is dedicated to establishing the norm of sustainability reporting by providing organizations with guidance and assistance.

The objective of the Partnership for Carbon Accounting Financial (PCAF) is to aid financial establishments in evaluating and revealing greenhouse gas (GHG) emissions associated with their loans and investments.

Format of SASB Standards

SASB standards are crafted to pinpoint the essential sustainability matters that are most likely to affect the operational performance or financial state of a typical company within an industry, regardless of its location. These standards are formulated to facilitate the effective communication of corporate performance regarding industry-level sustainability concerns in a cost-efficient and practical manner, utilizing existing methods of disclosure and reporting.

SASB arranges the spectrum of potential sustainability risks and prospects that companies may encounter into five distinct sustainability dimensions: Environment, Human Capital, Social Capital, Business Model and Innovation, and Leadership and Governance. These five dimensions, together with their more detailed

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issue categories, create a comprehensive framework for the industry-specific disclosure subjects featured in SASB Standards.

The SASB has developed a collection of 77 industry-specific accounting standards for sustainability. Each SASB Standard delineates the industry under consideration, incorporating assumptions about the prevalent business model and encompassed industry segments.

Structures for Sustainability

The sustainability frameworks offer principle-centered guidance regarding the organization of information, its creation, and the overarching subjects it encompasses. Frameworks and standards work in tandem, intended to be utilized in conjunction. Disclosure standards and frameworks form the bedrock of the ESG landscape, enabling the communication of ESG information that is comparable, consistent, and trustworthy.

The intentions behind the suggestions provided by the Task Force on Climate-Related Financial Disclosures (TCFD) revolve around enhancing comprehension of vulnerabilities and prospects related to climate-related risks.

The primary objective of the Taskforce on Nature-related Financial Disclosures (TNFD) is to create and provide a structure that enables organizations to disclose and respond to changing risks, opportunities, effects, and interconnections associated with nature.

Sustainability Rating Agencies

Using the information, rating agencies can create tools, evaluations, and points of reference for the financial markets. Here is a compilation of several operating rating agencies.

The objective of MSCI ESG Ratings is to enhance clarity within financial markets, empowering the investment sector to make more informed choices that contribute to a more positive global state. ISS ESG Corporate ratings and E&S Disclosure aim to enable investors and businesses to foster enduring and sustainable development by furnishing top-tier data, analysis, and understanding.

Sustainalytics ESG risk ratings aim to offer the necessary insights for investors and corporations to make better-informed choices that contribute to a fairer and more sustainable global economy. CDP is a non-profit entity that directs the attention of investors, corporations, and urban areas towards actively

constructing a genuinely sustainable economy. This is accomplished by gauging and comprehending their

The objective of the Partnership for Carbon Accounting Financial (PCAF) is to aid financial establishments in evaluating and revealing greenhouse gas (GHG) emissions associated with their loans and investments

ecological influence, encompassing factors like climate change, forests, and water security.

Synopsis

Succeeding in the business realm now extends beyond mere profitability; it involves a company's adeptness in handling a range of these concerns. According to Henry A. Fernandez, Chairman and CEO of MSCI, US, we have to look at ESG not only as a threat but also as a significant opportunity.

To earn the confidence of the public and trading associates, garner governmental support, and sustain investment opportunities, businesses must treat ESG matters with gravity. In this new landscape, ESG signifies Economic Stability and Growth. The strength of our economy hinges on the stability of the natural environment, a just society, and principled business conduct. Consequently, ESG considerations impact all economic aspects. Standards organizations like SASB and GRI define precise guidelines for sustainability reporting. Hence, the assimilation of sustainability reporting into financial reporting transcends necessity, bearing importance for both businesses and the broader society.



The author is a chartered accountant employed as a Senior Associate 2 at PwC Channel Islands.



Exploring the Dual Horizon: Unraveling Double Materiality in Sustainable Financial Reporting

Mr. Muhammad Hunain, FCA

In the dynamic realm of sustainable accounting, a revolutionary concept is taking the spotlight: the enigmatic "Double Materiality." Against the backdrop of global environmental and social challenges, corporations are being called upon to undergo a profound transformation. The imminent implementation of the Corporate Sustainability Reporting Directive (CSRD), which introduces the revolutionary notion of double materiality, stands poised to fundamentally redefine financial reporting

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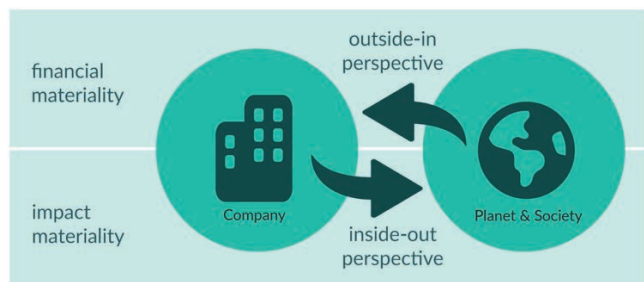
In the dynamic realm of sustainable accounting, a revolutionary concept is taking the spotlight: the enigmatic "Double Materiality." Against the backdrop of global environmental and social challenges, corporations are being called upon to undergo a profound transformation. The imminent implementation of the Corporate Sustainability Reporting Directive (CSRD), which introduces the revolutionary notion of double materiality, stands poised to fundamentally redefine financial reporting.

Imagine a compass pointing in two distinct directions—this metaphor encapsulates the essence of double materiality. This groundbreaking concept unfolds through two perspectives: the "outside-in" and "inside-out" perspectives, further dividing the understanding of materiality into two dimensions: Financial Materiality and Impact Materiality.

Financial Materiality entails an outside-in perspective. Companies must consider all external sustainability impacts that could internally affect their future profitability. This is because external sustainability factors such as ecological diversity and global warming will have a long-term impact on cash flow and, consequently, on a company's ability to operate.

On the other hand, Impact Materiality, also known as Environmental & Social Materiality, involves an inside-out perspective. From this vantage point, businesses need to consider the external impacts their operations have, including effects on society and the environment. These include contributions to air and water pollution or emissions of greenhouse gases that contribute to global climate risks.

This shift from unidimensional financial impact to a holistic understanding encapsulates the essence of double materiality.



The journey of double materiality took flight with the formal definition by the European Commission in 2019. As the concept gained traction, the Global Reporting Initiative (GRI) and its collaborative research partners shed light on its merits and complexities. While global standards and reporting frameworks continue to evolve, the principles of double materiality have quietly reshaped the landscape.

At the core of double materiality lies a crucial process—stakeholder engagement. By tapping into the collective wisdom of employees, suppliers, investors, and the public, businesses enhance the quality of their assessments. A robust evaluation also considers varying timeframes, ensuring that strategies align with the evolving significance of sustainability concerns.

However, as it gains prominence, double materiality encounters its share of challenges. Interpretations of "materiality" differ, highlighting the complexity of the concept. The narrative unfolds with diverse focuses, creating a vibrant tapestry that is both enriching and challenging for corporations.

The synergy between double materiality and traditional enterprise value reporting unveils a unique story of harmonization. Rather than being opposing forces, these perspectives complement one another, offering a comprehensive panorama. An incremental journey from enterprise value reporting to embracing the expansive vista of double materiality creates a seamless transition.

As sustainable accounting scripts its future, the uncharted terrain of double materiality beckons. With the CSRD as its herald, a transformative shift is unfolding—ushering businesses from a single-lane financial reporting path to a multidimensional perspective. Despite the complexities and the evolving nature of global standards, the trajectory of double materiality stands resilient. Amidst this evolution, corporations have the chance to rewrite their narratives, becoming protagonists in a world hungry for sustainable solutions.



The writer is a chartered accountant working as CFO at Pakistan International Container Terminal Limited.



Integrating ESG in Financial Reporting Strengthened Maintenance of Going Concern

Mr. Syed Imtiaz Abbas Hussain, FCA

Just like an exhaust fan installed in a kitchen to avoid the risk of food wastage and spoilage, as well as to protect the cook from hazardous fumes and heat, which ultimately increases the shelf life of food items and the performance of the cook. Similarly, business management desires their entity to continue as a going concern, and this objective can be further strengthened by integrating environmental, social, and governance (ESG) impacts into financial reporting through sustainability reporting. This integration saves their resources such as labor, materials, machinery, money, etc.

Why Sustainability is so Important

Sustainability entails meeting the needs of current generations without compromising the needs of future generations, while maintaining a balance between economic growth, environmental preservation, and social well-being. The term sustainability is broadly used to refer to programs, initiatives, and actions aimed at conserving specific resources. However, it actually encompasses four distinct areas: human, social, economic, and environmental—known as the four pillars of sustainability.

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Environmental and Social Risks

Sustainability risk, which includes environmental and social risks that cause harm to society, businesses, and natural resources, includes:

1. Pollution from operations, communication, air, water, etc.
2. Loss of biodiversity and ecosystems.
3. Hazardous waste, including industrial chemicals.
4. Disproportionate population growth with limited natural resources.
5. Neglecting social quality.
6. Abandoning economic growth and sustainable development.
7. Lack of environmental sustainability to improve human welfare.
8. Concerns about impermeable paving like concrete and asphalt.
9. Other waste risks such as plastic bottles, paper bags, etc.
10. Climate change impacts like carbon dioxide emissions and greenhouse gases.

How to mitigate Environmental and Social Risks

Environmental accounting emerged in the 1980s and 1990s when companies' environmental responsibilities came to the forefront, shifting the focus from combatting pollution to prevention. Products and services not only have monetary value but also impact the environment. Environmental and social risks can be mitigated through various ways:

1. Drainage and sewerage schemes.
2. Reducing plastic bag usage to keep oceans clean.
3. Planting trees for environmental protection.
4. Responsible consumption and production to minimize waste.
5. Recycling materials like paper, plastic, glass, and aluminum.
6. Promoting sustainable cities and communities through biking, walking, or using public transportation.
7. Population control strategies.
8. Implementing internal controls to reduce leakages, fraud, and corruption.
9. Ensuring human sustainability to improve human capital.
10. Preserving social capital through social sustainability initiatives.
11. Enhancing economic sustainability to maintain a high standard of living.
12. Protecting natural capital for environmental sustainability.
13. Using permeable pavers for environmentally-friendly construction.
14. Creating green spaces within urban environments.
15. Incorporating solar panels for sustainable energy generation.
16. Adopting waste-to-energy recycling methods.
17. Treating water to convert it for industrial purposes.
18. Harnessing wind energy through wind turbines.
19. Developing infrastructure with sustainability in mind.
20. Managing carbon emissions.
21. Promoting a circular economy.
22. Addressing concerns in mining, oil, and power generation sectors.

Integrating Environmental and Social Impact in Financial Reporting

In recent years, sustainability has become a paramount concern for businesses and investors worldwide. With the growing recognition of environmental, social, and governance (ESG) factors, organizations are now expected to account for their impact beyond financial performance. This shift in mindset has led to the emergence of sustainability accounting—a practice that integrates ESG metrics into financial reporting and decision-making processes.

Sustainability accounting goes beyond the traditional focus on profit and loss statements. It considers a broader set of criteria that encompass environmental stewardship, social responsibility, and effective governance. By accounting for these factors, organizations gain insights into their non-financial performance and its impact on long-term sustainability. This information is vital for informed decision-making, risk management, and building trust with stakeholders, including investors, customers, employees, and regulatory bodies.

Chief Financial Officers (CFOs) play a pivotal role in integrating sustainability metrics into financial reporting frameworks as they possess the technical expertise to

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measure, analyze, and interpret financial and non-financial data accurately. They need to collaborate with sustainability teams, auditors, and management to identify relevant ESG indicators, measure their impact, establish performance targets, monitor progress, and provide assurance on the reliability of sustainability disclosures. By incorporating sustainability data into financial statements, CFOs can provide a comprehensive view of an organization's financial and non-financial performance, thereby enhancing transparency, accountability, and stakeholder engagement. Environmental accounting identifies and reports environment-specific costs, such as liability costs or waste disposal costs, through methods that measure the performance of any type of organization in relation to the environment. Environmental accounting aims to achieve sustainable development, maintain a favorable relationship with the community, and pursue effective and efficient environmental conservation. It encompasses prevention, reduction, avoidance of environmental impact, removal of such impact, restoration following a disaster, and other activities. The accounting procedures allow a company to identify the cost of environmental conservation, benefit gained from such activities, and provide a means of quantitative measurement, in monetary value or physical

units, supporting the communication of results. It accounts for costs and benefits arising from changes to a company's products and processes that involve changes in environmental impact.

Environmental accounting enables CFOs to report on the economic impact of decisions to stakeholders, allowing proactive decision-making about processes that meet environmental regulations while benefiting the bottom line.

Conclusion

An enterprise, like a corporate citizen, is judged by its actions in relation to the community it is a part of, in addition to its economic performance. In this context, environmental and social protection has become a global concern. Responsibility toward the environment and society is a crucial aspect of "Corporate Social Responsibility (CSR)," and "Sustainability accounting" is one of its components.

While sustainability accounting is important, measuring losses to the environment and society in monetary terms can be challenging. Moreover, assessing the exact environmental impact caused by a specific industry is difficult.

With the increasing demand for sustainability accounting, several challenges arise. To address these challenges, in 2022, the International Sustainability Standards Board (ISSB) issued exposure drafts for the initial two IFRS Sustainability Disclosure Standards (IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2: Climate-related Disclosures). The ISSB finalized IFRS S1 and IFRS S2 and expects to issue the finalized standards by the end of 2023. These standards will be effective from 2024. The Sustainability Accounting Standards Board (SASB) published "Sustainability Disclosures – SASB Industry Standards" for 77 industries to guide compliance with IFRS S1 requirements. These standards will assist entities in producing relevant and comparable disclosures about their environmental, social, and governance risks and opportunities.

Integrating sustainability accounting practices into financial reporting offers several benefits to organizations:

- Identification and mitigation of ESG risks impacting reputation, operations, and financial performance.
- Improved access to capital by attracting socially responsible investors.
- Enhanced operational efficiency, cost reduction, and innovation opportunities through sustainable practices.
- Increased credibility, responsiveness to stakeholder expectations, and contributions to a sustainable future.



The writer is a fellow member of ICAP and has experienced of 28 years in different capacities as head of finance & accounts, audit partner, business & life assurance.



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Vehicles of older model than 24 months but not exceeding 36 months	30%	15%
Vehicles of older model than 36 months but not exceeding 48 months	40%	20%
Vehicles of older model than 48 months but not exceeding 60 months	50%	25%
Vehicles of older model than 60 months but not exceeding 66 months	55%	27.50%
Vehicles of older model than 66 months but not exceeding 72 months	60%	30%

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Mobile: 0325-2027069

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1st Floor, State Life Building No.6, Habib Square, M.A Jinnah Road, Karachi, 74000

www.habibinsurance.net

ESG for a Sustainable Healthcare Sector

Ms. Saira Shamsie, FCA



Backdrop

These days the buzz word is ‘sustainability’ with the triple bottom integrated reporting framework of profit, people and planet. Over the years much work has been done to create awareness and commitment to promote sustainable businesses and safe work environments.

Some of the notable international commitments are:

- 2015 Paris Agreement an international treaty on climate change
- United Nations Sustainable Development Goals (UNSDGs) to be achieved by the global partners by 2030.
- 2000 UN Global Compact based on 10 principles

around human rights, labor, the environment, and anti-corruption



With the years the accountability through reporting for the three pillars of sustainability – Environment Social Governance (ESG) has been further formalized. The International Sustainability Standards Board (ISSB) has developed a global sustainability reporting baseline with the issuance of SASB Standards and IFRS S1 & S2.

Earlier Global Reporting Initiative (GRI) has issued standards on reporting sustainability.

Healthcare & Sustainability

Sustainable healthcare is intrinsically linked with the environment meeting today’s needs without compromising the future generation’s needs. Ensuring the actions taken do not impact the people and the planet adversely.

Population growth, unhealthy lifestyles, increase in chronic disease, air and water pollution are all expected to increase the burden on healthcare services and resource consumption in the coming years.

Climate change has profound implications recently we have seen the disaster in the 2022 flood catastrophe in Pakistan. The healthcare sector itself is a major driver of environmental pollutants. The US Environmental Protection Agency (EPA) report stated that hospitals are the top emitters of dioxins. One of the main sources being medical waste incinerators. Dioxins are environmental toxins linked with medical problems such as asthma, birth defects, childhood brain cancer, leukemia and infertility.

Multiple initiatives are being taken to improve the environmental performance of healthcare through implementation research, public policy, advocacy and education.

Sustainable practices are essential for future service delivery. ESG is successfully implemented when it is integrated in the organization’s core business sustainability strategy.

In healthcare sustainable practices can be demonstrated in various areas, for better understanding initiatives of international and local healthcare organizations are discussed.

British United Provident Association (Bupa) is an international healthcare company with presence in UK, Australia, Spain, Chile, Poland, New Zealand, Hong Kong SAR, Turkey, Brazil, Mexico, the US, Middle East and Ireland.

Bupa has a Board Sustainability Committee that is overseeing its global sustainability commitments. Bupa has committed to reduce greenhouse gas emission by 46.2% by 2030 and attain net zero ambition by 2040.

Indus Hospital & Health Network (IHHN) since 2007 is providing quality treatment absolutely free of cost to the underserved people of Pakistan through its network of primary, secondary and tertiary care hospitals and medical facilities across Pakistan.

IHHN as part of its sustainability strategy is committed to adopting practices that conserve and optimize resources.

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Prevention & Outreach

Easy accessibility to healthcare services for early diagnosis and treatment is essential. In Pakistan IIHHN through its primary healthcare program has been reaching out to remote localities through various modes container clinics, mobile vans and boat clinic.

Through the IHHN family medicine clinics immunization is provided as well as community engagement activities for awareness, prevention and early detection are conducted. The programs address both physical and mental health.



Health on Wheels - Mobile Medical Buses address the healthcare needs of localities where no health facility is available.



Pakistan's first-ever Boat Clinic serves the vulnerable population of Rajanpur, Southern Punjab. The catchment is home to approximately 105,000 people who have limited access to basic health services.

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Protecting, regenerating and restoring natural ecosystems It is important in delivering healthcare services to minimize environmental impact, emissions, waste associated with procedures. Use more sustainable products / material, equipment without compromising healthcare outcome

Renewable Energy

- Bupa Australia is sourced from wind & solar hydro assets
- 100 % electricity used in Spain & 90% in UK is powered through renewable energy

Natural Energy & Conservation

- IHHN Karachi expansion has its own Energy Center partially sourced by solar panels
- RO plant is used for water filtration
- Paperless patient record on HMIS

Green Initiatives

- Green building practices
- Recycling more than 20 tons of waste per month
- Paperless purchases
- Sustainability educational & training
- Community outreach

Digital health reduces the environmental impact of healthcare by decreasing the need for travel and minimizing the carbon footprint. Telehealth solutions reduce emission from patient travel and provide accessibility in remote locations of medical specialists.

Carbon Reduction

- In Spain launched a Sanitas app for video consultation

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- 1 video appointment saves 3.1 kg CO₂ emissions = the CO₂ absorbed by 186 trees per day.
- 1 medical report downloaded saves 1.5 kg CO₂ emissions = CO₂ absorbed by 91 trees per day.

Accessibility & Carbon Reduction

- Initiated Tele Emergency in Badin & Gwadar
- Established Tele Health clinics in remote areas -Kasur, Khaman, Chatto, Dhabeji, Sondha, Jhirk, Sujawal, Daro, Mubarak village, Baisurpur etc
- Telephone Clinics followup

Green Buildings

World Health Organization (WHO) in its report has outlined seven features of an environmentally friendly healthcare facility - energy efficiency, green building design, alternative energy generation, transportation, organic & local food, waste and water management.

Leadership in Energy & Environmental Design (LEED) certification for buildings considers: (1) Sustainable Site; (2) Water Efficiency and Water Conservation; (3) Energy and Atmosphere; (3) Materials and Resources; and (4) Indoor Environmental Quality.

More than 1,376 healthcare projects worldwide are certified under LEED. The changing focus is of the impact of the environment on human health.

Kirbati Island New Betio Hospital Green Design

- Raising the building plinth to accommodate sea level rise
- Minimizing energy use through solar design & ventilation
- Landscaping to improve biodiversity
- Harvesting rainwater for irrigation and toilet flushing
- Sourcing renewable building materials

Green Design IHHN, Karachi

- IHHN Karachi expansion has its own Cogen plant

- Also using solar panels
- In the facade using clay based material
- Walls of the Hospital & University building are structured to be cool conserving energy
- Will have Green belts of local trees

Employee Inclusion, Health & Safety

Having a safe work environment with policies in place to protect employees from exposure to infection and hazardous waste. In healthcare facilities infection control protocols ensures protection for both employees and patients being treated. Traditional policies cover gender diversity, inclusion, training, staff well-being and retention.

Another dimension is engagement of employees to create awareness and participate actively in reducing pollution and waste. Such as encouraging employees once a week not to use their transport instead cycle or use public transport, carpool to reduce carbon emissions.

'Ride for their Lives' is an international campaign led by clinicians to raise awareness about impact of air pollution on climate change and health. The riders are carrying the message to act urgently on climate crisis and priorities action on air pollution, creating positive impact in their communities.

Supply Chain

Organizations need to evaluate their supply chain partnerships to ensure suppliers are committed to reducing their carbon emissions by using renewable energy. Providing lower carbon products.

Climate Disaster Management

The 2022 devastating floods in Pakistan were a reminder for the world of the impact of climate change. IHHN in collaboration responded to the emergency. More than 2500 medical camps were set up in 28 districts of Pakistan. The challenges faced were of timely mobilizing supplies and staff in districts left with very little infrastructure and basic facilities. Another challenge was to adhere to internal control policies to prevent pilferages and ensure documentation.

Policy and guideline for timely responding to the crisis had to be developed. Based on the 2022 experience IHHN now has a documented disaster response program.

Governance

In ESG governance is perhaps the oldest element on which regulatory compliance has been issued by various jurisdictions in the form of Code of Corporate Governance. In Pakistan like UK the comply and explain approach is being followed.

Sustainable Governance is the organization's diverse Board and its committees' setting strategy and polices which embed commitment to sustainability. Ensuring that the entity operates in an environmentally and socially responsible manner.

Reporting Sustainability

The ISSB has recently issued IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and S2 Climate Related Disclosures which are applicable from January 2024. IFRS S1 provides disclosure requirements designed to enable entities to communicate to stakeholders about the entity's sustainability-related risks and opportunities over the short, medium and long term.

The SASB Standards are part of ISSB issued global baseline for corporate sustainability reporting. The SASB Standards consist of 77 industry-based standards which outline the disclosure requirements for sustainability-related financial information for each industry.

Adequate disclosure of ESG initiatives and metrics is critical in establishing a baseline against which progress, and impact can be measured.

IFRS S1 sets out the requirements for disclosing information about an organization's sustainability-related risks and opportunities. The organization is required to provide disclosures about its related strategy, monitoring, identification, assessment and performance and compliance process.

Sustainability Risks & Opportunities

- Governance process controls & procedures to monitor
- Entity Strategy
- Identification, assessment & prioritisation process
- Entity's Performance to meet set targets & regulatory compliance

IFRS S1 requires entities to refer to and consider the applicability of metrics in the SASB Standards relevant to the industry of the entity when determining what information to disclose regarding sustainability-related risks and opportunities.

Sustainability Metrics for Healthcare

Energy Management	Waste Management	Patient Privacy & Medical Record	Access for Low Income Patients	Quality of Care & Patient Satisfaction
<ul style="list-style-type: none"> ▪ Total energy consumed, ▪ % grid electricity ▪ % renewable 	<ul style="list-style-type: none"> ▪ Total Medical waste - hazardous & non hazardous ▪ % incinerated ▪ % treated /recycled ▪ % landfilled 	<ul style="list-style-type: none"> ▪ % of Electronic Health Record (EHR) ▪ Policies & Practices of Protected Health Information (PHI) 	<ul style="list-style-type: none"> ▪ Strategy patient mix insurance management ▪ Amount of Medicare Disproportionate Share adj payment received 	<ul style="list-style-type: none"> ▪ Average Hospital Value-Based Purchasing Total Performance Score ▪ Number of Serious Reportable

Energy Management	Waste Management	Patient Privacy & Medical Record	Access for Low Income Patients	Quality of Care & Patient Satisfaction
		<ul style="list-style-type: none"> ▪ Number of breaches- % PII & PHI ▪ Monetary loss due to related legal proceedings 		<ul style="list-style-type: none"> Events (SREs) as defined by the National Quality Forum (NQF) ▪ Hospital Acquired Condition Score ▪ Excess readmission ratio & amount of adj

Management of Controlled Substances	Pricing & Billing Transparency	Employee Health & Safety	Recruitment, Development & Retention	Quality of Care & Patient Satisfaction	Quality of Care & Patient Satisfaction
<ul style="list-style-type: none"> ▪ Policies & practices to manage the number of prescriptions issued for controlled substances ▪ % of controlled substance prescriptions written monitored by Health Authority 	<ul style="list-style-type: none"> ▪ Policies that patients are informed about price before undergoing a procedure ▪ How Pricing is publicly available ▪ Number of 25 common services for which pricing is publicly available, % volume of such services rendered. 	<ul style="list-style-type: none"> ▪ Total recordable incident rate (TRIR) ▪ Days away, restricted, or transferred (DART) rate 	<ul style="list-style-type: none"> ▪ Turnover rate for: physicians, non-physician healthcare practitioners, & all other employees ▪ Description of Talent recruitment & retention effort 	<ul style="list-style-type: none"> ▪ Policies & practices : (1) physical risks due to frequency & intensity of extreme weather events, ▪ Changes in the morbidity & mortality rates of illnesses & diseases associated with climate change ▪ Emergency preparedness & response 	<ul style="list-style-type: none"> ▪ Monetary losses as a result of legal proceedings associated with Medicare fraud

ESG is a critical driver to capture opportunity and address risks. In healthcare industry the Social aspect of ESG is of critical importance be it employees or patients 08 out of 11 metrics focus on the same. Whereas remaining 03 are centered on Environment and climate.

Organisations need to consider their activities, business relationships and stakeholders in context of sustainability. Step two is to consider the positive and negative impact of the identified sustainability risks and opportunities. Step three is doing quantitative and qualitative analysis assessing the significance of the impact for determining material topics for reporting.

Building a future where we find real solutions to the healthcare sustainability challenges requires collaboration.



The writer is a fellow member of ICAP and has experienced of 28 years in different capacities as head of finance & accounts, audit partner, business & life assurance.



Balancing the Planet and the Books: Integrating Social and Economic Aspects in Financial Reporting

Mr. Waqass Ahmad, FCA

Sustainability has become a subject of great interest over the years, with terms like sustainable development and environmental sustainability gaining widespread attention. As the world faces unprecedented social and environmental challenges, the role of organizations and businesses has become even more crucial in addressing these issues. While the concept is essential, achieving it is equally challenging. Traditional financial reporting has long focused solely on the economic aspect, gradually recognizing that this is an

As the world faces unprecedented social and environmental challenges, the role of organizations and businesses has become even more crucial in addressing these issues. While the concept is essential, achieving it is equally challenging

inadequate way of comprehending the true impact of business on society and the planet. The finance industry has also recognized the importance of sustainability and has been incorporating the concept into its practices to align itself with sustainable goals and contribute to the development of a sustainable global economy. Before delving deeper, let's take a closer look at what sustainable accounting is.

Sustainable Accounting:

Sustainable accounting, also referred to as social or environmental accounting, seeks to incorporate social and environmental impacts alongside financial performance in financial reporting. It reports both positive and negative impacts, including factors such as waste generation, water usage, carbon emissions, employee welfare, and social contributions. The idea is to provide a comprehensive picture of the overall impact of a company's operations on the environment to enable decision-making that includes sustainability principles and laws.

Environmental Reporting and Its Importance:

Environmental reporting is a key feature of sustainable accounting that helps businesses assess their ecological footprint and identify areas for improvement. This data is not only used for regulatory compliance but also for formulating strategies to be more ecologically sound and adaptive to sustainable practices. Given that consumers and investors are increasingly conscious of environmental and social sustainability, they demand transparent information on these matters.

Social Impact Reporting:

In addition to the environment, sustainable accounting integrates social impact into financial reporting. Businesses are now more aware of their responsibilities toward staff, supply chain workers, and communities than ever before. Integrating social metrics in financial reporting encourages businesses to evaluate their contribution to society's well-being, including aspects like community development, inclusion and diversity, and fair wages. This promotes deeper stakeholder engagement and enhances a company's reputation in terms of corporate social responsibility (CSR).

Triple Bottom Line Approach:

The Triple Bottom Line approach to sustainable accounting is akin to adding a sweetener to a dessert. This term implies that a company's success should be evaluated based on three factors: society, environment, and governance. The economic dimension assesses the financial performance of the business, while the societal dimension considers the company's contributions to society. Similarly, the environmental dimension covers the company's commitment to the environment. All these dimensions provide a balanced approach to achieving maximum profits while ensuring responsibilities towards social equity, the environment, and human welfare.

Let's take a different, non-cliché perspective on how elements of the Triple Bottom Line affect the elements of an organization's Profit & Loss statement. Addressing social issues undoubtedly helps avoid negative consequences. While there

may be short-term costs, the long-term benefits of engaging in the social domain far outweigh these costs. For example, employee engagement increases productivity and reduces turnover rates, while community development enhances a company's reputation, impacting both direct and indirect costs. Energy efficiency measures, recycling, and resource conservation within the environmental domain significantly reduce utility expenses, contributing to indirect income. Recognizing the link between other income and environmental efforts can help businesses understand the financial effects of environmental initiatives.

Climate-Related Disclosures:

The Task Force on Climate-Related Financial Disclosures (TCFD) has released recommendations supported by financial regulators worldwide. Although they are not part of the International Financial Reporting Standards (IFRS), they encourage businesses to consider and disclose opportunities and risks related to climate in financial statements. Companies voluntarily adopt these guidelines with the intention of enhancing safety and playing their part in safeguarding the planet.

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IFRS Standards:

IFRS standards, such as IAS 1 and IAS 37, require businesses to consider materiality when creating financial statements. If social and environmental effects are deemed significant to financial performance, they must be disclosed.

It's crucial to keep in mind that the domain of sustainability reporting and accounting is evolving. Both IFRS and FASB are engaged in ongoing discussions to explore different ways to incorporate social and environmental impacts more comprehensively into financial reporting. It is highly likely that these organizations will continue to take action to address these factors in their reporting frameworks, as investors and stakeholders continue to demand transparency on these issues.

Advantages of Sustainable Accounting:

Incorporating social and environmental aspects into financial reporting offers several advantages that add value to the subject. Firstly, it provides a range of opportunities and highlights risks related to sustainability, ultimately contributing to sound decision-making for long-term success. Businesses aim to attract potential investors, and adopting sustainable accounting creates a magnetic field, attracting socially responsible investors who prioritize environmentally conscious ventures, ultimately lowering the cost of capital. Lastly, it's an effective way to gain a positive reputation by showcasing a commitment to sustainability, which also translates into expanding the customer base and increasing profit margins.

Future Prospects and Challenges:

While the domain holds promise, challenges also exist. One

likely challenge is the absence of universally accepted standards for reporting and measuring social and environmental impacts, making it difficult for businesses to compare their performances. To overcome this challenge, collaboration among businesses, boards, and governments is needed to develop universal and uniform standards.

Another significant obstacle is the perceived short-term costs of environmental initiatives, which may deter businesses from taking sustainable actions. It's essential for businesses to recognize that the short-term benefits of being sustainable, including brand value, reduced risks, and increased operational efficiency, should take precedence over short-term profits.

Synopsis:

Entities worldwide are becoming more environmentally conscious. Since the integration of society and the environment into financial reporting is seen as a public policy decision, organizations are increasingly incorporating sustainable accounting into their financial records. IFRS standards related to sustainability are evidence that international regulatory bodies consider it a material factor. The bottom line is the need for the corporate sector to recognize that being environmentally aware not only provides external benefits but is also fruitful for the company itself. The adoption of the Triple Bottom Line approach is recommended as it helps achieve maximum profits while ensuring responsibilities towards society and the

environment.

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The writer is a Fellow member of ICAP and currently working as Chief Internal Auditor for Zarai Taraqati Bank Limited.



The rise of Sustainable Accounting: Integrating Environmental and Social Impact in Financial Reporting

Mr. Adnan Mehmood Khan, ACA

The Emergence and Context of Sustainable Accounting

Sustainable accounting, also known as Environmental, Social, and Corporate Governance (ESG) accounting, refers to a subset of accounting practices that integrates environmental and societal elements into financial assessments. It examines how an organization's environmental and societal initiatives impact its finances, facilitating comprehensive risk management and decision-making. Born out of the growing

need for companies to account for their societal and environmental impacts beyond traditional financial measures, sustainable accounting provides a holistic view of an organization's performance by considering both financial and non-financial aspects. It serves as a means of disclosing information across three dimensions: environment, economics, and society. However, the challenge lies in simultaneously promoting policies that address environmental, economic, and social objectives. Sustainability reporting, a form of non-financial reporting, helps companies showcase progress

Sustainability reporting, a form of non-financial reporting, helps companies showcase progress on various sustainability parameters, encompassing environmental, social, and governance metrics, as well as current and potential risks and impacts

on various sustainability parameters, encompassing environmental, social, and governance metrics, as well as current and potential risks and impacts. Factors like global climate change, stakeholder expectations, corporate values, economic risks, and government regulations are driving the increased focus on sustainability reporting.

The Necessity of Incorporating Environmental and Societal Impacts into Financial Reporting

Incorporating environmental and societal impacts into financial reporting is crucial for modern business practices. It offers a comprehensive understanding of an organization's operations, risk exposure, and overall performance. This understanding empowers stakeholders to make well-informed decisions by providing a clearer picture of the organization's long-term stability and growth potential. Furthermore, it enables investors to assess how well an organization can withstand environmental and societal risks, which can significantly affect its financial outcomes.

Progression of Sustainable Accounting Genesis and Evolution of Sustainable Accounting

Sustainable accounting has evolved significantly since its inception. Initially, it primarily focused on adhering to regulations and managing reputational risks. However, as societal expectations shifted and stakeholders demanded greater accountability, sustainable accounting expanded its scope to include a broader range of environmental and societal factors. This shift towards a more comprehensive accounting approach has been driven by the recognition of the interconnectedness of financial, environmental, and societal performance.

The Impact of Environmental Concerns on Finance and Accounting

Environmental concerns have had a substantial impact on finance and accounting. As environmental risks have become more apparent, they are increasingly recognized as financial risks. This realization has led to a growing demand for accounting practices that can quantify these risks. Organizations are now required to disclose their environmental impact, and investors are incorporating these factors into their investment decisions. The establishment of sustainable

accounting standards has facilitated this transformation by providing a framework for organizations to report their environmental performance.

Fundamental Theories and Frameworks Corporate Sustainability Reporting (CSR) and Triple Bottom Line Accounting

Corporate Sustainability Reporting (CSR) and triple bottom line accounting are foundational concepts in sustainable accounting. CSR involves reporting on an organization's ESG performance. Conversely, the triple bottom line framework considers three dimensions of performance: social, environmental, and financial. This approach ensures a holistic evaluation of an organization's performance, encompassing its impact on society, the environment, and the economy.

Environmental, Social, and Governance (ESG) Standards

Environmental, Social, and Governance (ESG) standards constitute a set of criteria that investors use to assess a company's ethical operations. These standards help predict a company's future financial performance by analyzing its approach to sustainability and ethical considerations. ESG factors are integral to sustainable accounting as they provide a comprehensive view of an organization's long-term sustainability, potential risks, and areas for improvement.

Proposal for Sustainable Accounting Standards by the International Financial Reporting Standards (IFRS)

The IFRS Foundation has proposed global sustainable accounting standards to address the need for consistency and comparability in sustainability reporting. The proposal emphasizes the importance of a global approach to sustainable accounting to enhance corporate transparency and accountability. This proposal caters to the growing demand from investors and stakeholders for reliable and comparable sustainability information.

Advantages of Sustainable Accounting Fostering Trust Among Stakeholders

Sustainable accounting builds trust among stakeholders, including investors, employees, customers, and the broader community. Transparency and accountability in an organization's operations showcase its commitment to ethical business practices and sustainable development goals.

Attracting Capital and Investments

Companies practicing sustainable accounting are more likely to attract capital and investments. As investors increasingly consider ESG performance, organizations with strong sustainable practices are perceived as lower-risk, potentially high-return investments.

Enhanced Decision-making and Risk Management

Sustainable accounting enhances decision-making and risk management by offering a comprehensive, long-term

perspective on a company's performance and potential. It identifies environmental and societal risks that can impact financial outcomes and reputation, enabling proactive risk management.

Boosting Corporate Reputation

Sustainable accounting strengthens a company's reputation by demonstrating dedication to sustainable development and ethical practices. This can lead to increased customer loyalty, improved employee engagement, and better stakeholder relationships.

Challenges in Sustainable Accounting Lack of Standardization

A key challenge in sustainable accounting is the lack of consistent standardization. The multitude of sustainability reporting frameworks and guidelines can lead to inconsistencies in how organizations report their sustainability performance.

Issues of Data Quality and Availability

Data quality and availability present significant challenges in sustainable accounting. Reliable data is crucial for accurate sustainability reporting, but many organizations struggle to collect and manage necessary data.

Challenges of Stakeholder Engagement

Engaging stakeholders in sustainable accounting can be challenging. Different stakeholders have diverse interests and expectations, complicating the process of determining what information to include in sustainability reports.

Integration with Business Strategy

Integrating sustainable accounting with business strategy poses another challenge. It requires a mindset shift and often substantial changes in business processes, which can be difficult to achieve.

Sustainability Reporting Practices

Prioritizing Transparency and Accountability
Sustainability reporting practices should prioritize transparency and accountability. Clear, accurate, and comprehensive information about a company's sustainability performance is essential, along with accountability for its operational impacts.

Embracing Standardized Frameworks and Methodologies

Adopting standardized frameworks and methodologies is vital for effective sustainability reporting. Consistency and comparability make it easier for stakeholders to understand and assess a company's sustainability performance.

Providing Clear and Concise Information

Sustainability reports should offer clear and concise information. They should be easily comprehensible, focusing on relevant issues to help stakeholders make informed decisions.

Involving Stakeholders

Involving stakeholders is crucial for effective sustainability reporting. Their involvement ensures that reports address diverse concerns and expectations, enhancing their usefulness and relevance.

Regularly Reviewing and Updating Reporting Practices

Regularly reviewing and updating reporting practices is essential to maintain effectiveness and relevance. This involves evaluating the impact of reporting practices, identifying areas for improvement, and making necessary adjustments.

Future of Sustainable Accounting The Increasing Demand for Sustainable Accounting

The demand for sustainable accounting is expected to continue growing. Rising awareness of sustainability, increased stakeholder pressure for transparency and accountability, and stricter regulations contribute to this demand.

Technological Advancements in Sustainable Accounting

Technological advancements will play a significant role in the future of sustainable accounting. Technologies like AI, big data, and blockchain have the potential to improve data collection and analysis, enhance transparency and accountability, and streamline reporting processes.

Greater Standardization

The future of sustainable accounting will likely feature greater standardization. Efforts are underway to develop global sustainability reporting standards, ensuring consistency and comparability for stakeholders.

Integration of Sustainable Accounting with Business Strategy
Sustainable accounting's integration with business strategy is expected to become more common. As companies recognize its value for decision-making and risk management, sustainability considerations will be integrated into business strategies.

Conclusion

Sustainable accounting is pivotal in today's business landscape. It provides a comprehensive perspective on organizations, considering financial as well as environmental and societal impacts. Despite challenges, its benefits such as fostering trust, attracting capital, enhancing decision-making, and boosting reputation underscore its significance. With the growing demand and technological advancements, the future of sustainable accounting promises further transparency and accountability in corporate practices.



The writer is a chartered accountant and fellow member of PIPFA, currently working in the Quality Assurance Department at The Institute of Chartered Accountants of Pakistan.



The rise of sustainable accounting: integrating environmental and social impact in financial reporting

Mr. Muhammad Faizan, ACA

As societies have become more aware of environmental and social challenges, they demand greater transparency from businesses regarding the impact of their activities on the environment and society. In response to these demands, sustainable accounting has emerged as a dynamic tool for integrating environmental and social impacts into financial reporting.

"There is no such thing as 'away.' When we throw anything away, it must go somewhere." – Annie Leonard, Proponent of Sustainability

In recent years, the business landscape has undergone an incredible transformation, giving utmost significance to sustainability and corporate social responsibility. As societies

have become more aware of environmental and social challenges, they demand greater transparency from businesses regarding the impact of their activities on the environment and society. In response to these demands, sustainable accounting has emerged as a dynamic tool for integrating environmental and social impacts into financial reporting.

Sustainable accounting is a crucial element of business operations that shapes the investment landscape and influences customer preferences. Embracing and integrating socio-environmental impacts into financial reporting through sustainable accounting signifies a significant step towards ethical business practices. Different sectors have embraced sustainable accounting as a necessity in their routine operations and have adopted it as a strategic objective.

Sustainable accounting is a progressive approach that goes beyond traditional financial accounting. It integrates the broader impact of environmental and social practices into a company's accounting processes. The objective is to assess the company's overall commitment to sustainability, efforts to mitigate environmental risks such as carbon emissions, water usage, waste generation, and energy consumption, as well as policies addressing social concerns such as labor practices, DEI (Diversity, Equity, and Inclusion), and employee welfare.

Sustainable accounting also helps recognize the impacts of climate change and environmental pollution, enabling businesses to adopt strategies to mitigate adverse effects for the benefit of society.

"The activist is not the man who says the river is dirty. The activist is the man who cleans up the river." - Ross Perot.

Sustainable accounting is a crucial element of business operations that shapes the investment landscape and influences customer preferences. Embracing and integrating socio-environmental impacts into financial reporting through sustainable accounting signifies a significant step towards ethical business practices. Different sectors have embraced sustainable accounting as a necessity in their routine operations and have adopted it as a strategic objective.

Some examples are outlined below:

- **Manufacturing Concerns:** In the manufacturing sector, sustainable accounting emphasizes reducing resource consumption, waste generation, and emissions. This can be achieved by implementing energy-efficient technologies, improving production processes, and using eco-friendly materials. Tesla and Interface are leading examples that have made substantial contributions to endorsing sustainable accounting practices.
- **Pharmaceutical Companies:** Embracing sustainable accounting in pharmaceutical companies helps evaluate

the impact of drug manufacturing and disposal, carbon footprint, and waste generation on the environment. It incorporates the principles of green chemistry to create chemical products and processes that produce less hazardous substances. Novo Nordisk, Biogen, and Boehringer Ingelheim are top pharmaceutical companies promoting ESG and sustainable accounting.

- **Textile Sector:** Adoption of sustainable accounting empowers textile companies to minimize the use of hazardous chemicals, employ organic materials, provide a healthy working environment for textile workers, and ensure a fair supply chain. Patagonia is a leading example that openly communicates its supply chain practices and ecological metrics. Additionally, they donate 1% of their earnings to environmental causes (donated USD 89 million since 1985).
- **Cement Sector:** Similar to steel production, cement manufacturing is energy-intensive and releases a significant amount of carbon dioxide during production. Sustainable accounting in the cement sector involves reducing fossil fuel usage, transitioning to solar energy, converting fossil-fuel-based facilities to renewable biomass fuel-based units, and minimizing waste generation while using low carbon cement.
- **Banking Sector:** The banking sector can also play a significant role in promoting socio-environmental progress by adopting sustainable accounting.

In recent times, banks have aligned their business models with Sustainable Development Goals (SDGs) and integrated these goals into all aspects of their operations. Banks have taken significant measures to promote sustainable accounting, including financing SBP schemes, reducing carbon usage through Green Banking Policy, promoting gender diversity by setting targets for female staff recruitment, and promoting inclusion by offering equal opportunities to people with disabilities.

Banks can further embrace sustainable accounting by introducing financial products such as green bonds and green loans, the proceeds of which are exclusively used for developments/projects that advance sustainable environmental activities. For instance, Pakistan Water and Power Development Authority issued the first-ever dollar-denominated green Eurobonds of USD 500 million in May 2021 to enhance clean energy in the country's power generation mix (hydroelectric project).

"The rise of sustainable accounting is a testament to the growing awareness that economic success should not come at the expense of our planet and people." - Anonymous
Global leaders who have made specific contributions to implementing sustainable accounting practices in their respective business areas include:

Accenture: This technology, digital, and operations services provider has reduced each employee's carbon emissions by 52%.

Apple: The company predominantly uses aluminum due to its lower emissions compared to other materials.

Estee Lauder: A cosmetic company that reuses and converts waste into energy.

Google: Another sustainable driver, Google's data centers consume 50% less energy, and 91% of waste is diverted from landfills. They also support critical marine areas to ensure sustainable fisheries.

IKEA: 91% of their waste is converted into energy.

Intel: The technology giant recycles 75% of its total waste. The reporting of sustainable accounting is based on seven principles that facilitate the process of understanding and reporting sustainability. These principles enable stakeholders to make informed business decisions:

1. **Materiality:** Prioritize the impact of sustainability issues through a materiality assessment that considers their effect on stakeholders' expectations.
2. **Stakeholder Inclusiveness:** Report with ultimate stakeholders in mind, as they are both influenced by and can influence the company's actions.
3. **Accuracy:** Provide relevant information transparently, demonstrating how data was gathered and analyzed.
4. **Clarity:** Ensure the report's information is clear, precise, and easy to understand.
5. **Comparability:** Prepare the report following sustainability reporting standards to enable comparisons with other companies' input in promoting sustainable accounting practices.

6. **Timeliness:** Share information with stakeholders at an appropriate frequency and extent for more informed decision-making.

7. **Reliability:** Ensure that the data shared in the report is reliable. This involves adopting uniform reporting standards, providing supporting documents, having reports reviewed by an independent authority, and documenting the methods used to reach conclusions.

"We cannot solve our problems with the same thinking we used when we created them." – Albert Einstein, Physicist
Despite the efforts being made, several challenges persist for companies seeking to implement sustainable accounting practices. These challenges include climate change, unemployment and poverty, supply chain transparency, failure to promote Diversity, Equity, and Inclusion (DEI), and lack of government support for sustainable development.

According to statistics from the Sustainability Management School of Switzerland:

- Approximately 5 trillion plastic bags are used worldwide annually.
- 400 million tons of plastic are manufactured worldwide annually.
- Annual trash generation is expected to increase by 70% from 2016 to 3.4 billion tons in 2050.
- 40% of all waste is generated during building construction and later demolished.
- The plastics sector could account for 20% of all global oil consumption if current trends continue by 2050.

Sustainable development is not a trend; it is a requirement. The kind of future we leave for future generations determines sustainability - Anonymous

Accounting for sustainability is no longer a choice; it has become a necessity to create a resilient and thriving global economy. Therefore, concerted efforts are needed to overcome barriers that may hinder the development of sustainable accounting practices. Governments, businesses, and investors must work together to overcome obstacles, establish uniform reporting frameworks, and promote the adoption of sustainable accounting practices. Strategic plans and government reforms need to be developed across various sectors of the economy to foster sustainability in financial reporting, with the goal of creating a healthier environment and giving back to the planet.



The writer is an Associate Chartered Accountant working in Internal Audit Division at Habib Metropolitan Bank Limited as a Vice President.



Sustainability Reporting: linking environmental and social impact to financial value

Mr. Kashif Adeel, FCA

Context

Sustainability, for a business entity, involves ensuring the proper preservation, development, and regeneration of resources (financial, human, and natural) to achieve its goals. Sustainability reporting aims to actively monitor this process to make timely and appropriate decisions.

Sustainable accounting is a rapidly growing field that seeks to measure and communicate the environmental and social

One of the main challenges of sustainable accounting has been the lack of global standards and consistency in disclosing sustainability-related information.

impact of business activities, as well as their implications for financial value creation. It goes beyond the traditional financial reporting framework, which mainly focuses on the economic performance of an entity. Instead, it provides a more holistic and forward-looking view of how an entity manages its resources and relationships with stakeholders, society, and nature.

Key Challenge and Role of ISSB

One of the main challenges of sustainable accounting has been the lack of global standards and consistency in disclosing sustainability-related information. Various frameworks, initiatives, and regulations address different aspects of sustainability reporting, such as environmental, social, and governance factors, human rights, climate change, biodiversity, etc. However, these often have conflicting concepts, definitions, and metrics. This difficulty hampers investors and other financial information users from comparing and assessing sustainability performance and risks across sectors and jurisdictions.

To address this challenge, a new standard-setting body was established in 2021 under the oversight of the IFRS Foundation. This body is called the International Sustainability Standards Board (ISSB), and it is mandated to create Sustainability Disclosure Standards (IFRS SDS) that meet investors' needs for sustainability reporting.

Connectivity between IASB and ISSB

The ISSB leverages the expertise and experience of the International Accounting Standards Board (IASB), responsible for developing International Financial Reporting Standards (IFRS) widely used for financial reporting worldwide. The ISSB aims to offer reliable and comparable information on entities' sustainability-related risks and opportunities to investors and capital market participants.

IASB and ISSB work closely together in their processes, sharing information and technical staff. This collaboration results in standards based on shared concepts and complementary requirements. Ultimately, this collaboration leads to better general-purpose financial statements and more informed investment decisions.

The ISSB's Standards

In June 2023, the ISSB released its inaugural standards, IFRS S1 and S2, establishing a common language for disclosing the impact of climate-related risks and opportunities on an entity's prospects.

The ISSB's standards are designed to ensure that entities provide sustainability-related information alongside financial statements in the same reporting package. This approach facilitates a stronger connection between sustainability and financial reporting, aiding investors in making more informed decisions based on both financial and non-financial information. These standards also require entities to explain how they work sustainably within their business ecosystem, addressing impacts, risks, and opportunities that affect their performance and prospects, ultimately delivering financial value for investors.

IFRS S1 mandates entities to communicate sustainability-related risks and opportunities they face in both the short and long term. IFRS S2 is a complementary standard focusing on climate-related disclosures.

Connectivity with Accounting Standards

IFRS Accounting Standards aim to provide information about an entity's financial position and financial performance in financial statements. For example, they cover when to recognize and how to measure new property, plant & equipment (PPE) to reduce carbon emissions.

IFRS Sustainability Disclosure Standards provide information about an entity's sustainability-related risks and opportunities in disclosures. For instance, they cover what information to disclose regarding plans to introduce new PPE to reduce carbon emissions.

The above objectives are complementary, not conflicting. Thus, the collaborative work of IASB and ISSB facilitates holistic, comprehensive, and coherent information in entities' financial reports.

Role of Accountants

Accountants, particularly those in C-suite and executive management, often drive and implement sustainability reporting within entities. They possess skills to accurately collect, analyze, and report both financial and non-financial data. Accountants collaborate with different teams to set goals, track progress, and ensure the quality of sustainability disclosures. By effectively sharing sustainability information, accountants can enhance transparency, responsibility, and stakeholder engagement.

Beyond Compliance

Sustainable accounting is not solely about compliance or reporting; it's a strategic opportunity for entities to showcase their commitment to sustainability, enhancing reputation, trust, and competitiveness in the market. By adopting ISSB's standards, entities transparently and consistently communicate how they create sustainable value for investors and stakeholders.

The rise of sustainable accounting is an exciting development promising greater transparency and accountability for entities' environmental and social impact. With organizations like the ISSB leading the way, we can anticipate more entities integrating sustainability into their financial reporting in the years to come.



The writer is Senior Faculty Member at SKANS School of Accountancy, Multan



Integrating Environmental and Social Impact in Financial Reporting

Mr. Waqas Ali, ACA

Investors play a pivotal role in the rise of sustainable accounting, as they increasingly view ESG metrics as crucial indicators of a company's performance and potential for long-term value creation. Many studies have shown that companies with strong ESG performance tend to outperform their peers financially in the long run. This has driven a surge in ESG-focused investment funds, with investors considering a company's sustainable practices as a key criterion for investment decisions.

Introduction

In recent years, the world has witnessed a growing recognition of the urgent need to address environmental and social challenges to ensure a sustainable future for generations to come. Businesses, governments, and investors have come to realize that traditional financial reporting methods fail to account for the significant impact of their operations on the environment and society. As a result, a revolutionary approach has emerged: sustainable accounting. This essay delves into the rise of sustainable accounting, its integration of environmental and social impact in financial reporting, and its potential implications for businesses and the global community.

Understanding Sustainable Accounting

Sustainable accounting, also known as environmental, social, and governance (ESG) accounting, is a framework that goes beyond traditional financial reporting by incorporating non-financial factors. These non-financial factors include environmental aspects like carbon emissions, waste generation, and resource consumption, as well as social dimensions such as employee well-being, community engagement, and supply chain ethics. By integrating ESG factors, sustainable accounting aims to provide a more comprehensive view of an organization's overall performance and long-term value creation.

The Shift Towards Sustainable Reporting

In recent years, myriad companies have embraced sustainable accounting to meet the demands of stakeholders and regulators seeking greater transparency and accountability. This shift has been catalyzed by various factors, including the growing influence of socially responsible investors, increasing regulatory requirements, and consumer preferences shifting towards eco-friendly products and services.

Enhanced Risk Management And Long-term Resilience

Sustainable accounting empowers businesses to identify and mitigate potential risks associated with environmental and social challenges. By measuring and disclosing these risks, companies can develop more robust risk management strategies, ensuring long-term resilience against future shocks. For instance, analyzing water consumption may alert a company to water scarcity risks in its supply chain, enabling it to implement water-saving measures and maintain uninterrupted operations.

Increased Reporting Burden

Critics argue that integrating ESG factors into financial reporting could impose an additional burden on companies, especially smaller ones, due to data collection and reporting complexities. These concerns might lead to resistance and reluctance to adopt sustainable accounting practices.

Investor Perspectives On Sustainable Accounting

Investors play a pivotal role in the rise of sustainable accounting, as they increasingly view ESG metrics as crucial indicators of a company's performance and potential for long-term value creation. Many studies have shown that companies with strong ESG performance tend to outperform their peers financially in the long run. This has driven a surge in ESG-focused investment funds, with investors considering a company's sustainable practices as a key criterion for investment decisions.

Attracting Responsible Capital

By adopting sustainable accounting practices, companies can attract a new wave of responsible capital from ethical investors seeking to align their investments with their values. This influx of capital can fuel sustainable initiatives, promoting positive change and innovation within the business.

Greenwashing Concerns

With the increased focus on sustainable accounting, some critics raise concerns about "greenwashing" – a practice where companies exaggerate or misrepresent their environmental and social efforts to gain public trust. To address this issue, standardization of sustainable reporting guidelines and third-party verification have become essential to ensure credibility and accuracy.

Through sustainable accounting, businesses are encouraged to align their operations with the United Nations Sustainable Development Goals (SDGs). By committing to these goals, companies actively contribute to global efforts to eradicate poverty, address climate change, and promote equality.

Positive Externalities Of Sustainable Accounting

Sustainable accounting goes beyond financial benefits for companies and investors; it also extends positive externalities to the broader society and the environment.

Driving Sustainable Development

Through sustainable accounting, businesses are encouraged to align their operations with the United Nations Sustainable Development Goals (SDGs). By committing to these goals, companies actively contribute to global efforts to eradicate poverty, address climate change, and promote equality.

Potential Economic Impact

Critics argue that the immediate transition to sustainable accounting practices could lead to short-term economic impacts, particularly for industries heavily reliant on fossil fuels or high-polluting practices. To ensure a smooth transition, policymakers need to create a supportive regulatory environment and provide incentives for companies to adopt sustainable practices gradually.

Practical Case

One compelling example of a company at the forefront of sustainable accounting is Unilever, a global consumer goods company. In 2010, Unilever launched its Sustainable Living Plan, a comprehensive strategy aimed at integrating environmental and social impact into its financial reporting. The plan's objective was to decouple the company's growth from its environmental footprint while simultaneously increasing its positive social impact.

Unilever set ambitious environmental goals, such as reducing its greenhouse gas emissions, water consumption, and waste generation across its value chain. The company recognized the importance of not only addressing its direct operational impacts but also those stemming from suppliers and consumers. Through sustainable accounting practices, Unilever meticulously measured and reported its progress toward these targets, keeping stakeholders informed of its environmental performance.

One notable aspect of Unilever's Sustainable Living Plan was its commitment to sourcing 100% of its agricultural raw materials sustainably. By integrating environmental impact metrics into its financial reports, Unilever provided investors and consumers with transparency about the origin of its raw materials, the carbon footprint associated with them, and the efforts to ensure responsible sourcing.

sustainability, Unilever's Sustainable Living Plan also prioritized enhancing social impact. The plan included initiatives to improve the livelihoods of smallholder farmers, promote gender equality, and enhance the well-being of employees and communities where Unilever operates.

Through sustainable accounting practices, Unilever quantified its social impact, reporting on metrics such as the number of smallholder farmers benefiting from sustainable sourcing partnerships and the diversity and inclusion efforts within the company. By linking these social impact metrics to financial reporting, Unilever showcased its commitment to holistic sustainability, which resonated positively with investors and consumers alike.

Over the years, Unilever's Sustainable Living Plan has yielded significant results. The company achieved several of its ambitious environmental targets, including reducing greenhouse gas emissions and water usage per unit of production. Moreover, Unilever's commitment to sustainable sourcing contributed to improved relationships with suppliers, securing a more resilient supply chain.

From a financial perspective, the integration of environmental and social impact metrics into financial reporting positively influenced investor perception. Ethical and sustainable investors showed increasing interest in Unilever, leading to a broader investor base and potentially lower borrowing costs due to its enhanced sustainability profile.

Conclusion

The rise of sustainable accounting marks a crucial turning point in the corporate world's journey towards responsible and transparent financial reporting. Integrating environmental and social impact into financial disclosures not only provides a comprehensive understanding of a company's overall performance but also drives positive change in our society and environment. While sustainable accounting faces some challenges, such as the need for standardization and concerns of increased reporting burdens, its positive potential for risk management, attracting responsible capital, and driving sustainable development outweigh the negatives. By embracing sustainable accounting, businesses can pave the way for a more inclusive, equitable, and sustainable future for all.



The writer is Chartered Accountant working as Company Secretary at Askari General Insurance Company Limited.



The Rise of Sustainable Accounting - Living with Reality

Mr. Usman Farooq, ACA

Evolution of Sustainable Accounting:

Long-term shifts in temperatures and weather patterns, resulting in droughts, heatwaves, wildfires, rapid glacial erosion, and extreme rainfall, have led scientists to believe that global temperatures will continue to rise for many decades, primarily due to greenhouse gases produced by human activities. In response to the increasing global awareness of climate change and social responsibility, businesses are being called upon to adopt sustainable practices. Traditional financial reporting, which solely focuses on economic gains, is no longer sufficient. The demand for greater transparency and accountability has given rise to a

revolutionary concept: sustainable accounting. This paradigm shift represents the integration of environmental and social impact considerations into financial reporting, revolutionizing how companies measure success and assess risks.

Sustainable accounting, an emerging concept that surfaced in the early 1990s, has received continuing attention in academic and professional accounting literature. It emphasizes that businesses have responsibilities beyond profit-making and encompasses a triple bottom-line approach that assesses a company's performance based on three pillars: people, planet, and profit. This integrated approach

Sustainable accounting, an emerging concept that surfaced in the early 1990s, has received continuing attention in academic and professional accounting literature. It emphasizes that businesses have responsibilities beyond profit-making and encompasses a triple bottom-line approach that assesses a company's performance based on three pillars: people, planet, and profit.

evaluates not only financial performance but also the environmental and social impacts generated by business activities, enabling transparency, accountability, and informed decision-making.

Environmental and Social Impact Reporting:

Environmental impact reporting involves quantifying a company's carbon footprint, energy consumption, water usage, and waste generation, also known as the Corporate Carbon Footprint (CCF). By disclosing this data in financial reports, businesses showcase their commitment to sustainability, enabling stakeholders to make informed decisions and encouraging environmental responsibility. Companies increasingly recognize that environmental risks, such as climate change and resource scarcity, can significantly impact their long-term viability. Sustainable accounting equips businesses with the tools to assess and mitigate these risks, fostering resilience and adaptability in an ever-changing world.

Social impact reporting complements environmental impact reporting by identifying the positive and negative social consequences of a company's actions on employees, communities, and other stakeholders. Ethical labor practices, employee well-being, community engagement, and diversity and inclusion are some of the vital aspects that businesses now seek to report on. By evaluating their social impact, companies can enhance their reputation, attract socially conscious investors, and build trust with their consumers.

Integrated Reporting Framework:

The primary purpose of an integrated reporting framework is to explain to providers of financial capital how an organization creates, preserves, or erodes value over time. The need to integrate environmental and social impact data with financial

information has led to the development of integrated reporting frameworks. Organizations like the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) pioneer the adoption of standardized reporting methods. These frameworks encourage businesses to present a cohesive and comprehensive view of their performance, facilitating better decision-making for stakeholders and investors. Moreover, standardized reporting enhances comparability among companies, incentivizing them to continually improve their sustainability performance.

Capitalizing Benefits and Encompassing Challenges:

Sustainability reports help companies build the confidence of both their consumers and corporate relations, such as investors, board of directors, and management. The rise of sustainable accounting brings numerous benefits for companies, investors, and society as a whole. Transparent reporting on environmental and social impacts fosters trust and credibility, attracting responsible investors and customers. It can also lead to cost savings through efficiency improvements and risk mitigation.

However, sustainable accounting is not without its challenges, such as collecting data from various sources, time-consuming activities, low-quality data, reporting not being actionable, data overload, and the inability to make sense of all data. Gathering accurate and relevant data can be complex and resource-intensive, particularly for smaller companies. Additionally, determining the appropriate metrics to measure certain impacts can be subjective and context-dependent. Despite these hurdles, the increasing demand for sustainable reporting underscores its importance in modern business practices.

Living with Reality:

Sustainable accounting represents a fundamental shift in how businesses evaluate success and demonstrate their commitment to a sustainable future. By integrating environmental and social impact considerations into financial reporting, companies can become catalysts for positive change. The movement towards sustainability is gaining momentum, shaping a world where economic growth is intrinsically linked to environmental preservation and societal well-being. As businesses embrace the principles of sustainable accounting, they not only build resilience to environmental and social challenges but also position themselves as leaders in an era where conscious consumerism and responsible investing are paramount. The rise of sustainable accounting signifies a transformative journey towards a better, more sustainable future for all.



The writer is Chartered Accountant working as Company Secretary at Askari General Insurance Company Limited.



Enhancing Corporate Sustainability: Exploring ESG Accounting and Its Benefits for Pakistani Chartered Accountants

Mr. Muhammad Shehzad Dhedhi, FCA

Introduction

In an era defined by rapid business evolution and heightened environmental and social awareness, the concept of sustainability has emerged as a critical consideration for corporations worldwide. Striking a harmonious balance between profitability and responsible conduct has never been more crucial. This article aims to delve into the intricate realm of Environmental, Social, and Governance (ESG) accounting, elucidating its multifaceted dimensions, and shedding light on how Pakistani Chartered Accountants (CAs) can wield it as a potent tool to champion sustainable business practices while simultaneously reaping professional rewards.

What is ESG Accounting?

ESG accounting transcends the boundaries of conventional financial reporting by incorporating three pivotal dimensions: environmental factors (E), social factors (S), and governance factors (G). These dimensions collectively assess a company's ecological impact, its interrelations with diverse stakeholders, and the effectiveness of its internal controls and leadership structures.

1. Environmental Factors (E):

This dimension scrutinizes a company's eco-consciousness

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and endeavors to mitigate environmental hazards. Parameters such as carbon emissions, water utilization, waste management, and the embrace of renewable energy sources are encapsulated within this ambit.

2. Social Factors (S):

The social dimension intricately examines a company's interactions with its workforce, patrons, communities, and other stakeholders. Inclusive practices, diversity, labor norms, employee welfare, and community engagement stand as pivotal considerations.

3. Governance Factors (G):

Governance probes a company's leadership prowess, ethical transparency, and the overarching corporate structure. It serves as a mechanism to ensure that decision-making

processes are equitable, accountable, and aligned with the company's long-term objectives.

The Significance of ESG Accounting:

The relevance of ESG accounting lies in its capacity to enable companies to communicate their sustainability prowess to a diverse spectrum of audiences, ranging from investors and regulators to customers and employees¹. By unveiling their ESG risks and opportunities, corporations can vividly illustrate their dedication to engendering long-term value for both themselves and society².

Moreover, ESG accounting empowers companies to refine risk management, amplify financial access, augment customer contentment, fortify employee relations, and bolster reputation². These advantages collectively translate into heightened profitability, competitiveness, and resilience in the face of dynamic environmental and societal challenges.

Exploring the Significance of IFRS S1 and S2 in ESG Integration:

Delving into the intricacies of IFRS S1 and S2 reveals a profound interplay between international financial reporting standards and the integration of environmental, social, and governance (ESG) factors. These standards, IFRS S1 and S2, serve as pivotal frameworks that bridge the gap between financial performance and the broader impact a company has on society and the environment.

IFRS S1: A Comprehensive Perspective on Financial Statements:

At the heart of IFRS S1 lies a visionary approach to financial reporting. Beyond the conventional monetary metrics, IFRS S1 advocates for a holistic portrayal of a company's performance by incorporating non-monetary dimensions. This transcends mere financial figures, encompassing qualitative elements that encapsulate a company's commitment to sustainability, societal well-being, and ethical conduct.

By urging companies to present financial statements in a more comprehensive manner, IFRS S1 compels entities to reveal their efforts and outcomes concerning ESG factors. This transparent portrayal enables stakeholders to gauge a company's long-term value proposition, risk management practices, and alignment with sustainable development goals.

IFRS S2: ESG-Influenced Asset and Liability Recognition:

In tandem with IFRS S1, IFRS S2 acts as a cornerstone for integrating ESG considerations into financial reporting. Unlike traditional reporting standards, IFRS S2 highlights the imperative of recognizing and measuring assets and liabilities through the lens of ESG criteria. This recognition acknowledges that a company's environmental and social practices can significantly impact its financial standing.

By incorporating ESG factors into asset and liability assessments, IFRS S2 acknowledges that intangible assets

Other

like reputation, brand value, and intellectual capital play an integral role in a company's success. Moreover, the recognition of liabilities influenced by ESG concerns emphasizes a company's accountability for environmental and social risks, encouraging proactive management of these challenges.

Implications for Stakeholders and Beyond:

The confluence of IFRS S1 and S2 not only enhances transparency but also holds profound implications for various stakeholders. Investors gain a more comprehensive view of a company's performance, risk exposure, and strategic resilience in the face of evolving ESG landscapes. Regulators benefit from standardized frameworks that facilitate comparisons and assessments across industries and borders.

Moreover, this synergy between financial and non-financial reporting aligns companies with the global movement toward sustainable business practices. By acknowledging the interconnectedness of financial success and ESG impact, organizations are incentivized to adopt responsible practices that mitigate risks, bolster reputation, and drive long-term value creation.

As businesses navigate the complexities of a rapidly changing world, embracing the principles embedded in IFRS S1 and S2 is not merely a compliance exercise, but a strategic imperative that paves the way for sustainable growth and resilience.

Empowering Pakistani CAs through ESG Accounting:

For Pakistani CAs, ESG accounting emerges as an avenue of transformative professional growth. By immersing themselves in ESG accounting standards, frameworks, and best practices³, CAs can proffer invaluable services to clients seeking to embrace or enhance their ESG reporting mechanisms. Moreover, CAs can leverage their acumen in ESG accounting to invigorate their own career trajectory and personal development.

Furthermore, Pakistani CAs can assume a pivotal role in cultivating sustainable business paradigms within their nation by advocating for ESG accounting amidst their professional peers, regulatory bodies, and policy influencers. By propagating awareness and catalyzing transformative shifts within the accounting domain and beyond⁵, CAs can contribute significantly to the holistic advancement of Pakistan's economic, environmental, and social landscape.

The Benefits of ESG Accounting for Pakistani CAs:

The integration of ESG principles into accounting practices presents a host of benefits for Pakistani CAs.

1. **Professional Growth:** Embracing ESG accounting

equips CAs with a competitive edge in the evolving landscape. As sustainability becomes integral to business strategies, CAs proficient in ESG matters are in high demand.

2. **Diverse Skill Set:** ESG accounting necessitates a multidisciplinary approach, allowing CAs to diversify their skill sets. This includes understanding environmental regulations, social impact assessment, and ethical governance.
3. **Value-Added Services:** CAs can offer strategic guidance to companies on aligning financial goals with sustainable practices. This consultancy role enhances their client relationships and revenue streams.
4. **Influential Advocacy:** As trusted professionals, CAs can influence policy decisions by advocating for standardized ESG reporting. This advocacy can lead to more comprehensive and consistent disclosure practices nationwide.
5. **Global Relevance:** ESG is a global concern. CAs well-versed in ESG principles can collaborate with international firms and organizations, expanding their professional horizons.

Conclusion:

ESG accounting serves as an indispensable instrument for augmenting corporate sustainability in the dynamic context of the contemporary world. For Pakistani CAs, ESG accounting offers avenues for personal growth, enriched client interactions, and the propulsion of progressive change within their homeland. By embracing ESG accounting as a strategic

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The writer is a Fellow Chartered Accountant working as Senior VP in a large size Bank, implementing both discipline and innovation for financial success.



The Transforming Power of ESG in Enhancing Sustainability in the Healthcare Sector

Mr. Shakil Khawaja, ACMA

In today's rapidly changing world, characterized by growing concerns about social inequality, climate change, and ethical business practices, the concept of Environmental, Social, and Governance (ESG) criteria has gained significant attention across industries. The healthcare sector is no exception; in fact, it plays a pivotal role in society. The integration of ESG criteria and principles into the healthcare ecosystem is paving the way for a more sustainable, responsible, and resilient industry.

First, let's shed light on what ESG entails.

ESG, which stands for Environmental, Social, and Governance, is a term commonly used today to encompass several non-financial aspects that can influence an organization's long-term performance. In essence, ESG comprises a set of standards used to assess a business or organization's impact on society and the environment, as well as the transparency and accountability of that impact.

Healthcare facilities are energy-intensive spaces by nature. Hospitals can reduce their carbon footprint significantly by adopting energy-efficient technologies such as LED lighting, utilizing renewable energy sources, and implementing smart HVAC systems for ventilation. For example, the University of California San Francisco (UCSF) Medical Center in the USA uses solar panels and energy-efficient windows to reduce energy consumption and greenhouse gas emissions, aligning with their environmental goals

ESG factors also have a significant impact on the long-term sustainability of our societies and the planet. Environmental issues, such as climate change, wildlife preservation, and air and noise pollution, are often included in ESG discussions, alongside social considerations like fair wages and low unemployment rates. Governments also play a vital role in ESG by regulating labor and environmental policies.

To understand the impact of ESG on sustainability in the healthcare sector, we need to examine the three pillars of ESG separately:

Environment: Environmental concerns include biodiversity loss due to deforestation and illegal wildlife hunting, changing weather patterns leading to droughts and floods caused by natural disasters like cyclones, tornadoes, and storms, as well as harm to our atmosphere, including the depletion of the ozone layer.

Social: Social issues encompass unsafe working conditions for employees worldwide, underpayment or non-payment of wages, human rights violations against peaceful demonstrators, and poor working conditions in various industries, including child labor.

Governance: Governance issues involve government

corruption, especially when addressing corporate environmental concerns, information asymmetry where one party possesses more knowledge than another regarding a product or service being sold, price fixing among competitors resulting in artificially high prices, and governments suppressing the voting rights of their citizens.

ESG is often viewed as an extension of Corporate Social Responsibility (CSR).

Now, after discussing ESG and its pillars, let's explore the impact of ESG on the sustainability of the healthcare sector, using real-world examples to illustrate how ESG principles are driving positive change.

A. Environmental Concerns: Healing the Planet, One Hospital at a Time

Implementing Energy Efficiency and Green Infrastructure Initiatives: Healthcare facilities are energy-intensive spaces by nature. Hospitals can reduce their carbon footprint significantly by adopting energy-efficient technologies such as LED lighting, utilizing renewable energy sources, and implementing smart HVAC systems for ventilation. For example, the University of California San Francisco (UCSF) Medical Center in the USA uses solar panels and energy-efficient windows to reduce energy consumption and greenhouse gas emissions, aligning with their environmental goals.

Implementing Recycling and Waste Management Systems: Given the substantial amount of hazardous medical waste generated by the healthcare sector, adopting recycling, robust waste segregation, and disposal processes can significantly reduce environmental impact. The Cleveland Clinic in Ohio, USA, employs advanced composting programs and recycling techniques, diverting tons of waste from landfills each year, contributing to their environmentally friendly goals.

B. Social Concerns: Promoting Equal Healthcare Access and Community Well-being

Initiatives for Health Equity: Healthcare organizations driven by ESG criteria prioritize equal access to quality care. Kaiser Permanente, a prominent healthcare provider in the USA, has invested significantly in establishing community health centers to ensure that underserved populations receive essential medical services regardless of their socioeconomic status.

Embracing Diversity and Inclusion: Fostering diversity and inclusion creates a more empathetic and effective healthcare environment. Mayo Clinic's Diverse Nurse Internship Program aims to create a nursing workforce that reflects the diversity of the patient populations they serve.

Prioritizing Patient Safety and Quality Care Practices: Social responsibility in healthcare includes maintaining rigorous patient safety protocols. Johns Hopkins Hospital's Patient Safety Summit exemplifies their commitment to

The integration of ESG criteria and principles into the healthcare sector brings significant benefits. However, balancing ESG goals with financial sustainability remains a major concern for some organizations. Additionally, measuring the impact of certain social aspects, like patient well-being, can be complex. Looking ahead, the commitment of the healthcare industry to ESG criteria is expected to deepen. As climate change and social inequalities become increasingly urgent, healthcare organizations will play a pivotal role in driving positive change through sustainable practices and ethical leadership.

continuous improvement, resulting in improved patient outcomes and reduced medical errors.

C. Governance Concerns: Ethical Leadership and Accountability

Transparent Governance: ESG principles emphasize transparent decision-making and ethical governance. Massachusetts General Hospital's Ethics Advisory Committee guides decision-making on complex ethical and medical issues, ensuring accountability and transparency.

Regulatory Compliance: Adherence to healthcare laws and regulations is a core aspect of governance. Ascension Health, one of the largest nonprofit health systems in the US, maintains a comprehensive compliance program to ensure compliance with healthcare laws and regulations.

Ethical Research Practices: Responsible governance extends to research ethics. Cleveland Clinic's Institutional

Review Board (IRB) oversees research involving human subjects, safeguarding their rights and well-being.

Integration of ESG Criteria: The Business Case for Sustainability in the Healthcare Sector

A. Enhanced Reputation and Brand Value: Healthcare organizations that prioritize ESG often enjoy an improved public image, attracting patients, investors, and top talent. The Cleveland Clinic's commitment to sustainability has earned it a spot on Newsweek's list of America's Most Responsible Companies.

B. Long-Term Financial Resilience: By mitigating environmental risks and addressing social concerns, healthcare entities enhance their long-term financial stability. For instance, the efficiency measures adopted by UCSF Medical Center have not only reduced emissions but also lowered energy costs.

C. Innovation and Adaptability: ESG-oriented healthcare entities tend to be more innovative and adaptable. They embrace cutting-edge technologies, such as telemedicine and digital health solutions, to improve patient experiences and outcomes.

Challenges of ESG and Expected Future Outlook

The integration of ESG criteria and principles into the healthcare sector brings significant benefits. However, balancing ESG goals with financial sustainability remains a major concern for some organizations. Additionally, measuring the impact of certain social aspects, like patient well-being, can be complex.

Looking ahead, the commitment of the healthcare industry to ESG criteria is expected to deepen. As climate change and social inequalities become increasingly urgent, healthcare organizations will play a pivotal role in driving positive change through sustainable practices and ethical leadership.

Conclusion

The integration of ESG criteria and principles into the healthcare sector is of immense significance. By aligning social equity, environmental responsibility, and ethical governance, healthcare organizations are laying the foundation for a more sustainable future. From reducing energy consumption to enhancing patient safety and promoting inclusive care, real-world examples demonstrate how ESG integration is reshaping the healthcare landscape. As unprecedented challenges continue to emerge worldwide, the healthcare sector's embrace of ESG ensures not only its own sustainability but also the well-being of individuals and communities at large.



The Writer is a Cost and Management Accountant and an Associate Member of ICMAP. He is currently working as Manager Finance at the Sui Southern Gas Company Ltd (SSGCL).



Emotional Intelligence as a Key Leadership Skill

Mr. M. Asad Mirza, FCA

“Emotional intelligence refers to the capacity for recognizing our own feelings and those of others, for motivating ourselves, and for managing emotions well in ourselves and in our relationships” – Daniel Goleman

Foreword:

Human beings are emotional creatures! We often think of ourselves as logical, but in reality, we are highly emotional, and most of our decisions are driven by our emotions, although we may not always realize it. We tend to create rationalizations afterward to justify our emotional choices. You can easily observe this phenomenon in everyday life; there are numerous examples to which we can relate.

Professional marketers understand this situation well, which is how they can successfully sell us things we may not even need. Have you ever wondered why someone would buy an expensive Rolex watch or cars like Ferrari, Lamborghini, or Bentley? Primarily, it's due to emotional intelligence, and most of the time, these extravagant purchases are made to satisfy our emotional desires, whether practical or not.

Emotional scenes often play out in corporate settings, where decisions are frequently made based solely on emotions (often resulting in incorrect decisions). If a more rational approach were taken, more appropriate and correct decisions could be made for the benefit of both individuals and organizations. Therefore, it is said that emotional intelligence

To become emotionally intelligent, you need to be aware of how your left brain (logical, rational, objective) and right brain (emotional, intuitive, subjective, creative) work. Our behaviors, both good and bad, often result from the balance between these two.

can be our secret weapon for controlling and managing our behaviors and actions.

Left Brain / Right Brain:

"In a very real sense, we have two minds, one that thinks and one that feels." - Daniel Goleman

To become emotionally intelligent, you need to be aware of how your left brain (logical, rational, objective) and right brain (emotional, intuitive, subjective, creative) work. Our behaviors, both good and bad, often result from the balance between these two.

Think of your right brain as a **'Wild Elephant.'** If you don't have good control over it, it can lead to your destruction. However, if you learn how to manage it, it can work wonders for you, enabling you to achieve extraordinary things in life. Consider your moods, emotions, and impulsive behaviors as the elephant, and imagine yourself as a small rider atop that elephant, representing your logical self. You may possess all the rationale and wisdom, but if you can't control the elephant, your effectiveness is limited. When we make decisions based on emotions, and the elephant runs wild, the outcomes are often negative. On the other hand, if we can control our emotions when situations become heated, the outcomes can be entirely different and positive.

Who is a 'Great Leader'?

"If your emotional abilities aren't in hand, if you don't have self-awareness, if you are not able to manage your distressing emotions, if you can't have empathy and have effective relationships, then no matter how smart you are, you are not going to get very far" - Daniel Goleman

Who, in your opinion, is a great leader? For many of us, it's someone highly qualified, possessing the right skill set and extensive experience, correct? While this definition would have sufficed in the past, recent studies emphasize that leadership roles are no longer solely determined by items on your resume. Instead, it's about something that isn't even listed there.

Technical skills and qualifications do matter when seeking executive roles, but they do not guarantee success as you climb the career ladder. What truly matters is how well you interact with people and collaborate with them to achieve goals.

A successful leader must be emotionally intelligent to foster productive teams in a conducive environment. Hence, many

successful leaders today possess emotional intelligence. Their ability to make decisions while controlling their emotions leads to success in their corporate careers, where others may fail. This is a distinguishing characteristic of great leaders, and those who demonstrate it excel in their lives.

Understanding Emotional Intelligence in Leadership:

What sets a good leader apart from a great one is 'Emotional Quotient.' To be emotionally intelligent, you must be a people person—someone who comprehends the people around them and manages them without manipulation. You should be adept at interpreting your emotions while remaining transparent in your actions. Achieving this while keeping emotions in check, performing under pressure, empathizing with people, and making informed decisions makes you an emotionally intelligent individual and a potentially influential leader. If you're not there yet, you can work on it and improve. Emotional intelligence can transform your working style and attitude towards people.

Emotionally intelligent individuals are decisive and take calculated risks. They handle interactions with care, influencing others with their emotions, resulting in motivated and contented employees and better outcomes. Four traits or competencies form the foundation of emotional intelligence in individuals, determining personal and social capabilities:

Self-Awareness: Understanding your emotions, strengths, weaknesses, and their impact on others.

Self-Management: What internally drives you to excel, set targets, and remain positive, especially in stressful circumstances (emotional self-control). Lack of self-management leads to reacting instead of acting, exacerbating situations.

Social Awareness: Empathy enables you to predict and sense the needs and competencies of others in the room, facilitating effective communication to prevent conflicts.

Relationship Management: Social skills to influence and mentor team members, fostering stronger bonds for better teams. It also encompasses timely conflict resolution to prevent employees from wasting time on internal disputes, allowing them to focus on their work.

Conclusion:

"The most important single ingredient in the formula of success is knowing how to get along with people." - Theodore Roosevelt

Leaders run organizations like pilots in airplanes. When they act with emotional intelligence, they can enhance employee engagement and reduce turnover rates. While being skilled in your job is essential, knowing how to handle people is equally important. The sooner you learn to be emotionally intelligent, the better it is for your personal and professional growth.



The writer is a Chartered Accountant and working as Group Financial Controller, in a diversified local group of businesses.



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