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5.

SUSTAINABLE DEVELOPMENT IN ACCOUNTING

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Abstract: The purpose of this chapter is to present and discuss the essence and importance of accounting in the concept of sustainable development. Considerations are particularly focused on reporting CSR issues.

The growing importance of the idea of sustainable development and the concept of Corporate Social Responsibility that arose on its basis, gave rise to the need for accounting systems to develop solutions enabling the provision of information on the methods and results of implementing these concepts in entities operating on the market. The interest in accounting with regard to the area of sustainable development has contributed to the development of vocabulary related to measurement, calculation, disclosure, reporting and verification of information on the activities of units for sustainable development.

Reporting on Corporate Social Responsibility (CSR) is still largely voluntary and non-standardised. However, there are various international organisations that develop frameworks and voluntary standards for non-financial reporting, the so-called Social Reporting Standards. The most important EU legislative initiative in the field of disclosure concerning environmental, social and corporate governance information is Directive 2014/95/EU of the European Parliament and Council from 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity in formation by certain large undertakings and groups.

The combination of financial information (financial statements) with non-financial information relating to the environment, society and corporate governance is included in the integrated report.

In Poland, the requirement to present non-financial information related to CSR was introduced by the Accounting Act. Polish companies should prepare a separate report—"Statement on non-financial information". In 2017, the Polish Standard of Non-Financial Information (SIN, 2017) was published to help enterprises fulfil their obligations under the EU Directive.

Keywords: CSR reporting standards, integrated report, non-financial reporting, social responsibility accounting, sustainability accounting.

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5.1. Importance of accounting in the concept of sustainable development

Accounting is commonly called the "language of business" as it enables communication between preparers and users of accounting information. It is also a tool for describing and constructing the image of the economic reality in which an entity operates. Over the years, accounting, especially financial statements, were based mainly on "hard" numbers, informing about the company's financial situation. In previous years, more and more attention has started to be paid to the importance of transparent sustainability and non-financial reporting, where, among others, environmental issues are especially emphasized.

The orientation of accounting for its needs, with regard to the responsibility of organisational units for the economic, social and environmental results of their operations, began in the 1970s in the United States, when the problem of pollution and environmental protection was being increasingly discussed. From then on, the first social balance sheets began to be recorded and the concept of social accounting was introduced (Szadziewska, 2013, p. 136).

The growing significance regarding the idea of sustainable development and the concept of Corporate Social Responsibility that arose on its basis gave rise to the need for the accounting system to develop solutions enabling the provision of information on the methods and results of implementing these concepts in entities operating on the market (Biadacz, 2017, p. 24).

The result is the emergence of different names related to accounting in combination with sustainable development (SD) and the concept of Corporate Social Responsibility (CSR).

In the literature, the following terms can be found: "social accounting", "sustainability accounting", "social responsibility accounting", "social and environmental accounting" and "accounting for sustainable development".

In Table 1, the most popular definitions of accounting in the concept of sustainable development are presented in accordance with the Web of Science Core Collection.

Table 1. The most popular definitions of accounting in the concept of SD

Authors	Definitions of accounting
G. Lehman, 1999	*Social and Environmental Accounting*—two interlocking social mechanisms which can be used to engage the hegemonic and destructive forces of capitalist relations of production. Social and environmental accounting is two interlocking social mechanisms which can be used to engage the hegemonic and destructive forces of the capitalist relations of production.
R. Gray, 2002	*Social Accounting*—a generic term for convenience to cover all forms of 'accounts which go beyond the economic', and for all the different labels under which it appears—social responsibility accounting, social audits, corporate social reporting, employee and employment reporting, stakeholder dialogue reporting as well as environmental accounting and reporting.

Authors	Definitions of accounting
J. Unerman, J. Bebbington, & B. O'Dwyer, 2007	*Accounting for Sustainable Development* has provided tools in the management, planning, control and accountability of the economic aspects of an organisation, broader techniques of sustainability accounting and accountability have the potential to be tools in management, planning, control and accountability for organisations for their social and environmental impact.
R.L. Burritt & S. Schaltegger, 2010	*Sustainability accounting* gives recognition to the importance of management decision-making and views corporate sustainability accounting as a set of tools that provide help to managers dealing with different decisions.

Source: Own research based on (Lehman, 1999; Gray, 2002; Unerman, Bebbington, & O'Dwyer, 2007; Burritt & Schaltegger, 2010).

The interest in accounting with concern to the area of sustainable development has contributed to the development of vocabulary related to measurement, calculation, disclosure, reporting and verification of information about the activities of units for sustainable development.

In Table 2, terms used in the characteristics of accounting are presented, taking the concepts of sustainable development into account.

Table 2. Terms used in accounting for sustainable development

Categories	Terms
1. Accounting, taking social and environmental aspects into account	– social responsibility accounting; – social and environmental accounting; – social accounting; – sustainability accounting; – sustainable accounting; – accounting for sustainable development; – accounting for sustainability; – environmental accounting; – triple bottom line accounting
2. Reporting on social and environmental issues	– social reporting; – environmental reporting; – social and environmental reporting; – CSR reporting; – social responsibility reporting; – non-financial reporting; – integrated reporting; – corporate sustainability reporting; – triple bottom line reporting; – environmental social and governance reporting
3. Disclosures on social and environmental issues	– social and/or environmental disclosures; – sustainability disclosures;
4. Statement of environmental and social costs and benefits	– environmental costing; – full environmental cost accounting; – environmental budgeting; – social cost-benefit analysis

Categories	Terms
5. Revision or validation of environmental and social reporting revision or validation of environmental and social reporting	– Corporate Social Responsibility audit; – CSR audit; – Corporate Social Responsibility auditing; – assurance of Corporate Social Responsibility reports; – external assurance on sustainability reporting; – sustainability reporting assurance; – external sustainability assurance on sustainability reporting; – sustainability reporting assurance; – sustainability assurance; – environmental audit; – sustainability audit; – non-financial audit

Source: (Zyznarska-Dworczak, 2019, p. 66).

In summary, the goal of accounting for sustainable development is to meet the information needs of external and internal stakeholders.

Accounting challenges are:

- providing environmental, social and economic information;
- integrating quantitative and qualitative information;
- reporting the company's impact on environment and society;
- preparation of tools supporting the process of preparing integrated reports.

5.2. Integrated reporting

The implementation of the idea of Corporate Social Responsibility is reflected in the development of corporate reporting. In practice, reporting on CSR issues may assume different forms. In recent years, numerous regulations (norms, standards and guidelines) have been developed for the preparation of CSR reports. An attempt to combine financial and non-financial information about the entity's operations was made under a new reporting concept, known as integrated reporting (Remlein, 2019, p. 49). The best known CSR reporting standards are presented in Table 3.

Table 3. CSR reporting standards

Organisation	CSR reporting standards
Global Reporting Initiative (GRI)	**GRI Sustainability Reporting Standards** Universal Standards: – GRI 101 Foundation; – GRI 102 General Disclosures; – GRI 103 Management Approach. Topic-Specific Standards: – GRI 200 Economic; – GRI 300 Environmental; – GRI 400 Social

Organisation	CSR reporting standards
The Organisation for Economic Co-operation and Development	**OECD Guidelines for Multinational Enterprises** 1. Concepts and Principles; 2. General Policies; 3. Disclosure; 4. Human Rights; 5. Employment and Industrial Relations; 6. Environment; 7. Combating Bribery, Bribe Solicitation and Extortion; 8. Consumer Interests; 9. Science and Technology; 10. Competition; 11. Taxation
The International Organization for Standardization (ISO)	**ISO 26000, International Standard for social responsibility** 1. Concepts, terms and definitions related to social responsibility; 2. Background, trends and characteristics of social responsibility; 3. Principles and practices relating to social responsibility; 4. Core subjects and issues of social responsibility; 5. Integrating, implementing and promoting socially responsible behaviour throughout the organisation and, through its policies and practices, within its sphere of influence; 6. Identifying and engaging with stakeholders; 7. Communicating commitments, performance and other information related to social responsibility

Source: Own research based on (GRI, 2020; ISO 26000:2010; OECD Guidelines, 2020).

The most important EU legislative initiative in the field of disclosure of environmental, social and corporate governance information is Directive 2014/95/EU of the European Parliament and Council from 22 October 2014, amending Directive 2013/34/EU, as regards disclosure of non-financial and diversity information by certain large undertakings and groups. The directive requires large European units to disclose information on environmental, social, labour and human rights issues, and counteract corruption as well as bribery. Moreover, these entities must disclose the diversity policy applied to their administrative, management and supervisory bodies. The provisions of the directive have been implemented by all member states and enforced since 1 January 2017.

The combination of financial information (financial statements) with non-financial information relating to the environment, society and corporate governance is included in the integrated report. The framework for integrated reporting is released by the International Integrated Reporting Council (IIRC), which is a global coalition of regulators, investors, companies, standard setters, accounting professionals, academia and NGOs (IIRC, 2013, p. 1).

The main purpose of an integrated report is to explain to the provider of financial capital how an organisation creates value over time (Figure 1). An integrated report benefits all stakeholders interested in a company's ability to create value, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policymakers, although it is not directly aimed at all stakeholders (IIRC, 2013, p. 7).

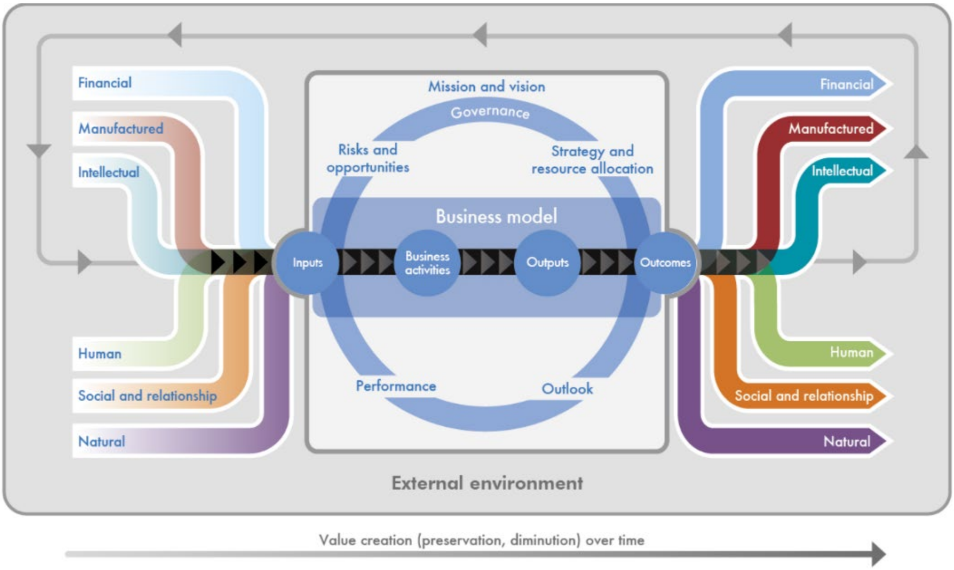

Figure 1. Value creating process

Source: (IIRC, 2013, p. 13).

Integrated reporting is built around the following content elements (IIRC, 2013, pp. 24–29):

- Organisation overview and external environment in which it operates;
- What does the organisation do and what are the circumstances under which it operates?
- Governance: How does an organisation's governance structure support its ability to create short, medium- and long-term value?
- Business model: What is the organisation's business model?
- Risk and opportunities: What are the specific risks and opportunities that affect the organisation's ability to create short-, medium- and long-term value, and how does the organisation deal with them?
- Strategy and resource allocation: Where does the organisation want to go and how does it intend to get there?
- Performance: To what extent has the organisation achieved its strategic objectives for the period and what are its outcomes in terms of effects on capital?

- Outlook: What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
- Basis of preparation and presentation: How does the organisation determine what is important enough to include in the integrated report and how are such matters quantified and evaluated?

A good example of an integrated report might be the 2019 Integrated Annual Report of the Coca-Cola Hellenic Bottling Company. Among Polish companies, the 2019 Integrated Annual Report of LOTOS Group may be of interest.

5.3. Polish legal regulations on non-financial reporting

Poland is a member of the European Union, therefore, Polish enterprises are obliged to present non-financial information in accordance with the 2014/95/EU Directive[1]. Moreover, in Poland, the requirement to present non-financial information regarding CSR was introduced by the Accounting Act. In accordance with the provisions of the Act, the so-called public trust entities are required to present activities in a separate part of the report called "Statement on non-financial information" (Act from 15 December 2016, Art. 49b. 1).

The statement should contain at least (Act of 15 December 2016, Art. 49b. 2):

1) a brief description of the entity's business model;
2) key, non-financial performance indicators related to the entity's operations;
3) a description of the policies applied by the unit in relation to social and labour issues, the natural environment, respect for human rights and counteracting corruption, as well as a description of the results of applying these policies;
4) description of due diligence procedures;
5) description of significant risks related to the activities of the entity that may have adverse effects on the issues referred to in point 3, including risks related to the products of the entity or its relations with the external environment, comprising contractors, as well as a description of risk management.

The information found in the "Statement on non-financial information" is intended to help in assessing the development, performance and condition of the entity, as well as the impact of its activities on the entity's environment. The above assessment will significantly help investors to make decisions regarding socially responsible investing by selecting companies implementing the CSR concept.

[1] Details on the 2014/95/EU Directive are contained in 5.1.

Non-financial information may be presented in:

- a report on the company's operations as it separate part (statement on non-financial information), or
- a separate report, e.g. social, CSR, integrated or impact report.

Decisions on the choice of the non-financial information presentation variant are made by the interested entities. The company may establish its own reporting rules or use any national, EU or international guidelines/standards. The reporting organisation is required to indicate which principles or standards/guidelines have been used in preparing the statement or a create a separate non-financial report.

In 2017, the Polish Standard of Non-Financial Information (SIN, 2017) was published to help enterprises fulfill their obligations under the EU Directive.

SIN is designed to be a simplified form of the Global Guidelines Reporting Initiative. The internal structure of SIN is as follows:

1. Basic part, which includes (SIN, 2017):
   - non-financial reporting and its scope;
   - national and industry specification;
   - significance of indicators and their selection from the point of view of capital markets;
   - scope of the standard and descriptions regarding individual reporting areas.
2. Appendix 1: legal interpretations of Directive 2014/95/EU—description of criteria, resulting indevelopment of non-financial information reporting obligation.
3. Appendix 2: significance matrix—matrix connecting areas and indicators defined in the SINstandard regarding their potential significance with division into industries.
4. Appendix 3: interested parties and key responsibility areas—stressing the fundamental significanceof relations between a company and its interested parties.
5. Appendix 5: significance of indicators and its selection from the point of view of capital markets, which—as established—are to make it possible to verify the degree of carrying out the goals and plans of a company.
6. Appendix 6: detailed description of—managerial (G), environmental (E), social and labour (S) areas.

Questions / tasks

1. Define accounting in the concept of SD.
2. Describe the characteristics of accounting taking the concepts of sustainable development into account.
3. Explain to what the concept of Corporate Social Responsibility (CSR) reporting refers.

4. List the most commonly used social responsibility reporting standards and the organisations that have developed them.
5. Explain the main purpose of integrated reports.
6. List the primary groups of beneficiaries of integrated reports.
7. Discuss the information the "Statement on non-financial information" should contain.
8. Explain the internal structure of SIN.

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