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Nurturing accountants with the right expertise for the green economy

By Holly Yang and Wang Jiwei

SUSTAINABILITY reporting has become an integral part of any organisation's sustainability efforts, and accounting professionals play a key role in this. But are there enough such professionals? To meet rising demand, we must quickly equip the next generation of accountants with sustainability knowledge.

Regulators and standard setters are finally taking sustainability reporting seriously. The International Sustainability Standards Board – the independent sustainability disclosure standard-setting body of the International Financial Reporting Standards (IFRS) Foundation – intends to release the first two sustainability reporting standards, IFRS S1 and S2, by the end of June.

Taking effect on Jan 1, 2024, the new standards will set a global baseline for sustainability reporting, in a step towards better comparability and transparency. Compared to past financial reporting standards, this may be the shortest time that the IFRS has taken to draft and finalise one.

The pace at which standard-setters are moving has challenged educators around the world. At a recent environmental, social, governance (ESG) conference organised by the American Accounting Association,

participants exchanged ideas on how to teach sustainability issues to accounting students and prepare them for the challenges ahead.

There was a consensus that accountancy faces a shortage of talent – and that sustainability efforts may be important not just in slowing climate change, but also reviving interest in the accounting profession. By integrating sustainability into the curriculum, we can nurture a new generation of accounting graduates suited for existing and upcoming positions in sustainability.

Accounting for sustainability

Accountants have a solid understanding of financial data and how it can be analysed for informed decision-making. These skills are crucial as organisations seek to build their sustainability reporting capabilities.

For example, in accounting for carbon emissions, the current greenhouse gas protocol suggests reporting Scope 3 emissions. But this requires significant assumptions and estimations, with such emissions being extremely difficult to track accurately. There is thus the risk of greenwashing, allowing companies to continue buying from high-polluting suppliers at low costs.

To tackle this problem, accounting professors from Harvard Business School recently came up with the "e-liability accounting" system, in parallel to the traditional cost accounting approach.

The idea is to account for emissions when raw materials are purchased, used for production, and transported. As the products are sold to customers, the emissions are also passed down, along with a margin.

This method of accounting for carbon emissions is accurate and trackable, allowing companies to evaluate their investments in green initiatives more effectively. It will also be significantly easier for outsiders to trace a company's carbon footprint.

Another important skill is recognising and managing financial risks. In sustainability jobs, this can be used to identify and mitigate risks related to environmental impact, climate change and social responsibility.

For example, many regulators are still undecided on whether sustainability reports should target shareholders or stakeholders as the main audience. This boils down to determining whether and when something becomes a financial risk to the company.

Accountants are adept at evaluating

whether something is material enough to be included in an annual report. These skills can be used to assess the timeline for sustainability-related risks and develop strategies to manage or mitigate them.

Nurturing expertise

While the specific skills required for future green-economy jobs are still evolving, accounting knowledge will definitely be key in strategising and measuring the effectiveness of sustainability efforts.

Most companies do not yet have a sustainability department, but new roles have begun to emerge, such as chief sustainability officer or chief finance and sustainability officer.

These roles require a comprehensive understanding of almost all aspects of the firm, from evaluating the environmental impact of its operations and analysing the financial impact of green solutions, to communicating the ESG strategy to the public.

The fundamental training provided in an accounting degree can be combined with an intermediate knowledge of sustainability, as well as soft skills, to broaden the opportunities for Gen Z students who aspire to have a career with meaning and impact.

At Singapore Management University

(SMU), all incoming undergraduates from 2023 will have to take a foundational course on sustainability. There are plans to expand this in 2024 and require all incoming undergraduates to complete at least one additional specific course in sustainability before graduation.

The need for a new generation of accountants is pressing. Singapore's Ministry of Finance has set up an Accountancy Workforce Review Committee to look into the shortage of accountants. The Singapore Accountancy Commission anticipates a growing demand for accounting expertise in new growth areas such as ESG, projecting a need for about 6,000 to 7,000 new accountants by 2025.

The integration of accounting and sustainability in education could help to revive interest in the accounting profession – but passion alone is not enough.

On a practical level, the starting salaries and working conditions for entry-level accounting professionals will need to keep pace with the wider job market, in order to draw the right talents into the industry. Only then can the accounting profession play its fullest part in building the green economy.

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