

Sustainability and Integrated Reporting Gain Traction

New Guide from Prince of Wales Group addresses practicalities of social and human capital accounting



As mentioned in the above article, accountants in the not so distant future will need to focus on more sophisticated aspects of analysis and advisory services as advanced technological applications take over an increasingly greater share of routine functions, even seemingly complex ones.

One of the areas becoming accessible to the analytical skills of accountants encompasses the elusive domain of sustainability and the related reporting platforms. Worldwide efforts have gone into researching and developing methodologies for measuring sustainability. In recent years, several organizations have added resources, such as the International Federation of Accountant's report, **The 2030 Agenda for Sustainable Development, A Snapshot of the Accountancy Profession's Contribution** (December 2016 A & A Alert), the Sustainability Accounting Standards Board's **Sustainability Accounting Standards** (January 2015 A & A Alert), and the International Integrated Reporting Council's **International Integrated Reporting Framework** (January 2014 A & A Alert).

Now, The Prince of Wales' Accounting for Sustainability Project (A4S) has issued a guide for assisting with the accounting for social and human capital. According to the website (www.accountingforsustainability.org/), "The Prince's Accounting for Sustainability Project was established by HRH The Prince of Wales in 2004 'to help ensure that we are not battling to meet 21st century challenges with, at best, 20th century decision making and reporting systems.'" A4S is the acronym of Accounting for Sustainability.

The basic purpose for forming the group was articulated by Prince Charles in a speech this past year: *"It is not necessarily a choice between making money on the one hand and 'doing the right thing' on the other. On the contrary, once it is recognized that 'business as usual' is unsustainable it follows naturally that those organizations which start to develop resilient business models will be the ones that succeed."*

The guide is a comprehensive (106 pages), interactive set of tools for drilling down to specific techniques for measuring social and human capital, organized into the following sections:

- What is social and human capital accounting, and what is the role of finance?
- Why is social and human capital accounting important to business?
- How do I identify the relevant social and human capital topics, measure and value them, and be transparent about calculations used?
- How do I integrate social and human capital into decision making?
- How have network members integrated social and human capital accounting into decision making?

Social and human capital are defined as follows:

- Human Capital - The knowledge, skills and attributes of the workforce and others across the value chain.
- Social Capital - Value added to society by the organization's products, services and activities, as well as the relationships within and between communities, groups of stakeholders and other networks.

These definitions are illustrated with examples, as well as tips for relating them to an entity's operations.

The importance of social and human capital accounting are related to five key benefits:

- Strengthening your licence to operate
- Proactively managing and addressing emerging risks
- Enhancing and maintaining your reputation
- Reducing the cost base
- Identifying and exploring new markets and emerging opportunities

Then practical tools are provided that assist with:

- How do I select my appraisal scope to focus on the most important areas, and the relevant parts of my value chain?
- How do I determine the basis of information, the method of collecting it, and the values calculated?
- How do I evaluate the results and apply the findings?

The next stage lays out procedures for integrating social and human capital into the various decision making processes, such as:

- Managing Future Uncertainty (Risk Management)
- Strategic Planning, Budgeting and Forecasting
- Integrated Management Reporting
- Capital Investment Appraisal Process
- Enhancing Investor Engagement

Challenges that may be encountered are addressed along with suggested solutions and tips.

Finally, practical examples are offered using case studies drawn from the organization's participants.

Practitioners in smaller accounting practices may contend that these sustainability measures and reporting are designed for large companies, and therefore, not applicable, to their clients. Indeed, when I discussed with a partner in my firm the rapidity of change that Barry Melancon warned about in the prior article above, the partner tempered the concern. He responded that a colleague of Melancon's in another of the AICPA ENGAGE sessions indicated that smaller firms may have more time to adapt to coming technological changes than the larger firms. But the point he also made was that they should not bury their heads in the sand, because the changes would impact them at some point. The insights in guides, such as the one highlighted here, can be invaluable to practitioners in a general, if not a detailed sense, as they advise clients in ways to be proactive in addressing forces that can impact the future success of their businesses.

Further details can be found at [Accounting for Sustainability - Essential Guide to Social and Human Capital Accounting](#)

(<https://www.accountingforsustainability.org/en/knowledge-hub/guides/social-and-human-capital.html>)