Accounting for Sustainability: Financial Control for ESG by FastPost

Corporate Environmental, Social and Governance (ESG) reporting has been around for some time now. One area of particular focus that is gaining momentum across governments, regulators, investors and employees is climate impact. Business activities are affecting the climate, and we know that the climate will affect businesses.

But are these concerns and risk considerations translating into action? Well, there isn't a definite answer. That's because ESG reporting in general and calculating climate impact, in particular, lacks the standardisation and robustness of traditional financial accounting. Of course, this is something that regulators everywhere are grappling with, and regulation is constantly playing catch up. There is also a plethora of organisations looking at methodologies and standards. We, at insightsoftware, think that although the topic is evolving, one formula is to anchor climate impacts with financial performance – creating numbers that are accurate, tangible and comparable. Enter the CFO. We predict that auditable climate impact reports will increasingly become a regulatory requirement.

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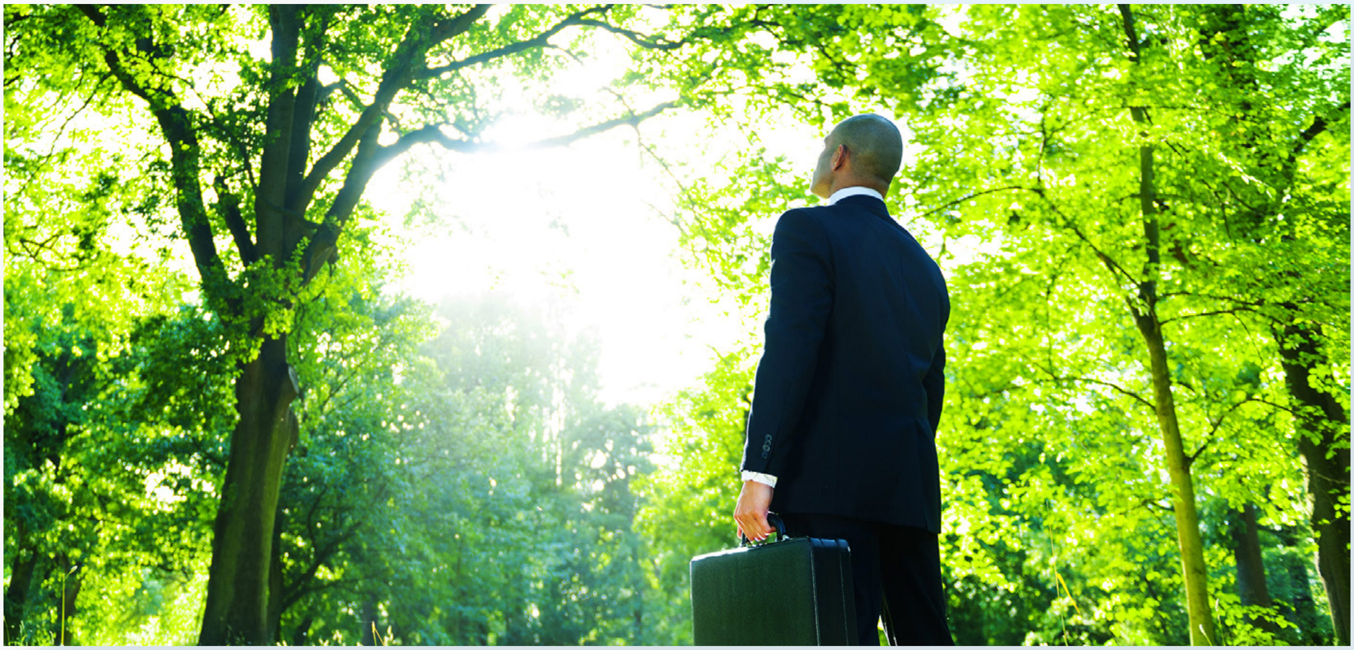
The IASB has just published its new mandate for an International Sustainability Standards Board and the UK has announced it will enshrine mandatory climate disclosures in law for the largest companies. FastPost – our accounting rules platform – empowers finance professionals to build a robust framework based on sound data and principles. We think this will be a game-changer by making performance in this area comparable, auditable, transparent, and data-driven.

As the focus on Environmental, Social and Governance issues becomes more piercing – CFOs are being asked tough questions. One question that is coming up repeatedly deals with lifting the veil on the company's climate impact and the associated risks. Take net zero-emission targets, for example. Investors, regulators, governments, customers, and employees want to know what the company is doing to reduce and offset its impact on the climate and mitigate risks to the business. Another example is current reporting under IFRS, there is increasing awareness that many of the standards already require the assessment of climate risks and CFOs should be calculating and disclosing those impacts to stakeholders.

Now, these should be easy to compare and contrast for investors and all stakeholders, right? Well, not really. The Harvard Business Review notes, "Most companies already issue sustainability reports, of course, but these are divorced from their financial reports, making it difficult to see the relationship between financial performance and sustainability performance."



Who Manages ESG?

That's probably because the keepers of all climate-related data and information have traditionally been the sustainability departments. But now, CFOs are being called in. There is a rationale that finance departments should look at climate risk reporting because of their independence, governance and control, data-driven approach and experience in dealing with regulators. In addition, we think that the big audit firms could eventually be signing off on climate impact reports generated by companies. As a result, corporations will have to supply evidence about their carbon impact and independent auditable reports will become a norm.

In addition, we believe that performance in the area of climate risk must be seen in the context of a company's financial performance. A report by Deloitte spells out why CFOs are best suited to manage this area that is clubbed together with other ESG issues. "At the intersection of sustainability and financial performance, CFOs are in the best position to lay the foundation for lasting value creation through ESG." We'd go as far as saying that the levers to a successful climate impact strategy lie in the hands of the CFO. That's where Insightsoftware's solution shines – FastPost provides the audit and control framework and enables the link between climate accounting and financial accounting for transparent reporting, enhanced management insight, and ESG optimisation.

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CFO Has the Final Word

Hang on a minute. If this is all so simple, then why hasn't it been done already? Well, calculating climate impact has yet another challenge – data. A report by PWC notes, "Much of the relevant information around ESG in companies is captured—if it's captured at all—via manual processes, often in far-flung unstructured documents and spreadsheets. And most times, not in any kind of auditable environment—something that should give any publicly-traded company pause."

Of course, an accounting rules platform cannot be the only vehicle of change – but a catalyst to build consensus around a coherent approach to measuring things. And finance teams can hold everyone in the company to those standards – unlike other departments. For example, if someone says we will measure waste by qualifying the data in a certain way, finance teams can enforce that. This is handy when the numbers are being reported. It injects consistency and transparency into the system.

> **"It's essential to build a framework on sound numbers, comparable data, and an empowered finance team. FastPost can deliver all three."**

Reading, understanding, and collating the data

How easy is it to get this data? And can FastPost read, ingest, and collate it? Yes, it can. The idea is to create easily readable data and then automate a lot of the processes. In the end, we need data that is defined, processed, and packaged to meet any reporting or regulatory requirement and optimised to meet climate impact targets and maybe even other ESG objectives. That's when FastPost comes into its own – helping define the data framework, integration, outputs; and giving a robust and understandable picture.

Building a good track record on climate impact and indeed broader ESG issues should be a CFOs top tactic. It enhances the company's reputation, helps retain talent, gets investor buy-in, and ultimately helps boost the bottom line, raising the profile of the CFO and the team. But first, it's essential to build a framework on sound numbers, comparable data, and an empowered finance team. FastPost can deliver all three.

FastPost

Find out how to gain full financial control with a cloud-based accounting hub.

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About insightsoftware

insightsoftware is a leading provider of reporting, analytics, and performance management solutions. Over 30,000 organizations worldwide rely on us to support business needs in the areas of accounting, finance, operations, supply chain, tax, budgeting, planning, HR, and disclosure management. We enable the Office of the CFO to connect to and make sense of their data in real time so they can proactively drive greater financial intelligence across their organization. Our best-in-class solutions provide customers with increased productivity, visibility, accuracy, and compliance.

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