

# Accounting's Contribution to Sustainable Cities

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K McGovern & Associates

## Overview

1. Accounting profession's response
2. Accounting for Local Government
3. Accounting for Sustainability
4. Format and Content of Sustainability Reports
5. External Review and Assurance of Sustainability Disclosures



# 1. Accounting Profession's Response to Global Challenge



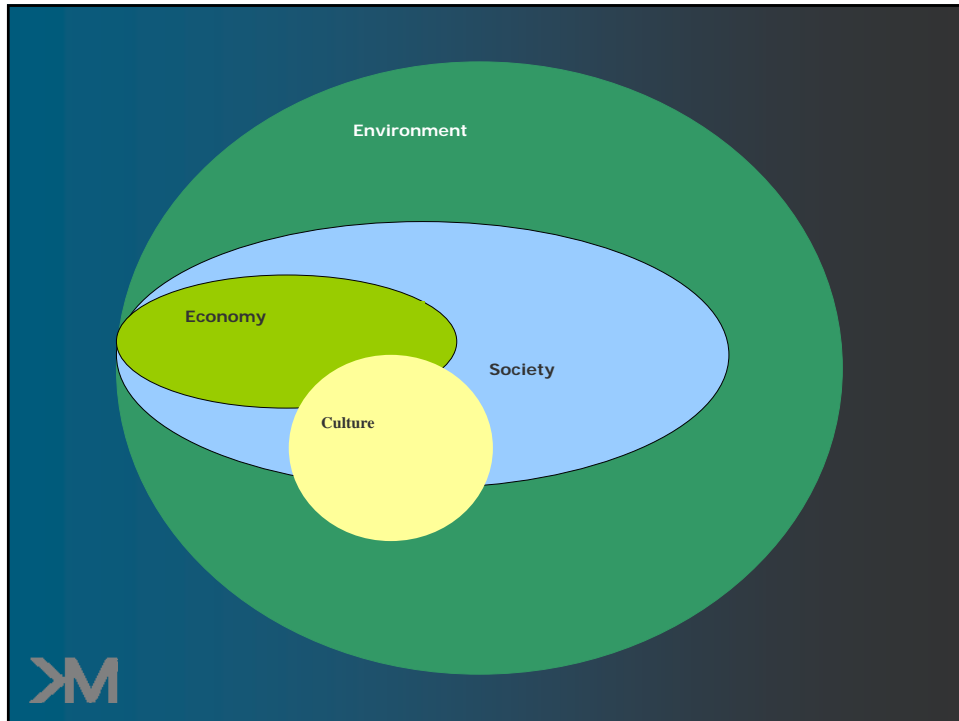
## International Federation of Accountants (IFAC)

The global challenge is to ensure that organisations' sustainable development practices:

- (a) reverse the previous erosion of natural resources, and
- (b) improve their environmental, social and economic performance.

This requires radical changes in the way we do business and the way we live our lives.





## Sustainability Framework

- Consolidates all of the important aspects of sustainability
- Many sources of information
- Four perspectives:
  - Business strategy
  - Internal management
  - Funders (Ratepayers, National Government and Investors)
  - Other stakeholders.



## Accountants' Expanded Role

- Preparers and assurers of financial and sustainability reports
- Sustainability is the key to long-term performance
- Many facets to sustainability
- A) economic viability
- B) social and cultural responsibility
- C) environmental responsibility.



## Accountants Professional Background

1. Wide understanding of local government
2. Numeracy and knowledge of measurement
3. Objectivity and integrity

Applying these competencies to sustainability issues can help a city embrace sustainability development and incorporate it into strategic planning and execution.



## 2. Accounting's wide understanding of local government



### Level

5. City is demonstrably sustainable
4. City raises and manages its own capital
3. City raises and allocates its own revenue
2. City is politically independent
1. City is part of national government.



**Lvl 1. City is part of national government.**



**Lvl 2. City is politically independent**



## Lvl 3. City raises its own revenue

Details	2007	2006
1 Government Grants	3,955,300	3,779,200
2 Rates - Land & Garbage	7,000,000	7,000,000
3 License fees	2,240,000	2,080,000
4 Fees for services	836,000	860,000
5 Taxes & Fines	86,021,000	84,750,000
6 Debt Recovery	5,834,000	6,129,000
7 Others	1,293,700	801,800
Total	107,180,000	105,400,000
8 Balance carried forward	18,000,000	3,500,000
Grand Total	125,180,000	108,900,000



## Lvl 4. City raises its own capital

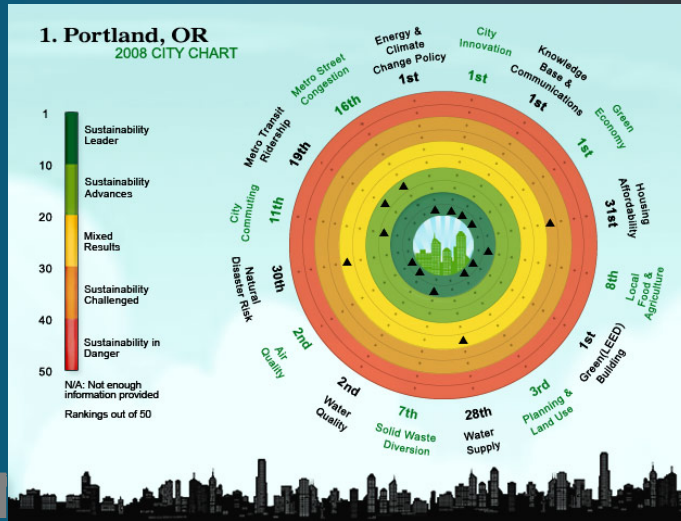


### Entity Standard & Poors Rating

Newcastle City Council AA+  
 Brisbane City Council AA+  
 Gold Coast City Council AA  
 City of Melbourne AAA  
 Penrith City Council AA  
 Wollongong City Council AA+



# Lvl 5. City is demonstrably sustainable



# 3. Accounting for Sustainability





## New ways of accounting

- Environmental management accounting (EMA)
  - Physical information on the use, flows and destinies of energy, water and materials including wastes; and
  - Monetary information on environment-related costs, earnings and savings. (*UN Expert Working Group on EMA*)



## Environmental Management Accounting

- Collecting environmental cost data helps a city to link its sustainability issues with business performance and success



# Hasselt, Belgium



Hasselt, Belgium

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Free bus stop at railway station



Free Bus



## 4. Format and Content of Sustainability Reports



## Key Considerations

- Know who reads sustainability reports and their purpose for reading them
- Determine the most suitable reporting frameworks and guidelines
- Recognize that the quality of internal reporting and management information form the basis of external disclosures
- Determine the report boundary
- Communications strategy
- Use benchmarking to improve quality of reporting



## GRI Sustainability Reporting Guidelines

- Used internationally by corporations and public sector agencies
- Multi-stakeholder process
- GRI Guidelines offer:
  - A) core content for reporting relevant to all organisations
  - B) indicator protocols that advise on definition, scope, and compilation methods – meaningful and comparable reports
  - C) Public sector agency supplement

However, these are not yet complete. Nor do they assure sustainability.



## Sustainability

### Emphasises

- not just an *efficient allocation of resources over time, but also a fair distribution of resources*
- and opportunities between the current generation and between present and future generations,
- and, a *scale of economic activity relative to its ecological life support systems* (Gray and Milne)

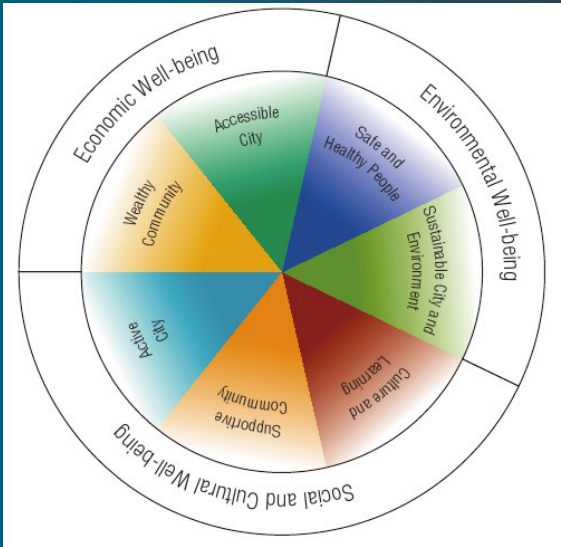


## Legislation Required

- Increased discussion about how to give a more balanced and complete picture of overall performance.
- Connected Reporting Framework – make better use of financial and non-financial information
- Few governments providing relevant and reliable reports on sustainability – little progress at Copenhagen.



# DUNEDIN COMMUNITY OUTCOMES



**WHERE YOUR RATES WILL GO:**  
**DUNEDIN, NZ Rates for Residential Property**  
**Capital Value \$250,000 - Ratepayer Cost**

Water Supply \$383  
 Wastewater and Stormwater \$351  
 Roads and Footpaths \$222  
 Parks and Reserves \$208  
 Libraries \$108  
 Forsyth Barr Stadium \$56  
 City Development \$48  
 Botanic Garden \$47  
 Swimming Pools \$47  
 Otago Museum \$42  
 Solid Waste Management \$41  
 Community Development \$39  
 Dunedin Public Art Gallery \$36  
 Otago Settlers Museum \$34

**City Promotion \$33**  
 Dunedin Public Art Gallery \$36  
 Otago Settlers Museum \$34  
 City Promotion \$33  
 Elected Representatives \$32  
 Economic Development \$31  
 Dunedin Centre/Town Hall \$20  
 Building Control \$17  
 Tourism \$13  
 Public Halls and Toilets \$13  
 Civil Defence & Rural Fires \$10  
 Liquor & Health Licencing \$10  
 Visitor Centre \$7  
 Cemeteries & Crematorium \$7  
 Animal Control \$5  
 Chinese Garden \$3

TOTAL \$1,863  
 Less Dividend/  
 Endowment  
 Income (381)

**Total  
 Rates  
 \$1,482**



## 5. External Review and Assurance of Sustainability Disclosures



## Standards on Auditing and Assurance

- ISA 720 – auditor’s responsibilities relating to other information in documents containing financial statements
- IAASB – reviewing standard to take into consideration changes and forms of annual reports, changes to auditing standards and the risks faced by organisations



## Other Standards

- International Standard for Assurance Engagements (ISAE) 3000 – obligatory for auditors undertaking corporate responsibility assurance engagements.
- AA1000AS – AccountAbility – assurance providers – web-based.
- Assurance is an iterative process



## Accounting's Processes

- Administration-wide policies, systems and procedures
- Clear roles and delegations
- Careful mapping of business processes
- Management of data quality – internal controls
- Accessibility of data



## “Materiality”

- Premise: sustainability reports must be both relevant and reliable
- Material item - an omission or misstatement of information that in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item





## Lessons

Accountants have much to offer

Other professionals also have much to offer

Bringing professionals to work effectively together towards sustainability is a challenge

Report what can be measured plus qualitative information.

Reports, to be useful, must address readers' needs, which change over time.



## Conclusion

1. Accounting profession's acknowledge the challenge to new ways of working and living
2. Accounting for Local Government evolves over time
3. Accounting for Sustainability requires new approaches
4. Format and Content of Sustainability Reports varies and is incomplete
5. External Review and Assurance of Sustainability Disclosures against standards



But we are working on it!!!

Terima kasih



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