

■ BY MAJELLA GOMES

SOMEWHERE OVER THE RAINBOW: ACCOUNTABILITY AND SUSTAINABILITY

Accountants play key roles in determining true value and in driving the burgeoning sustainability movement, said Tan Sri Dato' Azman Mokhtar, Managing Director, Khazanah Nasional Berhad at MIA's Second Commemorative Lecture marking its upcoming Golden Jubilee in September 2017.

TAN Sri Dato' Azman Mokhtar, Managing Director, Khazanah Nasional Berhad urged accountants to pursue accountability and sustainability wholeheartedly at MIA's Second Commemorative Lecture. In his eclectic presentation entitled "Somewhere Over the Rainbow – Accountability and Sustainability: The Role of Accountants", he emphasised the profession's need to reorient thinking, action and planning to ensure sustainability in a volatile and uncertain landscape.

"As the title of my speech, "Somewhere Over the Rainbow" suggests, we are not quite there yet," he began, outlining that his presentation would revolve around three key messages: first, the principles and

philosophy of accountability and sustainability; second, the three waves in the evolution of accounting; and third, the roles of the accountant.

"At the heart of accountability is really the question of integrity, and integrity is at the heart of accountability. Accounting, accountability and accountants have a noble and sacred task of being custodians of integrity through the profession. This is the essence of good governance in accounting – thoughtful compliance and strong performance."

Asserting that accountants had a clear advantage because of their stringent training, he said this should stand them in good stead when it came to signing off accounts – or, in some cases, not signing off – with grace and

firmness. Accountants have a sacred trust, he reiterated, and have to show leadership by example. He exhorted accountants to quintessentially reclaim the "true north" of the profession. "Reclaim the true north to make sense and help accounting reinstate its integrity function," he urged. "This will help preserve its sustainability – but remember that sustainability also means balancing the needs of the present without compromising the future."

The reclamation of true north is not something to be done exclusively for the accountancy profession but for the common good of society.





There was a growing need to move from production to preservation of resources, and from ownership to stewardship. Quoting Karl Marx who said that “All property is theft”, Tan Sri Dato’ Azman said that sustainability implied a shift from a shareholder-based economy to a stakeholder-based economy, as all property is ultimately held in trust for succeeding generations.

“We cannot ignore sustainability,” he warned. “We do it at our peril. The business landscape is changing. The UN’s Sustainable Development Goals (SDGs) have been ratified by 193 countries. It is a universal declaration that has put sustainable development at the forefront of economic development. Accountants are key to SDGs; they can contribute to at least eight of them.”

Describing the SDGs as the “Rainbow” of global economic development, he pressed accountants to honestly evaluate what they were doing in terms of form over substance. “Investing in the



long-term is correct,” he said. “Do not forget the consequences. It should be the right profit, not quick profit.”

IMPROVING ACCESS AND SHARING PROSPERITY

Recounting the example of Swedish company Bima, which sells insurance to those who have mobile phones, he urged the audience to make a conscious choice to generate true value that could benefit the communities which required it most. He said Bima’s scheme has virtually unlimited potential, not just through the widening of its customer base but also through its ability to reach those who would otherwise not have access to insurance. There is practically no area in the world today that cannot be covered by a mobile network. With a scheme like this, the possibilities are endless.

Another issue of sustainability is that of shared economic growth, he stressed. “Companies and countries need to maintain growth at a given rate or level in a holistic, sustainable way,” he said. “The preservation of our shared ‘commons’ – ecologically, societally, globally – is something that should be taken very seriously. Individual interest and incentives should not overwhelm the interests

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L–R: Dr. Nurmazilah Dato' Mahzan, Dato' Mohammad Faiz Azmi, Tan Sri Dato' Azman Mokhtar and Datuk Zaiton Mohd Hassan

of the collective.” He added that it has become a question of stewardship (rather than ownership) because property rights are man-made, human constructs whereas natural resources and land are God-given; thus humans do not have the right to “own” things which they did not create.

This thinking underlies the concepts behind sustainability, which is a shift from a shareholder-based economy to a stakeholder-based economy. “If we are ‘trustees’ of the things we hold ‘ownership’ rights to, then we should optimise returns not exclusively for ourselves but for our offices, resources and responsibilities,” he stressed. “This means maximising not only shareholder value, but stakeholder value – and caring for customers, suppliers, business partners, employees and society as a whole. In the case of accountants and accounting, sustainability must go beyond financial accounting. Sustainability accounting is an important evolutionary step in the profession of accounting, which considers an organisation’s performance at economic, ecological and social levels – the triple bottom line.”

SUSTAINABILITY ACCOUNTING IS AN IMPORTANT EVOLUTIONARY STEP IN THE PROFESSION OF ACCOUNTING, WHICH CONSIDERS AN ORGANISATION'S PERFORMANCE AT ECONOMIC, ECOLOGICAL AND SOCIAL LEVELS – THE TRIPLE BOTTOM LINE.

ACCOUNTING: FROM HERE TO SUSTAINABILITY

Expounding on Accounting’s “Three Waves,” his examples spanned the first recorded transactions of ancient Mesopotamia, Egypt and Babylon that documented the movement in and out of granaries, for example, to how public expenditure was accounted for in Roman times, where money was spent on subsidies, construction of houses of worship, theatrical shows and gladiator games. Drawing examples from medieval Europe as it moved towards a monetary economy in the 13th century, he pointed out one of the most important breakthroughs in the history of accounting: the introduction of double-entry bookkeeping by an Italian, Luca Pacioli, who was also the first to use the plus and minus symbols in Italian Renaissance mathematics.

Joint-stock companies, a development in the 17th century, meant that investors started relying more on accounts to provide information, and this resulted in the development of internal

(management) and external (financial) accounting. This era saw the rise of accounting disclosure regulations and independent auditors. Demand for more highly skilled accountants grew with the Industrial Revolution, and accountants themselves started becoming organised; the Institute of Chartered Accountants in England and Wales (ICAEW) for instance, was established by royal charter in 1880. “Accounting principally supported trade and commerce,” Tan Sri Dato’ Azman said. “Its sole focus was the measurement and valuation of financial matters.” The first wave of accounting also saw developments locally, such as the formation of the Malaysian Association of Certified Public Accountants (MACPA) in 1958, the passing of the Accountants Act 1967, the establishment of MIA in the same year and the setting up of the Securities Commission in 1993.

Sustainability accounting started evolving during the second wave, beginning from the mid-20th century amid a growing awareness of corporate concerns. Researchers found that improving corporate governance procedures did not damage financial performance. Instead, good governance maximised productivity, ensured corporate efficiency and led to the sourcing and utilisation of superior management talents.

Realising the importance of sustainability accounting, companies began voluntarily taking up Environmental, Social and Governance (ESG) initiatives. In 2005, the UN’s Environment Programme Finance Initiative’s report concluded that it was permissible and part of their fiduciary duty for investment companies to integrate ESG issues into investment analysis. In October 2015, Bursa

Malaysia made ESG a mandatory requirement for listing. The second wave in the evolution of accounting incorporated sustainability accounting into corporate practice.

Accounting for true value is at the heart of the third wave. “The third wave enhances the second,” he continued. “It measures the true value of a company – its social impact and sustainability, effectively putting sustainability at the forefront of economic development and as a key component in the measurement of

economic growth.”

The roles of accountants, he said, should be viewed as stemming from the philosophy of accounting and the three waves of evolution, and how these underpin the way forward for accounting professionals, i.e. how to go “Somewhere over the Rainbow.”

Their first role is as custodians of public and private interest, as they are entrusted by the public to hold individuals, corporations and the government accountable. Their second is as standard bearers of their profession, which means accountants must ensure that they apply the highest standards to their tasks and maintain their professional integrity. Their third role is as measurers of financial, societal, environmental and governance value. In addition, they need to support and implement the best accounting and corporate practices. “Rather than being defensive of existing practices or resistant to potential improvements to existing methods, accountants should support practices that enhance the profession,” he said. “They should take the lead in improving methods that better evaluate true value.”

In closing, he reiterated his respect and admiration for the profession, particularly in the current era of volatility, uncertainty, complexity and ambiguity (VUCA). “It is especially crucial that accountants configure their role within the sustainability movement,” he concluded. “This is slowly but surely encompassing global economic development, including global business. As custodians, standard bearers, measurers, cheerleaders and thought leaders, accountants will have to play key roles with care, skill, integrity, independence, courage and professionalism.” ■

