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SUSTAINABILITY REPORTING AS AN OPPORTUNITY TO IMPROVE GOVERNANCE REPORTING PRACTICES

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Abstract. The concept of sustainable accounting has emerged as a result of the development of accounting over the past forty years. Two different approaches emerged: The first is the debate about accountability, based on a completely new accounting system and designed to strengthen the sustainability strategy; The second approach is a management perspective, which is related to many sustainability terms. It can therefore be considered an extension of conventional financial management accounting.

The paper discusses the purpose of sustainability accounting, stages of development, and the possibility of implementing and using two of the most important standards in Georgian companies. Key considerations and responses to the use of standards in sustainability reporting regarding disclosures have been formulated. Based on European experience, Georgia has introduced international standards for sustainable development. The goal of sustainability reporting is to reduce the negative impacts of businesses on the environment and society. The main challenge is to standardize the process of preparing sustainability reports, ensuring their robustness and reliability. The introduction of standards is important and a priority for the sustainable development of local enterprises. The early adoption of these principles represents an opportunity for the country to improve its management reporting practices as stipulated in the Law on Accounting, Reporting, and Auditing of Georgia. Contribute to the creation of a more sustainable and competitive economic environment, which ultimately ensures the creation of a European business environment. The implementation of these standards will strengthen investor confidence and create opportunities for making informed decisions.

KEYWORDS: SUSTAINABLE REPORTING, IFRS STANDARDS, DISCLOSURE INFORMATION, PRODUCTION PRACTICES, ECONOMIC ENVIRONMENT.

INTRODUCTION

Sustainability accounting issues have appeared in the accounting of various countries over the past half century. Accordingly, there is a significant challenge in Georgia today. Accounting based on sustainability reporting has passed significant milestones. Today, the use of sustainability accounting information in the management process of companies is increasing. Such information is important for making the right management decisions in companies. The goal of sustainability reporting is to reduce the negative impacts of businesses on the environment and society. The main challenge is to standardize the process of preparing sustainability reports, ensuring their robustness and reliability. The introduction of standards is important and a priority for the sustainable development of local enterprises. The early adoption of these principles represents an opportunity for the country to improve its management reporting practices as stipulated in the Law on Accounting, Reporting, and Auditing of Georgia. Contribute to the creation of a more sustainable and competitive economic environment, which ultimately ensures the creation of a European business environment. The implementation of these standards will strengthen investor confidence and create opportunities for making informed decisions. The research paper aims to improve governance reporting practices by applying international sustainability reporting standards. Investors will have the opportunity to obtain more complete, reliable, and comparable information; in turn, enterprises will receive a comprehensive picture for business model evaluation and development. The information disclosed in the sustainability report will be important for internal decision-making to create new policies that will impact the economic, environmental, and social factors of the enterprise. In turn, all of this will strengthen the development of the green economy in Georgia.

The paper is based on qualitative research. The research used data from the Accounting, Reporting and Audit Supervision Service of Georgia, the Federation of Accountants and Auditors, IFRS Foundation, Sustainability Accounting Standards Board website materials.

RESULTS AND DISCUSSION

Sustainability accounting as a subcategory of management accounting, and two different approaches

Sustainability accounting is a subcategory of management accounting. The purpose of which is to use non-financial information about the activities of the enterprise for external stakeholders, creditors, and equity holders.[1] It differs from management accounting and is used to make internal decisions, create new policies, and influence the efficiency of the enterprise in economic, environmental, and social areas. According to the Global Reporting Initiative (GRI), corporate reporting on economic, social, and environmental performance is as necessary and time-consuming as financial reporting.[2]

The concept of sustainable accounting has emerged from the development of accounting over the past forty years. Two different approaches emerged.[3] The first is the debate about accountability, based on a completely new accounting system and designed to strengthen the sustainability strategy. The second approach is a management perspective, which is related to multiple sustainability terms. It can therefore be considered an extension of conventional financial management accounting.

Four main stages in the development of sustainability accounting

Sustainability accounting is a rather complex process that can be divided into four stages. Stage 1: 1971-1980; Stage 2: 1981-1990; Stage 3: 1991-1995; Stage 4: from 1995 onwards.

In the first stage – papers and empirical studies were published. Which contributed to the creation of social accounting models. The information was related to products and employees. The

1 Accounting, Reporting and Audit Supervision Service. Available at: <https://saras.gov.ge/>.

2 Global Reporting Initiative. GRI. Available at: <http://www.globalreporting.org>.

3 Slaper, T., Hall, T. (2011). The Triple Bottom Line: What Is It and How Does It Work? Indiana Business Review, Vol. 86, No. 1. Available at: <https://www.ibrc.indiana.edu/ibr/2011/spring/a rticle2.html>.

methodology was identical to financial accounting. Although several models were improved, the debate was not widespread.

In the second stage – literature and research show how the field of social accounting has been refined, although interest in this field has shifted to environmental accounting. Empirical research has become more analytical, with social information replaced by a focus on environmental regulations as an alternative means of reducing environmental damage. At this stage, the development of training programs on social and environmental accounting issues has begun. Through the increasing use of conceptual frameworks, accounting standards, and legal provisions.

In the third stage – environmental audit applications were developed to ensure transparency of environmental information. Environmental management systems and a regulatory framework were developed, which would influence the transparency of social and environmental accounting. The process of environmental regulation in the US, Canada, and Australia has progressed more rapidly than in Europe. At this stage, several manuals were issued and articles were published covering both social and environmental accounting issues.

The role and purpose of sustainability and management accounting information has become an interesting object of study for the sustainable development of enterprises.

The fourth stage – the initial period – is characterized by the approximately, this has led to the emergence of global and regional issues of management quality control. Since this period, special attention has been paid to accounting for environmental costs, which includes choosing suppliers whose views and practices regarding ecology are consistent with those of customers. It also refers to the costs of destroying waste products in the production process, after-sales service, and product withdrawal from the market.

Environmental cost accounting provides support for a company's environmental management initiatives.[4]

The role of the International Federation of Accountants in sustainability accounting

All of the above have led to the development of the accounting profession with international issues. Accounting literature has been published, focusing on sustainability accounting issues. Many international and national meetings are held on sustainability accounting issues.[5] The most developed form of sustainability accounting is environmental accounting. In 2002, at the World Summit on Sustainable Development, Robert Hugh Gray's Sustainability Accounting Guidelines were published.[6]

In recent years, interest in corporate sustainability accounting and reporting approaches has increased. Experts from international organizations argue that the sustainability aspects of accounting and reporting are of crucial importance in assessing the future development of enterprises. In this regard, the role of the International Federation of Accountants (IFAC) is important. Its goal is to promote the development of the accounting profession and harmonize it with standards. It has 167 member organizations in 127 countries and approximately two million accountants worldwide. To encourage professional accountants to incorporate sustainability into their accounting, the Prince of Wales created the Accounting for Sustainability Project in 2004.[7] The goal of sustainability accounting is to transition to sustainable business models and a sustainable economy. The popularity of sustainability has grown recently, with many companies already using new methods and techniques when publishing financial information. They provide external users with information about key activities and environmental impacts. This information helps suppliers, buyers, and government agencies understand how busi-

4 Atkinson, A., Kaplan, R., Matsumura, E.M., Young, S. (2009). Government Accounting, Georgian Herald Publishing House, p.337.

5 Kvantrishvili, N. (23.12.2024). Corporate Sustainability Reporting and Transparency in the Fight Against Corruption: A Business Perspective. Available at: <https://unglobalcompact.ge/sustainability-spotlight/korporaciuli-mdgradobis-angarishgeba-da-gamchvirvaloba-korufciastan-brdzolis-processhi-biznesis-perspeqtiva>.

6 Sustainability Accounting Standards Board. Available at: <http://www.sasb.org>.

7 International Federation of Accountants. Available at: <https://www.ifac.org>.

nesses are managing their resources so that they can achieve sustainable development.

As a result of studying the issue, three areas of sustainability were identified: social, economic and environmental. Each of them depends on different factors.[8] That is why it is necessary to develop enterprises in the direction of environmental, social and governance processes.

The role of the European Union in the development of sustainable development reporting and two international sustainability standards

In 2022, the European Commission developed the Corporate Sustainability Reporting Directive (CSRD), which entered into force on January 5, 2023.[9] This directive replaced the previously existing Non-Financial Reporting Directive with updated wording and requirements. Preparing corporate sustainability reports for enterprises using relevant standards; It became mandatory for the 2024 reporting period, which will be submitted to local authorities starting in 2025. Georgia is actively working in this direction within the framework of European perspectives, to introduce best practices in the country.

Two IFRS sustainability disclosure standards issued by the International Sustainability Standards Board (ISSB) in 2023 have already been translated into Georgian and published.[10] These are:

- **IFRS S1** – General requirements for financial disclosure on corporate sustainable development;
- **IFRS S2** – Climate-related disclosure information.

8 Adams, W. (29-31 January 2006). The Future of Sustainability: Rethinking the Environment and Development in the Twenty-First Century; Report of the IUCN Eminent Thinkers Meeting.

9 A brief description of the draft corporate sustainability reporting standard. (March 2022). IFRS® Sustainability Disclosure Standards.

10 IFRS Foundation. (2022). Available at: <https://www.ifrs.org/content/dam/ifrs/project/g eneral-sustainability-relateddisclosures/ georgian/georgian-s1-and-s2-edssnapshot – april-2022.pdf>.

Companies that must prepare a corporate sustainability report

The new requirements will apply to up to 50,000 companies across the EU. According to the CSRD, companies must prepare a corporate sustainability report if they:[11]

1. Representing "large" enterprises in the European Union (including banks, insurance companies, accountable enterprises, whose securities are admitted to trading on the stock exchange, and enterprises designated as SDP by local authorities);
2. There are small and medium-sized enterprises on the EU-listed market;
3. Enterprises that have a branch or subsidiary within the European Union.

These companies are required to disclose information about how environmental and social issues affect the risks and challenges they face. They must also disclose information about the impact their business model has on people and the environment. As we mentioned, the European Commission has developed a directive on corporate sustainability reporting, which will replace the existing Non-Financial Reporting Directive. According to the new directive, the preparation of corporate sustainability reports using relevant standards will become mandatory for EU member states. Companies have many questions about this.

Key considerations and feedback on the use of standards in sustainability reporting regarding disclosures

1. A company that uses accounting standards will it be required to present the information disclosed in the sustainability report in accordance with IFRS standards? IFRS accounting standards apply to financial statements. It will not be mandatory, but it will be up to the company to decide whether companies in the jurisdiction will use IFRS standards to protect the informa-

11 A brief description of the draft corporate sustainability reporting standard. (March 2022). IFRS® Sustainability Disclosure Standards.

tion that is being disclosed in sustainable reporting. In addition, the company must make a separate statement stating that it has complied with all requirements for all information related to sustainable development. This information must be presented in accordance with sustainable reporting standards and must be consistent with any accounting principles.[12]

2. Will IFRS standards for disclosure of information related to sustainable development be mandatory? The International Sustainable Development Standards Council does not have the authority to grant mandatory status to standards. However, companies can voluntarily choose to use them.
3. Will the application of the standards proposed by the International Sustainable Development Standards Council begin gradually? A company is not required to present comparative information when first adopting a standard, but has the option to do so. This proposal will make it easier for the company to comply with the requirements and provide investors with sustainability-related information as quickly as possible.
4. Will it be mandatory to report information related to sustainable development in a specific location, in a specific format, or a separate report? Financial information related to sustainable development must be part of a company's general purpose financial statements. However, the company can provide information in different ways. The draft standards do not establish any specific structure. For example, in the form of a physical report, in a prescribed document format, as a tagged data file, or via a website. Some jurisdictions have specific formats or reporting requirements. For example, XBRL-based files or a report in PDF format.[13]
5. If there is no such standard for disclosure of information related to sustainable development, which deals with the risks and opportunities associated with the sustainable development of a particular company, if so, what guidelines or requirements must this company comply with? The draft Common Requirements for Discussion provides companies with sources, which will help them identify appropriate risks and opportunities related to sustainable development and prepare information for disclosure, which will allow investors to assess the value of the enterprise. The company is advised to consider the requirements of the SASB standards, non-binding requirements of the International Sustainable Development Standards Council (for example, applying the CDSB principles to biodiversity disclosures), and standards developed by some other bodies. Most importantly, the standards that a company adopts should be designed to meet the information needs of investors. In addition, companies can also consider established practices in the industry. The climate-related requirements of the SASB standards are the basis for the climate-related project under consideration. Possible changes in requirements are expected. As a result of the proposed changes, some indicators will be updated to improve their international applicability; For the financial sector, requirements will be added regarding indicators related to funded and facilitated emissions. Also, if a company uses the proposals of the climate-related project under consideration, it will meet the TCFD recommendations.[14]

CONCLUSION

For Georgia to comply with the requirements of the European Union, the Accounting and Reporting Service plans to reflect the changes made to the regulatory directives and regulations in the legislation.[15] They will also develop sustain-

12 European Sustainability Reporting Standards – ESRS. (13.01.2025).

13 Sustainability Reporting Update International Sustainability Reporting Bulletin 2025/01. (December 2024). Available at: <https://www.bdo.global/getmedia/5a181e3f-0a64-4dc2-be8b 98dcab4bb5eb/ISRB_2025_01_(final).pdf?ext=.pdf>.

14 IFRS S2 Climate-related disclosures. Available at: <https://www.saras.gov.ge/ka/home/esrs>.

15 Ministry of Finance Accounting, Reporting and Au-

ability reporting guidelines based on standards, research, share and implement international best practices, they will conduct training, disseminate information to raise awareness, and implement other socially beneficial activities.

Currently, the International Standards Board (ISSB) plans to use two international standards for corporate sustainability reporting in enterprises. Through these standards, investors will have the opportunity to obtain more complete, reliable, and comparable information necessary to assess the value of an enterprise and manufacturers will get a more comprehensive picture for business model evaluation and development.

In the future, I will continue to develop ideas on other risks, opportunities, and priorities related to sustainable development, which will be suitable for valuing the enterprise, as well as opinions on further improving industry requirements, based on the SASB standards. All of this will be an opportunity to strengthen the green economy.

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